

SECURITIES AND EXCHANGE COMMISSION

FORM 485APOS

Post-effective amendments [Rule 485(a)]

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FILER

PRICE T ROWE ADJUSTABLE RATE U S GOVERNMENT FUND INC

CIK: **878168** | State of Incorpor.: **MD** | Fiscal Year End: **0531**
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Business Address
*100 E PRATT ST
BALTIMORE MD 21202
4105472000*

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM N-1A

REGISTRATION STATEMENT UNDER THE SECURITIES ACT OF 1933 / X /

Post-Effective Amendment No. 8 / X /

REGISTRATION STATEMENT UNDER THE INVESTMENT COMPANY ACT OF 1940 / X /

Amendment No. 8 / X /

Fiscal Year Ended May 31, 1994

T. ROWE PRICE ADJUSTABLE RATE U.S. GOVERNMENT FUND, INC.

(Exact Name of Registrant as Specified in Charter)

100 East Pratt Street, Baltimore, Maryland 21202

(Address of Principal Executive Offices) (Zip Code)

Registrant's Telephone Number, Including Area Code 410-547-2000

Henry H. Hopkins
100 East Pratt Street
Baltimore, Maryland 21202

(Name and Address of Agent for Service)

Approximate Date of Proposed Public Offering October 1, 1994

It is proposed that this filing will become effective (check appropriate box):

/ / immediately upon filing pursuant to paragraph (b)

/ / on (date) pursuant to paragraph (b)

/X/ 60 days after filing pursuant to paragraph (a)

CALCULATION OF REGISTRATION FEE UNDER THE SECURITIES ACT OF 1933+

Pursuant to Section 24f-2 of the Investment Company Act of 1940, the Registrant has registered an indefinite number of securities under the Securities Act of 1933 and intends to file a 24f-2 by July 30, 1994.

+Not applicable, as no securities are being registered by this Post-Effective Amendment No. 8 to the Registration Statement.

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The Registration Statement of T. Rowe Price Adjustable Rate U.S. Government Fund, Inc. on Form N-1A (File Number 33-42206) is hereby amended under the Securities Act of 1933 to update financial information and make changes in the Registrant's Prospectus, Statement of Additional Information, and to satisfy the annual amendment requirements of Rule 8(b)-16 under the Investment Company Act of 1940.

This Amendment consists of the following:

- Cross Reference Sheet
- Part A of Form N-1A, Revised Prospectus
- Part B of Form N-1A, Statement of Additional Information
- Part C of Form N-1A, Other Information
- Accountants' Consent

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CROSS REFERENCE SHEET

N-1A Item No.

Location

PART A

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| Item 3. | Condensed Financial Information | Financial Highlights |
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| Item 5. | Management of the Fund | Transaction and Fund Expenses; Fund and Market Characteristics: What to Expect; The Fund's Organization |

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| Item 6. Capital Stock and Other Securities | and Management Useful Information on Distributions and Taxes; The Fund's Organization and Management |
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| Item 13. Investment Objective and Policies | Investment Objective and Policies; Risk Factors; Investment Program; Investment Restrictions; Investment Performance |
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| Item 20. Tax Status | Tax Status |
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PART C

Information required to be included in Part C is set forth under the appropriate item, so numbered, in Part C to this Registration Statement

+ Not applicable or negative answer

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Prospectus for the T. Rowe Price Adjustable Rate U.S. Government Fund, Inc., dated October 1, 1994, should be inserted here.

PAGE 1

ADJUSTABLE RATE U.S. GOVERNMENT FUND

Facts at a Glance

Investment Goal

Highest current income consistent with minimal fluctuation of share price. As with all mutual funds, the fund may not meet its objective.

Strategy

Invests primarily in adjustable rate mortgage securities (ARMs) and adjustable rate CMOs issued or guaranteed by the U.S. Government or its agencies.

Risk/Reward Potential

Higher income than provided by money market securities, but with the risk of a decline in share price. The fund is not guaranteed by the U.S. Government.

Investor Profile

Investors with an investment horizon of one year or more looking for a

T. Rowe Price
Adjustable Rate U.S.
Government Fund, Inc.
October 1, 1994

Prospectus

Contents

1 About the Adjustable
Rate U.S. Government
Fund

Transaction and Fund
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Pricing Shares;
Receiving Sale
Proceeds

moderate level of income and total return, willing to risk declines in share price.

Fees and Charges

100% no load. No fees or charges to buy shares or to reinvest dividends; no 12b-1 marketing fees; free telephone exchange.

Investment Manager

Founded in 1937 by the late Thomas Rowe Price, Jr., T. Rowe Price Associates, Inc. ("T. Rowe Price") and its affiliates currently manage over \$54 billion for approximately three million individual and institutional investors.

THESE SECURITIES HAVE NOT BEEN

Distributions and Taxes

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APPROVED OR DISAPPROVED BY THE SECURITIES AND EXCHANGE COMMISSION, OR ANY STATE SECURITIES COMMISSION, NOR HAS THE SECURITIES AND EXCHANGE COMMISSION, OR ANY STATE SECURITIES COMMISSION, PASSED UPON THE ACCURACY OR ADEQUACY OF THIS PROSPECTUS. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

New Accounts

Opening a New Account

Purchasing Additional
Shares

Exchanging and Redeeming

Shareholder Services

This prospectus contains information you should know before investing. Please keep it for future reference. A Statement of Additional Information about the fund, dated October 1, 1994, has been filed with the Securities and Exchange Commission and is incorporated by reference in this prospectus. To obtain a free copy, call 1-800-638-5660.

Transaction and Fund Expenses

These tables should help you understand the kinds of expenses you will bear directly or indirectly as a fund shareholder.

Like all T. Rowe Price Funds, the fund is 100% no load.

In Table 1 below, "Shareholder Transaction Costs" shows that you pay no sales charges. All the money you invest in the fund goes to work for you, subject to the fees explained below. "Annual Fund Expenses" provides an estimate of how much it will cost to operate the fund for a year, based on 1995 fiscal year expenses. These are costs you pay indirectly, because they are deducted from the fund's total assets before the daily share price is calculated and before dividends and other distributions are made. In other words, you will not see these expenses on your account statement.

For the three-month fiscal year ended May 31, 1994 and the fiscal year ended February 28, 1994, fees paid by the fund included the following: \$41,000 and \$201,000, respectively, to T. Rowe Price Services, Inc. for transfer and dividend disbursing functions and shareholder services; \$29,000 and \$2,000, respectively, to T. Rowe Price Retirement Plan Services, Inc. for recordkeeping services for certain retirement plans; and \$28,000 and

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 \$118,000, respectively,
 to T. Rowe Price for Fund
 accounting services.

| Shareholder Transaction Expenses | |
|--|--|
| Sales charge "load" on purchases | None |
| Sales charge "load" on reinvested dividends | None |
| Redemption fees | None |
| Exchange fees | None |
| | |
| Annual Fund Expenses | Percentage of Fiscal 1995 Average Net Assets |
| Management fee | 0.39%+ |
| Total other (Shareholder servicing, custodial, auditing, etc.) | 0.31% |
| Marketing fees (12b-1) | None |
| Total fund expenses | 0.70%+ |

+ The Fund's management fee and total expense ratio would have been 0.44% and 0.75%, respectively, had T. Rowe Price

not agreed to reduce management fees in accordance with the expense limitation. From July 1, 1992 through June 30, 1993, T. Rowe Price agreed to waive its fees and bear any expenses to the extent such fees or expenses would cause the fund's ratio of expenses to average net assets to exceed 0.40%. Effective July 1, 1993, T. Rowe Price agreed to extend the fund's 0.40% expense limitation for a period of six months through December 31, 1993. Effective January 1, 1994, T. Rowe Price agreed to waive its fees and bear any expenses through May 31, 1996 to the

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extent such fees and expenses would cause the fund's ratio of expenses to average net assets to exceed 0.70%. The 0.70% expense limitation will be phased in beginning with a 0.40% limitation on January 1, 1994; 0.50% on March 1, 1994; 0.60% on September 1, 1994; and 0.70% on March 1, 1995. Fees waived or expenses paid or assumed under each agreement are subject to reimbursement to T. Rowe Price by the fund whenever the fund's expense ratio is below 0.40% (for the first two agreements) and 0.70% (for the third agreement). However, no reimbursement will be made after June 30, 1995 (for the first agreement), December 31, 1995 (for the second agreement) or May 31, 1998 (for the third agreement), or if it would

result in the expense ratio exceeding 0.40% (for the first two agreements) and 0.70% (for the third agreement).

Note: The fund charges a \$5 fee for wire redemptions under \$5,000, subject to change without notice.

Table 1

The main types of expenses, which all mutual funds may charge against fund assets, are:

- o A management fee: the percent of fund assets paid to the fund's investment manager. The fund's fee is comprised of a group fee, discussed later, and an individual fund fee of 0.10%.
- o "Other" administrative expenses: primarily the servicing of shareholder accounts, such as providing statements, reports, disbursing dividends, as well as custodial services.
- o Marketing or distribution fees: an annual charge ("12b-1") to existing shareholders to defray the cost of selling shares to

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new shareholders. T. Rowe Price funds do not levy 12b-1 fees.

For further details on fund expenses, please see "The Fund's Organization and Management."

- o Hypothetical example: Assume you invest \$1,000, the fund returns 5% annually, expense ratios remain as listed above, and you close your account at the end of the time periods shown. Your expenses would be:

The table at right is just an example; actual expenses can be higher or lower than those shown.

| 1 year | 3 years | 5 years | 10 years |
|--------|---------|---------|----------|
| \$7 | \$22 | \$39 | \$87 |

Table 2

Financial Highlights

The following table provides information about the fund's financial history. It is based on a single share outstanding throughout each fiscal year. The table is part of the fund's financial statements which are included in the fund's annual report and are incorporated by reference into the Statement of Additional Information. This document is available to shareholders upon request. The financial statements in the annual report have been audited by Price Waterhouse, independent accountants, whose unqualified report covers the periods shown.

Investment Activities Distributions

| Year Ended | Net Asset Value, Beginning of Period | Net Investment Income | Net Realized and Unrealized Gain (Loss) on Investments | Total Investment Activities | Net Investment Income | Net Realized Gain | Tax Return of Capital |
|------------|--------------------------------------|-----------------------|--|-----------------------------|-----------------------|-------------------|-----------------------|
| 1992+! | \$5.00 | \$.16++ | \$(.03) | \$.13 | \$(.16) | -- | -- |
| 1993 | 4.97 | .29++ | (.13) | .16 | (.28) | -- | \$(.02) |
| 1994 | 4.83 | .23++ | (.08) | .15 | (.17) | -- | (.06) |
| 1994* | 4.75 | .06++ | (.11) | (.05) | (.05) | -- | -- |

End of Period

| Year Ended | Total Distributions | Net Asset Value, End of Period | Total Return | Net Assets (\$ thousands) | Ratio of Net Average to Assets | Ratio of Investment to Average Net Assets | Portfolio Turnover Rate |
|------------|---------------------|--------------------------------|--------------|---------------------------|--------------------------------|---|-------------------------|
| 1992+! | \$(.16) | \$4.97 | 2.6% | \$342,939 | 0.00%+o | 7.45%o | 98.4%o |
| 1993 | (.30) | 4.83 | 3.3% | 476,448 | 0.25%++ | 5.96% | 110.8% |
| 1994 | (.23) | 4.75 | 3.1% | 225,154 | 0.40%++ | 4.78% | 70.4% |
| 1994* | (.05) | 4.65 | (1.0)% | 187,517 | 0.50%* | 4.69%* | 27.6%* |

+ For the period September 30, 1991 (commencement of operations) to February 29, 1992.

++ T. Rowe Price agreed to bear all expenses of the fund through June 30, 1992. Excludes expenses in excess of a 0.20% voluntary expense limitation in effect July 1, 1992 through

July 31, 1992, and a 0.30% voluntary expense limitation in effect August 1, 1992 through August 31, 1992, and a 0.40% voluntary expense limitation in effect September 1, 1992 through February 28, 1994.

- o Annualized.
- ! Year ended February 29.

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* For the three months ended May 31, 1994. Fiscal year-end changed from February 28 to May 31. All ratios are annualized.

Table 3

Fund and Market Characteristics: What to Expect

To help you decide whether the fund is right for you, this section takes a closer look at its investment program and the securities markets in which the fund invests.

What is the objective of this fund?
The Adjustable Rate U.S. Government Fund's objective is to provide the highest level of current income consistent with minimal share price fluctuation.

What types of securities can the fund purchase?
Normally, the fund will invest at least 65% of its assets in two types of securities:

adjustable rate mortgage securities (ARMs) issued or guaranteed by the U.S. Government or its agencies or other adjustable rate securities that are collateralized by government-guaranteed mortgage securities (CMOs). The fund may also invest in high-quality fixed and adjustable rate mortgage and debt securities, issued by private, nongovernmental institutions if at the time of purchase they are rated within the two highest credit categories by an established public rating agency (or, if unrated, by T. Rowe Price's equivalent rating scale).

The fund should not be viewed as a complete investment program nor be used for short-term trading.

Can the fund invest in derivatives?
Yes. Several of the securities in which the fund can invest--futures contracts, CMOs, and stripped certificates--are types of

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derivatives. In the broadest sense, a derivative is any security whose value is derived from underlying securities or a market benchmark. The amount of risk represented by derivatives varies widely from one to another. The fund can invest in derivatives, including the more volatile types such as futures and stripped securities, in an effort to hedge against

interest rate risk or to enhance returns.
(For additional information on derivatives and their potential use by the fund, please see the section beginning on page __.)

See the Investment Policies and Practices section for detailed definitions.

What are ARMs and adjustable rate CMOs? ARM securities are composed of pools of mortgages whose interest rates are adjusted at regular intervals, usually annually, to reflect changes in a designated benchmark index, such as the one-year constant maturity Treasury rate. The mortgage rate is reset at a specified spread above the benchmark, usually two to three percentage points.

CMOs are typically backed by fixed-rate mortgages or mortgage securities; prepayments received on the underlying mortgages are redirected to the CMO's various classes or tranches. Investors can select tranches whose interest rate and maturity characteristics suit their needs. Adjustable rate CMOs are tranches whose interest rates reset frequently (e.g., every 30, 60, or 90 days) at a fixed spread above a designated index.

What are some advantages and disadvantages of adjustable rate securities? The adjustable rate feature reduces their overall price volatility in response to changes in interest rate levels, which helps limit the fund's potential price

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declines but also limits appreciation opportunities. Adjustable rate securities are not an effective means of locking in interest rates since the income they generate will increase when rates are rising and decrease when they are falling.

The share price and yield of the fund will fluctuate moderately with market conditions, and when you sell your shares they may be worth more or less than when you purchased them.

Do mortgage-backed securities differ from other high-quality fixed-income investments?

Yes, in one major respect. Most fixed-income securities repay principal (face value) when they mature, but mortgage-backed securities (including ARMs) repay principal on an ongoing basis as homeowners make scheduled and unscheduled payments on their mortgages. Moreover, homeowners sometimes repay the entire loan balance early when they refinance it or sell their homes. As a result, the "effective" maturities of mortgage-backed securities are always shorter than stated maturities. The average life of mortgage pool underlying a mortgage security may be estimated with some accuracy, but never with certainty.

How does prepayment uncertainty affect investors?

Homeowners refinance their mortgages more often when interest rates come down. This results in a loss for investors (such as the fund) who may have purchased mortgage securities at a premium price above face or par value. This has a negative effect on the fund's share price.

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understanding of how the fund works, review these fundamental investment concepts.

Is the fund's yield fixed or will it vary?
It will vary. The yield is calculated daily by dividing the fund's net income per share, expressed at annual rates, by the share price. Since both income and share price fluctuate, the fund's yield also varies.

Is a fund's yield the same as its total return?

No. Total return is a function of the income paid and the change in share price for a given period. Income is always a positive contributor to total return, and can enhance a rise in share price or help offset a decline in share price.

What is credit quality and how does it affect yield?

Credit quality refers to an issuer's anticipated ability to make all required interest and principal payments in a timely manner. Because highly rated issuers represent less risk, they can borrow at lower interest rates than less credit-worthy issuers. Therefore, a fund investing in high-quality securities should have a

lower yield than a comparable fund investing in lower-quality securities.

What is meant by a bond or bond fund's maturity?

Every debt security has a stated maturity date when the issuer must repay the entire principal value to investors. Some mortgage-backed securities, including those in the fund, have an effective maturity that is shorter than the stated date. The effective maturity of mortgage-backed securities is determined by the rate at which homeowners pay down the principal on the underlying mortgages.

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A mutual fund has no maturity in the strict sense, but rather a dollar-weighted average effective maturity. This number is an average of the stated or effective maturities of the underlying securities, with each maturity "weighted" by the percentage of fund assets it represents.

What are the main risks of investing in the fund?

For most funds that invest in debt securities, interest rate risk--the drop in price that accompanies a rise in rates--is the major concern. The fund's short

effective maturity limits this risk, and the more important influence on the fund's price is the impact of mortgage prepayments. As noted earlier, an investor who purchased a mortgage security at a price over par sustains a loss when the underlying mortgages are prepaid.

Prepayment risk is usually greatest when interest rates fall, because securities are rising to premium prices and homeowners are increasingly likely to be paying off their mortgages at face value to refinance at lower rates. Nevertheless, prepayments remain a potential risk for ARMS even when interest rates are relatively stable, because ARMS issued or guaranteed by the U.S. Government or its agencies tend to command premium prices. The premium results from their attractive combination of high credit quality and a yield that exceeds Treasury bills.

How have these factors affected the fund's share price?

The combination of prepayments and premium prices noted above have resulted in a gradual decline in the fund's share price when interest rates have risen, relatively stable or falling. In a rising rate environment, the fund's share price (after a lag) has benefitted.

Does a falling share price mean the fund's return is negative?

Not necessarily. Remember that total return has two components: the net change share price for a given period, which can be positive or negative, and the income generated, which is always positive. While income may not completely offset a fall in share price in the short run, the accumulation of the fund's income should more than offset any principal decline over the course of a year, providing a positive return.

How do T. Rowe Price fund managers try to reduce risk?

Consistent with the fund's objective, the portfolio managers actively manage the fund's assets to minimize risk while seeking to maximize income. Risk management tools include:

- o Diversification of mortgage-based assets to minimize prepayment risk;
- o Changing the balance in portfolio composition--such as ARMs and CMOs--to reduce interest rate or prepayment risk and also take advantage of yield opportunities.

How can I decide if the fund is appropriate for me?

The fund may be appropriate if you seek higher income than is provided by money market securities, can tolerate modest fluctuation in principal, and expect to remain invested for at least a year to realize the fund's potential.

Is there other information I need to review before making a decision?

Be sure to review "Investment Policies and Practices" (Section 3), which discusses the following: Types of Portfolio Securities (adjustable rate securities, asset-backed securities, mortgage-backed securities,

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adjustable rate mortgage securities, adjustable rate collateralized mortgage obligations, characteristics of adjustable rate securities, hybrid instruments and private placements); Types of Fund Management Practices (cash position, borrowing money and transferring assets, futures and options, lending of portfolio securities, when-issued securities and forward commitment contracts and portfolio transactions).

2 About Your Account

Pricing Shares and Receiving Sale Proceeds

Here are some procedures you should know when investing in a fund.

The various ways you can buy, sell, and exchange shares are explained at the end of this prospectus and on the New Account Form.

How and when shares are priced Bond and Money Funds. The share price (also called "net asset value" or NAV per share) for each fund is calculated at 4 p.m. ET each day the New York Stock Exchange is open for business. To calculate the NAV, a fund's assets are priced and totaled, liabilities are subtracted, and the balance, called net assets, is divided by the number of shares outstanding.

Money fund NAVs, which are managed to remain at \$1.00, are calculated at noon ET each day as well as 4 p.m. Amortized cost or amortized market value is used to value money fund securities that mature in 60 days or less.

When filling out the New Account Form, you may wish to give yourself the

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widest range of options for receiving proceeds from a sale.

How your purchase, sale, or exchange price is determined

If we receive your request in correct form before 4 p.m. ET, your transaction will be priced at that day's NAV. If we receive it after 4 p.m., it will be priced at the next business day's NAV.

We cannot accept orders that request a particular day or price for your transaction or any other special conditions.

Note: The time at which transactions are priced may be changed in case of an emergency or if the New York Stock Exchange closes at a time other than 4 p.m. ET.

If for some reason we cannot accept your request to sell shares, we will contact you.

How you can receive the proceeds from a sale

If your request is received by 4 p.m. ET in correct form, proceeds are usually sent the next business day. Proceeds can be sent to you by mail, or to your bank account by ACH transfer or bank wire. Proceeds sent by bank wire should be credited to your account the next business day, and proceeds sent by ACH transfer should be credited the second day after the sale. ACH (Automated Clearing House) is an automated method of initiating payments from and receiving payments in your financial institution account. ACH is a payment system supported by over 20,000 credit unions, banks and savings banks which electronically exchange the transactions through the Federal Reserve Banks.

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Exception:

- o Under certain circumstances and when deemed to be in the fund's best interests, your proceeds may not be sent for up to five business days after

receiving your sale or exchange request. If you were exchanging into another bond or money fund, your new investment would not begin to earn dividends until the sixth business day.

Useful Information on Distributions and Taxes

The fund distributes all net investment income and realized capital gains to shareholders.

Dividends and other distributions
Dividend and capital gain distributions are reinvested in additional fund shares in your account unless you select another option on your New Account Form. The advantage of reinvesting distributions arises from compounding; that is, you receive interest and capital gain distributions on a rising number of shares.

Dividends not reinvested are paid by check or transmitted to your bank account via ACH. If the Post Office cannot deliver your check, or if your check remains uncashed for six months, the fund reserves the right to reinvest your distribution check in your account at the then current NAV and to reinvest all subsequent distributions in shares of the fund.

Income dividends

- o Bond funds declare income dividends daily at 4 p.m. ET to shareholders of record and for whom payment has been received on the previous business day.
- o Money funds declare income dividends daily at noon ET to shareholders of

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record and for whom payment has been received at that time.

- o Bond and money funds pay dividends on the last business day of each month.

- o Bond and money fund shares will earn dividends through the date of redemption; also, shares redeemed on a Friday or prior to a holiday will continue to earn dividends until the next business day. Generally, if you redeem all of your shares at any time during the month, you will also receive all dividends earned through the date of redemption in the same check. When you redeem only a portion of your shares, all dividends accrued on those shares will be reinvested, or paid in cash, on the next dividend payment date.

Capital gains

- o A capital gain or loss is the difference between the purchase and sale price of a security.

- o If the fund has net capital gains for the year (after subtracting any capital losses), they are usually declared and paid in December to shareholders of record on a specified date that month. If a second distribution is necessary, it is usually declared and paid during the first quarter of the following year.

The fund sends timely information for your tax filing needs.

Tax information

You need to be aware of the possible tax consequences when

- o you sell fund shares, including an exchange from one fund to another, or

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- o the fund makes a distribution to your account.

Taxes on fund redemptions. When you sell shares in any fund, you may realize a gain or loss. An exchange from one fund to another is still a sale for tax purposes.

In January, the fund will send you and the IRS Form 1099-B, indicating the date and amount of each sale you made in the fund during the prior year. We will also tell you the average cost of the shares you sold during the year. Average cost information is not reported to the IRS, and you do not have to use it. You may calculate the cost basis using other methods acceptable to the IRS, such as "specific identification."

To help you maintain accurate records, we send you a confirmation immediately following each transaction (except for systematic purchases and redemptions) you make and a year-end statement detailing all your transactions in each fund account during the year.

Distributions are taxable whether reinvested in additional shares or received in cash.

Taxes on fund distributions. The following summary does not apply to retirement accounts, such as IRAs, which are tax-deferred until you withdraw money from them.

In January, the fund will send you and the IRS Form 1099-DIV indicating the tax status of any dividend and capital gain distribution made to you. All distributions made by the fund are taxable to you for the year in which they were paid. The only exception is that distributions declared during the last three months of the year and paid in January are taxed as though they were paid by December 31. The fund

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will send you any additional information you need to determine your taxes on fund distributions, such as the portion of your dividend, if any, that may be exempt from state income taxes.

Short-term capital gains are taxable as ordinary income and long-term gains are taxable at the applicable long-term gain rate. The gain is long or short term depending on how long the fund held the securities, not how long you held shares in

the fund. If you realize a loss on the sale or exchange of fund shares held six months or less, your short-term loss recognized is reclassified to long-term to the extent of any capital gain distribution received.

If distributions arising from transactions in foreign currencies or securities reduce a fund's net income, a portion of its dividends may be classified as a return of capital. Tax treatment of distributions is explained in the year-end tax information we send.

Tax effect of buying shares before a capital gain distribution. If you buy shares shortly before or on the "record date"--the date that establishes you as the person to receive the upcoming distribution--you will receive in the form of a taxable distribution a portion of the money you just invested. Therefore, you may wish to find out a fund's record date(s) before investing. Of course, a fund's share price may reflect undistributed capital gains or unrealized appreciation, if any.

Transaction Procedures and Special Requirements

Purchase Conditions

Following these

procedures helps assure timely and accurate transactions.

Nonpayment. If your payment is not received or you pay with a check or ACH transfer that does not clear, your purchase will be cancelled. You will be responsible for any losses or expenses incurred by the fund or transfer agent, and the fund can redeem shares you own in this or another identically registered T. Rowe Price fund as reimbursement. The fund and its agents have the right to reject or cancel any purchase, exchange, or redemption due to nonpayment.

U.S. dollars. All purchases must be paid for in U.S. dollars; checks must be drawn on U.S. banks.

Sale (Redemption) Conditions

10-day hold. If you sell shares that you just purchased and paid for by check or ACH transfer, the fund will process your redemption but will generally delay sending you the proceeds for up to 10 calendar days to allow the check or transfer to clear. If your redemption request was sent by mail or mailgram, proceeds will be mailed no later than the seventh calendar day following receipt unless the check or ACH transfer has not cleared. If, during the clearing period, we receive a check drawn against your bond or money market account, it will be returned marked "uncollected." (The 10-day hold does not apply to purchases paid for by: bank wire; cashier's, certified, or treasurer's checks; or automatic purchases through your paycheck.)

Telephone transactions. Telephone exchange and redemption are established automatically when you sign the New Account Form unless you check the box which states that you do not want these services. The fund uses reasonable procedures (including shareholder identity verification) to confirm that instructions given by

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telephone are genuine. If these procedures are not followed, it is the opinion of certain regulatory agencies that the fund may be liable for any losses that may result from acting on the instructions given. All conversations are recorded, and a confirmation is sent within five business days after the telephone transaction.

Redemptions over \$250,000. Large sales can adversely affect a portfolio manager's ability to implement a fund's investment strategy by causing the premature sale of securities that would otherwise be held. If in any 90-day period, you redeem (sell) more than \$250,000, or your sale amounts to more than 1% of the fund's net assets, the fund has the right to delay sending your proceeds for up to five business days after receiving your request, or to pay the difference between the redemption amount and the lesser of the two previously mentioned figures with securities from the fund.

Excessive Trading

T. Rowe Price may bar excessive traders from purchasing shares.

Frequent trades involving either substantial fund assets, or a substantial portion of your account or accounts controlled by you, can disrupt management

of the fund and raise its expenses. We define "excessive trading" as exceeding one purchase and sale involving the same fund within any 120-day period.

For example, you are in fund A. You can move substantial assets from A to fund B, and, within the next 120 days, sell your shares in fund B to return to fund A or move to fund C.

If you exceed the number of trades described above, you may be barred

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indefinitely from further purchases of T. Rowe Price funds.

Three types of transactions are exempt from excessive trading guidelines: 1) trades solely between money market funds; 2) redemptions that are not part of exchanges; and 3) systematic purchases or redemptions (see "Shareholder Services").

Keeping Your Account Open

Due to the relatively high cost of maintaining small accounts, we ask you to maintain an account balance of at least \$1,000. If your balance is below \$1,000 for three months or longer, the fund has the right to close your account after giving you 60 days in which to increase your

balance.

A signature guarantee is designed to protect you and the fund from fraud by verifying your signature.

Signature Guarantees

You may need to have your signature guaranteed in certain situations, such as:

- o Written requests 1) to redeem over \$50,000, or 2) to wire redemption proceeds.
- o Remitting redemption proceeds to any person, address, or bank account not on record.
- o Transferring redemption proceeds to a T. Rowe Price fund account with a different registration from yours.
- o Establishing certain services after the account is opened.

You can obtain a signature guarantee from most banks, savings institutions, broker/dealers and other guarantors

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acceptable to T. Rowe Price. We cannot accept guarantees from notaries public or organizations that do not provide

3 More About the Fund

Shareholders benefit from T. Rowe Price's 57 years of investment management experience.

The Fund's Organization and Management

How is the fund organized?

The fund was incorporated in Maryland in 1991 and is a "diversified, open-end investment company," or mutual fund. Mutual funds pool money received from shareholders and invest it to try to achieve specified objectives.

What is meant by "shares"?

As with all mutual funds, investors receive "shares" when they put money in the fund. These shares are part of the fund's authorized capital stock, but share certificates are not issued.

Each share and fractional share entitles the shareholder to:

- o receive a proportional interest in the fund's income and capital gain distributions;
- o cast one vote per share on certain fund matters, including the election of fund directors/trustees, changes in fundamental policies, or approval of changes in the fund's management contract.

Does the fund have annual shareholder meetings?

The fund is not required to hold annual meetings and does not intend to do so except when certain matters, such as a

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change in the fund's fundamental policies, are to be decided. In addition, shareholders representing at least 10% of all eligible votes may call a special meeting if they wish for the purpose of voting on the removal of any fund director(s)/trustee(s). If a meeting is held and you cannot attend, you can vote by proxy. Before the meeting, the fund will send you proxy materials that explain the issues to be decided and include a voting card for you to mail back.

All decisions regarding the purchase and sale of fund investments are made by T. Rowe Price-- specifically by the fund's portfolio managers.

Who runs the fund?

General oversight. The fund is governed by a Board of Directors or Trustees that meets regularly to review the fund's investments, performance, expenses, and other business affairs. The Board elects the fund's officers.

Portfolio Management. The fund has an Investment Advisory Committee composed of the following members: Peter Van Dyke, Chairman, Heather R. Landon, James M. McDonald, Edmund M. Notzon, Charles P. Smith, and Gwendolyn D. Wagner. The Committee Chairman has day-to-day responsibility for managing the fund and works with the Committee in developing and executing the fund's investment program. Mr. Van Dyke has been Chairman of the

Committee since 1992. He has been managing investments since joining T. Rowe Price in 1985.

Marketing. T. Rowe Price Investment Services, Inc., a wholly-owned subsidiary of T. Rowe Price, distributes (sells)

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shares of this and all other T. Rowe Price funds.

Shareholder Services. T. Rowe Price Services, Inc., another wholly-owned subsidiary, acts as the fund's transfer and dividend disbursing agent and provides shareholder and administrative services. Services for certain types of retirement plans are provided by T. Rowe Price Retirement Plan Services, Inc., also a wholly-owned subsidiary. The address for each is 100 East Pratt St., Baltimore, MD 21202.

How are fund expenses determined?

The management agreement spells out the expenses to be paid by the fund. In addition to the management fee, the fund pays for the following: shareholder service expenses; custodial, accounting, legal, and audit fees; costs of preparing and printing prospectuses and reports sent to shareholders; registration fees and

expenses; proxy and annual meeting expenses (if any); and director/trustee fees and expenses.

The Management Fee. This fee has two parts--an "individual fund fee" (discussed on page 2) which reflects the fund's particular investment management costs, and a "group fee." The group fee, which is designed to reflect the benefits of the shared resources of the T. Rowe Price investment management complex, is calculated monthly based on the net combined assets of all T. Rowe Price funds (except Equity Index and both Spectrum Funds and any institutional or private label mutual funds). The group fee schedule (shown below) is graduated, declining as the asset total rises, so shareholders benefit from the overall growth in mutual fund assets.

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| | |
|--------|-------------------|
| 0.480% | First \$1 billion |
| 0.450% | Next \$1 billion |
| 0.420% | Next \$1 billion |
| 0.390% | Next \$1 billion |
| 0.370% | Next \$1 billion |
| 0.360% | Next \$2 billion |
| 0.350% | Next \$2 billion |
| 0.340% | Next \$5 billion |
| 0.330% | Next \$10 billion |

0.320% Next \$10 billion

0.310% Thereafter

The fund's portion of the group fee is determined by the ratio of its daily net assets to the daily net assets of all the Price funds as described above. Based on combined Price funds' assets of approximately \$35.5 billion at June 30, 1994, the Group Fee was 0.34%.

Understanding Performance Information

This section should help you understand the terms used to describe the fund's performance. You will come across them in shareholder reports you receive from us four times a year, in our newsletters, "Insights" reports, in T. Rowe Price advertisements, and in the media.

Total return is the most widely used performance measure. Detailed performance information is included in the fund's annual report and quarterly shareholder reports.

Total Return

This tells you how much an investment in the fund has changed in value over a given time period. It reflects any net increase or decrease in the share price and assumes that all dividends and capital gains (if any) paid during the period were reinvested in additional shares. Including reinvested distributions means that total return

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numbers include the effect of compounding, i.e., you receive income and capital gain distributions on a rising number of shares.

Advertisements for the fund may include cumulative or compound average annual total return figures, which may be compared with various indices, other performance measures, or other mutual funds.

Cumulative Total Return

This is the actual rate of return on an investment for a specified period. A cumulative return does not indicate how much the value of the investment may have fluctuated between the beginning and the end of the period specified.

Average Annual Total Return

This is always hypothetical. Working backward from the actual cumulative return, it tells you what constant year-by-year return would have produced the actual, cumulative return. By smoothing out all the variations in annual performance, it gives you an idea of the investment's annual contribution to your portfolio provided you held it for the entire period in question.

You will see frequent references to the fund's yield in our reports, advertisements, in media stories, and so on.

Yield

The current or "dividend yield" on the fund or any investment tells you the relationship between the investment's current level of annual income and its price on a particular day. The dividend yield reflects the actual income paid to shareholders for a given period, annualized, and divided by the average price during the given period. For

example, a fund providing \$5 of annual income per share and a price of \$50 has a

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current yield of 10%. Yields can be calculated for any time period.

The advertised or "SEC yield" is found by determining the net income per share (as defined by the SEC) earned by the fund during a 30-day base period and dividing this amount by the per-share price on the last day of the base period. The "SEC yield" may differ from the dividend yield.

Investment Policies and Practices

Fund managers have considerable leeway in choosing investment strategies and selecting investments they believe will help the fund achieve its objectives.

This section takes a detailed look at some of the types of securities the fund may hold in its portfolio and the various kinds of investment practices that may be used in day-to-day portfolio management. The fund's investment program is subject to further restrictions and risks described in the "Statement of Additional Information."

Shareholder approval is required to

substantively change the fund's objectives and certain investment restrictions noted in the following section as "fundamental policies." The managers also follow certain "operating policies" which can be changed without shareholder approval. However, significant changes are discussed with shareholders in fund reports. The fund adheres to applicable investment restrictions and policies at the time it makes an investment. A later change in circumstances will not require the sale of an investment if it was proper at the time it was made.

The fund's holdings of certain kinds of investments cannot exceed maximum

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percentages of total assets, which are set forth in the prospectus. For instance, this fund is not permitted to invest more than 10% of total assets in hybrid instruments. While these restrictions provide a useful level of detail about the fund's investment program, investors should not view them as an accurate gauge of the potential risk of such investments. For example, in a given period, a 5% investment in hybrid securities could have significantly more than a 5% impact on the fund's share price. The net effect of a particular investment depends on its volatility and the size of its overall

return in relation to the performance of all the fund's other investments.

Changes in the fund's holdings, the fund's performance, and the contribution of various investments are discussed in the shareholder reports we send each quarter.

Types of Portfolio Securities

In seeking to meet its investment objectives, the fund may invest in any type of security whose yield, credit quality and maturity characteristics are consistent with the fund's investment program. These and some of the other investment techniques the fund may use are described in the following pages.

Adjustable Rate Securities. The fund will invest primarily (65% of assets) in adjustable rate securities which are issued or guaranteed by the U.S. Government or its agencies. These securities will consist of ARMs and adjustable rate CMOs. Each is a type of mortgage security.

Asset-backed Securities. An underlying pool of assets, such as credit card or automobile trade receivables or corporate loans or bonds, backs these bonds and provides the interest and principal

payments to investors. Credit quality depends primarily on the quality of the underlying assets and the level of credit support, if any, provided by the issuer. The underlying assets (i.e., loans) are subject to prepayments which can shorten the securities' weighted average life and may lower their return. The value of these securities also may change because of actual or perceived changes in the creditworthiness of the originator, servicing agent, or of the financial institution providing the credit support. There is no limit on the portion of the funds' fixed income investments in these securities.

Mortgage-backed Securities. The fund will invest in a variety of mortgage-backed securities. Mortgage lenders pool individual home mortgages with similar characteristics to back a certificate or bond, which is sold to investors such as the fund. Interest and principal payments generated by the underlying mortgages are passed through to the investors. The "big three" issuers are Government National Mortgage Association (GNMA), the Federal National Mortgage Association (Fannie Mae), and the Federal Home Loan Mortgage Corporation (Freddie Mac). GNMA certificates are backed by the full faith and credit of the U.S. Government, while others, such as Fannie Mae and Freddie Mac certificates, are only supported by the ability to borrow from the U.S. Treasury or supported only by the credit of the agency. Private mortgage bankers and other institutions also issue mortgage-backed securities.

Mortgage securities are subject to scheduled and unscheduled principal payments as homeowners pay down or prepay their mortgages. As these payments are received, they must be reinvested when interest rates may be higher or lower than

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on the original mortgage security. Therefore, mortgage securities are not an effective means of locking in long-term interest rates. In addition, when interest rates fall, the pace of mortgage prepayments picks up. These refinanced mortgages are paid off at face value (par), causing a loss for any investor who may have purchased the security at a price above par. In such an environment, this risk limits the potential price appreciation of these securities and can negatively affect the fund's net asset value. When rates rise, however, mortgage-backed securities have historically experienced smaller price declines than comparable quality bonds.

Mortgage-backed securities in which the fund may invest include:

- o Adjustable Rate Mortgage Securities (ARMs). ARMs are created from a pool of adjustable rate mortgages. Adjustable rate mortgages have become an increasingly popular means to finance home ownership. Adjustable rate mortgages, like fixed rate mortgages, have a specified maturity date, and the principal amount of the mortgage is repaid over the life of the mortgage. Unlike fixed rate mortgages, the interest rate on adjustable rate mortgages is adjusted at regular intervals based on a specified, published interest rate "index." The new rate is determined by

adding a specific interest amount, the "margin," to the interest rate of the index. Investment in ARMs allows the fund to participate in changing interest rate levels through regular adjustments in the coupons of the underlying mortgages, resulting in more variable current income and lower price volatility than longer term fixed rate mortgage securities. The ARM securities in which the fund expects to invest will generally

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adjust their interest rates at regular intervals of one year or less. ARM securities are a less effective means of locking in long-term rates than fixed rate mortgages since the income from adjustable rate mortgages will increase during periods of rising interest rates and decline during periods of falling rates. ARMs purchased by the fund will be primarily issued or guaranteed by the U.S. Government or its agencies. However, the fund may also invest in ARMs issued by private, non-governmental institutions if the ARMs are rated in the two highest credit categories by a nationally recognized rating agency (or, if unrated, the T. Rowe Price equivalent). This policy does not prohibit the fund from retaining a non-governmental ARM which is downgraded below the two highest categories after

purchase.

- o Adjustable Rate Collateralized Mortgage Obligations (ARCMOs). The fund expects to make substantial investments in ARCMOs (also called floating rate CMOs) issued or guaranteed by the U.S. Government or its agencies. An ARCMO is created from the payment stream (tranche) on a pool of mortgages or mortgage securities (typically fixed rate) in a CMO. (See discussion of CMOs below.) The interest rate on an ARCMO is reset periodically (e.g., every 30, 60 or 90 days) and determined by adding a specific amount (the margin) to an interest rate index (e.g., London Interbank Offer Rate (LIBOR)). The relatively short interest rate reset period on ARCMOs generally results in their being less sensitive to interest rate changes than ARMs (which typically have a six month or annual reset period).

- o Characteristics of Adjustable Rate Securities. As noted, the interest rates

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paid on adjustable rate securities are reset at regular intervals by adding an interest rate margin to a specified interest rate index. There are three main categories of indices: those based on U.S. Treasury securities such as the

one-year constant maturity Treasury rate (CMT); those derived from a calculated measure such as a cost of funds index (COFI) or a moving average of mortgage rates; and those based on certain actively traded or prominent short-term rates such as the LIBOR. Some indices, such as CMT closely mirror changes in interest rate levels. Others, such as COFI, tend to lag behind changes in market rate levels but reset monthly thus tending to be somewhat less volatile. Such a delay in adjusting to changes in interest rates may cause securities owned by the fund to increase or decrease in value, particularly during periods between interest adjustment dates.

ARMs and adjustable rate CMOs may be affected by caps and floors which limit the maximum amount by which the interest rate to the residential borrower or investor may move up or down, respectively, each adjustment period and over the life of the loan or security. Interest rate caps on these instruments may cause them to decrease in value in an increasing interest rate environment. Such caps may also prevent the income from increasing to levels commensurate with prevailing interest rates. Conversely, interest rate floors may cause income to remain higher than prevailing interest rate levels and result in an increase in the value of such instruments. For ARMs, however, this increase may be tempered by the acceleration of prepayments.

Mortgage securities generally have a maximum maturity of up to 30 years.

However, due to the adjustable rate feature of ARM securities and adjustable rate CMOs, their prices are considered to have volatility characteristics which approximate the average period of time until the next adjustment of the interest rate. As a result, the principal volatility of these securities may be more comparable to short- and intermediate-term securities than to longer term fixed rate mortgage securities. Prepayments, however, will increase their principal volatility.

- o Collateralized Mortgage Obligations (CMOs). CMOs are debt securities that are fully collateralized by a portfolio of mortgages or mortgage-backed securities. All interest and principal payments from the underlying mortgages are passed through to the CMOs in such a way as to create more definite maturities than is the case with the underlying mortgages. CMOs may pay fixed or variable rates of interest, and certain CMOs have priority over others with respect to the receipt of prepayments. All CMOs purchased by the fund will be rated in the two highest credit categories by a nationally recognized rating agency (or, if unrated, the T. Rowe Price equivalent). This policy does not prohibit the fund from retaining a CMO which is downgraded to below the highest categories after purchase.

- o Stripped Mortgage Securities. Stripped mortgage securities (a type of derivative) are created by separating the interest and principal payments generated by a pool of mortgage-backed securities or a CMO to create additional classes of

securities. Generally, one class receives only interest payments (IOs) and one principal payments (POs). Unlike GNMA securities and POs, the value of IOs tends to move in the same direction as

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interest rates. The fund could use IOs as a hedge against falling prepaying rates (interest rates are rising) and/or a bear market environment. POs can be used as a hedge against rising prepayment rates (interest rates are falling) and/or a bull market environment. IOs and POs are acutely sensitive to interest rate changes and to the rate of principal prepayments. A rapid or unexpected increase in prepayments can severely depress the price of IOs, while a rapid or unexpected decrease in prepayments could have the same effect on POs. These securities are very volatile in price and may have lower liquidity than most other mortgage-backed securities. Certain non-stripped CMOs may also exhibit these qualities, especially those which pay variable rates of interest which adjust inversely with and more rapidly than short-term interest rates. There is no guarantee the fund's investment in CMOs, IOs or POs will be successful, and the fund's total return could be adversely affected as a result.

Operating policy: The fund may invest up to 10% of its total assets in stripped mortgage securities.

Debt Securities. The fund may invest in debt securities of any type that are considered high quality (e.g., AAA or AA by Standard & Poor's Corporation (S&P), or Ass or Aa by Moody's Investors Service, Inc. (Moody's)), or, if not rated, are of equivalent investment quality as determined by T. Rowe Price. Debt securities within the top credit categories (e.g., AAA and AA by S&P) comprise what are generally known as high-quality bonds. The fund will not purchase a debt security whose effective maturity, average life or tender date, measured from the date of settlement, exceeds five years. The fund may retain a

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security which is downgraded below AA/Aa after purchase.

Hybrid Instruments. These instruments (a type of derivative) can combine the characteristics of securities, futures and options. For example, the principal amount or interest rate of a hybrid could be tied (positively or negatively) to the price of some commodity, currency or securities index or another interest rate (each a "benchmark"). Hybrids can be used as an

efficient means of pursuing a variety of investment goals, including currency hedging, duration management, and increased total return. Hybrids may not bear interest or pay dividends. The value of a hybrid or its interest rate may be a multiple of a benchmark and, as a result, may be leveraged and move (up or down) more steeply and rapidly than the benchmark. These benchmarks may be sensitive to economic and political events, such as commodity shortages and currency devaluations, which cannot be readily foreseen by the purchaser of a hybrid. Under certain conditions, the redemption value of a hybrid could be zero. Hybrids can have volatile prices and limited liquidity. Thus, an investment in a hybrid may entail significant market risks that are not associated with a similar investment in a traditional, U.S. dollar-denominated bond that has a fixed principal amount and pays a fixed rate or floating rate of interest. The purchase of hybrids also exposes the fund to the credit risk of the issuer of the hybrid. These risks may cause significant fluctuations in the net asset values of the fund. There is no assurance that a fund's investment in hybrids will be successful.

Operating policy: The fund may invest up to 10% of its total assets in hybrid instruments.

Private Placements (Restricted Securities). These securities are sold directly to a small number of investors, usually institutions. Unlike public offerings, such securities are not registered with the SEC. Although certain of these securities may be readily sold, for example under Rule 144A, others may be illiquid and their sale may involve substantial delays and additional costs.

Operating policy: The fund will not invest more than 15% of its net assets in illiquid securities.

Types of Fund Management Practices

Cash reserves provide flexibility and serve as a short-term defense during periods of unusual market volatility.

Cash Position. The fund will hold a certain portion of its assets in money market securities, including repurchase agreements, in the two highest rating categories, maturing in one year or less. For temporary, defensive purposes, the fund may invest without limitation in such securities. This reserve position provides flexibility in meeting redemptions, expenses, and the timing of new investments, and serves as a short-term defense during periods of unusual market volatility.

Borrowing Money and Transferring Assets. The funds can borrow money from banks as a temporary measure for emergency purposes, to facilitate redemption requests, or for other purposes consistent with the fund's investment objectives and program. Such borrowings may be collateralized with fund assets, subject to restrictions.

Fundamental policy: Borrowings may not exceed 33 1/3% of a fund's total assets.

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Operating policies: Each fund may not transfer as collateral any portfolio securities except as necessary in connection with permissible borrowings or investments, and then such transfers may not exceed 33 1/3% of a fund's total assets. A fund may not purchase additional securities when borrowings exceed 5% of total assets.

Futures are used to manage risk; options give the investor the option to buy or sell an asset at a predetermined price in the future.

Futures and Options. Futures (a type of derivative) are often used to manage risk because they enable the investor to buy or sell an asset in the future at an agreed upon price. Options (another type of derivative) give the investor the right, but not the obligation, to buy or sell an asset at a predetermined price in the future. The fund may buy and sell futures contracts (and options on such contracts) for a number of reasons including: to manage its exposure to changes in interest rates and bond prices, as an efficient means of adjusting its overall exposure to certain markets; and to adjust the portfolio's duration. The fund may purchase, sell, or write call and put

options on securities, financial indices, and foreign currencies.

Futures contracts and options may not always be successful hedges; their prices can be highly volatile; using them could lower the fund's total return and the potential loss from the use of futures can exceed the fund's initial investment in such contracts.

Operating policies: Futures: Initial margin deposits and premiums on options used for non-hedging purposes will not

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equal more than 5% of the fund's net asset value. Options on securities: The total market value of securities against which a fund has written call or put options may not exceed 25% of its total assets. The fund will not commit more than 5% of its total assets to premiums when purchasing call or put options.

Lending of Portfolio Securities. Like other mutual funds, the fund may lend securities to broker-dealers, other institutions, or other persons to earn additional income. The principal risk is the potential insolvency of the broker-dealer or other borrower. In this event, the fund could experience delays in recovering their securities and possibly capital losses.

Fundamental policy: The value of loaned securities may not exceed 33 1/3% of the fund's total assets.

When-Issued Securities and Forward Commitment Contracts. The fund may purchase securities on a when-issued or delayed delivery basis or may purchase or sell securities on a forward commitment basis. The price of these securities is fixed at the time of the commitment to buy, but delivery and payment can take place a month or more later. During the interim period, the market value of the securities can fluctuate, and no interest accrues to the purchaser. At the time of delivery, the value of the securities may be more or less than the purchase or sale price. To the extent the fund remains fully or almost fully invested (in securities with a remaining maturity of more than one year) at the same time it purchases these securities, there will be greater fluctuations in the fund's net asset value than if the fund did not purchase them. There is no limit on the fund's investment in these securities.

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Portfolio Transactions. Although the fund will not generally trade for short-term profits, circumstances may warrant a sale

without regard to the length of time a security was held. A high turnover rate may increase transaction costs and result in additional gains. The fund's annualized portfolio turnover rate for the three-month fiscal year ended May 31, 1994 was 27.6%. The fund's portfolio turnover rates for the fiscal years ended February 28, 1994, February 28, 1993, and February 29, 1992, were 70.4%, 110.8% and 98.4%, respectively. In executing transactions, the fund's Board has authorized T. Rowe Price to use certain brokers who are indirectly related to T. Rowe Price.

4 Investing with T. Rowe Price

Meeting Requirements for New Accounts

Tax Identification Number

Always verify your transactions by carefully reviewing the confirmation we send you. Please report any discrepancies to Shareholder Services.

We must have your correct social security or corporate tax identification number and a signed New Account Form or W-9 Form. Otherwise, federal law requires the fund to withhold a percentage (currently 31%) of your dividends, capital gain distributions, and redemptions, and may subject you to an IRS fine. You will also be prohibited from opening another account by exchange. If this information is not received within 60 days after your account is established, your account may be redeemed, priced at the NAV on the date of redemption.

Unless you request otherwise, one shareholder report will be mailed to

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multiple account owners with the same tax identification number and same zip code and to shareholders who have requested that their account be combined with someone else's for financial reporting.

Opening a New Account: \$2,500 minimum initial investment; \$1,000 for retirement plans or gifts or transfers to minors (UGMA/UTMA) accounts

Account Registration

If you own other T. Rowe Price funds, be sure to register any new account just like your existing accounts so you can exchange among them easily. (The name and account type would have to be identical.)

Regular Mail
T. Rowe Price
Account Services
P.O. Box 17300
Baltimore, MD
21298-9353

Mailgram, Express,
Registered, or Certified
Mail
T. Rowe Price
Account Services
10090 Red Run Blvd.
Owings Mills, MD 21117

By Mail

Please make your check payable to T. Rowe Price Funds (otherwise it may be returned) and send it together with the New Account Form to the address at left.

By Wire

- o Call Investor Services for an account number and use the wire address below.
- o Complete a New Account Form and mail it to one of the appropriate addresses listed at left. Note: Retirement plans cannot be opened by wire.

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- o Give the following wire address to your bank: Morgan Guaranty Trust Co. of New York, ABA# 021000238, T. Rowe Price [fund name], AC-00153938. Provide fund name, account name(s), and account number.

By Exchange

Call Shareholder Services. The new account will have the same registration as the account from which you are exchanging. Services for the new account may be carried over by telephone request if preauthorized on the existing account. (See explanation of "Excessive Trading " under "Transaction Procedures.")

Drop-off locations
101 East Lombard St.
Baltimore, MD

T. Rowe Price
Financial Center
10090 Red Run Blvd.

Owings Mills, MD

Farragut Square
900 17th St., N.W.
Washington, D.C.

ARCO Tower
31st Floor
515 South Flower St.
Los Angeles, CA

In Person

Drop off your New Account Form at any of the locations listed at left and obtain a receipt.

Note: The fund and its agents reserve the right to waive or lower investment minimums; to accept initial purchases by telephone or mailgram; cancel or rescind any purchase or exchange upon notice to the shareholder within five business days of the trade or if the written confirmation has not been received by the shareholder, whichever is sooner (for example, if an

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account has been restricted due to excessive trading or fraud); to otherwise modify the conditions of purchase or any services at any time; or to act on instructions believed to be genuine.

Purchasing Additional Shares: \$100 minimum purchase; \$50 for retirement plans and Automatic Asset Builder; \$5,000 minimum for

telephone purchases

By ACH Transfer

Use Tele*Access (registered trademark), PC*Access (registered trademark) or call Investor Services if you have established electronic transfers using the ACH network.

By Wire

Call Shareholder Services or use the wire address in "Opening a New Account."

Regular Mail

T. Rowe Price Funds
Account Services
P.O. Box 89000
Baltimore, MD
21289-1500

By Mail

- o Provide your account number and the fund name on your check.

- o Mail the check to the address shown at left either with a reinvestment slip or a note indicating the fund and account number in which you wish to purchase shares.

By Automatic Asset Builder

Fill out the Automatic Asset Builder section on the New Account or Shareholder Services form (\$50 minimum).

By Phone

Call Shareholder Services to lock in that day's closing price; payment is due within five days (\$5,000 minimum).

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Exchanging and Redeeming Shares

By Phone

Call Shareholder Services. If you find our phones busy during unusually volatile markets, please consider placing your order by Tele*Access or PC*Access (if you have previously authorized telephone services), or by express mail or mailgram. For exchange policies, please see "Transaction Procedures and Special Requirements - Excessive Trading."

Redemption proceeds can be mailed to your account address, sent by ACH transfer, or wired to your bank. For charges, see "Electronic Transfers - By Wire" on page 23.

By Mail

Mailgram, Express,
Registered, or
Certified Mail
(See page 20.)

Provide account name(s) and numbers, fund name(s), and exchange or redemption amount. For exchanges, mail to the appropriate address below or at left, indicate the fund you are exchanging from and the fund(s) you are exchanging into. T. Rowe Price requires the signatures of all owners exactly as registered, and possibly a signature guarantee (see "Transaction Procedures and Special Requirements - Signature Guarantees").

Regular Mail

For Non-Retirement
and IRA accounts:

T. Rowe Price Account
Services
P.O. Box 89000
Baltimore, MD

For Employer-
Sponsored Retirement
accounts:

T. Rowe Price Trust
Company
P.O. Box 89000
Baltimore, MD

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Note: Redemptions from retirement accounts, including IRAs, must be in writing. Please call Shareholder Services to obtain an IRA Distribution Request Form. For employer-sponsored retirement accounts, call Investor Services or your plan administrator for instructions.

Shareholder Services

Many services are available to you as a T. Rowe Price shareholder; some you receive automatically and others you must authorize on the New Account Form. By signing up for services on the New Account Form rather than later, you avoid having to complete a separate form and obtain a signature guarantee. This section reviews some of the principal services currently offered. Our Services Guide contains detailed descriptions of these and other services. If you are a new T. Rowe Price investor, you will receive a Services Guide with our Welcome Kit.

Retirement Plans

We offer a wide range of plans for individuals and institutions, including large and small businesses: IRAs, SEP-IRAs, Keoghs (profit sharing, money purchase pension), 401(k), and 403(b)(7). For

information on IRAs, call Investor Services. For information on all other retirement plans, please call our Trust Company at 1-800-492-7670.

Exchange Service

Investor Services

1-800-638-5660

1-410-547-2308

You can move money from one account to an existing identically registered account, or open a new identically registered account. Remember, exchanges are purchases and sales for tax purposes. (Exchanges into a state tax-free fund are limited to investors living in states where the funds are

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registered.) Some of the T. Rowe Price funds may impose a redemption fee of .50% to 2%, payable to such funds, on shares held for less than one year, or in some funds, six months.

Note: Shares purchased by telephone may not be exchanged to another fund until payment is received.

Automated Services

Tele*Access. 24-hour service via toll-free number provides information such as yields, prices, dividends, account balances, and your latest transaction, as well as the

ability to request prospectuses and account forms and initiate purchase, redemption and exchange orders in your accounts (see "Electronic Transfers" below).

PC*Access. 24-hour service via dial-up modem provides the same information as Tele*Access, but on a personal computer. Please call Investor Services for an information guide.

Telephone and Walk-In Services

Buy, sell, or exchange shares by calling one of our service representatives or by visiting one of our four investor center locations.

Electronic Transfers

By ACH. With no charges to pay, you can initiate a purchase or redemption for as little as \$100 or as much as \$100,000 between your bank account and fund account using the ACH network. Enter instructions via Tele*Access, PC*Access or call Shareholder Services.

By Wire. Electronic transfers can also be conducted via bank wire. There is currently a \$5 fee for wire redemptions under \$5,000, and your bank may charge for wire transfers regardless of size.

Checkwriting

You may write an unlimited number of free checks on bond and money funds, with a minimum of \$500 per check. Keep in mind, however that a check results in a redemption; a check written on a bond fund will create a taxable event which you and we must report to the IRS.

Automatic Investing (\$50 minimum)

You can invest automatically in several different ways, including:

- o Automatic Asset Builder. You instruct us to move \$50 or more once a month or less often from your bank account, or you can instruct your employer to send all or a portion of your paycheck, to the fund or funds you designate.
- o Automatic Exchange. Enables you to set up systematic investments from one fund account into another, such as from a money fund into a stock fund.

Discount Brokerage

You can trade stocks, bonds, options, precious metals and other securities at a substantial savings over regular commission rates. Call Investor Services for information.

Note: If you buy or sell T. Rowe Price funds through anyone other than T. Rowe Price, such as broker-dealers or banks, you may be charged transaction or service fees by those institutions. No such fees are charged by T. Rowe Price Investment Services or the fund for transactions conducted directly with the fund.

Prospectus

To Open an Account
Investor Services
1-800-638-5660
1-410-547-2308

T. Rowe Price
Adjustable Rate
U.S. Government
Fund

For Existing Accounts
Shareholder Services
1-800-225-5132
1-410-625-6500

To help you
achieve your
financial goals,

A fund for
investors
seeking high
current income
consistent
with minimal
fluctuation of
share price.

For Yields & Prices
Tele*Access (registered
trademark)
1-800-638-2587
1-410-625-7676
24 hours, 7 days

T. Rowe Price
offers a wide
range of stock,
bond, and money

T. Rowe Price
Adjustable Rate
U.S. Government
Fund, Inc.
October 1, 1994

Investor Centers
101 East Lombard St.
Baltimore, MD

T. Rowe Price
Financial Center
10090 Red Run Blvd.
Owings Mills, MD

investments, as
well as
convenient

Farragut Square
900 17th Street, N.W.
Washington, D.C.

services and
timely,

ARCO Tower
31st Floor
515 South Flower St.

informative
reports.

T. Rowe Price
Invest With
Confidence
(registered
trademark)

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The Statement of Additional Information for the T. Rowe Price Adjustable Rate U.S. Government Fund, Inc., dated October 1, 1994, should be inserted here.

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STATEMENT OF ADDITIONAL INFORMATION

T. ROWE PRICE ADJUSTABLE RATE U.S. GOVERNMENT FUND, INC.

T. ROWE PRICE GNMA FUND

T. ROWE PRICE HIGH YIELD FUND, INC.

T. ROWE PRICE NEW INCOME FUND, INC.

T. ROWE PRICE PERSONAL STRATEGY FUNDS, INC.

T. ROWE PRICE PRIME RESERVE FUND, INC.

T. ROWE PRICE SHORT-TERM BOND FUND, INC.

T. ROWE PRICE U.S. TREASURY FUNDS, INC.

U.S. Treasury Intermediate Fund

U.S. Treasury Long-Term Fund

U.S. Treasury Money Fund

(collectively the "Funds" and individually the "Fund")

This Statement of Additional Information is not a prospectus but should be read in conjunction with the appropriate Fund's prospectus dated October 1, 1994, which may be obtained from T. Rowe Price Investment Services, Inc., 100 East Pratt Street, Baltimore, Maryland 21202.

If you would like a prospectus for a Fund of which you are not a shareholder, please call 1-800-638-5660. A prospectus with more complete information, including management fees and expenses will be sent to you. Please read it carefully.

The date of this Statement of Additional Information is October 1, 1994.

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INVESTMENT OBJECTIVES AND POLICIES

The following information supplements the discussion of each

Fund's investment objectives and policies discussed in each Fund's prospectus. The Funds will not make a material change in their investment objectives without obtaining shareholder approval. Unless otherwise specified, the investment programs and restrictions of the Funds are not fundamental policies. Each Fund's operating policies are subject to change by each Board of Directors/Trustees without shareholder approval. However, shareholders will be notified of a material change in an operating policy. Each Fund's fundamental policies may not be changed without the approval of at least a majority of the outstanding shares of the Fund or, if it is less, 67% of the

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shares represented at a meeting of shareholders at which the holders of 50% or more of the shares are represented.

Throughout this Statement of Additional Information, "the Fund" is intended to refer to each Fund listed on the cover page, unless otherwise indicated.

RISK FACTORS

All Funds

Debt Obligations

Yields on short, intermediate, and long-term securities are dependent on a variety of factors, including the general conditions of the money and bond markets, the size of a particular offering, the maturity of the obligation, and the credit quality and rating of the issue. Debt securities with longer maturities tend to have higher yields and are generally subject to potentially greater capital appreciation and depreciation than obligations with shorter maturities and lower yields. The market prices of debt securities usually vary, depending upon available yields. An increase in interest rates will generally reduce the value of portfolio debt securities, and a decline in interest rates will generally increase the value of portfolio debt securities. The ability of the Fund to achieve its investment objective is also dependent on the continuing ability of the issuers of the debt securities in which the Fund invests to meet their obligations for the payment of interest and principal when due. Although the Fund seeks to reduce risk by portfolio diversification, credit analysis, and attention to trends in the economy, industries and financial markets, such efforts will not eliminate all risk. There can, of course, be no assurance that the Fund will achieve its investment objective.

After purchase by the Fund, a debt security may cease to be rated or its rating may be reduced below the minimum required for

purchase by the Fund. For the Prime Reserve and U.S. Treasury Money Funds, the procedures set forth in Rule 2a-7, under the Investment Company Act of 1940, may require the prompt sale of any such security. For the other Funds, neither event will require a sale of such security by the Fund. However, T. Rowe Price will consider such event in its determination of whether the Fund should continue to hold the security. To the extent that the ratings given by Moody's or S&P may change as a result of changes in such organizations or their rating systems, the

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Fund will attempt to use comparable ratings as standards for investments in accordance with the investment policies contained in the prospectus. When purchasing unrated securities, T. Rowe Price, under the supervision of the Fund's Board of Directors, determines whether the unrated security is of a qualify comparable to that which the Fund is allowed to purchase.

Reference is also made to the sections entitled "Types of Securities" and "Portfolio Management Practices" for discussions of the risks associated with the investments and practices described therein as they apply to the Fund.

All Funds (except Prime Reserve and U.S. Treasury Money Funds)

Because of its investment policy, the Fund may or may not be suitable or appropriate for all investors. The Fund is not a money market fund and is not an appropriate investment for those whose primary objective is principal stability. The value of the portfolio securities of the Fund will fluctuate based upon market conditions. Although the Fund seeks to reduce risk by investing in a diversified portfolio, such diversification does not eliminate all risk. There can, of course, be no assurance that the Fund will achieve its investment objective.

Prime Reserve and U.S. Treasury Money Funds

There can be no assurance that the Funds will achieve their investment objectives or be able to maintain their net asset value per share at \$1.00. The price of the Fund is not guaranteed or insured by the U.S. Government and its yield is not fixed. An increase in interest rates could reduce the value of the Fund's portfolio investments, and a decline in interest rates could increase the value.

All Funds (except Prime Reserve and U.S. Treasury Money Funds)

Mortgage securities differ from conventional bonds in that principal is paid back over the life of the security rather than at maturity. As a result, the holder of a mortgage security (i.e., the Fund) receives monthly scheduled payments of principal

and interest, and may receive unscheduled principal payments representing prepayments on the underlying mortgages. The incidence of unscheduled principal prepayments is also likely to increase in mortgage pools owned by the Fund when prevailing mortgage loan rates fall below the mortgage rates of the securities underlying the individual pool. The effect of such prepayments in a falling rate environment is to (1) cause the

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Fund to reinvest principal payments at the then lower prevailing interest rate, and (2) reduce the potential for capital appreciation beyond the face amount of the security. Conversely, the Fund may realize a gain on prepayments of mortgage pools trading at a discount. Such prepayments will provide an early return of principal which may then be reinvested at the then higher prevailing interest rate.

The market value of adjustable rate mortgage securities ("ARMs"), like other U.S. government securities, will generally vary inversely with changes in market interest rates, declining when interest rates rise and rising when interest rates decline. Because of their periodic adjustment feature, ARMs should be more sensitive to short-term interest rates than long-term rates. They should also display less volatility than long-term mortgage securities. Thus, while having less risk of a decline during periods of rapidly rising rates, ARMs may also have less potential for capital appreciation than other investments of comparable maturities. Interest rate caps on mortgages underlying ARM securities may prevent income on the ARM from increasing to prevailing interest rate levels and cause the securities to decline in value. In addition, to the extent ARMs are purchased at a premium, mortgage foreclosures and unscheduled principal prepayments may result in some loss of the holders' principal investment to the extent of the premium paid. On the other hand, if ARMs are purchased at a discount, both a scheduled payment of principal and an unscheduled prepayment of principal will increase current and total returns and will accelerate the recognition of income which when distributed to shareholders will be taxable as ordinary income.

High Yield, New Income, Personal Strategy, and Short-Term Bond Funds

Risk Factors of Foreign Investing

There are special risks in foreign investing. Certain of these risks are inherent in any mutual fund investing in foreign securities while others relate more to the countries in which the Funds will invest. Many of the risks are more pronounced for investments in developing or emerging countries, such as many of the countries of Southeast Asia, Latin America, Eastern Europe

and the Middle East. Although there is no universally accepted definition, a developing country is generally considered to be a country which is in the initial stages of its industrialization cycle with a per capita gross national product of less than \$8,000.

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Political and Economic Factors. Individual foreign economies of certain countries may differ favorably or unfavorably from the United States' economy in such respects as growth of gross national product, rate of inflation, capital reinvestment, resource self-sufficiency and balance of payments position. The internal politics of certain foreign countries are not as stable as in the United States. For example, in 1991, the existing government in Thailand was overthrown in a military coup. In 1992, there were two military coup attempts in Venezuela and in 1992 the President of Brazil was impeached. In addition, significant external political risks currently affect some foreign countries. Both Taiwan and China still claim sovereignty of one another and there is a demilitarized border between North and South Korea.

Governments in certain foreign countries continue to participate to a significant degree, through ownership interest or regulation, in their respective economies. Action by these governments could have a significant effect on market prices of securities and payment of dividends. The economies of many foreign countries are heavily dependent upon international trade and are accordingly affected by protective trade barriers and economic conditions of their trading partners. The enactment by these trading partners of protectionist trade legislation could have a significant adverse effect upon the securities markets of such countries.

Currency Fluctuations. The Funds will invest in securities denominated in various currencies. Accordingly, a change in the value of any such currency against the U.S. dollar will result in a corresponding change in the U.S. dollar value of the Funds' assets denominated in that currency. Such changes will also affect the Funds' income. Generally, when a given currency appreciates against the dollar (the dollar weakens) the value of the Fund's securities denominated in that currency will rise. When a given currency depreciates against the dollar (the dollar strengthens) the value of the Funds' securities denominated in that currency would be expected to decline.

Investment and Repatriation of Restrictions. Foreign investment in the securities markets of certain foreign countries is restricted or controlled in varying degrees. These restrictions may limit at times and preclude investment in certain of such countries and may increase the cost and expenses

of the Funds. Investments by foreign investors are subject to a variety of restrictions in many developing countries. These

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restrictions may take the form of prior governmental approval, limits on the amount or type of securities held by foreigners, and limits on the types of companies in which foreigners may invest. Additional or different restrictions may be imposed at any time by these or other countries in which the Funds invest. In addition, the repatriation of both investment income and capital from several foreign countries is restricted and controlled under certain regulations, including in some cases the need for certain government consents. For example, capital invested in Chile normally cannot be repatriated for one year.

Market Characteristics. Foreign stock and bond markets are generally not as developed or efficient as, and may be more volatile than, those in the United States. While growing in volume, they usually have substantially less volume than U.S. markets and the Funds' portfolio securities may be less liquid and subject to more rapid and erratic price movements than securities of comparable U.S. companies. Equity securities may trade at price/earnings multiples higher than comparable United States securities and such levels may not be sustainable. Fixed commissions on foreign stock exchanges are generally higher than negotiated commissions on United States exchanges, although the Funds will endeavor to achieve the most favorable net results on their portfolio transactions. There is generally less government supervision and regulation of foreign stock exchanges, brokers and listed companies than in the United States. Moreover, settlement practices for transactions in foreign markets may differ from those in United States markets. Such differences may include delays beyond periods customary in the United States and practices, such as delivery of securities prior to receipt of payment, which increase the likelihood of a "failed settlement." Failed settlements can result in losses to a Fund.

Investment Funds. The Funds may invest in investment funds which have been authorized by the governments of certain countries specifically to permit foreign investment in securities of companies listed and traded on the stock exchanges in these respective countries. The Funds' investment in these funds is subject to the provisions of the 1940 Act. If the Funds invest in such investment funds, the Funds' shareholders will bear not only their proportionate share of the expenses of the Funds (including operating expenses and the fees of the investment manager), but also will bear indirectly similar expenses of the underlying investment funds. In addition, the securities of these investment funds may trade at a premium over their net asset value.

Information and Supervision. There is generally less publicly available information about foreign companies comparable to reports and ratings that are published about companies in the United States. Foreign companies are also generally not subject to uniform accounting, auditing and financial reporting standards, practices and requirements comparable to those applicable to United States companies. It also may be more difficult to keep currently informed of corporate actions which affect the prices of portfolio securities.

Taxes. The dividends and interest payable on certain of the Funds' foreign portfolio securities may be subject to foreign withholding taxes, thus reducing the net amount of income available for distribution to the Funds' shareholders.

Other. With respect to certain foreign countries, especially developing and emerging ones, there is the possibility of adverse changes in investment or exchange control regulations, expropriation or confiscatory taxation, limitations on the removal of funds or other assets of the Funds, political or social instability, or diplomatic developments which could affect investments by U.S. persons in those countries.

Eastern Europe and Russia. Changes occurring in Eastern Europe and Russia today could have long-term potential consequences. As restrictions fall, this could result in rising standards of living, lower manufacturing costs, growing consumer spending, and substantial economic growth. However, investment in the countries of Eastern Europe and Russia is highly speculative at this time. Political and economic reforms are too recent to establish a definite trend away from centrally-planned economies and state owned industries. In many of the countries of Eastern Europe and Russia, there is no stock exchange or formal market for securities. Such countries may also have government exchange controls, currencies with no recognizable market value relative to the established currencies of western market economies, little or no experience in trading in securities, no financial reporting standards, a lack of a banking and securities infrastructure to handle such trading, and a legal tradition which does not recognize rights in private property. In addition, these countries may have national policies which restrict investments in companies deemed sensitive to the country's national interest. Further, the governments in such countries may require governmental or quasi-governmental authorities to act as custodian of a Fund's assets invested in such countries and these authorities may not qualify as a foreign custodian under the Investment Company Act of 1940 and exemptive

considerations are among the factors which could cause significant risks and uncertainties to investment in Eastern Europe and Russia. Each Fund will only invest in a company located in, or a government of, Eastern Europe and Russia, if it believes the potential return justifies the risk. To the extent any securities issued by companies in Eastern Europe and Russia are considered illiquid, each Fund will be required to include such securities within its 15% restriction on investing in illiquid securities.

High Yield and Personal Strategy Funds

Special Risks of Investing in Junk Bonds

The following special considerations are additional risk factors associated with the Fund's investments in lower rated debt securities.

Youth and Growth of the Lower Rated Debt Securities Market. The market for lower rated debt securities is relatively new and its growth has paralleled a long economic expansion. Past experience may not, therefore, provide an accurate indication of future performance of this market, particularly during periods of economic recession. An economic downturn or increase in interest rates is likely to have a greater negative effect on this market, the value of lower rated debt securities in the Fund's portfolio, the Fund's net asset value and the ability of the bonds' issuers to repay principal and interest, meet projected business goals and obtain additional financing than on higher rated securities. These circumstances also may result in a higher incidence of defaults than with respect to higher rated securities. An investment in this Fund is more speculative than investment in shares of a fund which invests only in higher rated debt securities.

Sensitivity to Interest Rate and Economic Changes. Prices of lower rated debt securities may be more sensitive to adverse economic changes or corporate developments than higher rated investments. Debt securities with longer maturities, which may have higher yields, may increase or decrease in value more than debt securities with shorter maturities. Market prices of lower rated debt securities structured as zero coupon or pay-in-kind securities are affected to a greater extent by interest rate changes and may be more volatile than securities which pay interest periodically and in cash. Where it deems it appropriate and in the best interests of Fund shareholders, the Fund may

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incur additional expenses to seek recovery on a debt security on which the issuer has defaulted and to pursue litigation to protect the interests of security holders of its portfolio

companies.

Liquidity and Valuation. Because the market for lower rated securities may be thinner and less active than for higher rated securities, there may be market price volatility for these securities and limited liquidity in the resale market. Nonrated securities are usually not as attractive to as many buyers as rated securities are, a factor which may make nonrated securities less marketable. These factors may have the effect of limiting the availability of the securities for purchase by the Fund and may also limit the ability of the Fund to sell such securities at their fair value either to meet redemption requests or in response to changes in the economy or the financial markets. Adverse publicity and investor perceptions, whether or not based on fundamental analysis, may decrease the values and liquidity of lower rated debt securities, especially in a thinly traded market. To the extent the Fund owns or may acquire illiquid or restricted lower rated securities, these securities may involve special registration responsibilities, liabilities and costs, and liquidity and valuation difficulties. Changes in values of debt securities which the Fund owns will affect its net asset value per share. If market quotations are not readily available for the Fund's lower rated or nonrated securities, these securities will be valued by a method that the Fund's Board of Directors believes accurately reflects fair value. Judgment plays a greater role in valuing lower rated debt securities than with respect to securities for which more external sources of quotations and last sale information are available.

Congressional Action. New and proposed laws may have an impact on the market for lower rated debt securities. For example, as a result of the Financial Institution's Reform, Recovery, and Enforcement Act of 1989, savings and loan associations were required to dispose of their high yield bonds no later than July 1, 1994. Qualified affiliates of savings and loan associations, however, may purchase and retain these securities, and savings and loan associations may divest these securities by sale to their qualified affiliates. T. Rowe Price is unable at this time to predict what effect, if any, the legislation may have on the market for lower rated debt securities.

Taxation. Special tax considerations are associated with investing in lower rated debt securities structured as zero

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coupon or pay-in-kind securities. The Fund accrues income on these securities prior to the receipt of cash payments. The Fund must distribute substantially all of its income to its shareholders to qualify for pass-through treatment under the tax laws and may, therefore, have to dispose of its portfolio

securities to satisfy distribution requirements.

Reference is also made to the sections entitled "Types of Securities" and "Portfolio Management Practices" for discussions of the risks associated with the investments and practices described therein as they apply to the Fund.

INVESTMENT PROGRAM

Types of Securities

Set forth below is additional information about certain of the investments described in the Fund's prospectus.

Debt Securities

Fixed income securities in which the Fund may invest include, but are not limited to, those described below.

All Funds

U.S. Government Obligations. Bills, notes, bonds and other debt securities issued by the U.S. Treasury. These are direct obligations of the U.S. Government and differ mainly in the length of their maturities.

U.S. Government Agency Securities. Issued or guaranteed by U.S. Government sponsored enterprises and federal agencies. These include securities issued by the Federal National Mortgage Association, Government National Mortgage Association, Federal Home Loan Bank, Federal Land Banks, Farmers Home Administration, Banks for Cooperatives, Federal Intermediate Credit Banks, Federal Financing Bank, Farm Credit Banks, the Small Business Association, and the Tennessee Valley Authority. Some of these securities are supported by the full faith and credit of the U.S. Treasury; and the remainder are supported only by the credit of the instrumentality, which may or may not include the right of the issuer to borrow from the Treasury.

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The GNMA, U.S. Treasury Money, Intermediate, and Long-Term Funds may only invest in these securities if they are supported by the full faith and credit of the U.S. government.

All Funds, except GNMA, U.S. Treasury Money, Intermediate and Long-Term Funds

Bank Obligations. Certificates of deposit, bankers'

acceptances, and other short-term debt obligations. Certificates of deposit are short-term obligations of commercial banks. A bankers' acceptance is a time draft drawn on a commercial bank by a borrower, usually in connection with international commercial transactions. Certificates of deposit may have fixed or variable rates. The Fund may invest in U.S. banks, foreign branches of U.S. banks, U.S. branches of foreign banks, and foreign branches of foreign banks.

Corporate Debt Securities. Outstanding nonconvertible corporate debt securities (e.g., bonds and debentures). Corporate notes may have fixed, variable, or floating rates.

Commercial Paper. Short-term promissory notes issued by corporations primarily to finance short-term credit needs. Certain notes may have floating or variable rates.

Foreign Government Securities. Issued or guaranteed by a foreign government, province, instrumentality, political subdivision or similar unit thereof.

Savings and Loan Obligations. Negotiable certificates of deposit and other short-term debt obligations of savings and loan associations.

Supranational Agencies. Securities of certain supranational entities, such as the International Development Bank.

All Funds (except Prime Reserve and U.S. Treasury Money Funds)

Mortgage-Related Securities

Mortgage-related securities in which the Fund may invest include, but are not limited to, those described below. The GNMA, U.S. Treasury Intermediate and U.S. Treasury Long-Term Funds may only invest in these securities to the extent they are backed by the full faith and credit of the U.S. Government.

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Mortgage-Backed Securities. Mortgage-backed securities are securities representing an interest in a pool of mortgages. The mortgages may be of a variety of types, including adjustable rate, conventional 30-year fixed rate, graduated payment, and 15-year. Principal and interest payments made on the mortgages in the underlying mortgage pool are passed through to the Fund. This is in contrast to traditional bonds where principal is normally paid back at maturity in a lump sum. Unscheduled prepayments of principal shorten the securities' weighted average life and may lower their total return. (When a mortgage in the underlying mortgage pool is prepaid, an unscheduled principal prepayment is

passed through to the Fund. This principal is returned to the Fund at par. As a result, if a mortgage security were trading at a premium, its total return would be lowered by prepayments, and if a mortgage security were trading at a discount, its total return would be increased by prepayments.) The value of these securities also may change because of changes in the market's perception of the creditworthiness of the federal agency that issued them. In addition, the mortgage securities market in general may be adversely affected by changes in governmental regulation or tax policies.

U.S. Government Agency Mortgage-Backed Securities. These are obligations issued or guaranteed by the United States Government or one of its agencies or instrumentalities, such as the Government National Mortgage Association ("Ginnie Mae" or "GNMA"), the Federal National Mortgage Association ("Fannie Mae" or "FNMA") the Federal Home Loan Mortgage Corporation ("Freddie Mac" or "FHLMC"), and the Federal Agricultural Mortgage Corporation ("Farmer Mac" or "FAMC"). FNMA, FHLMC, and FAMC obligations are not backed by the full faith and credit of the U.S. Government as GNMA certificates are, but they are supported by the instrumentality's right to borrow from the United States Treasury. U.S. Government Agency Mortgage-Backed Certificates provide for the pass-through to investors of their pro-rata share of monthly payments (including any prepayments) made by the individual borrowers on the pooled mortgage loans, net of any fees paid to the guarantor of such securities and the servicer of the underlying mortgage loans. Each of GNMA, FNMA, FHLMC, and FAMC guarantees timely distributions of interest to certificate holders. GNMA and FNMA guarantee timely distributions of scheduled principal. FHLMC has in the past guaranteed only the ultimate collection of principal of the underlying mortgage loan; however, FHLMC now issues Mortgage-Backed Securities (FHLMC Gold PCs) which also guarantee timely payment of monthly principal reductions.

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Ginnie Mae Certificates. Ginnie Mae is a wholly-owned corporate instrumentality of the United States within the Department of Housing and Urban Development. The National Housing Act of 1934, as amended (the "Housing Act"), authorizes Ginnie Mae to guarantee the timely payment of the principal of and interest on certificates that are based on and backed by a pool of mortgage loans insured by the Federal Housing Administration under the Housing Act, or Title V of the Housing Act of 1949 ("FHA Loans"), or guaranteed by the Department of Veterans Affairs under the Servicemen's Readjustment Act of 1944, as amended ("VA Loans"), or by pools of other eligible mortgage loans. The Housing Act provides that the full faith and credit of the United States government is pledged to the payment of all amounts that may be required to be paid under any guaranty. In

order to meet its obligations under such guaranty, Ginnie Mae is authorized to borrow from the United States Treasury with no limitations as to amount.

Fannie Mae Certificates. Fannie Mae is a federally chartered and privately owned corporation organized and existing under the Federal National Mortgage Association Charter Act of 1938. FNMA Certificates represent a pro-rata interest in a group of mortgage loans purchased by Fannie Mae. FNMA guarantees the timely payment of principal and interest on the securities it issues. The obligations of FNMA are not backed by the full faith and credit of the U.S. Government.

Freddie Mac Certificates. Freddie Mac is a corporate instrumentality of the United States created pursuant to the Emergency Home Finance Act of 1970, as amended (the "FHLMC Act"). Freddie Mac Certificates represent a pro-rata interest in a group of mortgage loans (a "Freddie Mac Certificate group") purchased by Freddie Mac. Freddie Mac guarantees timely payment of interest and principal on certain securities it issues and timely payment of interest and eventual payment of principal on other securities it issues. The obligations of Freddie Mac are obligations solely of Freddie Mac and are not backed by the full faith and credit of the U.S. Government.

Farmer Mac Certificates. The Federal Agricultural Mortgage Corporation ("Farmer Mac") is a federally chartered instrumentality of the United States established by Title VIII of the Farm Credit Act of 1971, as amended ("Charter Act"). Farmer Mac was chartered primarily to attract new capital for financing of agricultural real estate by making a secondary market in certain qualified agricultural real estate loans. Farmer Mac provides guarantees of timely payment of principal and interest

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on securities representing interests in, or obligations backed by, pools of mortgages secured by first liens on agricultural real estate ("Farmer Mac Certificates"). Similar to Fannie Mae and Freddie Mac, Farmer Mac's Certificates are not supported by the full faith and credit of the U.S. Government; rather, Farmer Mac may borrow up from the U.S. Treasury to meet its guaranty obligations.

As discussed above, prepayments on the underlying mortgages and their effect upon the rate of return of a Mortgage-Backed Security, is the principal investment risk for a purchaser of such securities, like the Fund. Over time, any pool of mortgages will experience prepayments due to a variety of factors, including (1) sales of the underlying homes (including foreclosures), (2) refinancings of the underlying mortgages, and (3) increased amortization by the mortgagee. These factors, in

turn, depend upon general economic factors, such as level of interest rates and economic growth. Thus, investors normally expect prepayment rates to increase during periods of strong economic growth or declining interest rates, and to decrease in recessions and rising interest rate environments. Accordingly, the life of the Mortgage-Backed Security is likely to be substantially shorter than the stated maturity of the mortgages in the underlying pool. Because of such variation in prepayment rates, it is not possible to predict the life of a particular Mortgage-Backed Security, but FHA statistics indicate that 25- to 30-year single family dwelling mortgages have an average life of approximately 12 years. The majority of Ginnie Mae Certificates are backed by mortgages of this type, and, accordingly, the generally accepted practice treats Ginnie Mae Certificates as 30-year securities which prepay full in the 12th year. FNMA and Freddie Mac Certificates may have differing prepayment characteristics.

Fixed Rate Mortgage-Backed Securities bear a stated "coupon rate" which represents the effective mortgage rate at the time of issuance, less certain fees to GNMA, FNMA and FHLMC for providing the guarantee, and the issuer for assembling the pool and for passing through monthly payments of interest and principal.

Payments to holders of Mortgage-Backed Securities consist of the monthly distributions of interest and principal less the applicable fees. The actual yield to be earned by a holder of Mortgage-Backed Securities is calculated by dividing interest payments by the purchase price paid for the Mortgage-Backed Securities (which may be at a premium or a discount from the face value of the certificate).

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Monthly distributions of interest, as contrasted to semi-annual distributions which are common for other fixed interest investments, have the effect of compounding and thereby raising the effective annual yield earned on Mortgage-Backed Securities. Because of the variation in the life of the pools of mortgages which back various Mortgage-Backed Securities, and because it is impossible to anticipate the rate of interest at which future principal payments may be reinvested, the actual yield earned from a portfolio of Mortgage-Backed Securities will differ significantly from the yield estimated by using an assumption of a certain life for each Mortgage-Backed Security included in such a portfolio as described above.

U.S. Government Agency Multiclass Pass-Through Securities. Unlike CMOs, U.S. Government Agency Multiclass Pass-Through Securities, which include FNMA Guaranteed REMIC Pass-Through Certificates and FHLMC Multi-Class Mortgage Participation Certificates, are ownership interests in a pool of Mortgage

Assets. Unless the context indicates otherwise, all references herein to CMOs include multiclass pass-through securities.

Multi-Class Residential Mortgage Securities. Such securities represent interests in pools of mortgage loans to residential home buyers made by commercial banks, savings and loan associations or other financial institutions. Unlike GNMA, FNMA and FHLMC securities, the payment of principal and interest on Multi-Class Residential Mortgage Securities is not guaranteed by the U.S. Government or any of its agencies. Accordingly, yields on Multi-Class Residential Mortgage Securities have been historically higher than the yields on U.S. government mortgage securities. However, the risk of loss due to default on such instruments is higher since they are not guaranteed by the U.S. Government or its agencies. Additionally, pools of such securities may be divided into senior or subordinated segments. Although subordinated mortgage securities may have a higher yield than senior mortgage securities, the risk of loss of principal is greater because losses on the underlying mortgage loans must be borne by persons holding subordinated securities before those holding senior mortgage securities.

Privately-Issued Mortgage-Backed Certificates. These are pass-through certificates issued by non-governmental issuers. Pools of conventional residential mortgage loans created by such issuers generally offer a higher rate of interest than government and government-related pools because there are no direct or indirect government guarantees of payment. Timely payment of

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interest and principal of these pools is, however, generally supported by various forms of insurance or guarantees, including individual loan, title, pool and hazard insurance. The insurance and guarantees are issued by government entities, private insurance or the mortgage poolers. Such insurance and guarantees and the creditworthiness of the issuers thereof will be considered in determining whether a mortgage-related security meets the Fund's quality standards. The Fund may buy mortgage-related securities without insurance or guarantees if through an examination of the loan experience and practices of the poolers, the investment manager determines that the securities meet the Fund's quality standards.

Collateralized Mortgage Obligations (CMOs). CMOs are bonds that are collateralized by whole loan mortgages or mortgage pass-through securities. The bonds issued in a CMO deal are divided into groups, and each group of bonds is referred to as a "tranche." Under the traditional CMO structure, the cash flows generated by the mortgages or mortgage pass-through securities in the collateral pool are used to first pay interest and then pay principal to the CMO bondholders. The bonds issued under a CMO

structure are retired sequentially as opposed to the pro rata return of principal found in traditional pass-through obligations. Subject to the various provisions of individual CMO issues, the cash flow generated by the underlying collateral (to the extent it exceeds the amount required to pay the stated interest) is used to retire the bonds. Under the CMO structure, the repayment of principal among the different tranches is prioritized in accordance with the terms of the particular CMO issuance. The "fastest-pay" tranche of bonds, as specified in the prospectus for the issuance, would initially receive all principal payments. When that tranche of bonds is retired, the next tranche, or tranches, in the sequence, as specified in the prospectus, receive all of the principal payments until they are retired. The sequential retirement of bond groups continues until the last tranche, or group of bonds, is retired. Accordingly, the CMO structure allows the issuer to use cash flows of long maturity, monthly-pay collateral to formulate securities with short, intermediate and long final maturities and expected average lives.

CMO structures may also include floating rate CMOs, planned amortization classes, accrual bonds and CMO residuals. These structures affect the amount and timing of principal and interest received by each tranche from the underlying collateral. Under certain of these structures, given classes of CMOs have priority over others with respect to the receipt of prepayments on the

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mortgages. Therefore, depending on the type of CMOs in which the Fund invests, the investment may be subject to a greater or lesser risk of prepayment than other types of mortgage-related securities.

The primary risk of any mortgage security is the uncertainty of the timing of cash flows. For CMOs, the primary risk results from the rate of prepayments on the underlying mortgages serving as collateral. An increase or decrease in prepayment rates (resulting from a decrease or increase in mortgage interest rates) will affect the yield, average life and price of CMOs. The prices of certain CMOs, depending on their structure and the rate of prepayments, can be volatile. Some CMOs may also not be as liquid as other securities.

Stripped Mortgage-Backed Securities. Stripped Mortgage-Backed securities represent interests in a pool of mortgages, the cash flow of which has been separated into its interest and principal components. "IOs" (interest only securities) receive the interest portion of the cash flow while "POs" (principal only securities) receive the principal portion. IOs and POs are usually structured as tranches of a CMO. Stripped Mortgage-Backed Securities may be issued by U.S. Government

Agencies or by private issuers similar to those described above with respect to CMOs and privately-issued mortgage-backed certificates. As interest rates rise and fall, the value of IOs tends to move in the same direction as interest rates. The value of the other mortgage-backed securities described herein, like other debt instruments, will tend to move in the opposite direction compared to interest rates. Under the Internal Revenue Code of 1986, as amended (the "Code"), POs may generate taxable income from the current accrual of original issue discount, without a corresponding distribution of cash to the Fund.

The cash flows and yields on IO and PO classes are extremely sensitive to the rate of principal payments (including prepayments) on the related underlying mortgage assets. In the case of IOs, prepayments affect the amount, but not the timing, of cash flows provided to the investor. In contrast, prepayments on the mortgage pool affect the timing, but not the amount, of cash flows received by investors in POs. A rapid or slow rate of principal payments may have a material adverse effect on the prices of IOs or POs, respectively. If the underlying mortgage assets experience greater than anticipated prepayments of principal, an investor may fail to recoup fully its initial investment in an IO class of a stripped mortgage-backed security, even if the IO class is rated AAA or Aaa or is derived from a

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full faith and credit obligation. Conversely, if the underlying mortgage assets experience slower than anticipated prepayments of principal, the price on a PO class will be affected more severely than would be the case with a traditional mortgage-backed security.

The staff of the Securities and Exchange Commission has advised the Fund that it believes the Fund should treat IOs and POs, other than government-issued IOs or POs backed by fixed rate mortgages, as illiquid securities and, accordingly, limit its investments in such securities, together with all other illiquid securities, to 15% of the Fund's net assets. Under the Staff's position, the determination of whether a particular government-issued IO and PO backed by fixed rate mortgages may be made on a case by case basis under guidelines and standards established by the Fund's Board of Directors/Trustees. The Fund's Board of Directors/Trustees has delegated to T. Rowe Price the authority to determine the liquidity of these investments based on the following guidelines: the type of issuer; type of collateral, including age and prepayment characteristics; rate of interest on coupon relative to current market rates and the effect of the rate on the potential for prepayments; complexity of the issue's structure, including the number of tranches; size of the issue and the number of dealers who make a market in the IO or PO. The Fund will treat non-government-issued IOs and POs

not backed by fixed or adjustable rate mortgages as illiquid unless and until the Securities and Exchange Commission modifies its position.

Adjustable Rate Mortgages. Adjustable rate mortgage (ARM) securities are collateralized by adjustable rate, rather than fixed rate, mortgages.

ARMs, like fixed rate mortgages, have a specified maturity date, and the principal amount of the mortgage is repaid over the life of the mortgage. Unlike fixed rate mortgages, the interest rate on ARMs is adjusted at regular intervals based on a specified, published interest rate "index" such as a Treasury rate index. The new rate is determined by adding a specific interest amount, the "margin," to the interest rate of the index. Investment in ARM securities allows the Fund to participate in changing interest rate levels through regular adjustments in the coupons of the underlying mortgages, resulting in more variable current income and lower price volatility than longer term fixed rate mortgage securities. The ARM securities in which the Fund expects to invest will generally adjust their interest rates at

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regular intervals of one year or less. ARM securities are a less effective means of locking in long-term rates than fixed rate mortgages since the income from adjustable rate mortgages will increase during periods of rising interest rates and decline during periods of falling rates.

Characteristics of Adjustable Rate Mortgage Securities - Interest Rate Indices. The interest rates paid on adjustable rate securities are readjusted periodically to an increment over some predetermined interest rate index. Such readjustments occur at intervals ranging from one to 60 months. There are three main categories of indexes: (1) those based on U.S. Treasury securities (2) those derived from a calculated measure such as a cost of funds index ("COFI") or a moving average of mortgage rates and (3) those based on actively traded or prominently posted short-term, interest rates. Commonly utilized indexes include the one-year, three-year and five-year constant maturity Treasury rates, the three-month Treasury bill rate, the 180-day Treasury bill rate, rates on longer-term Treasury securities, the 11th District Federal Home Loan Bank Cost of Funds, the National Median Cost of Funds, the one-month, three-month, six-month or one-year London Interbank Offered Rate (LIBOR), the prime rate of a specific bank, or commercial paper rates. Some indexes, such as the one-year constant maturity Treasury rate, closely mirror changes in market interest rate levels. Others, such as the 11th District Home Loan Bank Cost of Funds index, tend to lag behind changes in market rate levels. The market value of the Fund's assets and of the net asset value of the Fund's shares will be

affected by the length of the adjustment period, the degree of volatility in the applicable indexes and the maximum increase or decrease of the interest rate adjustment on any one adjustment date, in any one year and over the life of the securities. These maximum increases and decreases are typically referred to as "caps" and "floors", respectively.

A number of factors affect the performance of the Cost of Funds Index and may cause the Cost of Funds Index to move in a manner different from indices based upon specific interest rates, such as the One Year Treasury Index. Additionally, there can be no assurance that the Cost of Funds Index will necessarily move in the same direction or at the same rate as prevailing interest rates. Furthermore, any movement in the Cost of Funds Index as compared to other indices based upon specific interest rates may be affected by changes instituted by the FHLB of San Francisco in the method used to calculate the Cost of Funds Index. To the extent that the Cost of Funds Index may reflect interest changes

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on a more delayed basis than other indices, in a period of rising interest rates, any increase may produce a higher yield later than would be produced by such other indices, and in a period of declining interest rates, the Cost of Funds Index may remain higher than other market interest rates which may result in a higher level of principal prepayments on mortgage loans which adjust in accordance with the Cost of Funds Index than mortgage loans which adjust in accordance with other indices.

LIBOR, the London interbank offered rate, is the interest rate that the most creditworthy international banks dealing in U.S. dollar-denominated deposits and loans charge each other for large dollar-denominated loans. LIBOR is also usually the base rate for large dollar-denominated loans in the international market. LIBOR is generally quoted for loans having rate adjustments at one, three, six or 12 month intervals.

Caps and Floors. ARMs will frequently have caps and floors which limit the maximum amount by which the interest rate to the residential borrower may move up or down, respectively, each adjustment period and over the life of the loan. Interest rate caps on ARM securities may cause them to decrease in value in an increasing interest rate environment. Such caps may also prevent their income from increasing to levels commensurate with prevailing interest rates. Conversely, interest rate floors on ARM securities may cause their income to remain higher than prevailing interest rate levels and result in an increase in the value of such securities. However, this increase may be tempered by the acceleration of prepayments.

Mortgage securities generally have a maximum maturity of up

to 30 years. However, due to the adjustable rate feature of ARM securities, their prices are considered to have volatility characteristics which approximate the average period of time until the next adjustment of the interest rate. As a result, the principal volatility of ARM securities may be more comparable to short- and intermediate-term securities than to longer term fixed rate mortgage securities. Prepayments, however, will increase their principal volatility. See also the discussion of Mortgage-Backed Securities on page ___. Several characteristics of ARMs may make them more susceptible to prepayments than other Mortgage-Backed Securities. An adjustable rate mortgage has greater incentives to refinance with a fixed rate mortgage during favorable interest rate environments, in order to avoid interest rate risk. Also, homes financed with adjustable rate mortgages may be sold more frequently because of the prevalence of first-time home buyers in the adjustable rate mortgage market. Also,

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delinquency and foreclosure rates are higher in this market since many buyers use adjustable rate mortgages to purchase homes that they could not otherwise finance on a fixed rate basis. Significant increases in the index rates for the adjustable rate mortgages may also result in increased delinquency and default rates, which in turn, may affect prepayment rates on the ARMs.

Other Mortgage Related Securities. The Fund expects that governmental, government-related or private entities may create mortgage loan pools offering pass-through investments in addition to those described above. The mortgages underlying these securities may be alternative mortgage instruments, that is, mortgage instruments whose principal or interest payments may vary or whose terms to maturity may differ from customary long-term fixed rate mortgages. As new types of mortgage-related securities are developed and offered to investors, the investment manager will, consistent with the Fund's objective, policies and quality standards, consider making investments in such new types of securities.

All Funds (except GNMA, U.S. Treasury Money, Intermediate and Long-Term Funds)

Asset-Backed Securities

The credit quality of most asset-backed securities depends primarily on the credit quality of the assets underlying such securities, how well the entity issuing the security is insulated from the credit risk of the originator or any other affiliated entities and the amount and quality of any credit support provided to the securities. The rate of principal payment on asset-backed securities generally depends on the rate of principal payments received on the underlying assets which in

turn may be affected by a variety of economic and other factors. As a result, the yield on any asset-backed security is difficult to predict with precision and actual yield to maturity may be more or less than the anticipated yield to maturity. Asset-backed securities may be classified as pass-through certificates or collateralized obligations.

Pass-through certificates are asset-backed securities which represent an undivided fractional ownership interest in an underlying pool of assets. Pass-through certificates usually provide for payments of principal and interest received to be passed through to their holders, usually after deduction for certain costs and expenses incurred in administering the pool.

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Because pass-through certificates represent an ownership interest in the underlying assets, the holders thereof bear directly the risk of any defaults by the obligors on the underlying assets not covered by any credit support. See "Types of Credit Support".

Asset-backed securities issued in the form of debt instruments, also known as collateralized or pay-through obligations, are generally issued as the debt of a special purpose entity organized solely for the purpose of owning such assets and issuing such debt. Such assets are most often trade, credit card or automobile receivables. The assets collateralizing such asset-backed securities are pledged to a trustee or custodian for the benefit of the holders thereof. Such issuers generally hold no assets other than those underlying the asset-backed securities and any credit support provided. As a result, although payments on such asset-backed securities are obligations of the issuers, in the event of defaults on the underlying assets not covered by any credit support (see "Types of Credit Support"), the issuing entities are unlikely to have sufficient assets to satisfy their obligations on the related asset-backed securities.

Methods of Allocating Cash Flows. While many asset-backed securities are issued with only one class of security, many asset-backed securities are issued in more than one class, each with different payment terms. Multiple class asset-backed securities are issued for two main reasons. First, multiple classes may be used as a method of providing credit support. This is accomplished typically through creation of one or more classes whose right to payments on the asset-backed security is made subordinate to the right to such payments of the remaining class or classes. See "Types of Credit Support". Second, multiple classes may permit the issuance of securities with payment terms, interest rates or other characteristics differing both from those of each other and from those of the underlying assets. Examples include so-called "strips" (asset-backed

securities entitling the holder to disproportionate interests with respect to the allocation of interest and principal of the assets backing the security), and securities with class or classes having characteristics which mimic the characteristics of non-asset-backed securities, such as floating interest rates (i.e., interest rates which adjust as a specified benchmark changes) or scheduled amortization of principal.

Asset-backed securities in which the payment streams on the underlying assets are allocated in a manner different than those

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described above may be issued in the future. The Fund may invest in such asset-backed securities if such investment is otherwise consistent with its investment objectives and policies and with the investment restrictions of the Fund.

Types of Credit Support. Asset-backed securities are often backed by a pool of assets representing the obligations of a number of different parties. To lessen the effect of failures by obligors on underlying assets to make payments, such securities may contain elements of credit support. Such credit support falls into two classes: liquidity protection and protection against ultimate default by an obligor on the underlying assets. Liquidity protection refers to the provision of advances, generally by the entity administering the pool of assets, to ensure that scheduled payments on the underlying pool are made in a timely fashion. Protection against ultimate default ensures ultimate payment of the obligations on at least a portion of the assets in the pool. Such protection may be provided through guarantees, insurance policies or letters of credit obtained from third parties ("external credit enhancement"), through various means of structuring the transaction ("internal credit enhancement") or through a combination of such approaches. Examples of asset-backed securities with internal credit enhancement include "senior-subordinated securities" (multiple class asset-backed securities with certain classes subordinate to other classes as to the payment of principal thereon, with the result that defaults on the underlying assets are borne first by the holders of the subordinated class) and asset-backed securities that have "reserve funds" (where cash or investments, sometimes funded from a portion of the initial payments on the underlying assets, are held in reserve against future losses) or that have been "over collateralized" (where the scheduled payments on, or the principal amount of, the underlying assets substantially exceeds that required to make payment of the asset-backed securities and pay any servicing or other fees). The degree of credit support provided on each issue is based generally on historical information respecting the level of credit risk associated with such payments. Depending upon the type of assets securitized, historical information on credit risk

and prepayment rates may be limited or even unavailable. Delinquency or loss in excess of that anticipated could adversely affect the return on an investment in an asset-backed security.

Automobile Receivable Securities. The Fund may invest in Asset Backed Securities which are backed by receivables from motor vehicle installment sales contracts or installment loans secured by motor vehicles ("Automobile Receivable Securities").

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Since installment sales contracts for motor vehicles or installment loans related thereto ("Automobile Contracts") typically have shorter durations and lower incidences of prepayment, Automobile Receivable Securities generally will exhibit a shorter average life and are less susceptible to prepayment risk.

Most entities that issue Automobile Receivable Securities create an enforceable interest in their respective Automobile Contracts only by filing a financing statement and by having the servicer of the Automobile Contracts, which is usually the originator of the Automobile Contracts, take custody thereof. In such circumstances, if the servicer of the Automobile Contracts were to sell the same Automobile Contracts to another party, in violation of its obligation not to do so, there is a risk that such party could acquire an interest in the Automobile Contracts superior to that of the holders of Automobile Receivable Securities. Also although most Automobile Contracts grant a security interest in the motor vehicle being financed, in most states the security interest in a motor vehicle must be noted on the certificate of title to create an enforceable security interest against competing claims of other parties. Due to the large number of vehicles involved, however, the certificate of title to each vehicle financed, pursuant to the Automobile Contracts underlying the Automobile Receivable Security, usually is not amended to reflect the assignment of the seller's security interest for the benefit of the holders of the Automobile Receivable Securities. Therefore, there is the possibility that recoveries on repossessed collateral may not, in some cases, be available to support payments on the securities. In addition, various state and federal securities laws give the motor vehicle owner the right to assert against the holder of the owner's Automobile Contract certain defenses such owner would have against the seller of the motor vehicle. The assertion of such defenses could reduce payments on the Automobile Receivable Securities.

Credit Card Receivable Securities. The Fund may invest in Asset Backed Securities backed by receivables from revolving credit card agreements ("Credit Card Receivable Securities"). Credit balances on revolving credit card agreements ("Accounts")

are generally paid down more rapidly than are Automobile Contracts. Most of the Credit Card Receivable Securities issued publicly to date have been Pass-Through Certificates. In order to lengthen the maturity of Credit Card Receivable Securities, most such securities provide for a fixed period during which only interest payments on the underlying Accounts are passed through

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to the security holder and principal payments received on such Accounts are used to fund the transfer to the pool of assets supporting the related Credit Card Receivable Securities of additional credit card charges made on an Account. The initial fixed period usually may be shortened upon the occurrence of specified events which signal a potential deterioration in the quality of the assets backing the security, such as the imposition of a cap on interest rates. The ability of the issuer to extend the life of an issue of Credit Card Receivable Securities thus depends upon the continued generation of additional principal amounts in the underlying accounts during the initial period and the non-occurrence of specified events. An acceleration in cardholders' payment rates or any other event which shortens the period during which additional credit card charges on an Account may be transferred to the pool of assets supporting the related Credit Card Receivable Security could shorten the weighted average life and yield of the Credit Card Receivable Security.

Credit cardholders are entitled to the protection of a number of state and federal consumer credit laws, many of which give such holder the right to set off certain amounts against balances owed on the credit card, thereby reducing amounts paid on Accounts. In addition, unlike most other Asset Backed Securities, Accounts are unsecured obligations of the cardholder.

Other Assets. Asset Backed Securities backed by assets other than those described above, including, but not limited to, small business loans and accounts receivable, equipment leases, commercial real estate loans, boat loans and manufacturing housing loans. The Fund may invest in such securities in the future if such investment is otherwise consistent with its investment objective and policies.

There are, of course, other types of securities that are, or may become available, which are similar to the foregoing and the Fund reserves the right to invest in these securities.

High Yield Fund

Collateralized Bond or Loan Obligations

CBOs are bonds collateralized by corporate bonds and CLOs

are bonds collateralized by bank loans. CBOs and CLOs are structured into tranches, and payments are allocated such that

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each tranche has a predictable cash flow stream and average life. CBOs are fairly recent entrants to the fixed income market. Most issues to date have been collateralized by high yield bonds or loans, with heavy credit enhancement.

Loan Participations and Assignments

Loan participations and assignments (collectively "participations") will typically be participating interests in loans made by a syndicate of banks, represented by an agent bank which has negotiated and structured the loan, to corporate borrowers to finance internal growth, mergers, acquisitions, stock repurchases, leveraged buy-outs and other corporate activities. Such loans may also have been made to governmental borrowers, especially governments of developing countries (LDC debt). LDC debt will involve the risk that the governmental entity responsible for the repayment of the debt may be unable or unwilling to do so when due. The loans underlying such participations may be secured or unsecured, and the Fund may invest in loans collateralized by mortgages on real property or which have no collateral. The loan participations themselves may extend for the entire term of the loan or may extend only for short "strips" that correspond to a quarterly or monthly floating rate interest period on the underlying loan. Thus, a term or revolving credit that extends for several years may be subdivided into shorter periods.

The loan participations in which the Fund will invest will also vary in legal structure. Occasionally, lenders assign to another institution both the lender's rights and obligations under a credit agreement. Since this type of assignment relieves the original lender of its obligations, it is called a novation. More typically, a lender assigns only its right to receive payments of principal and interest under a promissory note, credit agreement or similar document. A true assignment shifts to the assignee the direct debtor-creditor relationship with the underlying borrower. Alternatively, a lender may assign only part of its rights to receive payments pursuant to the underlying instrument or loan agreement. Such partial assignments, which are more accurately characterized as "participating interests," do not shift the debtor-creditor relationship to the assignee, who must rely on the original lending institution to collect sums due and to otherwise enforce its rights against the agent bank which administers the loan or against the underlying borrower.

Pursuant to an SEC no-action letter, and because the Fund is

allowed to purchase debt and debt securities, including debt

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securities at private placement, the Fund will treat loan participations as securities and not subject to its fundamental investment restriction prohibiting the Fund from making loans.

There may not be a recognizable, liquid public market for loan participations. To the extent this is the case, the Fund would consider the loan participation as illiquid and subject to the Fund's restriction on investing no more than 15% of its net assets in illiquid securities.

Where required by applicable SEC positions, the Fund will treat both the corporate borrower and the bank selling the participation interest as an issuer for purposes of its fundamental investment restriction on diversification.

Various service fees received by the Fund from loan participations, may be treated as non-interest income depending on the nature of the fee (commitment, takedown, commission, service or loan origination). To the extent the service fees are not interest income, they will not qualify as income under Section 851(b) of the Internal Revenue Code. Thus the sum of such fees plus any other non-qualifying income earned by the Fund cannot exceed 10% of total income.

Trade Claims

Trade claims are non-securitized rights of payment arising from obligations other than borrowed funds. Trade claims typically arise when, in the ordinary course of business, vendors and suppliers extend credit to a company by offering payment terms. Generally, when a company files for bankruptcy protection payments on these trade claims cease and the claims are subject to compromise along with the other debts of the company. Trade claims typically are bought and sold at a discount reflecting the degree of uncertainty with respect to the timing and extent of recovery. In addition to the risks otherwise associated with low-quality obligations, trade claims have other risks, including the possibility that the amount of the claim may be disputed by the obligor.

Over the last few years a market for the trade claims of bankrupt companies has developed. Many vendors are either unwilling or lack the resources to hold their claim through the extended bankruptcy process with an uncertain outcome and timing. Some vendors are also aggressive in establishing reserves against these receivables, so that the sale of the claim at a discount may not result in the recognition of a loss.

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Trade claims can represent an attractive investment opportunity because these claims typically are priced at a discount to comparable public securities. This discount is a reflection of both a less liquid market, a smaller universe of potential buyers and the risks peculiar to trade claim investing. It is not unusual for trade claims to be priced at a discount to public securities that have an equal or lower priority claim.

As noted above, investing in trade claims does carry some unique risks which include:

- o Establishing the Amount of the Claim. Frequently, the supplier's estimate of its receivable will differ from the customer's estimate of its payable. Resolution of these differences can result in a reduction in the amount of the claim. This risk can be reduced by only purchasing scheduled claims (claims already listed as liabilities by the debtor) and seeking representations from the seller.
- o Defenses to Claims. The debtor has a variety of defenses that can be asserted under the bankruptcy code against any claim. Trade claims are subject to these defenses, the most common of which for trade claims relates to preference payments. (Preference payments are all payments made by the debtor during the 90 days prior to the filing. These payments are presumed to have benefited the receiving creditor at the expense of the other creditors. The receiving creditor may be required to return the payment unless it can show the payments were received in the ordinary course of business.) While none of these defenses can result in any additional liability of the purchaser of the trade claim, they can reduce or wipe out the entire purchased claim. This risk can be reduced by seeking representations and indemnification from the seller.
- o Documentation/Indemnification. Each trade claim purchased requires documentation that must be negotiated between the buyer and seller. This documentation is extremely important since it can protect the purchaser from losses such as those described above. Legal expenses in negotiating a purchase agreement can be fairly high. Additionally, it is important to note that the value of an indemnification depends on the sellers credit.
- o Volatile Pricing Due to Illiquid Market. There are only a handful of brokers for trade claims and the quoted

price of these claims can be volatile. Generally, it is expected that Trade Claims would be considered illiquid investments.

- o No Current Yield/Ultimate Recovery. Trade claims are almost never entitled to earn interest. As a result, the return on such an investment is very sensitive to the length of the bankruptcy, which is uncertain. Although not unique to trade claims, it is worth noting that the ultimate recovery on the claim is uncertain and there is no way to calculate a conventional yield to maturity on this investment. Additionally, the exit for this investment is a plan of reorganization which may include the distribution of new securities. These securities may be as illiquid as the original trade claim investment.
- o Tax Issue. Although the issue is not free from doubt, it is likely that Trade Claims would be treated as non-securities investments. As a result, any gains would be considered "non-qualifying" under the Internal Revenue Code. The Fund may have up to 10% of its gross income (including capital gains) derived from non-qualifying sources.

High Yield and Personal Strategy Funds

Zero Coupon and Pay-in-Kind Bonds

A zero coupon security has no cash coupon payments. Instead, the issuer sells the security at a substantial discount from its maturity value. The interest received by the investor from holding this security to maturity is the difference between the maturity value and the purchase price. The advantage to the investor is that reinvestment risk of the income received during the life of the bond is eliminated. However, zero-coupon bonds like other bonds retain interest rate and credit risk and usually display more price volatility than those securities that pay a cash coupon.

Pay-in-Kind (PIK) Instruments are securities that pay interest in either cash or additional securities, at the issuer's option, for a specified period. PIK's, like zero coupon bonds, are designed to give an issuer flexibility in managing cash flow. PIK bonds can be either senior or subordinated debt and trade

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flat (i.e., without accrued interest). The price of PIK bonds is expected to reflect the market value of the underlying debt plus an amount representing accrued interest since the last payment. PIK's are usually less volatile than zero coupon bonds, but more volatile than cash pay securities.

For federal income tax purposes, these types of bonds will require the recognition of gross income each year even though no cash may be paid to the Fund until the maturity or call date of the bond. The Fund will nonetheless be required to distribute substantially all of this gross income each year to comply with the Internal Revenue Code, and such distributions could reduce the amount of cash available for investment by the Fund.

High Yield, New Income, and Personal Strategy Funds

Warrants

The Fund may acquire warrants. Warrants are pure speculation in that they have no voting rights, pay no dividends and have no rights with respect to the assets of the corporation issuing them. Warrants basically are options to purchase equity securities at a specific price valid for a specific period of time. They do not represent ownership of the securities, but only the right to buy them. Warrants differ from call options in that warrants are issued by the issuer of the security which may be purchased on their exercise, whereas call options may be written or issued by anyone. The prices of warrants do not necessarily move parallel to the prices of the underlying securities.

Adjustable Rate, High Yield, New Income, Personal Strategy, and Short-Term Bond Funds

Hybrid Instruments

Hybrid Instruments have been developed and combine the elements of futures contracts or options with those of debt, preferred equity or a depository instrument (hereinafter "Hybrid Instruments"). Generally, a Hybrid Instrument will be a debt security, preferred stock, depository share, trust certificate, certificate of deposit or other evidence of indebtedness on which a portion of or all interest payments, and/or the principal or stated amount payable at maturity, redemption or retirement, is determined by reference to prices, changes in prices, or differences between prices, of securities, currencies, intangibles, goods, articles or commodities (collectively

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"Underlying Assets") or by another objective index, economic factor or other measure, such as interest rates, currency exchange rates, commodity indices, and securities indices (collectively "Benchmarks"). Thus, Hybrid Instruments may take a variety of forms, including, but not limited to, debt instruments with interest or principal payments or redemption terms determined by reference to the value of a currency or commodity

or securities index at a future point in time, preferred stock with dividend rates determined by reference to the value of a currency, or convertible securities with the conversion terms related to a particular commodity.

Hybrid Instruments can be an efficient means of creating exposure to a particular market, or segment of a market, with the objective of enhancing total return. For example, a Fund may wish to take advantage of expected declines in interest rates in several European countries, but avoid the transactions costs associated with buying and currency-hedging the foreign bond positions. One solution would be to purchase a U.S. dollar-denominated Hybrid Instrument whose redemption price is linked to the average three year interest rate in a designated group of countries. The redemption price formula would provide for payoffs of greater than par if the average interest rate was lower than a specified level, and payoffs of less than par if rates were above the specified level. Furthermore, the Fund could limit the downside risk of the security by establishing a minimum redemption price so that the principal paid at maturity could not be below a predetermined minimum level if interest rates were to rise significantly. The purpose of this arrangement, known as a structured security with an embedded put option, would be to give the Fund the desired European bond exposure while avoiding currency risk, limiting downside market risk, and lowering transactions costs. Of course, there is no guarantee that the strategy will be successful and the Fund could lose money if, for example, interest rates do not move as anticipated or credit problems develop with the issuer of the Hybrid.

The risks of investing in Hybrid Instruments reflect a combination of the risks of investing in securities, options, futures and currencies. Thus, an investment in a Hybrid Instrument may entail significant risks that are not associated with a similar investment in a traditional debt instrument that has a fixed principal amount, is denominated in U.S. dollars or bears interest either at a fixed rate or a floating rate determined by reference to a common, nationally published Benchmark. The risks of a particular Hybrid Instrument will, of

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course, depend upon the terms of the instrument, but may include, without limitation, the possibility of significant changes in the Benchmarks or the prices of Underlying Assets to which the instrument is linked. Such risks generally depend upon factors which are unrelated to the operations or credit quality of the issuer of the Hybrid Instrument and which may not be readily foreseen by the purchaser, such as economic and political events, the supply and demand for the Underlying Assets and interest rate movements. In recent years, various Benchmarks and prices for

Underlying Assets have been highly volatile, and such volatility may be expected in the future. Reference is also made to the discussion of futures, options, and forward contracts herein for a discussion of the risks associated with such investments.

Hybrid Instruments are potentially more volatile and carry greater market risks than traditional debt instruments. Depending on the structure of the particular Hybrid Instrument, changes in a Benchmark may be magnified by the terms of the Hybrid Instrument and have an even more dramatic and substantial effect upon the value of the Hybrid Instrument. Also, the prices of the Hybrid Instrument and the Benchmark or Underlying Asset may not move in the same direction or at the same time.

Hybrid Instruments may bear interest or pay preferred dividends at below market (or even relatively nominal) rates. Alternatively, Hybrid Instruments may bear interest at above market rates but bear an increased risk of principal loss (or gain). The latter scenario may result if "leverage" is used to structure the Hybrid Instrument. Leverage risk occurs when the Hybrid Instrument is structured so that a given change in a Benchmark or Underlying Asset is multiplied to produce a greater value change in the Hybrid Instrument, thereby magnifying the risk of loss as well as the potential for gain.

Hybrid Instruments may also carry liquidity risk since the instruments are often "customized" to meet the portfolio needs of a particular investor, and therefore, the number of investors that are willing and able to buy such instruments in the secondary market may be smaller than that for more traditional debt securities. In addition, because the purchase and sale of Hybrid Instruments could take place in an over-the-counter market without the guarantee of a central clearing organization or in a transaction between the Fund and the issuer of the Hybrid Instrument, the creditworthiness of the counter party or issuer of the Hybrid Instrument would be an additional risk factor which the Fund would have to consider and monitor. Hybrid Instruments also may not be subject to regulation of the Commodities Futures

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Trading Commission ("CFTC"), which generally regulates the trading of commodity futures by U.S. persons, the SEC, which regulates the offer and sale of securities by and to U.S. persons, or any other governmental regulatory authority.

The various risks discussed above, particularly the market risk of such instruments, may in turn cause significant fluctuations in the net asset value of the Fund. Accordingly, the Fund will limit its investments in Hybrid Instruments to 10% of net assets. However, because of their volatility, it is possible that the Fund's investment in Hybrid Instruments will

account for more than 10% of the Fund's return (positive or negative).

All Funds

When-Issued Securities and Forward Commitment Contracts

The Fund may purchase securities on a "when-issued" or delayed delivery basis ("When-Issued") and may purchase securities on a forward commitment basis ("Forwards"). Any or all of the Fund's investments in debt securities may be in the form of When-Issueds and Forwards. The price of such securities, which may be expressed in yield terms, is fixed at the time the commitment to purchase is made, but delivery and payment take place at a later date. Normally, the settlement date occurs within 90 days of the purchase for When-Issueds, but may be substantially longer for Forwards. During the period between purchase and settlement, no payment is made by the Fund to the issuer and no interest accrues to the Fund. The purchase of these securities will result in a loss if their value declines prior to the settlement date. This could occur, for example, if interest rates increase prior to settlement. The longer the period between purchase and settlement, the greater the risks are. At the time the Fund makes the commitment to purchase these securities, it will record the transaction and reflect the value of the security in determining its net asset value. The Fund will cover these securities by maintaining cash and/or liquid, high-grade debt securities with its custodian bank equal in value to commitments for them during the time between the purchase and the settlement. Therefore, the longer this period, the longer the period during which alternative investment options are not available to the Fund (to the extent of the securities used for cover). Such securities either will mature or, if necessary, be sold on or before the settlement date.

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To the extent the Fund remains fully or almost fully invested (in securities with a remaining maturity of more than one year) at the same time it purchases these securities, there will be greater fluctuations in the Fund's net asset value than if the Fund did not purchase them.

Additional Adjustable Rate Securities

Certain securities may be issued with adjustable interest rates that are reset periodically by pre-determined formulas or indexes in order to minimize movements in the principal value of the investment. Such securities may have long-term maturities, but may be treated as a short-term investment under certain conditions. Generally, as interest rates decrease or increase,

the potential for capital appreciation or depreciation on these securities is less than for fixed-rate obligations. These securities may take the following forms:

Variable Rate Securities. Variable rate instruments are those whose terms provide for the adjustment of their interest rates on set dates and which, upon such adjustment, can reasonably be expected to have a market value that approximates its par value. A variable rate instrument, the principal amount of which is scheduled to be paid in 397 days or less, is deemed to have a maturity equal to the period remaining until the next readjustment of the interest rate. A variable rate instrument which is subject to a demand feature entitles the purchaser to receive the principal amount of the underlying security or securities, either (i) upon notice of no more than 30 days or (ii) at specified intervals not exceeding 397 days and upon no more than 30 days' notice, is deemed to have a maturity equal to the longer of the period remaining until the next readjustment of the interest rate or the period remaining until the principal amount can be recovered through demand.

Floating Rate Securities. Floating rate instruments are those whose terms provide for the adjustment of their interest rates whenever a specified interest rate changes and which, at any time, can reasonably be expected to have a market value that approximates its par value. The maturity of a floating rate instrument is deemed to be the period remaining until the date (noted on the face of the instrument) on which the principal amount must be paid, or in the case of an instrument called for redemption, the date on which the redemption payment must be made. Floating rate instruments with demand features are deemed to have a maturity equal to the period remaining until the principal amount can be recovered through demand.

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Put Option Bonds. Long-term obligations with maturities longer than one year may provide purchasers an optional or mandatory tender of the security at par value at predetermined intervals, often ranging from one month to several years (e.g., a 30-year bond with a five-year tender period). These instruments are deemed to have a maturity equal to the period remaining to the put date.

Adjustable Rate, High Yield, New Income, Personal Strategy, Prime Reserve, and Short-Term Bond Funds

Illiquid or Restricted Securities

Restricted securities may be sold only in privately negotiated transactions or in a public offering with respect to which a registration statement is in effect under the Securities

Act of 1933 (the "1933 Act"). Where registration is required, the Fund may be obligated to pay all or part of the registration expenses and a considerable period may elapse between the time of the decision to sell and the time the Fund may be permitted to sell a security under an effective registration statement. If, during such a period, adverse market conditions were to develop, the Fund might obtain a less favorable price than prevailed when it decided to sell. Restricted securities will be priced at fair value as determined in accordance with procedures prescribed by the Fund's Board of Directors/Trustees. If through the appreciation of illiquid securities or the depreciation of liquid securities, the Fund should be in a position where more than 15% (10% for Prime Reserve and U.S. Treasury Money Funds) of the value of its net assets is invested in illiquid assets, including restricted securities, the Fund will take appropriate steps to protect liquidity.

Notwithstanding the above, the Fund may purchase securities which, while privately placed, are eligible for purchase and sale under Rule 144A under the 1933 Act. This rule permits certain qualified institutional buyers, such as the Fund, to trade in privately placed securities even though such securities are not registered under the 1933 Act. T. Rowe Price under the supervision of the Fund's Board of Directors/Trustees, will consider whether securities purchased under Rule 144A are illiquid and thus subject to the Fund's restriction of investing no more than 15% (10% for Prime Reserve and U.S. Treasury Money Funds) of its net assets in illiquid securities. A determination of whether a Rule 144A security is liquid or not is a question of fact. In making this determination, T. Rowe Price will consider

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the trading markets for the specific security taking into account the unregistered nature of a Rule 144A security. In addition, T. Rowe Price could consider the (1) frequency of trades and quotes, (2) number of dealers and potential purchases, (3) dealer undertakings to make a market, and (4) the nature of the security and of marketplace trades (e.g., the time needed to dispose of the security, the method of soliciting offers and the mechanics of transfer). The liquidity of Rule 144A securities would be monitored, and if as a result of changed conditions it is determined that a Rule 144A security is no longer liquid, the Fund's holdings of illiquid securities would be reviewed to determine what, if any, steps are required to assure that the Fund does not invest more than 15% (10% for Prime Reserve and U.S. Treasury Money Funds) of its net assets in illiquid securities. Investing in Rule 144A securities could have the effect of increasing the amount of the Fund's assets invested in illiquid securities if qualified institutional buyers are unwilling to purchase such securities.

Industry Concentration

When the market for corporate debt securities is dominated by issues in the gas utility, gas transmission utility, electric utility, telephone utility, or petroleum industry, the Fund will as a matter of fundamental policy concentrate more than 25%, but not more than 50%, of its assets, in any one such industry, if the Fund has cash for such investment (i.e., will not sell portfolio securities to raise cash) and, if in T. Rowe Price's judgment, the return available and the marketability, quality, and availability of the debt securities of such industry justifies such concentration in light of the Fund's investment objective. Domination would exist with respect to any one such industry, when, in the preceding 30-day period, more than 25% of all new-issue corporate debt offerings (within the four highest grades of Moody's or S&P and with maturities of 10 years or less) of \$25,000,000 or more consisted of issues in such industry. Although the Fund will normally purchase corporate debt securities in the secondary market as opposed to new offerings, T. Rowe Price believes that the new issue-based dominance standard, as defined above, is appropriate because it is easily determined and represents an accurate correlation to the secondary market. Investors should understand that concentration in any industry may result in increased risk. Investments in any of these industries may be affected by environmental conditions, energy conservation programs, fuel shortages, difficulty in

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obtaining adequate return on capital in financing operations and large construction programs, and the ability of the capital markets to absorb debt issues. In addition, it is possible that the public service commissions which have jurisdiction over these industries may not grant future increases in rates sufficient to offset increases in operating expenses. These industries also face numerous legislative and regulatory uncertainties at both federal and state government levels. Management believes that any risk to the Fund which might result from concentration in any industry will be minimized by the Fund's practice of diversifying its investments in other respects. The Fund's policy with respect to industry concentration is a fundamental policy. (For investment restriction on industry concentration, see Investment Restriction (4) on page __.)

PORTFOLIO MANAGEMENT PRACTICES

Lending of Portfolio Securities

Securities loans are made to broker-dealers or institutional

investors or other persons, pursuant to agreements requiring that the loans be continuously secured by collateral at least equal at all times to the value of the securities lent marked to market on a daily basis. The collateral received will consist of cash, U.S. government securities, letters of credit or such other collateral as may be permitted under its investment program. While the securities are being lent, the Fund will continue to receive the equivalent of the interest or dividends paid by the issuer on the securities, as well as interest on the investment of the collateral or a fee from the borrower. The Fund has a right to call each loan and obtain the securities on five business days' notice or, in connection with securities trading on foreign markets, within such longer period of time which coincides with the normal settlement period for purchases and sales of such securities in such foreign markets. The Fund will not have the right to vote securities while they are being lent, but it will call a loan in anticipation of any important vote. The risks in lending portfolio securities, as with other extensions of secured credit, consist of possible delay in receiving additional collateral or in the recovery of the securities or possible loss of rights in the collateral should the borrower fail financially. Loans will only be made to firms deemed by T. Rowe Price to be of good standing and will not be made unless, in the judgment of T. Rowe Price, the consideration to be earned from such loans would justify the risk.

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Other Lending/Borrowing

Subject to approval by the Securities and Exchange Commission and certain state regulatory agencies, the Fund may make loans to, or borrow funds from, other mutual funds sponsored or advised by T. Rowe Price or Rowe Price-Fleming International, Inc. (collectively, "Price Funds"). The Fund has no current intention of engaging in these practices at this time.

Repurchase Agreements

The Fund may enter into a repurchase agreement through which an investor (such as the Fund) purchases a security (known as the "underlying security") from a well-established securities dealer or a bank that is a member of the Federal Reserve System. Any such dealer or bank will be on T. Rowe Price's approved list. At that time, the bank or securities dealer agrees to repurchase the underlying security at the same price, plus specified interest. Repurchase agreements are generally for a short period of time, often less than a week. Repurchase agreements which do not provide for payment within seven days will be treated as illiquid securities. The Fund will only enter into repurchase agreements where (i) (A) Prime Reserve and U.S. Treasury Money Funds--the underlying securities are either U.S. government securities or

securities that, at the time the repurchase agreement is entered into, are rated in the highest rating category by the requisite number of NRSROs (as required by Rule 2a-7 under the 1940 Act) and otherwise are of the type (excluding maturity limitations) which the Fund's investment guidelines would allow it to purchase directly, (B) Adjustable Rate, GNMA, High Yield, New Income, Short-Term Bond, Personal Strategy, and U.S. Treasury Intermediate and Long-Term Funds--the underlying securities are of the type (excluding maturity limitations) which the Fund's investment guidelines would allow it to purchase directly, (ii) the market value of the underlying security, including interest accrued, will be at all times equal to or exceed the value of the repurchase agreement, and (iii) payment for the underlying security is made only upon physical delivery or evidence of book-entry transfer to the account of the custodian or a bank acting as agent. In the event of a bankruptcy or other default of a seller of a repurchase agreement, the Fund could experience both delays in liquidating the underlying security and losses, including: (a) possible decline in the value of the underlying security during the period while the Fund seeks to enforce its rights thereto; (b) possible subnormal levels of income and lack of access to income during this period; and (c) expenses of enforcing its rights.

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Reverse Repurchase Agreements

Although the Fund has no current intention, in the foreseeable future, of engaging in reverse repurchase agreements, the Fund reserves the right to do so. Reverse repurchase agreements are ordinary repurchase agreements in which a Fund is the seller of, rather than the investor in, securities, and agrees to repurchase them at an agreed upon time and price. Use of a reverse repurchase agreement may be preferable to a regular sale and later repurchase of the securities because it avoids certain market risks and transaction costs. A reverse repurchase agreement may be viewed as a type of borrowing by the Fund, subject to Investment Restriction (1). (See "Investment Restrictions," page __.)

High Yield Fund

Short Sales

The Fund may make short sales for hedging purposes to protect the Fund against companies whose credit is deteriorating. Short sales are transactions in which the Fund sells a security it does not own in anticipation of a decline in the market value of that security. The Fund's short sales would be limited to situations where the Fund owns a debt security of a company and would sell short the common or preferred stock or another debt

security at a different level of the capital structure of the same company. No securities will be sold short if, after the effect is given to any such short sale, the total market value of all securities sold short would exceed 2% of the value of the Fund's net assets.

To complete a short sale transaction, the Fund must borrow the security to make delivery to the buyer. The Fund then is obligated to replace the security borrowed by purchasing it at the market price at the time of replacement. The price at such time may be more or less than the price at which the security was sold by the Fund. Until the security is replaced, the Fund is required to pay to the lender amounts equal to any dividends or interest which accrue during the period of the loan. To borrow the security, the Fund also may be required to pay a premium, which would increase the cost of the security sold. The proceeds of the short sale will be retained by the broker, to the extent necessary to meet margin requirements, until the short position is closed out.

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Until the Fund replaces a borrowed security in connection with a short sale, the Fund will: (a) maintain daily a segregated account, containing cash or U.S. government securities, at such a level that (i) the amount deposited in the account plus the amount deposited with the broker as collateral will equal the current value of the security sold short and (ii) the amount deposited in the segregated account plus the amount deposited with the broker as collateral will not be less than the market value of the security at the time its was sold short; or (b) otherwise cover its short position.

The Fund will incur a loss as a result of the short sale if the price of the security sold short increases between the date of the short sale and the date on which the Fund replaces the borrowed security. The Fund will realize a gain if the security sold short declines in price between those dates. This result is the opposite of what one would expect from a cash purchase of a long position in a security. The amount of any gain will be decreased, and the amount of any loss increased, by the amount of any premium, dividends or interest the Fund may be required to pay in connection with a short sale. Any gain or loss on the security sold short would be separate from a gain or loss on the Fund security being hedged by the short sale.

All Funds (except Prime Reserve and U.S. Treasury Money Funds)

Options

Writing Covered Call Options

The Fund may write (sell) American or European style "covered" call options and purchase options to close out options previously written by a Fund. In writing covered call options, the Fund expects to generate additional premium income which should serve to enhance the Fund's total return and reduce the effect of any price decline of the security or currency involved in the option. Covered call options will generally be written on securities or currencies which, in T. Rowe Price's opinion, are not expected to have any major price increases or moves in the near future but which, over the long term, are deemed to be attractive investments for the Fund.

A call option gives the holder (buyer) the "right to purchase" a security or currency at a specified price (the exercise price) at expiration of the option (European style) or at any time until a certain date (the expiration date) (American

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style). So long as the obligation of the writer of a call option continues, he may be assigned an exercise notice by the broker-dealer through whom such option was sold, requiring him to deliver the underlying security or currency against payment of the exercise price. This obligation terminates upon the expiration of the call option, or such earlier time at which the writer effects a closing purchase transaction by repurchasing an option identical to that previously sold. To secure his obligation to deliver the underlying security or currency in the case of a call option, a writer is required to deposit in escrow the underlying security or currency or other assets in accordance with the rules of a clearing corporation.

The Fund will write only covered call options. This means that the Fund will own the security or currency subject to the option or an option to purchase the same underlying security or currency, having an exercise price equal to or less than the exercise price of the "covered" option, or will establish and maintain with its custodian for the term of the option, an account consisting of cash, U.S. government securities or other liquid high-grade debt obligations having a value equal to the fluctuating market value of the optioned securities or currencies.

Portfolio securities or currencies on which call options may be written will be purchased solely on the basis of investment considerations consistent with the Fund's investment objective. The writing of covered call options is a conservative investment technique believed to involve relatively little risk (in contrast to the writing of naked or uncovered options, which the Fund will not do), but capable of enhancing the Fund's total return. When writing a covered call option, a Fund, in return for the premium, gives up the opportunity for profit from a price increase in the

underlying security or currency above the exercise price, but conversely retains the risk of loss should the price of the security or currency decline. Unlike one who owns securities or currencies not subject to an option, the Fund has no control over when it may be required to sell the underlying securities or currencies, since it may be assigned an exercise notice at any time prior to the expiration of its obligation as a writer. If a call option which the Fund has written expires, the Fund will realize a gain in the amount of the premium; however, such gain may be offset by a decline in the market value of the underlying security or currency during the option period. If the call option is exercised, the Fund will realize a gain or loss from the sale of the underlying security or currency. The Fund does not consider a security or currency covered by a call to be

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"pledged" as that term is used in the Fund's policy which limits the pledging or mortgaging of its assets.

The premium received is the market value of an option. The premium the Fund will receive from writing a call option will reflect, among other things, the current market price of the underlying security or currency, the relationship of the exercise price to such market price, the historical price volatility of the underlying security or currency, and the length of the option period. Once the decision to write a call option has been made, T. Rowe Price, in determining whether a particular call option should be written on a particular security or currency, will consider the reasonableness of the anticipated premium and the likelihood that a liquid secondary market will exist for those options. The premium received by the Fund for writing covered call options will be recorded as a liability of the Fund. This liability will be adjusted daily to the option's current market value, which will be the latest sale price at the time at which the net asset value per share of the Fund is computed (close of the New York Stock Exchange), or, in the absence of such sale, the latest asked price. The option will be terminated upon expiration of the option, the purchase of an identical option in a closing transaction, or delivery of the underlying security or currency upon the exercise of the option.

Closing transactions will be effected in order to realize a profit on an outstanding call option, to prevent an underlying security or currency from being called, or, to permit the sale of the underlying security or currency. Furthermore, effecting a closing transaction will permit the Fund to write another call option on the underlying security or currency with either a different exercise price or expiration date or both. If the Fund desires to sell a particular security or currency from its portfolio on which it has written a call option, or purchased a put option, it will seek to effect a closing transaction prior

to, or concurrently with, the sale of the security or currency. There is, of course, no assurance that the Fund will be able to effect such closing transactions at favorable prices. If the Fund cannot enter into such a transaction, it may be required to hold a security or currency that it might otherwise have sold. When the Fund writes a covered call option, it runs the risk of not being able to participate in the appreciation of the underlying securities or currencies above the exercise price, as well as the risk of being required to hold on to securities or currencies that are depreciating in value. This could result in higher transaction costs. The Fund will pay transaction costs in connection with the writing of options to close out previously

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written options. Such transaction costs are normally higher than those applicable to purchases and sales of portfolio securities.

Call options written by the Fund will normally have expiration dates of less than nine months from the date written. The exercise price of the options may be below, equal to, or above the current market values of the underlying securities or currencies at the time the options are written. From time to time, the Fund may purchase an underlying security or currency for delivery in accordance with an exercise notice of a call option assigned to it, rather than delivering such security or currency from its portfolio. In such cases, additional costs may be incurred.

The Fund will realize a profit or loss from a closing purchase transaction if the cost of the transaction is less or more than the premium received from the writing of the option. Because increases in the market price of a call option will generally reflect increases in the market price of the underlying security or currency, any loss resulting from the repurchase of a call option is likely to be offset in whole or in part by appreciation of the underlying security or currency owned by the Fund.

In order to comply with the requirements of several states, the Fund will not write a covered call option if, as a result, the aggregate market value of all portfolio securities or currencies covering call or put options exceeds 25% of the market value of the Fund's net assets. Should these state laws change or should the Fund obtain a waiver of its application, the Fund reserves the right to increase this percentage. In calculating the 25% limit, the Fund will offset, against the value of assets covering written calls and puts, the value of purchased calls and puts on identical securities or currencies with identical maturity dates.

Writing Covered Put Options

The Fund may write American or European style covered put options and purchase options to close out options previously written by the Fund. A put option gives the purchaser of the option the right to sell, and the writer (seller) has the obligation to buy, the underlying security or currency at the exercise price during the option period (American style) or at the expiration of the option (European style). So long as the obligation of the writer continues, he may be assigned an

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exercise notice by the broker-dealer through whom such option was sold, requiring him to make payment of the exercise price against delivery of the underlying security or currency. The operation of put options in other respects, including their related risks and rewards, is substantially identical to that of call options.

The Fund would write put options only on a covered basis, which means that the Fund would maintain in a segregated account cash, U.S. government securities or other liquid high-grade debt obligations in an amount not less than the exercise price or the Fund will own an option to sell the underlying security or currency subject to the option having an exercise price equal to or greater than the exercise price of the "covered" option at all times while the put option is outstanding. (The rules of a clearing corporation currently require that such assets be deposited in escrow to secure payment of the exercise price.)

The Fund would generally write covered put options in circumstances where T. Rowe Price wishes to purchase the underlying security or currency for the Fund's portfolio at a price lower than the current market price of the security or currency. In such event the Fund would write a put option at an exercise price which, reduced by the premium received on the option, reflects the lower price it is willing to pay. Since the Fund would also receive interest on debt securities or currencies maintained to cover the exercise price of the option, this technique could be used to enhance current return during periods of market uncertainty. The risk in such a transaction would be that the market price of the underlying security or currency would decline below the exercise price less the premiums received. Such a decline could be substantial and result in a significant loss to the Fund. In addition, the Fund, because it does not own the specific securities or currencies which it may be required to purchase in exercise of the put, cannot benefit from appreciation, if any, with respect to such specific securities or currencies.

In order to comply with the requirements of several states, the Fund will not write a covered put option if, as a result, the aggregate market value of all portfolio securities or currencies

covering put or call options exceeds 25% of the market value of the Fund's net assets. Should these state laws change or should the Fund obtain a waiver of its application, the Fund reserves the right to increase this percentage. In calculating the 25% limit, the Fund will offset, against the value of assets covering written puts and calls, the value of purchased puts and calls on identical securities or currencies with identical maturity dates.

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Purchasing Put Options

The Fund may purchase American or European style put options. As the holder of a put option, the Fund has the right to sell the underlying security or currency at the exercise price at any time during the option period (American style) or at the expiration of the option (European style). The Fund may enter into closing sale transactions with respect to such options, exercise them or permit them to expire. The Fund may purchase put options for defensive purposes in order to protect against an anticipated decline in the value of its securities or currencies. An example of such use of put options is provided below.

The Fund may purchase a put option on an underlying security or currency (a "protective put") owned by the Fund as a defensive technique in order to protect against an anticipated decline in the value of the security or currency. Such hedge protection is provided only during the life of the put option when the Fund, as the holder of the put option, is able to sell the underlying security or currency at the put exercise price regardless of any decline in the underlying security's market price or currency's exchange value. For example, a put option may be purchased in order to protect unrealized appreciation of a security or currency where T. Rowe Price deems it desirable to continue to hold the security or currency because of tax considerations. The premium paid for the put option and any transaction costs would reduce any capital gain otherwise available for distribution when the security or currency is eventually sold.

The Fund may also purchase put options at a time when the Fund does not own the underlying security or currency. By purchasing put options on a security or currency it does not own, the Fund seeks to benefit from a decline in the market price of the underlying security or currency. If the put option is not sold when it has remaining value, and if the market price of the underlying security or currency remains equal to or greater than the exercise price during the life of the put option, the Fund will lose its entire investment in the put option. In order for the purchase of a put option to be profitable, the market price of the underlying security or currency must decline sufficiently below the exercise price to cover the premium and transaction costs, unless the put option is sold in a closing sale

transaction.

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To the extent required by the laws of certain states, the Fund may not be permitted to commit more than 5% of its assets to premiums when purchasing put and call options. Should these state laws change or should the Fund obtain a waiver of its application, the Fund may commit more than 5% of its assets to premiums when purchasing call and put options. The premium paid by the Fund when purchasing a put option will be recorded as an asset of the Fund. This asset will be adjusted daily to the option's current market value, which will be the latest sale price at the time at which the net asset value per share of the Fund is computed (close of New York Stock Exchange), or, in the absence of such sale, the latest bid price. This asset will be terminated upon expiration of the option, the selling (writing) of an identical option in a closing transaction, or the delivery of the underlying security or currency upon the exercise of the option.

Purchasing Call Options

The Fund may purchase American or European style call options. As the holder of a call option, the Fund has the right to purchase the underlying security or currency at the exercise price at any time during the option period (American style) or at the expiration of the option (European style). The Fund may enter into closing sale transactions with respect to such options, exercise them or permit them to expire. The Fund may purchase call options for the purpose of increasing its current return or avoiding tax consequences which could reduce its current return. The Fund may also purchase call options in order to acquire the underlying securities or currencies. Examples of such uses of call options are provided below.

Call options may be purchased by the Fund for the purpose of acquiring the underlying securities or currencies for its portfolio. Utilized in this fashion, the purchase of call options enables the Fund to acquire the securities or currencies at the exercise price of the call option plus the premium paid. At times the net cost of acquiring securities or currencies in this manner may be less than the cost of acquiring the securities or currencies directly. This technique may also be useful to the Fund in purchasing a large block of securities or currencies that would be more difficult to acquire by direct market purchases. So long as it holds such a call option rather than the underlying security or currency itself, the Fund is partially protected from any unexpected decline in the market price of the underlying security or currency and in such event could allow the call

option to expire, incurring a loss only to the extent of the premium paid for the option.

To the extent required by the laws of certain states, the Fund may not be permitted to commit more than 5% of its assets to premiums when purchasing call and put options. Should these state laws change or should the Fund obtain a waiver of its application, the Fund may commit more than 5% of its assets to premiums when purchasing call and put options. The Fund may also purchase call options on underlying securities or currencies it owns in order to protect unrealized gains on call options previously written by it. A call option would be purchased for this purpose where tax considerations make it inadvisable to realize such gains through a closing purchase transaction. Call options may also be purchased at times to avoid realizing losses.

Dealer (Over-the-Counter) Options

The Fund may engage in transactions involving dealer options. Certain risks are specific to dealer options. While the Fund would look to a clearing corporation to exercise exchange-traded options, if the Fund were to purchase a dealer option, it would rely on the dealer from whom it purchased the option to perform if the option were exercised. Failure by the dealer to do so would result in the loss of the premium paid by the Fund as well as loss of the expected benefit of the transaction.

Exchange-traded options generally have a continuous liquid market while dealer options have none. Consequently, the Fund will generally be able to realize the value of a dealer option it has purchased only by exercising it or reselling it to the dealer who issued it. Similarly, when the Fund writes a dealer option, it generally will be able to close out the option prior to its expiration only by entering into a closing purchase transaction with the dealer to which the Fund originally wrote the option. While the Fund will seek to enter into dealer options only with dealers who will agree to and which are expected to be capable of entering into closing transactions with the Fund, there can be no assurance that the Fund will be able to liquidate a dealer option at a favorable price at any time prior to expiration. Until the Fund, as a covered dealer call option writer, is able to effect a closing purchase transaction, it will not be able to liquidate securities (or other assets) or currencies used as cover until the option expires or is exercised. In the event of insolvency of the contra party, the Fund may be unable to liquidate a dealer option. With respect to options written by the Fund, the

inability to enter into a closing transaction may result in material losses to the Fund. For example, since the Fund must maintain a secured position with respect to any call option on a security it writes, the Fund may not sell the assets which it has segregated to secure the position while it is obligated under the option. This requirement may impair a Fund's ability to sell portfolio securities or currencies at a time when such sale might be advantageous.

The Staff of the SEC has taken the position that purchased dealer options and the assets used to secure the written dealer options are illiquid securities. The Fund may treat the cover used for written OTC options as liquid if the dealer agrees that the Fund may repurchase the OTC option it has written for a maximum price to be calculated by a predetermined formula. In such cases, the OTC option would be considered illiquid only to the extent the maximum repurchase price under the formula exceeds the intrinsic value of the option. Accordingly, the Fund will treat dealer options as subject to the Fund's limitation on illiquid securities. If the SEC changes its position on the liquidity of dealer options, the Fund will change its treatment of such instrument accordingly.

High Yield Fund

Spread Option Transactions

The Fund may purchase from and sell to securities dealers covered spread options. Such covered spread options are not presently exchange listed or traded. The purchase of a spread option gives the Fund the right to put, or sell, a security that it owns at a fixed dollar spread or fixed yield spread in relationship to another security that the Fund does not own, but which is used as a benchmark. The risk to the Fund in purchasing covered spread options is the cost of the premium paid for the spread option and any transaction costs. In addition, there is no assurance that closing transactions will be available. The purchase of spread options will be used to protect the Fund against adverse changes in prevailing credit quality spreads, i.e., the yield spread between high quality and lower quality securities. Such protection is only provided during the life of the spread option. The security covering the spread option will be maintained in a segregated account by the Fund's custodian. The Fund does not consider a security covered by a spread option to be "pledged" as that term is used in the Fund's policy limiting the pledging or mortgaging of its assets. The Fund may also buy and sell uncovered spread options. Such options would

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be used for the same purposes and be subject to similar risks as covered spread options. However, in an uncovered spread option,

the Fund would not own either of the securities involved in the spread.

All Funds (except Prime Reserve and U.S. Treasury Money Funds)

Futures Contracts

Transactions in Futures

The Fund may enter into futures contracts, including stock index, interest rate and currency futures ("futures or futures contracts").

Stock index futures contracts may be used to provide a hedge for a portion of the Fund's portfolio, as a cash management tool, or as an efficient way for T. Rowe Price to implement either an increase or decrease in portfolio market exposure in response to changing market conditions. The Fund may purchase or sell futures contracts with respect to any stock index. Nevertheless, to hedge the Fund's portfolio successfully, the Fund must sell futures contracts with respect to indices or subindices whose movements will have a significant correlation with movements in the prices of the Fund's portfolio securities.

Interest rate or currency futures contracts may be used as a hedge against changes in prevailing levels of interest rates or currency exchange rates in order to establish more definitely the effective return on securities or currencies held or intended to be acquired by the Fund. In this regard, the Fund could sell interest rate or currency futures as an offset against the effect of expected increases in interest rates or currency exchange rates and purchase such futures as an offset against the effect of expected declines in interest rates or currency exchange rates.

The Fund will enter into futures contracts which are traded on national or foreign futures exchanges, and are standardized as to maturity date and underlying financial instrument. Futures exchanges and trading in the United States are regulated under the Commodity Exchange Act by the CFTC. Futures are traded in London, at the London International Financial Futures Exchange, in Paris, at the MATIF, and in Tokyo, at the Tokyo Stock Exchange. Although techniques other than the sale and purchase of futures contracts could be used for the above-referenced

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purposes, futures contracts offer an effective and relatively low cost means of implementing the Fund's objectives in these areas.

Regulatory Limitations

The Fund will engage in futures contracts and options thereon only for bona fide hedging, yield enhancement, and risk management purposes, in each case in accordance with rules and regulations of the CFTC and applicable state law.

The Fund may not purchase or sell futures contracts or related options if, with respect to positions which do not qualify as bona fide hedging under applicable CFTC rules, the sum of the amounts of initial margin deposits and premiums paid on those positions would exceed 5% of the net asset value of the Fund after taking into account unrealized profits and unrealized losses on any such contracts it has entered into; provided, however, that in the case of an option that is in-the-money at the time of purchase, the in-the-money amount may be excluded in calculating the 5% limitation. For purposes of this policy options on futures contracts and foreign currency options traded on a commodities exchange will be considered "related options". This policy may be modified by the Board of Directors/Trustees without a shareholder vote and does not limit the percentage of the Fund's assets at risk to 5%.

In accordance with the rules of the State of California, the Fund may have to apply the above 5% test without excluding the value of initial margin and premiums paid for bona fide hedging positions.

The Fund's use of futures contracts will not result in leverage. Therefore, to the extent necessary, in instances involving the purchase of futures contracts or the writing of call or put options thereon by the Fund, an amount of cash, U.S. government securities or other liquid, high-grade debt obligations, equal to the market value of the futures contracts and options thereon (less any related margin deposits), will be identified in an account with the Fund's custodian to cover the position, or alternative cover (such as owning an offsetting position) will be employed. Assets used as cover or held in an identified account cannot be sold while the position in the corresponding option or future is open, unless they are replaced with similar assets. As a result, the commitment of a large portion of a Fund's assets to cover or identified accounts could impede portfolio management or the fund's ability to meet redemption requests or other current obligations.

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If the CFTC or other regulatory authorities adopt different (including less stringent) or additional restrictions, the Fund would comply with such new restrictions.

Trading in Futures Contracts

A futures contract provides for the future sale by one party

and purchase by another party of a specified amount of a specific financial instrument (e.g., units of a debt security) for a specified price, date, time and place designated at the time the contract is made. Brokerage fees are incurred when a futures contract is bought or sold and margin deposits must be maintained. Entering into a contract to buy is commonly referred to as buying or purchasing a contract or holding a long position. Entering into a contract to sell is commonly referred to as selling a contract or holding a short position.

Unlike when the Fund purchases or sells a security, no price would be paid or received by the Fund upon the purchase or sale of a futures contract. Upon entering into a futures contract, and to maintain the Fund's open positions in futures contracts, the Fund would be required to deposit with its custodian in a segregated account in the name of the futures broker an amount of cash, U.S. government securities, suitable money market instruments, or liquid, high-grade debt securities, known as "initial margin." The margin required for a particular futures contract is set by the exchange on which the contract is traded, and may be significantly modified from time to time by the exchange during the term of the contract. Futures contracts are customarily purchased and sold on margins that may range upward from less than 5% of the value of the contract being traded.

If the price of an open futures contract changes (by increase in the case of a sale or by decrease in the case of a purchase) so that the loss on the futures contract reaches a point at which the margin on deposit does not satisfy margin requirements, the broker will require an increase in the margin. However, if the value of a position increases because of favorable price changes in the futures contract so that the margin deposit exceeds the required margin, the broker will pay the excess to the Fund.

These subsequent payments, called "variation margin," to and from the futures broker, are made on a daily basis as the price of the underlying assets fluctuate making the long and short positions in the futures contract more or less valuable, a

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process known as "marking to the market." The Fund expects to earn interest income on its margin deposits.

Although certain futures contracts, by their terms, require actual future delivery of and payment for the underlying instruments, in practice most futures contracts are usually closed out before the delivery date. Closing out an open futures contract purchase or sale is effected by entering into an offsetting futures contract sale or purchase, respectively, for the same aggregate amount of the identical securities and the

same delivery date. If the offsetting purchase price is less than the original sale price, the Fund realizes a gain; if it is more, the Fund realizes a loss. Conversely, if the offsetting sale price is more than the original purchase price, the Fund realizes a gain; if it is less, the Fund realizes a loss. The transaction costs must also be included in these calculations. There can be no assurance, however, that the Fund will be able to enter into an offsetting transaction with respect to a particular futures contract at a particular time. If the Fund is not able to enter into an offsetting transaction, the Fund will continue to be required to maintain the margin deposits on the futures contract.

As an example of an offsetting transaction in which the underlying instrument is not delivered, the contractual obligations arising from the sale of one contract of September Treasury Bills on an exchange may be fulfilled at any time before delivery of the contract is required (i.e., on a specified date in September, the "delivery month") by the purchase of one contract of September Treasury Bills on the same exchange. In such instance, the difference between the price at which the futures contract was sold and the price paid for the offsetting purchase, after allowance for transaction costs, represents the profit or loss to the Fund.

A futures contract on the Standard & Poor's 500 Stock Index, composed of 500 selected common stocks, most of which are listed on the New York Stock Exchange, provides an example of how futures contracts operate. The S&P 500 Index assigns relative weightings to the common stocks included in the Index, and the Index fluctuates with changes in the market values of those common stocks. In the case of futures contracts on the S&P 500 Index, the contracts are to buy or sell 500 units. Thus, if the value of the S&P 500 Index were \$150, one contract would be worth \$75,000 (500 units x \$150). The contract specifies that no delivery of the actual stocks making up the index will take

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place. Instead, settlement in cash occurs. Over the life of the contract, the gain or loss realized by the Fund will equal the difference between the purchase (or sale) price of the contract and the price at which the contract is terminated. For example, if the Fund enters into the example contract above and the S&P 500 Index is at \$154 on the termination date, the Fund will gain \$2,000 (500 units x gain of \$4). If, however, the S&P 500 Index is at \$148 on that future date, the Fund will lose \$1,000 (500 units x loss of \$2).

Special Risks of Transactions in Futures Contracts

Volatility and Leverage. The prices of futures contracts

are volatile and are influenced, among other things, by actual and anticipated changes in the market and interest rates, which in turn are affected by fiscal and monetary policies and national and international political and economic events.

Most United States futures exchanges limit the amount of fluctuation permitted in futures contract prices during a single trading day. The daily limit establishes the maximum amount that the price of a futures contract may vary either up or down from the previous day's settlement price at the end of a trading session. Once the daily limit has been reached in a particular type of futures contract, no trades may be made on that day at a price beyond that limit. The daily limit governs only price movement during a particular trading day and therefore does not limit potential losses, because the limit may prevent the liquidation of unfavorable positions. Futures contract prices have occasionally moved to the daily limit for several consecutive trading days with little or no trading, thereby preventing prompt liquidation of futures positions and subjecting some futures traders to substantial losses.

Because of the low margin deposits required, futures trading involves an extremely high degree of leverage. As a result, a relatively small price movement in a futures contract may result in immediate and substantial loss, as well as gain, to the investor. For example, if at the time of purchase, 10% of the value of the futures contract is deposited as margin, a subsequent 10% decrease in the value of the futures contract would result in a total loss of the margin deposit, before any deduction for the transaction costs, if the account were then closed out. A 15% decrease would result in a loss equal to 150% of the original margin deposit, if the contract were closed out. Thus, a purchase or sale of a futures contract may result in

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losses in excess of the amount invested in the futures contract. However, the Fund would presumably have sustained comparable losses if, instead of the futures contract, it had invested in the underlying financial instrument and sold it after the decline. Furthermore, in the case of a futures contract purchase, in order to be certain that the Fund has sufficient assets to satisfy its obligations under a futures contract, the Fund earmarks to the futures contract money market instruments equal in value to the current value of the underlying instrument less the margin deposit.

Liquidity. The Fund may elect to close some or all of its futures positions at any time prior to their expiration. The Fund would do so to reduce exposure represented by long futures positions or short futures positions. The Fund may close its positions by taking opposite positions which would operate to

terminate the Fund's position in the futures contracts. Final determinations of variation margin would then be made, additional cash would be required to be paid by or released to the Fund, and the Fund would realize a loss or a gain.

Futures contracts may be closed out only on the exchange or board of trade where the contracts were initially traded. Although the Fund intends to purchase or sell futures contracts only on exchanges or boards of trade where there appears to be an active market, there is no assurance that a liquid market on an exchange or board of trade will exist for any particular contract at any particular time. In such event, it might not be possible to close a futures contract, and in the event of adverse price movements, the Fund would continue to be required to make daily cash payments of variation margin. However, in the event futures contracts have been used to hedge the underlying instruments, the Fund would continue to hold the underlying instruments subject to the hedge until the futures contracts could be terminated. In such circumstances, an increase in the price of underlying instruments, if any, might partially or completely offset losses on the futures contract. However, as described below, there is no guarantee that the price of the underlying instruments will, in fact, correlate with the price movements in the futures contract and thus provide an offset to losses on a futures contract.

Hedging Risk. A decision of whether, when, and how to hedge involves skill and judgment, and even a well-conceived hedge may be unsuccessful to some degree because of unexpected market behavior, market or interest rate trends. There are several

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risks in connection with the use by the Fund of futures contracts as a hedging device. One risk arises because of the imperfect correlation between movements in the prices of the futures contracts and movements in the prices of the underlying instruments which are the subject of the hedge. T. Rowe Price will, however, attempt to reduce this risk by entering into futures contracts whose movements, in its judgment, will have a significant correlation with movements in the prices of the Fund's underlying instruments sought to be hedged.

Successful use of futures contracts by the Fund for hedging purposes is also subject to T. Rowe Price's ability to correctly predict movements in the direction of the market. It is possible that, when the Fund has sold futures to hedge its portfolio against a decline in the market, the index, indices, or instruments underlying futures might advance and the value of the underlying instruments held in the Fund's portfolio might decline. If this were to occur, the Fund would lose money on the futures and also would experience a decline in value in its

underlying instruments. However, while this might occur to a certain degree, T. Rowe Price believes that over time the value of the Fund's portfolio will tend to move in the same direction as the market indices used to hedge the portfolio. It is also possible that if the Fund were to hedge against the possibility of a decline in the market (adversely affecting the underlying instruments held in its portfolio) and prices instead increased, the Fund would lose part or all of the benefit of increased value of those underlying instruments that it has hedged, because it would have offsetting losses in its futures positions. In addition, in such situations, if the Fund had insufficient cash, it might have to sell underlying instruments to meet daily variation margin requirements. Such sales of underlying instruments might be, but would not necessarily be, at increased prices (which would reflect the rising market). The Fund might have to sell underlying instruments at a time when it would be disadvantageous to do so.

In addition to the possibility that there might be an imperfect correlation, or no correlation at all, between price movements in the futures contracts and the portion of the portfolio being hedged, the price movements of futures contracts might not correlate perfectly with price movements in the underlying instruments due to certain market distortions. First, all participants in the futures market are subject to margin deposit and maintenance requirements. Rather than meeting additional margin deposit requirements, investors might close futures contracts through offsetting transactions, which could

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distort the normal relationship between the underlying instruments and futures markets. Second, the margin requirements in the futures market are less onerous than margin requirements in the securities markets, and as a result the futures market might attract more speculators than the securities markets do. Increased participation by speculators in the futures market might also cause temporary price distortions. Due to the possibility of price distortion in the futures market and also because of the imperfect correlation between price movements in the underlying instruments and movements in the prices of futures contracts, even a correct forecast of general market trends by T. Rowe Price might not result in a successful hedging transaction over a very short time period.

Options on Futures Contracts

The Fund may purchase and sell options on the same types of futures in which it may invest.

Options on futures are similar to options on underlying instruments except that options on futures give the purchaser the

right, in return for the premium paid, to assume a position in a futures contract (a long position if the option is a call and a short position if the option is a put), rather than to purchase or sell the futures contract, at a specified exercise price at any time during the period of the option. Upon exercise of the option, the delivery of the futures position by the writer of the option to the holder of the option will be accompanied by the delivery of the accumulated balance in the writer's futures margin account which represents the amount by which the market price of the futures contract, at exercise, exceeds (in the case of a call) or is less than (in the case of a put) the exercise price of the option on the futures contract. Purchasers of options who fail to exercise their options prior to the exercise date suffer a loss of the premium paid.

As an alternative to writing or purchasing call and put options on interest rate futures, the Fund may write or purchase call and put options on financial indices. Such options would be used in a manner similar to the use of options on futures contracts. From time to time, a single order to purchase or sell futures contracts (or options thereon) may be made on behalf of the Fund and other T. Rowe Price Funds. Such aggregated orders would be allocated among the Funds and the other T. Rowe Price Funds in a fair and non-discriminatory manner.

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Special Risks of Transactions in Options on Futures Contracts

The risks described under "Special Risks of Transactions on Futures Contracts" are substantially the same as the risks of using options on futures. In addition, where the Fund seeks to close out an option position by writing or buying an offsetting option covering the same index, underlying instrument or contract and having the same exercise price and expiration date, its ability to establish and close out positions on such options will be subject to the maintenance of a liquid secondary market. Reasons for the absence of a liquid secondary market on an exchange include the following: (i) there may be insufficient trading interest in certain options; (ii) restrictions may be imposed by an exchange on opening transactions or closing transactions or both; (iii) trading halts, suspensions or other restrictions may be imposed with respect to particular classes or series of options, or underlying instruments; (iv) unusual or unforeseen circumstances may interrupt normal operations on an exchange; (v) the facilities of an exchange or a clearing corporation may not at all times be adequate to handle current trading volume; or (vi) one or more exchanges could, for economic or other reasons, decide or be compelled at some future date to discontinue the trading of options (or a particular class or series of options), in which event the secondary market on that

exchange (or in the class or series of options) would cease to exist, although outstanding options on the exchange that had been issued by a clearing corporation as a result of trades on that exchange would continue to be exercisable in accordance with their terms. There is no assurance that higher than anticipated trading activity or other unforeseen events might not, at times, render certain of the facilities of any of the clearing corporations inadequate, and thereby result in the institution by an exchange of special procedures which may interfere with the timely execution of customers' orders.

Additional Futures and Options Contracts

Although the Fund has no current intention of engaging in futures or options transactions other than those described above, it reserves the right to do so. Such futures and options trading might involve risks which differ from those involved in the futures and options described above.

Foreign Futures and Options

Participation in foreign futures and foreign options transactions involves the execution and clearing of trades on or

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subject to the rules of a foreign board of trade. Neither the National Futures Association nor any domestic exchange regulates activities of any foreign boards of trade, including the execution, delivery and clearing of transactions, or has the power to compel enforcement of the rules of a foreign board of trade or any applicable foreign law. This is true even if the exchange is formally linked to a domestic market so that a position taken on the market may be liquidated by a transaction on another market. Moreover, such laws or regulations will vary depending on the foreign country in which the foreign futures or foreign options transaction occurs. For these reasons, when the Fund trades foreign futures or foreign options contracts, it may not be afforded certain of the protective measures provided by the Commodity Exchange Act, the CFTC's regulations and the rules of the National Futures Association and any domestic exchange, including the right to use reparations proceedings before the Commission and arbitration proceedings provided by the National Futures Association or any domestic futures exchange. In particular, funds received from the Fund for foreign futures or foreign options transactions may not be provided the same protections as funds received in respect of transactions on United States futures exchanges. In addition, the price of any foreign futures or foreign options contract and, therefore, the potential profit and loss thereon may be affected by any variance in the foreign exchange rate between the time the Fund's order is placed and the time it is liquidated, offset or exercised.

U.S. Treasury Intermediate and Long-Term Funds

Limitations on Futures and Options for Intermediate and Long-Term Funds

The Funds will not purchase a futures contract or option thereon if, with respect to positions in futures or options on futures which do not represent bona fide hedging, the aggregate initial margin and premiums on such positions would exceed 5% of the Fund's net asset value. In addition, neither of the Funds will enter into a futures transaction if it would be obligated to purchase or deliver under outstanding open futures contracts amounts which would exceed 15% of the Fund's total assets.

A Fund will not write a covered call option if, as a result, the aggregate market value of all portfolio securities covering call options or subject to delivery under put options exceeds 15% of the market value of the Fund's total assets.

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A Fund will not write a covered put option if, as a result, the aggregate market value of all portfolio securities subject to such put options or covering call options exceeds 15% of the market value of the Fund's total assets.

In order to comply with the laws of certain states, a Fund will not invest more than 5% of its total assets in premiums on put options. Should these state laws change or should a Fund obtain a waiver of their applications, the Fund may invest up to 15% of its total assets in premiums on put options.

In order to comply with the laws of certain states, a Fund will not invest more than 5% of its total assets in premiums on call options. Should these state laws change or should a Fund obtain a waiver of their applications, the Fund may invest up to 15% of its total assets in premiums on call options.

In order to comply with the laws of certain states, a Fund will not purchase puts, calls, straddles, spreads and any combination thereof if by reason thereof the value of its aggregate investment in such classes of securities will exceed 5% of its total assets. Should these state laws change or should a Fund obtain a waiver of their application, the Fund may invest a higher percentage of its total assets in puts, calls, straddles, or spreads.

The total amount of a Fund's total assets invested in futures and options under any combination of the limitations described above will not exceed 15% of the Fund's total assets.

Foreign Currency Transactions

A forward foreign currency exchange contract involves an obligation to purchase or sell a specific currency at a future date, which may be any fixed number of days from the date of the contract agreed upon by the parties, at a price set at the time of the contract. These contracts are principally traded in the interbank market conducted directly between currency traders (usually large, commercial banks) and their customers. A forward contract generally has no deposit requirement, and no commissions are charged at any stage for trades.

The Fund may enter into forward contracts for a variety of purposes in connection with the management of the foreign

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securities portion of its portfolio. The Fund's use of such contracts would include, but not be limited to, the following:

First, when the Fund enters into a contract for the purchase or sale of a security denominated in a foreign currency, it may desire to "lock in" the U.S. dollar price of the security. By entering into a forward contract for the purchase or sale, for a fixed amount of dollars, of the amount of foreign currency involved in the underlying security transactions, the Fund will be able to protect itself against a possible loss resulting from an adverse change in the relationship between the U.S. dollar and the subject foreign currency during the period between the date the security is purchased or sold and the date on which payment is made or received.

Second, when T. Rowe Price believes that one currency may experience a substantial movement against another currency, including the U.S. dollar, it may enter into a forward contract to sell or buy the amount of the former foreign currency, approximating the value of some or all of the Fund's portfolio securities denominated in such foreign currency. Alternatively, where appropriate, the Fund may hedge all or part of its foreign currency exposure through the use of a basket of currencies or a proxy currency where such currency or currencies act as an effective proxy for other currencies. In such a case, the Fund may enter into a forward contract where the amount of the foreign currency to be sold exceeds the value of the securities denominated in such currency. The use of this basket hedging technique may be more efficient and economical than entering into separate forward contracts for each currency held in the Fund. The precise matching of the forward contract amounts and the value of the securities involved will not generally be possible

since the future value of such securities in foreign currencies will change as a consequence of market movements in the value of those securities between the date the forward contract is entered into and the date it matures. The projection of short-term currency market movement is extremely difficult, and the successful execution of a short-term hedging strategy is highly uncertain. Under normal circumstances, consideration of the prospect for currency parities will be incorporated into the longer term investment decisions made with regard to overall diversification strategies. However, T. Rowe Price believes that it is important to have the flexibility to enter into such forward contracts when it determines that the best interests of the Fund will be served.

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Third, the Fund may use forward contracts when the Fund wishes to hedge out of the dollar into a foreign currency in order to create a synthetic bond or money market instrument--the security would be issued in U.S. dollars but the dollar component would be transformed into a foreign currency through a forward contract.

The Fund may enter into forward contracts for any other purpose consistent with the Fund's investment objective and program. However, the Fund will not enter into a forward contract, or maintain exposure to any such contract(s), if the amount of foreign currency required to be delivered thereunder would exceed the Fund's holdings of liquid, high-grade debt securities and currency available for cover of the forward contract(s). In determining the amount to be delivered under a contract, the Fund may net offsetting positions.

At the maturity of a forward contract, the Fund may sell the portfolio security and make delivery of the foreign currency, or it may retain the security and either extend the maturity of the forward contract (by "rolling" that contract forward) or may initiate a new forward contract.

If the Fund retains the portfolio security and engages in an offsetting transaction, the Fund will incur a gain or a loss (as described below) to the extent that there has been movement in forward contract prices. If the Fund engages in an offsetting transaction, it may subsequently enter into a new forward contract to sell the foreign currency. Should forward prices decline during the period between the Fund's entering into a forward contract for the sale of a foreign currency and the date it enters into an offsetting contract for the purchase of the foreign currency, the Fund will realize a gain to the extent the price of the currency it has agreed to sell exceeds the price of the currency it has agreed to purchase. Should forward prices

increase, the Fund will suffer a loss to the extent of the price of the currency it has agreed to purchase exceeds the price of the currency it has agreed to sell.

The Fund's dealing in forward foreign currency exchange contracts will generally be limited to the transactions described above. However, the Fund reserves the right to enter into forward foreign currency contracts for different purposes and under different circumstances. Of course, the Fund is not required to enter into forward contracts with regard to its foreign currency-denominated securities and will not do so unless deemed appropriate by T. Rowe Price. It also should be realized

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that this method of hedging against a decline in the value of a currency does not eliminate fluctuations in the underlying prices of the securities. It simply establishes a rate of exchange at a future date. Additionally, although such contracts tend to minimize the risk of loss due to a decline in the value of the hedged currency, at the same time, they tend to limit any potential gain which might result from an increase in the value of that currency.

Although the Fund values its assets daily in terms of U.S. dollars, it does not intend to convert its holdings of foreign currencies into U.S. dollars on a daily basis. It will do so from time to time, and investors should be aware of the costs of currency conversion. Although foreign exchange dealers do not charge a fee for conversion, they do realize a profit based on the difference (the "spread") between the prices at which they are buying and selling various currencies. Thus, a dealer may offer to sell a foreign currency to the Fund at one rate, while offering a lesser rate of exchange should the Fund desire to resell that currency to the dealer.

Federal Tax Treatment of Options, Futures Contracts and Forward Foreign Exchange Contracts

The Fund may enter into certain option, futures, and forward foreign exchange contracts, including options and futures on currencies, which will be treated as Section 1256 contracts or straddles.

Transactions which are considered Section 1256 contracts will be considered to have been closed at the end of the Fund's fiscal year and any gains or losses will be recognized for tax purposes at that time. Such gains or losses from the normal closing or settlement of such transactions will be characterized as 60% long-term capital gain or loss and 40% short-term capital gain or loss regardless of the holding period of the instrument. The Fund will be required to distribute net gains on such

transactions to shareholders even though it may not have closed the transaction and received cash to pay such distributions.

Options, futures and forward foreign exchange contracts, including options and futures on currencies, which offset a foreign dollar denominated bond or currency position may be considered straddles for tax purposes, in which case a loss on any position in a straddle will be subject to deferral to the extent of unrealized gain in an offsetting position. The holding period of the securities or currencies comprising the straddle

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will be deemed not to begin until the straddle is terminated. For securities offsetting a purchased put, this adjustment of the holding period may increase the gain from sales of securities held less than three months. The holding period of the security offsetting an "in-the-money qualified covered call" option on an equity security will not include the period of time the option is outstanding.

Losses on written covered calls and purchased puts on securities, excluding certain "qualified covered call" options on equity securities, may be long-term capital loss, if the security covering the option was held for more than twelve months prior to the writing of the option.

In order for the Fund to continue to qualify for federal income tax treatment as a regulated investment company, at least 90% of its gross income for a taxable year must be derived from qualifying income; i.e., dividends, interest, income derived from loans of securities, and gains from the sale of securities or currencies. Pending tax regulations could limit the extent that net gain realized from option, futures or foreign forward exchange contracts on currencies is qualifying income for purposes of the 90% requirement. In addition, gains realized on the sale or other disposition of securities, including option, futures or foreign forward exchange contracts on securities or securities indexes and, in some cases, currencies, held for less than three months, must be limited to less than 30% of the Fund's annual gross income. In order to avoid realizing excessive gains on securities or currencies held less than three months, the Fund may be required to defer the closing out of option, futures or foreign forward exchange contracts) beyond the time when it would otherwise be advantageous to do so. It is anticipated that unrealized gains on Section 1256 option, futures and foreign forward exchange contracts, which have been open for less than three months as of the end of the Fund's fiscal year and which are recognized for tax purposes, will not be considered gains on securities or currencies held less than three months for purposes of the 30% test.

INVESTMENT RESTRICTIONS

Fundamental policies may not be changed without the approval of the lesser of (1) 67% of the Fund's shares present at a meeting of shareholders if the holders of more than 50% of the outstanding shares are present in person or by proxy or (2) more

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than 50% of the Fund's outstanding shares. Other restrictions in the form of operating policies are subject to change by the Fund's Board of Directors/Trustees without shareholder approval. Any investment restriction which involves a maximum percentage of securities or assets shall not be considered to be violated unless an excess over the percentage occurs immediately after, and is caused by, an acquisition of securities or assets of, or borrowings by, the Fund.

Fundamental Policies

As a matter of fundamental policy, the Fund may not:

- (1) Borrowing. Borrow money except that the Fund may (i) borrow for non-leveraging, temporary or emergency purposes and (ii) engage in reverse repurchase agreements and make other investments or engage in other transactions, which may involve a borrowing, in a manner consistent with the Fund's investment objective and program, provided that the combination of (i) and (ii) shall not exceed 33 1/3% of the value of the Fund's total assets (including the amount borrowed) less liabilities (other than borrowings) or such other percentage permitted by law. Any borrowings which come to exceed this amount will be reduced in accordance with applicable law. The Fund may borrow from banks, other Price Funds or other persons to the extent permitted by applicable law.
- (2) Commodities. Purchase or sell physical commodities; except that the Fund (other than the Prime Reserve and Treasury Money Funds) may enter into futures contracts and options thereon;
- (3) (a) Industry Concentration (All Funds, except High Yield, New Income, Prime Reserve and Short-Term Bond Funds). Purchase the securities of any issuer if, as a result, more than 25% of the value of the Fund's total assets would be invested in the securities of issuers having their principal business activities in the same industry;

(b) Industry Concentration (High Yield Fund). Purchase the securities of any issuer if, as a result, more than 25% of the value of the Fund's total assets would be invested in the securities

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of issuers having their principal business activities in the same industry; provided, however, that the Fund will normally invest more than 25% of its total assets in the securities of the banking industry including, but not limited to, bank certificates of deposit and bankers' acceptances, when the Fund's position in issues maturing in one year or less equals 35% or more of the Fund's total assets;

(c) Industry Concentration (New Income Fund). Purchase the securities of any issuer if, as a result, more than 25% of the value of the Fund's total assets would be invested in the securities of issuers having their principal business activities in the same industry; provided, however, that the Fund will invest more than 25% of its total assets, but not more than 50%, in any one of the gas utility, gas transmission utility, electric utility, telephone utility, and petroleum industries under certain circumstances, and further provided that this limitation does not apply to securities of the banking industry including, but not limited to, certificates of deposit and bankers' acceptances;

(d) Industry Concentration (Prime Reserve Fund). Purchase the securities of any issuer if, as a result, more than 25% of the value of the Fund's total assets would be invested in the securities of issuers having their principal business activities in the same industry; provided, however, that this limitation does not apply to securities of the banking industry including, but not limited to, certificates of deposit and bankers' acceptances; and

(e) Industry Concentration (Short-Term Bond Fund). Purchase the securities of any issuer if, as a result, more than 25% of the value of the Fund's total assets would be invested in the securities of issuers having their principal business activities in the same industry; provided, however, that the Fund will normally invest more

than 25% of its total assets in the securities of the banking industry including, but not limited to, bank certificates of deposit and bankers'

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acceptances when the Fund's position in issues maturing in one year or less equals 35% or more of the Fund's total assets; provided, further, that the Fund will invest more than 25% of its total assets, but not more than 50%, in any one of the gas utility, gas transmission utility, electric utility, telephone utility, and petroleum industries under certain circumstances;

- (4) Loans. Make loans, although the Fund may (i) lend portfolio securities and participate in an interfund lending program with other Price Funds provided that no such loan may be made if, as a result, the aggregate of such loans would exceed 33 1/3% of the value of the Fund's total assets; (ii) purchase money market securities and enter into repurchase agreements; and (iii) acquire publicly-distributed or privately-placed debt securities and purchase debt;
- (5) Percent Limit on Assets Invested in Any One Issuer. Purchase a security if, as a result, with respect to 75% of the value of its total assets, more than 5% of the value of the Fund's total assets would be invested in the securities of a single issuer, except securities issued or guaranteed by the U.S. Government or any of its agencies or instrumentalities;
- (6) Percent Limit on Share Ownership of Any One Issuer. Purchase a security if, as a result, with respect to 75% of the value of the Fund's total assets, more than 10% of the outstanding voting securities of any issuer would be held by the Fund (other than obligations issued or guaranteed by the U.S. Government, its agencies or instrumentalities);
- (7) Real Estate. Purchase or sell real estate unless acquired as a result of ownership of securities or other instruments (but this shall not prevent the Fund from investing in securities or other instruments backed by real estate or securities of companies engaged in the real estate business);

- (8) Senior Securities. Issue senior securities except in compliance with the Investment Company Act of 1940; or
- (9) Underwriting. Underwrite securities issued by other persons, except to the extent that the Fund may be deemed to be an underwriter within the meaning of the Securities Act of 1933 in connection with the purchase and sale of its portfolio securities in the ordinary course of pursuing its investment program.

NOTES

The following Notes should be read in connection with the above-described fundamental policies. The Notes are not fundamental policies.

With respect to investment restrictions (1) and (4) the Fund will not borrow from or lend to any other T. Rowe Price Fund unless each Fund applies for and receives an exemptive order from the SEC or the SEC issues rules permitting such transactions. The Fund has no current intention of engaging in any such activity and there is no assurance the SEC would grant any order requested by the Fund or promulgate any rules allowing the transactions.

With respect to investment restriction (1), the Prime Reserve and U.S. Treasury Money Funds have no current intention of engaging in any borrowing transactions.

With respect to investment restriction (2), the Fund does not consider currency contracts or hybrid instruments to be commodities.

For purposes of investment restriction (3), U.S., state or local governments, or related agencies or instrumentalities, are not considered an industry. Industries are determined by reference to the classifications of industries set forth in the Fund's Semi-annual and Annual Reports.

For purposes of investment restriction (4), the Fund will consider the acquisition of a debt

security to include the execution of a note or other evidence of an extension of credit with a term of more than nine months.

For purposes of investment restriction (5), the Fund will consider a repurchase agreement fully collateralized with U.S. government securities to be U.S. government securities.

Operating Policies

As a matter of operating policy, the Fund may not:

- (1) Borrowing. The Fund will not purchase additional securities when money borrowed exceeds 5% of its total assets.
- (2) Control of Portfolio Companies. Invest in companies for the purpose of exercising management or control;
- (3)
 - (a) Equity Securities (All Funds, except High Yield, New Income, and Personal Strategy Funds). Purchase any common stocks or other equity securities, or securities convertible into equity securities except as set forth in its operating policy on investment companies;
 - (b) Equity Securities (High Yield Fund). Invest more than 20% of the Fund's total assets in equity securities (including up to 5% in warrants);
 - (c) Equity Securities (New Income Fund). Invest more than 25% of its total assets in equity securities;
 - (d) Equity Securities (Personal Strategy Funds). Purchase any common stocks or other equity securities, except as set forth in its prospectus and operating policy on investment companies;
- (4) Futures Contracts. Purchase a futures contract or an option thereon if, with respect to positions in futures or options on futures which do not represent bona fide hedging, the aggregate initial margin and premiums on such positions would exceed 5% of the Fund's net asset value.
- (5)
 - (a) Illiquid Securities (All Funds, except Personal Strategy Funds). Purchase illiquid

securities if, as a result, more than 15% (10% for the Prime Reserve and U.S. Treasury Money Funds) of its net assets would be invested in such securities;

(b) Illiquid Securities (Personal Strategy Funds). Purchase illiquid securities and securities of unseasoned issuers if, as a result, more than 15% of a Fund's net assets would be invested in such securities, provided that the Fund will not invest more than 5% of its total assets in restricted securities and not more than 5% in securities of unseasoned issuers. Securities eligible for resale under Rule 144A of the Securities Act of 1933 are not included in the 5% limitation but are subject to the 15% limitation;

(6) Investment Companies. Purchase securities of open-end or closed-end investment companies except in compliance with the Investment Company Act of 1940 and applicable state law, and in the case of the Prime Reserve and U.S. Treasury Money Funds, only securities of other money market funds. Duplicate fees may result from such purchases;

(7) Margin. Purchase securities on margin, except (i) for use of short-term credit necessary for clearance of purchases of portfolio securities and (ii) it may make margin deposits in connection with futures contracts or other permissible investments;

(8) Mortgaging. Mortgage, pledge, hypothecate or, in any manner, transfer any security owned by the Fund as security for indebtedness except as may be necessary in connection with permissible borrowings or investments and then such mortgaging, pledging or hypothecating may not exceed 33 1/3% of the Fund's total assets at the time of borrowing or investment;

(9) Oil and Gas Programs. Purchase participations or other direct interests or enter into leases with

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respect to, oil, gas, or other mineral exploration or development programs;

(10) Options, Etc. Invest in puts, calls, straddles, spreads, or any combination thereof, except to the extent permitted by the prospectus and Statement

of Additional Information;

- (11) Ownership of Portfolio Securities by Officers and Directors. Purchase or retain the securities of any issuer if, to the knowledge of the Fund's management, those officers and directors of the Fund, and of its investment manager, who each own beneficially more than .5% of the outstanding securities of such issuer, together own beneficially more than 5% of such securities.
- (12) (a) Short Sales (All Funds except High Yield Fund). Effect short sales of securities;
- (b) Short Sales (High Yield Fund). Effect short sales of securities, other than as set forth in its prospectus and Statement of Additional Information;
- (13) Unseasoned Issuers. Purchase a security (other than obligations issued or guaranteed by the U.S., any foreign, state or local government, their agencies or instrumentalities) if, as a result, more than 5% of the value of the Fund's total assets would be invested in the securities issuers which at the time of purchase had been in operation for less than three years (for this purpose, the period of operation of any issuer shall include the period of operation of any predecessor or unconditional guarantor of such issuer). This restriction does not apply to securities of pooled investment vehicles or mortgage or asset-backed securities; or
- (14) Warrants. Invest in warrants if, as a result thereof, more than 2% of the value of the total assets of the Fund would be invested in warrants which are not listed on the New York Stock Exchange, the American Stock Exchange, or a recognized foreign exchange, or more than 5% of

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the value of the total assets of the Fund would be invested in warrants whether or not so listed. For purposes of these percentage limitations, the warrants will be valued at the lower of cost or market and warrants acquired by the Fund in units or attached to securities may be deemed to be without value.

Personal Strategy Funds

Notwithstanding anything in the above fundamental and operating restrictions to the contrary, the Fund may invest all of its assets in a single investment company or a series thereof in connection with a "master-feeder" arrangement. Such an investment would be made where the Fund (a "Feeder"), and one or more other Funds with the same investment objective and program as the Fund, sought to accomplish its investment objective and program by investing all of its assets in the shares of another investment company (the "Master"). The Master would, in turn, have the same investment objective and program as the Fund. The Fund would invest in this manner in an effort to achieve the economies of scale associated with having a Master fund make investments in portfolio companies on behalf of a number of Feeder funds.

MANAGEMENT OF FUND

The officers and directors/trustees of the Fund are listed below. Unless otherwise noted, the address of each is 100 East Pratt Street, Baltimore, Maryland 21202. Except as indicated, each has been an employee of T. Rowe Price for more than five years. In the list below, the Fund's directors/trustees who are considered "interested persons" of T. Rowe Price as defined under Section 2(a)(19) of the Investment Company Act of 1940 are noted with an asterisk (*). These directors/trustees are referred to as inside directors by virtue of their officership, directorship, and/or employment with T. Rowe Price.

All Funds, except Personal Strategy Funds

Independent Directors/Trustees

ROBERT P. BLACK, Retired; formerly President, Federal Reserve Bank of Richmond; Address: 10 Dahlgren Road, Richmond, Virginia 23233

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CALVIN W. BURNETT, PH.D., President, Coppin State College; Director, Maryland Chamber of Commerce and Provident Bank of Maryland; President, Baltimore Area Council Boy Scouts of America; Vice President, Board of Directors, The Walters Art Gallery; Address: 2500 West North Avenue, Baltimore, Maryland 21216

ANTHONY W. DEERING, Director, President and Chief Operating Officer, The Rouse Company, real estate developers, Columbia, Maryland; Advisory Director, Kleinwort, Benson (North America) Corporation, a registered broker-dealer; Address: 10275 Little Patuxent Parkway, Columbia, Maryland 21044

F. PIERCE LINAWEAVER, President, F. Pierce Linaweaver &

Associates, Inc.; formerly (1987-1991) Executive Vice President, EA Engineering, Science, and Technology, Inc., and (1987-1990) President, EA Engineering, Inc., Baltimore, Maryland; Address: The Legg Mason Tower, 111 South Calvert Street, Suite 2700, Baltimore, Maryland 21202

JOHN G. SCHREIBER, President, Schreiber Investments, Inc., a real estate investment company; Director, AMCI Residential Properties Trust; Partner, Blackstone Real Estate Partners, L.P.; Director and formerly (1/80-12/90) Executive Vice President, JMB Realty Corporation, a national real estate investment manager and developer; Address: 1115 East Illinois Road, Lake Forest, Illinois 60045

ANNE MARIE WHITTEMORE, Partner, law firm of McGuire, Woods, Battle & Boothe, Richmond, Virginia; formerly, Chairman (1991-1993) and Director (1989-1993), Federal Reserve Bank of Richmond; Director, Owens & Minor, Inc., USF&G Corporation, Old Dominion University, and James River Corporation; Member, Richmond Bar Association and American Bar Association; Address: One James Center, 901 East Cary Street, Richmond, Virginia 23219-4030

Personal Strategy Funds

LEO C. BAILEY, Retired; Address: 3396 South Placita Fabula, Green Valley, Arizona 85614

DONALD W. DICK, JR., Principal, Overseas Partners, Inc., a financial investment firm; Director, Waverly Press, Inc., Baltimore, Maryland; Address: 375 Park Avenue, Suite 2201, New York, New York 10152

DAVID K. FAGIN, Chairman, Chief Executive Officer and Director, Golden Star Resources, Ltd.; formerly (1986-7/91) President, Chief Operating Officer and Director, Homestake Mining Company; Address: One Norwest Center, 1700 Lincoln Street, Suite 1950, Denver, Colorado 80203

ADDISON LANIER, Financial management; President and Director, Thomas Emery's Sons, Inc., and Emery Group, Inc.; Director,

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Scinet Development and Holdings, Inc.; Address: 441 Vine Street, #2310, Cincinnati, Ohio 45202-2913

JOHN K. MAJOR, Chairman of the Board and President, KCMA Incorporated, Tulsa, Oklahoma; Address: 126 E. 26 Place, Tulsa, Oklahoma 74114-2422

HANNE M. MERRIMAN, Retail business consultant; formerly, President and Chief Operating Officer, Nan Duskin, Inc., a women's specialty store, Director and Chairman Federal Reserve Bank of Richmond, and President and Chief Executive Officer, Honeybee, Inc., a division of Spiegel, Inc; Director, Ann Taylor Stores Corporation, Central Illinois Public Service Company, CIPSCO Incorporated, The Rouse Company, State Farm Mutual Automobile Insurance Company and USAir Group, Inc., Member, National Women's Forum; Trustee, American-Scandinavian

Foundation; Address: One James Center, 901 East Cary Street,
Richmond, Virginia 23219-4030

HUBERT D. VOS, President, Stonington Capital Corporation, a
private investment company; Address: 1231 State Street, Suite
210, Santa Barbara, CA 93190-0409

PAUL M. WYTHES, Founding General Partner, Sutter Hill Ventures, a
venture capital limited partnership providing equity capital to
young high technology companies throughout the United States;
Director, Teltone Corporation, Interventional Technologies Inc.,
and Stuart Medical, Inc.; Address: 755 Page Mill Road, Suite
A200, Palo Alto, California 94304

Officers

HENRY H. HOPKINS, Vice President--Managing Director, T. Rowe
Price; Vice President and Director, T. Rowe Price Investment
Services, Inc., T. Rowe Price Services, Inc., and T. Rowe Price
Trust Company; Vice President, Rowe Price-Fleming International,
Inc. and T. Rowe Price Retirement Plan Services, Inc.

LENORA V. HORNUNG, Secretary--Vice President, T. Rowe Price

CARMEN F. DEYESU, Treasurer--Vice President, T. Rowe Price, T.
Rowe Price Services, Inc., and T. Rowe Price Trust Company

DAVID S. MIDDLETON, Controller--Vice President, T. Rowe Price, T.
Rowe Price Services, Inc., and T. Rowe Price Trust Company

ROGER L. FIERY, III, Assistant Vice President--Vice President,
Rowe Price-Fleming International, Inc.

EDWARD T. SCHNEIDER, Assistant Vice President--Assistant Vice
President, T. Rowe Price and T. Rowe Price Services, Inc.

INGRID I. VORDEMBERGE, Assistant Vice President--Employee, T.
Rowe Price

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Adjustable Rate Fund

*GEORGE J. COLLINS, Chairman of the Board--President, Managing
Director, and Chief Executive Officer, T. Rowe Price; Director,
Rowe Price-Fleming International, Inc., T. Rowe Price Trust
Company and T. Rowe Price Retirement Plan Services, Inc.,
Chartered Investment Counselor

*PETER VAN DYKE, President and Director--Managing Director, T.
Rowe Price; Vice President of Rowe Price-Fleming International,
Inc. and T. Rowe Price Trust Company

*JAMES S. RIEPE, Vice President and Director--Managing Director,
T. Rowe Price; Chairman of the Board, T. Rowe Price Services,
Inc., and T. Rowe Price Retirement Plan Services, Inc.; President
and Director, T. Rowe Price Investment Services, Inc; President
and Trust Officer, T. Rowe Price Trust Company; Director, Rowe
Price-Fleming International, Inc. and Rhone-Poulenc Rorer, Inc.
HEATHER R. LANDON, Executive Vice President--Vice President, T.
Rowe Price and T. Rowe Price Trust Company

VEENA A. KUTLER, Vice President--Vice President, T. Rowe Price and Rowe Price-Fleming International, Inc.

JAMES M. MCDONALD, Vice President--Vice President, T. Rowe Price

EDMUND M. NOTZON, Vice President--Vice President, T. Rowe Price and T. Rowe Price Trust Company; formerly, (1972-1989) charter member of the U.S. Senior Executive Services and Director, Analysis and Evaluation Division in the Office of Water Regulations and Standards of the U.S. Environmental Protection Agency

CHARLES P. SMITH, Vice President--Managing Director, T. Rowe Price; Vice President, Rowe Price-Fleming International, Inc.

GWENDOLYN G. WAGNER, Vice President--Assistant Vice President, T. Rowe Price

DONNA M. ENNIS-DAVIS, Assistant Vice President--Employee, T. Rowe Price

GNMA Fund

*GEORGE J. COLLINS, Chairman of the Board--President, Managing Director and Chief Executive Officer, T. Rowe Price; Director, Rowe Price-Fleming International, Inc., T. Rowe Price Trust Company and T. Rowe Price Retirement Plan Services, Inc.; Chartered Investment Counselor

*JAMES S. RIEPE, Vice President and Trustee--Managing Director, T. Rowe Price; Chairman of the Board, T. Rowe Price Services, Inc. and T. Rowe Price Retirement Plan Services, Inc.; President and Director, T. Rowe Price Investment Services, Inc.; President and Trust Officer, T. Rowe Price Trust Company; Director, Rowe Price-Fleming International, Inc. and Rhone-Poulenc Rorer, Inc.

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PETER VAN DYKE, President--Managing Director, T. Rowe Price; Vice President, Rowe Price-Fleming International, Inc. and T. Rowe Price Trust Company

ROBERT P. CAMPBELL, Vice President--Vice President, T. Rowe Price and Rowe Price-Fleming International, Inc.; formerly (4/80-5/90) Vice President and Director, Private Finance, New York Life Insurance Company, New York, New York

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CHARLES P. SMITH, Vice President--Managing Director, T. Rowe Price; Vice President, Rowe Price-Fleming International, Inc.

High Yield Fund

*GEORGE J. COLLINS, Chairman of the Board--President, Managing Director, and Chief Executive Officer, T. Rowe Price; Director, Rowe Price-Fleming International, Inc., T. Rowe Price Trust Company and T. Rowe Price Retirement Plan Services, Inc., Chartered Investment Counselor

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*JAMES S. RIEPE, Vice President and Director--Managing Director, T. Rowe Price; Chairman of the Board, T. Rowe Price Services, Inc. and T. Rowe Price Retirement Plan Services, Inc.; President and Director, T. Rowe Price Investment Services, Inc; President and Trust Officer, T. Rowe Price Trust Company; Director, Rowe Price-Fleming International, Inc. and Rhone-Poulenc Rorer, Inc.

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ANDREW M. BROOKS, Vice President--Vice President, T. Rowe Price

MICHAEL J. CONELIUS, Vice President--Assistant Vice President, T. Rowe Price

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JAY W. VAN ERT, Vice President--Vice President, T. Rowe Price

MARK J. VASELKIV, Vice President--Vice President, T. Rowe Price

THEA N. WILLIAMS, Vice President--Vice President, T. Rowe Price

JAMES M. McDONALD, Assistant Vice President--Vice President, T. Rowe Price

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New Income Fund

*GEORGE J. COLLINS, Chairman of the Board--President, Managing Director, and Chief Executive Officer, T. Rowe Price; Director, Rowe Price-Fleming International, Inc., T. Rowe Price Trust Company and T. Rowe Price Retirement Plan Services, Inc., Chartered Investment Counselor

*CARTER O. HOFFMAN, Vice President and Director--Managing Director, T. Rowe Price; Chartered Investment Counselor

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EDMUND M. NOTZON, Vice President--Vice President, T. Rowe Price and T. Rowe Price Trust Company; formerly (1972-1989) charter member of the U.S. Senior Executive Service and Director, Analysis and Evaluation Division in the Office of Water Regulations and Standards of the U.S. Environmental Protection Agency

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ROBERT M. RUBINO, Vice President--Vice President, T. Rowe Price

THOMAS E. TEWKSBURY, Vice President--Vice President, T. Rowe Price; formerly (1/89-12/93) senior bond trader, Scudder, Stevens & Clark, Boston, Massachusetts

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Prime Reserve Fund

*GEORGE J. COLLINS, Vice President and Director--President, Managing Director, and Chief Executive Officer, T. Rowe Price; Director, Rowe Price-Fleming International, Inc., T. Rowe Price Trust Company and T. Rowe Price Retirement Plan Services, Inc., Chartered Investment Counselor

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and Director, T. Rowe Price Investment Services, Inc; President and Trust Officer, T. Rowe Price Trust Company; Director, Rowe Price-Fleming International, Inc. and Rhone-Poulenc Rorer, Inc. ROBERT M. RUBINO, Vice President--Vice President, T. Rowe Price

Short-Term Bond Fund

*GEORGE J. COLLINS, Chairman of the Board--President, Managing Director, and Chief Executive Officer, T. Rowe Price; Director, Rowe Price-Fleming International, Inc., T. Rowe Price Trust Company and T. Rowe Price Retirement Plan Services, Inc., Chartered Investment Counselor

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ROBERT P. CAMPBELL, Vice President--Vice President, T. Rowe Price and Rowe Price-Fleming International, Inc.; formerly (4/80-5/90) Vice President and Director, Private Finance, New York Life Insurance Company, New York, New York

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ROBERT M. RUBINO, Vice President--Vice President, T. Rowe Price

CHARLES P. SMITH, Vice President--Managing Director, T. Rowe Price; Vice President, Rowe Price-Fleming International, Inc.

EDWARD A. WIESE, Vice President--Vice President, T. Rowe Price, Rowe Price-Fleming International, Inc. and T. Rowe Price Trust Company

U.S. Treasury Intermediate, Long-Term and Money Funds

*GEORGE J. COLLINS, President and Director--President, Managing Director, and Chief Executive Officer, T. Rowe Price; Director, Rowe Price-Fleming International, Inc., T. Rowe Price Trust Company and T. Rowe Price Retirement Plan Services, Inc., Chartered Investment Counselor

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*CHARLES P. SMITH, Executive Vice President and Director--Managing Director, T. Rowe Price; Vice President, Rowe Price-

Fleming International, Inc.

*PETER VAN DYKE, Executive Vice President and Director--Managing Director, T. Rowe Price; Vice President, Rowe Price-Fleming International, Inc. and T. Rowe Price Trust Company

EDWARD A. WIESE, Executive Vice President--Vice President, T. Rowe Price, Rowe Price-Fleming International, Inc. and T. Rowe Price Trust Company

PAUL W. BOLTZ, Vice President--Vice President and Financial Economist of T. Rowe Price

ROBERT P. CAMPBELL, Vice President--Vice President, T. Rowe Price and Rowe Price-Fleming International Inc.; formerly (4/80-5/90) Vice President and Director, Private Finance, New York Life Insurance Company, New York, New York

VEENA A. KUTLER, Vice President--Vice President, T. Rowe Price and Rowe Price-Fleming International, Inc.

HEATHER R. LANDON, Vice President--Vice President, T. Rowe Price and T. Rowe Price Trust Company

JAMES M. McDONALD, Vice President--Vice President, T. Rowe Price

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JOAN R. POTE, Vice President--Vice President, T. Rowe Price

THOMAS E. TEWKSBURY, Vice President--Vice President, T. Rowe Price; formerly (1/89-12/93) senior bond trader, Scudder, Stevens & Clark, Boston, Massachusetts

Personal Strategy Fund

M. DAVID TESTA, Chairman of the Board--Managing Director, T. Rowe Price; Chairman of the Board, Rowe Price-Fleming International, Inc.; Director and Vice President, T. Rowe Price Trust Company; Chartered Financial Analyst

PETER VAN DYKE, President--Managing Director, T. Rowe Price; Vice President of Rowe Price-Fleming International, Inc., T. Rowe Price Trust Company and T. Rowe Price Retirement Plan Services, Inc., Chartered Investment Counselor

STEPHEN W. BOESEL, Executive Vice President--Vice President, T. Rowe Price

JOHN D. GILLESPIE, Executive Vice President--Vice President, T. Rowe Price

EDMUND M. NOTZON, Executive Vice President--Vice President, T. Rowe Price and T. Rowe Price Trust Company; formerly (1972-1989) charter member of the U.S. Senior Executive Service and Director, Analysis and Evaluation Division in the Office of Water Regulations and Standards of the U.S. Environmental Protection Agency

JOHN H. LAPORTE, Vice President--Managing Director, T. Rowe Price; Chartered Financial Analyst

JAMES S. RIEPE, Vice President and Director--Managing Director, T. Rowe Price; Chairman of the Board, T. Rowe Price Services, Inc. and T. Rowe Price Retirement Plan Services, Inc.; President and Director, T. Rowe Price Investment Services, Inc; President

and Trust Officer, T. Rowe Price Trust Company, Director, Rowe Price-Fleming International, Inc. and Rhone-Poulenc Rorer, Inc. WILLIAM T. REYNOLDS, Vice President--Managing Director, T. Rowe Price
BRIAN C. ROGERS, Vice President--Managing Director, T. Rowe Price

Each Fund's Executive Committee, consisting of the Fund's interested directors/trustees, has been authorized by its respective Board of Directors/Trustees to exercise all powers of the Board to manage the Fund in the intervals between meetings of the Board, except the powers prohibited by statute from being delegated.

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PRINCIPAL HOLDERS OF SECURITIES

As of the date of the prospectus, the officers and directors of the Fund, as a group, owned less than 1% of the outstanding shares of the Fund.

As of May 31, 1994, Yachtcrew & Co., FBO Spectrum Income Account, State Street Bank and Trust Co., 1776 Heritage Drive-4W, North Quincy, MA 02171-2010 beneficially owned more than 5% of the outstanding shares of the GNMA, High Yield, New Income and Short-Term Bond Funds; FTC & Co., #002, P. O. Box 5508, Attn: Datalynx, Denver, CO 80217-5508 and T. Rowe Price Trust Company, Assoc. in Surgery PAPP (UMSA), Attn: Installation Team for Conversion Plan #800302, P. O. Box 17215, Baltimore, MD 21203-7999 beneficially owned more than 5% of the outstanding shares of the U.S. Treasury Intermediate Fund; and T. Rowe Price Trust Co. Inc., Attn: Installation Team for Conversion Assets, New England Electric Plan, 25 Research Drive, Westborough, MA 01582 beneficially owned more than 5% of the outstanding shares of the U.S. Treasury Money Fund.

INVESTMENT MANAGEMENT SERVICES

Services

Under the Management Agreement, T. Rowe Price provides the Fund with discretionary investment services. Specifically, T. Rowe Price is responsible for supervising and directing the investments of the Fund in accordance with the Fund's investment objectives, program, and restrictions as provided in its prospectus and this Statement of Additional Information. T. Rowe Price is also responsible for effecting all security transactions on behalf of the Fund, including the negotiation of commissions and the allocation of principal business and portfolio brokerage.

In addition to these services, T. Rowe Price provides the Fund with certain corporate administrative services, including: maintaining the Fund's corporate existence and corporate records; registering and qualifying Fund shares under federal and state laws; monitoring the financial, accounting, and administrative functions of the Fund; maintaining liaison with the agents employed by the Fund such as the Fund's custodian and transfer agent; assisting the Fund in the coordination of such agents' activities; and permitting T. Rowe Price's employees to serve as officers, directors, and committee members of the Fund without cost to the Fund.

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The Management Agreement also provides that T. Rowe Price, its directors, officers, employees, and certain other persons performing specific functions for the Fund will only be liable to the Fund for losses resulting from willful misfeasance, bad faith, gross negligence, or reckless disregard of duty.

Management Fee

The Fund pays T. Rowe Price a fee ("Fee") which consists of two components: a Group Management Fee ("Group Fee") and an Individual Fund Fee ("Fund Fee"). The Fee is paid monthly to T. Rowe Price on the first business day of the next succeeding calendar month and is calculated as described below.

The monthly Group Fee ("Monthly Group Fee") is the sum of the daily Group Fee accruals ("Daily Group Fee Accruals") for each month. The Daily Group Fee Accrual for any particular day is computed by multiplying the Price Funds' group fee accrual as determined below ("Daily Price Funds' Group Fee Accrual") by the ratio of the Fund's net assets for that day to the sum of the aggregate net assets of the Price Funds for that day. The Daily Price Funds' Group Fee Accrual for any particular day is calculated by multiplying the fraction of one (1) over the number of calendar days in the year by the annualized Daily Price Funds' Group Fee Accrual for that day as determined in accordance with the following schedule:

| Price Funds' | |
|-------------------------------|-------------------|
| Annual Group Base Fee | |
| Rate for Each Level of Assets | |
| 0.480% | First \$1 billion |
| 0.450% | Next \$1 billion |
| 0.420% | Next \$1 billion |
| 0.390% | Next \$1 billion |
| 0.370% | Next \$1 billion |
| 0.360% | Next \$2 billion |
| 0.350% | Next \$2 billion |

| | |
|--------|-------------------|
| 0.340% | Next \$5 billion |
| 0.330% | Next \$10 billion |
| 0.320% | Next \$10 billion |
| 0.310% | Thereafter |

For the purpose of calculating the Group Fee, the Price Funds include all the mutual funds distributed by T. Rowe Price Investment Services, Inc., (excluding T. Rowe Price Spectrum

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Fund, Inc. and any institutional or private label mutual funds). For the purpose of calculating the Daily Price Funds' Group Fee Accrual for any particular day, the net assets of each Price Fund are determined in accordance with the Fund's prospectus as of the close of business on the previous business day on which the Fund was open for business.

The monthly Fund Fee ("Monthly Fund Fee") is the sum of the daily Fund Fee accruals ("Daily Fund Fee Accruals") for each month. The Daily Fund Fee Accrual for any particular day is computed by multiplying the fraction of one (1) over the number of calendar days in the year by the individual Fund Fee Rate and multiplying this product by the net assets of the Fund for that day, as determined in accordance with the Fund's prospectus as of the close of business on the previous business day on which the Fund was open for business. The individual fund fees for each Fund are listed in the chart below:

Individual Fund Fees

| | |
|---------------------------------|-------|
| Adjustable Rate Fund | 0.10% |
| GNMA Fund | 0.15% |
| High Yield Fund | 0.30% |
| New Income Fund | 0.30% |
| Prime Reserve Fund | 0.05% |
| Short-Term Bond Fund | 0.10% |
| U.S. Treasury Intermediate Fund | 0.05% |
| U.S. Treasury Long-Term Fund | 0.05% |
| U.S. Treasury Money Fund | 0.00% |
| Personal Strategy Growth Fund | 0.30% |
| Personal Strategy Balanced Fund | 0.25% |
| Personal Strategy Income Fund | 0.15% |

The following chart sets forth the total management fees, if any, paid to T. Rowe Price by each Fund, for the three-month fiscal year ended May 31, 1994 and for the fiscal years ended February 28, 1994, February 28, 1993 and February 29, 1992:

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| Fund | 1994* | 1994 | 1993 | 1992 |
|------|-------|------|------|------|
|------|-------|------|------|------|

| | | | | |
|-----------------|------------|------------|------------|--------------|
| Adjustable Rate | \$ 100,000 | \$ 526,000 | \$ 627,000 | ** |
| GNMA | 1,034,000 | 4,626,000 | 4,102,000 | \$ 3,069,000 |
| High Yield | 2,197,000 | 10,554,000 | 8,014,000 | 5,701,000 |
| New Income | 1,748,000 | 7,750,000 | 7,113,000 | 6,348,000 |
| Prime Reserve | 3,601,000 | 13,617,000 | 15,620,000 | 18,486,000 |
| Short-Term Bond | 708,000 | 2,873,000 | 2,136,000 | 1,398,000 |
| U.S. Treasury | 173,000 | 755,000 | 571,000 | 309,000 |
| Intermediate | | | | |
| U.S. Treasury | 26,000 | 180,000 | 125,000 | 4,000 |
| Long-Term | | | | |
| U.S. Treasury | 569,000 | 2,084,000 | 165,000 | 2,140,000 |
| Money | | | | |

*For the three-month fiscal year ended May 31, 1994.

** Due to the Fund's expense limitation in effect at that time, no management fee was paid by the Fund to T. Rowe Price.

Limitation on Fund Expenses

The Management Agreement between the Fund and T. Rowe Price provides that the Fund will bear all expenses of its operations not specifically assumed by T. Rowe Price. However, in compliance with certain state regulations, T. Rowe Price will reimburse the Fund for certain expenses which in any year exceed the limits prescribed by any state in which the Fund's shares are qualified for sale. Presently, the most restrictive expense ratio limitation imposed by any state is 2.5% of the first \$30 million of the Fund's average daily net assets, 2% of the next \$70 million of the Fund's assets, and 1.5% of net assets in excess of \$100 million. Reimbursement by the Fund to T. Rowe Price of any expenses paid or assumed under a state expense limitation may not be made more than two years after the end of the fiscal year in which the expenses were paid or assumed.

The following chart sets forth expense ratio limitations and the periods for which they are effective. For each, T. Rowe Price has agreed to bear any Fund expenses which would cause the Fund's ratio of expenses to average net assets to exceed the indicated percentage limitations. The expenses borne by T. Rowe Price are subject to reimbursement by the Fund through the indicated reimbursement date, provided no reimbursement will be made if it would result in the Fund's expense ratio exceeding its applicable limitation.

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| Fund | Limitation Period | Expense Ratio Limitation | Reimbursement Date |
|------|----------------------|--------------------------------|-----------------------|
|------|----------------------|--------------------------------|-----------------------|

| | | | |
|------------------------------------|-------------------------------------|-------|-------------------|
| Adjustable Rate+ | January 1, 1994- May 31, 1996 | 0.70% | May 31, 1998 |
| U.S. Treasury Intermediate++ | March 1, 1993- February 28, 1995 | 0.80% | February 28, 1997 |
| U.S. Treasury Long-Term++ | March 1, 1993- February 28, 1995 | 0.80% | February 28, 1997 |
| Personal Strategy Income Fund | July 1, 1994- May 31, 1996 | 0.95% | May 31, 1998 |
| Personal Strategy Balanced Fund | July 1, 1994- May 31, 1996 | 1.05% | May 31, 1998 |
| Personal Strategy Growth Fund | July 1, 1994- May 31, 1996 | 1.10% | May 31, 1998 |

+ The Adjustable Rate Fund previously operated under a 0.40% limitation that expired December 31, 1993. The reimbursement period for this limitation extends through June 30, 1995.

++ The Intermediate and Long-Term Funds' operated under a 0.80% limitation that expired February 29, 1993. The reimbursement period for this limitation extends through February 28, 1995.

Each of the above-referenced Fund's Management Agreement also provides that one or more additional expense limitation periods (of the same or different time periods) may be implemented after the expiration of the current expense limitation, and that with respect to any such additional limitation period, the Fund may reimburse T. Rowe Price, provided the reimbursement does not result in the Fund's aggregate expenses exceeding the additional expense limitation.

Pursuant to the Adjustable Rate Fund's current expense limitation, \$130,000 and \$938,000 of management fees were not accrued by the Fund for the three-month fiscal year ended May 31, 1994 and for the fiscal year ended February 28, 1994, respectively.

Pursuant to the Intermediate Fund's current expense limitation, \$77,000 of unaccrued 1993 fees for the Fund, representing the entire unaccrued balance, were reimbursed to T. Rowe Price during the fiscal year ended February 28, 1994.

Pursuant to the Long-Term Fund's current expense limitation, \$28,000 and \$61,000 of management fees were not

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accrued by the Fund for the three-month fiscal year ended May 31, 1994 and for the fiscal year ended February 28, 1994, respectively. Additionally, \$303,000 of unaccrued fees from the prior period for the Fund was subject to reimbursement through February 28, 1995.

GNMA, High Yield, New Income, Prime Reserve and Short-Term Bond

Funds

T. Rowe Price Spectrum Fund, Inc.

The Fund is a party to a Special Servicing Agreement ("Agreement") between and among T. Rowe Price Spectrum Fund, Inc. ("Spectrum Fund"), T. Rowe Price, T. Rowe Price Services, Inc. and various other T. Rowe Price funds which, along with the Fund, are funds in which Spectrum Fund invests (collectively all such funds "Underlying Price Funds").

The Agreement provides that, if the Board of Directors/Trustees of any Underlying Price Fund determines that such Underlying Fund's share of the aggregate expenses of Spectrum Fund is less than the estimated savings to the Underlying Price Fund from the operation of Spectrum Fund, the Underlying Price Fund will bear those expenses in proportion to the average daily value of its shares owned by Spectrum Fund, provided further that no Underlying Price Fund will bear such expenses in excess of the estimated savings to it. Such savings are expected to result primarily from the elimination of numerous separate shareholder accounts which are or would have been invested directly in the Underlying Price Funds and the resulting reduction in shareholder servicing costs. Although such cost savings are not certain, the estimated savings to the Underlying Price Funds generated by the operation of Spectrum Fund are expected to be sufficient to offset most, if not all, of the expenses incurred by Spectrum Fund.

All Funds

DISTRIBUTOR FOR FUND

T. Rowe Price Investment Services, Inc. ("Investment Services"), a Maryland corporation formed in 1980 as a wholly-owned subsidiary of T. Rowe Price, serves as the Fund's distributor. Investment Services is registered as a broker-dealer under the Securities Exchange Act of 1934 and is a member of the National Association of Securities Dealers, Inc. The offering of the Fund's shares is continuous.

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Investment Services is located at the same address as the Fund and T. Rowe Price -- 100 East Pratt Street, Baltimore, Maryland 21202.

Investment Services serves as distributor to the Fund pursuant to an Underwriting Agreement ("Underwriting Agreement"), which provides that the Fund will pay all fees and expenses in connection with: registering and qualifying its shares under the various state "blue sky" laws; preparing, setting in type,

printing, and mailing its prospectuses and reports to shareholders; and issuing its shares, including expenses of confirming purchase orders.

The Underwriting Agreement provides that Investment Services will pay all fees and expenses in connection with: printing and distributing prospectuses and reports for use in offering and selling Fund shares; preparing, setting in type, printing, and mailing all sales literature and advertising; Investment Services' federal and state registrations as a broker-dealer; and offering and selling Fund shares, except for those fees and expenses specifically assumed by the Fund. Investment Services' expenses are paid by T. Rowe Price.

Investment Services acts as the agent of the Fund in connection with the sale of its shares in all states in which the shares are qualified and in which Investment Services is qualified as a broker-dealer. Under the Underwriting Agreement, Investment Services accepts orders for Fund shares at net asset value. No sales charges are paid by investors or the Fund.

CUSTODIAN

State Street Bank and Trust Company is the custodian for the Fund's domestic securities and cash, but it does not participate in the Fund's investment decisions. Portfolio securities purchased in the U.S. are maintained in the custody of the Bank and may be entered into the Federal Reserve Book Entry System, or the security depository system of the Depository Trust Corporation. The Fund (other than the GNMA, Prime Reserve and U.S. Treasury Intermediate, Long-Term and Money Funds) has entered into a Custodian Agreement with The Chase Manhattan Bank, N.A., London, pursuant to which portfolio securities which are purchased outside the United States are maintained in the custody of various foreign branches of The Chase Manhattan Bank and such other custodians, including foreign banks and foreign securities depositories as are approved by the Fund's Board of

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Directors/Trustees in accordance with regulations under the Investment Company Act of 1940. The Bank's main office is at 225 Franklin Street, Boston, Massachusetts 02110. The address for The Chase Manhattan Bank, N.A., London is Woolgate House, Coleman Street, London, EC2P 2HD, England.

CODE OF ETHICS

The Funds' investment adviser (T. Rowe Price) has a written Code of Ethics which requires all employees to obtain prior

clearance before engaging in any personal securities transactions. In addition, all employees must report their personal securities transactions within ten days of their execution. Employees will not be permitted to effect transactions in a security: If there are pending client orders in the security; the security has been purchased or sold by a client within seven calendar days; the security is being considered for purchase for a client; a change has occurred in T. Rowe Price's rating of the security within five days; or the security is subject to internal trading restrictions. Any material violation of the Code of Ethics is reported to the Board of the Fund. The Board also reviews the administration of the Code of Ethics on an annual basis.

PORTFOLIO TRANSACTIONS

Investment or Brokerage Discretion

Decisions with respect to the purchase and sale of portfolio securities on behalf of the Fund are made by T. Rowe Price. T. Rowe Price is also responsible for implementing these decisions, including the negotiation of commissions and the allocation of portfolio brokerage and principal business. The Fund's purchases and sales of fixed-income portfolio securities are normally done on a principal basis and do not involve the payment of a commission although they may involve the designation of selling concessions. That part of the discussion below relating solely to brokerage commissions would not normally apply to the Fund (except to the extent it purchases equity securities (High Yield, New Income, and Personal Strategy Funds only)). However, it is included because T. Rowe Price does manage a significant number of common stock portfolios which do engage in agency transactions and pay commissions and because some research and services resulting from the payment of such commissions may benefit the Fund.

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How Brokers and Dealers are Selected

Equity Securities

In purchasing and selling the Fund's portfolio securities, it is T. Rowe Price's policy to obtain quality execution at the most favorable prices through responsible brokers and dealers and, in the case of agency transactions, at competitive commission rates. However, under certain conditions, the Fund may pay higher brokerage commissions in return for brokerage and research services. As a general practice, over-the-counter orders are executed with market-makers. In selecting among market-makers, T. Rowe Price generally seeks to select those it believes to be

actively and effectively trading the security being purchased or sold. In selecting broker-dealers to execute the Fund's portfolio transactions, consideration is given to such factors as the price of the security, the rate of the commission, the size and difficulty of the order, the reliability, integrity, financial condition, general execution and operational capabilities of competing brokers and dealers, and brokerage and research services provided by them. It is not the policy of T. Rowe Price to seek the lowest available commission rate where it is believed that a broker or dealer charging a higher commission rate would offer greater reliability or provide better price or execution.

Fixed Income Securities

Fixed income securities are generally purchased from the issuer or a primary market-maker acting as principal for the securities on a net basis, with no brokerage commission being paid by the client although the price usually includes an undisclosed compensation. Transactions placed through dealers serving as primary market-makers reflect the spread between the bid and asked prices. Securities may also be purchased from underwriters at prices which include underwriting fees.

With respect to equity and fixed income securities, T. Rowe Price may effect principal transactions on behalf of the Fund with a broker or dealer who furnishes brokerage and/or research services, designate any such broker or dealer to receive selling concessions, discounts or other allowances, or otherwise deal with any such broker or dealer in connection with the acquisition of securities in underwritings. T. Rowe Price may receive research services in connection with brokerage transactions, including designations in fixed price offerings.

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How Evaluations are Made of the Overall Reasonableness of Brokerage Commissions Paid

On a continuing basis, T. Rowe Price seeks to determine what levels of commission rates are reasonable in the marketplace for transactions executed on behalf of the Fund. In evaluating the reasonableness of commission rates, T. Rowe Price considers: (a) historical commission rates, both before and since rates have been fully negotiable; (b) rates which other institutional investors are paying, based on available public information; (c) rates quoted by brokers and dealers; (d) the size of a particular transaction, in terms of the number of shares, dollar amount, and number of clients involved; (e) the complexity of a particular transaction in terms of both execution and settlement; (f) the level and type of business done with a particular firm over a period of time; and (g) the extent to which the broker or dealer

has capital at risk in the transaction.

Description of Research Services Received from Brokers and Dealers

T. Rowe Price receives a wide range of research services from brokers and dealers. These services include information on the economy, industries, groups of securities, individual companies, statistical information, accounting and tax law interpretations, political developments, legal developments affecting portfolio securities, technical market action, pricing and appraisal services, credit analysis, risk measurement analysis, performance analysis and analysis of corporate responsibility issues. These services provide both domestic and international perspective. Research services are received primarily in the form of written reports, computer generated services, telephone contacts and personal meetings with security analysts. In addition, such services may be provided in the form of meetings arranged with corporate and industry spokespersons, economists, academicians and government representatives. In some cases, research services are generated by third parties but are provided to T. Rowe Price by or through broker-dealers.

Research services received from brokers and dealers are supplemental to T. Rowe Price's own research effort and, when utilized, are subject to internal analysis before being incorporated by T. Rowe Price into its investment process. As a practical matter, it would not be possible for T. Rowe Price's Equity Research Division to generate all of the information presently provided by brokers and dealers. T. Rowe Price pays

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cash for certain research services received from external sources. T. Rowe Price also allocates brokerage for research services which are available for cash. While receipt of research services from brokerage firms has not reduced T. Rowe Price's normal research activities, the expenses of T. Rowe Price could be materially increased if it attempted to generate such additional information through its own staff. To the extent that research services of value are provided by brokers or dealers, T. Rowe Price may be relieved of expenses which it might otherwise bear.

T. Rowe Price has a policy of not allocating brokerage business in return for products or services other than brokerage or research services. In accordance with the provisions of Section 28(e) of the Securities Exchange Act of 1934, T. Rowe Price may from time to time receive services and products which serve both research and non-research functions. In such event, T. Rowe Price makes a good faith determination of the anticipated research and non-research use of the product or service and

allocates brokerage only with respect to the research component.

Commissions to Brokers who Furnish Research Services

Certain brokers and dealers who provide quality brokerage and execution services also furnish research services to T. Rowe Price. With regard to the payment of brokerage commissions, T. Rowe Price has adopted a brokerage allocation policy embodying the concepts of Section 28(e) of the Securities Exchange Act of 1934, which permits an investment adviser to cause an account to pay commission rates in excess of those another broker or dealer would have charged for effecting the same transaction, if the adviser determines in good faith that the commission paid is reasonable in relation to the value of the brokerage and research services provided. The determination may be viewed in terms of either the particular transaction involved or the overall responsibilities of the adviser with respect to the accounts over which it exercises investment discretion. Accordingly, while T. Rowe Price cannot readily determine the extent to which commission rates or net prices charged by broker-dealers reflect the value of their research services, T. Rowe Price would expect to assess the reasonableness of commissions in light of the total brokerage and research services provided by each particular broker. T. Rowe Price may receive research, as defined in Section 28(e), in connection with selling concessions and designations in fixed price offerings in which the Funds participate.

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Internal Allocation Procedures

T. Rowe Price has a policy of not precommitting a specific amount of business to any broker or dealer over any specific time period. Historically, the majority of brokerage placement has been determined by the needs of a specific transaction such as market-making, availability of a buyer or seller of a particular security, or specialized execution skills. However, T. Rowe Price does have an internal brokerage allocation procedure for that portion of its discretionary client brokerage business where special needs do not exist, or where the business may be allocated among several brokers or dealers which are able to meet the needs of the transaction.

Each year, T. Rowe Price assesses the contribution of the brokerage and research services provided by brokers or dealers, and attempts to allocate a portion of its brokerage business in response to these assessments. Research analysts, counselors, various investment committees, and the Trading Department each seek to evaluate the brokerage and research services they receive from brokers or dealers and make judgments as to the level of business which would recognize such services. In addition,

brokers or dealers sometimes suggest a level of business they would like to receive in return for the various brokerage and research services they provide. Actual brokerage received by any firm may be less than the suggested allocations but can, and often does, exceed the suggestions, because the total business is allocated on the basis of all the considerations described above. In no case is a broker or dealer excluded from receiving business from T. Rowe Price because it has not been identified as providing research services.

Miscellaneous

T. Rowe Price's brokerage allocation policy is consistently applied to all its fully discretionary accounts, which represent a substantial majority of all assets under management. Research services furnished by brokers or dealers through which T. Rowe Price effects securities transactions may be used in servicing all accounts (including non-Fund accounts) managed by T. Rowe Price. Conversely, research services received from brokers or dealers which execute transactions for the Fund are not necessarily used by T. Rowe Price exclusively in connection with the management of the Fund.

From time to time, orders for clients may be placed through a computerized transaction network.

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The Fund does not allocate business to any broker-dealer on the basis of its sales of the Fund's shares. However, this does not mean that broker-dealers who purchase Fund shares for their clients will not receive business from the Fund.

Some of T. Rowe Price's other clients have investment objectives and programs similar to those of the Fund. T. Rowe Price may occasionally make recommendations to other clients which result in their purchasing or selling securities simultaneously with the Fund. As a result, the demand for securities being purchased or the supply of securities being sold may increase, and this could have an adverse effect on the price of those securities. It is T. Rowe Price's policy not to favor one client over another in making recommendations or in placing orders. T. Rowe Price frequently follows the practice of grouping orders of various clients for execution which generally results in lower commission rates being attained. In certain cases, where the aggregate order is executed in a series of transactions at various prices on a given day, each participating client's proportionate share of such order reflects the average price paid or received with respect to the total order. T. Rowe Price has established a general investment policy that it will ordinarily not make additional purchases of a common stock of a company for its clients (including the T. Rowe Price Funds) if,

as a result of such purchases, 10% or more of the outstanding common stock of such company would be held by its clients in the aggregate.

To the extent possible, T. Rowe Price intends to recapture solicitation fees paid in connection with tender offers through T. Rowe Price Investment Services, Inc., the Fund's distributor. At the present time, T. Rowe Price does not recapture commissions or underwriting discounts or selling group concessions in connection with taxable securities acquired in underwritten offerings. T. Rowe Price does, however, attempt to negotiate elimination of all or a portion of the selling-group concession or underwriting discount when purchasing tax-exempt municipal securities on behalf of its clients in underwritten offerings.

Adjustable Rate, High Yield, New Income, Personal Strategy, and Short-Term Bond Funds

Transactions with Related Brokers and Dealers

As provided in the Investment Management Agreement between the Fund and T. Rowe Price, T. Rowe Price is responsible not only

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for making decisions with respect to the purchase and sale of the Fund's portfolio securities, but also for implementing these decisions, including the negotiation of commissions and the allocation of portfolio brokerage and principal business. It is expected that T. Rowe Price may place orders for the Fund's portfolio transactions with broker-dealers through the same trading desk T. Rowe Price uses for portfolio transactions in domestic securities. The trading desk accesses brokers and dealers in various markets in which the Fund's foreign securities are located. These brokers and dealers may include certain affiliates of Robert Fleming Holdings Limited ("Robert Fleming Holdings") and Jardine Fleming Group Limited ("JFG"), persons indirectly related to T. Rowe Price. Robert Fleming Holdings, through Copthall Overseas Limited, a wholly-owned subsidiary, owns 25% of the common stock of Rowe Price-Fleming International, Inc. ("RPMI"), an investment adviser registered under the Investment Advisers Act of 1940. Fifty percent of the common stock of RPMI is owned by TRP Finance, Inc., a wholly-owned subsidiary of T. Rowe Price, and the remaining 25% is owned by Jardine Fleming Holdings Limited, a subsidiary of JFG. JFG is 50% owned by Robert Fleming Holdings and 50% owned by Jardine Matheson Holdings Limited. Orders for the Fund's portfolio transactions placed with affiliates of Robert Fleming Holdings and JFG will result in commissions being received by such affiliates.

The Board of Directors/Trustees of the Fund has authorized T. Rowe Price to utilize certain affiliates of Robert Fleming and JFG in the capacity of broker in connection with the execution of the Fund's portfolio transactions. These affiliates include, but are not limited to, Jardine Fleming Securities Limited ("JFS"), a wholly-owned subsidiary of JFG, Robert Fleming & Co. Limited ("RF&Co."), Jardine Fleming Australia Securities Limited, and Robert Fleming, Inc. (a New York brokerage firm). Other affiliates of Robert Fleming Holding and JFG also may be used. Although it does not believe that the Fund's use of these brokers would be subject to Section 17(e) of the Investment Company Act of 1940, the Board of Directors/Trustees of the Fund has agreed that the procedures set forth in Rule 17e-1 under that Act will be followed when using such brokers.

Other

The Funds engaged in portfolio transactions involving broker-dealers in the following amounts for the three-month fiscal year ended May 31, 1994:

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| Fund | 1994 |
|----------------------------|---------------|
| ----- | ----- |
| Adjustable Rate | \$ 63,449,000 |
| GNMA | 620,027,000 |
| High Yield | 4,476,795,000 |
| New Income | 1,649,029,000 |
| Prime Reserve | 5,945,733,000 |
| Short-Term Bond | 1,149,888,000 |
| U.S. Treasury Intermediate | 35,433,000 |
| U.S. Treasury Long-Term | 85,972,000 |
| U.S. Treasury Money | 10,087,000 |

For the fiscal years ended February 28, 1994, February 28, 1993 and February 29, 1992, the Funds engaged in portfolio transactions involving broker-dealers in the following amounts:

| Fund | 1994 | 1993 | 1992 |
|-----------------|----------------|------------------|----------------|
| ----- | ----- | ----- | ----- |
| Adjustable Rate | \$ 793,565,000 | \$ 1,876,498,000 | \$ 427,475,000 |
| GNMA | 2,306,951,000 | 1,528,454,000 | 1,438,762,000 |
| High Yield | 18,554,222,000 | 16,168,606,000 | 6,702,967,000 |
| New Income | 20,265,475,000 | 15,193,999,000 | 6,648,064,000 |
| Prime Reserve | 29,024,172,000 | 36,478,989,000 | 29,975,769,000 |
| Short-Term Bond | 4,266,837,000 | 5,805,958,000 | 5,534,535,000 |
| U.S. Treasury | 81,970,000 | 91,923,000 | 218,317,000 |

| | | | |
|---------------|---------------|---------------|----------------|
| Intermediate | | | |
| U.S. Treasury | 142,513,000 | 192,941,000 | 192,774,000 |
| Long-Term | | | |
| U.S. Treasury | 3,449,951,000 | 2,804,196,000 | 23,290,378,000 |
| Money | | | |

The entire amount for each of these years represented principal transactions as to which the Adjustable Rate, GNMA, Prime Reserve, U.S. Treasury Intermediate, Long-Term and Money Funds have no knowledge of the profits or losses realized by the respective broker-dealers for the three-month fiscal year ended May 31, 1994 and for the fiscal years ended February 28, 1994, February 28, 1993 and February 29, 1992.

With respect to the High Yield Fund, for the three-month fiscal year ended May 31, 1994, \$4,398,879,000 consisted of principal transactions as to which the Fund has no knowledge of the profits or losses realized by the respective broker-dealers; and \$77,916,000 involved trades with brokers acting as agents or

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underwriters, in which such broker received total commissions, including discounts received in connection with underwritings of \$1,385,000.

With respect to the High Yield, New Income and Short-Term Bond Funds, the following amounts consisted of principal transactions as to which the Funds have no knowledge of the profits or losses realized by the respective broker-dealers for the fiscal years ended February 28, 1994, February 28, 1993 and February 29, 1992:

| Fund | 1994 | 1993 | 1992 |
|-----------------|------------------|------------------|-----------------|
| High Yield | \$17,956,306,000 | \$15,737,460,000 | \$6,682,140,000 |
| New Income | 20,206,382,000 | 15,189,019,000 | 6,518,595,000 |
| Short-Term Bond | 0 | 0 | 5,034,535,000 |

The following amounts involved trades with brokers acting as agents or underwriters for the fiscal years ended February 28, 1994, February 28, 1993, and February 29, 1992:

| Fund | 1994 | 1993 | 1992 |
|-----------------|---------------|---------------|---------------|
| High Yield | \$597,916,000 | \$431,147,000 | \$ 20,827,000 |
| New Income | 59,093,000 | 4,980,000 | 129,469,000 |
| Short-Term Bond | 0 | 0 | 5,000,000 |

The amounts shown below involved trades with brokers acting

as agents or underwriters, in which such brokers received total commissions, including discounts received in connection with underwritings for the fiscal years ended February 28, 1994, February 28, 1993 and February 29, 1992:

| Fund | 1994 | 1993 | 1992 |
|-----------------|--------------|-------------|-------------|
| ----- | ----- | ----- | ----- |
| High Yield | \$16,730,000 | \$3,661,000 | \$1,201,000 |
| New Income | 169,000 | 20,000 | 402,000 |
| Short-Term Bond | 0 | 0 | 15,000 |

The percentage of total portfolio transactions, placed with firms which provided research, statistical, or other services to T. Rowe Price in connection with the management of the Funds, or in some cases, to the Funds for the three-month fiscal year ended May 31, 1994 and for the fiscal years ended

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February 28, 1994, February 28, 1993 and February 29, 1992, are shown below:

| Fund | 1994* | 1994 | 1993 | 1992 |
|----------------------------|-------|-------|-------|-------|
| ----- | ----- | ----- | ----- | ----- |
| Adjustable Rate | 100% | 100% | 94% | 100% |
| GNMA | 98% | 91% | 91% | 99% |
| High Yield | 48% | 70% | 70% | 59% |
| New Income | 68% | 61% | 61% | 87% |
| Prime Reserve | 78% | 87% | 81% | 76% |
| Short-Term Bond | 83% | 61% | 84% | 79% |
| U.S. Treasury Intermediate | 87% | 85% | 98% | 100% |
| U.S. Treasury Long-Term | 100% | 98% | 99% | 100% |
| U.S. Treasury Money | 32% | 66% | 75% | 60% |

*For the three-month fiscal year ended May 31, 1994.

The portfolio turnover rates for the following Funds for the three-month fiscal year ended May 31, 1994 and for the fiscal years ended February 28, 1994, February 28, 1993 and February 29, 1992 are as follows:

| Fund | 1994* | 1994 | 1993 | 1992 |
|-----------------|--------|--------|--------|--------|
| ----- | ----- | ----- | ----- | ----- |
| Adjustable Rate | 27.6% | 70.4% | 110.8% | 98.4% |
| GNMA | 151.8% | 92.5% | 94.2% | 66.0% |
| High Yield | 62.5% | 107.0% | 104.4% | 58.9% |
| New Income | 91.5% | 58.3% | 85.8% | 49.7% |
| Short-Term Bond | 222.8% | 90.8% | 68.4% | 380.7% |

| | | | | |
|-------------------------|--------|-------|--------|--------|
| U.S. Treasury | 45.5% | 20.2% | 22.8% | 91.4% |
| Intermediate | | | | |
| U.S. Treasury Long-Term | 246.9% | 59.4% | 165.4% | 162.4% |

*For the three-month fiscal year ended May 31, 1994.

Prime Reserve Fund

The Fund, in pursuing its objectives, may engage in short-term trading to take advantage of market variations. The Fund will seek to protect principal, improve liquidity of its securities, or enhance yield by purchasing and selling securities based upon existing or anticipated market discrepancies.

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Money Fund

The Fund, in pursuing its objectives, may engage in short-term trading to take advantage of market variations. The Fund will seek to protect principal, improve liquidity of its securities, or enhance yield by purchasing and selling securities based upon existing or anticipated market discrepancies.

PRICING OF SECURITIES

Adjustable Rate, GNMA, High Yield, New Income, Short-Term Bond, U.S. Treasury Intermediate and Long-Term Funds

Fixed income securities are generally traded in the over-the-counter market. Investments in domestic securities with remaining maturities of one year or more and foreign securities are stated at fair value using a bid-side valuation as furnished by dealers who make markets in such securities or by an independent pricing service, which considers yield or price of bonds of comparable quality, coupon, maturity, and type, as well as prices quoted by dealers who make markets in such securities. Domestic securities with remaining maturities less than one year are stated at fair value which is determined by using a matrix system that establishes a value for each security based on bid-side money market yields.

There are a number of pricing services available, and the Board of Directors, on the basis of ongoing evaluation of these services, may use or may discontinue the use of any pricing service in whole or in part.

High Yield, New Income, and Personal Strategy Funds

Equity securities listed or regularly traded on a securities

exchange (including NASDAQ) are valued at the last quoted sales price on the day the valuations are made. A security which is listed or traded on more than one exchange is valued at the quotation on the exchange determined to be the primary market for such security. Other equity securities and those listed securities that are not traded on a particular day are valued at a price within the limits of the latest bid and asked prices deemed by the Board of Directors/Trustees, or by persons delegated by the Board, best to reflect fair value.

Debt securities are generally traded in the over-the-counter market and are valued at a price deemed best to reflect fair

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value as quoted by dealers who make markets in these securities or by an independent pricing service. Short-term debt securities are valued at their cost in local currency which, when combined with accrued interest, approximates fair value.

Prime Reserve and U.S. Treasury Money Funds

Securities with more than 60 days remaining to maturity are stated at fair value which is determined by using a matrix system that establishes a value for each security based on money market yields. Securities originally purchased with remaining maturities of 60 days or less are valued at amortized cost. In addition, securities purchased with maturities in excess of 60 days, but which currently have maturities of 60 days or less, are valued at their amortized cost for the 60 days prior to maturity--such amortization being based on the fair value of the securities on the 61st day prior to maturity.

All Funds

For the purposes of determining the Fund's net asset value per share, all assets and liabilities initially expressed in foreign currencies are converted into U.S. dollars at the mean of the bid and offer prices of such currencies against U.S. dollars quoted by any major bank.

Assets and liabilities for which the above valuation procedures are inappropriate or are deemed not to reflect fair value are stated at fair value, as determined in good faith by or under the supervision of officers of the Funds, as authorized by the Board of Directors.

Prime Reserve and U.S. Treasury Money Funds

Maintenance of Net Asset Value Per Share

It is the policy of the Fund to attempt to maintain a net

asset value of \$1.00 per share by rounding to the nearest one cent. This method of valuation is commonly referred to as "penny rounding" and is permitted by Rule 2a-7 under the Investment Company Act of 1940. Under Rule 2a-7:

(a) the Board of Directors of the Fund must undertake to assure, to the extent reasonably practical taking into account current market conditions affecting the Fund's investment objectives, that the Fund's net asset value will not deviate from \$1.00 per share;

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Prime Reserve Fund

(b) the Fund must (i) maintain a dollar-weighted average portfolio maturity appropriate to its objective of maintaining a stable price per share, (ii) not purchase any instrument with a remaining maturity greater than 397 days (or in the case of U.S. government securities greater than 762 days), and (iii) maintain a dollar-weighted average portfolio maturity of 90 days or less;

Money Fund

(b) The Fund must (i) maintain a dollar-weighted average portfolio maturity appropriate to its objective of maintaining a stable price per share, (ii) not purchase any instrument with a remaining maturity greater than 762 days, and (iii) maintain a dollar-weighted average portfolio maturity of 90 days or less;

Prime Reserve and U.S. Treasury Money Funds

(c) the Fund must limit its purchase of portfolio instruments, including repurchase agreements, to those U.S. dollar-denominated instruments which the Fund's Board of Directors determines present minimal credit risks, and which are eligible securities as defined by Rule 2a-7; and

(d) the Board of Directors must determine that (i) it is in the best interest of the Fund and its shareholders to maintain a stable price per share under the penny rounding method; and (ii) the Fund will continue to use the penny rounding method only so long as the Board of Directors believes that it fairly reflects the market based net asset value per share.

Although the Fund believes that it will be able to maintain its net asset value at \$1.00 per share under most conditions, there can be no absolute assurance that it will be able to do so on a continuous basis. If the Fund's net asset value per share

declined, or was expected to decline, below \$1.00 (rounded to the nearest one cent), the Board of Directors of the Fund might temporarily reduce or suspend dividend payments in an effort to maintain the net asset value at \$1.00 per share. As a result of such reduction or suspension of dividends, an investor would receive less income during a given period than if such a reduction or suspension had not taken place. Such action could

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result in an investor receiving no dividend for the period during which he holds his shares and in his receiving, upon redemption, a price per share lower than that which he paid. On the other hand, if the Fund's net asset value per share were to increase, or were anticipated to increase above \$1.00 (rounded to the nearest one cent), the Board of Directors of the Fund might supplement dividends in an effort to maintain the net asset value at \$1.00 per share.

Prime Reserve Fund

Prime Money Market Securities Defined. Prime money market securities are those which are described as First Tier Securities under Rule 2a-7 of the Investment Company Act of 1940. These include any security with a remaining maturity of 397 days or less that is rated (or that has been issued by an issuer that is rated with respect to a class of short-term debt obligations, or any security within that class that is comparable in priority and security with the security) by any two nationally recognized statistical rating organizations (NRSROs) (or if only one NRSRO has issued a rating, that NRSRO) in the highest rating category for short-term debt obligations (within which there may be sub-categories). First Tier Securities also include unrated securities comparable in quality to rated securities, as determined by T. Rowe Price under the supervision of the Fund's Board of Directors.

All Funds

NET ASSET VALUE PER SHARE

The purchase and redemption price of the Fund's shares is equal to the Fund's net asset value per share or share price. The Fund determines its net asset value per share by subtracting the Fund's liabilities (including accrued expenses and dividends payable) from its total assets (the market value of the securities the Fund holds plus cash and other assets, including income accrued but not yet received) and dividing the result by the total number of shares outstanding. The net asset value per share of the Fund is normally calculated as of the close of trading on the New York Stock Exchange ("NYSE") every day the NYSE is open for trading. The NYSE is closed on the following

days: New Year's Day, Washington's Birthday, Good Friday, Memorial Day, Independence Day, Labor Day, Thanksgiving Day, and Christmas Day.

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Determination of net asset value (and the offering, sale redemption and repurchase of shares) for the Fund may be suspended at times (a) during which the NYSE is closed, other than customary weekend and holiday closings, (b) during which trading on the NYSE is restricted, (c) during which an emergency exists as a result of which disposal by the Fund of securities owned by it is not reasonably practicable or it is not reasonably practicable for the Fund fairly to determine the value of its net assets, or (d) during which a governmental body having jurisdiction over the Fund may by order permit such a suspension for the protection of the Fund's shareholders; provided that applicable rules and regulations of the Securities and Exchange Commission (or any succeeding governmental authority) shall govern as to whether the conditions prescribed in (b), (c), or (d) exist.

DIVIDENDS AND DISTRIBUTIONS

Unless you elect otherwise, the Fund's annual capital gain distribution, if any, will be reinvested on the reinvestment date using the NAV per share of that date. The reinvestment date normally precedes the payment date by about 10 days although the exact timing is subject to change.

TAX STATUS

The Fund intends to qualify as a "regulated investment company" under Subchapter M of the Internal Revenue Code of 1986, as amended ("Code").

A portion of the dividends paid by the Fund may be eligible for the dividends-received deduction for corporate shareholders. For tax purposes, it does not make any difference whether dividends and capital gain distributions are paid in cash or in additional shares. The Fund must declare dividends equal to at least 98% of ordinary income (as of December 31) and capital gains (as of October 31) in order to avoid a federal excise tax and distribute 100% of ordinary income and capital gains as of its tax year-end to avoid federal income tax.

At the time of your purchase, the Fund's net asset value may reflect undistributed capital gains or net unrealized appreciation of securities held by the Fund. A subsequent

distribution to you of such amounts, although constituting a return of your investment, would be taxable as a capital gain

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distribution. For federal income tax purposes, the Fund is permitted to carry forward its net realized capital losses, if any, for eight years and realize net capital gains up to the amount of such losses without being required to pay taxes on, or distribute such gains. On May 31, 1994, the books of each Fund (other than the Personal Strategy Fund) indicated that each Fund's aggregate net assets included undistributed net income, net realized capital gains, and unrealized appreciation which are listed below.

| Fund | Undistributed Net Income | Net Realized Capital Gains/(Losses) | Unrealized Appreciation/ (Depreciation) |
|----------------------------|-----------------------------|---|---|
| Adjustable Rate | \$ (1,938,550) | \$ (953,447) | \$ (3,465,529) |
| GNMA | 8,763 | (15,464,402) | (26,398,092) |
| High Yield | 3,988,627 | (5,944,499) | (119,580,285) |
| New Income | 21,962 | 1,014,811 | (65,070,648) |
| Prime Reserve | 2,105,954 | 1,900 | 203,760 |
| Short-Term Bond | 121,010 | (4,542,864) | (15,924,117) |
| U.S. Treasury Intermediate | (108,298) | 55,985 | (6,124,061) |
| U.S. Treasury Long-Term | (38,345) | (577,048) | (2,954,108) |
| U.S. Treasury Money | 81,339 | 2,371 | 174,801 |

If, in any taxable year, the Fund should not qualify as a regulated investment company under the Code: (i) the Fund would be taxed at normal corporate rates on the entire amount of its taxable income, if any, without deduction for dividends or other distributions to shareholders; and (ii) the Fund's distributions to the extent made out of the Fund's current or accumulated earnings and profits would be taxable to shareholders as ordinary dividends (regardless of whether they would otherwise have been considered capital gain dividends).

Taxation of Foreign Shareholders

The Code provides that dividends from net income will be subject to U.S. tax. For shareholders who are not engaged in a business in the U.S., this tax would be imposed at the rate of 30% upon the gross amount of the dividends in the absence of a Tax Treaty providing for a reduced rate or exemption from U.S. taxation. Distributions of net long-term capital gains realized by the Fund are not subject to tax unless the foreign shareholder is a nonresident alien individual who was physically present in the U.S. during the tax year for more than 182 days.

Foreign Currency Gains and Losses

Foreign currency gains and losses, including the portion of gain or loss on the sale of debt securities attributable to foreign exchange rate fluctuations, are taxable as ordinary income. If the net effect of these transactions is a gain, the dividend paid by the Fund will be increased; if the result is a loss, the income dividend paid by the Fund will be decreased. Adjustments to reflect these gains and losses will be made at the end of the Fund's taxable year.

YIELD INFORMATION

From time to time, the Fund may advertise a yield figure calculated in the following manner:

Adjustable Rate and GNMA Funds

In conformity with regulations of the Securities and Exchange Commission, an income factor is calculated for each security in the portfolio based upon the security's coupon rate. The income factors are then adjusted for any gains or losses which have resulted from prepayments of principal during the period. The income factors are then totalled for all securities in the portfolio. Next, expenses of the Fund for the period net of expected reimbursements, are deducted from the income to arrive at net income, which is then converted to a per-share amount by dividing net income by the average number of shares outstanding during the period. The net income per share is divided by the net asset value on the last day of the period to produce a monthly yield which is then annualized. Quoted yield factors are for comparison purposes only, and are not intended to indicate future performance or forecast the dividend per share of the Fund.

The yields of the Adjustable Rate and GNMA Funds calculated under the above-described method for the month ended May 31, 1994 were 4.10% and 5.40%, respectively.

High Yield, New Income, Short-Term Bond, U.S. Treasury Intermediate and U.S. Treasury Long-Term Funds

An income factor is calculated for each security in the portfolio based upon the security's market value at the beginning of the period and yield as determined in conformity with regulations of the Securities and Exchange Commission. The

income factors are then totalled for all securities in the

portfolio. Next, expenses of the Fund for the period net of expected reimbursements are deducted from the income to arrive at net income, which is then converted to a per-share amount by dividing net income by the average number of shares outstanding during the period. The net income per share is divided by the net asset value on the last day of the period to produce a monthly yield which is then annualized. Quoted yield factors are for comparison purposes only, and are not intended to indicate future performance or forecast the dividend per share of the Fund.

The yields of the High Yield, New Income, Short-Term Bond, Intermediate and Long-Term Funds calculated under the above-described method for the month ended May 31, 1994, were 8.87%, 6.12%, 5.55%, 5.75% and 6.47%, respectively.

Prime Reserve and U.S. Treasury Money Funds

The Fund's current and historical yield for a period is calculated by dividing the net change in value of an account (including all dividends accrued and dividends reinvested in additional shares) by the account value at the beginning of the period to obtain the base period return. This base period return is divided by the number of days in the period then multiplied by 365 to arrive at the annualized yield for that period. The Fund's annualized compound yield for such period is compounded by dividing the base period return by the number of days in the period, and compounding that figure over 365 days.

The seven-day yields ending May 31, 1994 for the Prime Reserve and U.S. Treasury Money Funds were 3.33% and 3.18%, respectively, and the Funds' compound yield for the same period were 3.38% and 3.23%, respectively.

All Funds

INVESTMENT PERFORMANCE

Total Return Performance

The Fund's calculation of total return performance includes the reinvestment of all capital gain distributions and income dividends for the period or periods indicated, without regard to tax consequences to a shareholder in the Fund. Total return is calculated as the percentage change between the beginning value of a static account in the Fund and the ending value of that

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account measured by the then current net asset value, including all shares acquired through reinvestment of income and capital gains dividends. The results shown are historical and should not

be considered indicative of the future performance of the Fund. Each average annual compound rate of return is derived from the cumulative performance of the Fund over the time period specified. The annual compound rate of return for the Fund over any other period of time will vary from the average.

Cumulative Performance Percentage Change

| | 1 Yr. Ended 5/31/94 | 5 Yrs. Ended 5/31/94 | 10 Yrs. Ended 5/31/94 | Since Inception- 5/32/94 |
|--|---------------------------|----------------------------|-----------------------------|--------------------------------|
|--|---------------------------|----------------------------|-----------------------------|--------------------------------|

Adjustable Rate U.S. Government Fund

| | | | | |
|---|------|-------|--|--------------------|
| T. Rowe Price Adjustable Rate U.S. Government Fund, Inc. | | 1.32% | | 8.23% (9/30/91) |
| Lipper Average of Adjustable Rate Mortgage Funds | 1.37 | | | 9.00 |
| Merrill Lynch 1-3 Year Govt. Index | 2.06 | | | 15.35 |
| Salomon Brothers 1-Year Treasury Index | 2.67 | | | 11.98 |
| Salomon Brothers 2-Year Treasury Index | 2.02 | | | 15.54 |

GNMA Fund

| | | | | |
|--|--------|--------|-------|----------------------|
| T. Rowe Price GNMA Fund | -0.74% | 49.74% | | 90.76% (11/26/85) |
| Salomon Brothers 30-Year GNMA Index | 0.04 | 56.54 | | 118.60 |
| Lehman Brothers GNMA Bond Index | -0.34 | | 55.23 | 120.89 |
| Lipper GNMA Funds Average | -0.02 | 48.17 | | 93.96 |

High Yield Fund

| | | | | |
|--|-------|--------|-------|-----------------------|
| High Yield Fund | 2.34% | 46.71% | | 158.53% (12/31/84) |
| Merrill Lynch High Yield Index | | 6.39 | 75.35 | 214.84 |
| Merrill Lynch Medium Quality Long Corporate Index | 1.72 | 64.77 | | 207.17 |
| Lipper's Average of High Current Yield Funds | 6.70 | 61.77 | | 163.20 |

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New Income Fund

| | | | | |
|---|-------|--------|---------|----------------------|
| New Income Fund | 1.40% | 50.29% | 153.33% | 497.09% (8/31/73) |
| Salomon Bros. Broad Investment Grade Index | 0.91 | 55.84 | 205.02 | N/A |

| | | | | |
|--|------|-------|--------|--------|
| Salomon Bros. High Grade Corporate Bond Index | 0.04 | 61.05 | 273.45 | 567.37 |
| Lehman Bros. Govt./Corp. Bond Index | 1.01 | 55.52 | 198.97 | 547.98 |
| Lipper Corporate Bond Fund's -A Rated Average | 0.34 | 51.10 | 188.96 | 495.23 |

Short-Term Bond Fund

| | | | | |
|---|-------|--------|---------|---------------------|
| T. Rowe Price Short-Term Bond Fund | 1.36% | 40.71% | 118.73% | 119.04% (3/2/84) |
| T. Rowe Price Prime Reserve Fund | 2.73% | 28.24% | 84.99% | 316.49% |
| Donoghue Average of all Taxable Money Funds | 2.85 | 28.42 | 83.43 | 87.74 |
| Lehman Bros. 1-3 Year Govt./Corp. Bond Index | 2.10 | 43.95 | 137.59 | 137.46 |
| Lipper Short Investment Grade Debt Funds Average | 1.87 | 43.06 | 150.53 | 133.60 (2/29/84) |

U.S. Treasury Intermediate Fund

| | | | | |
|------------------------------------|-------|--|--|---------------------|
| Intermediate Fund | 0.70% | | | 44.62% (9/29/89) |
| Salomon 1-7 year Treasury Index | 1.49 | | | 44.94 |

U.S. Treasury Long-Term Fund

| | | | | |
|------------------------|-------|--|--|--------------------|
| Long-Term Fund | -0.09 | | | 45.43 (9/29/89) |
| Salomon Treasury Index | 1.12 | | | 48.24 |

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Average Annual Compound Rates of Return

| | 1 Yr. Ended 5/31/94 | 5 Yrs. Ended 5/31/94 | 10 Yrs. Ended 5/31/94 | Since Inception- 5/31/94 |
|--|---------------------------|----------------------------|-----------------------------|--------------------------------|
|--|---------------------------|----------------------------|-----------------------------|--------------------------------|

Adjustable Rate U.S. Government Fund

| | | | | |
|---|-------|--|--|--------------------|
| T. Rowe Price Adjustable Rate U.S. Government Fund, Inc. | 1.32% | | | 3.01% (9/30/91) |
| Lipper Average of Adjustable Rate Mortgage Funds | 1.37 | | | |
| Merrill Lynch 1-3 Year | | | | |

| | | | |
|--|------|--|------|
| Govt. Index | 2.06 | | 5.50 |
| Salomon Brothers 1-Year Treasury Index | 2.67 | | 4.33 |
| Salomon Brothers 2-Year Treasury Index | 2.02 | | 5.57 |

GNMA Fund

| | | | |
|-------------------------------------|--------|-------|------------|
| T. Rowe Price GNMA Fund | -0.74% | 8.41% | 7.88% |
| | | | (11/26/85) |
| Salomon Brothers 30-Year GNMA Index | 0.04 | 9.38 | 9.63 |
| Lehman Brothers GNMA Bond Index | -0.34 | 9.19 | 9.52 |
| Lipper GNMA Funds Average | -0.62 | 8.17 | 8.09 |

High Yield Fund

| | | | |
|---|------|-------|------------|
| High Yield Fund | 2.34 | 7.97 | 10.62 |
| | | | (12/31/84) |
| Merrill Lynch High Yield Index | 6.39 | 11.98 | 12.96 |
| Merrill Lynch Medium Quality Long Corporate Index | 1.72 | 10.50 | 12.66 |
| Lipper's Average of High Current Yield Funds | 6.70 | 10.02 | 10.73 |

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New Income Fund

| | | | | |
|---|-------|-------|-------|-----------|
| New Income Fund | 1.40% | 8.49% | 9.74 | 8.99% |
| | | | | (8/31/73) |
| Salomon Bros. Broad Investment Grade Index | 0.91 | 9.28 | 11.80 | N/A |
| Salomon Bros. High Grade Corporate Bond Index | 0.04 | 10.00 | 14.08 | 9.58 |
| Lehman Bros. Govt./Corp. Bond Index | 1.01 | 9.24 | 11.57 | 9.45 |
| Lipper Corporate Bond Fund's -A Rated Average | 0.34 | 8.60 | 11.17 | 8.95 |

Short-Term Bond Fund

| | | | | |
|---|------|------|------|----------|
| T. Rowe Price Short-Term Bond Fund | 1.36 | 7.07 | 8.12 | 7.95 |
| | | | | (3/2/84) |
| T. Rowe Price Prime Reserve Fund | 2.73 | 5.10 | 6.34 | 8.09 |
| Donoghue Average of all Taxable Money Funds | 2.85 | 5.13 | 6.25 | 6.34 |
| Lehman Bros. 1-3 Year | | | | |

| | | | | |
|-------------------------------|------|------|------|-----------|
| Govt./Corp. Bond Index | 2.10 | 7.55 | 9.03 | 8.80 |
| Lipper Short Investment Grade | | | | |
| Debt Funds Average | 1.87 | 7.42 | 8.70 | 8.63 |
| | | | | (2/29/84) |

U.S. Treasury Intermediate Fund

| | | | | |
|-------------------|------|--|--|-----------|
| Intermediate Fund | 0.70 | | | 8.22 |
| | | | | (9/29/89) |

Salomon 1-7 Year Treasury Index

| | | | |
|------|--|--|------|
| 1.49 | | | 8.28 |
|------|--|--|------|

U.S. Treasury Long-Term Fund

| | | | | |
|----------------|-------|--|--|-----------|
| Long-Term Fund | -0.09 | | | 8.35 |
| | | | | (9/29/89) |

| | | | | |
|------------------------|------|--|--|------|
| Salomon Treasury Index | 1.12 | | | 8.80 |
|------------------------|------|--|--|------|

Outside Sources of Information

From time to time, in reports and promotional literature, one or more of the T. Rowe Price funds, including this Fund, may compare its performance to Overnight Government Repurchase

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Agreements, Treasury bills, notes, and bonds, certificates of deposit, and six-month money market certificates. Performance may also be compared to (1) indices of broad groups of managed or unmanaged securities considered to be representative of or similar to Fund portfolio holdings; (2) other mutual funds; or (3) other measures of performance set forth in publications such as:

Advertising News Service, Inc., "Bank Rate Monitor+ - The Weekly Financial Rate Reporter" is a weekly publication which lists the yields on various money market instruments offered to the public by 100 leading banks and thrift institutions in the U.S., including loan rates offered by these banks. Bank certificates of deposit differ from mutual funds in several ways: the interest rate established by the sponsoring bank is fixed for the term of a CD; there are penalties for early withdrawal from CDs; and the principal on a CD is insured.

Donoghue Organization, Inc., "Donoghue's Money Fund Report" is a weekly publication which tracks net assets, yield, maturity and portfolio holdings on approximately 380 money market mutual funds offered in the U.S. These funds are broken down into various categories such as U.S. Treasury, Domestic Prime and Euros, Domestic Prime and Euros and Yankees, and Aggressive.

First Boston High Yield Index. It shows statistics on the

Composite Index and analytical data on new issues in the marketplace and low-grade issuers.

Lipper Analytical Services, Inc., "Lipper-Fixed Income Fund Performance Analysis" is a monthly publication which tracks net assets, total return, principal return and yield on approximately 950 fixed income mutual funds offered in the United States.

Merrill Lynch, Pierce, Fenner & Smith, Inc., "Taxable Bond Indices" is a monthly publication which lists principal, coupon and total return on over 100 different taxable bond indices tracked by Merrill Lynch, together with the par weighted characteristics of each Index. The index used as a benchmark for the High Yield Fund is the High Yield Index. The two indices used as benchmarks for the Short-Term Bond Fund are the 91-Day Treasury Bill Index and the 1-2.99 Year Treasury Note Index.

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Morningstar, Inc., is a widely used independent research firm which rates mutual funds by overall performance, investment objectives and assets.

Salomon Brothers Inc., "Analytical Record of Yields and Yield Spreads" is a publication which tracks historical yields and yield spreads on short-term market rates, public obligations of the U.S. Treasury and agencies of the U.S. government, public corporate debt obligations, municipal debt obligations and preferred stocks.

Salomon Brothers Inc., "Bond Market Round-up" is a weekly publication which tracks the yields and yield spreads on a large, but select, group of money market instruments, public corporate debt obligations, and public obligations of the U.S. Treasury and agencies of the U.S. Government.

Salomon Brothers Inc., "High Yield Composite Index" is an index which provides performance and statistics for the high yield market place.

Salomon Brothers Inc., "Market Performance" is a monthly publication which tracks principal return, total return and yield on the Salomon Brothers Broad investment - Grade Bond Index and the components of the Index.

Shearson Lehman Brothers, Inc., "The Bond Market Report" is a monthly publication which tracks principal, coupon and total return on the Shearson Lehman Govt./Corp. Index and Shearson

Lehman Aggregate Bond Index, as well as all the components of these Indices.

Telerate Systems, Inc., is a market data distribution network which tracks a broad range of financial markets including, the daily rates on money market instruments, public corporate debt obligations and public obligations of the U.S. Treasury and agencies of the U.S. Government.

Wall Street Journal, is a national daily financial news publication which lists the yields and current market values on money market instruments, public corporate debt obligations, public obligations of the U.S. Treasury and agencies of the U.S. government as well as common stocks, preferred stocks, convertible preferred stocks, options and commodities; in addition to indices prepared by the research departments of such financial organizations as Shearson Lehman/American Express Inc., and Merrill Lynch, Pierce, Fenner and Smith,

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Inc., including information provided by the Federal Reserve Board.

Performance rankings and ratings reported periodically in national financial publications such as MONEY, FORBES, BUSINESS WEEK, BARRON'S, etc. will also be used.

All Funds, except Prime Reserve and Personal Strategy Funds

Benefits of Investing in High-Quality Bond Funds

- o Higher Income

Bonds have generally provided a higher income than money market securities because yield usually increased with longer maturities. For instance, the yield on the 30-year Treasury bond usually exceeds the yield on the 1-year Treasury bill or 5-year Treasury note. However, securities with longer maturities fluctuate more in price than those with shorter maturities. Therefore, the investor must weigh the advantages of higher yields against the possibility of greater fluctuation in the principal value of your investment.

- o Income Compounding

Investing in bond mutual funds allows investors to benefit from easy and convenient compounding, because you can automatically reinvest monthly dividends in additional fund shares. Each month investors earn interest on a larger number of shares. Also, reinvesting dividends removes the

temptation to spend the income.

- o Broad Diversification

Each share of a mutual fund represents an interest in a large pool of securities, so even a small investment is broadly diversified by maturity. Since most bonds trade efficiently only in very large blocks, mutual funds provide a degree of diversification that may be difficult for individual investors to achieve on their own.

- o Lower Portfolio Volatility

Investing a portion of one's assets in longer term, high-quality bonds can help smooth out the fluctuations in your overall investment results, because bond prices do not

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necessarily move with stock prices. Also, bonds usually have higher income yields than stocks, thus increasing the total income component of your portfolio. This strategy should also add stability to overall results, as income is always a positive component of total return.

- o Liquidity

A bond fund can supplement a money market fund or bank account as a source of capital for unexpected contingencies. T. Rowe Price fixed-income funds offer you easy access to money through free checkwriting and convenient redemption or exchange features. Of course, the value of a bond fund's shares redeemed through checkwriting may be worth more or less than their value at the time of their original purchase.

- o Suitability

High-quality bond funds are most suitable for the following objectives: obtaining a higher current income with minimal credit risk; compounding of income over time; or diversifying overall investments to reduce volatility.

All Funds

IRAs

An IRA is a long-term investment whose objective is to accumulate personal savings for retirement. Due to the long-term nature of the investment, even slight differences in performance will result in significantly different assets at retirement. Mutual funds, with their diversity of choice, can be used for IRA investments. Generally, individuals may need to adjust their

underlying IRA investments as their time to retirement and tolerance for risk changes.

Other Features and Benefits

The Fund is a member of the T. Rowe Price Family of Funds and may help investors achieve various long-term investment goals, such as investing money for retirement, saving for a down payment on a home, or paying college costs. To explain how the Fund could be used to assist investors in planning for these goals and to illustrate basic principles of investing, various worksheets and guides prepared by T. Rowe Price Associates, Inc. and/or T. Rowe Price Investment Services, Inc. may be made available. These currently include: the Asset Mix Worksheet

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which is designed to show shareholders how to reduce their investment risk by developing a diversified investment plan; the College Planning Guide which discusses various aspects of financial planning to meet college expenses and assists parents in projecting the costs of a college education for their children; the Retirement Planning Kit (also available in a PC version) includes a detailed workbook to determine how much money you may need for retirement and suggests how you might invest to achieve your objectives; and the Retirees Financial Guide which includes a detailed workbook to determine how much money you can afford to spend and still preserve your purchasing power and suggests how you might invest to reach your goal. From time to time, other worksheets and guides may be made available as well. Of course, an investment in the Fund cannot guarantee that such goals will be met. Personal Strategy Planner simplifies investment decision making by helping investors define personal financial goals, establish length of time the investor intends to invest, determine risk "comfort zone" and select diversified investment mix.

To assist investors in understanding the different returns and risk characteristics of various investments, the aforementioned guides will include presentation of historical returns of various investments using published indices. An example of this is shown below.

Historical Returns for Different Investments

Annualized returns for periods ended 12/31/93

| | 50 years | 20 years | 10 years | 5 years |
|----------------------|----------|----------|----------|---------|
| Small-Company Stocks | 15.3% | 18.8% | 10.0% | 13.3% |
| Large-Company Stocks | 12.3 | 12.8 | 14.9 | 14.5 |

| | | | | |
|--|-----|------|------|------|
| Foreign Stocks | N/A | 14.4 | 17.9 | 2.3 |
| Long-Term Corporate Bonds | 5.6 | 10.2 | 14.0 | 13.0 |
| Intermediate-Term U.S. Gov't. Bonds | 5.7 | 9.8 | 11.4 | 11.3 |
| Treasury Bills | 4.6 | 7.5 | 6.4 | 5.6 |
| U.S. Inflation | 4.3 | 5.9 | 3.7 | 3.9 |

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Sources: Ibbotson Associates, Morgan Stanley. Foreign stocks reflect performance of The Morgan Stanley Capital International EAFE Index, which includes some 1,000 companies representing the stock markets of Europe, Australia, New Zealand, and the Far East. This chart is for illustrative purposes only and should not be considered as performance for, or the annualized return of, any T. Rowe Price Fund. Past performance does not guarantee future results.

Also included will be various portfolios demonstrating how these historical indices would have performed in various combinations over a specified time period in terms of return. An example of this is shown below.

Performance of Retirement Portfolios*

| Asset Mix | | Average Annualized Returns 20 Years Ended 12/31/93 | | Value of \$10,000 Investment After Period | | | |
|----------------------|------------------|--|-------------------|---|--------------|---------------|-----------|
| Portfolio | Growth Income | Safety | Nominal Return | Real Return** | Best Year | Worst Year | |
| I. Low Risk | 40% | 40% | 20% | 11.3% | 5.4% | 24.9%-9.3% | \$ 79,775 |
| II. Moderate Risk | 60% | 30% | 10% | 12.1% | 6.2% | 29.1%-15.6% | \$ 90,248 |
| III. High Risk | 80% | 20% | 0% | 12.9% | 7.0% | 33.4%-21.9% | \$100,031 |

Source: T. Rowe Price Associates; data supplied by Lehman

Brothers, Wilshire Associates, and Ibbotson Associates.

* Based on actual performance for the 20 years ended 1993 of stocks (85% Wilshire 5000 and 15% Europe, Australia, Far East [EAFE] Index), bonds (Lehman Brothers Aggregate Bond Index from 1976-93 and Lehman Brothers Government/Corporate Bond Index from 1974-75), and 30-day Treasury bills from January 1974 through December 1993. Past performance does not guarantee future results. Figures include changes in

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principal value and reinvested dividends and assume the same asset mix is maintained each year. This exhibit is for illustrative purposes only and is not representative of the performance of any T. Rowe Price fund.

** Based on inflation rate of 5.9% for the 20-year period ended 12/31/93.

Insights

From time to time, Insights, a T. Rowe Price publication of reports on specific investment topics and strategies, may be included in the Fund's fulfillment kit. Such reports may include information concerning: calculating taxable gains and losses on mutual fund transactions, coping with stock market volatility, benefiting from dollar cost averaging, understanding international markets, investing in high-yield "junk" bonds, growth stock investing, conservative stock investing, value investing, investing in small companies, tax-free investing, fixed income investing, investing in mortgage-backed securities, as well as other topics and strategies.

Other Publications

From time to time, in newsletters and other publications issued by T. Rowe Price Investment Services, Inc., reference may be made to economic, financial and political developments in the U.S. and abroad and their effect on securities prices. Such discussions may take the form of commentary on these developments by T. Rowe Price mutual fund portfolio managers and their views and analysis on how such developments could affect investments in mutual funds.

Redemptions in Kind

In the unlikely event a shareholder were to receive an in kind redemption of portfolio securities of the Fund, brokerage fees could be incurred by the shareholder in a subsequent sale of such securities.

Issuance of Fund Shares for Securities

Transactions involving issuance of Fund shares for securities or assets other than cash will be limited to (1) bona fide reorganizations; (2) statutory mergers; or (3) other acquisitions of portfolio securities that: (a) meet the investment objective and policies of the Fund; (b) are acquired for investment and not for resale except in accordance with

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applicable law; (c) have a value that is readily ascertainable via listing on or trading in a recognized United States or international exchange or market; and (d) are not illiquid.

All Funds, except GNMA Fund

CAPITAL STOCK

The Fund's Charter authorizes the Board of Directors to classify and reclassify any and all shares which are then unissued, including unissued shares of capital stock into any number of classes or series, each class or series consisting of such number of shares and having such designations, such powers, preferences, rights, qualifications, limitations, and restrictions, as shall be determined by the Board subject to the Investment Company Act and other applicable law. The shares of any such additional classes or series might therefore differ from the shares of the present class and series of capital stock and from each other as to preferences, conversions or other rights, voting powers, restrictions, limitations as to dividends, qualifications or terms or conditions of redemption, subject to applicable law, and might thus be superior or inferior to the capital stock or to other classes or series in various characteristics. The Board of Directors may increase or decrease the aggregate number of shares of stock or the number of shares of stock of any class or series that the Fund has authorized to issue without shareholder approval.

Except to the extent that the Fund's Board of Directors might provide by resolution that holders of shares of a particular class are entitled to vote as a class on specified matters presented for a vote of the holders of all shares entitled to vote on such matters, there would be no right of class vote unless and to the extent that such a right might be construed to exist under Maryland law. The Charter contains no provision entitling the holders of the present class of capital stock to a vote as a class on any matter. Accordingly, the preferences, rights, and other characteristics attaching to any class of shares, including the present class of capital stock, might be altered or eliminated, or the class might be combined with another class or classes, by action approved by the vote of the holders of a majority of all the shares of all classes

entitled to be voted on the proposal, without any additional right to vote as a class by the holders of the capital stock or of another affected class or classes.

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Shareholders are entitled to one vote for each full share held (and fractional votes for fractional shares held) and will vote in the election of or removal of directors (to the extent hereinafter provided) and on other matters submitted to the vote of shareholders. There will normally be no meetings of shareholders for the purpose of electing directors unless and until such time as less than a majority of the directors holding office have been elected by shareholders, at which time the directors then in office will call a shareholders' meeting for the election of directors. Except as set forth above, the directors shall continue to hold office and may appoint successor directors. Voting rights are not cumulative, so that the holders of more than 50% of the shares voting in the election of directors can, if they choose to do so, elect all the directors of the Fund, in which event the holders of the remaining shares will be unable to elect any person as a director. As set forth in the By-Laws of the Fund, a special meeting of shareholders of the Fund shall be called by the Secretary of the Fund on the written request of shareholders entitled to cast at least 10% of all the votes of the Fund entitled to be cast at such meeting. Shareholders requesting such a meeting must pay to the Fund the reasonably estimated costs of preparing and mailing the notice of the meeting. The Fund, however, will otherwise assist the shareholders seeking to hold the special meeting in communicating to the other shareholders of the Fund to the extent required by Section 16(c) of the Investment Company Act of 1940.

GNMA Fund

DESCRIPTION OF THE FUND

For tax and business reasons, the Fund was organized in 1985 as a Massachusetts Business Trust and is registered with the Securities and Exchange Commission under the Investment Company Act of 1940 as a diversified, open-end investment company, commonly known as a "mutual fund."

The Declaration of Trust permits the Board of Trustees to issue an unlimited number of full and fractional shares of a single class. The Declaration of Trust also provides that the Board of Trustees may issue additional series or classes of shares. Each share represents an equal proportionate beneficial interest in the Fund. In the event of the liquidation of the Fund, each share is entitled to a pro rata share of the net assets of the Fund.

Shareholders are entitled to one vote for each full share held (and fractional votes for fractional shares held) and will vote in the election of or removal of trustees (to the extent hereinafter provided) and on other matters submitted to the vote of shareholders. There will normally be no meetings of shareholders for the purpose of electing trustees unless and until such time as less than a majority of the trustees holding office have been elected by shareholders, at which time the trustees then in office will call a shareholders' meeting for the election of trustees. Pursuant to Section 16(c) of the Investment Company Act of 1940, holders of record of not less than two-thirds of the outstanding shares of the Fund may remove a trustee by a vote cast in person or by proxy at a meeting called for that purpose. Except as set forth above, the trustees shall continue to hold office and may appoint successor trustees. Voting rights are not cumulative, so that the holders of more than 50% of the shares voting in the election of trustees can, if they choose to do so, elect all the trustees of the Trust, in which event the holders of the remaining shares will be unable to elect any person as a trustee. No amendments may be made to the Declaration of Trust without the affirmative vote of a majority of the outstanding shares of the Trust.

Shares have no preemptive or conversion rights; the right of redemption and the privilege of exchange are described in the prospectus. Shares are fully paid and nonassessable, except as set forth below. The Trust may be terminated (i) upon the sale of its assets to another diversified, open-end management investment company, if approved by the vote of the holders of two-thirds of the outstanding shares of the Trust, or (ii) upon liquidation and distribution of the assets of the Trust, if approved by the vote of the holders of a majority of the outstanding shares of the Trust. If not so terminated, the Trust will continue indefinitely.

Under Massachusetts law, shareholders could, under certain circumstances, be held personally liable for the obligations of the Fund. However, the Declaration of Trust disclaims shareholder liability for acts or obligations of the Fund and requires that notice of such disclaimer be given in each agreement, obligation or instrument entered into or executed by the Fund or a Trustee. The Declaration of Trust provides for indemnification from Fund property for all losses and expenses of any shareholder held personally liable for the obligations of the Fund. Thus, the risk of a shareholder incurring financial loss on account of shareholder liability is limited to circumstances

in which the Fund itself would be unable to meet its obligations, a possibility which T. Rowe Price believes is remote. Upon payment of any liability incurred by the Fund, the shareholders of the Fund paying such liability will be entitled to reimbursement from the general assets of the Fund. The Trustees intend to conduct the operations of the Fund in such a way so as to avoid, as far as possible, ultimate liability of the shareholders for liabilities of such Fund.

FEDERAL AND STATE REGISTRATION OF SHARES

The Fund's shares are registered for sale under the Securities Act of 1933, and the Fund or its shares are registered under the laws of all states which require registration, as well as the District of Columbia and Puerto Rico.

LEGAL COUNSEL

Shereff, Friedman, Hoffman, & Goodman, whose address is 919 Third Avenue, New York, New York 10022, is legal counsel to the Fund.

INDEPENDENT ACCOUNTANTS

GNMA, High Yield, New Income, Prime Reserve, Short-Term Bond and Money Funds

Price Waterhouse, 7 St. Paul Street, Suite 1700, Baltimore, Maryland 21202, are independent accountants to the Fund.

Adjustable Rate, Intermediate, Long-Term, and Personal Strategy Funds

Coopers & Lybrand, 217 East Redwood Street, Baltimore, Maryland 21202, are independent accountants to the Fund.

Financial Statements

The Statement of Assets and Liabilities of the Personal Strategy Funds as of July 26, 1994, included in the Statement of Additional Information has been so included in reliance on the report of Coopers & Lybrand, given on the authority of said firm as experts in auditing and accounting.

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The financial statements of the Fund for the year ended May 31, 1994, and the report of independent accountants are

included in the Fund's Annual Report for the year ended May 31, 1994. A copy of the Annual Report accompanies this Statement of Additional Information. The following financial statements and the report of independent accountants appearing in the Annual Report for the year ended May 31, 1994 are incorporated into this Statement of Additional Information by reference:

| | GNMA | HIGH YIELD | NEW INCOME | PRIME RESERVE |
|---|-------|---------------|---------------|------------------|
| | ----- | ----- | ----- | ----- |
| Report of Independent Accountants | 13 | 19 | 15 | 11 |
| Statement of Net Assets, May 31, 1994 | 7-8 | 6-13 | 6-10 | 5-8 |
| Statement of Operations, three months ended May 31, 1994 and year ended February 28, 1994 | 9 | 14 | 11 | 8 |
| Statement of Changes in Net Assets, three months ended May 31, 1994 and years ended February 28, 1994 and February 28, 1993 | 10 | 15 | 12 | 9 |
| Notes to Financial Statements May 31, 1994 | 10-12 | 16-17 | 12-14 | 9-10 |
| Financial Highlights | 12 | 18 | 14 | 11 |

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| | SHORT- TERM BOND | U.S. TREASURY MONEY |
|---|---------------------|---------------------------|
| | ----- | ----- |
| Report of Independent Accountants | 17 | 22 |
| Statement of Net Assets, May 31, 1994 | 6-11 | 7 |
| Statement of Operations, three months ended May 31, 1994 and year ended February 28, 1994 | 12 | 11 |
| Statement of Changes in Net Assets, three months ended May 31, 1994 and years ended February 28, 1994 and February 28, 1993 | 13 | 14 |
| Notes to Financial Statements May 31, 1994 | 14-15 | 17-18 |

| | ADJUSTABLE RATE | U.S. TREASURY INTERMEDIATE | U.S. TREASURY LONG-TERM |
|---|--------------------|----------------------------------|-------------------------------|
| | ----- | ----- | ----- |
| Report of Independent Accountants | 13 | 23 | 23 |
| Statement of Net Assets, May 31, 1994 | 5-7 | 8-9 | 10 |
| Statement of Operations, three months ended May 31, 1994 and year ended February 28, 1994 | 8 | 12 | 13 |
| Statement of Changes in Net Assets, three months ended May 31, 1994 and years ended February 28, 1994 and February 28, 1993 | 9 | 15 | 16 |
| Notes to Financial Statements May 31, 1994 | 10-11 | 17-18 | 17-18 |
| Financial Highlights | 12 | 20 | 21 |

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RATINGS OF COMMERCIAL PAPER

Adjustable Rate, High Yield, Prime Reserve and Short-Term Bond Funds

Moody's Investors Service, Inc.: The rating of Prime-1 is the highest commercial paper rating assigned by Moody's. Among the factors considered by Moody's in assigning ratings are the following: valuation of the management of the issuer; economic evaluation of the issuer's industry or industries and an appraisal of speculative-type risks which may be inherent in certain areas; evaluation of the issuer's products in relation to competition and customer acceptance; liquidity; amount and quality of long-term debt; trend of earnings over a period of 10 years; financial strength of the parent company and the relationships which exist with the issuer; and recognition by the management of obligations which may be present or may arise as a result of public interest questions and preparations to meet such obligations. These factors are all considered in determining whether the commercial paper is rated P1, P2, or P3.

Standard & Poor's Corporation: Commercial paper rated A (highest quality) by S&P has the following characteristics: liquidity ratios are adequate to meet cash requirements; long-term senior

debt is rated "A" or better, although in some cases "BBB" credits may be allowed. The issuer has access to at least two additional channels of borrowing. Basic earnings and cash flow have an upward trend with allowance made for unusual circumstances. Typically, the issuer's industry is well established and the issuer has a strong position within the industry. The reliability and quality of management are unquestioned. The relative strength or weakness of the above factors determines whether the issuer's commercial paper is rated A1, A2, or A3.

Prime Reserve Fund

Fitch Investors Service, Inc.: Fitch 1 - Highest grade. Commercial paper assigned this rating is regarded as having the strongest degree of assurance for timely payment. Fitch 2 - Very good grade. Issues assigned this rating reflect an assurance of timely payment only slightly less in degree than the strongest issues.

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RATINGS OF CORPORATE DEBT SECURITIES

Adjustable Rate, High Yield, New Income, Personal Strategy, and Short-Term Bond Funds

Moody's Investors Services, Inc. (Moody's)

Aaa-Bonds rated Aaa are judged to be of the best quality. They carry the smallest degree of investment risk and are generally referred to as "gilt edge."

Aa-Bonds rated Aa are judged to be of high quality by all standards. Together with the Aaa group they comprise what are generally known as high grade bonds.

A-Bonds rated A possess many favorable investment attributes and are to be considered as upper medium grade obligations.

Baa-Bonds rated Baa are considered as medium grade obligations, i.e., they are neither highly protected nor poorly secured. Interest payments and principal security appear adequate for the present but certain protective elements may be lacking or may be characteristically unreliable over any great length of time. Such bonds lack outstanding investment characteristics and in fact have speculative characteristics as well.

Ba-Bonds rated Ba are judged to have speculative elements: their futures cannot be considered as well assured. Often the

protection of interest and principal payments may be very moderate and thereby not well safeguarded during both good and bad times over the future. Uncertainty of position characterize bonds in this class.

B-Bonds rated B generally lack the characteristics of a desirable investment. Assurance of interest and principal payments or of maintenance of other terms of the contract over any long period of time may be small.

Caa-Bonds rated Caa are of poor standing. Such issues may be in default or there may be present elements of danger with respect to principal or interest.

Ca-Bonds rated Ca represent obligations which are speculative in a high degree. Such issues are often in default or have other marked short-comings.

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Standard & Poor's Corporation (S&P)

AAA-This is the highest rating assigned by Standard & Poor's to a debt obligation and indicates an extremely strong capacity to pay principal and interest.

AA-Bonds rated AA also qualify as high-quality debt obligations. Capacity to pay principal and interest is very strong.

A-Bonds rated A have a strong capacity to pay principal and interest, although they are somewhat more susceptible to the adverse effects of changes in circumstances and economic conditions.

BBB-Bonds rated BBB are regarded as having an adequate capacity to pay principal and interest. Whereas they normally exhibit adequate protection parameters, adverse economic conditions or changing circumstances are more likely to lead to a weakened capacity to pay principal and interest for bonds in this category than for bonds in the A category.

BB, C, CCC, CC-Bonds rated BB, B, CCC, and CC are regarded on balance, as predominantly speculative with respect to the issuer's capacity to pay interest and repay principal. BB indicates the lowest degree of speculation and CC the highest degree of speculation. While such bonds will likely have some quality and protective characteristics, these are outweighed by large uncertainties or major risk exposures to adverse conditions.

Fitch Investors Service, Inc.

AAA-High grade, broadly marketable, suitable for investment by trustees and fiduciary institutions, and liable to but slight market fluctuation other than through changes in the money rate. The prime feature of a "AAA" bond is the showing of earnings several times or many times interest requirements for such stability of applicable interest that safety is beyond reasonable question whenever changes occur in conditions. Other features may enter, such as a wide margin of protection through collateral, security or direct lien on specific property. Sinking funds or voluntary reduction of debt by call or purchase or often factors, while guarantee or assumption by parties other than the original debtor may influence their rating.

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AA-Of safety virtually beyond question and readily salable. Their merits are not greatly unlike those of "AAA" class but a bond so rated may be junior though of strong lien, or the margin of safety is less strikingly broad. The issue may be the obligation of a small company, strongly secured, but influenced as to rating by the lesser financial power of the enterprise and more local type of market.

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T. ROWE PRICE PERSONAL STRATEGY FUNDS, INC.
STATEMENT OF ASSETS AND LIABILITIES
JULY 25, 1994

| | Balanced Fund | Growth Fund | Income Fund |
|--|------------------|----------------|----------------|
| Assets | | | |
| Receivable for Fund shares sold | \$30,000 | \$30,000 | \$40,000 |
| Deferred organizational expenses | 42,507 | 42,507 | 42,507 |
| Total assets | <u>72,507</u> | <u>72,507</u> | <u>82,507</u> |
| Liabilities | | | |
| Amount due Manager | 39,407 | 39,407 | 39,407 |
| Accrued expenses | 3,100 | 3,100 | 3,100 |
| Total liabilities | <u>42,507</u> | <u>42,507</u> | <u>42,507</u> |
| Net Assets - offering and redemption price of \$10.00 per share; 1,000,000,000 shares of \$0.0001 par value capital stock authorized, 3,000 shares outstanding | | | |
| | \$30,000 | \$30,000 | |
| | ===== | ===== | |

| | |
|---|----------|
| Net Assets - offering and redemption | |
| price of \$10.00 per share; 1,000,000,000 | |
| shares of \$0.0001 par value capital | |
| stock authorized, 4,000 shares | |
| outstanding | \$40,000 |
| | ===== |

NOTE TO STATEMENT OF ASSETS AND LIABILITIES

T. Rowe Price Personal Strategy Fund, Inc. (the "Corporation") was organized on May 21, 1994, as a Maryland corporation and is registered under the Investment Company Act of 1940. The Corporation is a series fund, of which the T. Rowe Price Personal Strategy Balanced Fund, T. Rowe Price Personal Strategy Growth Fund and the T. Rowe Price Personal Strategy Income Fund (the "Funds"), diversified, open-end management investment companies are the only funds currently established. The Corporation has had no operations other than those matters related to organization and registration as an investment company, the registration of shares for sale under the Securities Act of 1933, and the sale of 3,000 shares of the T. Rowe Price Personal

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Strategy Balanced Fund at \$10.00 per share, the sale of 3,000 shares of the T. Rowe Price Personal Strategy Growth Fund at \$10.00 per share, the sale of 4,000 shares of the T. Rowe Price Personal Strategy Income Fund at \$10.00 per share on July 25, 1994 to T. Rowe Price Associates, Inc. Each Fund's receivable for fund shares sold was funded by T. Rowe Price Associates, Inc. on July 26, 1994. The Funds have entered into an investment management agreement with T. Rowe Price Associates, Inc. (the Manager) which is described in the Statement of Additional Information under the heading "Investment Management Services."

Organizational expenses of \$42,507 for each fund have been accrued at July 25, 1994, and will be amortized on a straight-line basis over a period not to exceed sixty months. The Manager has agreed to advance certain organizational expenses incurred by the Funds and will be reimbursed for such expenses approximately six months after the commencement of the Fund's operations.

The Manager has agreed that in the event any of its initial shares are redeemed during the 60-month amortization period of the deferred organizational expenses, proceeds from a redemption of the shares representing the initial capital will be reduced by a pro rata portion of any unamortized organizational expenses.

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REPORT OF INDEPENDENT ACCOUNTANTS

To the Board of Directors of
T. Rowe Price Personal Strategy Funds, Inc.:

We have audited the accompanying statement of assets and liabilities of the T. Rowe Price Personal Strategy Funds, Inc. (the "Funds"), comprised of the T. Rowe Price Personal Strategy Balanced Fund, T. Rowe Price Personal Strategy Growth Fund, and T. Rowe Price Personal Strategy Income Fund, as of July 25, 1994. This financial statement is the responsibility of the Funds' management. Our responsibility is to express an opinion of this financial statement based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the statement of assets and liabilities referred to above presents fairly, in all material respects, the financial position of the T. Rowe Price Personal Strategy Funds, Inc. as of July 25, 1994, in conformity with generally accepted accounting principles.

/s/Coopers & Lybrand
COOPERS & LYBRAND
Baltimore, Maryland
July 26, 1994

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PART C
OTHER INFORMATION

Item 24. Financial Statements and Exhibits

- (a) Financial Statements. The Condensed Financial Information (Financial Highlights table) is included in Part A of the Registration Statement. Statement of Net Assets, Statement of Operations, and Statement of Changes in Net Assets, are included in the Annual Report to Shareholders, the pertinent portions of which are incorporated by reference in Part B

(b) Exhibits.

- (1) (a) Articles of Incorporation of Registrant, dated August 9, 1991 (electronically filed with Amendment No. 7 dated April 25, 1994)
- (1) (b) Articles Supplementary, dated January 21, 1993 (electronically filed with Amendment No. 6 dated June 15, 1993)
- (2) By-Laws of Registrant, as amended January 18, 1994 (electronically filed with Amendment No. 7 dated April 25, 1994)
- (3) Inapplicable
- (4) Article SIXTH, subparagraphs (b) (1)-(b) (10) and subparagraphs (c) through (g), in their entirety, from the Registrant's Articles of Incorporation, is hereby incorporated by reference from Amendment No. 7 electronically filed and dated April 25, 1994 and Article II, Shareholders, in its entirety, and Article VIII, Capital Stock, in its entirety, from the Registrant's By-Laws, are also hereby incorporated by reference from Amendment No. 7 electronically filed and dated April 25, 1994.
- (5) Investment Management Agreement between Registrant and T. Rowe Price Associates, Inc., dated July 1, 1992 (electronically filed with Amendment No. 7 dated April 25, 1994)
- (6) Underwriting Agreement between Registrant and T. Rowe Price Investment Services, Inc., dated September 12, 1991 (electronically filed with Amendment No. 7 dated April 25, 1994)
- (7) Inapplicable
- (8) (a) Custodian Agreement between T. Rowe Price Funds and State Street Bank and Trust Company, dated September 28, 1987, as amended to June 24, 1988, October 19, 1988, February 22, 1989, July 19, 1989, September 15, 1989, December 15, 1989, December 20, 1989, January 25, 1990, February 21, 1990, June 12, 1990, July 18, 1990, October 15, 1990, February 13, 1991, March 6, 1991, September 12, 1991, November 6, 1991, April 23, 1992, September 2, 1992, November 3, 1992, December 16, 1992, December 21, 1992, January 28, 1993, April 22, 1993, September 16, 1993, November 3, 1993, March 1, 1994, April 21, 1994, and July 27, 1994
- (8) (b) Global Custody Agreement between The Chase Manhattan Bank, N.A. and T. Rowe Price Funds, dated January 3, 1994, as amended April 18, 1994

- (9) (a) Transfer Agency and Service Agreement between T. Rowe Price Services, Inc. and T. Rowe Price Funds, dated January 1, 1994, as amended March 1, 1994, April 21, 1994, and July 27, 1994
- (9) (b) Agreement between T. Rowe Price Associates, Inc. and T. Rowe Price Funds for Fund Accounting Services, dated January 1, 1994, as amended March 1, 1994, April 21, 1994, and July 27, 1994
- (9) (c) Agreement between T. Rowe Price Retirement Plan Services, Inc. and the Taxable Funds, dated January 1, 1994, as amended to July 27, 1994
- (10) Inapplicable
- (11) Consent of Independent Accountants
- (12) Inapplicable
- (13) Inapplicable
- (14) Inapplicable
- (15) Inapplicable
- (16) Incorporated by reference from Post-Effective Amendment No. 42 and Amendment No. 19 of the T. Rowe Price New Income Fund, Inc. (SEC. File Nos. 2-48848 and 811-2396 and CIK 80249) electronically filed and dated April 25, 1994.

Item 25. Persons Controlled by or Under Common Control With Registrant.

None.

Item 26. Number of Holders of Securities

As of May 31, 1994, there were 10,300 shareholders in the Fund.

Item 27. Indemnification

The Registrant maintains comprehensive Errors and Omissions and Officers and Directors insurance policies written by the Evanston Insurance Company, The Chubb Group and ICI Mutual. These policies provide coverage for the named insureds, which include T. Rowe Price Associates, Inc. ("Manager"), Rowe Price-Fleming International, Inc. ("Price-Fleming"), T. Rowe Price Investment Services, Inc., T. Rowe Price Services, Inc., T. Rowe Price Trust Company, T. Rowe Price Stable Asset Management, Inc., RPF International Bond Fund and thirty-six other investment companies, namely, T. Rowe Price Growth Stock Fund, Inc., T. Rowe Price New Horizons Fund, Inc., T. Rowe Price New Era Fund, Inc., T. Rowe Price New Income Fund, Inc., T. Rowe Price Prime Reserve Fund, Inc., T. Rowe Price Tax-Free Income Fund, Inc., T. Rowe Price Tax-Exempt Money Fund, Inc., T. Rowe Price International Funds, Inc., T. Rowe Price Growth &

Income Fund, Inc., T. Rowe Price Tax-Free Short-Intermediate Fund, Inc., T. Rowe Price Short-Term Bond Fund, Inc., T. Rowe Price High Yield Fund, Inc., T. Rowe Price Tax-Free High Yield Fund, Inc., T. Rowe Price New America Growth Fund, T. Rowe Price Equity Income Fund, T. Rowe Price GNMA Fund, T. Rowe Price Capital Appreciation Fund, T. Rowe Price State Tax-Free Income Trust, T. Rowe Price California Tax-Free Income Trust, T. Rowe Price Science & Technology Fund, Inc., T. Rowe Price Small-Cap Value Fund, Inc., Institutional International Funds, Inc., T. Rowe Price U.S. Treasury Funds, Inc., T. Rowe Price Index Trust, Inc., T. Rowe Price Spectrum Fund, Inc., T. Rowe Price

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Balanced Fund, Inc., T. Rowe Price Mid-Cap Growth Fund, Inc., T. Rowe Price OTC Fund, Inc., T. Rowe Price Tax-Free Insured Intermediate Bond Fund, Inc., T. Rowe Price Dividend Growth Fund, Inc., T. Rowe Price Blue Chip Growth Fund, Inc., T. Rowe Price Summit Funds, Inc., T. Rowe Price Summit Municipal Funds, Inc., T. Rowe Price Equity Series, Inc., T. Rowe Price International Series, Inc., and T. Rowe Price Fixed Income Series, Inc. The Registrant and the thirty-six investment companies listed above, with the exception of T. Rowe Price Equity Series, Inc., T. Rowe Price International Series, Inc., T. Rowe Price Fixed Income Series, Inc. and Institutional International Funds, Inc., will be collectively referred to as the Price Funds. The investment manager for the Price Funds, including T. Rowe Price Equity Series, Inc. and T. Rowe Price Fixed Income Series, Inc., is the Manager. Price-Fleming is the manager to T. Rowe Price International Funds, Inc., T. Rowe Price International Series, Inc. and Institutional International Funds, Inc. and is 50% owned by TRP Finance, Inc., a wholly-owned subsidiary of the Manager, 25% owned by Copthall Overseas Limited, a wholly-owned subsidiary of Robert Fleming Holdings Limited, and 25% owned by Jardine Fleming Holdings Limited. In addition to the corporate insureds, the policies also cover the officers, directors, and employees of each of the named insureds. The premium is allocated among the named corporate insureds in accordance with the provisions of Rule 17d-1(d)(7) under the Investment Company Act of 1940.

Article X, Section 10.01 of the Registrant's By-Laws provides as follows:

Section 10.01. Indemnification and Payment of Expenses in Advance: The Corporation shall indemnify any individual ("Indemnitee") who is a present or former director, officer, employee, or agent of the Corporation, or who is or has been serving at the request of the Corporation as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise, who, by reason of his position was, is, or is threatened to be made a party to any threatened, pending, or completed action, suit, or proceeding, whether civil, criminal, administrative, or investigative (hereinafter collectively referred to as a "Proceeding") against any judgments, penalties, fines, settlements, and reasonable expenses (including attorneys' fees) incurred by such Indemnitee in connection with any Proceeding, to the fullest extent that such indemnification may be lawful under Maryland law. The Corporation shall pay any reasonable expenses so

incurred by such Indemnitee in defending a Proceeding in advance of the final disposition thereof to the fullest extent that such advance payment may be lawful under Maryland law. Subject to any applicable limitations and requirements set forth in the Corporation's Articles of Incorporation and in these By-Laws, any payment of indemnification or advance of expenses shall be made in accordance with the procedures set forth in Maryland law.

Notwithstanding the foregoing, nothing herein shall protect or purport to protect any Indemnitee against any liability to which he would otherwise be subject by reason of willful misfeasance, bad faith, gross negligence, or reckless disregard of the duties involved in the conduct of his office ("Disabling Conduct").

Anything in this Article X to the contrary notwithstanding, no indemnification shall be made by the Corporation to any Indemnitee unless:

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- (a) there is a final decision on the merits by a court or other body before whom the Proceeding was brought that the Indemnitee was not liable by reason of Disabling Conduct; or
- (b) in the absence of such a decision, there is a reasonable determination, based upon a review of the facts, that the Indemnitee was not liable by reason of Disabling Conduct, which determination shall be made by:
 - (i) the vote of a majority of a quorum of directors who are neither "interested persons" of the Corporation as defined in Section 2(a)(19) of the Investment Company Act of 1940, nor parties to the Proceeding; or
 - (ii) an independent legal counsel in a written opinion.

Anything in this Article X to the contrary notwithstanding, any advance of expenses by the Corporation to any Indemnitee shall be made only upon the undertaking by such Indemnitee to repay the advance unless it is ultimately determined that such Indemnitee is entitled to indemnification as above provided, and only if one of the following conditions is met:

- (a) the Indemnitee provides a security for his undertaking; or
- (b) the Corporation shall be insured against losses arising by reason of any lawful advances; or
- (c) there is a determination, based on a review of readily

available facts, that there is reason to believe that the Indemnitee will ultimately be found entitled to indemnification, which determination shall be made by:

- (i) a majority of a quorum of directors who are neither "interested persons" of the Corporation as defined in Section 2(a)(19) of the Investment Company Act, nor parties to the Proceeding; or
- (ii) an independent legal counsel in a written opinion.

Section 10.02 of the Registrant's By-Laws provides as follows:

Section 10.02. Insurance of Officers, Directors, Employees and Agents: To the fullest extent permitted by applicable Maryland law and by Section 17(h) of the Investment Company Act, as from time to time amended, the Corporation may purchase and maintain insurance on behalf of any person who is or was a director, officer, employee, or agent of the Corporation, or who is or was serving at the request of the Corporation as a director, officer, employee, or agent of another corporation, partnership, joint venture, trust, or other enterprise, against any liability asserted against him and incurred by him in or arising out of his position, whether or not the Corporation would have the power to indemnify him against such liability.

Insofar as indemnification for liability arising under the Securities Act of 1933 may be permitted to directors, officers and controlling persons of the Registrant pursuant to the foregoing

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provisions, or otherwise, the Registrant has been advised that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Act and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the Registrant of expenses incurred or paid by a director, officer or controlling person of the Registrant in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, the Registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Act and will be governed by the final adjudication of such issue.

Item 28. Business and Other Connections of Investment Manager.

Rowe Price-Fleming International, Inc. ("Price-Fleming"), a Maryland corporation, is a corporate joint venture 50% owned by TRP Finance, Inc., a wholly-owned subsidiary of the Manager, and was organized in 1979 to provide

investment counsel service with respect to foreign securities for institutional investors in the United States. Price-Fleming, in addition to managing private counsel client accounts, also sponsors registered investment companies which invest in foreign securities, serves as general partner of RPFI International Partners, Limited Partnership, and provides investment advice to the T. Rowe Price Trust Company, trustee of the International Common Trust Fund.

T. Rowe Price Investment Services, Inc. ("Investment Services"), a wholly-owned subsidiary of the Manager, is a Maryland corporation organized in 1980 for the purpose of acting as the principal underwriter and distributor for the Price Funds. Investment Services is registered as a broker-dealer under the Securities Exchange Act of 1934 and is a member of the National Association of Securities Dealers, Inc. In 1984, Investment Services expanded its activities to include a discount brokerage service.

TRP Distribution, Inc., a wholly-owned subsidiary of Investment Services, is a Maryland corporation organized in 1991. It was organized for and engages in the sale of certain investment related products prepared by Investment Services.

T. Rowe Price Associates Foundation, Inc., was organized in 1981 for the purpose of making charitable contributions to religious, charitable, scientific, literary and educational organizations. The Foundation (which is not a subsidiary of the Manager) is funded solely by contributions from the Manager and income from investments.

T. Rowe Price Services, Inc. ("Price Services"), a wholly-owned subsidiary of the Manager, is a Maryland corporation organized in 1982 and is registered as a transfer agent under the Securities Exchange Act of 1934. Price Services provides transfer agent, dividend disbursing, and certain other services, including shareholder services, to the Price Funds.

T. Rowe Price Retirement Plan Services, Inc. ("RPS"), a wholly-owned subsidiary of the Manager, was incorporated in Maryland in 1991 and is registered as a transfer agent under the Securities Exchange Act of 1934. RPS provides administrative, recordkeeping, and subaccounting services to administrators of employee benefit plans.

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T. Rowe Price Trust Company ("Trust Company"), a wholly-owned subsidiary of the Manager, is a Maryland chartered limited purpose trust company, organized in 1983 for the purpose of providing fiduciary services. The Trust Company serves as trustee/custodian for employee benefit plans, common trust funds and a few trusts.

T. Rowe Price Threshold Fund II, L.P., a Delaware limited partnership, was organized in 1986 by the Manager, and invests in private financings of small companies with high growth potential; the Manager is the General Partner of

the partnership.

RPFI International Partners, Limited Partnership, is a Delaware limited partnership organized in 1985 for the purpose of investing in a diversified group of small and medium-sized rapidly growing non-U.S. companies. Price-Fleming is the general partner of this partnership, and certain clients of Price-Fleming are its limited partners.

T. Rowe Price Real Estate Group, Inc. ("Real Estate Group"), is a Maryland corporation and a wholly-owned subsidiary of the Manager established in 1986 to provide real estate services. Subsidiaries of Real Estate Group are: T. Rowe Price Realty Income Fund I Management, Inc., a Maryland corporation (General Partner of T. Rowe Price Realty Income Fund I, A No-Load Limited Partnership), T. Rowe Price Realty Income Fund II Management, Inc., a Maryland corporation (General Partner of T. Rowe Price Realty Income Fund II, America's Sales-Commission-Free Real Estate Limited Partnership), T. Rowe Price Realty Income Fund III Management, Inc., a Maryland corporation (General Partner of T. Rowe Price Realty Income Fund III, America's Sales-Commission-Free Real Estate Limited Partnership, a Delaware limited partnership), and T. Rowe Price Realty Income Fund IV Management, Inc., a Maryland corporation (General Partner of T. Rowe Price Realty Income Fund IV, America's Sales-Commission-Free Real Estate Limited Partnership). Real Estate Group serves as investment manager to T. Rowe Price Renaissance Fund, Ltd., A Sales-Commission-Free Real Estate Investment, established in 1989 as a Maryland corporation which qualifies as a REIT.

T. Rowe Price Stable Asset Management, Inc. ("Stable Asset Management") is a Maryland corporation organized in 1988 as a wholly-owned subsidiary of the Manager. Stable Asset Management, which is registered as an investment adviser under the Investment Advisers Act of 1940, specializes in the management of investment portfolios which seek stable and consistent investment returns through the use of guaranteed investment contracts, bank investment contracts, structured or synthetic investment contracts, and short-term fixed-income securities.

T. Rowe Price Recovery Fund Associates, Inc., a Maryland corporation, is a wholly-owned subsidiary of the Manager organized in 1988 for the purpose of serving as the General Partner of T. Rowe Price Recovery Fund, L.P., a Delaware limited partnership which invests in financially distressed companies.

T. Rowe Price (Canada), Inc. is a Maryland corporation organized in 1988 as a wholly-owned subsidiary of the Manager. This entity is registered as an investment adviser under the Investment Advisers Act of 1940, and may apply for registration as an investment manager under the Securities Act of Ontario in order to be eligible to provide certain services to the RPF International Bond Fund, a trust (whose shares are sold in Canada) which Price-Fleming serves as investment adviser.

Since 1983, the Manager has organized several distinct Maryland limited partnerships, which are informally called the Pratt Street Ventures

partnerships, for the purpose of acquiring interests in growth-oriented businesses.

Tower Venture, Inc., a wholly-owned subsidiary of the Manager, is a Maryland corporation organized in 1989 for the purpose of serving as a general partner of 100 East Pratt St., L.P., a Maryland limited partnership whose limited partners also include the Manager. The purpose of the partnership is to further develop and improve the property at 100 East Pratt Street, the site of the Manager's headquarters, through the construction of additional office, retail and parking space.

TRP Suburban, Inc. is a Maryland corporation organized in 1990 as a wholly-owned subsidiary of the Manager. TRP Suburban has entered into agreements with McDonogh School and CMANE-McDonogh-Rowe Limited Partnership to construct an office building in Owings Mills, Maryland, which houses the Manager's transfer agent, plan administrative services, retirement plan services and operations support functions.

TRP Finance, Inc. and TRP Finance MRT, Inc., wholly-owned subsidiaries of the Manager, are Delaware corporations organized in 1990 to manage certain passive corporate investments and other intangible assets. TRP Finance MRT, Inc. was dissolved on October 4, 1993.

T. Rowe Price Strategic Partners Fund, L.P. is a Delaware limited partnership organized in 1990 for the purpose of investing in small public and private companies seeking capital for expansion or undergoing a restructuring of ownership. The general partner of the Fund is T. Rowe Price Strategic Partners, L.P., a Delaware limited partnership whose general partner is T. Rowe Price Strategic Partners Associates, Inc., ("Strategic Associates"), a Maryland corporation which is a wholly-owned subsidiary of the Manager. Strategic Associates also serves as the general partner of T. Rowe Price Strategic Partners II, L.P., a Delaware limited partnership established in 1992, which in turn serves as general partner of T. Rowe Price Strategic Partners Fund II, L.P., a Delaware limited partnership organized in 1992.

Listed below are the directors of the Manager who have other substantial businesses, professions, vocations, or employment aside from that of Director of the Manager:

JAMES E. HALBKAT, JR., Director of the Manager. Mr. Halbkat is President of U.S. Monitor Corporation, a provider of public response systems. Mr. Halbkat's address is: P.O. Box 23109, Hilton Head Island, South Carolina 29925.

JOHN W. ROSENBLUM, Director of the Manager. Mr. Rosenblum is the Tayloe Murphy Professor at the University of Virginia, and a director of: Chesapeake Corporation, a manufacturer of paper products, Cadmus Communications Corp., a provider of printing and communication services; Comdial Corporation, a manufacturer of telephone systems for businesses; and Cone Mills Corporation, a textiles producer. Mr. Rosenblum's address is: P.O. Box 6550,

Charlottesville, Virginia 22906.

ROBERT L. STRICKLAND, Director of the Manager. Mr. Strickland is Chairman of Lowe's Companies, Inc., a retailer of specialty home supplies. Mr. Strickland's address is 604 Two Piedmont Plaza Building, Winston-Salem, North Carolina 27104.

PHILIP C. WALSH, Director of the Manager. Mr. Walsh is a Consultant to Cyprus Amax Minerals Company, Englewood, Colorado, and a director of Piedmont Mining Company, Inc., Charlotte, North Carolina. Mr. Walsh's address is: Blue Mill Road, Morristown, New Jersey 07960.

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With the exception of Messrs. Halbkat, Rosenblum, Strickland, and Walsh, all of the directors of the Manager are employees of the Manager.

George J. Collins, who is Chief Executive Officer, President, and a Managing Director of the Manager, is a Director of Price-Fleming.

George A. Roche, who is Chief Financial Officer and a Managing Director of the Manager, is a Vice President and a Director of Price-Fleming.

M. David Testa, who is a Managing Director of the Manager, is Chairman of the Board of Price-Fleming.

Henry H. Hopkins, Charles P. Smith, and Peter Van Dyke, who are Managing Directors of the Manager, are Vice Presidents of Price-Fleming.

Robert P. Campbell, Roger L. Fiery, III, Robert C. Howe, Veena A. Kutler, George A. Murnaghan, William F. Wendler, II, and Edward A. Wiese, who are Vice Presidents of the Manager, are Vice Presidents of Price-Fleming.

Alvin M. Younger, Jr., who is a Managing Director and the Secretary and Treasurer of the Manager, is Secretary and Treasurer of Price-Fleming.

Nolan L. North, who is a Vice President and Assistant Treasurer of the Manager, is Assistant Treasurer of Price-Fleming.

Leah P. Holmes, who is an Assistant Vice President of the Manager, is a Vice President of Price-Fleming.

Barbara A. Van Horn, who is Assistant Secretary of the Manager, is Assistant Secretary of Price-Fleming.

Certain directors and officers of the Manager are also officers and/or directors of one or more of the Price Funds and/or one or more of the affiliated entities listed herein.

See also "Management of Fund," in Registrant's Statement of Additional Information.

Item 29. Principal Underwriters.

(a) The principal underwriter for the Registrant is Investment Services. Investment Services acts as the principal underwriter for the other thirty-six Price Funds. Investment Services is a wholly-owned subsidiary of the Manager, is registered as a broker-dealer under the Securities Exchange Act of 1934 and is a member of the National Association of Securities Dealers, Inc. Investment Services has been formed for the limited purpose of distributing the shares of the Price Funds and will not engage in the general securities business. Since the Price Funds are sold on a no-load basis, Investment Services will not receive any commissions or other compensation for acting as principal underwriter.

(b) The address of each of the directors and officers of Investment Services listed below is 100 East Pratt Street, Baltimore, Maryland 21202.

| Name and Principal Business Address | Positions and Offices With Underwriter | Positions and Offices With Registrant |
|-------------------------------------|--|---------------------------------------|
|-------------------------------------|--|---------------------------------------|

| | | |
|---------------------|------------------------|-----------------------------|
| James Sellers Riepe | President and Director | Vice President and Director |
|---------------------|------------------------|-----------------------------|

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| | | |
|--------------------------|-----------------------------|----------------|
| Henry Holt Hopkins | Vice President and Director | Vice President |
| Charles E. Vieth | Vice President and Director | None |
| Mark E. Rayford | Director | None |
| Patricia M. Archer | Vice President | None |
| Edward C. Bernard | Vice President | None |
| Joseph C. Bonasorte | Vice President | None |
| Meredith C. Callanan | Vice President | None |
| Laura H. Chasney | Vice President | None |
| Victoria C. Collins | Vice President | None |
| Christopher W. Dyer | Vice President | None |
| Forrest R. Foss | Vice President | None |
| Patricia O'Neil Goodyear | Vice President | None |
| James W. Graves | Vice President | None |
| Andrea G. Griffin | Vice President | None |
| Thomas Grizzard | Vice President | None |
| David J. Healy | Vice President | None |
| Joseph P. Healy | Vice President | None |
| Walter J. Helmlinger | Vice President | None |
| Eric G. Knauss | Vice President | None |
| Douglas G. Kremer | Vice President | None |
| Sharon Renae Krieger | Vice President | None |
| Keith Wayne Lewis | Vice President | None |
| David L. Lyons | Vice President | None |
| Sarah McCafferty | Vice President | None |
| Maurice Albert Minerbi | Vice President | None |

| | | |
|---------------------------|--------------------------|------|
| Nancy M. Morris | Vice President | None |
| George A. Murnaghan | Vice President | None |
| Steven Ellis Norwitz | Vice President | None |
| Kathleen M. O'Brien | Vice President | None |
| Pamela D. Preston | Vice President | None |
| Lucy Beth Robins | Vice President | None |
| John Richard Rockwell | Vice President | None |
| Monica R. Tucker | Vice President | None |
| William F. Wendler, II | Vice President | None |
| Terri L. Westren | Vice President | None |
| Jane F. White | Vice President | None |
| Thomas R. Woolley | Vice President | None |
| Alvin M. Younger, Jr. | Secretary and Treasurer | None |
| Mark S. Finn | Controller | None |
| Richard J. Barna | Assistant Vice President | None |
| Catherine L. Berkenkemper | Assistant Vice President | None |
| Ronae M. Brock | Assistant Vice President | None |
| Brenda E. Buhler | Assistant Vice President | None |
| Patricia Sue Butcher | Assistant Vice President | None |
| John A. Galateria | Assistant Vice President | None |
| Janelyn A. Healey | Assistant Vice President | None |
| Keith J. Langrehr | Assistant Vice President | None |
| C. Lillian Matthews | Assistant Vice President | None |
| Janice D. McCrory | Assistant Vice President | None |
| Sandra J. McHenry | Assistant Vice President | None |
| JeanneMarie B. Patella | Assistant Vice President | None |
| Kristin E. Seeberger | Assistant Vice President | None |
| Arthur J. Silber | Assistant Vice President | None |
| Nolan L. North | Assistant Vice President | None |
| Barbara A. VanHorn | Assistant Secretary | None |

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(c) Not applicable. Investment Services will not receive any compensation with respect to its activities as underwriter for the Price Funds since the Price Funds are sold on a no-load basis.

Item 30. Location of Accounts and Records.

All accounts, books, and other documents required to be maintained by T. Rowe Price Adjustable Rate U.S. Government Fund, Inc. under Section 31(a) of the Investment Company Act of 1940 and the rules thereunder will be maintained by T. Rowe Price Adjustable Rate U.S. Government Fund, Inc. at its offices at 100 East Pratt Street, Baltimore, Maryland 21202. Transfer, dividend disbursing, and shareholder service activities are performed by T. Rowe Price Services, Inc., at 100 East Pratt Street, Baltimore, Maryland 21202. Custodian activities for T. Rowe Price Adjustable Rate U.S. Government Fund, Inc. are performed at State Street Bank and Trust Company's Service Center (State Street South), 1776 Heritage Drive,

Item 31. Management Services.

Registrant is not a party to any management related service contract, other than as set forth in the Prospectus.

Item 32. Undertakings.

- (a) The Fund agrees to furnish, upon request and without charge, a copy of its latest Annual Report to each person to whom a prospectus is delivered.

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Pursuant to the requirements of the Securities Act of 1933, as amended, and the Investment Company Act of 1940, as amended, the Registrant has duly caused this Registration Statement to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Baltimore, State of Maryland, this 2nd day of August, 1994.

T. ROWE PRICE ADJUSTABLE RATE U.S.
GOVERNMENT FUND, INC.
/s/George J. Collins
By: George J. Collins
Chairman of the Board

Pursuant to the requirements of the Securities Act of 1933, as amended, this Registration Statement has been signed below by the following persons in the capacities and on the dates indicated:

| SIGNATURE | TITLE | DATE |
|--|--|----------------|
| _____ /s/George J. Collins George J. Collins | Chairman of the Board (Chief Executive Officer) | August 2, 1994 |
| _____ /s/Carmen F. Deyesu Carmen F. Deyesu | Treasurer (Chief Financial Officer) | August 2, 1994 |
| _____ /s/Robert P. Black Robert P. Black | Director | August 2, 1994 |
| _____ /s/Calvin W. Burnett Calvin W. Burnett | Director | August 2, 1994 |
| _____ /s/Anthony W. Deering Anthony W. Deering | Director | August 2, 1994 |
| _____ /s/F. Pierce Linaweaver F. Pierce Linaweaver | Director | August 2, 1994 |

/s/James S. Riepe Vice President and Director August 2, 1994
James S. Riepe

/s/John G. Schreiber Director August 2, 1994
John G. Schreiber

/s/Peter Van Dyke President and Director August 2, 1994
Peter Van Dyke

/s/Anne Marie Whittemore Director August 2, 1994
Anne Marie Whittemore

The Custodian Agreement dated September 28, 1987, as amended, between State Street Bank and Trust Company and T. Rowe Price Funds should be inserted here.

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CUSTODIAN CONTRACT
Between
STATE STREET BANK AND TRUST COMPANY
and
EACH OF THE PARTIES INDICATED
ON APPENDIX A
DATED: SEPTEMBER 28, 1987

FRF 07/87

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CUSTODIAN CONTRACT

This Contract by and between State Street Bank and Trust Company, a Massachusetts trust company, having its principal place of business at 225 Franklin Street, Boston, Massachusetts, 02110 (hereinafter called the "Custodian"), and each fund which is listed on Appendix A (as such Appendix may be amended from time to time) and which evidences its agreement to be bound hereby by executing a copy of this Contract (each such fund individually hereinafter called the "Fund," whose definition may be found in Section 22),

WITNESSETH: That in consideration of the mutual covenants and agreements hereinafter contained, the parties hereto agree as follows:

1. Employment of Custodian and Property to be Held by It

The Fund hereby employs the Custodian as the custodian of its assets, including securities it desires to be held in places within the United States ("domestic securities") and securities it desires to be held outside the United States ("foreign securities") pursuant to the Governing Documents of the Fund. The Fund agrees to deliver to the Custodian all securities and cash now or hereafter owned or acquired by it, and all payments of income, payments of principal or capital distributions received by it with respect to all securities owned by the Fund from time to time, and the cash consideration received by it for such new or treasury shares of capital stock ("Shares") of the Fund as may be issued or sold from time to time. The Custodian shall not be responsible for any property of the Fund held or received by the Fund and not delivered to the Custodian.

With respect to domestic securities, upon receipt of "Proper Instructions" (within the meaning of Article 5), the Custodian shall from time to time employ one or more sub-custodians located in the United States, but only in accordance with an applicable vote by the Board of Directors/Trustees of the Fund, and provided that the Custodian shall have no more or less responsibility or liability to the Fund on account of any actions or omissions of any sub-custodian so employed than any such sub-custodian has to the Custodian, and further provided that the Custodian shall not release the sub-custodian from any responsibility or liability unless mutually agreed upon by the parties in writing. With respect to foreign securities and other assets of the Fund held outside the United States, the Custodian shall employ Chase

Manhattan Bank, N.A., as a sub-custodian for the Fund in accordance with the provisions of Article 3.

2. Duties of the Custodian with Respect to Property of the Fund Held By the Custodian in the United States

2.1 Holding Securities. The Custodian shall hold and physically segregate for the account of the Fund all

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non-cash property, to be held by it in the United States, including all domestic securities owned by the Fund, other than (a) securities which are maintained pursuant to Section 2.10 in a clearing agency which acts as a securities depository or in a book-entry system authorized by the U.S. Department of the Treasury, collectively referred to herein as "Securities System," and (b) commercial paper of an issuer for which the Custodian acts as issuing and paying agent ("Direct Paper") which is deposited and/or maintained in the Direct Paper System of the Custodian pursuant to Section 2.11.

2.2 Delivery of Securities. The Custodian shall release and deliver domestic securities owned by the Fund held by the Custodian or in a Securities System account of the Custodian or in the Custodian's Direct Paper book entry system account ("Direct Paper System Account") only upon receipt of Proper Instructions, which may be continuing instructions when deemed appropriate by mutual agreement of the parties, and only in the following cases:

- 1) Sale. Upon sale of such securities for the account of the Fund and receipt of payment therefor;
- 2) Repurchase Agreement. Upon the receipt of payment in connection with any repurchase agreement related to such securities entered into by the Fund;
- 3) Securities System. In the case of a sale effected through a Securities System, in accordance with the provisions of Section 2.10 hereof;
- 4) Tender Offer. To the depository agent or other receiving agent in connection with tender or other similar offers for portfolio securities of the Fund;
- 5) Redemption by Issuer. To the issuer thereof or its agent when such securities are called, redeemed, retired or otherwise become payable; provided that, in any such case, the cash or other consideration is to be delivered to the Custodian;
- 6) Transfer to Issuer, Nominee. Exchange. To the issuer thereof, or its agent, for transfer into the name of the Fund or into the name of any nominee or nominees of the Custodian or into the name or nominee name of any agent appointed

pursuant to Section 2.9 or into the name or nominee name of any sub-custodian appointed pursuant to Article 1; or for exchange for a different number of bonds, certificates or other evidence representing the same aggregate face amount or number of units and bearing the same interest rate, maturity date and call provisions,

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- if any; provided that, in any such case, the new securities are to be delivered to the Custodian;
- 7) Sale to Broker or Dealer. Upon the sale of such securities for the account of the Fund, to the broker or its clearing agent or dealer, against a receipt, for examination in accordance with "street delivery" custom; provided that in any such case, the Custodian shall have no responsibility or liability for any loss arising from the delivery of such securities prior to receiving payment for such securities except as may arise from the Custodian's failure to act in accordance with its duties as set forth in Section 12.
 - 8) Exchange or Conversion. For exchange or conversion pursuant to any plan of merger, consolidation, recapitalization, reorganization, split-up of shares, change of par value or readjustment of the securities of the issuer of such securities, or pursuant to provisions for conversion contained in such securities, or pursuant to any deposit agreement provided that, in any such case, the new securities and cash, if any, are to be delivered to the Custodian;
 - 9) Warrants, Rights. In the case of warrants, rights or similar securities, the surrender thereof in the exercise of such warrants, rights or similar securities or the surrender of interim receipts or temporary securities for definitive securities; provided that, in any such case, the new securities and cash, if any, are to be delivered to the Custodian;
 - 10) Loans of Securities. For delivery in connection with any loans of securities made by the Fund, but only against receipt of adequate collateral as agreed upon from time to time by the Custodian and the Fund, which may be in the form of cash, obligations issued by the United States government, its agencies or instrumentalities, or such other property as mutually agreed by the parties, except that in connection with any loans for which collateral is to be credited to the Custodian's account in the book-entry system

authorized by the U.S. Department of the Treasury, the Custodian will not be held liable or responsible for the delivery of securities owned by the Fund prior to the receipt of such collateral, unless the Custodian fails to act in accordance with its duties set forth in Article 12;

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- 11) Borrowings. For delivery as security in connection with any borrowings by the Fund requiring a pledge of assets by the Fund, but only against receipt of amounts borrowed, except where additional collateral is required to secure a borrowing already made, subject to Proper Instructions, further securities may be released for that purpose;
- 12) Options. For delivery in accordance with the provisions of any agreement among the Fund, the Custodian and a broker-dealer registered under the Securities Exchange Act of 1934 (the "Exchange Act") and a member of The National Association of Securities Dealers, Inc. ("NASD"), relating to compliance with the rules of The Options Clearing Corporation, any registered national securities exchange, any similar organization or organizations, or the Investment Company Act of 1940, regarding escrow or other arrangements in connection with transactions by the Fund;
- 13) Futures. For delivery in accordance with the provisions of any agreement among the Fund, the Custodian, and a Futures Commission Merchant registered under the Commodity Exchange Act, relating to compliance with the rules of the Commodity Futures Trading Commission and/or any Contract Market, any similar organization or organizations, or the Investment Company Act of 1940, regarding account deposits in connection with transactions by the Fund;
- 14) In-Kind Distributions. Upon receipt of instructions from the transfer agent ("Transfer Agent") for the Fund, for delivery to such Transfer Agent or to the holders of shares in connection with distributions in kind, as may be described from time to time in the Fund's currently effective prospectus and statement of additional information ("prospectus"), in satisfaction of requests by holders of Shares for repurchase or redemption;
- 15) Miscellaneous. For any other proper corporate purpose, but only upon receipt of, in addition to

Proper Instructions, a certified copy of a resolution of the Board of Directors/Trustees or of the Executive Committee signed by an officer of the Fund and certified by the Secretary or an Assistant Secretary, specifying the securities to be delivered, setting forth the purpose for which such delivery is to be made, declaring such

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purpose to be a proper corporate purpose, and naming the person or persons to whom delivery of such securities shall be made; and

- 16) Type of Payment. In any or all of the above cases, payments to the Fund shall be made in cash, by a certified check upon or a treasurer's or cashier's check of a bank, by effective bank wire transfer through the Federal Reserve Wire System or, if appropriate, outside of the Federal Reserve Wire System and subsequent credit to the Fund's Custodian account, or, in case of delivery through a stock clearing company, by book-entry credit by the stock clearing company in accordance with the then current street custom, or such other form of payment as may be mutually agreed by the parties, in all such cases collected funds to be promptly credited to the Fund.

2.3 Registration of Securities. Domestic securities held by the Custodian (other than bearer securities) shall be registered in the name of the Fund or in the name of any nominee of the Fund or of any nominee of the Custodian which nominee shall be assigned exclusively to the Fund, unless the Fund has authorized in writing the appointment of a nominee to be used in common with other registered investment companies having the same investment adviser as the Fund, or in the name or nominee name of any agent appointed pursuant to Section 2.9 or in the name or nominee name of any sub-custodian appointed pursuant to Article 1. All securities accepted by the Custodian on behalf of the Fund under the terms of this Contract shall be in "street name" or other good delivery form.

2.4 Bank Accounts. The Custodian shall open and maintain a separate bank account or accounts in the United States in the name of the Fund, subject only to draft or order by the Custodian acting pursuant to the terms of this Contract, and shall hold in such account or accounts, subject to the provisions hereof all cash received by it from or for the account of the Fund, other than cash maintained by the Fund in a bank account established and used in accordance with Rule 17f-3 under the Investment Company Act of 1940. Funds held by the Custodian for the Fund may be deposited for the Fund's credit in the Banking Department of the Custodian or in such other banks or trust companies as the Custodian may

in its discretion deem necessary or desirable; provided, however, that every such bank or trust company shall be qualified to act as a custodian under the Investment Company Act of 1940 and that each such bank or trust company and the funds to be deposited with each such bank or trust company shall be approved by vote of a majority of the Board of Directors/Trustees of the Fund. Such funds shall be

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deposited by the Custodian in its capacity as Custodian and shall be withdrawable by the Custodian only in that capacity.

2.5 Sale of Shares and Availability of Federal Funds. Upon mutual agreement between the Fund and the Custodian, the Custodian shall, upon the receipt of Proper Instructions, make federal funds available to the Fund as of specified times agreed upon from time to time by the Fund and the Custodian in the amount of checks received in payment for Shares of the Fund which are deposited into the Fund's account.

2.6 Collection of Income, Dividends. The Custodian shall collect on a timely basis all income and other payments with respect to United States registered securities held hereunder to which the Fund shall be entitled either by law or pursuant to custom in the securities business, and shall collect on a timely basis all income and other payments with respect to United States bearer securities if, on the date of payment by the issuer, such securities are held by the Custodian or its agent thereof and shall credit such income or other payments, as collected, to the Fund's custodian account. Without limiting the generality of the foregoing, the Custodian shall detach and present for payment all coupons and other income items requiring presentation as and when they become due and shall collect interest when due on securities held hereunder. The Custodian will also receive and collect all stock dividends, rights and other items of like nature as and when they become due or payable. Income due the Fund on United States securities loaned pursuant to the provisions of Section 2.2 (10) shall be the responsibility of the Fund. The Custodian will have no duty or responsibility in connection therewith, other than to provide the Fund with such information or data as may be necessary to assist the Fund in arranging for the timely delivery to the Custodian of the income to which the Fund is properly entitled.

2.7 Payment of Fund Monies. Upon receipt of Proper Instructions,

which may be continuing instructions when deemed appropriate by mutual agreement of the parties, the Custodian shall pay out monies of the Fund in the following cases only:

- 1) Purchases. Upon the purchase of domestic securities, options, futures contracts or options

on futures contracts for the account of the Fund but only (a) against the delivery of such securities, or evidence of title to such options, futures contracts or options on futures contracts, to the Custodian (or any bank, banking firm or trust company doing business in the United States or abroad which is qualified under the Investment

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Company Act of 1940, as amended, to act as a custodian and has been designated by the Custodian as its agent for this purpose in accordance with Section 2.9 hereof) registered in the name of the Fund or in the name of a nominee of the Fund or of the Custodian referred to in Section 2.3 hereof or in other proper form for transfer; (b) in the case of a purchase effected through a Securities System, in accordance with the conditions set forth in Section 2.10 hereof or (c) in the case of a purchase involving the Direct Paper System, in accordance with the conditions set forth in Section 2.11; or (d) in the case of repurchase agreements entered into between the Fund and the Custodian, or another bank, or a broker-dealer which is a member of NASD, (i) against delivery of the securities either in certificate form or through an entry crediting the Custodian's account at the Federal Reserve Bank with such securities or (ii) against delivery of the receipt evidencing purchase by the Fund of securities owned by the Custodian along with written evidence of the agreement by the Custodian to repurchase such securities from the Fund. All coupon bonds accepted by the Custodian shall have the coupons attached or shall be accompanied by a check payable on coupon payable date for the interest due on such date.

- 2) Exchanges. In connection with conversion, exchange or surrender of securities owned by the Fund as set forth in Section 2.2 hereof;
- 3) Redemptions. For the redemption or repurchase of Shares issued by the Fund as set forth in Article 4 hereof;
- 4) Expense and Liability. For the payment of any expense or liability incurred by the Fund, including but not limited to the following payments for the account of the Fund: interest, taxes, management, accounting, transfer agent and legal fees, and operating expenses of the Fund whether or not such expenses are to be in whole or part capitalized or treated as deferred expenses;
- 5) Dividends. For the payment of any dividends or

- other distributions to shareholders declared pursuant to the Governing Documents of the Fund;
- 6) Short Sale Dividend. For payment of the amount of dividends received in respect of securities sold short;
 - 7) Loan. For repayment of a loan upon redelivery of pledged securities and upon surrender of the

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- note(s), if any, evidencing the loan;
- 8) Miscellaneous. For any other proper purpose, but only upon receipt of, in addition to Proper Instructions, a certified copy of a resolution of the Board of Directors/Trustees or of the Executive Committee of the Fund signed by an officer of the Fund and certified by its Secretary or an Assistant Secretary, specifying the amount of such payment, setting forth the purpose for which such payment is to be made, declaring such purpose to be a proper purpose, and naming the person or persons to whom such payment is to be made.

2.8 Liability for Payment in Advance of Receipt of Securities Purchased. In any and every case where payment for purchase of domestic securities for the account of the Fund is made by the Custodian in advance of receipt of the securities purchased in the absence of specific written instructions from the Fund to so pay in advance, the Custodian shall be absolutely liable to the Fund for such securities to the same extent as if the securities had been received by the Custodian.

2.9 Appointment of Agents. The Custodian may at any time or times in its discretion appoint (and may at any time remove) any other bank or trust company, which is itself qualified under the Investment Company Act of 1940, as amended, to act as a custodian, as its agent to carry out such of the provisions of this Article 2 as the Custodian may from time to time direct; provided, however, that the appointment of any agent shall not relieve the Custodian of its responsibilities or liabilities hereunder.

2.10 Deposit of Securities in Securities Systems. The Custodian may deposit and/or maintain domestic securities owned by the Fund in a clearing agency registered with the Securities and Exchange Commission under Section 17A of the Securities Exchange Act of 1934, which acts as a securities depository, or in the book-entry system authorized by the U.S. Department of the Treasury and certain federal agencies, collectively referred to herein as "Securities System" in accordance with applicable Federal Reserve Board and Securities and Exchange Commission rules and regulations, if any, and subject to the following provisions:

- 1) Account of Custodian. The Custodian may keep domestic securities of the Fund in a Securities System provided that such securities are represented in an account ("Account") of the Custodian in the Securities System which shall not include any assets of the Custodian other than assets held as a fiduciary, custodian or otherwise

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for customers;

- 2) Records. The records of the Custodian, with respect to domestic securities of the Fund which are maintained in a Securities System, shall identify by book-entry those securities belonging to the Fund;
- 3) Payment of Fund Monies, Delivery of Securities. Subject to Section 2.7, the Custodian shall pay for domestic securities purchased for the account of the Fund upon (i) receipt of advice from the Securities System that such securities have been transferred to the Account, and (ii) the making of an entry on the records of the Custodian to reflect such payment and transfer for the account of the Fund. Subject to Section 2.2, the Custodian shall transfer domestic securities sold for the account of the Fund upon (i) receipt of advice from the Securities System that payment for such securities has been transferred to the Account, and (ii) the making of an entry on the records of the Custodian to reflect such transfer and payment for the account of the Fund. Copies of all advices from the Securities System of transfers of domestic securities for the account of the Fund shall identify the Fund, be maintained for the Fund by the Custodian and be provided to the Fund at its request. The Custodian shall furnish the Fund confirmation of each transfer to or from the account of the Fund in the form of a written advice or notice and shall furnish to the Fund copies of daily transaction sheets reflecting each day's transactions in the Securities System for the account of the Fund;
- 4) Reports. The Custodian shall provide the Fund with any report obtained by the Custodian on the Securities System's accounting system, internal accounting control and procedures for safeguarding domestic securities deposited in the Securities System, and further agrees to provide the Fund with copies of any documentation it has relating to its arrangements with the Securities Systems as set forth in this Agreement or as otherwise required by the Securities and Exchange

Commission;

- 5) Annual Certificate. The Custodian shall have received the initial or annual certificate, as the case may be, required by Article 13 hereof;
- 6) Indemnification. Anything to the contrary in this Contract notwithstanding, the Custodian shall be liable to the Fund for any loss or expense,

including reasonable attorneys fees, or damage to the Fund resulting from use of the Securities System by reason of any failure by the Custodian or any of its agents or of any of its or their employees or agents or from failure of the Custodian or any such agent to enforce effectively such rights as it may have against the Securities System; at the election of the Fund, it shall be entitled to be subrogated to the rights of the Custodian with respect to any claim against the Securities System or any other person which the Custodian may have as a consequence of any such loss, expense or damage if and to the extent that the Fund has not been made whole for any such loss, expense or damage.

2.11 Fund Assets Held in the Custodian's Direct Paper System. The Custodian may deposit and/or maintain securities owned by the Fund in the Direct Paper System of the Custodian subject to the following provisions:

- 1) No transaction relating to securities in the Direct Paper System will be effected in the absence of Proper Instructions;
- 2) The Custodian may keep securities of the Fund in the Direct Paper System only if such securities are represented in an account ("Account") of the Custodian in the Direct Paper System which shall not include any assets of the Custodian other than assets held as a fiduciary, custodian or otherwise for customers;
- 3) The records of the Custodian with respect to securities of the Fund which are maintained in the Direct Paper System shall identify by book-entry those securities belonging to the Fund;
- 4) The Custodian shall pay for securities purchased for the account of the Fund upon the making of an entry on the records of the Custodian to reflect such payment and transfer of securities to the account of the Fund. The Custodian shall transfer securities sold for the account of the Fund upon the making of an entry on the records of the Custodian to reflect such transfer and receipt of payment for the account of the Fund;
- 5) The Custodian shall furnish the Fund confirmation

of each transfer to or from the account of the Fund, in the form of a written advice or notice, of Direct Paper on the next business day following such transfer and shall furnish to the Fund copies of daily transaction sheets reflecting each day's transaction in the Securities System for the account of the Fund;

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- 6) The Custodian shall provide the Fund with any report on its system of internal accounting control as the Fund may reasonably request from time to time;

2.12 Segregated Account. The Custodian shall, upon receipt of Proper Instructions, which may be of a continuing nature where deemed appropriate by mutual agreement of the parties, establish and maintain a segregated account or accounts for and on behalf of the Fund, into which account or accounts may be transferred cash and/or securities, including securities maintained in an account by the Custodian pursuant to Section 2.10 hereof, (i) in accordance with the provisions of any agreement among the Fund, the Custodian and a broker-dealer registered under the Exchange Act and a member of the NASD (or any futures commission merchant registered under the Commodity Exchange Act), relating to compliance with the rules of The Options Clearing Corporation and of any registered national securities exchange (or the Commodity Futures Trading Commission or any registered contract market), or of any similar organization or organizations, regarding escrow or other arrangements in connection with transactions by the Fund, (ii) for purposes of segregating cash or government securities in connection with options purchased, sold or written by the Fund or commodity futures contracts or options thereon purchased or sold by the Fund, (iii) for the purposes of compliance by the Fund with the procedures required by Investment Company Act Release No. 10666, or any subsequent release, rule or policy, of the Securities and Exchange Commission relating to the maintenance of segregated accounts by registered investment companies and (iv) for other proper corporate purposes, but only, in the case of clause (iv), upon receipt of, in addition to Proper Instructions, a certified copy of a resolution of the Board of Directors/Trustees or of the Executive Committee signed by an officer of the Fund and certified by the Secretary or an Assistant Secretary, setting forth the purpose or purposes of such segregated account and declaring such purposes to be proper corporate purposes.

2.13 Ownership Certificates for Tax Purposes. The Custodian shall execute ownership and other certificates and affidavits for all federal and state tax purposes in

connection with receipt of income or other payments with respect to domestic securities of the Fund held by it and in connection with transfers of such securities.

2.14 Proxies. If the securities are registered other than in the name of the Fund or a nominee of the Fund, the Custodian shall, with respect to the domestic securities held hereunder, cause to be promptly executed by the

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registered holder of such securities, all proxies, without indication of the manner in which such proxies are to be voted, and shall promptly deliver to the Fund such proxies, all proxy soliciting materials and all notices relating to such securities.

2.15 Communications Relating to Fund Portfolio Securities.

The Custodian shall transmit promptly to the Fund all written information (including, without limitation, pendency of calls and maturities of domestic securities and expirations of rights in connection therewith and notices of exercise of call and put options written by the Fund and the maturity of futures contracts purchased or sold by the Fund) received by the Custodian from issuers of the domestic securities being held for the Fund by the Custodian, an agent appointed under Section 2.9, or sub-custodian appointed under Section 1. With respect to tender or exchange offers, the Custodian shall transmit promptly to the Fund all written information received by the Custodian, an agent appointed under Section 2.9, or sub-custodian appointed under Section 1 from issuers of the domestic securities whose tender or exchange is sought and from the party (or his agents) making the tender or exchange offer. If the Fund desires to take action with respect to any tender offer, exchange offer or any other similar transaction, the Fund shall notify the Custodian of such desired action at least 72 hours (excluding holidays and weekends) prior to the time such action must be taken under the terms of the tender, exchange offer, or other similar transaction, and it will be the responsibility of the Custodian to timely transmit to the appropriate person(s) the Fund's notice. Where the Fund does not notify the Custodian of its desired action within the aforesaid 72 hour period, the Custodian shall use its best efforts to timely transmit the Fund's notice to the appropriate person.

2.16 Reports to Fund by Independent Public Accountants. The Custodian shall provide the Fund, at such times as the Fund may reasonably require, with reports by independent public accountants on the accounting system, internal accounting control and procedures for safeguarding securities, futures contracts and options on futures contracts, including domestic securities deposited and/or maintained in a Securities System, relating to the services provided by the Custodian under this Contract; such reports shall be of

sufficient scope and in sufficient detail, as may reasonably be required by the Fund to provide reasonable assurance that any material inadequacies existing or arising since the prior examination would be disclosed by such examination. The reports must describe any material inadequacies disclosed and, if there are no such inadequacies, the reports shall so state.

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3. Duties of the Custodian with Respect to Property of the Fund Held Outside of the United States

3.1 Appointment of Foreign Sub-Custodians. The Custodian is authorized and instructed to employ Chase Manhattan Bank, N.A, ("Chase") as sub-custodian for the Fund's securities, cash and other assets maintained outside of the United States ("foreign assets") all as described in the Subcustodian Agreement between the Custodian and Chase. Upon receipt of "Proper Instructions", together with a certified resolution of the Fund's Board of Directors/Trustees, the Custodian and the Fund may agree to designate additional proper institutions and foreign securities depositories to act as sub-custodians of the Fund's foreign assets. Upon receipt of Proper Instructions from the Fund, the Custodian shall cease the employment of any one or more of such sub-custodians for maintaining custody of the Fund's foreign assets.

3.2 Assets to be Held. The Custodian shall limit the foreign assets maintained in the custody of foreign sub-custodians to foreign assets specified under the terms of the Subcustodian Agreement between the Custodian and Chase.

3.3 Foreign Securities Depositories. Except as may otherwise be agreed upon in writing by the Custodian and the Fund, foreign assets of the Fund shall be maintained in foreign securities depositories only through arrangements implemented by the banking institutions serving as sub-custodians pursuant to the terms hereof.

3.4 Segregation of Securities. The Custodian shall identify on its books as belonging to the Fund, the foreign assets of the Fund held by Chase and by each foreign sub-custodian.

3.5 Access of Independent Accountants of the Fund. Upon request of the Fund, the Custodian will use its best efforts (subject to applicable law) to arrange for the independent accountants, officers or other representatives of the Fund or the Custodian to be afforded access to the books and records of Chase and any banking or other institution employed as a sub-custodian for the Fund by Chase or the Custodian insofar as such books and records relate to the performance of Chase or such banking or other institution under any agreement with the Custodian or Chase. Upon request of the Fund, the Custodian shall furnish to the Fund

such reports (or portions thereof) of Chase's external auditors as are available to the Custodian and which relate directly to Chase's system of internal accounting controls applicable to Chase's duties as a subcustodian or which relate to the internal accounting controls of any subcustodian employed by Chase with respect to foreign assets of the Fund.

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3.6 Reports by Custodian. The Custodian will supply to the Fund from time to time, as mutually agreed upon, statements in respect of the foreign assets of the Fund held pursuant to the terms of the Subcustodian Agreement between the Custodian and Chase, including but not limited, to an identification of entities having possession of the Fund's foreign assets and advices or notifications of any transfers of foreign assets to or from each custodial account maintained by any sub-custodian on behalf of the Fund indicating, as to foreign assets acquired for the Fund, the identity of the entity having physical possession of such foreign assets.

3.7 Transactions in Foreign Assets of the Fund. All transactions with respect to the Fund's foreign assets shall be in accordance with, and subject to, the provisions of the Subcustodian Agreement between Chase and the Custodian.

3.8 Responsibility of Custodian, Sub-Custodian, and Fund. Notwithstanding anything to the contrary in this Custodian Contract, the Custodian shall not be liable to the Fund for any loss, damage, cost, expense, liability or claim arising out of or in connection with the maintenance of custody of the Fund's foreign assets by Chase or by any other banking institution or securities depository employed pursuant to the terms of any Subcustodian Agreement between Chase and the Custodian, except that the Custodian shall be liable for any such loss, damage, cost, expense, liability or claim to the extent provided in the Subcustodian Agreement between Chase and the Custodian or attributable to the failure of the Custodian to exercise the standard of care set forth in Article 12 hereof in the performance of its duties under this Contract or such Subcustodian Agreement. At the election of the Fund, the Fund shall be entitled to be subrogated to the rights of the Custodian under the Subcustodian Agreement with respect to any claims arising thereunder against Chase or any other banking institution or securities depository employed by Chase if and to the extent that the Fund has not been made whole therefor. As between the Fund and the Custodian, the Fund shall be solely responsible to assure that the maintenance of foreign securities and cash pursuant to the terms of the Subcustodian Agreement complies with all applicable rules, regulations, interpretations and orders of the Securities

and Exchange Commission, and the Custodian assumes no responsibility and makes no representations as to such compliance.

3.9 Monitoring Responsibilities. With respect to the Fund's foreign assets, the Custodian shall furnish annually to the Fund, during the month of June, information concerning the sub-custodians employed by the Custodian.

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Such information shall be similar in kind and scope to that furnished to the Fund in connection with the initial approval of this Contract. In addition, the Custodian will promptly inform the Fund in the event that the Custodian learns of a material adverse change in the financial condition of a sub-custodian.

3.10 Branches of U.S. Banks. Except as otherwise set forth in this Contract, the provisions of this Article 3 shall not apply where the custody of the Fund's assets is maintained in a foreign branch of a banking institution which is a "bank" as defined by Section 2(a)(5) of the Investment Company Act of 1940 which meets the qualification set forth in Section 26(a) of said Act. The appointment of any such branch as a sub-custodian shall be governed by Section 1 of this Contract.

4. Payments for Repurchases or Redemptions and Sales of Shares of the Fund

From such funds as may be available for the purpose but subject to the limitations of the Governing Documents of the Fund and any applicable votes of the Board of Directors/Trustees of the Fund pursuant thereto, the Custodian shall, upon receipt of instructions from the Transfer Agent, make funds available for payment to holders of Shares who have delivered to the Transfer Agent a request for redemption or repurchase of their Shares. In connection with the redemption or repurchase of Shares of the Fund, the Custodian is authorized upon receipt of instructions from the Transfer Agent to wire funds to or through a commercial bank designated by the redeeming shareholder. In connection with the redemption or repurchase of Shares of the Fund, the Custodian shall honor checks drawn on the Custodian by a holder of Shares, which checks have been furnished by the Fund to the holder of Shares, when presented to the Custodian in accordance with such procedures and controls as are mutually agreed upon from time to time between the Fund and the Custodian.

The Custodian shall receive from the distributor for the Fund's Shares or from the Transfer Agent of the Fund and deposit as received into the Fund's account such payments as are received for Shares of the Fund issued or sold from time to time by the Fund. The Custodian will provide timely notification to the Fund and the Transfer Agent of any receipt by it of payments for Shares of the Fund.

5. Proper Instructions

Proper Instructions as used herein means a writing signed or initialled by one or more person or persons as the Board of Directors/Trustees shall have from time to time authorized. Each such writing shall set forth the specific transaction or type of transaction involved, including a specific statement of the purpose for which such action is requested, or shall be a blanket instruction authorizing specific transactions of a repeated or

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routine nature. Oral instructions will be considered Proper Instructions if the Custodian reasonably believes them to have been given by a person authorized to give such instructions with respect to the transaction involved. The Fund shall cause all oral instructions to be confirmed in writing. Upon receipt of a certificate of the Secretary or an Assistant Secretary as to the authorization by the Board of Directors/Trustees of the Fund accompanied by a detailed description of procedures approved by the Board of Directors/Trustees, Proper Instructions may include communications effected directly between electro-mechanical or electronic devices provided that the Board of Directors/Trustees and the Custodian are satisfied that such procedures afford adequate safeguards for the Fund's assets.

6. Actions Permitted without Express Authority

The Custodian may in its discretion, without express authority from the Fund:

- 1) make payments to itself or others for minor expenses of handling securities or other similar items relating to its duties under this Contract, provided that all such payments shall be accounted for to the Fund;
- 2) surrender securities in temporary form for securities in definitive form;
- 3) endorse for collection, in the name of the Fund, checks, drafts and other negotiable instruments on the same day as received; and
- 4) in general, attend to all non-discretionary details in connection with the sale, exchange, substitution, purchase, transfer and other dealings with the securities and property of the Fund except as otherwise directed by the Board of Directors/Trustees of the Fund.

7. Evidence of Authority, Reliance on Documents

The Custodian shall be protected in acting upon any instructions, notice, request, consent, certificate or other instrument or paper reasonably and in good faith believed by it to be genuine and to have been properly executed by or on behalf of the Fund in accordance with Article 5 hereof. The Custodian may receive and accept a certified copy of a vote of the Board of Directors/Trustees of the Fund as conclusive evidence (a) of the authority of any person to act in accordance with such vote or (b) of any determination or of any action by the Board of Directors/Trustees pursuant to the Governing Documents of the

Fund as described in such vote, and such vote may be considered as in full force and effect until receipt by the Custodian of written notice to the contrary. So long as and to the extent that it is in the exercise of the standard of care set forth in Article 12 hereof, the Custodian shall not be responsible for the title, validity or genuineness of any property or evidence of title thereto received by it or delivered by it pursuant to this

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Contract and shall be held harmless in acting upon any notice, request, consent, certificate or other instrument reasonably believed by it to be genuine and to be signed by the proper party or parties.

8. Duties of Custodian with Respect to the Books of Account and Calculation of Net Asset Value and Net Income

The Custodian shall cooperate with and supply necessary information to the person or persons appointed by the Board of Directors/Trustees of the Fund to keep the books of account of the Fund and/or compute the net asset value per share of the outstanding shares of the Fund or, if directed in writing to do so by the Fund, shall itself keep such books of account and/or compute such net asset value per share. If so directed, the Custodian shall also calculate daily the net income of the Fund as described in the Fund's currently effective prospectus and shall advise the Fund and the Transfer Agent daily of the total amounts of such net income and, if instructed in writing by an officer of the Fund to do so, shall advise the Transfer Agent periodically of the division of such net income among its various components. The calculations of the net asset value per share and the daily income of the Fund shall be made at the time or times and in the manner described from time to time in the Fund's currently effective prospectus.

9. Records, Inventory

The Custodian shall create and maintain all records relating to its activities and obligations under this Contract in such manner as will meet the obligations of the Fund under the Investment Company Act of 1940, with particular attention to Section 31 thereof and Rules 31a-1 and 31a-2 thereunder, applicable federal and state tax laws and any other law or administrative rules or procedures which may be applicable to the Fund. All such records shall be the property of the Fund and shall at all times during the regular business hours of the Custodian be open for inspection and audit by duly authorized officers, employees or agents of the Fund and employees and agents of the Securities and Exchange Commission, and, in the event of termination of this Agreement, will be delivered in accordance with Section 14 hereof. The Custodian shall, at the Fund's request, supply the Fund with a tabulation of securities owned by the Fund and held by the Custodian and shall, when requested to do so by the Fund and for such compensation as shall be agreed upon between the Fund and the Custodian, include certificate numbers in such tabulations. The Custodian shall

conduct a periodic inventory of all securities and other property subject to this Agreement and provide to the Fund a periodic reconciliation of the vaulted position of the Fund to the appraised position of the Fund. The Custodian will promptly report to the Fund the results of the reconciliation, indicating any shortages or discrepancies uncovered thereby, and take appropriate action to remedy any such shortages or discrepancies.

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10. Opinion of Fund's Independent Accountant

The Custodian shall cooperate with the Fund's independent public accountants in connection with the annual and other audits of the books and records of the Fund and take all reasonable action, as the Fund may from time to time request, to provide from year to year the necessary information to such accountants for the expression of their opinion without any qualification as to the scope of their examination, including but not limited to, any opinion in connection with the preparation of the Fund's Form N-1A, and Form N-SAR or other annual reports to the Securities and Exchange Commission and with respect to any other requirements of such Commission.

11. Compensation of Custodian

The Custodian shall be entitled to reasonable compensation for its services and expenses as Custodian, as agreed upon from time to time between the Fund and the Custodian.

12. Responsibility of Custodian

Notwithstanding anything to the contrary in this Agreement, the Custodian shall be held to the exercise of reasonable care in carrying out the provisions of this Contract, but shall be kept indemnified by and shall be without liability to the Fund for any action taken or omitted by it in good faith without negligence. In order for the indemnification provision contained in this Section to apply, it is understood that if in any case the Fund may be asked to indemnify or save the Custodian harmless, the Fund shall be fully and promptly advised of all pertinent facts concerning the situation in question, and it is further understood that the Custodian will use all reasonable care to identify and notify the Fund promptly concerning any situation which presents or appears likely to present the probability of such a claim for indemnification against the Fund. The Fund, shall have the option to defend the Custodian against any claim which may be the subject of this indemnification, and in the event that the Fund so elects, it will so notify the Custodian, and thereupon the Fund shall take over complete defense of the claim and the Custodian shall in such situation initiate no further legal or other expenses for which it shall seek indemnification under this Section. The Custodian shall in no case confess any claim or make any compromise in any case in which the Fund will be asked to indemnify the Custodian except with the Fund's prior written consent. Nothing herein shall be construed to limit any right or cause of action on the part of

the Custodian under this Contract which is independent of any right or cause of action on the part of the Fund. The Custodian shall be entitled to rely on and may act upon advice of counsel (who may be counsel for the Fund or such other counsel as may be agreed to by the parties) on all matters, and shall be without liability for any action reasonably taken or omitted pursuant to such advice. Notwithstanding the foregoing, the responsibility

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of the Custodian with respect to redemptions effected by check shall be in accordance with a separate Agreement entered into between the Custodian and the Fund.

If the Fund requires the Custodian to take any action with respect to securities, which action involves the payment of money or which action may, in the opinion of the Custodian, result in the Custodian or its nominee assigned to the Fund being liable for the payment of money or incurring liability of some other form, the Fund, as a prerequisite to requiring the Custodian to take such action, shall provide indemnity to the Custodian in an amount and form satisfactory to it.

If the Fund requires the Custodian to advance cash or securities for any purpose or in the event that the Custodian or its nominee shall incur or be assessed any taxes, charges, expenses, assessments, claims or liabilities in connection with the performance of this Contract, except such as may arise from its or its nominee's own negligent action, negligent failure to act or willful misconduct, any property at any time held for the account of the Fund shall be security therefor and should the Fund fail to repay the Custodian promptly, the Custodian shall be entitled to utilize available cash and to dispose of the Fund's assets to the extent necessary to obtain reimbursement, provided that the Custodian gives the Fund reasonable notice to repay such cash or securities advanced, however, such notice shall not preclude the Custodian's right to assert any lien under this provision.

13. Effective Period, Termination and Amendment

This Contract shall become effective as of its execution, shall continue in full force and effect until terminated as hereinafter provided, may be amended at any time by mutual agreement of the parties hereto and may be terminated by either party by an instrument in writing delivered or mailed, postage prepaid to the other party, such termination to take effect not sooner than sixty (60) days after the date of such delivery or mailing in the case of a termination by the Fund, and not sooner than 180 days after the date of such delivery or mailing in the case of a termination by the Custodian; provided, however that the Custodian shall not act under Section 2.10 hereof in the absence of receipt of an initial certificate of the Secretary or an Assistant Secretary that the Board of Directors/Trustees of the Fund has approved the initial use of a particular Securities System and the receipt of an annual certificate of the Secretary or an Assistant Secretary that the Board of Directors/Trustees

has reviewed the use by the Fund of such Securities System, as required in each case by Rule 17f-4 under the Investment Company Act of 1940, as amended and that the Custodian shall not act under Section 2.11 hereof in the absence of receipt of an initial certificate of the Secretary or an Assistant Secretary that the Board of Directors/Trustees has approved the initial use of the Direct Paper System and the receipt of an annual certificate of

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the Secretary or an Assistant Secretary that the Board of Directors/Trustees has reviewed the use by the Fund of the Direct Paper System; provided further, however, that the Fund shall not amend or terminate this Contract in contravention of any applicable federal or state regulations, or any provision of the Governing Documents of the Fund, and further provided, that the Fund may at any time by action of its Board of Directors/Trustees (i) substitute another bank or trust company for the Custodian by giving notice as described above to the Custodian, or (ii) immediately terminate this Contract in the event of the appointment of a conservator or receiver for the Custodian by the Comptroller of the Currency or upon the happening of a like event at the direction of an appropriate regulatory agency or court of competent jurisdiction.

Upon termination of the Contract, the Fund shall pay to the Custodian such compensation as may be due as of the date of such termination and shall likewise reimburse the Custodian for its costs, expenses and disbursements, provided that the Custodian shall not incur any costs, expenses or disbursements specifically in connection with such termination unless it has received prior approval from the Fund, which approval shall not be unreasonably withheld.

14. Successor Custodian

If a successor custodian shall be appointed by the Board of Directors/Trustees of the Fund, the Custodian shall, upon termination, deliver to such successor custodian at the office of the Custodian, duly endorsed and in the form for transfer, all securities, funds and other properties then held by it hereunder and shall transfer to an account of the successor custodian all of the Fund's securities held in a Securities System. The Custodian shall also use its best efforts to assure that the successor custodian will continue any subcustodian agreement entered into by the Custodian and any subcustodian on behalf of the Fund.

If no such successor custodian shall be appointed, the Custodian shall, in like manner, upon receipt of a certified copy of a vote of the Board of Directors/Trustees of the Fund, deliver at the office of the Custodian and transfer such securities, funds and other properties in accordance with such vote.

In the event that no written order designating a successor custodian or certified copy of a vote of the Board of

Directors/Trustees shall have been delivered to the Custodian on or before the date when such termination shall become effective, then the Custodian shall have the right to deliver to a bank or trust company, which is a "bank" as defined in the Investment Company Act of 1940, doing business in Boston, Massachusetts, of its own selection, having an aggregate capital, surplus, and undivided profits, as shown by its last published report, of not

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less than \$25,000,000, all securities, funds and other properties held by the Custodian and all instruments held by the Custodian relative thereto and all other property held by it under this Contract and to transfer to an account of such successor custodian all of the Fund's securities held in any Securities System. Thereafter, such bank or trust company shall be the successor of the Custodian under this Contract.

In the event that securities, funds and other properties remain in the possession of the Custodian after the date of termination hereof owing to failure of the Fund to procure the certified copy of the vote referred to or of the Board of Directors/Trustees to appoint a successor custodian, the Custodian shall be entitled to fair compensation for its services during such period as the Custodian retains possession of such securities, funds and other properties and the provisions of this Contract relating to the duties and obligations of the Custodian shall remain in full force and effect. If while this Contract is in force the Fund shall be liquidated pursuant to law, the Custodian shall distribute, either in cash or (if the Fund so orders) in the portfolio securities and other assets of the Fund, pro rata among the holders of shares of the Fund as certified by the Transfer Agent, the property of the Fund which remains after paying or satisfying all expenses and liabilities of the Fund. Section 12 hereof shall survive any termination of this Contract.

15. Interpretive and Additional Provisions

In connection with the operation of this Contract, the Custodian and the Fund may from time to time agree on such provisions interpretive of or in addition to the provisions of this Contract as may in their joint opinion be consistent with the general tenor of this Contract. Any such interpretive or additional provisions shall be in a writing signed by both parties and shall be annexed hereto, provided that no such interpretive or additional provisions shall contravene any applicable federal or state regulations or any provision of the Governing Documents of the Fund. No interpretive or additional provisions made as provided in the preceding sentence shall be deemed to be an amendment of this Contract.

16. Notice

Any notice shall be sufficiently given when sent by registered or certified mail, or by such other means as the parties shall agree, to the other party at the address of such

party set forth above or at such other address as such party may from time to time specify in writing to the other party.

17. Bond

The Custodian shall, at all times, maintain a bond in such form and amount as is acceptable to the Fund which shall be issued by a reputable fidelity insurance company authorized to do business in the place where such bond is issued against larceny
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and embezzlement, covering each officer and employee of the Custodian who may, singly or jointly with others, have access to securities or funds of the Fund, either directly or through authority to receive and carry out any certificate instruction, order request, note or other instrument required or permitted by this Agreement. The Custodian agrees that it shall not cancel, terminate or modify such bond insofar as it adversely affects the Fund except after written notice given to the Fund not less than 10 days prior to the effective date of such cancellation, termination or modification. The Custodian shall furnish to the Fund a copy of each such bond and each amendment thereto.

18. Confidentiality

The Custodian agrees to treat all records and other information relative to the Fund and its prior, present or future shareholders as confidential, and the Custodian, on behalf of itself and its employees, agrees to keep confidential all such information except, after prior notification to and approval in writing by the Fund, which approval shall not be unreasonably withheld and may not be withheld where the Custodian may be exposed to civil or criminal contempt proceedings for failure to comply, when requested to divulge such information by duly constituted authorities, or when so requested by the Fund.

19. Exemption from Liens

The securities and other assets held by the Custodian for the Fund shall be subject to no lien or charge of any kind in favor of the Custodian or any person claiming through the Custodian, but nothing herein shall be deemed to deprive the Custodian of its right to invoke any and all remedies available at law or equity to collect amounts due it under this Agreement. Neither the Custodian nor any sub-custodian appointed pursuant to Section 1 hereof shall have any power or authority to assign, hypothecate, pledge or otherwise dispose of any securities held by it for the Fund, except upon the direction of the Fund, duly given as herein provided, and only for the account of the Fund.

20. Massachusetts Law to Apply

This Contract shall be construed and the provisions thereof interpreted under and in accordance with laws of The Commonwealth of Massachusetts.

21. Prior Contracts

Without derogating any of the rights established by such contracts, this Contract supersedes and terminates, as of the date hereof, all prior contracts between the Fund and the Custodian relating to the custody of the Fund's assets.

22. The Parties

All references herein to "the Fund" are to each of the funds listed on Appendix A individually, as if this Contract were between such individual fund and the Custodian. In the case of a series fund or trust, all references to "the Fund" are to the individual series or portfolio of such fund or trust, or to such fund or trust on behalf of the individual series or portfolio, as

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appropriate. Any reference in this Contract to "the parties" shall mean the Custodian and such other individual Fund as to which the matter pertains.

23. Governing Documents.

The term "Governing Documents" means the Articles of Incorporation, Agreement of Trust, By-Laws and Registration Statement filed under the Securities Act of 1933, as amended from time to time.

24. Subcustodian Agreement.

Reference to the "Subcustodian Agreement" between the Custodian and Chase shall mean any such agreement which shall be in effect from time to time between Chase and the Custodian with respect to foreign assets of the Fund.

25. Directors and Trustees.

It is understood and is expressly stipulated that neither the holders of shares in the Fund nor any Directors or Trustees of the Fund shall be personally liable hereunder.

26. Massachusetts Business Trust

With respect to any Fund which is a party to this Contract and which is organized as a Massachusetts business trust, the term Fund means and refers to the trustees from time to time serving under the applicable trust agreement (Declaration of Trust) of such Trust as the same may be amended from time to time. It is expressly agreed that the obligations of any such Trust hereunder shall not be binding upon any of the trustees, shareholders, nominees, officers, agents or employees of the Trust, personally, but bind only the trust property of the Trust, as provided in the Declaration of Trust of the Trust. The execution and delivery of this Contract has been authorized by the trustees and signed by an authorized officer of the Trust, acting as such, and neither such authorization by such Trustees nor such execution and delivery by such officer shall be deemed to have been made by any of them but shall bind only the trust property of the Trust as provided in its Declaration of Trust.

27. Successors of Parties.

This Contract shall be binding on and shall inure to the benefit of the Fund and the Custodian and their respective successors.

IN WITNESS WHEREOF, each of the parties has caused this instrument to be executed in its name and behalf by its duly authorized representative and its seal to be hereunder affixed as of the dates indicated below.

DATED: September 28, 1987

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STATE STREET BANK AND TRUST
COMPANY

ATTEST:

/s/Kathleen M. Kubit

By/s/Charles Cassidy

Assistant Secretary

Vice President

T. ROWE PRICE GROWTH STOCK FUND, INC.
T. ROWE PRICE NEW HORIZONS FUND, INC.
T. ROWE PRICE NEW ERA FUND, INC.
T. ROWE PRICE NEW INCOME FUND, INC.
T. ROWE PRICE PRIME RESERVE FUND, INC.
T. ROWE PRICE TAX-FREE INCOME FUND, INC.
T. ROWE PRICE INTERNATIONAL TRUST
T. Rowe Price International Stock Fund
T. ROWE PRICE TAX-EXEMPT MONEY FUND, INC.
T. ROWE PRICE U.S. TREASURY MONEY FUND, INC.
T. ROWE PRICE GROWTH & INCOME FUND, INC.
T. ROWE PRICE TAX-FREE SHORT-INTERMEDIATE
FUND, INC.
T. ROWE PRICE SHORT-TERM BOND FUND, INC.
T. ROWE PRICE HIGH YIELD FUND, INC.
T. ROWE PRICE TAX-FREE HIGH YIELD FUND, INC.
T. ROWE PRICE NEW AMERICA GROWTH FUND
T. ROWE PRICE EQUITY INCOME FUND

T. ROWE PRICE GNMA FUND

T. ROWE PRICE CAPITAL APPRECIATION FUND

T. ROWE PRICE INSTITUTIONAL TRUST
Tax-Exempt Reserve Portfolio

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(SIGNATURES CONTINUED)

T. ROWE PRICE STATE TAX-FREE INCOME TRUST
New York Tax-Free Money Fund

T. ROWE PRICE STATE TAX-FREE INCOME TRUST
New York Tax-Free Bond Fund

T. ROWE PRICE INTERNATIONAL TRUST
T. Rowe Price International Bond Fund

T. ROWE PRICE CALIFORNIA TAX-FREE INCOME
TRUST
California Tax-Free Money Fund

T. ROWE PRICE CALIFORNIA TAX-FREE INCOME
TRUST
California Tax-Free Bond Fund

T. ROWE PRICE STATE TAX-FREE INCOME TRUST
Maryland Tax-Free Bond Fund

T. ROWE PRICE SCIENCE & TECHNOLOGY FUND, INC.

DATED: September 28, 1987

ATTEST:

/s/Nancy J. Wortman

By/s/Carmen F. Deyesu

Appendix A

The following Funds are parties to this Agreement and have so indicated their intention to be bound by such Agreement by executing the Agreement on the dates indicated thereon.

T. Rowe Price California Tax-Free Income Trust on behalf of the

California Tax-Free Bond Fund and
California Tax-Free Money Fund

T. Rowe Price Capital Appreciation Fund

T. Rowe Price Equity Income Fund

T. Rowe Price GNMA Fund

T. Rowe Price Growth & Income Fund, Inc.

T. Rowe Price Growth Stock Fund, Inc.

T. Rowe Price High Yield Fund, Inc.

T. Rowe Price Institutional Trust on behalf of the
Tax-Exempt Reserve Portfolio

T. Rowe Price International Trust on behalf of the

T. Rowe Price International Bond Fund and

T. Rowe Price International Stock Fund

T. Rowe Price New America Growth Fund

T. Rowe Price New Era Fund, Inc.

T. Rowe Price New Horizons Fund, Inc.

T. Rowe Price New Income Fund, Inc.

T. Rowe Price Prime Reserve Fund, Inc.

T. Rowe Price Science & Technology Fund, Inc.

T. Rowe Price Short-Term Bond Fund, Inc.

T. Rowe Price State Tax-Free Income Trust on behalf of the
Maryland Tax-Free Bond Fund,
New York Tax-Free Bond Fund and
New York Tax-Free Money Fund

T. Rowe Price Tax-Exempt Money Fund, Inc.

T. Rowe Price Tax-Free High Yield Fund, Inc.

T. Rowe Price Tax-Free Income Fund, Inc.

T. Rowe Price Tax-Free Short-Intermediate Fund, Inc.

T. Rowe Price U.S. Treasury Money Fund, Inc.

AMENDMENT NO. 1 TO CUSTODIAN CONTRACT BETWEEN
STATE STREET BANK AND TRUST COMPANY AND
THE T. ROWE PRICE FUNDS

THIS AGREEMENT, made as of this 24th day of June, 1988, by and between: T. Rowe Price Growth Stock Fund, Inc., T. Rowe Price New Horizons Fund, Inc., T. Rowe Price New Era Fund, Inc., T. Rowe Price New Income Fund, Inc., T. Rowe Price Prime Reserve Fund, Inc., T. Rowe Price International Trust, T. Rowe Price U.S. Treasury Money Fund, Inc., T. Rowe Price Growth & Income Fund, Inc., T. Rowe Price Tax-Exempt Money Fund, Inc., T. Rowe Price Tax-Free Income Fund, Inc., T. Rowe Price Tax-Free Short-Intermediate Fund, Inc., T. Rowe Price Short-Term Bond Fund, Inc., T. Rowe Price High Yield Fund, Inc., T. Rowe Price Tax-Free High Yield Fund, Inc., T. Rowe Price New America Growth Fund, T. Rowe Price Equity Income Fund, T. Rowe Price GNMA Fund, T. Rowe Price Capital Appreciation Fund, T. Rowe Price Institutional Trust, T. Rowe Price State Tax-Free Income Trust, T. Rowe Price California Tax-Free Income Trust, T. Rowe Price Science & Technology Fund, Inc., (hereinafter together called the "Funds" and individually "Fund") and State Street Bank and Trust Company, a Massachusetts trust,

W I T N E S S E T H:

It is mutually agreed that the Custodian Contract made by the parties on the 28th day of September, 1987, is hereby amended by adding thereto the T. Rowe Price Small-Cap Value Fund, Inc.

T. ROWE PRICE GROWTH STOCK FUND, INC.
/s/Henry H. Hopkins

By: Henry H. Hopkins
Vice President

T. ROWE PRICE NEW HORIZONS FUND, INC.
/s/Henry H. Hopkins

By: Henry H. Hopkins
Vice President

T. ROWE PRICE NEW ERA FUND, INC.
/s/Henry H. Hopkins

By: Henry H. Hopkins
Vice President

T. ROWE PRICE NEW INCOME FUND, INC.
/s/Henry H. Hopkins

By: Henry H. Hopkins
Vice President

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(SIGNATURES CONTINUED)

T. ROWE PRICE PRIME RESERVE FUND, INC.
/s/Henry H. Hopkins

By: Henry H. Hopkins
Vice President

T. ROWE PRICE INTERNATIONAL TRUST
/s/Henry H. Hopkins

By: Henry H. Hopkins
Vice President

T. ROWE PRICE U.S. TREASURY MONEY FUND, INC.
/s/Henry H. Hopkins

By: Henry H. Hopkins
Vice President

T. ROWE PRICE GROWTH & INCOME FUND, INC.
/s/Henry H. Hopkins

By: Henry H. Hopkins
Vice President

T. ROWE PRICE SHORT-TERM BOND FUND, INC.
/s/Henry H. Hopkins

By: Henry H. Hopkins
Vice President

T. ROWE PRICE TAX-FREE INCOME FUND, INC.
/s/Henry H. Hopkins

By: Henry H. Hopkins
Vice President

T. ROWE PRICE TAX-EXEMPT MONEY FUND, INC.
/s/Henry H. Hopkins

By: Henry H. Hopkins
Vice President

T. ROWE PRICE TAX-FREE SHORT-INTERMEDIATE
FUND, INC.
/s/Henry H. Hopkins

By: Henry H. Hopkins
Vice President

T. ROWE PRICE HIGH YIELD FUND, INC.
/s/ Henry H. Hopkins

By: Henry H. Hopkins
Vice President

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(SIGNATURES CONTINUED)

T. ROWE PRICE TAX-FREE HIGH YIELD FUND, INC.
/s/Henry H. Hopkins

By: Henry H. Hopkins
Vice President

T. ROWE PRICE NEW AMERICA GROWTH FUND
/s/Henry H. Hopkins

By: Henry H. Hopkins
Vice President

T. ROWE PRICE EQUITY INCOME FUND
/s/Henry H. Hopkins

By: Henry H. Hopkins
Vice President

T. ROWE PRICE GNMA FUND
/s/Henry H. Hopkins

By: Henry H. Hopkins
Vice President

T. ROWE PRICE CAPITAL APPRECIATION FUND
/s/Henry H. Hopkins

By: Henry H. Hopkins
Vice President

T. ROWE PRICE INSTITUTIONAL TRUST
/s/Henry H. Hopkins

By: Henry H. Hopkins
Vice President

T. ROWE PRICE STATE TAX-FREE INCOME TRUST

/s/Henry H. Hopkins

By: Henry H. Hopkins
Vice President

T. ROWE PRICE CALIFORNIA TAX-FREE INCOME
TRUST
/s/Henry H. Hopkins

By: Henry H. Hopkins
Vice President

T. ROWE PRICE SCIENCE & TECHNOLOGY
FUND, INC.
/s/Henry H. Hopkins

By: Henry H. Hopkins
Vice President

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(SIGNATURES CONTINUED)

T. ROWE PRICE SMALL-CAP VALUE FUND, INC.
/s/Henry H. Hopkins

By: Henry H. Hopkins
Vice President

STATE STREET BANK AND TRUST COMPANY
/s/William Blackwell

By:

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AMENDMENT NO. 2 TO CUSTODIAN CONTRACT BETWEEN
STATE STREET BANK AND TRUST COMPANY AND
THE T. ROWE PRICE FUNDS

W I T N E S S E T H:

The Custodian Contract of September 28, 1987, as amended June 24, 1988, between State Street Bank and Trust Company and each of the Parties listed on Appendix A thereto is hereby further amended, as of October 19, 1988, by adding thereto the T. Rowe Price International Discovery Fund, Inc., a separate series of T. Rowe Price International Trust.

T. ROWE PRICE GROWTH STOCK FUND, INC.

T. ROWE PRICE NEW HORIZONS FUND, INC.

T. ROWE PRICE NEW ERA FUND, INC.

T. ROWE PRICE NEW INCOME FUND, INC.

T. ROWE PRICE PRIME RESERVE FUND, INC.

T. ROWE PRICE INTERNATIONAL TRUST

T. Rowe Price International Bond Fund

T. Rowe Price International Stock Fund

T. Rowe Price International Discovery Fund

T. ROWE PRICE U.S. TREASURY MONEY FUND, INC.

T. ROWE PRICE GROWTH & INCOME FUND, INC.
T. ROWE PRICE SHORT-TERM BOND FUND, INC.
T. ROWE PRICE TAX-FREE INCOME FUND, INC.
T. ROWE PRICE TAX-EXEMPT MONEY FUND, INC.
T. ROWE PRICE TAX-FREE SHORT-INTERMEDIATE
FUND, INC.
T. ROWE PRICE HIGH YIELD FUND, INC.
T. ROWE PRICE TAX-FREE HIGH YIELD FUND, INC.
T. ROWE PRICE NEW AMERICA GROWTH FUND
T. ROWE PRICE EQUITY INCOME FUND
T. ROWE PRICE GNMA FUND

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T. ROWE PRICE CAPITAL APPRECIATION FUND
T. ROWE PRICE INSTITUTIONAL TRUST
Tax-Exempt Reserve Portfolio
T. ROWE PRICE STATE TAX-FREE INCOME TRUST
Maryland Tax-Free Bond Fund
New York Tax-Free Bond Fund
New York Tax-Free Money Fund
T. ROWE PRICE CALIFORNIA TAX-FREE INCOME
TRUST
California Tax-Free Bond Fund
California Tax-Free Money Fund
T. ROWE PRICE SCIENCE & TECHNOLOGY
FUND, INC.
T. ROWE PRICE SMALL-CAP VALUE FUND, INC.

/s/Henry H. Hopkins

By: Henry H. Hopkins
Vice President

STATE STREET BANK AND TRUST COMPANY

By:

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AMENDMENT NO. 3 TO CUSTODIAN CONTRACT BETWEEN
STATE STREET BANK AND TRUST COMPANY AND
THE T. ROWE PRICE FUNDS

W I T N E S S E T H:

The Custodian Contract of September 28, 1987, as amended June 24, 1988 and October 19, 1988, between State Street Bank and Trust Company and each of the Parties listed on Appendix A thereto is hereby further amended, as of February 22, 1989, by adding thereto the T. Rowe Price International Equity Fund, Inc.

T. ROWE PRICE GROWTH STOCK FUND, INC.

T. ROWE PRICE NEW HORIZONS FUND, INC.

T. ROWE PRICE NEW ERA FUND, INC.

T. ROWE PRICE NEW INCOME FUND, INC.

T. ROWE PRICE PRIME RESERVE FUND, INC.

T. ROWE PRICE INTERNATIONAL TRUST

T. Rowe Price International Bond Fund

T. Rowe Price International Stock Fund

T. Rowe Price International Discovery Fund

T. ROWE PRICE U.S. TREASURY MONEY FUND, INC.
T. ROWE PRICE GROWTH & INCOME FUND, INC.
T. ROWE PRICE SHORT-TERM BOND FUND, INC.
T. ROWE PRICE TAX-FREE INCOME FUND, INC.
T. ROWE PRICE TAX-EXEMPT MONEY FUND, INC.
T. ROWE PRICE TAX-FREE SHORT-INTERMEDIATE
FUND, INC.
T. ROWE PRICE HIGH YIELD FUND, INC.
T. ROWE PRICE TAX-FREE HIGH YIELD FUND, INC.
T. ROWE PRICE NEW AMERICA GROWTH FUND
T. ROWE PRICE EQUITY INCOME FUND
T. ROWE PRICE GNMA FUND

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T. ROWE PRICE CAPITAL APPRECIATION FUND
T. ROWE PRICE INSTITUTIONAL TRUST
Tax-Exempt Reserve Portfolio
T. ROWE PRICE STATE TAX-FREE INCOME TRUST
Maryland Tax-Free Bond Fund
New York Tax-Free Bond Fund
New York Tax-Free Money Fund
T. ROWE PRICE CALIFORNIA TAX-FREE INCOME
TRUST
California Tax-Free Bond Fund
California Tax-Free Money Fund
T. ROWE PRICE SCIENCE & TECHNOLOGY
FUND, INC.
T. ROWE PRICE SMALL-CAP VALUE FUND, INC.
T. ROWE PRICE INTERNATIONAL
EQUITY FUND, INC.

/s/Henry H. Hopkins

By: Henry H. Hopkins

Vice President

STATE STREET BANK AND TRUST COMPANY

/s/K. Donelson

By:

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AMENDMENT NO. 4 TO CUSTODIAN CONTRACT BETWEEN
STATE STREET BANK AND TRUST COMPANY AND
THE T. ROWE PRICE FUNDS

W I T N E S S E T H:

The Custodian Contract of September 28, 1987, as amended June 24, 1988, October 19, 1988 and February 22, 1989, between State Street Bank and Trust Company and each of the Parties listed on Appendix A thereto is hereby further amended, as of July 19, 1989, by adding thereto the Institutional International Funds, Inc., on behalf of the Foreign Equity Fund.

T. ROWE PRICE GROWTH STOCK FUND, INC.

T. ROWE PRICE NEW HORIZONS FUND, INC.

T. ROWE PRICE NEW ERA FUND, INC.

T. ROWE PRICE NEW INCOME FUND, INC.

T. ROWE PRICE PRIME RESERVE FUND, INC.

T. ROWE PRICE INTERNATIONAL TRUST

T. Rowe Price International Bond Fund

T. Rowe Price International Stock Fund
T. Rowe Price International Discovery Fund

T. ROWE PRICE U.S. TREASURY MONEY FUND, INC.

T. ROWE PRICE GROWTH & INCOME FUND, INC.

T. ROWE PRICE SHORT-TERM BOND FUND, INC.

T. ROWE PRICE TAX-FREE INCOME FUND, INC.

T. ROWE PRICE TAX-EXEMPT MONEY FUND, INC.

T. ROWE PRICE TAX-FREE SHORT-INTERMEDIATE
FUND, INC.

T. ROWE PRICE HIGH YIELD FUND, INC.

T. ROWE PRICE TAX-FREE HIGH YIELD FUND, INC.

T. ROWE PRICE NEW AMERICA GROWTH FUND

T. ROWE PRICE EQUITY INCOME FUND

T. ROWE PRICE GNMA FUND

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T. ROWE PRICE CAPITAL APPRECIATION FUND

T. ROWE PRICE INSTITUTIONAL TRUST
Tax-Exempt Reserve Portfolio

T. ROWE PRICE STATE TAX-FREE INCOME TRUST
Maryland Tax-Free Bond Fund
New York Tax-Free Bond Fund
New York Tax-Free Money Fund

T. ROWE PRICE CALIFORNIA TAX-FREE INCOME
TRUST
California Tax-Free Bond Fund
California Tax-Free Money Fund

T. ROWE PRICE SCIENCE & TECHNOLOGY
FUND, INC.

T. ROWE PRICE SMALL-CAP VALUE FUND, INC.

T. ROWE PRICE INTERNATIONAL
EQUITY FUND, INC.

INSTITUTIONAL INTERNATIONAL FUNDS, INC.

Foreign Equity Fund

/s/Henry H. Hopkins

By: Henry H. Hopkins
Vice President

STATE STREET BANK AND TRUST COMPANY

/s/

By:

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AMENDMENT NO. 5 TO CUSTODIAN CONTRACT BETWEEN
STATE STREET BANK AND TRUST COMPANY AND
THE T. ROWE PRICE FUNDS

W I T N E S S E T H:

The Custodian Contract of September 28, 1987, as amended June 24, 1988, October 19, 1988, February 22, 1989, and July 19, 1989 between State Street Bank and Trust Company and each of the Parties listed on Appendix A thereto is hereby further amended, as of September 15, 1989, by adding thereto the T. Rowe Price U.S. Treasury Funds, Inc., on behalf of the U.S. Treasury Intermediate Fund and the U.S. Treasury Long-Term Fund.

T. ROWE PRICE GROWTH STOCK FUND, INC.

T. ROWE PRICE NEW HORIZONS FUND, INC.

T. ROWE PRICE NEW ERA FUND, INC.

T. ROWE PRICE NEW INCOME FUND, INC.

T. ROWE PRICE PRIME RESERVE FUND, INC.
T. ROWE PRICE INTERNATIONAL TRUST
T. Rowe Price International Bond Fund
T. Rowe Price International Stock Fund
T. Rowe Price International Discovery Fund
T. ROWE PRICE U.S. TREASURY MONEY FUND, INC.
T. ROWE PRICE GROWTH & INCOME FUND, INC.
T. ROWE PRICE SHORT-TERM BOND FUND, INC.
T. ROWE PRICE TAX-FREE INCOME FUND, INC.
T. ROWE PRICE TAX-EXEMPT MONEY FUND, INC.
T. ROWE PRICE TAX-FREE SHORT-INTERMEDIATE
FUND, INC.
T. ROWE PRICE HIGH YIELD FUND, INC.
T. ROWE PRICE TAX-FREE HIGH YIELD FUND, INC.
T. ROWE PRICE NEW AMERICA GROWTH FUND
T. ROWE PRICE EQUITY INCOME FUND

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T. ROWE PRICE GNMA FUND
T. ROWE PRICE CAPITAL APPRECIATION FUND
T. ROWE PRICE INSTITUTIONAL TRUST
Tax-Exempt Reserve Portfolio
T. ROWE PRICE STATE TAX-FREE INCOME TRUST
Maryland Tax-Free Bond Fund
New York Tax-Free Bond Fund
New York Tax-Free Money Fund
T. ROWE PRICE CALIFORNIA TAX-FREE INCOME
TRUST
California Tax-Free Bond Fund
California Tax-Free Money Fund
T. ROWE PRICE SCIENCE & TECHNOLOGY
FUND, INC.

T. ROWE PRICE SMALL-CAP VALUE FUND, INC.

T. ROWE PRICE INTERNATIONAL
EQUITY FUND, INC.

INSTITUTIONAL INTERNATIONAL FUNDS, INC.
Foreign Equity Fund

T. ROWE PRICE U.S. TREASURY FUNDS, INC.
U.S. Treasury Intermediate Fund
U.S. Treasury Long-Term Fund

/s/Henry H. Hopkins

By: Henry H. Hopkins
Vice President

STATE STREET BANK AND TRUST COMPANY

/s/

By:

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AMENDMENT NO. 6 TO CUSTODIAN CONTRACT BETWEEN
STATE STREET BANK AND TRUST COMPANY AND
THE T. ROWE PRICE FUNDS

W I T N E S S E T H:

The Custodian Contract of September 28, 1987, as amended June 24, 1988, October 19, 1988, February 22, 1989, July 19, 1989 and September 15, 1989, between State Street Bank and Trust Company and each of the Parties listed on Appendix A thereto is hereby further amended, as of December 15, 1989, by restating Section 2.15 as follows:

2.15 Communications Relating to Fund Portfolio Securities. The Custodian shall transmit promptly to the Fund all written information (including, without limitation, pendency of calls and maturities of domestic securities and expirations of rights in

connection therewith and notices of exercise of call and put options written by the Fund and the maturity of futures contracts purchased or sold by the Fund) received by the Custodian from issuers of the domestic securities being held for the Fund by the Custodian, an agent appointed under Section 2.9, or sub-custodian appointed under Section 1. With respect to tender or exchange offers, the Custodian shall transmit promptly to the Fund all written information received by the Custodian, an agent appointed under Section 2.9, or sub-custodian appointed under Section 1 from issuers of the domestic securities whose tender or exchange is sought and from the party (or his agents) making the tender or exchange offer. If the Fund desires to take action with respect to any tender offer, exchange offer or any other similar transaction, the Fund shall notify the Custodian of such desired action at least 48 hours (excluding holidays and weekends) prior to the time such action must be taken under the terms of the tender, exchange offer, or other similar transaction, and it will be the responsibility of the Custodian to timely transmit to the appropriate person(s) the Fund's notice. Where the Fund does not notify the custodian of its desired action within the aforesaid 48 hour period, the Custodian shall use its best efforts to timely transmit the Fund's notice to the appropriate person. It is expressly noted that the parties may negotiate and agree to alternative procedures with respect to such 48 hour notice period on a selective and individual basis.

T. ROWE PRICE GROWTH STOCK FUND, INC.

T. ROWE PRICE NEW HORIZONS FUND, INC.

T. ROWE PRICE NEW ERA FUND, INC.

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T. ROWE PRICE NEW INCOME FUND, INC.

T. ROWE PRICE PRIME RESERVE FUND, INC.

T. ROWE PRICE INTERNATIONAL TRUST

T. Rowe Price International Bond Fund

T. Rowe Price International Stock Fund

T. Rowe Price International Discovery Fund

T. ROWE PRICE U.S. TREASURY MONEY FUND, INC.

T. ROWE PRICE GROWTH & INCOME FUND, INC.

T. ROWE PRICE SHORT-TERM BOND FUND, INC.

T. ROWE PRICE TAX-FREE INCOME FUND, INC.

T. ROWE PRICE TAX-EXEMPT MONEY FUND, INC.
T. ROWE PRICE TAX-FREE SHORT-INTERMEDIATE
FUND, INC.
T. ROWE PRICE HIGH YIELD FUND, INC.
T. ROWE PRICE TAX-FREE HIGH YIELD FUND, INC.
T. ROWE PRICE NEW AMERICA GROWTH FUND
T. ROWE PRICE EQUITY INCOME FUND
T. ROWE PRICE GNMA FUND
T. ROWE PRICE CAPITAL APPRECIATION FUND
T. ROWE PRICE INSTITUTIONAL TRUST
Tax-Exempt Reserve Portfolio
T. ROWE PRICE STATE TAX-FREE INCOME TRUST
Maryland Tax-Free Bond Fund
New York Tax-Free Bond Fund
New York Tax-Free Money Fund
T. ROWE PRICE CALIFORNIA TAX-FREE INCOME
TRUST
California Tax-Free Bond Fund
California Tax-Free Money Fund
T. ROWE PRICE SCIENCE & TECHNOLOGY
FUND, INC.
T. ROWE PRICE SMALL-CAP VALUE FUND, INC.
T. ROWE PRICE INTERNATIONAL
EQUITY FUND, INC.
INSTITUTIONAL INTERNATIONAL FUNDS, INC.
Foreign Equity Fund
T. ROWE PRICE U. S. TREASURY FUNDS, INC.
U. S. Treasury Intermediate Fund
U. S. Treasury Long-Term Fund

/s/Carmen F. Deyesu

By: Carmen F. Deyesu,
Treasurer

STATE STREET BANK AND TRUST COMPANY

/s/ E. D. Hawkes, Jr.

By: E. D. Hawkes, Jr.
Vice President

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Amendment No. 7 filed on Form SE January 25, 1990 with
International Trust (CIK 313212) Post Effective Amendment No. 17.

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AMENDMENT NO. 8 TO CUSTODIAN CONTRACT BETWEEN
STATE STREET BANK AND TRUST COMPANY AND
THE T. ROWE PRICE FUNDS

W I T N E S S E T H:

The Custodian Contract of September 28, 1987, as amended June 24, 1988, October 19, 1988, February 22, 1989, July 19, 1989, September 15, 1989, December 15, 1989, and December 20, 1989, between State Street Bank and Trust Company and each of the Parties listed on Appendix A thereto is hereby further amended, as of January 25, 1990, by adding thereto the T. Rowe Price European Stock Fund, a separate series of T. Rowe Price International Trust.

T. ROWE PRICE GROWTH STOCK FUND, INC.
T. ROWE PRICE NEW HORIZONS FUND, INC.
T. ROWE PRICE NEW ERA FUND, INC.
T. ROWE PRICE NEW INCOME FUND, INC.
T. ROWE PRICE PRIME RESERVE FUND, INC.
T. ROWE PRICE INTERNATIONAL TRUST
T. Rowe Price International Bond Fund
T. Rowe Price International Stock Fund
T. Rowe Price International Discovery Fund
T. Rowe Price European Stock Fund
T. ROWE PRICE U.S. TREASURY MONEY FUND, INC.
T. ROWE PRICE GROWTH & INCOME FUND, INC.
T. ROWE PRICE SHORT-TERM BOND FUND, INC.
T. ROWE PRICE TAX-FREE INCOME FUND, INC.
T. ROWE PRICE TAX-EXEMPT MONEY FUND, INC.
T. ROWE PRICE TAX-FREE SHORT-INTERMEDIATE
FUND, INC.
T. ROWE PRICE HIGH YIELD FUND, INC.
T. ROWE PRICE TAX-FREE HIGH YIELD FUND, INC.
T. ROWE PRICE NEW AMERICA GROWTH FUND

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T. ROWE PRICE EQUITY INCOME FUND
T. ROWE PRICE GNMA FUND
T. ROWE PRICE CAPITAL APPRECIATION FUND
T. ROWE PRICE INSTITUTIONAL TRUST
Tax-Exempt Reserve Portfolio
T. ROWE PRICE STATE TAX-FREE INCOME TRUST
Maryland Tax-Free Bond Fund
New York Tax-Free Bond Fund
New York Tax-Free Money Fund

T. ROWE PRICE CALIFORNIA TAX-FREE INCOME
TRUST

California Tax-Free Bond Fund
California Tax-Free Money Fund

T. ROWE PRICE SCIENCE & TECHNOLOGY
FUND, INC.

T. ROWE PRICE SMALL-CAP VALUE FUND, INC.

T. ROWE PRICE INTERNATIONAL
EQUITY FUND, INC.

INSTITUTIONAL INTERNATIONAL FUNDS, INC.
Foreign Equity Fund

T. ROWE PRICE U.S. TREASURY FUNDS, INC.
U.S. Treasury Intermediate Fund
U.S. Treasury Long-Term Fund

/s/Henry H. Hopkins

By: Henry H. Hopkins
Vice President

STATE STREET BANK AND TRUST COMPANY

/s/

By:

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AMENDMENT NO. 9 TO CUSTODIAN CONTRACT BETWEEN
STATE STREET BANK AND TRUST COMPANY AND
THE T. ROWE PRICE FUNDS

W I T N E S S E T H:

The Custodian Contract of September 28, 1987, as amended June 24, 1988, October 19, 1988, February 22, 1989, July 19, 1989, September 15, 1989, December 15, 1989, December 20, 1989, and January 25, 1990 between State Street Bank and Trust Company and each of the Parties listed on Appendix A thereto is hereby further amended, as of February 21, 1990, by adding thereto the

T. Rowe Price Index Trust, Inc., on behalf of the T. Rowe Price Equity Index Fund.

T. ROWE PRICE GROWTH STOCK FUND, INC.
T. ROWE PRICE NEW HORIZONS FUND, INC.
T. ROWE PRICE NEW ERA FUND, INC.
T. ROWE PRICE NEW INCOME FUND, INC.
T. ROWE PRICE PRIME RESERVE FUND, INC.
T. ROWE PRICE INTERNATIONAL TRUST
T. Rowe Price International Bond Fund
T. Rowe Price International Stock Fund
T. Rowe Price International Discovery Fund
T. Rowe Price European Stock Fund
T. ROWE PRICE U.S. TREASURY MONEY FUND, INC.
T. ROWE PRICE GROWTH & INCOME FUND, INC.
T. ROWE PRICE SHORT-TERM BOND FUND, INC.
T. ROWE PRICE TAX-FREE INCOME FUND, INC.
T. ROWE PRICE TAX-EXEMPT MONEY FUND, INC.
T. ROWE PRICE TAX-FREE SHORT-INTERMEDIATE
FUND, INC.
T. ROWE PRICE HIGH YIELD FUND, INC.
T. ROWE PRICE TAX-FREE HIGH YIELD FUND, INC.
T. ROWE PRICE NEW AMERICA GROWTH FUND
T. ROWE PRICE EQUITY INCOME FUND
T. ROWE PRICE GNMA FUND
T. ROWE PRICE CAPITAL APPRECIATION FUND
T. ROWE PRICE INSTITUTIONAL TRUST
Tax-Exempt Reserve Portfolio
T. ROWE PRICE STATE TAX-FREE INCOME TRUST
Maryland Tax-Free Bond Fund
New York Tax-Free Bond Fund

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New York Tax-Free Money Fund

T. ROWE PRICE CALIFORNIA TAX-FREE INCOME
TRUST

California Tax-Free Bond Fund
California Tax-Free Money Fund

T. ROWE PRICE SCIENCE & TECHNOLOGY
FUND, INC.

T. ROWE PRICE SMALL-CAP VALUE FUND, INC.

T. ROWE PRICE INTERNATIONAL
EQUITY FUND, INC.

INSTITUTIONAL INTERNATIONAL FUNDS, INC.
Foreign Equity Fund

T. ROWE PRICE U.S. TREASURY FUNDS, INC.
U.S. Treasury Intermediate Fund
U.S. Treasury Long-Term Fund

T. ROWE PRICE INDEX TRUST, INC.
T. Rowe Price Equity Index Fund

/s/Henry H. Hopkins

By: Henry H. Hopkins
Vice President

STATE STREET BANK AND TRUST COMPANY

/s/

By:

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AMENDMENT NO. 10 TO CUSTODIAN CONTRACT BETWEEN
STATE STREET BANK AND TRUST COMPANY AND
THE T. ROWE PRICE FUNDS

W I T N E S S E T H:

The Custodian Contract of September 28, 1987, as amended
June 24, 1988, October 19, 1988, February 22, 1989, July 19,
1989, September 15, 1989, December 15, 1989, December 20, 1989,

January 25, 1990, February 21, 1990, between State Street Bank and Trust Company and each of the Parties listed on Appendix A thereto is hereby further amended, as of June 12, 1990, by adding thereto the T. Rowe Price Spectrum Fund, Inc., on behalf of the Spectrum Growth Fund and the Spectrum Income Fund.

T. ROWE PRICE GROWTH STOCK FUND, INC.

T. ROWE PRICE NEW HORIZONS FUND, INC.

T. ROWE PRICE NEW ERA FUND, INC.

T. ROWE PRICE NEW INCOME FUND, INC.

T. ROWE PRICE PRIME RESERVE FUND, INC.

T. ROWE PRICE INTERNATIONAL TRUST

T. Rowe Price International Bond Fund

T. Rowe Price International Stock Fund

T. Rowe Price International Discovery Fund

T. Rowe Price European Stock Fund

T. ROWE PRICE U.S. TREASURY MONEY FUND, INC.

T. ROWE PRICE GROWTH & INCOME FUND, INC.

T. ROWE PRICE SHORT-TERM BOND FUND, INC.

T. ROWE PRICE TAX-FREE INCOME FUND, INC.

T. ROWE PRICE TAX-EXEMPT MONEY FUND, INC.

T. ROWE PRICE TAX-FREE SHORT-INTERMEDIATE
FUND, INC.

T. ROWE PRICE HIGH YIELD FUND, INC.

T. ROWE PRICE TAX-FREE HIGH YIELD FUND, INC.

T. ROWE PRICE NEW AMERICA GROWTH FUND

T. ROWE PRICE EQUITY INCOME FUND

T. ROWE PRICE GNMA FUND

T. ROWE PRICE CAPITAL APPRECIATION FUND

T. ROWE PRICE INSTITUTIONAL TRUST
Tax-Exempt Reserve Portfolio

- T. ROWE PRICE STATE TAX-FREE INCOME TRUST
 - Maryland Tax-Free Bond Fund
 - New York Tax-Free Bond Fund
 - New York Tax-Free Money Fund

- T. ROWE PRICE CALIFORNIA TAX-FREE INCOME TRUST
 - California Tax-Free Bond Fund
 - California Tax-Free Money Fund

- T. ROWE PRICE SCIENCE & TECHNOLOGY FUND, INC.

- T. ROWE PRICE SMALL-CAP VALUE FUND, INC.

- T. ROWE PRICE INTERNATIONAL EQUITY FUND, INC.

- INSTITUTIONAL INTERNATIONAL FUNDS, INC.
 - Foreign Equity Fund

- T. ROWE PRICE U.S. TREASURY FUNDS, INC.
 - U.S. Treasury Intermediate Fund
 - U.S. Treasury Long-Term Fund

- T. ROWE PRICE INDEX TRUST, INC.
 - T. Rowe Price Equity Index Fund

- T. ROWE PRICE SPECTRUM FUND, INC.
 - Spectrum Growth Fund
 - Spectrum Income Fund

/s/Henry H. Hopkins

By: Henry H. Hopkins, Vice President

STATE STREET BANK AND TRUST COMPANY

/s/

By:

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AMENDMENT NO. 11 TO CUSTODIAN CONTRACT BETWEEN
 STATE STREET BANK AND TRUST COMPANY AND
 THE T. ROWE PRICE FUNDS

W I T N E S S E T H:

The Custodian Contract of September 28, 1987, as amended

June 24, 1988, October 19, 1988, February 22, 1989, July 19, 1989, September 15, 1989, December 15, 1989, December 20, 1989, January 25, 1990, February 21, 1990, and June 12, 1990 between State Street Bank and Trust Company and each of the Parties listed on Appendix A thereto is hereby further amended, as of July 18, 1990, by adding thereto the T. Rowe Price New Asia Fund, a separate series of the T. Rowe Price International Funds, Inc.

T. ROWE PRICE GROWTH STOCK FUND, INC.

T. ROWE PRICE NEW HORIZONS FUND, INC.

T. ROWE PRICE NEW ERA FUND, INC.

T. ROWE PRICE NEW INCOME FUND, INC.

T. ROWE PRICE PRIME RESERVE FUND, INC.

T. ROWE PRICE INTERNATIONAL FUNDS, INC.

T. Rowe Price International Bond Fund

T. Rowe Price International Stock Fund

T. Rowe Price International Discovery Fund

T. Rowe Price European Stock Fund

T. Rowe Price New Asia Fund

T. ROWE PRICE GROWTH & INCOME FUND, INC.

T. ROWE PRICE SHORT-TERM BOND FUND, INC.

T. ROWE PRICE TAX-FREE INCOME FUND, INC.

T. ROWE PRICE TAX-EXEMPT MONEY FUND, INC.

T. ROWE PRICE TAX-FREE SHORT-INTERMEDIATE
FUND, INC.

T. ROWE PRICE HIGH YIELD FUND, INC.

T. ROWE PRICE TAX-FREE HIGH YIELD FUND, INC.

T. ROWE PRICE NEW AMERICA GROWTH FUND

T. ROWE PRICE EQUITY INCOME FUND

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T. ROWE PRICE GNMA FUND

T. ROWE PRICE CAPITAL APPRECIATION FUND

T. ROWE PRICE INSTITUTIONAL TRUST
Tax-Exempt Reserve Portfolio

T. ROWE PRICE STATE TAX-FREE INCOME TRUST
Maryland Tax-Free Bond Fund
New York Tax-Free Bond Fund
New York Tax-Free Money Fund

T. ROWE PRICE CALIFORNIA TAX-FREE INCOME
TRUST
California Tax-Free Bond Fund
California Tax-Free Money Fund

T. ROWE PRICE SCIENCE & TECHNOLOGY
FUND, INC.

T. ROWE PRICE SMALL-CAP VALUE FUND, INC.

T. ROWE PRICE INTERNATIONAL
EQUITY FUND, INC.

INSTITUTIONAL INTERNATIONAL FUNDS, INC.
Foreign Equity Fund

T. ROWE PRICE U.S. TREASURY FUNDS, INC.
U.S. Treasury Intermediate Fund
U.S. Treasury Long-Term Fund
U.S. Treasury Money Fund

T. ROWE PRICE INDEX TRUST, INC.
T. Rowe Price Equity Index Fund

T. ROWE PRICE SPECTRUM FUND, INC.
Spectrum Growth Fund
Spectrum Income Fund

/s/Henry H. Hopkins

By: Henry H. Hopkins, Vice President

STATE STREET BANK AND TRUST COMPANY

/s/ Guy R. Sturgeon

By: Guy R. Sturgeon

W I T N E S S E T H :

The Custodian Contract of September 28, 1987, as amended June 24, 1988, October 19, 1988, February 22, 1989, July 19, 1989, September 15, 1989, December 15, 1989, December 20, 1989, January 25, 1990, February 21, 1990, June 12, 1990, and July 18, 1990 between State Street Bank and Trust Company and each of the Parties listed on Appendix A thereto is hereby further amended, as of October 15, 1990, by adding thereto the T. Rowe Price Global Government Bond Fund, a separate series of the T. Rowe Price International Funds, Inc.

T. ROWE PRICE GROWTH STOCK FUND, INC.

T. ROWE PRICE NEW HORIZONS FUND, INC.

T. ROWE PRICE NEW ERA FUND, INC.

T. ROWE PRICE NEW INCOME FUND, INC.

T. ROWE PRICE PRIME RESERVE FUND, INC.

T. ROWE PRICE INTERNATIONAL FUNDS, INC.

T. Rowe Price International Bond Fund

T. Rowe Price International Stock Fund

T. Rowe Price International Discovery Fund

T. Rowe Price European Stock Fund

T. Rowe Price New Asia Fund

T. Rowe Price Global Government Bond Fund

T. ROWE PRICE GROWTH & INCOME FUND, INC.

T. ROWE PRICE SHORT-TERM BOND FUND, INC.

T. ROWE PRICE TAX-FREE INCOME FUND, INC.

T. ROWE PRICE TAX-EXEMPT MONEY FUND, INC.

T. ROWE PRICE TAX-FREE SHORT-INTERMEDIATE
FUND, INC.

T. ROWE PRICE HIGH YIELD FUND, INC.

T. ROWE PRICE TAX-FREE HIGH YIELD FUND, INC.

T. ROWE PRICE NEW AMERICA GROWTH FUND

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T. ROWE PRICE EQUITY INCOME FUND

T. ROWE PRICE GNMA FUND

- T. ROWE PRICE CAPITAL APPRECIATION FUND
- T. ROWE PRICE INSTITUTIONAL TRUST
Tax-Exempt Reserve Portfolio
- T. ROWE PRICE STATE TAX-FREE INCOME TRUST
Maryland Tax-Free Bond Fund
New York Tax-Free Bond Fund
New York Tax-Free Money Fund
- T. ROWE PRICE CALIFORNIA TAX-FREE INCOME
TRUST
California Tax-Free Bond Fund
California Tax-Free Money Fund
- T. ROWE PRICE SCIENCE & TECHNOLOGY
FUND, INC.
- T. ROWE PRICE SMALL-CAP VALUE FUND, INC.
- T. ROWE PRICE INTERNATIONAL
EQUITY FUND, INC.
- INSTITUTIONAL INTERNATIONAL FUNDS, INC.
Foreign Equity Fund
- T. ROWE PRICE U.S. TREASURY FUNDS, INC.
U.S. Treasury Intermediate Fund
U.S. Treasury Long-Term Fund
U.S. Treasury Money Fund
- T. ROWE PRICE INDEX TRUST, INC.
T. Rowe Price Equity Index Fund
- T. ROWE PRICE SPECTRUM FUND, INC.
Spectrum Growth Fund
Spectrum Income Fund

/s/Henry H. Hopkins

By: Henry H. Hopkins, Vice President

STATE STREET BANK AND TRUST COMPANY

/s/ Guy R. Sturgeon

By:

STATE STREET BANK AND TRUST COMPANY AND
THE T. ROWE PRICE FUNDS

W I T N E S S E T H:

The Custodian Contract of September 28, 1987, as amended June 24, 1988, October 19, 1988, February 22, 1989, July 19, 1989, September 15, 1989, December 15, 1989, December 20, 1989, January 25, 1990, February 21, 1990, June 12, 1990, July 18, 1990, and October 15, 1990, between State Street Bank and Trust Company and each of the Parties listed on Appendix A thereto is hereby further amended, as of February 13, 1991, by adding thereto the Virginia Tax-Free Bond Fund and New Jersey Tax-Free Bond Fund, two separate series of the T. Rowe Price State Tax-Free Income Trust

T. ROWE PRICE GROWTH STOCK FUND, INC.

T. ROWE PRICE NEW HORIZONS FUND, INC.

T. ROWE PRICE NEW ERA FUND, INC.

T. ROWE PRICE NEW INCOME FUND, INC.

T. ROWE PRICE PRIME RESERVE FUND, INC.

T. ROWE PRICE INTERNATIONAL FUNDS, INC.

T. Rowe Price International Bond Fund

T. Rowe Price International Stock Fund

T. Rowe Price International Discovery Fund

T. Rowe Price European Stock Fund

T. Rowe Price New Asia Fund

T. Rowe Price Global Government Bond Fund

T. ROWE PRICE GROWTH & INCOME FUND, INC.

T. ROWE PRICE SHORT-TERM BOND FUND, INC.

T. ROWE PRICE TAX-FREE INCOME FUND, INC.

T. ROWE PRICE TAX-EXEMPT MONEY FUND, INC.

T. ROWE PRICE TAX-FREE SHORT-INTERMEDIATE
FUND, INC.

T. ROWE PRICE HIGH YIELD FUND, INC.

T. ROWE PRICE TAX-FREE HIGH YIELD FUND, INC.

T. ROWE PRICE NEW AMERICA GROWTH FUND

T. ROWE PRICE EQUITY INCOME FUND

T. ROWE PRICE GNMA FUND

T. ROWE PRICE CAPITAL APPRECIATION FUND

T. ROWE PRICE STATE TAX-FREE INCOME TRUST
Maryland Tax-Free Bond Fund
New York Tax-Free Bond Fund
New York Tax-Free Money Fund
Virginia Tax-Free Bond Fund
New Jersey Tax-Free Bond Fund

T. ROWE PRICE CALIFORNIA TAX-FREE INCOME
TRUST
California Tax-Free Bond Fund
California Tax-Free Money Fund

T. ROWE PRICE SCIENCE & TECHNOLOGY
FUND, INC.

T. ROWE PRICE SMALL-CAP VALUE FUND, INC.

T. ROWE PRICE INTERNATIONAL
EQUITY FUND, INC.

INSTITUTIONAL INTERNATIONAL FUNDS, INC.
Foreign Equity Fund

T. ROWE PRICE U.S. TREASURY FUNDS, INC.
U.S. Treasury Intermediate Fund
U.S. Treasury Long-Term Fund
U.S. Treasury Money Fund

T. ROWE PRICE INDEX TRUST, INC.
T. Rowe Price Equity Index Fund

T. ROWE PRICE SPECTRUM FUND, INC.
Spectrum Growth Fund
Spectrum Income Fund

/s/Henry H. Hopkins

By: Henry H. Hopkins, Vice President

STATE STREET BANK AND TRUST COMPANY

/s/ Guy Sturgeon

By: Vice President

AMENDMENT NO. 14 TO CUSTODIAN CONTRACT BETWEEN
STATE STREET BANK AND TRUST COMPANY AND
THE T. ROWE PRICE FUNDS

W I T N E S S E T H:

The Custodian Contract of September 28, 1987, as amended June 24, 1988, October 19, 1988, February 22, 1989, July 19, 1989, September 15, 1989, December 15, 1989, December 20, 1989, January 25, 1990, February 21, 1990, June 12, 1990, July 18, 1990, October 15, 1990, and February 13, 1991, between State Street Bank and Trust Company and each of the Parties listed on Appendix A thereto is hereby further amended, as of March 6, 1991, by adding thereto the T. Rowe Price Balanced Fund, Inc.

T. ROWE PRICE GROWTH STOCK FUND, INC.

T. ROWE PRICE NEW HORIZONS FUND, INC.

T. ROWE PRICE NEW ERA FUND, INC.

T. ROWE PRICE NEW INCOME FUND, INC.

T. ROWE PRICE PRIME RESERVE FUND, INC.

T. ROWE PRICE INTERNATIONAL FUNDS, INC.

T. Rowe Price International Bond Fund

T. Rowe Price International Stock Fund

T. Rowe Price International Discovery Fund

T. Rowe Price European Stock Fund

T. Rowe Price New Asia Fund

T. Rowe Price Global Government Bond Fund

T. ROWE PRICE GROWTH & INCOME FUND, INC.

T. ROWE PRICE SHORT-TERM BOND FUND, INC.

T. ROWE PRICE TAX-FREE INCOME FUND, INC.

T. ROWE PRICE TAX-EXEMPT MONEY FUND, INC.

T. ROWE PRICE TAX-FREE SHORT-INTERMEDIATE
FUND, INC.

T. ROWE PRICE HIGH YIELD FUND, INC.

T. ROWE PRICE TAX-FREE HIGH YIELD FUND, INC.

T. ROWE PRICE NEW AMERICA GROWTH FUND

- T. ROWE PRICE EQUITY INCOME FUND
- T. ROWE PRICE GNMA FUND
- T. ROWE PRICE CAPITAL APPRECIATION FUND
- T. ROWE PRICE STATE TAX-FREE INCOME TRUST
 - Maryland Tax-Free Bond Fund
 - New York Tax-Free Bond Fund
 - New York Tax-Free Money Fund
 - Virginia Tax-Free Bond Fund
 - New Jersey Tax-Free Bond Fund
- T. ROWE PRICE CALIFORNIA TAX-FREE INCOME TRUST
 - California Tax-Free Bond Fund
 - California Tax-Free Money Fund
- T. ROWE PRICE SCIENCE & TECHNOLOGY FUND, INC.
- T. ROWE PRICE SMALL-CAP VALUE FUND, INC.
- T. ROWE PRICE INTERNATIONAL EQUITY FUND, INC.
- INSTITUTIONAL INTERNATIONAL FUNDS, INC.
 - Foreign Equity Fund
- T. ROWE PRICE U.S. TREASURY FUNDS, INC.
 - U.S. Treasury Intermediate Fund
 - U.S. Treasury Long-Term Fund
 - U.S. Treasury Money Fund
- T. ROWE PRICE INDEX TRUST, INC.
 - T. Rowe Price Equity Index Fund
- T. ROWE PRICE SPECTRUM FUND, INC.
 - Spectrum Growth Fund
 - Spectrum Income Fund
- T. ROWE PRICE BALANCED FUND, INC.

/s/Henry H. Hopkins

By: Henry H. Hopkins, Vice President

STATE STREET BANK AND TRUST COMPANY

By:

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AMENDMENT NO. 15 TO CUSTODIAN CONTRACT BETWEEN
STATE STREET BANK AND TRUST COMPANY AND
THE T. ROWE PRICE FUNDS

W I T N E S S E T H:

The Custodian Contract of September 28, 1987, as amended June 24, 1988, October 19, 1988, February 22, 1989, July 19, 1989, September 15, 1989, December 15, 1989, December 20, 1989, January 25, 1990, February 21, 1990, June 12, 1990, July 18, 1990, October 15, 1990, February 13, 1991, and March 6, 1991, between State Street Bank and Trust Company and each of the Parties listed on Appendix A thereto is hereby further amended, as of September 12, 1991, by adding thereto the T. Rowe Price Adjustable Rate U.S. Government Fund, Inc.

T. ROWE PRICE GROWTH STOCK FUND, INC.

T. ROWE PRICE NEW HORIZONS FUND, INC.

T. ROWE PRICE NEW ERA FUND, INC.

T. ROWE PRICE NEW INCOME FUND, INC.

T. ROWE PRICE PRIME RESERVE FUND, INC.

T. ROWE PRICE INTERNATIONAL FUNDS, INC.

T. Rowe Price International Bond Fund
T. Rowe Price International Stock Fund
T. Rowe Price International Discovery Fund
T. Rowe Price European Stock Fund
T. Rowe Price New Asia Fund
T. Rowe Price Global Government Bond Fund

T. ROWE PRICE GROWTH & INCOME FUND, INC.

T. ROWE PRICE SHORT-TERM BOND FUND, INC.

T. ROWE PRICE TAX-FREE INCOME FUND, INC.

T. ROWE PRICE TAX-EXEMPT MONEY FUND, INC.

T. ROWE PRICE TAX-FREE SHORT-INTERMEDIATE
FUND, INC.

T. ROWE PRICE HIGH YIELD FUND, INC.

T. ROWE PRICE TAX-FREE HIGH YIELD FUND, INC.

T. ROWE PRICE NEW AMERICA GROWTH FUND

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T. ROWE PRICE EQUITY INCOME FUND

T. ROWE PRICE GNMA FUND

T. ROWE PRICE CAPITAL APPRECIATION FUND

T. ROWE PRICE STATE TAX-FREE INCOME TRUST

Maryland Tax-Free Bond Fund

New York Tax-Free Bond Fund

New York Tax-Free Money Fund

Virginia Tax-Free Bond Fund

New Jersey Tax-Free Bond Fund

T. ROWE PRICE CALIFORNIA TAX-FREE INCOME
TRUST

California Tax-Free Bond Fund

California Tax-Free Money Fund

T. ROWE PRICE SCIENCE & TECHNOLOGY
FUND, INC.

T. ROWE PRICE SMALL-CAP VALUE FUND, INC.

T. ROWE PRICE INTERNATIONAL
EQUITY FUND, INC.

INSTITUTIONAL INTERNATIONAL FUNDS, INC.

Foreign Equity Fund

T. ROWE PRICE U.S. TREASURY FUNDS, INC.

U.S. Treasury Intermediate Fund

U.S. Treasury Long-Term Fund

U.S. Treasury Money Fund

T. ROWE PRICE INDEX TRUST, INC.

T. Rowe Price Equity Index Fund

T. ROWE PRICE SPECTRUM FUND, INC.

Spectrum Growth Fund

Spectrum Income Fund

T. ROWE PRICE BALANCED FUND, INC.

T. ROWE PRICE ADJUSTABLE RATE U.S.
GOVERNMENT FUND, INC.

/s/Henry H. Hopkins

By: Henry H. Hopkins, Vice President

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STATE STREET BANK AND TRUST COMPANY

/s/

By:

AMENDMENT NO. 16 TO CUSTODIAN CONTRACT BETWEEN
STATE STREET BANK AND TRUST COMPANY AND
THE T. ROWE PRICE FUNDS

W I T N E S S E T H:

The Custodian Contract of September 28, 1987, as amended June 24, 1988, October 19, 1988, February 22, 1989, July 19, 1989, September 15, 1989, December 15, 1989, December 20, 1989, January 25, 1990, February 21, 1990, June 12, 1990, July 18, 1990, October 15, 1990, February 13, 1991, March 6, 1991 and September 12, 1991, between State Street Bank and Trust Company and each of the Parties listed on Appendix A thereto is hereby further amended, as of November 6, 1991, by adding thereto the T. Rowe Price Japan Fund, a separate series of the T. Rowe Price International Funds, Inc.

T. ROWE PRICE GROWTH STOCK FUND, INC.

T. ROWE PRICE NEW HORIZONS FUND, INC.

T. ROWE PRICE NEW ERA FUND, INC.

T. ROWE PRICE NEW INCOME FUND, INC.

T. ROWE PRICE PRIME RESERVE FUND, INC.

T. ROWE PRICE INTERNATIONAL FUNDS, INC.

T. Rowe Price International Bond Fund
T. Rowe Price International Stock Fund
T. Rowe Price International Discovery Fund
T. Rowe Price European Stock Fund
T. Rowe Price New Asia Fund
T. Rowe Price Global Government Bond Fund
T. Rowe Price Japan Fund

T. ROWE PRICE GROWTH & INCOME FUND, INC.

T. ROWE PRICE SHORT-TERM BOND FUND, INC.

T. ROWE PRICE TAX-FREE INCOME FUND, INC.

T. ROWE PRICE TAX-EXEMPT MONEY FUND, INC.
T. ROWE PRICE TAX-FREE SHORT-INTERMEDIATE
FUND, INC.
T. ROWE PRICE HIGH YIELD FUND, INC.
T. ROWE PRICE TAX-FREE HIGH YIELD FUND, INC.

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T. ROWE PRICE NEW AMERICA GROWTH FUND
T. ROWE PRICE EQUITY INCOME FUND
T. ROWE PRICE GNMA FUND
T. ROWE PRICE CAPITAL APPRECIATION FUND
T. ROWE PRICE STATE TAX-FREE INCOME TRUST
Maryland Tax-Free Bond Fund
New York Tax-Free Bond Fund
New York Tax-Free Money Fund
Virginia Tax-Free Bond Fund
New Jersey Tax-Free Bond Fund
T. ROWE PRICE CALIFORNIA TAX-FREE INCOME
TRUST
California Tax-Free Bond Fund
California Tax-Free Money Fund
T. ROWE PRICE SCIENCE & TECHNOLOGY
FUND, INC.
T. ROWE PRICE SMALL-CAP VALUE FUND, INC.
T. ROWE PRICE INTERNATIONAL
EQUITY FUND, INC.
INSTITUTIONAL INTERNATIONAL FUNDS, INC.
Foreign Equity Fund
T. ROWE PRICE U.S. TREASURY FUNDS, INC.
U.S. Treasury Intermediate Fund
U.S. Treasury Long-Term Fund
U.S. Treasury Money Fund
T. ROWE PRICE INDEX TRUST, INC.
T. Rowe Price Equity Index Fund
T. ROWE PRICE SPECTRUM FUND, INC.
Spectrum Growth Fund

Spectrum Income Fund

T. ROWE PRICE BALANCED FUND, INC.

T. ROWE PRICE ADJUSTABLE RATE U.S.
GOVERNMENT FUND, INC.

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/s/Henry H. Hopkins

By: Henry H. Hopkins, Vice President

STATE STREET BANK AND TRUST COMPANY

/s/

By:

AMENDMENT NO. 17 TO CUSTODIAN CONTRACT BETWEEN
STATE STREET BANK AND TRUST COMPANY AND
THE T. ROWE PRICE FUNDS

W I T N E S S E T H:

The Custodian Contract of September 28, 1987, as amended June 24, 1988, October 19, 1988, February 22, 1989, July 19, 1989, September 15, 1989, December 15, 1989, December 20, 1989, January 25, 1990, February 21, 1990, June 12, 1990, July 18, 1990, October 15, 1990, February 13, 1991, March 6, 1991, September 12, 1991 and November 6, 1991, between State Street Bank and Trust Company and each of the Parties listed on Appendix A thereto is hereby further amended, as of April 23, 1992, by adding thereto the T. Rowe Price Mid-Cap Growth Fund, Inc. and T. Rowe Price Short-Term Global Income Fund, a separate series of the T. Rowe Price International Funds, Inc.

T. ROWE PRICE GROWTH STOCK FUND, INC.
T. ROWE PRICE NEW HORIZONS FUND, INC.
T. ROWE PRICE NEW ERA FUND, INC.
T. ROWE PRICE NEW INCOME FUND, INC.
T. ROWE PRICE PRIME RESERVE FUND, INC.
T. ROWE PRICE INTERNATIONAL FUNDS, INC.
 T. Rowe Price International Bond Fund
 T. Rowe Price International Stock Fund
 T. Rowe Price International Discovery Fund
 T. Rowe Price European Stock Fund
 T. Rowe Price New Asia Fund
 T. Rowe Price Global Government Bond Fund
 T. Rowe Price Japan Fund
 T. Rowe Price Short-Term Global Income Fund
T. ROWE PRICE GROWTH & INCOME FUND, INC.
T. ROWE PRICE SHORT-TERM BOND FUND, INC.
T. ROWE PRICE TAX-FREE INCOME FUND, INC.
T. ROWE PRICE TAX-EXEMPT MONEY FUND, INC.
T. ROWE PRICE TAX-FREE SHORT-INTERMEDIATE FUND,
INC.

T. ROWE PRICE HIGH YIELD FUND, INC.

T. ROWE PRICE TAX-FREE HIGH YIELD FUND, INC.

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T. ROWE PRICE NEW AMERICA GROWTH FUND

T. ROWE PRICE EQUITY INCOME FUND

T. ROWE PRICE GNMA FUND

T. ROWE PRICE CAPITAL APPRECIATION FUND

T. ROWE PRICE STATE TAX-FREE INCOME TRUST

Maryland Tax-Free Bond Fund

New York Tax-Free Bond Fund

New York Tax-Free Money Fund

Virginia Tax-Free Bond Fund

New Jersey Tax-Free Bond Fund

T. ROWE PRICE CALIFORNIA TAX-FREE INCOME TRUST

California Tax-Free Bond Fund

California Tax-Free Money Fund

T. ROWE PRICE SCIENCE & TECHNOLOGY FUND, INC.

T. ROWE PRICE SMALL-CAP VALUE FUND, INC.

T. ROWE PRICE INTERNATIONAL EQUITY FUND, INC.

INSTITUTIONAL INTERNATIONAL FUNDS, INC.

Foreign Equity Fund

T. ROWE PRICE U.S. TREASURY FUNDS, INC.

U.S. Treasury Intermediate Fund

U.S. Treasury Long-Term Fund

U.S. Treasury Money Fund

T. ROWE PRICE INDEX TRUST, INC.

T. Rowe Price Equity Index Fund

T. ROWE PRICE SPECTRUM FUND, INC.

Spectrum Growth Fund

Spectrum Income Fund

T. ROWE PRICE BALANCED FUND, INC.

T. ROWE PRICE ADJUSTABLE RATE U.S. GOVERNMENT
FUND, INC.

T. ROWE PRICE MID-CAP GROWTH FUND, INC.

/s/Henry H. Hopkins

By:Henry H. Hopkins, Vice President

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/s/

By:

AMENDMENT NO. 18 TO CUSTODIAN CONTRACT BETWEEN
STATE STREET BANK AND TRUST COMPANY AND
THE T. ROWE PRICE FUNDS

W I T N E S S E T H:

The Custodian Contract of September 28, 1987, as amended June 24, 1988, October 19, 1988, February 22, 1989, July 19, 1989, September 15, 1989, December 15, 1989, December 20, 1989, January 25, 1990, February 21, 1990, June 12, 1990, July 18, 1990, October 15, 1990, February 13, 1991, March 6, 1991, September 12, 1991, November 6, 1991, and April 23, 1992, between State Street Bank and Trust Company and each of the Parties listed on Appendix A thereto is hereby further amended, as of September 2, 1992, by adding thereto the T. Rowe Price OTC Fund, a series of the T. Rowe Price OTC Fund, Inc.

T. ROWE PRICE GROWTH STOCK FUND, INC.
T. ROWE PRICE NEW HORIZONS FUND, INC.
T. ROWE PRICE NEW ERA FUND, INC.
T. ROWE PRICE NEW INCOME FUND, INC.
T. ROWE PRICE OTC FUND, INC.
T. Rowe Price OTC Fund
T. ROWE PRICE PRIME RESERVE FUND, INC.
T. ROWE PRICE INTERNATIONAL FUNDS, INC.
T. Rowe Price International Bond Fund
T. Rowe Price International Stock Fund
T. Rowe Price International Discovery Fund
T. Rowe Price European Stock Fund
T. Rowe Price New Asia Fund
T. Rowe Price Global Government Bond Fund
T. Rowe Price Japan Fund
T. Rowe Price Short-Term Global Income Fund
T. ROWE PRICE GROWTH & INCOME FUND, INC.
T. ROWE PRICE SHORT-TERM BOND FUND, INC.
T. ROWE PRICE TAX-FREE INCOME FUND, INC.
T. ROWE PRICE TAX-EXEMPT MONEY FUND, INC.
T. ROWE PRICE TAX-FREE SHORT-INTERMEDIATE FUND,
INC.
T. ROWE PRICE HIGH YIELD FUND, INC.

T. ROWE PRICE TAX-FREE HIGH YIELD FUND, INC.
T. ROWE PRICE NEW AMERICA GROWTH FUND
T. ROWE PRICE EQUITY INCOME FUND
T. ROWE PRICE GNMA FUND
T. ROWE PRICE CAPITAL APPRECIATION FUND
T. ROWE PRICE STATE TAX-FREE INCOME TRUST
Maryland Tax-Free Bond Fund
New York Tax-Free Bond Fund
New York Tax-Free Money Fund
Virginia Tax-Free Bond Fund

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New Jersey Tax-Free Bond Fund
T. ROWE PRICE CALIFORNIA TAX-FREE INCOME TRUST
California Tax-Free Bond Fund
California Tax-Free Money Fund
T. ROWE PRICE SCIENCE & TECHNOLOGY FUND, INC.
T. ROWE PRICE SMALL-CAP VALUE FUND, INC.
INSTITUTIONAL INTERNATIONAL FUNDS, INC.
Foreign Equity Fund
T. ROWE PRICE U.S. TREASURY FUNDS, INC.
U.S. Treasury Intermediate Fund
U.S. Treasury Long-Term Fund
U.S. Treasury Money Fund
T. ROWE PRICE INDEX TRUST, INC.
T. Rowe Price Equity Index Fund
T. ROWE PRICE SPECTRUM FUND, INC.
Spectrum Growth Fund
Spectrum Income Fund
T. ROWE PRICE BALANCED FUND, INC.
T. ROWE PRICE ADJUSTABLE RATE U.S. GOVERNMENT
FUND, INC.

T. ROWE PRICE MID-CAP GROWTH FUND, INC.

/s/Henry H. Hopkins

By:Henry H. Hopkins, Vice President

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STATE STREET BANK AND TRUST COMPANY

/s/

By:

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AMENDMENT NO. 19 TO CUSTODIAN CONTRACT BETWEEN
STATE STREET BANK AND TRUST COMPANY AND
THE T. ROWE PRICE FUNDS

W I T N E S S E T H:

The Custodian Contract of September 28, 1987, as amended June 24, 1988, October 19, 1988, February 22, 1989, July 19, 1989, September 15, 1989, December 15, 1989, December 20, 1989, January 25, 1990, February 21, 1990, June 12, 1990, July 18, 1990, October 15, 1990, February 13, 1991, March 6, 1991, September 12, 1991, November 6, 1991, April 23, 1992, and September 2, 1992, between State Street Bank and Trust Company and each of the Parties listed on Appendix A thereto is hereby further amended, as of November 3, 1992, by adding thereto the T. Rowe Price Tax-Free Insured Intermediate Bond Fund, Inc.

T. ROWE PRICE GROWTH STOCK FUND, INC.
T. ROWE PRICE NEW HORIZONS FUND, INC.
T. ROWE PRICE NEW ERA FUND, INC.
T. ROWE PRICE NEW INCOME FUND, INC.
T. ROWE PRICE PRIME RESERVE FUND, INC.

T. ROWE PRICE INTERNATIONAL FUNDS, INC.
T. Rowe Price International Bond Fund
T. Rowe Price International Stock Fund
T. Rowe Price International Discovery Fund
T. Rowe Price European Stock Fund
T. Rowe Price New Asia Fund
T. Rowe Price Global Government Bond Fund
T. Rowe Price Japan Fund
T. Rowe Price Short-Term Global Income Fund
T. ROWE PRICE GROWTH & INCOME FUND, INC.
T. ROWE PRICE SHORT-TERM BOND FUND, INC.
T. ROWE PRICE TAX-FREE INCOME FUND, INC.
T. ROWE PRICE TAX-EXEMPT MONEY FUND, INC.
T. ROWE PRICE TAX-FREE SHORT-INTERMEDIATE FUND,
INC.
T. ROWE PRICE HIGH YIELD FUND, INC.
T. ROWE PRICE TAX-FREE HIGH YIELD FUND, INC.
T. ROWE PRICE NEW AMERICA GROWTH FUND

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T. ROWE PRICE EQUITY INCOME FUND
T. ROWE PRICE GNMA FUND
T. ROWE PRICE CAPITAL APPRECIATION FUND
T. ROWE PRICE STATE TAX-FREE INCOME TRUST
Maryland Tax-Free Bond Fund
New York Tax-Free Bond Fund
New York Tax-Free Money Fund
Virginia Tax-Free Bond Fund
New Jersey Tax-Free Bond Fund
T. ROWE PRICE CALIFORNIA TAX-FREE INCOME TRUST
California Tax-Free Bond Fund
California Tax-Free Money Fund
T. ROWE PRICE SCIENCE & TECHNOLOGY FUND, INC.
T. ROWE PRICE SMALL-CAP VALUE FUND, INC.
INSTITUTIONAL INTERNATIONAL FUNDS, INC.
Foreign Equity Fund
T. ROWE PRICE U.S. TREASURY FUNDS, INC.
U.S. Treasury Intermediate Fund
U.S. Treasury Long-Term Fund
U.S. Treasury Money Fund
T. ROWE PRICE INDEX TRUST, INC.
T. Rowe Price Equity Index Fund
T. ROWE PRICE SPECTRUM FUND, INC.
Spectrum Growth Fund
Spectrum Income Fund
T. ROWE PRICE BALANCED FUND, INC.
T. ROWE PRICE ADJUSTABLE RATE U.S. GOVERNMENT
FUND, INC.

T. ROWE PRICE MID-CAP GROWTH FUND, INC.

T. ROWE PRICE OTC FUND, INC.

T. Rowe Price OTC Fund

T. ROWE PRICE TAX-FREE INSURED INTERMEDIATE BOND
FUND, INC.

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/s/Henry H. Hopkins

By: Henry H. Hopkins, Vice President

STATE STREET BANK AND TRUST COMPANY

/s/

By:

AMENDMENT NO. 20 TO CUSTODIAN CONTRACT BETWEEN
STATE STREET BANK AND TRUST COMPANY AND
THE T. ROWE PRICE FUNDS

W I T N E S S E T H:

The Custodian Contract of September 28, 1987, as amended June 24, 1988, October 19, 1988, February 22, 1989, July 19, 1989, September 15, 1989, December 15, 1989, December 20, 1989, January 25, 1990, February 21, 1990, June 12, 1990, July 18, 1990, October 15, 1990, February 13, 1991, March 6, 1991, September 12, 1991, November 6, 1991, April 23, 1992, September 2, 1992, and November 3, 1992, between State Street Bank and Trust Company and each of the Parties listed on Appendix A thereto is hereby further amended, as of December 16, 1992, by adding thereto the T. Rowe Price Dividend Growth Fund, Inc.

T. ROWE PRICE GROWTH STOCK FUND, INC.
T. ROWE PRICE NEW HORIZONS FUND, INC.
T. ROWE PRICE NEW ERA FUND, INC.
T. ROWE PRICE NEW INCOME FUND, INC.
T. ROWE PRICE PRIME RESERVE FUND, INC.
T. ROWE PRICE INTERNATIONAL FUNDS, INC.
T. Rowe Price International Bond Fund
T. Rowe Price International Stock Fund
T. Rowe Price International Discovery Fund
T. Rowe Price European Stock Fund
T. Rowe Price New Asia Fund
T. Rowe Price Global Government Bond Fund
T. Rowe Price Japan Fund
T. Rowe Price Short-Term Global Income Fund
T. ROWE PRICE GROWTH & INCOME FUND, INC.
T. ROWE PRICE SHORT-TERM BOND FUND, INC.
T. ROWE PRICE TAX-FREE INCOME FUND, INC.
T. ROWE PRICE TAX-EXEMPT MONEY FUND, INC.
T. ROWE PRICE TAX-FREE SHORT-INTERMEDIATE FUND,
INC.
T. ROWE PRICE HIGH YIELD FUND, INC.
T. ROWE PRICE TAX-FREE HIGH YIELD FUND, INC.
T. ROWE PRICE NEW AMERICA GROWTH FUND

T. ROWE PRICE EQUITY INCOME FUND

T. ROWE PRICE GNMA FUND
T. ROWE PRICE CAPITAL APPRECIATION FUND
T. ROWE PRICE STATE TAX-FREE INCOME TRUST
Maryland Tax-Free Bond Fund
New York Tax-Free Bond Fund
New York Tax-Free Money Fund
Virginia Tax-Free Bond Fund
New Jersey Tax-Free Bond Fund
T. ROWE PRICE CALIFORNIA TAX-FREE INCOME TRUST
California Tax-Free Bond Fund
California Tax-Free Money Fund
T. ROWE PRICE SCIENCE & TECHNOLOGY FUND, INC.
T. ROWE PRICE SMALL-CAP VALUE FUND, INC.
INSTITUTIONAL INTERNATIONAL FUNDS, INC.
Foreign Equity Fund
T. ROWE PRICE U.S. TREASURY FUNDS, INC.
U.S. Treasury Intermediate Fund
U.S. Treasury Long-Term Fund
U.S. Treasury Money Fund
T. ROWE PRICE INDEX TRUST, INC.
T. Rowe Price Equity Index Fund
T. ROWE PRICE SPECTRUM FUND, INC.
Spectrum Growth Fund
Spectrum Income Fund
T. ROWE PRICE BALANCED FUND, INC.
T. ROWE PRICE ADJUSTABLE RATE U.S. GOVERNMENT
FUND, INC.

T. ROWE PRICE MID-CAP GROWTH FUND, INC.

T. ROWE PRICE OTC FUND, INC.
T. Rowe Price OTC Fund

T. ROWE PRICE TAX-FREE INSURED INTERMEDIATE BOND
FUND, INC.

T. ROWE PRICE DIVIDEND GROWTH FUND, INC.

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/s/Henry H. Hopkins

By:Henry H. Hopkins, Vice President

STATE STREET BANK AND TRUST COMPANY

/s/

By:

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AMENDMENT NO. 21 TO CUSTODIAN CONTRACT BETWEEN
STATE STREET BANK AND TRUST COMPANY AND
THE T. ROWE PRICE FUNDS

W I T N E S S E T H:

The Custodian Contract of September 28, 1987, as amended
June 24, 1988, October 19, 1988, February 22, 1989, July 19,
1989, September 15, 1989, December 15, 1989, December 20, 1989,
January 25, 1990, February 21, 1990, June 12, 1990, July 18,

1990, October 15, 1990, February 13, 1991, March 6, 1991, September 12, 1991, November 6, 1991, April 23, 1992, September 2, 1992, November 3, 1992, and December 16, 1992, between State Street Bank and Trust Company and each of the Parties listed on Appendix A thereto is hereby further amended, as of December 21, 1992, by adding thereto the Maryland Short-Term Tax-Free Bond Fund, an additional series to the T. Rowe Price State Tax-Free Income Trust.

T. ROWE PRICE GROWTH STOCK FUND, INC.
T. ROWE PRICE NEW HORIZONS FUND, INC.
T. ROWE PRICE NEW ERA FUND, INC.
T. ROWE PRICE NEW INCOME FUND, INC.
T. ROWE PRICE PRIME RESERVE FUND, INC.
T. ROWE PRICE INTERNATIONAL FUNDS, INC.
 T. Rowe Price International Bond Fund
 T. Rowe Price International Stock Fund
 T. Rowe Price International Discovery Fund
 T. Rowe Price European Stock Fund
 T. Rowe Price New Asia Fund
 T. Rowe Price Global Government Bond Fund
 T. Rowe Price Japan Fund
 T. Rowe Price Short-Term Global Income Fund
T. ROWE PRICE GROWTH & INCOME FUND, INC.
T. ROWE PRICE SHORT-TERM BOND FUND, INC.
T. ROWE PRICE TAX-FREE INCOME FUND, INC.
T. ROWE PRICE TAX-EXEMPT MONEY FUND, INC.
T. ROWE PRICE TAX-FREE SHORT-INTERMEDIATE FUND,
INC.
T. ROWE PRICE HIGH YIELD FUND, INC.

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T. ROWE PRICE TAX-FREE HIGH YIELD FUND, INC.
T. ROWE PRICE NEW AMERICA GROWTH FUND
T. ROWE PRICE EQUITY INCOME FUND
T. ROWE PRICE GNMA FUND
T. ROWE PRICE CAPITAL APPRECIATION FUND
T. ROWE PRICE STATE TAX-FREE INCOME TRUST
 Maryland Tax-Free Bond Fund
 Maryland Short-Term Tax-Free Bond Fund
 New York Tax-Free Bond Fund
 New York Tax-Free Money Fund
 Virginia Tax-Free Bond Fund
 New Jersey Tax-Free Bond Fund
T. ROWE PRICE CALIFORNIA TAX-FREE INCOME TRUST
 California Tax-Free Bond Fund
 California Tax-Free Money Fund
T. ROWE PRICE SCIENCE & TECHNOLOGY FUND, INC.
T. ROWE PRICE SMALL-CAP VALUE FUND, INC.
INSTITUTIONAL INTERNATIONAL FUNDS, INC.
 Foreign Equity Fund

T. ROWE PRICE U.S. TREASURY FUNDS, INC.
U.S. Treasury Intermediate Fund
U.S. Treasury Long-Term Fund
U.S. Treasury Money Fund
T. ROWE PRICE INDEX TRUST, INC.
T. Rowe Price Equity Index Fund
T. ROWE PRICE SPECTRUM FUND, INC.
Spectrum Growth Fund
Spectrum Income Fund
T. ROWE PRICE BALANCED FUND, INC.
T. ROWE PRICE ADJUSTABLE RATE U.S. GOVERNMENT
FUND, INC.

T. ROWE PRICE MID-CAP GROWTH FUND, INC.

T. ROWE PRICE OTC FUND, INC.
T. Rowe Price OTC Fund

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T. ROWE PRICE TAX-FREE INSURED INTERMEDIATE BOND
FUND, INC.

T. ROWE PRICE DIVIDEND GROWTH FUND, INC.

/s/Henry H. Hopkins

By:Henry H. Hopkins, Vice President

STATE STREET BANK AND TRUST COMPANY

/s/

By:

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AMENDMENT NO. 22 TO CUSTODIAN CONTRACT BETWEEN
STATE STREET BANK AND TRUST COMPANY AND
THE T. ROWE PRICE FUNDS

W I T N E S S E T H:

The Custodian Contract of September 28, 1987, as amended June 24, 1988, October 19, 1988, February 22, 1989, July 19, 1989, September 15, 1989, December 15, 1989, December 20, 1989, January 25, 1990, February 21, 1990, June 12, 1990, July 18, 1990, October 15, 1990, February 13, 1991, March 6, 1991, September 12, 1991, November 6, 1991, April 23, 1992, September 2, 1992, November 3, 1992, December 16, 1992, and December 21, 1992, between State Street Bank and Trust Company and each of the Parties listed on Appendix A thereto is hereby further amended, as of January 28, 1993, by adding thereto the Georgia Tax-Free Bond Fund and the Florida Insured Intermediate Tax-Free Fund, additional series to the T. Rowe Price State Tax-Free Income Trust.

T. ROWE PRICE GROWTH STOCK FUND, INC.
T. ROWE PRICE NEW HORIZONS FUND, INC.
T. ROWE PRICE NEW ERA FUND, INC.
T. ROWE PRICE NEW INCOME FUND, INC.
T. ROWE PRICE PRIME RESERVE FUND, INC.
T. ROWE PRICE INTERNATIONAL FUNDS, INC.
T. Rowe Price International Bond Fund
T. Rowe Price International Stock Fund
T. Rowe Price International Discovery Fund
T. Rowe Price European Stock Fund

T. Rowe Price New Asia Fund
T. Rowe Price Global Government Bond Fund
T. Rowe Price Japan Fund
T. Rowe Price Short-Term Global Income Fund
T. ROWE PRICE GROWTH & INCOME FUND, INC.
T. ROWE PRICE SHORT-TERM BOND FUND, INC.
T. ROWE PRICE TAX-FREE INCOME FUND, INC.
T. ROWE PRICE TAX-EXEMPT MONEY FUND, INC.
T. ROWE PRICE TAX-FREE SHORT-INTERMEDIATE FUND,
INC.
T. ROWE PRICE HIGH YIELD FUND, INC.

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T. ROWE PRICE TAX-FREE HIGH YIELD FUND, INC.
T. ROWE PRICE NEW AMERICA GROWTH FUND
T. ROWE PRICE EQUITY INCOME FUND
T. ROWE PRICE GNMA FUND
T. ROWE PRICE CAPITAL APPRECIATION FUND
T. ROWE PRICE STATE TAX-FREE INCOME TRUST
Maryland Tax-Free Bond Fund
Maryland Short-Term Tax-Free Bond Fund
New York Tax-Free Bond Fund
New York Tax-Free Money Fund
Virginia Tax-Free Bond Fund
New Jersey Tax-Free Bond Fund
Georgia Tax-Free Bond Fund
Florida Insured Intermediate Tax-Free Fund
T. ROWE PRICE CALIFORNIA TAX-FREE INCOME TRUST
California Tax-Free Bond Fund
California Tax-Free Money Fund
T. ROWE PRICE SCIENCE & TECHNOLOGY FUND, INC.
T. ROWE PRICE SMALL-CAP VALUE FUND, INC.
INSTITUTIONAL INTERNATIONAL FUNDS, INC.
Foreign Equity Fund
T. ROWE PRICE U.S. TREASURY FUNDS, INC.
U.S. Treasury Intermediate Fund
U.S. Treasury Long-Term Fund
U.S. Treasury Money Fund
T. ROWE PRICE INDEX TRUST, INC.
T. Rowe Price Equity Index Fund
T. ROWE PRICE SPECTRUM FUND, INC.
Spectrum Growth Fund
Spectrum Income Fund
T. ROWE PRICE BALANCED FUND, INC.
T. ROWE PRICE ADJUSTABLE RATE U.S. GOVERNMENT
FUND, INC.

T. ROWE PRICE MID-CAP GROWTH FUND, INC.

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T. ROWE PRICE OTC FUND, INC.

T. Rowe Price OTC Fund

T. ROWE PRICE TAX-FREE INSURED INTERMEDIATE BOND
FUND, INC.

T. ROWE PRICE DIVIDEND GROWTH FUND, INC.

/s/Henry H. Hopkins

By:Henry H. Hopkins, Vice President

STATE STREET BANK AND TRUST COMPANY

/s/

By:

AMENDMENT NO. 23 TO CUSTODIAN CONTRACT BETWEEN
STATE STREET BANK AND TRUST COMPANY AND
THE T. ROWE PRICE FUNDS

W I T N E S S E T H:

The Custodian Contract of September 28, 1987, as amended June 24, 1988, October 19, 1988, February 22, 1989, July 19, 1989, September 15, 1989, December 15, 1989, December 20, 1989, January 25, 1990, February 21, 1990, June 12, 1990, July 18, 1990, October 15, 1990, February 13, 1991, March 6, 1991, September 12, 1991, November 6, 1991, April 23, 1992, September 2, 1992, November 3, 1992, December 16, 1992, December 21, 1992, and January 28, 1993, between State Street Bank and Trust Company and each of the Parties listed on Appendix A thereto is hereby further amended, as of April 22, 1993, by adding thereto the T. Rowe Price Blue Chip Growth Fund, Inc.

T. ROWE PRICE GROWTH STOCK FUND, INC.
T. ROWE PRICE NEW HORIZONS FUND, INC.
T. ROWE PRICE NEW ERA FUND, INC.
T. ROWE PRICE NEW INCOME FUND, INC.
T. ROWE PRICE PRIME RESERVE FUND, INC.
T. ROWE PRICE INTERNATIONAL FUNDS, INC.
 T. Rowe Price International Bond Fund
 T. Rowe Price International Stock Fund
 T. Rowe Price International Discovery Fund
 T. Rowe Price European Stock Fund
 T. Rowe Price New Asia Fund
 T. Rowe Price Global Government Bond Fund
 T. Rowe Price Japan Fund
 T. Rowe Price Short-Term Global Income Fund
T. ROWE PRICE GROWTH & INCOME FUND, INC.
T. ROWE PRICE SHORT-TERM BOND FUND, INC.
T. ROWE PRICE TAX-FREE INCOME FUND, INC.
T. ROWE PRICE TAX-EXEMPT MONEY FUND, INC.
T. ROWE PRICE TAX-FREE SHORT-INTERMEDIATE FUND,
INC.
T. ROWE PRICE HIGH YIELD FUND, INC.
T. ROWE PRICE TAX-FREE HIGH YIELD FUND, INC.

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T. ROWE PRICE NEW AMERICA GROWTH FUND
T. ROWE PRICE EQUITY INCOME FUND
T. ROWE PRICE GNMA FUND
T. ROWE PRICE CAPITAL APPRECIATION FUND
T. ROWE PRICE STATE TAX-FREE INCOME TRUST
 Maryland Tax-Free Bond Fund
 Maryland Short-Term Tax-Free Bond Fund
 New York Tax-Free Bond Fund
 New York Tax-Free Money Fund

Virginia Tax-Free Bond Fund
New Jersey Tax-Free Bond Fund
Georgia Tax-Free Bond Fund
Florida Insured Intermediate Tax-Free Fund
T. ROWE PRICE CALIFORNIA TAX-FREE INCOME TRUST
California Tax-Free Bond Fund
California Tax-Free Money Fund
T. ROWE PRICE SCIENCE & TECHNOLOGY FUND, INC.
T. ROWE PRICE SMALL-CAP VALUE FUND, INC.
INSTITUTIONAL INTERNATIONAL FUNDS, INC.
Foreign Equity Fund
T. ROWE PRICE U.S. TREASURY FUNDS, INC.
U.S. Treasury Intermediate Fund
U.S. Treasury Long-Term Fund
U.S. Treasury Money Fund
T. ROWE PRICE INDEX TRUST, INC.
T. Rowe Price Equity Index Fund
T. ROWE PRICE SPECTRUM FUND, INC.
Spectrum Growth Fund
Spectrum Income Fund
T. ROWE PRICE BALANCED FUND, INC.
T. ROWE PRICE ADJUSTABLE RATE U.S. GOVERNMENT
FUND, INC.

T. ROWE PRICE MID-CAP GROWTH FUND, INC.

T. ROWE PRICE OTC FUND, INC.
T. Rowe Price OTC Fund

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T. ROWE PRICE TAX-FREE INSURED INTERMEDIATE BOND
FUND, INC.

T. ROWE PRICE DIVIDEND GROWTH FUND, INC.

T. ROWE PRICE BLUE CHIP GROWTH FUND, INC.

/s/Henry H. Hopkins

By:Henry H. Hopkins, Vice President

STATE STREET BANK AND TRUST COMPANY

/s/

By:

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AMENDMENT NO. 24 TO CUSTODIAN CONTRACT BETWEEN
STATE STREET BANK AND TRUST COMPANY AND
THE T. ROWE PRICE FUNDS

W I T N E S S E T H:

The Custodian Contract of September 28, 1987, as amended June 24, 1988, October 19, 1988, February 22, 1989, July 19, 1989, September 15, 1989, December 15, 1989, December 20, 1989, January 25, 1990, February 21, 1990, June 12, 1990, July 18, 1990, October 15, 1990, February 13, 1991, March 6, 1991, September 12, 1991, November 6, 1991, April 23, 1992, September 2, 1992, November 3, 1992, December 16, 1992, December 21, 1992, January 28, 1993, April 22, 1993, between State Street Bank and Trust Company and each of the Parties listed on Appendix A thereto is hereby further amended, as of September 16, 1993, by adding thereto the T. Rowe Price Summit Funds, Inc. and T. Rowe Price Summit Municipal Funds, Inc.

Notwithstanding anything to the contrary herein, it is understood that the T. Rowe Price Summit Funds, Inc. and T. Rowe Price Summit Municipal Funds, Inc. (collectively referred to as the "Funds") shall not be responsible for paying any of the fees or expenses set forth herein but that, in accordance with the Investment Management Agreement, dated September 16, 1993, between the Funds and T. Rowe Price Associates, Inc. ("T. Rowe Price"), the Funds will require T. Rowe Price to pay all such fees and expenses.

T. ROWE PRICE GROWTH STOCK FUND, INC.

T. ROWE PRICE NEW HORIZONS FUND, INC.

T. ROWE PRICE NEW ERA FUND, INC.

T. ROWE PRICE NEW INCOME FUND, INC.

T. ROWE PRICE PRIME RESERVE FUND, INC.

T. ROWE PRICE INTERNATIONAL FUNDS, INC.

T. Rowe Price International Bond Fund

T. Rowe Price International Stock Fund

T. Rowe Price International Discovery Fund

T. Rowe Price European Stock Fund

T. Rowe Price New Asia Fund

T. Rowe Price Global Government Bond Fund

T. Rowe Price Japan Fund

T. Rowe Price Short-Term Global Income Fund

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T. ROWE PRICE GROWTH & INCOME FUND, INC.

T. ROWE PRICE SHORT-TERM BOND FUND, INC.

T. ROWE PRICE TAX-FREE INCOME FUND, INC.

T. ROWE PRICE TAX-EXEMPT MONEY FUND, INC.

T. ROWE PRICE TAX-FREE SHORT-INTERMEDIATE FUND,
INC.

T. ROWE PRICE HIGH YIELD FUND, INC.

T. ROWE PRICE TAX-FREE HIGH YIELD FUND, INC.

T. ROWE PRICE NEW AMERICA GROWTH FUND

T. ROWE PRICE EQUITY INCOME FUND

T. ROWE PRICE GNMA FUND

T. ROWE PRICE CAPITAL APPRECIATION FUND

T. ROWE PRICE STATE TAX-FREE INCOME TRUST
 Maryland Tax-Free Bond Fund
 Maryland Short-Term Tax-Free Bond Fund
 New York Tax-Free Bond Fund
 New York Tax-Free Money Fund
 Virginia Tax-Free Bond Fund
 New Jersey Tax-Free Bond Fund
 Georgia Tax-Free Bond Fund
 Florida Insured Intermediate Tax-Free Fund

T. ROWE PRICE CALIFORNIA TAX-FREE INCOME TRUST
 California Tax-Free Bond Fund
 California Tax-Free Money Fund

T. ROWE PRICE SCIENCE & TECHNOLOGY FUND, INC.

T. ROWE PRICE SMALL-CAP VALUE FUND, INC.

INSTITUTIONAL INTERNATIONAL FUNDS, INC.
 Foreign Equity Fund

T. ROWE PRICE U.S. TREASURY FUNDS, INC.
 U.S. Treasury Intermediate Fund
 U.S. Treasury Long-Term Fund
 U.S. Treasury Money Fund

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T. ROWE PRICE INDEX TRUST, INC.
 T. Rowe Price Equity Index Fund

T. ROWE PRICE SPECTRUM FUND, INC.
 Spectrum Growth Fund
 Spectrum Income Fund

T. ROWE PRICE BALANCED FUND, INC.

T. ROWE PRICE ADJUSTABLE RATE U.S. GOVERNMENT
 FUND, INC.

T. ROWE PRICE MID-CAP GROWTH FUND, INC.

T. ROWE PRICE OTC FUND, INC.
 T. Rowe Price OTC Fund

T. ROWE PRICE TAX-FREE INSURED INTERMEDIATE BOND
 FUND, INC.

T. ROWE PRICE DIVIDEND GROWTH FUND, INC.

T. ROWE PRICE BLUE CHIP GROWTH FUND, INC.

T. ROWE PRICE SUMMIT FUNDS, INC.

T. Rowe Price Summit Cash Reserves Fund

T. Rowe Price Summit Limited-Term Bond Fund

T. Rowe Price Summit GNMA Fund

T. ROWE PRICE SUMMIT MUNICIPAL FUNDS, INC.

T. Rowe Price Summit Municipal Money Market Fund

T. Rowe Price Summit Municipal Intermediate Fund

T. Rowe Price Summit Municipal Income Fund

/s/Henry H. Hopkins

By:Henry H. Hopkins, Vice President

STATE STREET BANK AND TRUST COMPANY

/s/

By:

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AMENDMENT NO. 25 TO CUSTODIAN CONTRACT BETWEEN
STATE STREET BANK AND TRUST COMPANY AND
THE T. ROWE PRICE FUNDS

W I T N E S S E T H:

The Custodian Contract of September 28, 1987, as amended June 24, 1988, October 19, 1988, February 22, 1989, July 19, 1989, September 15, 1989, December 15, 1989, December 20, 1989, January 25, 1990, February 21, 1990, June 12, 1990, July 18, 1990, October 15, 1990, February 13, 1991, March 6, 1991, September 12, 1991, November 6, 1991, April 23, 1992, September 2, 1992, November 3, 1992, December 16, 1992, December 21, 1992, January 28, 1993, April 22, 1993, and September 16, 1993, between State Street Bank and Trust Company and each of the Parties listed on Appendix A thereto is hereby further amended, as of November 3, 1993, by adding thereto the T. Rowe Price Latin America Fund, a separate series of the T. Rowe Price

T. ROWE PRICE GROWTH STOCK FUND, INC.
T. ROWE PRICE NEW HORIZONS FUND, INC.
T. ROWE PRICE NEW ERA FUND, INC.
T. ROWE PRICE NEW INCOME FUND, INC.
T. ROWE PRICE PRIME RESERVE FUND, INC.
T. ROWE PRICE INTERNATIONAL FUNDS, INC.
 T. Rowe Price International Bond Fund
 T. Rowe Price International Stock Fund
 T. Rowe Price International Discovery Fund
 T. Rowe Price European Stock Fund
 T. Rowe Price New Asia Fund
 T. Rowe Price Global Government Bond Fund
 T. Rowe Price Japan Fund
 T. Rowe Price Short-Term Global Income Fund
 T. Rowe Price Latin America Fund
T. ROWE PRICE GROWTH & INCOME FUND, INC.
T. ROWE PRICE SHORT-TERM BOND FUND, INC.
T. ROWE PRICE TAX-FREE INCOME FUND, INC.
T. ROWE PRICE TAX-EXEMPT MONEY FUND, INC.

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T. ROWE PRICE TAX-FREE SHORT-INTERMEDIATE FUND,
INC.
T. ROWE PRICE HIGH YIELD FUND, INC.
T. ROWE PRICE TAX-FREE HIGH YIELD FUND, INC.
T. ROWE PRICE NEW AMERICA GROWTH FUND
T. ROWE PRICE EQUITY INCOME FUND
T. ROWE PRICE GNMA FUND
T. ROWE PRICE CAPITAL APPRECIATION FUND
T. ROWE PRICE STATE TAX-FREE INCOME TRUST
 Maryland Tax-Free Bond Fund
 Maryland Short-Term Tax-Free Bond Fund

New York Tax-Free Bond Fund
New York Tax-Free Money Fund
Virginia Tax-Free Bond Fund
New Jersey Tax-Free Bond Fund
Georgia Tax-Free Bond Fund
Florida Insured Intermediate Tax-Free Fund

T. ROWE PRICE CALIFORNIA TAX-FREE INCOME TRUST
California Tax-Free Bond Fund
California Tax-Free Money Fund

T. ROWE PRICE SCIENCE & TECHNOLOGY FUND, INC.

T. ROWE PRICE SMALL-CAP VALUE FUND, INC.

INSTITUTIONAL INTERNATIONAL FUNDS, INC.
Foreign Equity Fund

T. ROWE PRICE U.S. TREASURY FUNDS, INC.
U.S. Treasury Intermediate Fund
U.S. Treasury Long-Term Fund
U.S. Treasury Money Fund

T. ROWE PRICE INDEX TRUST, INC.
T. Rowe Price Equity Index Fund

T. ROWE PRICE SPECTRUM FUND, INC.
Spectrum Growth Fund
Spectrum Income Fund

T. ROWE PRICE BALANCED FUND, INC.

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T. ROWE PRICE ADJUSTABLE RATE U.S. GOVERNMENT
FUND, INC.

T. ROWE PRICE MID-CAP GROWTH FUND, INC.

T. ROWE PRICE OTC FUND, INC.
T. Rowe Price OTC Fund

T. ROWE PRICE TAX-FREE INSURED INTERMEDIATE BOND
FUND, INC.

T. ROWE PRICE DIVIDEND GROWTH FUND, INC.

T. ROWE PRICE BLUE CHIP GROWTH FUND, INC.

T. ROWE PRICE SUMMIT FUNDS, INC.
T. Rowe Price Summit Cash Reserves Fund
T. Rowe Price Summit Limited-Term Bond Fund

T. Rowe Price Summit GNMA Fund

T. ROWE PRICE SUMMIT MUNICIPAL FUNDS, INC.

T. Rowe Price Summit Municipal Money Market Fund

T. Rowe Price Summit Municipal Intermediate Fund

T. Rowe Price Summit Municipal Income Fund

/s/Henry H. Hopkins

By:Henry H. Hopkins, Vice President

STATE STREET BANK AND TRUST COMPANY

/s/

By:

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AMENDMENT NO. 26 TO CUSTODIAN CONTRACT BETWEEN
STATE STREET BANK AND TRUST COMPANY AND
THE T. ROWE PRICE FUNDS

W I T N E S S E T H:

The Custodian Contract of September 28, 1987, as amended June 24, 1988, October 19, 1988, February 22, 1989, July 19, 1989, September 15, 1989, December 15, 1989, December 20, 1989, January 25, 1990, February 21, 1990, June 12, 1990, July 18, 1990, October 15, 1990, February 13, 1991, March 6, 1991, September 12, 1991, November 6, 1991, April 23, 1992, September 2, 1992, November 3, 1992, December 16, 1992, December 21, 1992, January 28, 1993, April 22, 1993, September 16, 1993, and November 3, 1993, between State Street Bank and Trust Company and each of the Parties listed on Appendix A thereto is hereby further amended, as of March 1, 1994, by adding thereto the T. Rowe Price Equity Income Portfolio and T. Rowe Price New America Growth Portfolio, two separate series of the T. Rowe Price Equity Series, Inc. and T. Rowe Price International Stock Portfolio, a separate series of the T. Rowe Price International Series, Inc.

Notwithstanding anything to the contrary herein, it is understood that the T. Rowe Price Equity Series, Inc. and T. Rowe Price International Series, Inc. (collectively referred to as the "Funds") shall not be responsible for paying any of the fees or expenses set forth herein but that, in accordance with the Investment Management Agreements, dated March 1, 1994, between the Funds and T. Rowe Price Associates, Inc. and Rowe Price-Fleming International, Inc. (collectively referred to as "T. Rowe

Price"), the Funds will require T. Rowe Price to pay all such fees and expenses.

T. ROWE PRICE GROWTH STOCK FUND, INC.

T. ROWE PRICE NEW HORIZONS FUND, INC.

T. ROWE PRICE NEW ERA FUND, INC.

T. ROWE PRICE NEW INCOME FUND, INC.

T. ROWE PRICE PRIME RESERVE FUND, INC.

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T. ROWE PRICE INTERNATIONAL FUNDS, INC.

T. Rowe Price International Bond Fund

T. Rowe Price International Stock Fund

T. Rowe Price International Discovery Fund

T. Rowe Price European Stock Fund

T. Rowe Price New Asia Fund

T. Rowe Price Global Government Bond Fund

T. Rowe Price Japan Fund

T. Rowe Price Short-Term Global Income Fund

T. Rowe Price Latin America Fund

T. ROWE PRICE GROWTH & INCOME FUND, INC.

T. ROWE PRICE SHORT-TERM BOND FUND, INC.

T. ROWE PRICE TAX-FREE INCOME FUND, INC.

T. ROWE PRICE TAX-EXEMPT MONEY FUND, INC.

T. ROWE PRICE TAX-FREE SHORT-INTERMEDIATE FUND,
INC.

T. ROWE PRICE HIGH YIELD FUND, INC.

T. ROWE PRICE TAX-FREE HIGH YIELD FUND, INC.

T. ROWE PRICE NEW AMERICA GROWTH FUND

T. ROWE PRICE EQUITY INCOME FUND

T. ROWE PRICE GNMA FUND

T. ROWE PRICE CAPITAL APPRECIATION FUND

T. ROWE PRICE STATE TAX-FREE INCOME TRUST
Maryland Tax-Free Bond Fund

Maryland Short-Term Tax-Free Bond Fund
New York Tax-Free Bond Fund
New York Tax-Free Money Fund
Virginia Tax-Free Bond Fund
New Jersey Tax-Free Bond Fund
Georgia Tax-Free Bond Fund
Florida Insured Intermediate Tax-Free Fund

T. ROWE PRICE CALIFORNIA TAX-FREE INCOME TRUST
California Tax-Free Bond Fund
California Tax-Free Money Fund

T. ROWE PRICE SCIENCE & TECHNOLOGY FUND, INC.

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T. ROWE PRICE SMALL-CAP VALUE FUND, INC.

INSTITUTIONAL INTERNATIONAL FUNDS, INC.
Foreign Equity Fund

T. ROWE PRICE U.S. TREASURY FUNDS, INC.
U.S. Treasury Intermediate Fund
U.S. Treasury Long-Term Fund
U.S. Treasury Money Fund

T. ROWE PRICE INDEX TRUST, INC.
T. Rowe Price Equity Index Fund

T. ROWE PRICE SPECTRUM FUND, INC.
Spectrum Growth Fund
Spectrum Income Fund

T. ROWE PRICE BALANCED FUND, INC.

T. ROWE PRICE ADJUSTABLE RATE U.S. GOVERNMENT
FUND, INC.

T. ROWE PRICE MID-CAP GROWTH FUND, INC.

T. ROWE PRICE OTC FUND, INC.
T. Rowe Price OTC Fund

T. ROWE PRICE TAX-FREE INSURED INTERMEDIATE BOND
FUND, INC.

T. ROWE PRICE DIVIDEND GROWTH FUND, INC.

T. ROWE PRICE BLUE CHIP GROWTH FUND, INC.

T. ROWE PRICE SUMMIT FUNDS, INC.
T. Rowe Price Summit Cash Reserves Fund

T. Rowe Price Summit Limited-Term Bond Fund
T. Rowe Price Summit GNMA Fund

T. ROWE PRICE SUMMIT MUNICIPAL FUNDS, INC.
T. Rowe Price Summit Municipal Money Market
Fund
T. Rowe Price Summit Municipal Intermediate
Fund
T. Rowe Price Summit Municipal Income Fund

T. ROWE PRICE EQUITY SERIES, INC.
T. Rowe Price Equity Income Portfolio
T. Rowe Price New America Growth Portfolio

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T. ROWE PRICE INTERNATIONAL SERIES, INC.
T. Rowe Price International Stock Portfolio

/s/Henry H. Hopkins

By:Henry H. Hopkins, Vice President

STATE STREET BANK AND TRUST COMPANY

/s/

By:

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AMENDMENT NO. 27 TO CUSTODIAN CONTRACT BETWEEN
STATE STREET BANK AND TRUST COMPANY AND
THE T. ROWE PRICE FUNDS

W I T N E S S E T H:

The Custodian Contract of September 28, 1987, as amended June 24, 1988, October 19, 1988, February 22, 1989, July 19, 1989, September 15, 1989, December 15, 1989, December 20, 1989, January 25, 1990, February 21, 1990, June 12, 1990, July 18, 1990, October 15, 1990, February 13, 1991, March 6, 1991, September 12, 1991, November 6, 1991, April 23, 1992, September 2, 1992, November 3, 1992, December 16, 1992, December 21, 1992, January 28, 1993, April 22, 1993, September 16, 1993, November 3, 1993, and March 1, 1994, between State Street Bank and Trust Company and each of the Parties listed on Appendix A thereto is hereby further amended, as of April 21, 1994, by adding thereto the T. Rowe Price Limited-Term Bond Portfolio, a separate series of the T. Rowe Price Fixed Income Series, Inc.

Notwithstanding anything to the contrary herein, it is

understood that the T. Rowe Price Fixed Income Series, Inc. (referred to as the "Fund") shall not be responsible for paying any of the fees or expenses set forth herein but that, in accordance with the Investment Management Agreement, dated April 21, 1994, between the Fund and T. Rowe Price Associates, Inc. (referred to as "T. Rowe Price"), the Fund will require T. Rowe Price to pay all such fees and expenses.

T. ROWE PRICE GROWTH STOCK FUND, INC.

T. ROWE PRICE NEW HORIZONS FUND, INC.

T. ROWE PRICE NEW ERA FUND, INC.

T. ROWE PRICE NEW INCOME FUND, INC.

T. ROWE PRICE PRIME RESERVE FUND, INC.

T. ROWE PRICE INTERNATIONAL FUNDS, INC.

T. Rowe Price International Bond Fund

T. Rowe Price International Stock Fund

T. Rowe Price International Discovery Fund

T. Rowe Price European Stock Fund

T. Rowe Price New Asia Fund

T. Rowe Price Global Government Bond Fund

T. Rowe Price Japan Fund

T. Rowe Price Short-Term Global Income Fund

T. Rowe Price Latin America Fund

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T. ROWE PRICE GROWTH & INCOME FUND, INC.

T. ROWE PRICE SHORT-TERM BOND FUND, INC.

T. ROWE PRICE TAX-FREE INCOME FUND, INC.

T. ROWE PRICE TAX-EXEMPT MONEY FUND, INC.

T. ROWE PRICE TAX-FREE SHORT-INTERMEDIATE FUND,
INC.

T. ROWE PRICE HIGH YIELD FUND, INC.

T. ROWE PRICE TAX-FREE HIGH YIELD FUND, INC.

T. ROWE PRICE NEW AMERICA GROWTH FUND

T. ROWE PRICE EQUITY INCOME FUND

T. ROWE PRICE GNMA FUND

T. ROWE PRICE CAPITAL APPRECIATION FUND

T. ROWE PRICE STATE TAX-FREE INCOME TRUST
Maryland Tax-Free Bond Fund
Maryland Short-Term Tax-Free Bond Fund
New York Tax-Free Bond Fund
New York Tax-Free Money Fund
Virginia Tax-Free Bond Fund
New Jersey Tax-Free Bond Fund
Georgia Tax-Free Bond Fund
Florida Insured Intermediate Tax-Free Fund

T. ROWE PRICE CALIFORNIA TAX-FREE INCOME TRUST
California Tax-Free Bond Fund
California Tax-Free Money Fund

T. ROWE PRICE SCIENCE & TECHNOLOGY FUND, INC.

T. ROWE PRICE SMALL-CAP VALUE FUND, INC.

INSTITUTIONAL INTERNATIONAL FUNDS, INC.
Foreign Equity Fund

T. ROWE PRICE U.S. TREASURY FUNDS, INC.
U.S. Treasury Intermediate Fund
U.S. Treasury Long-Term Fund
U.S. Treasury Money Fund

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T. ROWE PRICE INDEX TRUST, INC.
T. Rowe Price Equity Index Fund

T. ROWE PRICE SPECTRUM FUND, INC.
Spectrum Growth Fund
Spectrum Income Fund

T. ROWE PRICE BALANCED FUND, INC.

T. ROWE PRICE ADJUSTABLE RATE U.S. GOVERNMENT
FUND, INC.

T. ROWE PRICE MID-CAP GROWTH FUND, INC.

T. ROWE PRICE OTC FUND, INC.
T. Rowe Price OTC Fund

T. ROWE PRICE TAX-FREE INSURED INTERMEDIATE BOND
FUND, INC.

T. ROWE PRICE DIVIDEND GROWTH FUND, INC.

T. ROWE PRICE BLUE CHIP GROWTH FUND, INC.

T. ROWE PRICE SUMMIT FUNDS, INC.

T. Rowe Price Summit Cash Reserves Fund

T. Rowe Price Summit Limited-Term Bond Fund

T. Rowe Price Summit GNMA Fund

T. ROWE PRICE SUMMIT MUNICIPAL FUNDS, INC.

T. Rowe Price Summit Municipal Money Market Fund

T. Rowe Price Summit Municipal Intermediate Fund

T. Rowe Price Summit Municipal Income Fund

T. ROWE PRICE EQUITY SERIES, INC.

T. Rowe Price Equity Income Portfolio

T. Rowe Price New America Growth Portfolio

T. ROWE PRICE INTERNATIONAL SERIES, INC.

T. Rowe Price International Stock Portfolio

T. ROWE PRICE FIXED INCOME SERIES, INC.

T. Rowe Price Limited-Term Bond Portfolio

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/s/Henry H. Hopkins

By: Henry H. Hopkins, Vice President

STATE STREET BANK AND TRUST COMPANY

/s/

By:

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AMENDMENT NO. 28 TO CUSTODIAN CONTRACT BETWEEN
STATE STREET BANK AND TRUST COMPANY AND
THE T. ROWE PRICE FUNDS

W I T N E S S E T H:

The Custodian Contract of September 28, 1987, as amended June 24, 1988, October 19, 1988, February 22, 1989, July 19, 1989, September 15, 1989, December 15, 1989, December 20, 1989, January 25, 1990, February 21, 1990, June 12, 1990, July 18, 1990, October 15, 1990, February 13, 1991, March 6, 1991, September 12, 1991, November 6, 1991, April 23, 1992, September

2, 1992, November 3, 1992, December 16, 1992, December 21, 1992, January 28, 1993, April 22, 1993, September 16, 1993, November 3, 1993, March 1, 1994, and April 21, 1994, between State Street Bank and Trust Company and each of the Parties listed on Appendix A thereto is hereby further amended, as of July 27, 1994, by adding thereto the T. Rowe Price Personal Strategy Balanced Fund, T. Rowe Price Personal Strategy Growth Fund, and T. Rowe Price Personal Strategy Income Fund, three separate series of the T. Rowe Price Personal Strategy Funds, Inc.

Notwithstanding anything to the contrary herein, it is understood that the T. Rowe Price Personal Strategy Funds, Inc. (collectively referred to as the "Funds") shall not be responsible for paying any of the fees or expenses set forth herein but that, in accordance with the Investment Management Agreements, dated July 27, 1994, between the Funds and T. Rowe Price Associates, Inc. (referred to as "T. Rowe Price"), the Funds will require T. Rowe Price to pay all such fees and expenses.

T. ROWE PRICE GROWTH STOCK FUND, INC.

T. ROWE PRICE NEW HORIZONS FUND, INC.

T. ROWE PRICE NEW ERA FUND, INC.

T. ROWE PRICE NEW INCOME FUND, INC.

T. ROWE PRICE PRIME RESERVE FUND, INC.

T. ROWE PRICE INTERNATIONAL FUNDS, INC.

T. Rowe Price International Bond Fund

T. Rowe Price International Stock Fund

T. Rowe Price International Discovery Fund

T. Rowe Price European Stock Fund

T. Rowe Price New Asia Fund

T. Rowe Price Global Government Bond Fund

T. Rowe Price Japan Fund

T. Rowe Price Short-Term Global Income Fund

T. Rowe Price Latin America Fund

T. ROWE PRICE GROWTH & INCOME FUND, INC.

T. ROWE PRICE SHORT-TERM BOND FUND, INC.

T. ROWE PRICE TAX-FREE INCOME FUND, INC.

T. ROWE PRICE TAX-EXEMPT MONEY FUND, INC.

T. ROWE PRICE TAX-FREE SHORT-INTERMEDIATE FUND,
INC.

T. ROWE PRICE HIGH YIELD FUND, INC.

T. ROWE PRICE TAX-FREE HIGH YIELD FUND, INC.

T. ROWE PRICE NEW AMERICA GROWTH FUND

T. ROWE PRICE EQUITY INCOME FUND

T. ROWE PRICE GNMA FUND

T. ROWE PRICE CAPITAL APPRECIATION FUND

T. ROWE PRICE STATE TAX-FREE INCOME TRUST
Maryland Tax-Free Bond Fund
Maryland Short-Term Tax-Free Bond Fund
New York Tax-Free Bond Fund
New York Tax-Free Money Fund
Virginia Tax-Free Bond Fund
New Jersey Tax-Free Bond Fund
Georgia Tax-Free Bond Fund
Florida Insured Intermediate Tax-Free Fund

T. ROWE PRICE CALIFORNIA TAX-FREE INCOME TRUST
California Tax-Free Bond Fund
California Tax-Free Money Fund

T. ROWE PRICE SCIENCE & TECHNOLOGY FUND, INC.

T. ROWE PRICE SMALL-CAP VALUE FUND, INC.

INSTITUTIONAL INTERNATIONAL FUNDS, INC.
Foreign Equity Fund

T. ROWE PRICE U.S. TREASURY FUNDS, INC.
U.S. Treasury Intermediate Fund
U.S. Treasury Long-Term Fund
U.S. Treasury Money Fund

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T. ROWE PRICE INDEX TRUST, INC.
T. Rowe Price Equity Index Fund

T. ROWE PRICE SPECTRUM FUND, INC.
Spectrum Growth Fund
Spectrum Income Fund

T. ROWE PRICE BALANCED FUND, INC.

T. ROWE PRICE ADJUSTABLE RATE U.S. GOVERNMENT

FUND, INC.

T. ROWE PRICE MID-CAP GROWTH FUND, INC.

T. ROWE PRICE OTC FUND, INC.

T. Rowe Price OTC Fund

T. ROWE PRICE TAX-FREE INSURED INTERMEDIATE BOND
FUND, INC.

T. ROWE PRICE DIVIDEND GROWTH FUND, INC.

T. ROWE PRICE BLUE CHIP GROWTH FUND, INC.

T. ROWE PRICE SUMMIT FUNDS, INC.

T. Rowe Price Summit Cash Reserves Fund

T. Rowe Price Summit Limited-Term Bond Fund

T. Rowe Price Summit GNMA Fund

T. ROWE PRICE SUMMIT MUNICIPAL FUNDS, INC.

T. Rowe Price Summit Municipal Money Market
Fund

T. Rowe Price Summit Municipal Intermediate
Fund

T. Rowe Price Summit Municipal Income Fund

T. ROWE PRICE EQUITY SERIES, INC.

T. Rowe Price Equity Income Portfolio

T. Rowe Price New America Growth Portfolio

T. ROWE PRICE INTERNATIONAL SERIES, INC.

T. Rowe Price International Stock Portfolio

T. ROWE PRICE FIXED INCOME SERIES, INC.

T. Rowe Price Limited-Term Bond Portfolio

T. ROWE PRICE PERSONAL STRATEGY FUNDS, INC.

T. Rowe Price Personal Strategy Balanced Fund

T. Rowe Price Personal Strategy Growth Fund

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T. Rowe Price Personal Strategy Income Fund

/s/Henry H. Hopkins

By:Henry H. Hopkins, Vice President

STATE STREET BANK AND TRUST COMPANY

/s/

By:

The Global Custody Agreement dated January 3, 1994, as amended, between The Chase Manhattan Bank, N.A. and T. Rowe Price Funds should be inserted here.

PAGE 1

GLOBAL CUSTODY AGREEMENT

This AGREEMENT is effective January 3, 1994, and is between THE CHASE MANHATTAN BANK, N.A. (the "Bank") and EACH OF THE ENTITIES LISTED ON SCHEDULE A HERETO, Individually and Separately (each individually, the "Customer").

1. Customer Accounts.

The Bank agrees to establish and maintain the following accounts ("Accounts"):

(a) A custody account in the name of the Customer ("Custody Account") for any and all stocks, shares, bonds, debentures, notes, mortgages or other obligations for the payment of money, bullion, coin and any certificates, receipts, warrants or other instruments representing rights to receive, purchase or subscribe for the same or evidencing or representing any other rights or interests therein and other similar property whether certificated or uncertificated as may be received by the Bank or its Subcustodian (as defined in Section 3) for the account of the Customer ("Securities"); and

(b) A deposit account in the name of the Customer ("Deposit Account") for any and all cash in any currency received by the Bank or its Subcustodian for the account of the Customer, which cash shall not be subject to withdrawal by draft or check.

The Customer warrants its authority to: 1) deposit the cash and Securities ("Assets") received in the Accounts and 2) give Instructions (as defined in Section 11) concerning the Accounts. The Bank may deliver securities of the same class in place of those deposited in the Custody Account.

Upon written agreement between the Bank and the Customer, additional Accounts may be established and separately accounted for as additional Accounts under the terms of this Agreement.

2. Maintenance of Securities and Cash at Bank and Subcustodian Locations.

Unless Instructions specifically require another location acceptable to the Bank:

(a) Securities will be held in the country or other

jurisdiction in which the principal trading market for such Securities is located, where such Securities are to be presented for payment or where such Securities are acquired; and

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(b) Cash will be credited to an account in a country or other jurisdiction in which such cash may be legally deposited or is the legal currency for the payment of public or private debts.

Cash may be held pursuant to Instructions in either interest or non-interest bearing accounts as may be available for the particular currency. To the extent Instructions are issued and the Bank can comply with such Instructions, the Bank is authorized to maintain cash balances on deposit for the Customer with itself or one of its affiliates at such reasonable rates of interest as may from time to time be paid on such accounts, or in non-interest bearing accounts as the Customer may direct, if acceptable to the Bank.

If the Customer wishes to have any of its Assets held in the custody of an institution other than the established Subcustodians as defined in Section 3 (or their securities depositories), such arrangement must be authorized by a written agreement, signed by the Bank and the Customer.

3. Subcustodians and Securities Depositories.

The Bank may act under this Agreement through the subcustodians listed in Schedule B of this Agreement with which the Bank has entered into subcustodial agreements ("Subcustodians"). The Customer authorizes the Bank to hold Assets in the Accounts in accounts which the Bank has established with one or more of its branches or Subcustodians. The Bank and Subcustodians are authorized to hold any of the Securities in their account with any securities depository in which they participate.

The Bank reserves the right to add new, replace or remove Subcustodians. The Customer will be given reasonable notice by the Bank of any amendment to Schedule B. Upon request by the Customer, the Bank will identify the name, address and principal place of business of any Subcustodian of the Customer's Assets and the name and address of the governmental agency or other regulatory authority that supervises or regulates such Subcustodian.

4. Use of Subcustodian.

(a) The Bank will identify such Assets on its books as

belonging to the Customer.

(b) A Subcustodian will hold such Assets together with assets belonging to other customers of the Bank in accounts identified on such Subcustodian's books as special custody accounts for the exclusive benefit of customers of the Bank.

(c) Any Assets in the Accounts held by a Subcustodian will be subject only to the instructions of the Bank or its agent.

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Any Securities held in a securities depository for the account of a Subcustodian will be subject only to the instructions of such Subcustodian.

(d) Any agreement the Bank enters into with a Subcustodian for holding its customer's assets shall provide that such assets will not be subject to any right, charge, security interest, lien or claim of any kind in favor of such Subcustodian or its creditors except for a claim for payment for safe custody or administration, and that the beneficial ownership of such assets will be freely transferable without the payment of money or value other than for safe custody or administration. The foregoing shall not apply to the extent of any special agreement or arrangement made by the Customer with any particular Subcustodian.

5. Deposit Account Transactions.

(a) The Bank or its Subcustodians will make payments from the Deposit Account upon receipt of Instructions which include all information required by the Bank.

(b) In the event that any payment to be made under this Section 5 exceeds the funds available in the Deposit Account, the Bank, in its discretion, may advance the Customer such excess amount which shall be deemed a loan payable on demand, bearing interest at the rate customarily charged by the Bank on similar loans.

(c) If the Bank credits the Deposit Account on a payable date, or at any time prior to actual collection and reconciliation to the Deposit Account, with interest, dividends, redemptions or any other amount due, the Customer will promptly return any such amount upon oral or written notification: (i) that such amount has not been received in the ordinary course of business or (ii) that such amount was incorrectly credited. If the Customer does not promptly return any amount upon such notification, the Bank shall be entitled, upon oral or written notification to the Customer, to reverse such credit by debiting the Deposit Account for the amount previously credited. The Bank

or its Subcustodian shall have no duty or obligation to institute legal proceedings, file a claim or a proof of claim in any insolvency proceeding or take any other action with respect to the collection of such amount, but may act for the Customer upon Instructions after consultation with the Customer.

6. Custody Account Transactions.

(a) Securities will be transferred, exchanged or delivered by the Bank or its Subcustodian upon receipt by the Bank of Instructions which include all information required by the Bank. Settlement and payment for Securities received for, and delivery of Securities out of, the Custody Account may be made in

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accordance with the customary or established securities trading or securities processing practices and procedures in the jurisdiction or market in which the transaction occurs, including, without limitation, delivery of Securities to a purchaser, dealer or their agents against a receipt with the expectation of receiving later payment and free delivery. Delivery of Securities out of the Custody Account may also be made in any manner specifically required by Instructions acceptable to the Bank.

(b) The Bank, in its discretion, may credit or debit the Accounts on a contractual settlement date with cash or Securities with respect to any sale, exchange or purchase of Securities. Otherwise, such transactions will be credited or debited to the Accounts on the date cash or Securities are actually received by the Bank and reconciled to the Account.

(i) The Bank may reverse credits or debits made to the Accounts in its discretion if the related transaction fails to settle within a reasonable period, determined by the Bank in its discretion, after the contractual settlement date for the related transaction.

(ii) If any Securities delivered pursuant to this Section 6 are returned by the recipient thereof, the Bank may reverse the credits and debits of the particular transaction at any time.

7. Actions of the Bank.

The Bank shall follow Instructions received regarding assets held in the Accounts. However, until it receives Instructions to the contrary, the Bank will:

(a) Present for payment any Securities which are called, redeemed or retired or otherwise become payable and all coupons

and other income items which call for payment upon presentation, to the extent that the Bank or Subcustodian is actually aware of such opportunities.

(b) Execute in the name of the Customer such ownership and other certificates as may be required to obtain payments in respect of Securities.

(c) Exchange interim receipts or temporary Securities for definitive Securities.

(d) Appoint brokers and agents for any transaction involving the Securities, including, without limitation, affiliates of the Bank or any Subcustodian.

(e) Issue statements to the Customer, at times mutually agreed upon, identifying the Assets in the Accounts.

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The Bank will send the Customer an advice or notification of any transfers of Assets to or from the Accounts. Such statements, advices or notifications shall indicate the identity of the entity having custody of the Assets. Unless the Customer sends the Bank a written exception or objection to any Bank statement within ninety (90) days of receipt, the Customer shall be deemed to have approved such statement. The Bank shall, to the extent permitted by law, be released, relieved and discharged with respect to all matters set forth in such statement or reasonably implied therefrom as though it had been settled by the decree of a court of competent jurisdiction in an action where the Customer and all persons having or claiming an interest in the Customer or the Customer's Accounts were parties if: (a) the Customer has failed to provide a written exception or objection to any Bank statement within ninety (90) days of receipt and where the Customer's failure to so provide a written exception or objection within such ninety (90) day period has limited the Bank's (i) access to the records, materials and other information required to investigate the Customer's exception or objection, and (ii) ability to recover from third parties any amounts for which the Bank may become liable in connection with such exception or objection, or (b) where the Customer has otherwise explicitly approved any such statement.

All collections of funds or other property paid or distributed in respect of Securities in the Custody Account shall be made at the risk of the Customer. The Bank shall have no liability for any loss occasioned by delay in the actual receipt of notice by the Bank or by its Subcustodians of any payment, redemption or other transaction regarding Securities in the Custody Account in respect of which the Bank has agreed to take any action under this Agreement.

8. Corporate Actions; Proxies.

Whenever the Bank receives information concerning the Securities which requires discretionary action by the beneficial owner of the Securities (other than a proxy), such as subscription rights, bonus issues, stock repurchase plans and rights offerings, or legal notices or other material intended to be transmitted to securities holders ("Corporate Actions"), the Bank will give the Customer notice of such Corporate Actions to the extent that the Bank's central corporate actions department has actual knowledge of a Corporate Action in time to notify its customers.

When a rights entitlement or a fractional interest resulting from a rights issue, stock dividend, stock split or similar Corporate Action is received which bears an expiration date, the Bank will endeavor to obtain Instructions from the Customer or its Authorized Person, but if Instructions are not received in time for the Bank to take timely action, or actual notice of such Corporate Action was received too late to seek Instructions, the

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Bank is authorized to sell such rights entitlement or fractional interest and to credit the Deposit Account with the proceeds or take any other action it deems, in good faith, to be appropriate in which case it shall be held harmless for any such action.

The Bank will deliver proxies to the Customer or its designated agent pursuant to special arrangements which may have been agreed to in writing. Such proxies shall be executed in the appropriate nominee name relating to Securities in the Custody Account registered in the name of such nominee but without indicating the manner in which such proxies are to be voted; and where bearer Securities are involved, proxies will be delivered in accordance with Instructions.

9. Nominees.

Securities which are ordinarily held in registered form may be registered in a nominee name of the Bank, Subcustodian or securities depository, as the case may be. The Bank may without notice to the Customer cause any such Securities to cease to be registered in the name of any such nominee and to be registered in the name of the Customer. In the event that any Securities registered in a nominee name are called for partial redemption by the issuer, the Bank may allot the called portion to the respective beneficial holders of such class of security pro rata or in any other manner that is fair, equitable and practicable. The Customer agrees to hold the Bank, Subcustodians, and their respective nominees harmless from any liability arising directly

or indirectly from their status as a mere record holder of Securities in the Custody Account.

10. Authorized Persons.

As used in this Agreement, the term "Authorized Person" means employees or agents including investment managers as have been designated by written notice from the Customer or its designated agent to act on behalf of the Customer under this Agreement. Such persons shall continue to be Authorized Persons until such time as the Bank receives Instructions from the Customer or its designated agent that any such employee or agent is no longer an Authorized Person.

11. Instructions.

The term "Instructions" means instructions of any Authorized Person received by the Bank, via telephone, telex, TWX, facsimile transmission, bank wire or other teleprocess or electronic instruction or trade information system acceptable to the Bank which the Bank believes in good faith to have been given by Authorized Persons or which are transmitted with proper testing or authentication pursuant to terms and conditions which the Bank may specify. Unless otherwise expressly provided, all

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Instructions shall continue in full force and effect until canceled or superseded.

Any Instructions delivered to the Bank by telephone shall promptly thereafter be confirmed in writing by an Authorized Person (which confirmation may bear the facsimile signature of such Person), but the Customer will hold the Bank harmless for the failure of an Authorized Person to send such confirmation in writing, the failure of such confirmation to conform to the telephone instructions received or the Bank's failure to produce such confirmation at any subsequent time. The Bank may electronically record any Instructions given by telephone, and any other telephone discussions with respect to the Custody Account. The Customer shall be responsible for safeguarding any testkeys, identification codes or other security devices which the Bank shall make available to the Customer or its Authorized Persons.

12. Standard of Care; Liabilities.

(a) The Bank shall be responsible for the performance of only such duties as are set forth in this Agreement or expressly contained in Instructions which are consistent with the provisions of this Agreement. Notwithstanding anything to the contrary in this Agreement:

(i) The Bank will use reasonable care with respect to its obligations under this Agreement and the safekeeping of Assets. The Bank shall be liable to the Customer for any loss which shall occur as the result of the failure of a Subcustodian to exercise reasonable care with respect to the safekeeping of such Assets to the same extent that the Bank would be liable to the Customer if the Bank were holding such Assets in New York. In the event of any loss to the Customer by reason of the failure of the Bank or its Subcustodian to utilize reasonable care, the Bank shall be liable to the Customer only to the extent of the Customer's direct damages, and shall in no event be liable for any special or consequential damages.

(ii) The Bank will not be responsible for any act, omission, default or for the solvency of any broker or agent which it or a Subcustodian appoints unless such appointment was made negligently or in bad faith or for any loss due to the negligent act of such broker or agent except to the extent that such broker or agent (other than a Subcustodian) performs in a negligent manner which is the cause of the loss to the Customer and the Bank failed to exercise reasonable care in monitoring such broker's or agent's performance where Customer has requested and Bank has agreed to accept such monitoring responsibility.

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(iii) The Bank shall be indemnified by, and without liability to the Customer for any action taken or omitted by the Bank whether pursuant to Instructions or otherwise within the scope of this Agreement if such act or omission was in good faith, without negligence. In performing its obligations under this Agreement, the Bank may rely on the genuineness of any document which it believes in good faith to have been validly executed.

(iv) The Customer agrees to pay for and hold the Bank harmless from any liability or loss resulting from the imposition or assessment of any taxes or other governmental charges, and any related expenses with respect to income from or Assets in the Accounts, except to the extent that the Bank has failed to exercise reasonable care in performing any obligations which the Bank may have agreed to assume (in addition to those stated in this Agreement) with respect to taxes and such failure by the Bank is the direct cause of such imposition or assessment of such taxes, charges

or expenses.

(v) The Bank shall be entitled to rely, and may act, upon the advice of counsel (who may be counsel for the Customer) on all legal matters and shall be without liability for any action reasonably taken or omitted pursuant to such advice; provided, that the Bank gives (to the extent practicable) prior notice to Customer of Bank's intention to so seek advice of counsel and an opportunity for consultation with Customer on the proposed contact with counsel.

(vi) The Bank represents and warrants that it currently maintain a banker's blanket bond which provides standard fidelity and non-negligent loss coverage with respect to the Securities and Cash which may be held by Subcustodians pursuant to this Agreement. The Bank agrees that if at any time it for any reason discontinues such coverage, it shall immediately give sixty (60) days' prior written notice to the Customer. The Bank need not maintain any insurance for the benefit of the Customer.

(vii) Without limiting the foregoing, the Bank shall not be liable for any loss which results from: (1) the general risk of investing, or (2) investing or holding Assets in a particular country including, but not limited to, losses resulting from nationalization, expropriation or other governmental actions; regulation of the banking or securities industry; currency restrictions, devaluations or fluctuations; and market

PAGE 9

conditions which prevent the orderly execution of securities transactions or affect the value of Assets.

(viii) Neither party shall be liable to the other for any loss due to forces beyond their control including, but not limited to strikes or work stoppages, acts of war or terrorism, insurrection, revolution, nuclear fusion, fission or radiation, or acts of God.

(b) Consistent with and without limiting the first paragraph of this Section 12, it is specifically acknowledged that the Bank shall have no duty or responsibility to:

(i) question Instructions or make any suggestions to the Customer or an Authorized Person regarding such Instructions;

(ii) supervise or make recommendations with respect to investments or the retention of Securities;

(iii) advise the Customer or an Authorized Person regarding any default in the payment of principal or income of any security other than as provided in Section 5(c) of this Agreement;

(iv) evaluate or report to the Customer or an Authorized Person regarding the financial condition of any broker, agent (other than a Subcustodian) or other party to which Securities are delivered or payments are made pursuant to this Agreement;

(v) review or reconcile trade confirmations received from brokers. The Customer or its Authorized Persons (as defined in Section 10) issuing Instructions shall bear any responsibility to review such confirmations against Instructions issued to and statements issued by the Bank.

(c) The Customer authorizes the Bank to act under this Agreement notwithstanding that the Bank or any of its divisions or affiliates may have a material interest in a transaction, or circumstances are such that the Bank may have a potential conflict of duty or interest including the fact that the Bank or any of its affiliates may provide brokerage services to other customers, act as financial advisor to the issuer of Securities, act as a lender to the issuer of Securities, act in the same transaction as agent for more than one customer, have a material interest in the issue of Securities, or earn profits from any of the activities listed herein.

13. Fees and Expenses.

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The Customer agrees to pay the Bank for its services under this Agreement such amount as may be agreed upon in writing, together with the Bank's reasonable out-of-pocket or incidental expenses, including, but not limited to, reasonable legal fees. The Bank shall have a lien on and is authorized to charge any Accounts of the Customer for any amount owing to the Bank under any provision of this Agreement upon notice to the Customer.

14. Miscellaneous.

(a) Foreign Exchange Transactions. Pursuant to Instructions, which may be standing Instructions, to facilitate the administration of the Customer's trading and investment

activity, the Bank is authorized to enter into spot or forward foreign exchange contracts with the Customer or an Authorized Person for the Customer and may also provide foreign exchange through its subsidiaries or Subcustodians. The Bank may establish rules or limitations concerning any foreign exchange facility made available. In all cases where the Bank, its subsidiaries, affiliates or Subcustodians enter into a foreign exchange contract related to Accounts, the terms and conditions of the then current foreign exchange contract of the Bank, its subsidiary, affiliate or Subcustodian and, to the extent not inconsistent, this Agreement shall apply to such transaction.

(b) Certification of Residency, etc. The Customer certifies that it is a resident of the United States and agrees to notify the Bank of any changes in residency. The Bank may rely upon this certification or the certification of such other facts as may be required to administer the Bank's obligations under this Agreement. The Customer will indemnify the Bank against all losses, liability, claims or demands arising directly or indirectly from any such certifications.

(c) Access to Records. The Bank shall allow the Customer's independent public accountants, officers and advisers reasonable access to the records of the Bank relating to the Assets as is required in connection with their examination of books and records pertaining to the Customer's affairs. Subject to restrictions under applicable law, the Bank shall also obtain an undertaking to permit the Customer's independent public accountants reasonable access to the records of any Subcustodian which has physical possession of any Assets as may be required in connection with the examination of the Customer's books and records.

(d) Governing Law; Successors and Assigns. This Agreement shall be governed by the laws of the State of New York and shall not be assignable by either party, but shall bind the successors in interest of the Customer and the Bank.

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(e) Entire Agreement; Applicable Riders. Customer represents that the Assets deposited in the Accounts are (Check one):

X Employee Benefit Plan or other assets subject to the Employee Retirement Income Security Act of 1974, as amended ("ERISA");

X Mutual Fund assets subject to certain Securities and Exchange Commission

("SEC") rules and regulations;

X Neither of the above.

With respect to each Customer, this Agreement consists exclusively of this document together with Schedules A, B, Exhibits I - _____ and the following Rider(s) to the extent indicated on Schedule A hereto opposite the name of the Customer under the column headed "Applicable Riders to Agreement":

X ERISA

X MUTUAL FUND

SPECIAL TERMS AND CONDITIONS

There are no other provisions of this Agreement and this Agreement supersedes any other agreements, whether written or oral, between the parties. Any amendment to this Agreement must be in writing, executed by both parties.

(f) Severability. In the event that one or more provisions of this Agreement are held invalid, illegal or enforceable in any respect on the basis of any particular circumstances or in any jurisdiction, the validity, legality and enforceability of such provision or provisions under other circumstances or in other jurisdictions and of the remaining provisions will not in any way be affected or impaired.

PAGE 12

(g) Waiver. Except as otherwise provided in this Agreement, no failure or delay on the part of either party in exercising any power or right under this Agreement operates as a waiver, nor does any single or partial exercise of any power or right preclude any other or further exercise, or the exercise of any other power or right. No waiver by a party of any provision of this Agreement, or waiver of any breach or default, is effective unless in writing and signed by the party against whom the waiver is to be enforced.

(h) Notices. All notices under this Agreement shall be effective when actually received. Any notices or other communications which may be required under this Agreement are to be sent to the parties at the following addresses or such other addresses as may subsequently be given to the other party in writing:

Bank: The Chase Manhattan Bank, N.A.
Chase MetroTech Center
Brooklyn, NY 11245
Attention: Global Investor Services
Telephone: (718) 242-3455
Facsimile: (718) 242-1374

Copy to: The Chase Manhattan Bank, N.A.
Woolgate House
Coleman Street
London EC2P 2HD England
Attention: Global Investor Services
Telephone: 44-71-962-5000
Facsimile: 44-71-962-5377
Telex: 8954681CMBG

Customer: Name of Customer from Schedule A
c/o T. Rowe Price
100 East Pratt Street
Baltimore, MD 21202
Attention: Treasurer
Telephone: (410) 625-6658
Facsimile: (410) 547-0180

(i) Termination. This Agreement may be terminated by the Customer or the Bank by giving ninety (90) days written notice to the other, provided that such notice to the Bank shall specify the names of the persons to whom the Bank shall deliver the Assets in the Accounts. If notice of termination is given by the Bank, the Customer shall, within ninety (90) days following receipt of the notice, deliver to the Bank Instructions specifying the names of the persons to whom the Bank shall deliver the Assets. In either case the Bank will deliver the Assets to the persons so specified, after deducting any amounts which the Bank determines in good faith to be owed to it under

PAGE 13

Section 13. If within ninety (90) days following receipt of a notice of termination by the Bank, the Bank does not receive Instructions from the Customer specifying the names of the persons to whom the Bank shall deliver the Assets, the Bank, at its election, may deliver the Assets to a bank or trust company doing business in the State of New York to be held and disposed of pursuant to the provisions of this Agreement, or to Authorized Persons, or may continue to hold the Assets until Instructions are provided to the Bank.

(j) Entire Agreement. This Agreement, including the Schedules and Riders hereto, embodies the entire agreement and understanding of the parties in respect of the subject matter

contained in this Agreement. This Agreement supersedes all other custody or other agreements between the parties with respect to such subject matter, which prior agreements are hereby terminated effective as of the date hereof and shall have no further force or effect.

EACH OF THE CUSTOMERS, INDIVIDUALLY AND SEPARATELY LISTED ON SECTION I OF SCHEDULE A HERETO

/s/Carmen F. Deyesu
By: _____
Carmen F. Deyesu
Treasurer & Vice President

EACH OF THE CUSTOMERS, INDIVIDUALLY AND SEPARATELY LISTED ON SECTION II OF SCHEDULE A HERETO

/s/Alvin M. Younger
By: _____
Alvin M. Younger
Treasurer

EACH OF THE CUSTOMERS, INDIVIDUALLY AND SEPARATELY LISTED ON SECTION III OF SCHEDULE A HERETO

/s/Alvin M. Younger
By: _____
Alvin M. Younger
Treasurer

PAGE 14

THE CHASE MANHATTAN BANK, N.A.

/s/Alan Naughton
By: _____
Alan Naughton
Vice President

STATE OF)
 : ss.
COUNTY OF)

Notary

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Schedule A
Page 1 of 2

LIST OF CUSTOMERS, EACH INDIVIDUALLY PARTIES TO
GLOBAL CUSTODY AGREEMENT WITH
THE CHASE MANHATTAN BANK, N.A.
DATED JANUARY 3, 1994

CUSTOMER

APPLICABLE RIDERS TO
GLOBAL CUSTODY AGREEMENT

I. INVESTMENT COMPANIES/PORTFOLIOS
REGISTERED UNDER THE INVESTMENT
COMPANY ACT OF 1940

The Mutual Fund Rider is
applicable to all
Customers listed under
Section I of this
Schedule A.

Equity Funds

- T. Rowe Price Balanced Fund, Inc.
- T. Rowe Price Blue Chip Growth Fund, Inc.
- T. Rowe Price Capital Appreciation Fund
- T. Rowe Price Dividend Growth Fund, Inc.
- T. Rowe Price Equity Income Fund
- T. Rowe Price Growth & Income Fund, Inc.
- T. Rowe Price Growth Stock Fund, Inc.
- Institutional International Funds, Inc. on behalf of:
 - Foreign Equity Fund
- T. Rowe Price International Funds, Inc. on behalf of:
 - T. Rowe Price European Stock Fund
 - T. Rowe Price International Discovery Fund
 - T. Rowe Price International Stock Fund
 - T. Rowe Price Japan Fund
 - T. Rowe Price Latin America Fund
 - T. Rowe Price New Asia Fund
- T. Rowe Price Mid-Cap Growth Fund, Inc.
- T. Rowe Price New Era Fund, Inc.
- T. Rowe Price New Horizons Fund, Inc.
- T. Rowe Price OTC Fund, Inc. on behalf of:
 - T. Rowe Price OTC Fund

T. Rowe Price Science & Technology Fund, Inc.
T. Rowe Price Small Cap Value Fund, Inc.
CUNA Mutual Funds, Inc. on behalf of:
CUNA Mutual Cornerstone Fund

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Schedule A
Page 2 of 2

CUSTOMER

APPLICABLE RIDERS TO
GLOBAL CUSTODY AGREEMENT

Income Funds

T. Rowe Price Adjustable Rate U.S. Government Fund, Inc.
T. Rowe Price High Yield Fund, Inc.
T. Rowe Price New Income Fund, Inc.
T. Rowe Price Short-Term Bond Fund, Inc.
T. Rowe Price Summit Funds, Inc. on behalf of:
T. Rowe Price Summit Limited-Term Bond Fund
T. Rowe Price International Funds, Inc. on behalf of:
T. Rowe Price Global Government Bond Fund
T. Rowe Price International Bond Fund
T. Rowe Price Short-Term Global Income Fund

II. ACCOUNTS SUBJECT TO ERISA

T. Rowe Price Trust Company, as
Trustee for the Johnson Matthey
Salaried Employee Savings Plan

The ERISA Rider is
applicable to all
Customers under Section
II of this Schedule A.

Common Trust Funds

T. Rowe Price Trust Company, as Trustee
for the International Common Trust Fund
on behalf of the Underlying Trusts:

Foreign Discovery Trust
Foreign Discovery Trust-Augment
Pacific Discovery Trust
European Discovery Trust
Japan Discovery Trust
Latin American Discovery Trust

New York City International Common Trust Fund

III. OTHER

No Riders are applicable
to the Customer listed

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ERISA Rider to Global Custody Agreement
Between The Chase Manhattan Bank, N.A. and
Each of the Entities Listed on Schedule A Hereto
effective January 3, 1994

Customer represents that the Assets being placed in the Bank's custody are subject to ERISA. It is understood that in connection therewith the Bank is a service provider and not a fiduciary of the plan and trust to which the assets are related. The Bank shall not be considered a party to the underlying plan and trust and the Customer hereby assumes all responsibility to assure that Instructions issued under this Agreement are in compliance with such plan and trust and ERISA.

This Agreement will be interpreted as being in compliance with the Department of Labor Regulations Section 2550.404b-1 concerning the maintenance of indicia of ownership of plan assets outside of the jurisdiction of the district courts of the United States.

The following modifications are made to the Agreement:

Section 3. Subcustodians and Securities Depositories.

Add the following language to the end of Section 3:

As used in this Agreement, the term Subcustodian and the term securities depositories include a branch of the Bank, a branch of a qualified U.S. bank, an eligible foreign custodian, or an eligible foreign securities depository, where such terms shall mean:

- (a) "qualified U.S. bank" shall mean a U.S. bank as described in paragraph (a) (2) (ii) (A) (1) of the Department of Labor Regulations Section 2550.404b-1;
- (b) "eligible foreign custodian" shall mean a banking institution incorporated or organized under the laws of a country other than the United States which is supervised or regulated by that country's government or an agency thereof or other regulatory authority in the foreign jurisdiction having authority over banks; and
- (c) "eligible foreign securities depository" shall mean a

securities depository or clearing agency, incorporated or organized under the laws of a country other than the United States, which is supervised or regulated by that country's government or an agency thereof or other regulatory authority in the foreign jurisdiction having authority over such depositories or clearing agencies and which is described in paragraph (c) (2) of the Department of Labor Regulations Section 2550.404b-1.

Section 4. Use of Subcustodian.

PAGE 19

Subsection (d) of this section is modified by deleting the last sentence.

Section 5. Deposit Account Payments.

Subsection (b) is amended to read as follows:

(b) In the event that any payment made under this Section 5 exceeds the funds available in the Deposit Account, such discretionary advance shall be deemed a service provided by the Bank under this Agreement for which it is entitled to recover its costs as may be determined by the Bank in good faith.

Section 10. Authorized Persons.

Add the following paragraph at the end of Section 10:

Customer represents that: a) Instructions will only be issued by or for a fiduciary pursuant to Department of Labor Regulation Section 404b-1 (a) (2) (i) and b) if Instructions are to be issued by an investment manager, such entity will meet the requirements of Section 3(38) of ERISA and will have been designated by the Customer to manage assets held in the Customer Accounts ("Investment Manager"). An Investment Manager may designate certain of its employees to act as Authorized Persons under this Agreement.

Section 14(a). Foreign Exchange Transactions.

Add the following paragraph at the end of Subsection 14(a):

Instructions to execute foreign exchange transactions with the Bank, its subsidiaries, affiliates or Subcustodians will include (1) the time period in which the transaction must be completed; (2) the location i.e., Chase New York, Chase London, etc. or the Subcustodian with whom the contract is to be executed and (3) such additional information and

guidelines as may be deemed necessary; and, if the Instruction is a standing Instruction, a provision allowing such Instruction to be overridden by specific contrary Instructions.

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Mutual Fund Rider to Global Custody Agreement
Between The Chase Manhattan Bank, N.A. and
Each of the Entities Listed on Schedule A Hereto
effective January 3, 1994

Customer represents that the Assets being placed in the Bank's custody are subject to the Investment Company Act of 1940 (the Act), as the same may be amended from time to time.

Except to the extent that the Bank has specifically agreed to comply with a condition of a rule, regulation, interpretation promulgated by or under the authority of the SEC or the Exemptive Order applicable to accounts of this nature issued to the Bank (Investment Company Act of 1940, Release No. 12053, November 20, 1981), as amended, or unless the Bank has otherwise specifically agreed, the Customer shall be solely responsible to assure that the maintenance of Assets under this Agreement complies with such rules, regulations, interpretations or exemptive order promulgated by or under the authority of the Securities Exchange Commission.

The following modifications are made to the Agreement:

Section 3. Subcustodians and Securities Depositories.

Add the following language to the end of Section 3:

The terms Subcustodian and securities depositories as used in this Agreement shall mean a branch of a qualified U.S. bank, an eligible foreign custodian or an eligible foreign securities depository, which are further defined as follows:

(a) "qualified U.S. Bank" shall mean a qualified U.S. bank as defined in Rule 17f-5 under the Investment Company Act of 1940;

(b) "eligible foreign custodian" shall mean (i) a banking institution or trust company incorporated or organized under the laws of a country other than the United States that is regulated as such by that country's government or an agency thereof and that has shareholders' equity in excess of \$200

million in U.S. currency (or a foreign currency equivalent thereof), (ii) a majority owned direct or indirect subsidiary of a qualified U.S. bank or bank holding company that is incorporated or organized under the laws of a country other than the United States and that has shareholders' equity in excess of \$100 million in U.S. currency (or a foreign currency equivalent thereof) (iii) a banking institution or trust company incorporated or organized under the laws of a country other than the United States or a majority owned direct or indirect subsidiary of a qualified U.S. bank or bank holding company that is incorporated or organized under the laws of a country other than the United States which has such other qualifications as shall be specified in Instructions and approved by the Bank; or (iv) any other

PAGE 21

entity that shall have been so qualified by exemptive order, rule or other appropriate action of the SEC; and

(c) "eligible foreign securities depository" shall mean a securities depository or clearing agency, incorporated or organized under the laws of a country other than the United States, which operates (i) the central system for handling securities or equivalent book-entries in that country, or (ii) a transnational system for the central handling of securities or equivalent book-entries.

The Customer represents that its Board of Directors has approved each of the Subcustodians listed in Schedule B to this Agreement and the terms of the subcustody agreements between the Bank and each Subcustodian, which are attached as Exhibits I through of Schedule B, and further represents that its Board has determined that the use of each Subcustodian and the terms of each subcustody agreement are consistent with the best interests of the Fund(s) and its (their) shareholders. The Bank will supply the Customer with any amendment to Schedule B for approval. As requested by the Bank, the Customer will supply the Bank with certified copies of its Board of Directors resolution(s) with respect to the foregoing prior to placing Assets with any Subcustodian so approved.

Section 11. Instructions.

Add the following language to the end of Section 11:

Deposit Account Payments and Custody Account Transactions made pursuant to Section 5 and 6 of this Agreement may be made only for the purposes listed below. Instructions must specify the purpose for which any transaction is to be made and Customer shall be solely responsible to assure that Instructions are in accord with any limitations or

restrictions applicable to the Customer by law or as may be set forth in its prospectus.

(a) In connection with the purchase or sale of Securities at prices as confirmed by Instructions;

(b) When Securities are called, redeemed or retired, or otherwise become payable;

(c) In exchange for or upon conversion into other securities alone or other securities and cash pursuant to any plan or merger, consolidation, reorganization, recapitalization or readjustment;

(d) Upon conversion of Securities pursuant to their terms into other securities;

(e) Upon exercise of subscription, purchase or other similar rights represented by Securities;

(f) For the payment of interest, taxes, management or supervisory fees, distributions or operating expenses;

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(g) In connection with any borrowings by the Customer requiring a pledge of Securities, but only against receipt of amounts borrowed;

(h) In connection with any loans, but only against receipt of adequate collateral as specified in Instructions which shall reflect any restrictions applicable to the Customer;

(i) For the purpose of redeeming shares of the capital stock of the Customer and the delivery to, or the crediting to the account of, the Bank, its Subcustodian or the Customer's transfer agent, such shares to be purchased or redeemed;

(j) For the purpose of redeeming in kind shares of the Customer against delivery to the Bank, its Subcustodian or the Customer's transfer agent of such shares to be so redeemed;

(k) For delivery in accordance with the provisions of any agreement among the Customer, the Bank and a broker-dealer registered under the Securities Exchange Act of 1934 (the "Exchange Act") and a member of The National Association of Securities Dealers, Inc. ("NASD"), relating to compliance with the rules of The Options Clearing Corporation and of any registered national securities exchange, or of any similar organization or organizations, regarding escrow or other arrangements in connection with transactions by the Customer;

(l) For release of Securities to designated brokers under covered call options, provided, however, that such Securities shall be released only upon payment to the Bank of monies for the premium due and a receipt for the Securities which are to be held in escrow. Upon exercise of the option, or at expiration, the Bank will receive from brokers the Securities previously deposited. The Bank will act strictly in accordance with Instructions in the delivery of Securities to be held in escrow and will have no responsibility or liability for any such Securities which are not returned promptly when due other than to make proper request for such return;

(m) For spot or forward foreign exchange transactions to facilitate security trading, receipt of income from Securities or related transactions;

(n) For other proper purposes as may be specified in Instructions issued by an officer of the Customer which shall include a statement of the purpose for which the delivery or payment is to be made, the amount of the payment or specific Securities to be delivered, the name of the person or persons to whom delivery or payment is to be made, and a certification that the purpose is a proper purpose under the instruments governing the Customer; and

(o) Upon the termination of this Agreement as set forth in Section 14(i).

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Section 12. Standard of Care; Liabilities.

Add the following subsection (c) to Section 12:

(c) The Bank hereby warrants to the Customer that in its opinion, after due inquiry, the established procedures to be followed by each of its branches, each branch of a qualified U.S. bank, each eligible foreign custodian and each eligible foreign securities depository holding the Customer's Securities pursuant to this Agreement afford protection for such Securities at least equal to that afforded by the Bank's established procedures with respect to similar securities held by the Bank and its securities depositories in New York.

Section 14. Access to Records.

Add the following language to the end of Section 14(c):

Upon reasonable request from the Customer, the Bank shall

furnish the Customer such reports (or portions thereof) of the Bank's system of internal accounting controls applicable to the Bank's duties under this Agreement. The Bank shall endeavor to obtain and furnish the Customer with such similar reports as it may reasonably request with respect to each Subcustodian and securities depository holding the Customer's assets.

GLOBAL CUSTODY AGREEMENT

WITH

DATE

SPECIAL TERMS AND CONDITIONS RIDER

PAGE 24
January, 1994

Schedule B

SUB-CUSTODIANS EMPLOYED BY

THE CHASE MANHATTAN BANK, N.A. LONDON, GLOBAL CUSTODY

COUNTRY

SUB-
CUSTODIAN

CORRESPOND
ENT BANK

ARGENTINA

The Chase
Manhattan
Bank, N.A.
Main
Branch
25 De Mayo
130/140
Buenos
Aires

ARGENTINA

The Chase
Manhattan
Bank, N.A.
Buenos
Aires

AUSTRALIA

The Chase
Manhattan

Bank,
Australia
Limited
36th Floor
World
Trade
Centre
Jamison
Street
Sydney
New South
Wales 2000
AUSTRALIA

The Chase
Manhattan
Bank
Australia
Limited
Sydney

AUSTRIA

Creditanst
alt -
Bankverein
Schottenga
sse 6
A - 1011,
Vienna
AUSTRIA

Credit
Lyonnais
Vienna

BANGLADESH

Standard
Chartered
Bank
18-20
Motijheel
C.A.
Box 536,
Dhaka-1000
BANGLADESH

Standard
Chartered
Bank Dhaka

BELGIUM

Generale
Bank
3 Montagne
Du Parc
1000
Bruxelles
BELGIUM

Credit
Lyonnais
Bank
Brussels

BOTSWANA

Standard
Chartered
Bank
Botswana
Ltd.
4th Floor
Commerce
House
The Mall
Gaborone
BOTSWANA

Standard
Chartered
Bank
Botswana
Ltd.
Gaborone

BRAZIL

Banco
Chase
Manhattan,
S.A.
Chase
Manhattan
Center
Rua Verbo
Divino,
1400
Sao Paulo,
SP 04719-
002

BRAZIL

Banco
Chase

Manhattan
S.A.
Sao Paulo

PAGE 25
CANADA

The Royal
Bank of
Canada
Royal Bank
Plaza
Toronto
Ontario

M5J 2J5
CANADA

Canada
Trust
Canada
Trust
Tower
BCE Place
161 Bay at
Front
Toronto
Ontario
M5J 2T2
CANADA

Toronto
Dominion
Bank
Toronto

Toronto
Dominion
Bank
Toronto

CHILE

The Chase
Manhattan

Bank, N.A.
Agustinas
1235
Casilla
9192
Santiago
CHILE

The Chase
Manhattan
Bank, N.A.
Santiago

COLOMBIA

Cititrust
Colombia
S.A.
Sociedad
Fiduciaria
Av.
Jimenez No
8-89
Santafe de
Bogota, DC
COLOMBIA

Cititrust
Colombia
S.A.
Sociedad
Fiduciaria
Santafe de
Bogota

CZECH
REPUBLIC

Ceskoslove
nska
Obchodni
Banka,
A.S.
Na
Prikoope
14
115 20
Praha 1
CZECH
REPUBLIC

Ceskoslove
nska
Obchodni
Banka,
A.S.
Praha

DENMARK

Den Danske
Bank
2 Holmens
Kanala DK
1091
Copenhagen
DENMARK

Den Danske
Bak
Copenhagen

EUROBONDS

Cedel S.A.
67
Boulevard
Grande
Duchesse
Charlotte
LUXEMBOURG
A/c The
Chase
Manhattan
Bank, N.A.
London
A/c No.
17817

ECU:Lloyds
Bank PLC
Internatio
nal
Banking
Dividion
London
For all

other
currencies
: see
relevant
country

EURO CDS

First
Chicago
Clearing
Centre
27
Leadenhall
Street
London
EC3A 1AA
UNITED
KINGDOM

ECU:Lloyds
Bank PLC
Banking
Division

London
For all
other
currencies
: see
relevant
country

PAGE 26
FINLAND

Kansallis-
Osake-
Pankki
Aleksanter
inkatu 42

00100
Helsinki
10
FINLAND

Kanasallis
- -Osake-
Pankki

FRANCE

Banque

Paribas
Ref 256
BP 141
3, Rue
D'Antin
75078
Paris
Cedex 02
FRANCE

Societe
Generale
Paris

GERMANY

Chase Bank
A.G.
Alexanders
trasse 59
Postfach
90 01 09
60441
Frankfurt/
Main
GERMANY

Chase Bank
A.G.
Frankfurt

GREECE

National
Bank of
Greece
S.A.
38 Stadiou
Street
Athens
GREECE

National
Bank of
Greece
S.A.
Athens
A/c Chase
Manhattan
Bank,
N.A.,
London
A/c No.
040/7/9215
78-68

HONG KONG

The Chase
Manhattan
Bank, N.A.
40/F One
Exchange
Square
8,
Connaught
Place
Central,
Hong Kong
HONG KONG

The Chase
Manhattan
Bank, N.A.
Hong Kong

HUNGARY

Citibank
Budapest
Rt.
Vaci Utca
19-21
1052
Budapest V
HUNGARY

Citibank
Budapest
Rt.
Budapest

INDIA

The
Hongkong
and
Shanghai
Banking
Corporatio
n Limited
52/60
Mahatma
Gandhi
Road
Bombay 400
001
INDIA

The
Hongkong
and
Shanghai
Banking
Corporatio
n Limited
Bombay

INDONESIA

The
Hongkong
and
Shanghai
Banking
Corporatio
n Limited

World
Trade
Center
Jl. Jend
Sudirman
Kav. 29-31
Jakarta
10023
INDONESIA

The Chase
Manhattan
Bank, N.A.
Jakarta

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IRELAND

Bank of
Ireland
Internatio
nal
Financial
Services
Centre

1

Hargourmas
ter Place
Dublin 1
IRELAND

Allied
Irish Bank
Dublin

ISRAEL

Bank Leumi
Le-Israel
B.M.
19 Herzi
Street
65136 Tel
Aviv
ISRAEL

Bank Leumi
Le-Israel
B.M.
Tel Aviv

ITALY

The Chase
Manhattan
Bank, N.A.
Piazza
Meda 1
20121
Milan
ITALY

The Chase
Manhattan
Bank, N.A.
Milan

JAPAN

The Chase
Manhattan
Bank, N.A.
1-3
Marunouchi
1-Chome
Chiyoda-Ku
Tokyo 100
JAPAN

The Chase
Manhattan
Bank, N.A.
Tokyo

JORDAN

Arab Bank
Limited
P.O. Box
950544-5
Amman
Shmeisani
JORDAN

Arab Bank
Limited
Amman

LUXEMBOURG

Banque
Generale
du
Luxembourg
S.A.
27 Avenue
Monterey
LUXEMBOURG

Banque
Generale

du
Luxembourg
S.A.
Luxembourg

MALAYSIA

The Chase
Manhattan
Bank, N.A.

Pernas
Internatio
nal
Jalan
Sultan
Ismail
50250,
Kuala
Lumpur
MALAYSIA

The Chase
Manhattan
Bank, N.A.
Kuala
Lumpur

MEXICO
(Equities)

The Chase
Manhattan
Bank, N.A.
Hamburgo
213, Piso 7
06660
Mexico D.F.
MEXICO

No
corresponde
nt Bank

(Government
Bonds)

Banco
Nacional de
Mexico,
Avenida
Juarez No.
104 - 11
Piso
06040
Mexico D.F.
MEXICO

Banque
Commerciale
du Maroc
Casablanca

PAGE 28

NETHERLANDS

ABN AMRO
N.V.
Securities
Centre
P.O. Box
3200
4800 De
Breda
NETHERLANDS

Credit
Lyonnais
Bank
Nederland
N.V.
Rotterdam

NEW ZEALAND

National
Nominees
Limited
Level 2 BNZ
Tower
125 Queen
Street
Auckland
NEW ZEALAND

National
Bank of New
Zealand
Wellington

NORWAY

Den Norske
Bank
Kirkegaten
21
Oslo 1
NORWAY

Den Norske
Bank
Oslo

PAKISTAN

Citibank
N.A.
State Life
Building
No.1
I.I.
Chundrigar
Road
Karachi
PAKISTAN

Citibank
N.A.
Karachi

PERU

Citibank,
N.A.
Camino Real

457
CC Torre
Real - 5th
Floor
San Isidro,
Lima 27
PERU

Citibank
N.A.
Lima

PHILIPPINES

The
Hongkong
and
Shanghai
Banking
Corporation
Limited
Hong Kong
Bank Centre
3/F
San Miguel
Avenue
Ortigas
Commercial
Centre
Pasig Metro
Manila
PHILIPPINES

The
Hongkong
and Shaghai
Banking
Corporation
Limited
Manila

POLAND

Bank Polska
Kasa Opieki
S.A.
6/12 Nowy
Swiat Str
00-920
Warsaw
POLAND

Bank Potska
Kasa Opieki
S.A.
Warsaw

PORTUGAL

Banco
Espirito
Santo &
Comercial
de Lisboa
Servico de
Gestaode
Titulos
R. Mouzinho
da
Silvelra,
36 r/c
1200 Lisbon
PORTUGAL

Banco Pinto
& Sotto
Mayor
Avenida
Fontes
Pereira de
Melo
1000 Lisbon

PAGE 29
SHANGHAI
(CHINA)

The
Hongkong
and
Shanghai
Banking
Corporation
Limited
Shanghai
Branch
Corporate
Banking
Centre
Unit 504,
5/F
Shanghai
Centre
1376

Hanjing Xi
Lu
Shanghai
THE
PEOPLE'S
REPUBLIC OF
CHINA

The Chase
Manhattan
Bank, N.A.
Hong Kong

SCHENZHEN
(CHINA)

The
Hongkong
and
Shanghai
Banking
Corporation
Limited
1st Floor
Central
Plaza Hotel
No. 1 Chun
Feng Lu
Shenzhen
THE
PEOPLE'S
REPUBLIC OF

CHINA

The Chase
Manhattan
Bank, N.A.
Hong Kong

SINGAPORE

The Chase
Manhattan
Bank, N.A.
Shell Tower
50 Raffles
Place
Singapore
0104
SINGAPORE

The Chase
Manhattan
Bank, N.A.
Singapore

SOUTH KOREA

The
Hongkong &

Shanghai
Banking
Corporation
Limited
6/F Kyobo
Building
#1 Chongro,
1-ka
Chongro-Ku,
Seoul
SOUGH KOREA

The
Hongkong &
Shanghai
Banking
Corporation
Limited
Seoul

SPAIN

The Chase
Manhattan
Bank, N.A.
Calle
Peonias 2
7th Floor
La Piovera
28042
Madrid
SPAIN

Banco
Zaragozano,
S.A.
Madrid

URUGUAY

The First
National
Bank of
Boston
Zabala 1463
Montevideo
URUGUAY

The First
National
Bank of
Boston
Montevideo

U.S.A

The Chase
Manhattan
Bank, N.A.
1 Chase
Manhattan
Plaza
New York
NY 10081
U.S.A.

The Chase
Manhattan
Bank, N.A.
New York

PAGE 30
VENEZUELA

Citibank
N.A.
Carmelitas
a
Altagracia
Edificio
Citibank
Caracas
1010
VENEZUELA

Citibank
N.A.
Caracas

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AMENDMENT AGREEMENT

AMENDMENT AGREEMENT, dated as of April 18, 1994 (the "Amendment Agreement") to the Global Custody Agreement, effective January 3, 1994 (the "Custody Agreement") by and between each of the Entities listed in Attachment A hereto, separately and individually (each such entity referred to hereinafter as the "Customer") and THE CHASE MANHATTAN BANK, N.A. (the "Bank"). Terms defined in the Custody Agreement are used herein as therein defined.

WITNESSETH:

WHEREAS, the Customer wishes to appoint the Bank as its global custodian and the bank wishes to accept such appointment pursuant to the terms of the Custody Agreement;

NOW, THEREFORE, the parties hereto agree as follows:

1. Amendment. Section I of Schedule A of the Custody Agreement ("Schedule A") shall be amended to add each Customer listed in Attachment A hereto. The revised Schedule A incorporating these changes in the form attached hereto as Attachment B shall supersede the existing Schedule A in its entirety.
2. Agreement. The Customer agrees to be bound in all respects by all the terms and conditions of the Custody Agreement and shall be fully liable thereunder as a "Customer" as defined in the Custody Agreement.
3. Confirmation of Agreement. Except as amended hereby, the Custody Agreement is in full force and effect and as so amended is hereby ratified, approved and confirmed by the Customer and the Bank in all respects.
4. Governing Law. This Amendment Agreement shall be construed in accordance with and governed by the law of the State of New York without regard to its conflict of law principles.

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IN WITNESS WHEREOF, the parties have executed this Amendment Agreement as of the day and year first above written.

THE CHASE MANHATTAN BANK, N.A.

By:

Alan P. Naughton
Vice President

EACH OF THE CUSTOMERS LISTED IN
ATTACHMENT A HERETO, SEPARATELY AND
INDIVIDUALLY

By:

Carmen F. Deyesu
Treasurer

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Attachment A

LIST OF CUSTOMERS

T. Rowe Price International Series, Inc. on behalf of the
T. Rowe Price International Stock Portfolio

T. Rowe Price Equity Series, Inc. on behalf of the
T. Rowe Price Equity Income Portfolio
T. Rowe Price New America Growth Portfolio

T. Rowe Price New America Growth Fund, Inc.

T. Rowe Price Income Series, Inc. on behalf of
T. Rowe Price Limited-Term Bond Portfolio

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Attachment B

Schedule A

Page 1 of 2

LIST OF CUSTOMERS, EACH INDIVIDUALLY PARTIES TO
GLOBAL CUSTODY AGREEMENT WITH
THE CHASE MANHATTAN BANK, N.A.
DATED JANUARY 3, 1993

| CUSTOMER | APPLICABLE RIDERS TO GLOBAL CUSTODY AGREEMENT |
|---|--|
| I. INVESTMENT COMPANIES/PORTFOLIOS REGISTERED UNDER THE INVESTMENT COMPANY ACT OF 1940 | The Mutual Fund Rider is applicable to all Customers listed under Section I of this Schedule A. |

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Equity Funds

T. Rowe Price Balanced Fund, Inc.
T. Rowe Price Blue Chip Growth Fund, Inc.

T. Rowe Price Capital Appreciation Fund
T. Rowe Price Dividend Growth Fund, Inc.
T. Rowe Price Equity Income Fund
T. Rowe Price Growth & Income Fund, Inc.
T. Rowe Price Growth Stock Fund, Inc.
Institutional International Funds, Inc. on behalf of:
 Foreign Equity Fund
T. Rowe Price International Funds, Inc. on behalf of:
 T. Rowe Price European Stock Fund
 T. Rowe Price International Discovery Fund
 T. Rowe Price International Stock Fund
 T. Rowe Price Japan Fund
 T. Rowe Price Latin America Fund
 T. Rowe Price New Asia Fund
T. Rowe Price International Series, Inc., on behalf of:
 T. Rowe Price International Stock Portfolio
T. Rowe Price Mid-Cap Growth Fund, Inc.
T. Rowe Price New Era Fund, Inc.
T. Rowe Price New Horizons Fund, Inc.
T. Rowe Price OTC Fund, Inc. on behalf of:
 T. Rowe Price OTC Fund
T. Rowe Price Science & Technology Fund, Inc.
T. Rowe Price Small-Cap Value Fund, Inc.
CUNA Mutual Funds, Inc. on behalf of:
 CUNA Mutual Cornerstone Fund
T. Rowe Price Equity Series, Inc. on behalf of:
 T. Rowe Price Equity Income Portfolio
 T. Rowe Price New America Growth Portfolio
T. Rowe Price New America Growth Fund, Inc.

Income Funds

T. Rowe Price Adjustable Rate U.S. Government Fund, Inc.
T. Rowe Price High Yield Fund, Inc.
T. Rowe Price New Income Fund, Inc.
T. Rowe Price Short-Term Bond Fund, Inc.
T. Rowe Price Summit Funds, Inc. on behalf of:
 T. Rowe Price Summit Limited-Term Bond Fund
T. Rowe Price International Funds, Inc. on behalf of:
 T. Rowe Price Global Government Income Fund
 T. Rowe Price International Bond Fund
 T. Rowe Price Short-Term Global Income Fund
T. Rowe Price Income Series, Inc. on behalf of:
 T. Rowe Price Limited-Term Bond Portfolio

II. ACCOUNTS SUBJECT TO ERISA

T. Rowe Price Trust Company,
as Trustee for the Johnson
Matthey Salaried Employee
Savings Plan

The ERISA Rider is
applicable to all Customers
under Section II of this
Schedule A.

Common Trust Funds

T. Rowe Price Trust company,
as Trustee for the International
Common Trust Fund on behalf of
the Underlying Trusts:

Foreign Discovery Trust
Foreign Discovery Trust-Augment
Pacific Discovery Trust
European Discovery Trust
Japan Discovery Trust
Latin American Discovery Trust

New York City International Common Trust Fund

III. OTHER

RPFI International
Partners, L.P.

No Riders are applicable to
the Customer listed under
Section III of this
Schedule A.

The Transfer Agency and Service Agreement between T. Rowe Price Services, Inc. and T. Rowe Price Funds, dated January 1, 1994, as amended, should be inserted here.

PAGE 1

TRANSFER AGENCY AND SERVICE AGREEMENT

between

T. ROWE PRICE SERVICES, INC.

and

EACH OF THE PARTIES INDICATED ON APPENDIX A

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TRANSFER AGENCY AND SERVICE AGREEMENT

AGREEMENT made as of the first day of January, 1994, by and between T. ROWE PRICE SERVICES, INC., a Maryland corporation having its principal office and place of business at 100 East Pratt Street, Baltimore, Maryland 21202 ("Price Services"), and EACH FUND WHICH IS LISTED ON APPENDIX A (as such Appendix may be amended from time to time) and which evidences its agreement to be bound hereby by executing a copy of this Agreement (each such Fund individually hereinafter referred to as "the Fund", whose definition may be found in Article U);

WHEREAS, the Fund desires to appoint Price Services as its transfer agent, dividend disbursing agent and agent in connection with certain other activities, and Price Services desires to accept such appointment;

WHEREAS, Price Services represents that it is registered with the Securities and Exchange Commission as a Transfer Agent under Section 17A of the Securities Exchange Act of 1934 ("'34 Act") and will notify each Fund promptly if such registration is revoked or if any proceeding is commenced before the Securities and Exchange Commission which may lead to such revocation;

WHEREAS, certain of the Funds are named investment options under various tax-sheltered retirement plans including, but not limited to, individual retirement accounts, simplified employee pension plans, deferred compensation plans, 403(b) plans, and profit sharing, thrift, and money purchase pension plans for self-employed individuals and professional partnerships and corporations, (collectively referred to as "Retirement Plans");

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WHEREAS, Price Services has the capability of providing special services, on behalf of the Funds, for the accounts of shareholders participating in these Retirement Plans ("Retirement

Accounts").

WHEREAS, Price Services may subcontract or jointly contract with other parties, on behalf of the Funds, including, but not limited to, DST, SRI, Moore Business Forms, Boston Financial Data Services, Inc., and the 440 Financial Group, to perform certain of the functions and services described herein including services to Retirement Plans and Retirement Accounts. Price Services may also enter into, on behalf of the Funds, certain banking relationships to perform various banking services including, but not limited to, check deposits, check disbursements, automated clearing house transactions ("ACH") and wire transfers. Subject to guidelines mutually agreed upon by the Funds and Price Services, excess balances, if any, resulting from these banking relationships will be invested and the income therefrom will be used to offset fees which would otherwise be charged to the Funds under this Agreement.

NOW, THEREFORE, in consideration of the mutual covenants herein contained, the parties hereto agree as follows:

A. Terms of Appointment

Subject to the terms and conditions set forth in this Agreement, the Fund hereby employs and appoints Price Services to act, and Price Services agrees to act, as the Fund's transfer agent, dividend disbursing agent and agent in connection with: (1) the Fund's authorized and issued shares of its common stock or shares of beneficial interest (all such stock and shares to be PAGE 6

referred to as "Shares"); (2) any accumulation, open-account or similar plans provided to the shareholders of the Fund ("Shareholders"), including, without limitation, any periodic investment plan or periodic withdrawal program; and (3) certain Retirement Plan and Retirement Accounts as agreed upon by the parties.

The parties to the Agreement hereby acknowledge that from time to time, Price Services and T. Rowe Price Trust Company may enter into contracts ("Other Contracts") with employee benefit plans and/or their sponsors for the provision of certain plan participant services to Retirement Plans and Retirement Accounts.

Compensation paid to Price Services pursuant to this Agreement is with respect to the services described herein and not with respect to services provided under Other Contracts.

B. Duties of Price Services

Price Services agrees that it will perform the following services:

1. Receipt of Orders/Payments

Receive for acceptance, orders/payments for the purchase of Shares and promptly deliver payment and appropriate documentation thereof to the authorized custodian of the Fund (the "Custodian"). Upon receipt of any check or other instrument drawn or endorsed to it as agent for, or identified as being for the account of, the Fund, Price Services will process the order as follows:

- o Examine the check to determine if the check conforms to the Funds' acceptance procedures (including certain third-party check procedures). If the check conforms,

PAGE 7

Price Services will endorse the check and include the date of receipt, will process the same for payment, and deposit the net amount to the parties agreed upon designated bank account prior to such deposit in the Custodial account, and will notify the Fund and the Custodian, respectively, of such deposits (such notification to be given on a daily basis of the total amount deposited to said accounts during the prior business day);

- o Open a new account, if necessary, and credit the account of the investor with the number of Shares to be purchased according to the price of the Fund's Shares in effect for purchases made on that date, subject to any instructions which the Fund may have given to Price Services with respect to acceptance of orders for Shares relating to payments so received by it;
- o Maintain a record of all unpaid purchases and report such information to the Fund daily;
- o Process periodic payment orders, as authorized by investors, in accordance with the payment procedures for pre-authorized checking ("PAC") and ACH purchases mutually agreed upon by both parties;
- o Receive monies from Retirement Plans and determine the proper allocation of such monies to the Retirement Accounts based upon instructions received from Retirement Plan participants or Retirement Plan administrators ("Administrators"); and

PAGE 8

- o Process telephone orders for purchases of Fund shares from the Shareholder's bank account (via wire or ACH) to the Fund in accordance with procedures mutually agreed upon by both parties.

Upon receipt of funds through the Federal Reserve Wire System that are designated for purchases in Funds which declare dividends at 12:00 p.m. (or such time as set forth in the Fund's current prospectus), Price Services shall promptly notify the Fund and the Custodian of such deposit.

2. Redemptions

Receive for acceptance redemption requests, including telephone redemptions and requests received from Administrators for distributions to participants or their designated beneficiaries or for payment of fees due the Administrator or such other person, including Price Services, and deliver the appropriate documentation thereof to the Custodian. Price Services shall receive and stamp with the date of receipt, all requests for redemptions of

Shares (including all certificates delivered to it for redemption) and shall process said redemption requests as follows, subject to the provisions of Section 7 hereof:

- o Examine the redemption request and, for written redemptions, the supporting documentation, to determine that the request is in good order and all requirements have been met;
- o Notify the Fund on the next business day of the total number of Shares presented and covered by all such requests;

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- o As set forth in the prospectus of the Fund, and in any event, on or prior to the seventh (7th) calendar day succeeding any such request for redemption, Price Services shall, from funds available in the accounts maintained by Price Services as agent for the Funds, pay the applicable redemption price in accordance with the current prospectus of the Fund, to the investor, participant, beneficiary, Administrator or such other person, as the case may be;
- o If any request for redemption does not comply with the Fund's requirements, Price Services shall promptly notify the investor of such fact, together with the reason therefore, and shall effect such redemption at the price in effect at the time of receipt of all appropriate documents;
- o Make such withholdings as may be required under applicable Federal and State tax law;
- o In the event redemption proceeds for the payment of fees are to be wired through the Federal Reserve Wire System or by bank wire, Price Services shall cause such proceeds to be wired in Federal funds to the bank account designated; and
- o Process periodic redemption orders as authorized by the investor in accordance with the periodic withdrawal procedures for Systematic Withdrawal Plan ("SWP") and systematic ACH redemptions mutually agreed upon by both parties.

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Procedures and requirements for effecting and accepting redemption orders from investors by telephone, Tele*Access, Mailgram, or written instructions shall be established by mutual agreement between Price Services and the Fund consistent with the Fund's current prospectus.

3. Transfers

Effect transfers of Shares by the registered owners thereof upon receipt of appropriate instructions and documentation and examine such instructions for conformance with appropriate procedures and requirements. In this regard, Price Services, upon receipt of a proper request for

transfer, including any transfer involving the surrender of certificates of Shares, is authorized to transfer, on the records of the Fund, Shares of the Fund, including cancellation of surrendered certificates, if any, to credit a like amount of Shares to the transferee and to countersign, issue and deliver new certificates, if requested, for those Funds issuing certificates.

4. Confirmations

Mail all confirmations and other enclosures requested by the Fund to the shareholder, and in the case of Retirement Accounts, to the Administrators, as may be required by the Funds or by applicable Federal or state law.

5. Issuance of Share Certificates

- o Those Funds which issue stock certificates shall supply Price Services with a sufficient supply of blank stock certificates and shall renew such supply upon request of Price Services. Such blank stock certificates shall

PAGE 11

be properly signed, manually or facsimile, if authorized by the Fund, and shall bear the seal or facsimile thereof of the Fund; and notwithstanding the death, resignation or removal of any officers of the Fund authorized to sign certificates of stock, on behalf of the Fund, Price Services may continue to countersign certificates which bear the manual or facsimile signature of such officer until otherwise directed by the Fund.

- o If an investor requests a share certificate of a Fund which issues stock certificates (except shares in Retirement Plans and Retirement Accounts which will be non certificated), Price Services will countersign and mail by first class mail, a share certificate to the investor at his address as set forth on the transfer books of the Fund, subject to any other instructions for delivery of certificates which the Fund may give to Price Services with respect to certificates representing newly purchased Shares.

6. Returned Checks and ACH Debits

In order to minimize the risk of loss to the Fund by reason of any check being returned unpaid, Price Services will promptly identify and follow-up on any check or ACH debit returned unpaid. For items returned, Price Services may telephone the investor and/or redeposit the check or debit for collection or cancel the purchase, as deemed appropriate.

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7. Redemption of Shares under Ten Day Hold

- o Uncollected Funds
Shares purchased by personal, corporate, or

governmental check, or by ACH will be considered uncollected until the tenth calendar date following the trade date of the trade ("Uncollected Funds");

o Good Funds

Share purchased by treasurer's, cashier, certified, or official check, or by wire transfer will be considered collected immediately ("Good Funds"). Absent information to the contrary (i.e., notification from the payee institution), Uncollected Funds will be considered Good Funds on the tenth calendar day following trade date.

o Redemption of Uncollected Funds

o Shareholders making telephone requests for redemption of shares purchased with Uncollected Funds will be given two options:

1. The Shareholder will be permitted to exchange to a money market fund to preserve principal until the funds are deemed Good Funds,

2. The redemption can be processed utilizing the same procedures for written redemptions described below.

o If a written redemption request is made for shares where any portion of the payment for said shares is in Uncollected Funds, and the request is in good order, Price Services will promptly obtain

PAGE 13

the information relative to the payment necessary to determine when the payment becomes Good Funds. The redemption will be processed in accordance with normal procedures, and the proceeds will be held until confirmation that the payment is Good Funds. On the seventh (7th) calendar day after trade date, and each day thereafter until either confirmation is received or the tenth (10th) calendar day, Price Services will call the paying institution to request confirmation that the check or ACH in question has been paid. On the tenth calendar day after trade date, the redemption proceeds will be released, regardless of whether confirmation has been received.

o Checkwriting Redemptions.

o Daily, all checkwriting redemptions \$10,000 and over reported as Uncollected Funds or insufficient funds will be reviewed. An attempt will be made to contact the shareholder to make good the funds (through wire, exchange, transfer). Generally by 12:00 p.m. the same day, if the matter has not been resolved, the redemption request will be rejected and the check returned to the Shareholder.

- o All checkwriting redemptions under \$10,000 reported as Uncollected or insufficient funds will

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be rejected and the check returned to the Shareholder.

- o Confirmations of Available Funds

The Fund expects that situations may develop whereby it would be beneficial to determine if a person who has placed an order for Shares has sufficient funds in his or her checking account to cover the payment for the Shares purchased. When this situation occurs, Price Services may call the bank in question and request that it confirm that sufficient funds to cover the purchase are currently credited to the account in question. Price Services will maintain written documentation or a recording of each telephone call which is made under the procedures outlined above. None of the above procedures shall preclude Price Services from inquiring as to the status of any check received by it in payment for the Fund's Shares as Price Services may deem appropriate or necessary to protect both the Fund and Price Services. If a conflict arises between Section 2 and this Section 7, Section 7 will govern.

- 8. Dividends, Distributions and Other Corporate Actions

- o The Fund will promptly inform Price Services of the declaration of any dividend, distribution, stock split or any other distributions of a similar kind on account of its Capital Stock.

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- o Price Services shall act as Dividend Disbursing Agent for the Fund, and as such, shall prepare and make income and capital gain payments to investors. As Dividend Disbursing Agent, Price Services will on or before the payment date of any such dividend or distribution, notify the Custodian of the estimated amount required to pay any portion of said dividend or distribution which is payable in cash, and the Fund agrees that on or before the payment date of such distribution, it shall instruct the Custodian to make available to Price Services sufficient funds for the cash amount to be paid out. If an investor is entitled to receive additional Shares by virtue of any such distribution or dividend, appropriate credits will be made to his or her account.

- 9. Unclaimed Payments and Certificates

In accordance with procedures agreed upon by both parties, report abandoned property to appropriate state and governmental authorities of the Fund. Price Services shall, 90 days prior to the annual reporting of abandoned property to each of the states, make reasonable attempts to locate

Shareholders for which (a) checks or share certificates have been returned; (b) for which accounts have aged outstanding checks; or (c) accounts with unissued shares that have been coded with stop mail and meet the dormancy period guidelines specified in the individual states. Price Services shall

PAGE 16

make reasonable attempts to contact shareholders for those accounts which have significant aged outstanding checks.

10. Books and Records

Maintain records showing for each Shareholder's account, Retirement Plan or Retirement Account, as the case may be, the following:

- o Names, address and tax identification number;
- o Number of Shares held;
- o Certain historical information regarding the account of each Shareholder, including dividends and distributions distributed in cash or invested in Shares;
- o Pertinent information regarding the establishment and maintenance of Retirement Plans and Retirement Accounts necessary to properly administer each account;
- o Information with respect to the source of dividends and distributions allocated among income (taxable and nontaxable income), realized short-term gains and realized long-term gains;
- o Any stop or restraining order placed against a Shareholder's account;
- o Information with respect to withholdings on domestic and foreign accounts;
- o Any instructions from a Shareholder including, all forms furnished by the Fund and executed by a

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Shareholder with respect to (i) dividend or distribution elections, and (ii) elections with respect to payment options in connection with the redemption of Shares;

- o Any correspondence relating to the current maintenance of a Shareholder's account;
- o Certificate numbers and denominations for any Shareholder holding certificates;
- o Any information required in order for Price Services to perform the calculations contemplated under this Agreement.

Price Services shall maintain files and furnish statistical and other information as required under this Agreement and as may be agreed upon from time to time by both parties or required by applicable law. However, Price Services reserves the right to delete, change or add any

information to the files maintained; provided such deletions, changes or additions do not contravene the terms of this Agreement or applicable law and do not materially reduce the level of services described in this Agreement. Price Services shall also use its best efforts to obtain additional statistical and other information as each Fund may reasonably request for additional fees as may be agreed to by both parties.

Any such records maintained pursuant to Rule 31a-1 under the Investment Company Act of 1940 ("the Act") will be

PAGE 18

preserved for the periods and maintained in a manner prescribed in Rule 31a-2 thereunder. Disposition of such records after such prescribed periods shall be as mutually agreed upon by the Fund and Price Services. The retention of such records, which may be inspected by the Fund at reasonable times, shall be at the expense of the Fund. All records maintained by Price Services in connection with the performance of its duties under this Agreement will remain the property of the Fund and, in the event of termination of this Agreement, will be delivered to the Fund as of the date of termination or at such other time as may be mutually agreed upon.

All books, records, information and data pertaining to the business of the other party which are exchanged or received pursuant to the negotiation or the carrying out of this Agreement shall remain confidential, and shall not be voluntarily disclosed to any other person, except after prior notification to and approval by the other party hereto, which approval shall not be unreasonably withheld and may not be withheld where Price Services or the Fund may be exposed to civil or criminal contempt proceedings for failure to comply; when requested to divulge such information by duly constituted governmental authorities; or after so requested by the other party hereto.

11. Authorized Issued and Outstanding Shares

Record the issuance of Shares of the Fund and maintain, pursuant to Rule 17Ad-10(e) of the '34 Act, a record of the total number of Shares of the Fund which are authorized,

PAGE 19

issued and outstanding, based upon data provided to it by the Fund. Price Services shall also provide the Fund on a regular basis the total number of Shares which are authorized and issued and outstanding. Price Services shall have no obligation, when recording the issuance of Shares, to monitor the issuance of such Shares or to take cognizance of any laws relating to the issuance or sale of such Shares.

12. Tax Information

Prepare and file with the Internal Revenue Service and

with other appropriate state agencies and, if required, mail to investors, those returns for reporting dividends and distributions paid as required to be so filed and mailed, and shall withhold such sums required to be withheld under applicable Federal and state income tax laws, rules, and regulations. Additionally, Price Services will file and, as applicable, mail to investors, any appropriate information returns required to be filed in connection with Retirement Plan processing, such as 1099R, 5498, as well as any other appropriate forms that the Fund or Price Services may deem necessary. The Fund and Price Services shall agree to procedures to be followed with respect to Price Services' responsibilities in connection with compliance with back-up withholding and other tax laws.

13. Information to be Furnished to the Fund

Furnish to the Fund such information as may be agreed upon between the Fund and Price Services including any information that the Fund and Price Services agree is necessary to the daily operations of the business.

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14. Correspondence

Promptly and fully answer correspondence from shareholders and Administrators relating to Shareholder Accounts, Retirement Accounts, transfer agent procedures, and such other correspondence as may from time to time be mutually agreed upon with the Funds. Unless otherwise instructed, copies of all correspondence will be retained by Price Services in accordance with applicable law and procedures.

15. Lost or Stolen Securities

Pursuant to Rule 17f-1 of the '34 Act, report to the Securities Information Center and/or the FBI or other appropriate person on Form X-17-F-1A all lost, stolen, missing or counterfeit securities. Provide any other services relating to lost, stolen or missing securities as may be mutually agreed upon by both parties.

16. Telephone Services

Maintain a Telephone Servicing Staff of representatives ("Representatives") sufficient to timely respond to all telephonic inquiries reasonably foreseeable. The Representatives will also effect telephone purchases, redemptions, exchanges, and other transactions mutually agreed upon by both parties, for those Shareholders who have authorized telephone services. The Representatives shall require each Shareholder effecting a telephone transaction to properly identify themselves before the transaction is effected, in accordance with procedures agreed upon between by both parties. Procedures for processing telephone

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transactions will be mutually agreed upon by both parties.

Price Services will also be responsible for providing Tele*Access, PC*Access and such other Services as may be offered by the Funds from time to time. Price Services will maintain a special Shareholder Servicing staff to service certain Shareholders with substantial relationships with the Funds.

17. Proxies

Monitor the mailing of proxy cards and other material supplied to it by the Fund in connection with Shareholder meetings of the Fund and shall coordinate the receipt, examination and tabulation of returned proxies and the certification of the vote to the Fund.

18. Form N-SAR

Maintain such records, if any, as shall enable the Fund to fulfill the requirements of Form N-SAR.

19. Cooperation With Accountants

Cooperate with each Fund's independent public accountants and take all reasonable action in the performance of its obligations under the Agreement to assure that the necessary information is made available to such accountants for the expression of their opinion without any qualification as to the scope of their examination, including, but not limited to, their opinion included in each such Fund's annual report on Form N-SAR and annual amendment to Form N-1A.

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20. Blue Sky

Provide to the Fund or its agent, on a daily, weekly, monthly and quarterly basis, and for each state in which the Fund's Shares are sold, sales reports and other materials for blue sky compliance purposes as shall be agreed upon by the parties.

21. Other Services

Provide such other services as may be mutually agreed upon between Price Services and the Fund.

22. Fees and Out-of-Pocket Expenses

Each Fund shall pay to Price Services and/or its agents for its Transfer Agent Services hereunder, fees computed as set forth in Schedule A attached. Except as provided below, Price Services will be responsible for all expenses relating to the providing of Services. Each Fund, however, will reimburse Price Services for the following out-of-pocket expenses and charges incurred in providing Services:

- o Postage. The cost of postage and freight for mailing materials to Shareholders and Retirement Plan participants, or their agents, including overnight delivery, UPS and other express mail services and special courier services required to

transport mail between Price Services locations and mail processing vendors.

- o Proxies. The cost to mail proxy cards and other material supplied to it by the Fund and costs related to the receipt, examination and tabulation

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of returned proxies and the certification of the vote to the Fund.

- o Communications
 - o Print. The printed forms used internally and externally for documentation and processing Shareholder and Retirement Plan participant, or their agent's inquiries and requests; paper and envelope supplies for letters, notices, and other written communications sent to Shareholders and Retirement Plan participants, or their agents.
 - o Print & Mail House. The cost of internal and third party printing and mail house services, including printing of statements and reports.
 - o Voice and Data. The cost of equipment (including associated maintenance), supplies and services used for communicating to and from the Shareholders of the Fund and Retirement Plan participants, or their agents, the Fund's transfer agent, other Fund offices, and other agents of either the Fund or Price Services. These charges shall include:
 - o telephone toll charges (both incoming and outgoing, local, long distance and mailgrams); and

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- o data and telephone lines and associated equipment such as modems, multiplexers, and facsimile equipment.
- o Record Retention. The cost of maintenance and supplies used to maintain, microfilm, copy, record, index, display, retrieve, and store, in microfiche or microfilm form, documents and records.
- o Disaster Recovery. The cost of services, equipment, facilities and other charges necessary to provide disaster recovery for any and all services listed in this Agreement.

Out-of-pocket costs will be billed at cost to the

Funds. Allocation of monthly costs among the Funds will generally be made based upon the number of Shareholder and Retirement Accounts serviced by Price Services each month. Some invoices for these costs will contain costs for both the Funds and other funds serviced by Price Services. These costs will be allocated based on a reasonable allocation methodology. Where possible, such as in the case of inbound and outbound WATS charges, allocation will be made on the actual distribution or usage.

C. Representations and Warranties of Price Services

Price Services represents and warrants to the Fund that:

1. It is a corporation duly organized and existing and in good standing under the laws of Maryland;

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2. It is duly qualified to carry on its business in Maryland and California;

3. It is empowered under applicable laws and by its charter and by-laws to enter into and perform this Agreement;

4. All requisite corporate proceedings have been taken to authorize it to enter into and perform this Agreement;

5. It is registered with the Securities and Exchange Commission as a Transfer Agent pursuant to Section 17A of the '34 Act; and

6. It has and will continue to have access to the necessary facilities, equipment and personnel to perform its duties and obligations under this Agreement.

D. Representations and Warranties of the Fund

The Fund represents and warrants to Price Services that:

1. It is a corporation or business trust duly organized and existing and in good standing under the laws of Maryland or Massachusetts, as the case may be;

2. It is empowered under applicable laws and by its Articles of Incorporation or Declaration of Trust, as the case may be, and By-Laws to enter into and perform this Agreement;

3. All proceedings required by said Articles of Incorporation or Declaration of Trust, as the case may be, and By-Laws have been taken to authorize it to enter into and perform this Agreement;

4. It is an investment company registered under the Act; and

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5. A registration statement under the Securities Act of 1933 ("the '33 Act") is currently effective and will remain effective, and appropriate state securities law filings have been made and will continue to be made, with respect to all Shares of the Fund being offered for sale.

E. Standard of Care/Indemnification

Notwithstanding anything to the contrary in this Agreement:

1. Price Services shall not be liable to any Fund for any act or failure to act by it or its agents or subcontractors on behalf of the Fund in carrying or attempting to carry out the terms and provisions of this Agreement provided Price Services has acted in good faith and without negligence or willful misconduct and selected and monitored the performance of its agents and subcontractors with reasonable care.

2. The Fund shall indemnify and hold Price Services harmless from and against all losses, costs, damages, claims, actions and expenses, including reasonable expenses for legal counsel, incurred by Price Services resulting from: (i) any action or omission by Price Services or its agents or subcontractors in the performance of their duties hereunder; (ii) Price Services acting upon instructions believed by it to have been executed by a duly authorized officer of the Fund; or (iii) Price Services acting upon information provided by the Fund in form and under policies agreed to by Price Services and the Fund. Price Services shall not be entitled to such indemnification in respect of actions or omissions constituting negligence or willful

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misconduct of Price Services or where Price Services has not exercised reasonable care in selecting or monitoring the performance of its agents or subcontractors.

3. Except as provided in Article L of this Agreement, Price Services shall indemnify and hold harmless the Fund from all losses, costs, damages, claims, actions and expenses, including reasonable expenses for legal counsel, incurred by the Fund resulting from the negligence or willful misconduct of Price Services or which result from Price Services' failure to exercise reasonable care in selecting or monitoring the performance of its agents or subcontractors. The Fund shall not be entitled to such indemnification in respect of actions or omissions constituting negligence or willful misconduct of such Fund or its agents or subcontractors; unless such negligence or misconduct is attributable to Price Services.

4. In the event either party is unable to perform its obligations under the terms of this Agreement because of acts of God, strikes or other causes reasonably beyond its control, such party shall not be liable to the other party for any loss, cost, damage, claim, action or expense resulting from such failure to perform or otherwise from such causes.

5. In order that the indemnification provisions contained in this Article E shall apply, upon the assertion of a claim for which either party may be required to indemnify the other, the party seeking indemnification shall promptly

notify the other party of such assertion, and shall keep the

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other party advised with respect to all developments concerning such claim. The party who may be required to indemnify shall have the option to participate with the party seeking indemnification in the defense of such claim, or to defend against said claim in its own name or in the name of the other party. The party seeking indemnification shall in no case confess any claim or make any compromise in any case in which the other party may be required to indemnify it except with the other party's prior written consent.

6. Neither party to this Agreement shall be liable to the other party for consequential damages under any provision of this Agreement.

F. Dual Interests

It is understood that some person or persons may be directors, officers, or shareholders of both the Funds and Price Services (including Price Services's affiliates), and that the existence of any such dual interest shall not affect the validity of this Agreement or of any transactions hereunder except as otherwise provided by a specific provision of applicable law.

G. Documentation

- o As requested by Price Services, the Fund shall promptly furnish to Price Services the following:
 - o A certified copy of the resolution of the Directors/Trustees of the Fund authorizing the appointment of Price Services and the execution and delivery of this Agreement;

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- o A copy of the Articles of Incorporation or Declaration of Trust, as the case may be, and By-Laws of the Fund and all amendments thereto;
- o Specimens of all forms of outstanding and new stock/share certificates in the forms approved by the Board of Directors/Trustees of the Fund with a certificate of the Secretary of the Fund as to such approval;
- o All account application forms and other documents relating to Shareholders' accounts;
- o An opinion of counsel for the Fund with respect to the validity of the stock, the number of Shares authorized, the status of redeemed Shares, and the number of Shares with respect to which a Registration Statement has been filed and is in effect; and
 - o A copy of the Fund's current prospectus.

The delivery of any such document for the purpose of any other agreement to which the Fund and Price Services are or were parties shall be deemed to be delivery for the purposes of this

Agreement.

- o As requested by Price Services, the Fund will also furnish from time to time the following documents:
 - o Each resolution of the Board of Directors/Trustees of the Fund authorizing the original issue of its Shares;

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- o Each Registration Statement filed with the Securities and Exchange Commission and amendments and orders thereto in effect with respect to the sale of Shares with respect to the Fund;
- o A certified copy of each amendment to the Articles of Incorporation or Declaration of Trust, and the By-Laws of the Fund;
- o Certified copies of each vote of the Board of Directors/Trustees authorizing officers to give instructions to the Transfer Agent;
- o Specimens of all new certificates accompanied by the Board of Directors/Trustees' resolutions approving such forms;
- o Such other documents or opinions which Price Services, in its discretion, may reasonably deem necessary or appropriate in the proper performance of its duties; and
- o Copies of new prospectuses issued.

Price Services hereby agrees to establish and maintain facilities and procedures reasonably acceptable to the Fund for safekeeping of stock certificates, check forms and facsimile signature imprinting devices, if any; and for the preparation or use, and for keeping account of, such certificates, forms and devices.

H. References to Price Services

Each Fund agrees not to circulate any printed matter which contains any reference to Price Services without the prior

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approval of Price Services, excepting solely such printed matter that merely identifies Price Services as agent of the Fund. The Fund will submit printed matter requiring approval to Price Services in draft form, allowing sufficient time for review by Price Services and its legal counsel prior to any deadline for printing.

I. Compliance With Governmental Rules and Regulations

Except as otherwise provided in the Agreement and except for the accuracy of information furnished to the Fund by Price Services, each Fund assumes full responsibility for the preparation, contents and distribution of its prospectuses and compliance with all applicable requirements of the Act, the '34 Act, the '33 Act, and any other laws, rules and regulations of governmental authorities having jurisdiction over the Fund. Price Services shall be responsible for complying with all laws,

rules and regulations of governmental authorities having jurisdiction over transfer agents and their activities.

J. Ownership of Software and Related Material

All computer programs, magnetic tapes, written procedures and similar items purchased and/or developed and used by Price Services in performance of the Agreement shall be the property of Price Services and will not become the property of the Fund.

K. Quality Service Standards

Price Services and the Fund may from time to time agree to certain quality service standards, as well as incentives and penalties with respect to Price Services' hereunder.

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L. As Of Transactions

For purposes of this Article L, the term "Transaction" shall mean any single or "related transaction" (as defined below) involving the purchase or redemption of Shares (including exchanges) that is processed at a time other than the time of the computation of the Fund's net asset value per Share next computed after receipt of any such transaction order by Price Services. If more than one Transaction ("Related Transaction") in the Fund is caused by or occurs as a result of the same act or omission, such transactions shall be aggregated with other transactions in the Fund and be considered as one Transaction.

o Reporting

Price Services shall:

1. Utilize a system to identify all Transactions, and shall compute the net effect of such Transactions upon the Fund on a daily, monthly and rolling 365 day basis. The monthly and rolling 365 day periods are hereafter referred to as "Cumulative".

2. Supply to the Fund, from time to time as mutually agreed upon, a report summarizing the Transactions and the daily and Cumulative net effects of such Transactions both in terms of aggregate dilution and loss ("Dilution") or gain and negative dilution ("Gain") experienced by the Fund, and the impact such Gain or Dilution has had upon the Fund's net asset value per Share.

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3. With respect to any Transaction which causes Dilution to the Fund of \$25,000 or more, immediately provide the Fund: (i) a report identifying the Transaction and the Dilution resulting therefrom, (ii) the reason such Transaction was processed as described above, and (iii) the action that Price Services has or intends to take to prevent the reoccurrence of such as of processing ("Report").

o Liability

1. It will be the normal practice of the Funds not to hold Price Services liable with respect to any Transaction which causes Dilution to any single Fund of

less than \$25,000. Price Services will, however, closely monitor for each Fund the daily and Cumulative Gain/Dilution which is caused by Transactions of less than \$25,000. When the Cumulative Dilution to any Fund exceeds 3/10 of 1% per share, Price Services, in consultation with counsel to the Fund, will make appropriate inquiry to determine whether it should take any remedial action. Price Services will report to the Board of Directors/Trustees of the Fund ("Board") any action it has taken.

2. Where a Transaction causes Dilution to a Fund of \$25,000 or more ("Significant Transaction"), Price Services will review with counsel to the Fund the Report and the circumstances surrounding the underlying

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Transaction to determine whether the Transaction was caused by or occurred as a result of a negligent act or omission by Price Services. If it is determined that the Dilution is the result of a negligent action or omission by Price Services, Price Services and outside counsel for the Fund will negotiate settlement. All such Significant Transactions will be reported to the Board at its next meeting (unless the settlement fully compensates the Fund for any Dilution). Any Significant Transaction, however, causing Dilution in excess of the lesser of \$100,000 or a penny per Share will be promptly reported to the Board. Settlement will not be entered into with Price Services until approved by the Board. The factors the Board would be expected to consider in making any determination regarding the settlement of a Significant Transaction would include but not be limited to:

- o Procedures and controls adopted by Price Services to prevent "As Of" processing;
- o Whether such procedures and controls were being followed at the time of the Significant Transaction;
- o The absolute and relative volume of all transactions processed by Price Services on the day of the Significant Transaction;

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- o The number of Transactions processed by Price Services during prior relevant periods, and the net Dilution/Gain as a result of all such transactions to the Fund and to all other Price Funds;
- o The prior response of Price Services to recommendations made by the Funds regarding

improvement to the Transfer Agent's "As Of"
Processing Procedures.

M. Term and Termination of Agreement

- o This Agreement shall run for a period of one (1) year from the date first written above and will be renewed from year to year thereafter unless terminated by either party as provided hereunder.
- o This Agreement may be terminated by the Fund upon one hundred twenty (120) days' written notice to Price Services; and by Price Services, upon three hundred sixty-five (365) days' writing notice to the Fund.
- o Upon termination hereof, the Fund shall pay to Price Services such compensation as may be due as of the date of such termination, and shall likewise reimburse for out-of-pocket expenses related to its services hereunder.

N. Notice

Any notice as required by this Agreement shall be sufficiently given (i) when sent to an authorized person of the other party at the address of such party set forth above or at

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such other address as such party may from time to time specify in writing to the other party; or (ii) as otherwise agreed upon by appropriate officers of the parties hereto.

O. Assignment

Neither this Agreement nor any rights or obligations hereunder may be assigned either voluntarily or involuntarily, by operation of law or otherwise, by either party without the prior written consent of the other party, provided this shall not preclude Price Services from employing such agents and subcontractors as it deems appropriate to carry out its obligations set forth hereunder.

P. Amendment/Interpretive Provisions

The parties by mutual written agreement may amend this Agreement at any time. In addition, in connection with the operation of this Agreement, Price Services and the Fund may agree from time to time on such provisions interpretive of or in addition to the provisions of this Agreement as may in their joint opinion be consistent with the general tenor of this Agreement. Any such interpretive or additional provisions are to be signed by all parties and annexed hereto, but no such provision shall contravene any applicable Federal or state law or regulation and no such interpretive or additional provision shall be deemed to be an amendment of this Agreement.

Q. Further Assurances

Each party agrees to perform such further acts and execute such further documents as are necessary to effectuate the purposes hereof.

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R. Maryland Law to Apply

This Agreement shall be construed and the provisions thereof interpreted under and in accordance with the laws of Maryland.

S. Merger of Agreement

This Agreement, including the attached Appendices and Schedules supersedes any prior agreement with respect to the subject hereof, whether oral or written.

T. Counterparts

This Agreement may be executed by the parties hereto on any number of counterparts, and all of said counterparts taken together shall be deemed to constitute one and the same instruments.

U. The Parties

All references herein to "the Fund" are to each of the Funds listed on Appendix A individually, as if this Agreement were between such individual Fund and Price Services. In the case of a series Fund or trust, all references to "the Fund" are to the individual series or portfolio of such Fund or trust, or to such Fund or trust on behalf of the individual series or portfolio, as appropriate. The "Fund" also includes any T. Rowe Price Funds which may be established after the execution of this Agreement. Any reference in this Agreement to "the parties" shall mean Price Services and such other individual Fund as to which the matter pertains.

V. Directors, Trustees and Shareholders and Massachusetts Business Trust

It is understood and is expressly stipulated that neither the holders of Shares in the Fund nor any Directors or Trustees

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of the Fund shall be personally liable hereunder. With respect to any Fund which is a party to this Agreement and which is organized as a Massachusetts business trust, the term "Fund" means and refers to the trustees from time to time serving under the applicable trust agreement (Declaration of Trust) of such Trust as the same may be amended from time to time. It is expressly agreed that the obligations of any such Trust hereunder shall not be binding upon any of the trustees, shareholders, nominees, officers, agents or employees of the Trust, personally, but bind only the trust property of the Trust, as provided in the Declaration of Trust of the Trust. The execution and delivery of this Agreement has been authorized by the trustees and signed by an authorized officer of the Trust, acting as such, and neither such authorization by such Trustees nor such execution and delivery by such officer shall be deemed to have been made by any of them, but shall bind only the trust property of the Trust as provided in its Declaration of Trust.

W. Captions

The captions in the Agreement are included for convenience of reference only and in no way define or limit any of the provisions hereof or otherwise affect their construction or effect.

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IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed in their names and on their behalf under their seals by and through their duly authorized officers.

DATED: 2/18/94 T. ROWE PRICE SERVICES, INC.

ATTEST:

/s/Barbara A. VanHorn /s/Mark E. Rayford

Barbara A. VanHorn BY: _____
Mark E. Rayford

T. ROWE PRICE ADJUSTABLE RATE U.S. GOVERNMENT FUND, INC.

T. ROWE PRICE BALANCED FUND, INC.

T. ROWE PRICE BLUE CHIP GROWTH FUND, INC.

T. ROWE PRICE CALIFORNIA TAX-FREE INCOME TRUST
California Tax-Free Bond Fund
California Tax-Free Money Fund

T. ROWE PRICE CAPITAL APPRECIATION FUND

T. ROWE PRICE DIVIDEND GROWTH FUND, INC

T. ROWE PRICE EQUITY INCOME FUND

T. ROWE PRICE GNMA FUND

T. ROWE PRICE GROWTH & INCOME FUND, INC.

T. ROWE PRICE GROWTH STOCK FUND, INC.

T. ROWE PRICE HIGH YIELD FUND, INC.

T. ROWE PRICE INDEX TRUST, INC.

T. Rowe Price Equity Index Fund

INSTITUTIONAL INTERNATIONAL FUNDS, INC.
Foreign Equity Fund

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T. ROWE PRICE INTERNATIONAL FUNDS, INC.

- T. Rowe Price International Bond Fund
- T. Rowe Price International Discovery Fund
- T. Rowe Price International Stock Fund
- T. Rowe Price European Stock Fund
- T. Rowe Price New Asia Fund
- T. Rowe Price Global Government Bond Fund
- T. Rowe Price Japan Fund
- T. Rowe Price Short-Term Global Fund
- T. Rowe Price Latin America Fund

T. ROWE PRICE MID-CAP GROWTH FUND, INC.

T. ROWE PRICE NEW AMERICA GROWTH FUND

T. ROWE PRICE NEW ERA FUND, INC.

T. ROWE PRICE NEW HORIZONS FUNDS, INC.

T. ROWE PRICE NEW INCOME FUND, INC.

T. ROWE PRICE OTC FUND, INC.

T. ROWE PRICE PRIME RESERVE FUND, INC.

T. ROWE PRICE SCIENCE & TECHNOLOGY FUND, INC.

T. ROWE PRICE SHORT-TERM BOND FUND, INC.

T. ROWE PRICE SMALL-CAP VALUE FUND, INC.

T. ROWE PRICE SPECTRUM FUND, INC.

- Spectrum Growth Fund
- Spectrum Income Fund

T. ROWE PRICE STATE TAX-FREE INCOME TRUST

- Maryland Tax-Free Bond Fund
- Maryland Short-Term Tax-Free Bond Fund
- New York Tax-Free Bond Fund
- New York Tax-Free Money Fund
- New Jersey Tax-Free Money Fund
- Virginia Tax-Free Money Fund
- Florida Insured Intermediate Tax-Free Fund
- Georgia Tax-Free Bond Fund

T. ROWE PRICE SUMMIT FUNDS, INC.
Summit Cash Reserves Fund
Summit Limited-Term Bond Fund
Summit GNMA Fund

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T. ROWE PRICE SUMMIT MUNICIPAL FUNDS, INC.
Summit Municipal Money Market Fund
Summit Municipal Intermediate Fund
Summit Municipal Income Fund

T. ROWE PRICE TAX-EXEMPT MONEY FUND, INC.

T. ROWE PRICE TAX-FREE HIGH YIELD FUND, INC.

T. ROWE PRICE TAX-FREE INCOME FUND, INC.

T. ROWE PRICE TAX-FREE INSURED INTERMEDIATE BOND FUND, INC.

T. ROWE PRICE TAX-FREE SHORT-INTERMEDIATE FUND, INC.

T. ROWE PRICE U.S. TREASURY FUNDS, INC.

U.S. Treasury Intermediate Fund
U.S. Treasury Long-Term Fund
U.S. Treasury Money Fund

DATED: 2/16/94

ATTEST:

/s/Lenora V. Hornung

/s/Carmen F. Deyesu

Lenora V. Hornung

BY: _____
Carmen F. Deyesu

APPENDIX A

The following Funds are parties to this Agreement, and have so indicated their intention to be bound by such Agreement by executing the Agreement on the dates indicated thereon.

T. Rowe Price Adjustable Rate U.S. Government Fund, Inc.

T. Rowe Price Blue Chip Growth Fund, Inc.

T. Rowe Price Balanced Fund, Inc.

T. Rowe Price California Tax-Free Income Trust on behalf of the California Tax-Free Bond Fund and California Tax-Free Money Fund

T. Rowe Price Capital Appreciation Fund

T. Rowe Price Dividend Growth Fund, Inc.

T. Rowe Price Equity Income Fund

T. Rowe Price GNMA Fund

T. Rowe Price Growth & Income Fund, Inc.

T. Rowe Price Growth Stock Fund, Inc.

T. Rowe Price High Yield Fund, Inc.

T. Rowe Price Index Trust, Inc. on behalf of the

T. Rowe Price Equity Index Fund

T. Rowe Price Institutional International Funds, Inc. on behalf of the

Foreign Equity Fund

T. Rowe Price International Funds, Inc. on behalf of the

T. Rowe Price International Bond Fund and
T. Rowe Price International Stock Fund
T. Rowe Price International Discovery Fund
T. Rowe Price European Stock Fund
T. Rowe Price New Asia Fund
T. Rowe Price Global Government Bond Fund
T. Rowe Price Japan Fund
T. Rowe Price Short-Term Global Fund
T. Rowe Price Latin America Fund

T. Rowe Price Mid-Cap Growth Fund

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T. Rowe Price New America Growth Fund

T. Rowe Price New Era Fund, Inc.

T. Rowe Price New Horizons Fund, Inc.

T. Rowe Price New Income Fund, Inc.

T. Rowe Price Prime Reserve Fund, Inc.

T. Rowe Price OTC Fund, Inc.

T. Rowe Price Science & Technology Fund, Inc.

T. Rowe Price Short-Term Bond Fund, Inc.

T. Rowe Price Small-Cap Value Fund, Inc.

T. Rowe Price Spectrum Fund, Inc. on behalf of the
Spectrum Growth Fund
Spectrum Income Fund

T. Rowe Price State Tax-Free Income Trust on behalf of the
Maryland Tax-Free Bond Fund
Maryland Short-Term Tax-Free Bond Fund
New York Tax-Free Bond Fund
New York Tax-Free Money Fund
New Jersey Tax-Free Bond Fund
Virginia Tax-Free Bond Fund
Georgia Tax-Free Bond Fund
Florida Insured Intermediate Tax-Free Fund

T. Rowe Price Tax-Exempt Money Fund, Inc.

T. Rowe Price Tax-Free High Yield Fund, Inc.

T. Rowe Price Tax-Free Income Fund, Inc.

T. Rowe Price Tax-Free Insured Intermediate Bond Fund, Inc.

T. Rowe Price Tax-Free Short-Intermediate Fund, Inc.

T. Rowe Price U.S. Treasury Funds, Inc. on behalf of the
U.S. Treasury Intermediate Fund
U.S. Treasury Long-Term Fund
U.S. Treasury Money Fund

T. Rowe Price Summit Funds, Inc. on behalf of the
Summit Cash Reserves Fund
Summit Limited-Term Bond Fund
Summit GNMA Fund

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T. Rowe Price Summit Municipal Funds, Inc. on behalf of the
Summit Municipal Money Market Fund
Summit Municipal Intermediate Fund
Summit Municipal Income Fund

SCHEDULE A - FEE SCHEDULE

Effective January 1, 1994 to December 31, 1994,
For the account of:

THE T. ROWE PRICE FUNDS

EQUITY FUNDS

T. Rowe Price New American Growth Fund
T. Rowe Price Growth Stock Fund, Inc.
T. Rowe Price New Horizons Fund, Inc.
T. Rowe Price New Era Fund, Inc.
T. Rowe Price International Stock Fund
T. Rowe Price Equity Income Fund
T. Rowe Price Growth & Income Fund, Inc.
T. Rowe Price Capital Appreciation Fund
T. Rowe Price Science & Technology Fund, Inc.
T. Rowe Price Small Capital Value Fund, Inc.
T. Rowe Price International Discovery Fund
Foreign Equity Fund
T. Rowe Price Equity Index Fund
T. Rowe Price European Stock Fund
T. Rowe Price New Asia Fund
T. Rowe Price Spectrum Growth Fund
T. Rowe Price Japan Fund
T. Rowe Price Latin America Fund
T. Rowe Price Balanced Fund, Inc.
T. Rowe Price Dividend Growth Fund, Inc.
T. Rowe Price Mid-Cap Growth Fund, Inc.
T. Rowe Price Over-the-Counter Fund, Inc.
T. Rowe Price Blue Chip Growth Fund, Inc.

BOND FUNDS

T. Rowe Price New Income Fund, Inc.
T. Rowe Price Tax-Free Income Fund, Inc.
T. Rowe Price New Jersey Tax-Free Bond Fund
T. Rowe Price Virginia Tax-Free Bond Fund
T. Rowe Price Short Term Bond Fund, Inc.
T. Rowe Price Tax-Free Short Intermediate Fund, Inc.
T. Rowe Price High Yield Fund, Inc.
T. Rowe Price Tax-Free High Yield Fund, Inc.
T. Rowe Price Adjustable Rate U.S. Government Fund, Inc.
T. Rowe Price GNMA Fund
T. Rowe Price New York Tax-Free Bond Fund
T. Rowe Price California Tax-Free Bond Fund
T. Rowe Price International Bond Fund
T. Rowe Price Maryland Short-Term Tax-Free Bond Fund
T. Rowe Price Maryland Tax-Free Bond Fund
T. Rowe Price U.S. Treasury Intermediate Fund
T. Rowe Price U.S. Treasury Long-Term Fund
T. Rowe Price Global Government Bond Fund

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T. Rowe Price Spectrum Income Fund
T. Rowe Price Short-term Global Bond Fund
T. Rowe Price Tax-Free Insured Intermediate Fund, Inc.
T. Rowe Price Georgia Tax-Free Bond Fund
T. Rowe Price Florida Insured Intermediate Tax-Free Fund
T. Rowe Price Summit Limited-Term Bond Fund
T. Rowe Price Summit GNMA Fund
T. Rowe Price Summit Municipal Intermediate Fund
T. Rowe Price Summit Municipal Income Fund

Money Market Funds

T. Rowe Price Prime Reserve Fund, Inc.
T. Rowe Price Tax-Exempt Money Fund, Inc.
T. Rowe Price U.S. Treasury Money Fund
T. Rowe Price New York Tax-Free Money Fund
T. Rowe Price California Tax-Free Money Fund
T. Rowe Price Summit Cash Reserves Fund
T. Rowe Price Summit Municipal Money Market Fund

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The following fees for services provided by T. Rowe Price Services, Inc. (TRPS) and vendors will be billed by TRPS for 1994:

I. T. Rowe Price Services Maintenance and Transaction Charges - Billable Monthly

A. Base Fee

1. Per Fund - Beginning January 1, 1994, chargeable at the rate of \$1,000 per month to each Fund shown on the previous page. The fee is waived for new Funds for the first 6 months after effective date.

2. Monthly - \$5,987,000 payable in twelve monthly installments of \$498,917.

B. Per Account Annual Fee - \$3.63 for each Equity, Bond, and Money Market Account serviced.

The Per Account Annual Fee will be billed monthly at a rate of 1/12 of the annual fee for each Fund account serviced during the month. Accounts serviced is defined as all open accounts at month end plus accounts which closed during the month.

C. Transaction Fees

1. New Account Fees

a. \$3.00 for every account opened, including fiduciary accounts, excluding those opened by exchange and those established as described in (b) below.

b. A fee of \$1.00 will be assessed for accounts established within the model and list functions programs and under the agreement that the registrant's name will be quality controlled subsequent to its establishment.

2. Non-Automated Transactions

a. \$1.05 for each non-automated transaction and maintenance item processed for the Fund Group as a whole during a month. The non-automated transaction count will include all manually processed price dependent and maintenance transactions. Also, the number of new account setups will be excluded from the number of non-automated transactions.

b. Fee to be charged to the Funds based on each Fund's number of total non-automated transactions and maintenance.

c. Fee to be billed monthly for that month.

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d. NOTE: The transaction count should not include correction of transactions caused by non-shareholder errors.

D. Telephone Fee

Billed at the rate of \$5.20 per call for shareholder servicing calls received in excess of 34,000 calls per month. Calls received in Retail Services are allocated to the Funds based on accounts serviced and calls received in Telephone Services are allocated based on actual calls received.

E. Items Scanned

\$.29 will be billed for each document page scanned. It will be allocated based on the number of items indexed to each Fund.

F. Tele*Access

Base fee, per month for all calls is \$39,000.

G. Institutional Electronic Interface

Maximum fee calculated is 10 basis points or less per Fund.

10 basis points < \$500 million

8 basis points > \$500 million < \$1 billion

5 basis points > \$1 billion < \$2 billion

3 basis points > \$2 billion

H. Correspondence

\$4.20 billed for each shareholder correspondence request completed in writing or by phone. Allocated to the Funds based on accounts serviced.

I. Telephone Transaction Fee

Each price dependent transaction initiated through the Telephone Services Group will be charged \$.50.

II. Vendor Fees

A. DST

1. Annual Open Account Fee

a. \$1.77 for each Equity Fund account serviced.

b. \$4.20 for each Bond Fund account serviced.

c. \$4.20 for each Money Market Fund account serviced.

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The Open Account Fee will be billed monthly at a rate of 1/12 of the annual fee for each Fund account serviced during the month.

2. Closed Account Fee (Annualized)

Payable at an annual rate of \$1.44. The Closed Account Fee will be billed monthly at a rate of 1/12 of the annual rate and will be charged in the month following the month during which such account is closed and shall cease to be charged in the month following the Purge Date.

3. Fiduciary Sub-Accounting

Payable at the rate of \$1.00 per month for each fiduciary account. Fiduciary accounts closed during the prior year will not be included as billable items.

4. Annual Base Fee Per Fund

Annual Fee of \$7,205.88 will be charged at a monthly rate of \$600.49. The fee is waived for the first six (6) months after a new Fund is effective. The definition of new Fund excludes Funds created by mergers, purchases, or reorganizations.

5. Bank Account Reconciliation System (Comp/Recon)

Annual charge of \$120,000 payable at a rate of \$10,000 per month.

6. TRAC 2000 - \$7.00 per participant, per year

7. Voice Response Unit

a. \$500 Set-up Fee will be charged for each investment company unit.

b. \$2,500 Maintenance Fee will be billed each month.

c. \$.50 will be billed per call connected to the VRU.

8. Contingent Deferred Sales Charge.

Billed to each Fund utilizing this service at an annual rate of \$1.03 per open account.

B. State Street Bank

1. NSCC Settlements

PAGE 50

a. \$11.30 for net redemptions

b. \$ 5.14 per net purchases

2. Checkwriting Fees

\$.565 for each checkwriting item processed (i.e. those resulting in either redemptions or returned as non-processable). This includes signature card maintenance and verification, manual or special processing of checks, stop payment processing, settlement functions, and postage and mailing expenses to return canceled checks to shareholders.

3. Stop Payments - Redemption/Distribution Accounts

\$15.00 for each manual stop payment placed on a redemption or distribution check.

4. ACH Transactions

\$.06 for each ACH transaction processed by the Bank and submitted to the ACH network.

5. Internal Book Transfers

\$1.08 billed for money movement between TRP DDA's at the Bank. Money is transferred by debit and credit memos.

6. Wire Fees

\$4.00 for each incoming, manual, and internal bank transfer wire; \$3.75 for each outgoing transmission wire.

7. Paid checks

\$.18 for each paid check processed.

8. DDA Research

\$1.03 per request.

9. Special Handling

\$2,917 billed per month for the special handling of checks at Marina Bay.

10. Nightly Audits

\$.0285 per page for the audit of the DST nightly update.

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11. VAX Computer Usage

Billed at the rate of \$8,318 per month which covers both:

- a. System Fee - for use of sub-systems such as capital stock interface, PDPS, Direct Deposit, etc.
- b. Communication Fee - charge for the line, modems, and statistical multiplexers.

12. Abandoned Property

Services based on the following fee schedule:

- a. Administrative charge \$125/Fund
- b. Processing charges \$1.00/account
- c. Due Diligence Mailings \$1.50/account
- d. Labor will be charged based on the number of hours required.

- 13. Account maintenance \$16.00 per account per month
- 14. Reporting (SSCAN) for selected accounts - \$50.00 per account per month
- 15. FDIC Passthrough - charged at prevailing FDIC rates

C. J.P. Morgan Bank

1. Wire Transfer Fees

| | |
|---|--------------|
| Annual Account Maintenance | \$250.00 |
| Annual MORCOM/CASH | |
| First Account | \$5,000.00 |
| Subsequent Accounts | \$3,000.00 |
| Batch File Transfer (BFT) | |
| Transmission | \$15.00 each |
| (capped at 10 per month) | |
| BFT Per Outgoing Wire | |
| Peak (8 a.m. and 8 p.m.) | \$0.064 |
| Off Peak (8 p.m. and 8 a.m.) | \$0.032 |
| Outgoing Wires | |
| Straight-through (Repetitive or Freetype) | |
| 80% of total volume | \$3.25 |
| Book Transfer (IBT) | \$1.50 |
| Repair (Freeform) | \$7.00 |
| Zero Balance Transfer | \$1.00 |

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Incoming Wires

| | |
|--------------|--------|
| Fed or CHIPS | \$3.25 |
| Book (IBT) | \$1.50 |

FDIC Passthrough - charged at prevailing FDIC rates

2. Controlled Disbursement Fees

| | |
|--|---------------------------|
| Annual Account Maintenance (capped at 6 accounts) | \$760.00 per account |
| Annual MORCOM Next Day | \$1,385.00 per account |
| Annual MORCOM Check | \$715.00 per account |
| Batch File Transfer (BFT) Transmission (capped at 10 per month) | \$15.00 each |
| Same Day Match Pay (Dividend & Redemption Checks) | |
| DCD Match | \$2,500.00 per account |
| TRPS Matches | .005 per item |
| Checks Paid | |
| Up to 500,000 items | \$0.051 |
| Up to 750,000 items | \$0.042 |
| Up to 1,000,000 items | \$0.035 |
| Stops | |
| On-line | \$3.00 |
| Returned Checks | \$3.00 per item |

3. The bank may charge interest at a rate in excess of normal borrowing rates if the TRPS balance is overdrawn or is in a negative collected balance status.

D. Fleet Bank of Massachusetts

1. Demand Deposit Services

| | |
|--------------------------------|-----------------------------|
| a. Monthly Account Maintenance | \$13.00/ 14.00 in May |
|--------------------------------|-----------------------------|

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| | |
|---------------------------------------|--------|
| b. Deposit Ticket | \$.85 |
| c. Deposited Item Fee (all inclusive) | \$.054 |
| d. Return of a Deposited Item | |
| Redeposit Fee per deposit | \$1.00 |
| Per redeposited item | \$.50 |

Returned item \$3.00

2. Treasury Master System

- a. Previous Day Balance Reporting
 - Monthly module charge \$60.00
 - Per Account \$10.00
- b. Previous Day Detail
 - Monthly module charge \$70.00
 - Per Transaction \$.10
- c. Current Day Detail
 - Monthly module charge \$70.00
 - Per Transaction \$.10
- d. Depository Transfer
 - Monthly module charge \$75.00
 - Per Transfer \$.25
- e. Money Movers per transfer \$.50
- f. Wire Transfer no addt'l charge-normal wire fees only

3. Wire Transfer

- a. Outgoing Repetitive Wire
 - Placed prior to 1:00 pm \$9.00
 - Placed after 1:00 pm \$10.00
- b. Outgoing Non-Repetitive Wire
 - Placed prior to 1:00 pm \$12.00
 - Placed after 1:00 pm \$13.00
- c. Incoming Wire \$6.00

4. The bank may charge interest at a rate in excess of normal borrowing rates if the TRPS balance is overdrawn or is in a negative collected balance status.

5. FDIC Passthrough - charged at prevailing FDIC rates.

E. First National Bank of Maryland

- 1. Internal Fund Transfer \$5.40
- 2. Returned Items \$2.70

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- 3. Deposit Items Charge varies
- 4. Deposit Tickets \$.45
- 5. Return/redeposit items \$2.25
- 6. Deposit Corrections \$4.50

- | | |
|---|----------|
| 7. Check copy | \$9.00 |
| 8. First Facts | |
| CDA Repetitive Wire | \$4.05 |
| System Reports/Per Module | \$27.00 |
| Per Report Previous Day | \$1.80 |
| Per Report Current Day | \$3.60 |
| 9. Account maintenance | \$11.25 |
| 10. Debit item | \$.54 |
| 11. Credit transaction | \$.54 |
| 12. Foreign Deposit | \$4.50 |
| 13. ACH Debit | \$.117 |
| 14. Tax Deposits | \$.90 |
| 15. Film - Monthly | \$121.50 |
| 16. TRPS may be charged interest when TRPS's balance at FNB is in a negative collected balance status. TRPS may also receive balance credits on a positive investable balance | |
| 17. FDIC Passthrough charged at prevailing FDIC rates | |

III. New Funds

Funds added during the term of this contract may have their Maintenance and Transaction charges and other charges (Section I) waived for a period of time, as agreed to by TRPS and Fund Directors, following the establishment of the Fund. Out-of-pocket expenses will be billed to the Fund from the Fund's inception.

IN WITNESS WHEREOF, T.Rowe Price Funds and T.Rowe Price Services, Inc. have agreed upon this fee schedule to be executed in their names and on their behalf through their duly authorized officers:

T. ROWE PRICE FUNDS

T. ROWE PRICE SERVICES, INC.

/s/Carmen F. Deyesu
NAME _____
Carmen F. Deyesu

/s/Mark E. Rayford
NAME _____
Mark E. Rayford

TITLE Treasurer

TITLE President

DATE 2/16/94

DATE 2/18/94

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AMENDMENT NO. 1
TRANSFER AGENCY AND SERVICE AGREEMENT
Between
T. ROWE PRICE SERVICES, INC.
And
THE T. ROWE PRICE FUNDS

The Transfer Agency and Service Agreement of January 1, 1994, between T. Rowe Price Services, Inc. and each of the Parties listed on Appendix A thereto is hereby amended, as of March 1, 1994, by adding thereto the T. Rowe Price Equity Series, Inc. and T. Rowe Price International Series, Inc.

Notwithstanding anything to the contrary herein, it is understood that the T. Rowe Price Equity Series, Inc. and T. Rowe Price International Series, Inc. (collectively referred to as the "Funds") shall not be responsible for paying any of the fees or expenses set forth herein but that, in accordance with the Investment Management Agreements, dated March 1, 1994, between the Funds and T. Rowe Price Associates, Inc. and Rowe Price-Fleming International, Inc. (collectively referred to as "T. Rowe Price"), the Funds will require T. Rowe Price to pay all such fees and expenses.

T. ROWE PRICE ADJUSTABLE RATE U.S. GOVERNMENT
FUND, INC.

T. ROWE PRICE BALANCED FUND, INC.

T. ROWE PRICE BLUE CHIP GROWTH FUND, INC.

T. ROWE PRICE CALIFORNIA TAX-FREE INCOME
TRUST
California Tax-Free Bond Fund
California Tax-Free Money Fund

T. ROWE PRICE CAPITAL APPRECIATION FUND

T. ROWE PRICE DIVIDEND GROWTH FUND, INC

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T. ROWE PRICE EQUITY INCOME FUND

T. ROWE PRICE EQUITY SERIES, INC.
T. Rowe Price Equity Income Portfolio
T. Rowe Price New America Growth Portfolio

T. ROWE PRICE GNMA FUND

T. ROWE PRICE GROWTH & INCOME FUND, INC.

T. ROWE PRICE GROWTH STOCK FUND, INC.

T. ROWE PRICE HIGH YIELD FUND, INC.

T. ROWE PRICE INDEX TRUST, INC.
T. Rowe Price Equity Index Fund

INSTITUTIONAL INTERNATIONAL FUNDS, INC.
Foreign Equity Fund

T. ROWE PRICE INTERNATIONAL EQUITY FUND, INC.

T. ROWE PRICE INTERNATIONAL FUNDS, INC.

T. Rowe Price International Bond Fund

T. Rowe Price International Discovery Fund

T. Rowe Price International Stock Fund

T. Rowe Price European Stock Fund

T. Rowe Price New Asia Fund

T. Rowe Price Global Government Bond Fund

T. Rowe Price Japan Fund

T. Rowe Price Short-Term Global Fund

T. ROWE PRICE INTERNATIONAL SERIES, INC.

T. Rowe Price International Stock Portfolio

T. ROWE PRICE MID-CAP GROWTH FUND, INC.

T. ROWE PRICE NEW AMERICA GROWTH FUND

T. ROWE PRICE NEW ERA FUND, INC.

T. ROWE PRICE NEW HORIZONS FUNDS, INC.

T. ROWE PRICE NEW INCOME FUND, INC.

T. ROWE PRICE OTC FUND, INC.

T. ROWE PRICE PRIME RESERVE FUND, INC.

T. ROWE PRICE SCIENCE & TECHNOLOGY FUND, INC.

T. ROWE PRICE SHORT-TERM BOND FUND, INC.

T. ROWE PRICE SMALL-CAP VALUE FUND, INC.

T. ROWE PRICE SPECTRUM FUND, INC.

Spectrum Growth Fund

Spectrum Income Fund

T. ROWE PRICE STATE TAX-FREE INCOME TRUST

Maryland Tax-Free Bond Fund

Maryland Short-Term Tax-Free Bond Fund

New York Tax-Free Bond Fund

New York Tax-Free Money Fund

New Jersey Tax-Free Money Fund

Virginia Tax-Free Money Fund

Florida Insured Intermediate Tax-Free Fund

Georgia Tax-Free Bond Fund

T. ROWE PRICE SUMMIT FUNDS, INC.

T. Rowe Price Summit Cash Reserves Fund

T. Rowe Price Summit Limited-Term Bond Fund

T. Rowe Price Summit GNMA Fund

T. ROWE PRICE SUMMIT MUNICIPAL FUNDS, INC.

T. Rowe Price Summit Municipal Money Market Fund

T. Rowe Price Summit Municipal Intermediate Fund

T. Rowe Price Summit Municipal Income Fund

T. ROWE PRICE TAX-EXEMPT MONEY FUND, INC.

T. ROWE PRICE TAX-FREE HIGH YIELD FUND, INC.

T. ROWE PRICE TAX-FREE INCOME FUND, INC.

T. ROWE PRICE TAX-FREE INSURED INTERMEDIATE FUND, INC.

T. ROWE PRICE TAX-FREE SHORT-INTERMEDIATE FUND, INC.

T. ROWE PRICE U.S. TREASURY FUNDS, INC.

U.S. Treasury Intermediate Fund

U.S. Treasury Long-Term Fund

U.S. Treasury Money Fund

Attest:

/s/Lenora V. Hornung

/s/Carmen F. Deyesu

Lenora V. Hornung,
Secretary

By: Carmen F. Deyesu

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Attest:

T. ROWE PRICE SERVICES, INC.

/s/Barbara A. VanHorn

/s/Henry H. Hopkins

Barbara A. VanHorn,
Assistant Secretary

By: Henry H. Hopkins,
Vice President

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AMENDMENT NO. 2
TRANSFER AGENCY AND SERVICE AGREEMENT
Between
T. ROWE PRICE SERVICES, INC.

And
THE T. ROWE PRICE FUNDS

The Transfer Agency and Service Agreement of January 1, 1994, as amended March 1, 1994, between T. Rowe Price Services, Inc. and each of the Parties listed on Appendix A thereto is hereby further amended, as of April 21, 1994, by adding thereto the T. Rowe Price Fixed Income Series, Inc.

Notwithstanding anything to the contrary herein, it is understood that the T. Rowe Price Fixed Income Series, Inc. (referred to as the "Fund") shall not be responsible for paying any of the fees or expenses set forth herein but that, in accordance with the Investment Management Agreement, dated April 21, 1994, between the Fund and T. Rowe Price Associates, Inc. (referred to as "T. Rowe Price"), the Fund will require T. Rowe Price to pay all such fees and expenses.

T. ROWE PRICE ADJUSTABLE RATE U.S. GOVERNMENT
FUND, INC.

T. ROWE PRICE BALANCED FUND, INC.

T. ROWE PRICE BLUE CHIP GROWTH FUND, INC.

T. ROWE PRICE CALIFORNIA TAX-FREE INCOME
TRUST
California Tax-Free Bond Fund
California Tax-Free Money Fund

T. ROWE PRICE CAPITAL APPRECIATION FUND

T. ROWE PRICE DIVIDEND GROWTH FUND, INC

T. ROWE PRICE EQUITY INCOME FUND

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T. ROWE PRICE EQUITY SERIES, INC.
T. Rowe Price Equity Income Portfolio
T. Rowe Price New America Growth Portfolio

T. ROWE PRICE FIXED INCOME SERIES, INC.
T. Rowe Price Limited-Term Bond Portfolio

T. ROWE PRICE GNMA FUND

T. ROWE PRICE GROWTH & INCOME FUND, INC.

T. ROWE PRICE GROWTH STOCK FUND, INC.

T. ROWE PRICE HIGH YIELD FUND, INC.

T. ROWE PRICE INDEX TRUST, INC.

T. Rowe Price Equity Index Fund

INSTITUTIONAL INTERNATIONAL FUNDS, INC.

Foreign Equity Fund

T. ROWE PRICE INTERNATIONAL EQUITY FUND, INC.

T. ROWE PRICE INTERNATIONAL FUNDS, INC.

T. Rowe Price International Bond Fund

T. Rowe Price International Discovery Fund

T. Rowe Price International Stock Fund

T. Rowe Price European Stock Fund

T. Rowe Price New Asia Fund

T. Rowe Price Global Government Bond Fund

T. Rowe Price Japan Fund

T. Rowe Price Short-Term Global Fund

T. ROWE PRICE INTERNATIONAL SERIES, INC.

T. Rowe Price International Stock Portfolio

T. ROWE PRICE MID-CAP GROWTH FUND, INC.

T. ROWE PRICE NEW AMERICA GROWTH FUND

T. ROWE PRICE NEW ERA FUND, INC.

T. ROWE PRICE NEW HORIZONS FUNDS, INC.

T. ROWE PRICE NEW INCOME FUND, INC.

T. ROWE PRICE OTC FUND, INC.

T. ROWE PRICE PRIME RESERVE FUND, INC.

T. ROWE PRICE SCIENCE & TECHNOLOGY FUND, INC.

T. ROWE PRICE SHORT-TERM BOND FUND, INC.

T. ROWE PRICE SMALL-CAP VALUE FUND, INC.

T. ROWE PRICE SPECTRUM FUND, INC.

Spectrum Growth Fund

Spectrum Income Fund

T. ROWE PRICE STATE TAX-FREE INCOME TRUST

Maryland Tax-Free Bond Fund

Maryland Short-Term Tax-Free Bond Fund

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New York Tax-Free Money Fund
New Jersey Tax-Free Money Fund
Virginia Tax-Free Money Fund
Florida Insured Intermediate Tax-Free Fund
Georgia Tax-Free Bond Fund

T. ROWE PRICE SUMMIT FUNDS, INC.
T. Rowe Price Summit Cash Reserves Fund
T. Rowe Price Summit Limited-Term Bond Fund
T. Rowe Price Summit GNMA Fund

T. ROWE PRICE SUMMIT MUNICIPAL FUNDS, INC.
T. Rowe Price Summit Municipal Money Market
Fund
T. Rowe Price Summit Municipal Intermediate
Fund
T. Rowe Price Summit Municipal Income Fund

T. ROWE PRICE TAX-EXEMPT MONEY FUND, INC.

T. ROWE PRICE TAX-FREE HIGH YIELD FUND, INC.

T. ROWE PRICE TAX-FREE INCOME FUND, INC.

T. ROWE PRICE TAX-FREE INSURED INTERMEDIATE
FUND, INC.

T. ROWE PRICE TAX-FREE SHORT-INTERMEDIATE
FUND, INC.

T. ROWE PRICE U.S. TREASURY FUNDS, INC.
U.S. Treasury Intermediate Fund
U.S. Treasury Long-Term Fund
U.S. Treasury Money Fund

Attest:

/s/Lenora V. Hornung

/s/Carmen F. Deyesu

Lenora V. Hornung,
Secretary

By: Carmen F. Deyesu

PAGE 62

Attest:

T. ROWE PRICE SERVICES, INC.

/s/Barbara A. VanHorn

/s/Henry H. Hopkins

Barbara A. VanHorn,
Assistant Secretary

By: Henry H. Hopkins,
Vice President

AMENDMENT NO. 3
TRANSFER AGENCY AND SERVICE AGREEMENT
Between
T. ROWE PRICE SERVICES, INC.
And
THE T. ROWE PRICE FUNDS

The Transfer Agency and Service Agreement of January 1, 1994, as amended March 1, 1994 and April 21, 1994, between T. Rowe Price Services, Inc. and each of the Parties listed on Appendix A thereto is hereby further amended, as of July 27, 1994, by adding thereto the T. Rowe Price Personal Strategy Funds, Inc.

Notwithstanding anything to the contrary herein, it is understood that the T. Rowe Price Personal Strategy Funds, Inc. (referred to as the "Funds") shall not be responsible for paying any of the fees or expenses set forth herein but that, in accordance with the Investment Management Agreements, dated July 27, 1994, between the Funds and T. Rowe Price Associates, Inc. (referred to as "T. Rowe Price"), the Funds will require T. Rowe Price to pay all such fees and expenses.

T. ROWE PRICE ADJUSTABLE RATE U.S. GOVERNMENT
FUND, INC.

T. ROWE PRICE BALANCED FUND, INC.

T. ROWE PRICE BLUE CHIP GROWTH FUND, INC.

T. ROWE PRICE CALIFORNIA TAX-FREE INCOME
TRUST
California Tax-Free Bond Fund
California Tax-Free Money Fund

T. ROWE PRICE CAPITAL APPRECIATION FUND

T. ROWE PRICE DIVIDEND GROWTH FUND, INC

T. ROWE PRICE EQUITY INCOME FUND

T. ROWE PRICE EQUITY SERIES, INC.
T. Rowe Price Equity Income Portfolio
T. Rowe Price New America Growth Portfolio

T. ROWE PRICE FIXED INCOME SERIES, INC.

T. Rowe Price Limited-Term Bond Portfolio

T. ROWE PRICE GNMA FUND

T. ROWE PRICE GROWTH & INCOME FUND, INC.

T. ROWE PRICE GROWTH STOCK FUND, INC.

T. ROWE PRICE HIGH YIELD FUND, INC.

T. ROWE PRICE INDEX TRUST, INC.
T. Rowe Price Equity Index Fund

INSTITUTIONAL INTERNATIONAL FUNDS, INC.
Foreign Equity Fund

T. ROWE PRICE INTERNATIONAL EQUITY FUND, INC.

T. ROWE PRICE INTERNATIONAL FUNDS, INC.
T. Rowe Price International Bond Fund
T. Rowe Price International Discovery Fund
T. Rowe Price International Stock Fund
T. Rowe Price European Stock Fund
T. Rowe Price New Asia Fund
T. Rowe Price Global Government Bond Fund
T. Rowe Price Japan Fund
T. Rowe Price Short-Term Global Fund

T. ROWE PRICE INTERNATIONAL SERIES, INC.
T. Rowe Price International Stock Portfolio

T. ROWE PRICE MID-CAP GROWTH FUND, INC.

T. ROWE PRICE NEW AMERICA GROWTH FUND

T. ROWE PRICE NEW ERA FUND, INC.

T. ROWE PRICE NEW HORIZONS FUNDS, INC.

T. ROWE PRICE NEW INCOME FUND, INC.

T. ROWE PRICE OTC FUND, INC.

T. ROWE PRICE PERSONAL STRATEGY FUNDS, INC.
T. Rowe Price Personal Strategy Balanced Fund
T. Rowe Price Personal Strategy Growth Fund
T. Rowe Price Personal Strategy Income Fund

T. ROWE PRICE PRIME RESERVE FUND, INC.

T. ROWE PRICE SCIENCE & TECHNOLOGY FUND, INC.

T. ROWE PRICE SHORT-TERM BOND FUND, INC.

T. ROWE PRICE SMALL-CAP VALUE FUND, INC.

T. ROWE PRICE SPECTRUM FUND, INC.

Spectrum Growth Fund

Spectrum Income Fund

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T. ROWE PRICE STATE TAX-FREE INCOME TRUST

Maryland Tax-Free Bond Fund

Maryland Short-Term Tax-Free Bond Fund

New York Tax-Free Bond Fund

New York Tax-Free Money Fund

New Jersey Tax-Free Money Fund

Virginia Tax-Free Money Fund

Florida Insured Intermediate Tax-Free Fund

Georgia Tax-Free Bond Fund

T. ROWE PRICE SUMMIT FUNDS, INC.

T. Rowe Price Summit Cash Reserves Fund

T. Rowe Price Summit Limited-Term Bond Fund

T. Rowe Price Summit GNMA Fund

T. ROWE PRICE SUMMIT MUNICIPAL FUNDS, INC.

T. Rowe Price Summit Municipal Money Market
Fund

T. Rowe Price Summit Municipal Intermediate
Fund

T. Rowe Price Summit Municipal Income Fund

T. ROWE PRICE TAX-EXEMPT MONEY FUND, INC.

T. ROWE PRICE TAX-FREE HIGH YIELD FUND, INC.

T. ROWE PRICE TAX-FREE INCOME FUND, INC.

T. ROWE PRICE TAX-FREE INSURED INTERMEDIATE
FUND, INC.

T. ROWE PRICE TAX-FREE SHORT-INTERMEDIATE
FUND, INC.

T. ROWE PRICE U.S. TREASURY FUNDS, INC.

U.S. Treasury Intermediate Fund

U.S. Treasury Long-Term Fund

U.S. Treasury Money Fund

Attest:

/s/Lenora V. Hornung

/s/Carmen F. Deyesu

Lenora V. Hornung,
Secretary

By: Carmen F. Deyesu

Attest:

T. ROWE PRICE SERVICES, INC.

/s/Barbara A. VanHorn

/s/Henry H. Hopkins

Barbara A. VanHorn,
Assistant Secretary

By: Henry H. Hopkins,
Vice President

Agmts\Transfer.Amd

The Agreement between T. Rowe Price Associates, Inc. and T. Rowe Price Funds for Fund Accounting Services, dated January 1, 1994, as amended, should be inserted here.

PAGE 1

AGREEMENT
between
T. ROWE PRICE ASSOCIATES, INC.
and
THE T. ROWE PRICE FUNDS
for
FUND ACCOUNTING SERVICES

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| Article C | Representations and Warranties of Price Associates3 |
| Article D | Representations and Warranties of the Fund. . . .3 |
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Article V Captions. 9

AGREEMENT made as of the first day of January, 1994, by and

between T. ROWE PRICE ASSOCIATES, INC., a Maryland corporation having its principal office and place of business at 100 East Pratt Street, Baltimore, Maryland 21202 ("Price Associates"), and each Fund which is listed on Appendix A (as such Appendix may be amended from time to time) and which evidences its agreement to be bound hereby by executing a copy of this Agreement (each such Fund individually hereinafter referred to as "the Fund", whose definition may be found in Article T);

WHEREAS, Price Associates has the capability of providing the Funds with certain accounting services ("Accounting Services");

WHEREAS, the Fund desires to appoint Price Associates to provide these Accounting Services and Price Associates desires to accept such appointment;

NOW, THEREFORE, in consideration of the mutual covenants herein contained, the parties hereto agree as follows:

A. Terms of Appointment/Duties of Price Associates

Subject to the terms and conditions set forth in this Agreement, the Fund hereby employs and appoints Price Associates to provide, and Price Associates agrees to provide, the following Accounting Services:

- a. Maintain for each Fund a daily trial balance, a general ledger, subsidiary records and capital stock accounts;

PAGE 5

- b. Maintain for each Fund an investment ledger, including amortized bond and foreign dollar denominated costs where applicable;
- c. Maintain for each Fund all records relating to the Fund's income and expenses;
- d. Provide for the daily valuation of each Fund's portfolio securities and the computation of each Fund's daily net asset value per share. Such daily valuations shall be made in accordance with the valuation policies established by each of the Fund's Board of Directors including, but not limited to, the utilization of such pricing valuation sources and/or pricing services as determined by the Boards. Price Associates shall have no liability for any losses or damages incurred by the Fund as a result of erroneous portfolio security evaluations provided by such designated sources and/or pricing services; provided that, Price Associates reasonably believes the prices are accurate, has adhered to its normal verification control procedures, and has otherwise met the standard of care as set forth in Article G of this Agreement;
- e. Provide daily cash flow and transaction status information to each Fund's adviser;
- f. Prepare for each Fund such financial information that is reasonably necessary for shareholder reports, reports to

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the Board of Directors and to the officers of the Fund,

- and reports to the Securities and Exchange Commission and the Internal Revenue Service and other Federal and state regulatory agencies;
- g. Provide each Fund with such advice that may be reasonably necessary to properly account for all financial transactions and to maintain the Fund's accounting procedures and records so as to insure compliance with generally accepted accounting and tax practices and rules;
 - h. Maintain for each Fund all records that may be reasonably required in connection with the audit performed by each Fund's independent accountant, the Securities and Exchange Commission, the Internal Revenue Service or such other Federal or state regulatory agencies; and
 - i. Cooperate with each Fund's independent public accountants and take all reasonable action in the performance of its obligations under the Agreement to assure that the necessary information is made available to such accountants for the expression of their opinion without any qualification as to the scope of their examination including, but not limited to, their opinion included in each such Fund's annual report on Form N-SAR and annual amendment to Form N-1A.

B. Fees and Out-of-Pocket Expenses

Each Fund shall pay to Price Associates for its Accounting Services hereunder, fees as set forth in the Schedule attached hereto. In addition, each Fund will reimburse Price Associates

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for out-of-pocket expenses such as postage, printed forms, voice and data transmissions, record retention, disaster recovery, third party vendors, equipment leases and other similar items as may be agreed upon between Price Associates and the Fund. Some invoices will contain costs for both the Funds and other funds services by Price Associates. In these cases, a reasonable allocation methodology will be used to allocate these costs to the Funds.

C. Representations and Warranties of Price Associates

Price Associates represents and warrants to the Fund that:

1. It is a corporation duly organized and existing in good standing under the laws of Maryland.
2. It is duly qualified to carry on its business in Maryland.
3. It is empowered under applicable laws and by its charter and By-Laws to enter into and perform this Agreement.
4. All requisite corporate proceedings have been taken to authorize it to enter into and perform this Agreement.
5. It has, and will continue to have, access to the necessary facilities, equipment and personnel to perform its duties and obligations under this Agreement.

D. Representations and Warranties of the Fund

The Fund represents and warrants to Price Associates that:

1. It is a corporation or business trust, as the case may be,

duly organized and existing and in good standing under the laws of Maryland or Massachusetts, as the case may be.

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2. It is empowered under applicable laws and by its Articles of Incorporation or Declaration of Trust, as the case may be, and By-Laws have been taken to authorize it to enter into and perform this Agreement.

3. All proceedings required by said Articles of Incorporation or Declaration of Trust, as the case may be, and By-Laws have been taken to authorize it to enter into and perform this Agreement.

E. Ownership of Software and Related Material

All computer programs, magnetic tapes, written procedures, and similar items purchased and/or developed and used by Price Associates in performance of the Agreement shall be the property of Price Associates and will not become the property of the Funds.

F. Quality Service Standards

Price Associates and the Fund may, from time to time, agree to certain quality service standards, with respect to Price Associates' services hereunder.

G. Standard of Care/Indemnification

Notwithstanding anything to the contrary in this Agreement:

1. Price Associates shall not be liable to any Fund for any act or failure to act by it or its agents or subcontractors on behalf of the Fund in carrying or attempting to carry out the terms and provisions of the Agreement provided Price Associates has acted in good faith and without negligence or willful misconduct and selected and monitored the performance of its agents and subcontractors with reasonable care.

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2. The Fund shall indemnify and hold Price Associates harmless from and against all losses, costs, damages, claims, actions, and expenses, including reasonable expenses for legal counsel, incurred by Price Associates resulting from: (i) any action or omission by Price Associates or its agents or subcontractors in the performance of their duties hereunder; (ii) Price Associates acting upon instructions believed by it to have been executed by a duly authorized officer of the Fund; or (iii) Price Associates acting upon information provided by the Fund in form and under policies agreed to by Price Associates and the Fund. Price Associates shall not be entitled to such indemnification in respect of actions or omissions constituting negligence or willful misconduct of Price Associates or where Price Associates has not exercised reasonable care in selecting or monitoring the performance of its agents or subcontractors.

3. Price Associates shall indemnify and hold harmless the Fund from all losses, costs, damages, claims, actions and expenses, including reasonable expenses for legal counsel,

incurred by the Fund resulting from the negligence or willful misconduct of Price Associates or which result from Price Associates' failure to exercise reasonable care in selecting or monitoring the performance of its agents or subcontractors. The Fund shall not be entitled to such indemnification with respect to actions or omissions constituting negligence or willful misconduct of such Fund or its agents or subcontractors; unless such negligence or misconduct is attributable to Price Associates.

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4. In the event either party is unable to perform its obligations under the terms of this Agreement because of acts of God, strikes or other causes reasonably beyond its control, such party shall not be liable to the other party for any loss, cost, damage, claim, action or expense resulting from such failure to perform or otherwise from such causes.

5. In order that the indemnification provisions contained in this Article F shall apply, upon the assertion of a claim for which either party may be required to indemnify the other, the party seeking indemnification shall promptly notify the other party of such assertion, and shall keep the other party advised with respect to all developments concerning such claim. The party who may be required to indemnify shall have the option to participate with the party seeking indemnification in the defense of such claim, or to defend against said claim in its own name or in the name of the other party. The party seeking indemnification shall in no case confess any claim or make any compromise in any case in which the other party may be required to indemnify it except with the other party's prior written consent.

6. Neither party to this Agreement shall be liable to the other party for consequential damages under any provision of this Agreement.

H. Dual Interests

It is understood that some person or persons may be directors, officers, or shareholders of both the Fund and Price

PAGE 11

Associates (including Price Associates' affiliates), and that the existence of any such dual interest shall not affect the validity of this Agreement or of any transactions hereunder except as otherwise provided by a specific provision of applicable law.

I. Documentation

As requested by Price Associates, the Fund shall promptly furnish to Price Associates such documents as it may reasonably request and as are necessary for Price Associates to carry out its responsibilities hereunder.

J. Recordkeeping/Confidentiality

1. Price Associates shall keep records relating to the services to be performed hereunder, in the form and manner as it may deem advisable, provided that Price Associates shall keep all

records in such form and in such manner as required by applicable law, including the Investment Company Act of 1940 ("the Act") and the Securities Exchange Act of 1934 ("the '34 Act").

2. Price Associates and the Fund agree that all books, records, information and data pertaining to the business of the other party which are exchanged or received pursuant to the negotiation or the carrying out of this Agreement shall remain confidential, and shall not be voluntarily disclosed to any other person, except: (a) after prior notification to and approval in writing by the other party hereto, which approval shall not be unreasonably withheld and may not be withheld where Price Associates or Fund may be exposed to civil or criminal contempt proceedings for failure to comply; (b) when requested to divulge

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such information by duly constituted governmental authorities; or (c) after so requested by the other party hereto.

K. Compliance With Governmental Rules and Regulations

Except as otherwise provided in the Agreement and except for the accuracy of information furnished to the Funds by Price Associates, each Fund assumes full responsibility for the preparation, contents and distribution of its prospectuses, and for complying with all applicable requirements of the Act, the '34 Act, the Securities Act of 1933 (the "33 Act"), and any laws, rules and regulations of governmental authorities having jurisdiction over the Funds.

L. Term and Termination of Agreement

1. This Agreement shall run for a period of one (1) year from the date first written above and will be renewed from year to year thereafter unless terminated by either party as provided hereunder.

2. This Agreement may be terminated by the Fund upon sixty (60) days' written notice to Price Associates; and by Price Associates, upon three hundred sixty-five (365) days' writing notice to the Fund.

3. Upon termination hereof, the Fund shall pay to Price Associates such compensation as may be due as of the date of such termination, and shall likewise reimburse for out-of-pocket expenses related to its services hereunder.

M. Notice

Any notice as required by this Agreement shall be sufficiently given (i) when sent to an authorized person of the

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other party at the address of such party set forth above or at such other address as such party may from time to time specify in writing to the other party; or (ii) as otherwise agreed upon by appropriate officers of the parties hereto.

N. Assignment

Neither this Agreement nor any rights or obligations

hereunder may be assigned either voluntarily or involuntarily, by operation of law or otherwise, by either party without the prior written consent of the other party, provided this shall not preclude Price Associates from employing such agents and subcontractors as it deems appropriate to carry out its obligations set forth hereunder.

O. Amendment/Interpretive Provisions

The parties by mutual written agreement may amend this Agreement at any time. In addition, in connection with the operation of this Agreement, Price Associates and the Fund may agree from time to time on such provisions interpretive of or in addition to the provisions of this Agreement as may in their joint opinion be consistent with the general tenor of this Agreement. Any such interpretive or additional provisions are to be signed by all parties and annexed hereto, but no such provision shall contravene any applicable Federal or state law or regulation and no such interpretive or additional provision shall be deemed to be an amendment of this Agreement.

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P. Further Assurances

Each party agrees to perform such further acts and execute such further documents as are necessary to effectuate the purposes hereof.

Q. Maryland Law to Apply

This Agreement shall be construed and the provisions thereof interpreted under and in accordance with the laws of Maryland.

R. Merger of Agreement

This Agreement, including the attached Appendices and Schedules supersedes any prior agreement with respect to the subject hereof, whether oral or written.

S. Counterparts

This Agreement may be executed by the parties hereto on any number of counterparts, and all of said counterparts taken together shall be deemed to constitute one and the same instruments.

T. The Parties

All references herein to "the Fund" are to each of the Funds listed on Appendix A individually, as if this Agreement were between such individual Fund and Price Associates. In the case of a series Fund or trust, all references to "the Fund" are to the individual series or portfolio of such Fund or trust, or to such Fund or trust on behalf of the individual series or portfolio, as appropriate. The "Fund" also includes any T. Rowe Price Funds which may be established after the execution of this

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Agreement. Any reference in this Agreement to "the parties" shall mean Price Associates and such other individual Fund as to which the matter pertains.

U. Directors, Trustees and Shareholders and Massachusetts

Business Trust

It is understood and is expressly stipulated that neither the holders of shares in the Fund nor any Directors or Trustees of the Fund shall be personally liable hereunder.

With respect to any Fund which is a party to this Agreement and which is organized as a Massachusetts business trust, the term "Fund" means and refers to the trustees from time to time serving under the applicable trust agreement (Declaration of Trust) of such Trust as the same may be amended from time to time. It is expressly agreed that the obligations of any such Trust hereunder shall not be binding upon any of the trustees, shareholders, nominees, officers, agents or employees of the Trust, personally, but bind only the trust property of the Trust, as provided in the Declaration of Trust of the Trust. The execution and delivery of this Agreement has been authorized by the trustees and signed by an authorized officer of the Trust, acting as such, and neither such authorization by such Trustees nor such execution and delivery by such officer shall be deemed to have been made by any of them, but shall bind only the trust property of the Trust as provided in its Declaration of Trust.

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V. Captions

The captions in the Agreement are included for convenience of reference only and in no way define or limit any of the provisions hereof or otherwise affect their construction or effect.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed in their names and on their behalf under their seals by and through their duly authorized officers.

DATED: 2/22/94

T. ROWE PRICE ASSOCIATES, INC.

ATTEST:

/s/Barbara A. VanHorn

/s/Alvin M. Younger

Barbara A. VanHorn

BY: _____

Managing Director

T. ROWE PRICE ADJUSTABLE RATE U.S.
GOVERNMENT FUND, INC.

T. ROWE PRICE BALANCED FUND, INC.

T. ROWE PRICE BLUE CHIP GROWTH FUND

T. ROWE PRICE CALIFORNIA TAX-FREE INCOME
TRUST

California Tax-Free Bond Fund
California Tax-Free Money Fund

T. ROWE PRICE CAPITAL APPRECIATION FUND

T. ROWE PRICE DIVIDEND GROWTH FUND, INC.

T. ROWE PRICE EQUITY INCOME FUND

T. ROWE PRICE GNMA FUND

T. ROWE PRICE GROWTH & INCOME FUND, INC.

T. ROWE PRICE GROWTH STOCK FUND, INC.

T. ROWE PRICE HIGH YIELD FUND, INC.

T. ROWE PRICE INDEX TRUST, INC.

T. Rowe Price Equity Index Fund

INSTITUTIONAL INTERNATIONAL FUNDS, INC.
Foreign Equity Fund

T. ROWE PRICE INTERNATIONAL EQUITY FUND,
INC.

T. ROWE PRICE INTERNATIONAL FUNDS, INC.
T. Rowe Price International Bond Fund
T. Rowe Price International Discovery Fund
T. Rowe Price International Stock Fund
T. Rowe Price European Stock Fund
T. Rowe Price New Asia Fund
T. Rowe Price Global Government Bond Fund
T. Rowe Price Japan Fund
T. Rowe Price Short-Term Global Fund
T. Rowe Price Latin America Fund

T. ROWE PRICE MID-CAP GROWTH FUND

T. ROWE PRICE NEW AMERICA GROWTH FUND

T. ROWE PRICE NEW ERA FUND, INC.

T. ROWE PRICE NEW HORIZONS FUNDS, INC.

T. ROWE PRICE NEW INCOME FUND, INC.

T. ROWE PRICE OTC FUND, INC.

T. ROWE PRICE PRIME RESERVE FUND, INC.

T. ROWE PRICE SCIENCE & TECHNOLOGY FUND,
INC.

T. ROWE PRICE SHORT-TERM BOND FUND, INC.

T. ROWE PRICE SMALL-CAP VALUE FUND, INC.

T. ROWE PRICE SPECTRUM FUND, INC.

Spectrum Growth Fund

Spectrum Income Fund

T. ROWE PRICE STATE TAX-FREE INCOME TRUST

Maryland Tax-Free Bond Fund

Maryland Short-Term Tax-Free Bond Fund

New York Tax-Free Bond Fund

New York Tax-Free Money Fund

New Jersey Tax-Free Bond Fund

Virginia Tax-Free Bond Fund

Florida Insured Intermediate Tax-Free Fund

Georgia Tax-Free Bond Fund

T. ROWE PRICE TAX-EXEMPT MONEY FUND, INC.

T. ROWE PRICE TAX-FREE HIGH YIELD FUND,

INC.

T. ROWE PRICE TAX-FREE INCOME FUND, INC.

T. ROWE PRICE TAX-FREE SHORT-INTERMEDIATE
FUND, INC.

T. ROWE PRICE TAX-FREE INSURED
INTERMEDIATE BOND FUND, INC.

T. ROWE PRICE U.S. TREASURY FUNDS, INC.
U.S. Treasury Intermediate Fund
U.S. Treasury Long-Term Fund
U.S. Treasury Money Fund

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T. ROWE PRICE SUMMIT FUNDS, INC.
Summit Cash Reserves Fund
Summit Limited-Term Bond Fund
Summit GNMA Fund

T. ROWE PRICE SUMMIT MUNICIPAL FUNDS, INC.
Summit Municipal Money Market Fund
Summit Municipal Intermediate Fund
Summit Municipal Income Fund

DATED: 2/16/94

ATTEST:

/s/Lenora V. Hornung

/s/Carmen F. Deyesu

Lenora V. Hornung

BY: _____
Carmen F. Deyesu

APPENDIX A

The following Funds are parties to this Agreement, and have so indicated their intention to be bound by such Agreement by executing the Agreement on the dates indicated thereon.

- T. Rowe Price Adjustable Rate U.S. Government Fund, Inc.
- T. Rowe Price Blue Chip Growth Fund, Inc.
- T. Rowe Price Balanced Fund, Inc.
- T. Rowe Price California Tax-Free Income Trust on behalf of the California Tax-Free Bond Fund and California Tax-Free Money Fund
- T. Rowe Price Capital Appreciation Fund
- T. Rowe Price Dividend Growth Fund, Inc.
- T. Rowe Price Equity Income Fund
- T. Rowe Price GNMA Fund
- T. Rowe Price Growth & Income Fund, Inc.
- T. Rowe Price Growth Stock Fund, Inc.
- T. Rowe Price High Yield Fund, Inc.
- T. Rowe Price Index Trust, Inc. on behalf of the T. Rowe Price Equity Index Fund
- T. Rowe Price Institutional International Funds, Inc. on behalf of the Foreign Equity Fund

- T. Rowe Price International Equity Fund, Inc.

T. Rowe Price International Funds, Inc.
on behalf of the
T. Rowe Price International Bond Fund and
T. Rowe Price International Stock Fund
T. Rowe Price International Discovery
Fund
T. Rowe Price European Stock Fund
T. Rowe Price New Asia Fund
T. Rowe Price Global Government Bond Fund
T. Rowe Price Japan Fund
T. Rowe Price Short-Term Global Fund
T. Rowe Price Latin American Fund

T. Rowe Price Mid-Cap Growth Fund
T. Rowe Price New America Growth Fund
T. Rowe Price New Era Fund, Inc.
T. Rowe Price New Horizons Fund, Inc.
T. Rowe Price New Income Fund, Inc.
T. Rowe Price OTC Fund, Inc.
T. Rowe Price Prime Reserve Fund, Inc.
T. Rowe Price Science & Technology Fund,
Inc.
T. Rowe Price Short-Term Bond Fund, Inc.
T. Rowe Price Small-Cap Value Fund, Inc.
T. Rowe Price Spectrum Fund, Inc. on
behalf of the
Spectrum Growth Fund
Spectrum Income Fund

T. Rowe Price State Tax-Free Income Trust
on behalf of the
Maryland Tax-Free Bond Fund,
Maryland Short-Term Tax-Free Bond Fund
New York Tax-Free Bond Fund and
New York Tax-Free Money Fund
New Jersey Tax-Free Bond Fund
Virginia Tax-Free Bond Fund
Florida Insured Intermediate Tax-Free
Bond Fund
Georgia Tax-Free Bond Fund

T. Rowe Price Tax-Exempt Money Fund, Inc.

T. Rowe Price Tax-Free Insured

Intermediate Bond Fund, Inc.

T. Rowe Price Tax-Free High Yield Fund,
Inc.

T. Rowe Price Tax-Free Income Fund, Inc.

T. Rowe Price Tax-Free Short-Intermediate
Fund, Inc.

T. Rowe Price U.S. Treasury Funds, Inc.
on behalf of the
U.S. Treasury Intermediate Fund
U.S. Treasury Long-Term Fund
U.S. Treasury Money Fund

T. Rowe Price Summit Funds, Inc. on
behalf of the
Summit Cash Reserves Fund
Summit Limited-Term Bond Fund
Summit GNMA Fund

T. Rowe Price Summit Municipal Funds,
Inc. on behalf of
Summit Municipal Money Market Fund
Summit Municipal Intermediate Fund
Summit Municipal Income Fund

A. Fee Structure

| | | |
|----|--|----------------|
| 1. | Base Fee | |
| | Domestic Funds | \$60,000 each |
| | International Funds | \$100,000 each |
| | Spectrum Funds | \$35,000 each |
| | Per Fund fee for basic recordkeeping and financial reporting | |
| 2. | Individual Fund Fee | |
| | Total fees reflecting special characteristics of each Fund | \$ 883,000 |
| 3. | Stock Lending Fee | |
| | Allocated to each Fund based on ratio of net earnings from stock loans | \$ 75,000 |
| 4. | Additional Funds | |
| | Domestic Funds | \$60,000 each |
| | International Funds | \$100,000 each |
| | Spectrum Funds | \$35,000 each |

B. Total Cost Per Fund

| | |
|------------------------------|------------|
| Growth Stock Fund | \$ 114,000 |
| New Horizons Fund | 95,000 |
| Equity Income Fund | 85,000 |
| New Era Fund | 72,000 |
| International Stock Fund | 115,000 |
| Growth & Income Fund | 85,000 |
| New America Growth Fund | 70,000 |
| Capital Appreciation Fund | 85,000 |
| Small-Cap Value Fund | 60,000 |
| Foreign Equity Fund | 105,000 |
| International Discovery Fund | 125,000 |
| Science & Technology Fund | 60,000 |
| High Yield Fund | 165,000 |
| Tax-Free Income Fund | 110,000 |
| New Income Fund | 100,000 |
| Tax-Free High Yield Fund | 110,000 |
| European Stock Fund | 100,000 |
| Equity Index Fund | 60,000 |

| | |
|--|---------|
| New Asia Fund | 110,000 |
| Spectrum Growth Fund | 35,000 |
| GNMA Fund | 120,000 |
| International Bond Fund | 125,000 |
| Balanced Fund | 90,000 |
| Maryland Bond Fund | 81,000 |
| Tax-Free Short Intermediate Fund | 85,000 |
| Short-Term Bond Fund | 120,000 |
| California Bond Fund | 72,000 |
| New York Bond Fund | 72,000 |
| U.S. Treasury Short-Intermediate Fund | 60,000 |
| U.S. Treasury Long-Term Bond Fund | 60,000 |
| Spectrum Income Fund | 35,000 |
| Prime Reserve Fund | 85,000 |
| Tax-Exempt Money Fund | 93,000 |
| U.S. Treasury Money Fund | 60,000 |
| California Money Fund | 67,000 |
| New York Money Fund | 67,000 |
| Adjustable Rate Government Fund | 110,000 |
| Virginia Bond Fund | 60,000 |
| New Jersey Bond Fund | 60,000 |
| Global Government Bond Fund | 100,000 |
| OTC Fund | 85,000 |
| Japan Fund | 100,000 |
| Mid-Cap Growth Fund | 60,000 |
| Short-Term Global Fund | 100,000 |
| Maryland Short-Term Tax-Free Bond Fund | 60,000 |
| Florida Insured Intermediate Tax-Free Fund | 60,000 |
| Georgia Tax-Free Bond Fund | 60,000 |
| Tax-Free Insured Intermediate Bond Fund | 60,000 |
| Blue Chip Growth Fund | 60,000 |
| Dividend Growth Fund | 65,000 |
| Latin America Fund | 100,000 |
| Summit Cash Reserve Fund | 60,000 |
| Summit Limited-Term Bond Fund | 60,000 |
| Summit GNMA Fund | 60,000 |
| Summit Municipal Money Market Fund | 60,000 |
| Summit Municipal Intermediate Fund | 60,000 |
| Summit Municipal Income Fund | 60,000 |

IN WITNESS WHEREOF, T. Rowe Price Funds and T. Rowe Price Associates, Inc. have agreed upon this fee schedule to be executed in their names and on their behalf through their duly authorized officers:

T. ROWE PRICE FUNDS

T. ROWE PRICE ASSOCIATES, INC.

/s/Carmen F. Deyesu

/s/Alvin M. Younger

Name _____

Name _____

Title Treasurer

Title Treasurer and Managing
Director

Date 2/16/94

Date 2/16/94

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AMENDMENT NO. 1
 AGREEMENT
 between
 T. ROWE PRICE ASSOCIATES, INC.
 and
 THE T. ROWE PRICE FUNDS
 for
 FUND ACCOUNTING SERVICES

The Agreement for Fund Accounting Services of January 1, 1994, between T. Rowe Price Associates, Inc. and each of the Parties listed on Appendix A thereto is hereby amended, as of March 1, 1994, by adding thereto the T. Rowe Price Equity Series, Inc. and T. Rowe Price International Series, Inc.

Notwithstanding anything to the contrary herein, it is understood that the T. Rowe Price Equity Series, Inc. and T. Rowe Price International Series, Inc. (collectively referred to as the "Funds") shall not be responsible for paying any of the fees or expenses set forth herein but that, in accordance with the Investment Management Agreements, dated March 1, 1994, between the Funds and T. Rowe Price Associates, Inc. and Rowe Price-Fleming International, Inc. (collectively referred to as "T. Rowe Price"), the Funds will require T. Rowe Price to pay all such fees and expenses.

T. ROWE PRICE ADJUSTABLE RATE U.S. GOVERNMENT
 FUND, INC.

T. ROWE PRICE BALANCED FUND, INC.

T. ROWE PRICE BLUE CHIP GROWTH FUND, INC.

T. ROWE PRICE CALIFORNIA TAX-FREE INCOME
 TRUST
 California Tax-Free Bond Fund
 California Tax-Free Money Fund

T. ROWE PRICE CAPITAL APPRECIATION FUND

T. ROWE PRICE DIVIDEND GROWTH FUND, INC.

T. ROWE PRICE EQUITY INCOME FUND

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T. ROWE PRICE EQUITY SERIES, INC.
T. Rowe Price Equity Income Portfolio
T. Rowe Price New America Growth Portfolio

T. ROWE PRICE GNMA FUND

T. ROWE PRICE GROWTH & INCOME FUND, INC.

T. ROWE PRICE GROWTH STOCK FUND, INC.

T. ROWE PRICE HIGH YIELD FUND, INC.

T. ROWE PRICE INDEX TRUST, INC.
T. Rowe Price Equity Index Fund

INSTITUTIONAL INTERNATIONAL FUNDS, INC.
Foreign Equity Fund

T. ROWE PRICE INTERNATIONAL EQUITY FUND, INC.

T. ROWE PRICE INTERNATIONAL FUNDS, INC.
T. Rowe Price International Bond Fund
T. Rowe Price International Discovery Fund
T. Rowe Price International Stock Fund
T. Rowe Price European Stock Fund
T. Rowe Price New Asia Fund
T. Rowe Price Global Government Bond Fund
T. Rowe Price Japan Fund
T. Rowe Price Short-Term Global Fund

T. ROWE PRICE INTERNATIONAL SERIES, INC.
T. Rowe Price International Stock Portfolio

T. ROWE PRICE MID-CAP GROWTH FUND

T. ROWE PRICE NEW AMERICA GROWTH FUND

T. ROWE PRICE NEW ERA FUND, INC.

T. ROWE PRICE NEW HORIZONS FUNDS, INC.

T. ROWE PRICE NEW INCOME FUND, INC.

T. ROWE PRICE OTC FUND, INC.

T. ROWE PRICE PRIME RESERVE FUND, INC.

T. ROWE PRICE SCIENCE & TECHNOLOGY FUND, INC.

T. ROWE PRICE SHORT-TERM BOND FUND, INC.

T. ROWE PRICE SMALL-CAP VALUE FUND, INC.

T. ROWE PRICE SPECTRUM FUND, INC.

Spectrum Growth Fund

Spectrum Income Fund

T. ROWE PRICE STATE TAX-FREE INCOME TRUST

Maryland Tax-Free Bond Fund

Maryland Short-Term Tax-Free Bond Fund

New York Tax-Free Bond Fund

New York Tax-Free Money Fund

New Jersey Tax-Free Bond Fund

Virginia Tax-Free Bond Fund

Florida Insured Intermediate Tax-Free Fund

Georgia Tax-Free Bond Fund

T. ROWE PRICE SUMMIT FUNDS, INC.

T. Rowe Price Summit Cash Reserves Fund

T. Rowe Price Summit Limited-Term Bond Fund

T. Rowe Price Summit GNMA Fund

T. ROWE PRICE SUMMIT MUNICIPAL FUNDS, INC.

T. Rowe Price Summit Municipal Money Market
Fund

T. Rowe Price Summit Municipal Intermediate
Fund

T. Rowe Price Summit Municipal Income Fund

T. ROWE PRICE TAX-FREE INSURED INTERMEDIATE
FUND, INC.

T. ROWE PRICE TAX-EXEMPT MONEY FUND, INC.

T. ROWE PRICE TAX-FREE HIGH YIELD FUND, INC.

T. ROWE PRICE TAX-FREE INCOME FUND, INC.

T. ROWE PRICE TAX-FREE SHORT-INTERMEDIATE
FUND, INC.

T. ROWE PRICE U.S. TREASURY FUNDS, INC.

U.S. Treasury Intermediate Fund

U.S. Treasury Long-Term Fund

U.S. Treasury Money Fund

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Attest:

/s/Lenora V. Hornung

/s/Carmen F. Deyesu

Lenora V. Hornung,
Secretary

By: Carmen F. Deyesu

Attest:

T. ROWE PRICE SERVICES, INC.

/s/Barbara A. VanHorn

/s/Henry H. Hopkins

Barbara A. VanHorn,
Assistant Secretary

By: Henry H. Hopkins, Vice President

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AMENDMENT NO. 2
AGREEMENT
between
T. ROWE PRICE ASSOCIATES, INC.
and
THE T. ROWE PRICE FUNDS
for
FUND ACCOUNTING SERVICES

The Agreement for Fund Accounting Services of January 1, 1994, as amended March 1, 1994, between T. Rowe Price Associates, Inc. and each of the Parties listed on Appendix A thereto is hereby further amended, as of April 21, 1994, by adding thereto the T. Rowe Price Fixed Income Series, Inc.

Notwithstanding anything to the contrary herein, it is understood that the T. Rowe Price Fixed Income Series, Inc. (referred to as the "Fund") shall not be responsible for paying any of the fees or expenses set forth herein but that, in accordance with the Investment Management Agreement, dated April 21, 1994, between the Fund and T. Rowe Price Associates, Inc. (referred to as "T. Rowe Price"), the Fund will require T. Rowe Price to pay all such fees and expenses.

T. ROWE PRICE ADJUSTABLE RATE U.S. GOVERNMENT
FUND, INC.

T. ROWE PRICE BALANCED FUND, INC.

T. ROWE PRICE BLUE CHIP GROWTH FUND, INC.

T. ROWE PRICE CALIFORNIA TAX-FREE INCOME
TRUST

California Tax-Free Bond Fund
California Tax-Free Money Fund

T. ROWE PRICE CAPITAL APPRECIATION FUND

T. ROWE PRICE DIVIDEND GROWTH FUND, INC.

T. ROWE PRICE EQUITY INCOME FUND

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T. ROWE PRICE EQUITY SERIES, INC.

T. Rowe Price Equity Income Portfolio

T. Rowe Price New America Growth Portfolio

T. ROWE PRICE FIXED INCOME SERIES, INC.

T. Rowe Price Limited-Term Bond Portfolio

T. ROWE PRICE GNMA FUND

T. ROWE PRICE GROWTH & INCOME FUND, INC.

T. ROWE PRICE GROWTH STOCK FUND, INC.

T. ROWE PRICE HIGH YIELD FUND, INC.

T. ROWE PRICE INDEX TRUST, INC.

T. Rowe Price Equity Index Fund

INSTITUTIONAL INTERNATIONAL FUNDS, INC.

Foreign Equity Fund

T. ROWE PRICE INTERNATIONAL EQUITY FUND, INC.

T. ROWE PRICE INTERNATIONAL FUNDS, INC.

T. Rowe Price International Bond Fund

T. Rowe Price International Discovery Fund

T. Rowe Price International Stock Fund

T. Rowe Price European Stock Fund

T. Rowe Price New Asia Fund

T. Rowe Price Global Government Bond Fund

T. Rowe Price Japan Fund

T. Rowe Price Short-Term Global Fund

T. ROWE PRICE INTERNATIONAL SERIES, INC.

T. Rowe Price International Stock Portfolio

T. ROWE PRICE MID-CAP GROWTH FUND

T. ROWE PRICE NEW AMERICA GROWTH FUND

T. ROWE PRICE NEW ERA FUND, INC.

T. ROWE PRICE NEW HORIZONS FUNDS, INC.

T. ROWE PRICE NEW INCOME FUND, INC.

T. ROWE PRICE OTC FUND, INC.

T. ROWE PRICE PRIME RESERVE FUND, INC.

T. ROWE PRICE SCIENCE & TECHNOLOGY FUND, INC.

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T. ROWE PRICE SHORT-TERM BOND FUND, INC.

T. ROWE PRICE SMALL-CAP VALUE FUND, INC.

T. ROWE PRICE SPECTRUM FUND, INC.

Spectrum Growth Fund

Spectrum Income Fund

T. ROWE PRICE STATE TAX-FREE INCOME TRUST

Maryland Tax-Free Bond Fund

Maryland Short-Term Tax-Free Bond Fund

New York Tax-Free Bond Fund

New York Tax-Free Money Fund

New Jersey Tax-Free Bond Fund

Virginia Tax-Free Bond Fund

Florida Insured Intermediate Tax-Free Fund

Georgia Tax-Free Bond Fund

T. ROWE PRICE SUMMIT FUNDS, INC.

T. Rowe Price Summit Cash Reserves Fund

T. Rowe Price Summit Limited-Term Bond Fund

T. Rowe Price Summit GNMA Fund

T. ROWE PRICE SUMMIT MUNICIPAL FUNDS, INC.

T. Rowe Price Summit Municipal Money Market
Fund

T. Rowe Price Summit Municipal Intermediate
Fund

T. Rowe Price Summit Municipal Income Fund

T. ROWE PRICE TAX-FREE INSURED INTERMEDIATE
FUND, INC.

T. ROWE PRICE TAX-EXEMPT MONEY FUND, INC.

T. ROWE PRICE TAX-FREE HIGH YIELD FUND, INC.

T. ROWE PRICE TAX-FREE INCOME FUND, INC.

T. ROWE PRICE TAX-FREE SHORT-INTERMEDIATE
FUND, INC.

T. ROWE PRICE U.S. TREASURY FUNDS, INC.

U.S. Treasury Intermediate Fund

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Attest:

/s/Lenora V. Hornung

/s/Carmen F. Deyesu

Lenora V. Hornung,
Secretary

By: Carmen F. Deyesu

Attest:

T. ROWE PRICE SERVICES, INC.

/s/Barbara A. VanHorn

/s/Henry H. Hopkins

Barbara A. VanHorn,
Assistant Secretary

By: Henry H. Hopkins, Vice President

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AMENDMENT NO. 3

AGREEMENT

between

T. ROWE PRICE ASSOCIATES, INC.

and

THE T. ROWE PRICE FUNDS

for

FUND ACCOUNTING SERVICES

The Agreement for Fund Accounting Services of January 1, 1994, as amended March 1, 1994 and April 21, 1994, between T. Rowe Price Associates, Inc. and each of the Parties listed on Appendix A thereto is hereby further amended, as of July 27, 1994, by adding thereto the T. Rowe Price Personal Strategy Funds, Inc.

Notwithstanding anything to the contrary herein, it is understood that the T. Rowe Price Personal Strategy Funds, Inc. (referred to as the "Funds") shall not be responsible for paying any of the fees or expenses set forth herein but that, in accordance with the Investment Management Agreements, dated July 27, 1994, between the Funds and T. Rowe Price Associates, Inc. (referred to as "T. Rowe Price"), the Funds will require T. Rowe Price to pay all such fees and expenses.

T. ROWE PRICE ADJUSTABLE RATE U.S. GOVERNMENT
FUND, INC.

T. ROWE PRICE BALANCED FUND, INC.

T. ROWE PRICE BLUE CHIP GROWTH FUND, INC.

T. ROWE PRICE CALIFORNIA TAX-FREE INCOME
TRUST

California Tax-Free Bond Fund
California Tax-Free Money Fund

T. ROWE PRICE CAPITAL APPRECIATION FUND

T. ROWE PRICE DIVIDEND GROWTH FUND, INC.

T. ROWE PRICE EQUITY INCOME FUND

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T. ROWE PRICE EQUITY SERIES, INC.

T. Rowe Price Equity Income Portfolio

T. Rowe Price New America Growth Portfolio

T. ROWE PRICE FIXED INCOME SERIES, INC.

T. Rowe Price Limited-Term Bond Portfolio

T. ROWE PRICE GNMA FUND

T. ROWE PRICE GROWTH & INCOME FUND, INC.

T. ROWE PRICE GROWTH STOCK FUND, INC.

T. ROWE PRICE HIGH YIELD FUND, INC.

T. ROWE PRICE INDEX TRUST, INC.

T. Rowe Price Equity Index Fund

INSTITUTIONAL INTERNATIONAL FUNDS, INC.

Foreign Equity Fund

T. ROWE PRICE INTERNATIONAL EQUITY FUND, INC.

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T. ROWE PRICE NEW ERA FUND, INC.

T. ROWE PRICE NEW HORIZONS FUNDS, INC.

T. ROWE PRICE NEW INCOME FUND, INC.

T. ROWE PRICE OTC FUND, INC.

T. ROWE PRICE PERSONAL STRATEGY FUNDS, INC.

T. Rowe Price Personal Strategy Balanced Fund

T. Rowe Price Personal Strategy Growth Fund

T. Rowe Price Personal Strategy Income Fund

T. ROWE PRICE PRIME RESERVE FUND, INC.

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T. ROWE PRICE SCIENCE & TECHNOLOGY FUND, INC.

T. ROWE PRICE SHORT-TERM BOND FUND, INC.

T. ROWE PRICE SMALL-CAP VALUE FUND, INC.

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Spectrum Growth Fund

Spectrum Income Fund

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T. Rowe Price Summit Municipal Money Market Fund

T. Rowe Price Summit Municipal Intermediate Fund

T. Rowe Price Summit Municipal Income Fund

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T. ROWE PRICE TAX-EXEMPT MONEY FUND, INC.

T. ROWE PRICE TAX-FREE HIGH YIELD FUND, INC.

T. ROWE PRICE TAX-FREE INCOME FUND, INC.

T. ROWE PRICE TAX-FREE SHORT-INTERMEDIATE
FUND, INC.

T. ROWE PRICE U.S. TREASURY FUNDS, INC.

U.S. Treasury Intermediate Fund

U.S. Treasury Long-Term Fund

U.S. Treasury Money Fund

Attest:

/s/Lenora V. Hornung

/s/Carmen F. Deyesu

Lenora V. Hornung,
Secretary

By: Carmen F. Deyesu

PAGE 36

Attest:

/s/Barbara A. VanHorn

T. ROWE PRICE SERVICES, INC.

/s/Henry H. Hopkins

Barbara A. VanHorn,
Assistant Secretary

By: Henry H. Hopkins, Vice President

Agmts\FundAcct.Amd

The Agreement between T. Rowe Price Retirement Plan Services, Inc. and the Taxable Funds, dated January 1, 1994, as amended, should be inserted here.

AGREEMENT

between

T. ROWE PRICE RETIREMENT PLAN SERVICES, INC.

and

EACH OF THE PARTIES INDICATED ON APPENDIX A

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AGREEMENT, made as of the first day of January, 1994, by and between T. ROWE PRICE RETIREMENT PLAN SERVICES, INC., a Maryland corporation having its principal office and place of business at 100 East Pratt Street, Baltimore, Maryland 21202 ("RPS"), and EACH FUND WHICH IS LISTED ON APPENDIX A (as such Appendix may be amended from time to time) and which evidences its agreement to be bound hereby by executing a copy of this Agreement (each Fund hereinafter referred to as "the Fund") whose definition may be found in Article T;

WHEREAS, the Funds are named investment options under various tax-sheltered plans, including, but not limited to, state deferred compensation plans, 403(b) plans, and profit sharing, thrift, and money purchase pension plans for self-employed individuals, professional partnerships and corporations, (collectively referred to as "Retirement Plans"); and the Fund has determined that such investments of Retirement Plans in the Funds are in the best long-term interest of the Funds;

WHEREAS, RPS has the capability of providing special services, on behalf of the Fund, for the accounts ("Retirement Accounts") of shareholders participating in these Retirement Plans;

WHEREAS, RPS represents that it is registered with the Securities and Exchange Commission as a Transfer Agent under Section 17A of the Securities Exchange Act of 1934 ("the '34 Act").

WHEREAS, RPS may subcontract or jointly contract with other parties on behalf of the Funds to perform certain of the functions described herein, RPS may also enter into, on behalf of the Funds, certain banking relationships to perform various banking services, including, but not limited to, check deposits, disbursements, automatic clearing house transactions ("ACH") and wire transfers. Subject to guidelines mutually agreed upon by the Funds and RPS, excess balances, if any, resulting from these banking relationships will be invested and the income therefrom will be used to offset fees which would otherwise be charged to the Funds under this Agreement.

WHEREAS, the Fund desires to contract with RPS the foregoing functions and services described herein in connection with the Retirement Plans and Retirement Accounts;

NOW THEREFORE, in consideration of the mutual covenants herein contained, the parties hereto agree as follows:

A. Terms of Appointment

Subject to the terms and conditions set forth in this Agreement, the Fund hereby employs and appoints RPS to perform the services and functions described herein in connection with certain Retirement Plan and Retirement Accounts as agreed upon by the parties.

B. Duties of RPS:

RPS agrees that it will perform the following services:

1. Purchases - Retirement Plans and Retirement Accounts

After RPS has received monies from Retirement Plans and has determined the proper allocation of such monies to the Retirement Accounts or Retirement Plan participants ("Participants") based upon instructions received from Participants, Retirement Plans or their designees, or Retirement Plan Administrator(s) ("Administrator(s)"), RPS will, as a responsibility under the Agreement:

a. Transmit by check or wire the aggregate money allocated to each Fund to the Fund's custodian;

b. In the case of a new Participant, establish and maintain a Retirement Account for such Participant; and

c. Compute the number of shares of each Fund to which the Participant is entitled according to the price of such Fund shares as provided by such Fund for purchases made at that time and date, and credit each such Account with the number of shares of the Fund so purchased.

2. Retirement Plans - Redemptions to Cover Distributions.

After RPS has received instructions from the Administrator regarding distributions to be made to Participants or their designated beneficiaries from Funds designated as investment options under the Retirement Plan, RPS will, as a responsibility under the Agreement:

a. Compute the amount due for shares to be redeemed from each Retirement Account or

compute the number of shares to be redeemed from each such Retirement Account for such

distributions and the total number of all shares of each Fund to be redeemed in accordance

with the price per share at that time and date of such Fund as calculated and provided by

the Fund. After such computation, inform the Fund of the amount necessary to be

redeemed. Distribute to Participants or their designated beneficiaries the amount to be disbursed.

b. After RPS has received instructions from the Administrator regarding disbursements to be

made regarding the payment of fees due the Administrator, or other persons including

RPS, RPS will, as a responsibility under this Agreement:

i. Compute the number of shares to be redeemed from each Retirement Account to pay for such disbursements and the total number of all shares to be redeemed in

accordance with the price per share at that time and date, of such Fund as calculated

and provided by the Fund;

ii. Effect the necessary redemption from the Fund's custodian to cover such

disbursements; and

iii. Mail to the Administrator or such other person as designated by the Administrator the

amount to be disbursed.

c. Other Provisions

i. If any instruction tendered by an Administrator to redeem shares in a Retirement

Account is not satisfactory to RPS, RPS shall promptly notify the Administrator of

such fact together with the reason therefor;

ii. The authority of RPS to perform its responsibilities under Paragraph B(2) with respect

to each Fund shall be suspended upon receipt of notification by such Fund of the

suspension of the determination of the Fund's net asset value per share and shall

remain suspended until proper notification; and

iii. The Fund will promptly inform RPS of the declaration of any dividend or distribution

on account of the capital stock of any Fund so that RPS may properly credit income

and capital gain payments to each Retirement Account.

3. Exchanges

Effect exchanges of shares of the Funds upon receipt of appropriate instructions from the

Administrator and/or Participant.

4. Shares held by Retirement Accounts will be Noncertificate Shares

RPS will have neither responsibility nor authority to issue stock certificates evidencing

ownership of Fund shares held by Participants. All shares held in Retirement Accounts maintained

by RPS shall be noncertificated shares.

5. Books and Records

RPS shall maintain records showing for each Retirement Plan or Retirement Account, the

following:

a. Names, addresses and tax identification numbers, when provided;

- b. Number of shares held;
- c. Historical information regarding the account of each Participant and/or Retirement Plan, including dividends and distributions invested in shares;
- d. Pertinent information regarding the establishment and maintenance of Retirement Plans and Retirement Accounts necessary to properly administer each account.
- e. Any instructions from a Participant or Administrator including, all forms furnished by the Fund and executed by a Participant with respect to (i) elections with respect to payment options in connection with the redemption of shares; or distribution elections, if applicable; and
- f. Any information required in order for RPS to perform the calculations contemplated under this Agreement.

Any such records maintained pursuant to Rule 31a-1 under the Investment Company Act of 1940 ("the Act") will be preserved for the periods prescribed in Rule 31a-2 thereunder. Disposition of such records after such prescribed periods shall be as mutually agreed upon from time to time by RPS and the Funds. The retention of such records, which may be inspected by the Fund at reasonable times, shall be at the expense of the Funds. All records maintained by RPS in connection with the performance of its duties under this Agreement will remain the property of the Funds and, in the event of termination of this Agreement, will be delivered to the Fund as of the date of termination or at such other time as may be mutually agreed upon.

6. Tax Information

RPS shall also prepare and file with appropriate federal and state agencies, such information returns and reports as required by applicable Federal and State statutes relating to redemptions effected in Retirement Accounts which constitute reportable distributions. RPS will also prepare and submit to Participants, such reports containing information as is required by applicable Federal and State law.

7. Other Information to be furnished to the Funds

RPS will furnish to the Fund, such information, including shareholder lists and statistical information as may be agreed upon from time to time between RPS and the Fund.

8. Correspondence

RPS will promptly and fully answer correspondence from Administrators and in some cases, Participants, relating to Retirement Accounts, transfer agent procedures, and such other correspondence as may from time to time be mutually agreed upon with the Funds. Unless otherwise instructed, copies of all correspondence will be retained by RPS in accordance with applicable law.

9. Mailings/Confirmation Statements

RPS will be responsible for mailing all confirmations and other enclosures and mailings, as requested by the Administrators and as may be required of the Funds by applicable Federal or state law.

10. Proxies

RPS shall monitor the mailing of proxy cards and other material supplied to it by the Fund in connection with shareholder meetings of the Fund and shall coordinate the receipt, examination and tabulation of returned proxies and the certification of the vote to the Fund.

11. Form N-SAR

RPS shall maintain such records, if any, as shall enable the Fund to fulfill the requirements of Form N-SAR.

12. Withholding

The Fund and RPS shall agree to procedures to be followed with respect to RPS's responsibilities in connection with compliance for federal withholding for Participants.

C. Fees and Out-of-Pocket Expenses

Each Fund shall pay to RPS for its services hereunder fees computed as set forth in the Schedule attached hereto. Except as provided below, RPS will be responsible for all expenses relating to the providing of services. Each Fund, however, will reimburse RPS for the following out-of-pocket expenses and charges incurred in providing services:

1. Postage. The cost of postage and freight for mailing materials to Participants, or their agents, including overnight delivery, UPS and other express mail services and special courier services required to transport mail between RPS locations and mail processing vendors.

2. Proxies. The cost to mail proxy cards and other material supplied to it by the Fund and costs related to the receipt, examination and tabulation of returned

proxies and the certification of the vote to the Fund.

3.Communications

a. Print. The printed forms used internally and externally for documentation and processing

Participant, or their agent's, inquiries and requests; paper and envelope supplies for letters, notices, and other written communications sent to Administrators and Participants, or their agents.

b. Print & Mail House. The cost of internal and third party printing and mail house services, including printing of statements and reports.

c. Voice and Data. The cost of equipment (including associated maintenance), supplies and services used for communicating to and from the Participants, or their agents, the Fund's transfer agent, other Fund offices, and other agents of either the Fund or RPS. These charges shall include:

telephone toll charges (both incoming and outgoing, local, long distance and mailgrams); and data and telephone lines and associated equipment such as modems, multiplexers, and facsimile equipment.

4.Record Retention. The cost of maintenance and supplies used to maintain, microfilm, copy, record, index, display, retrieve, and store, in microfiche or microfilm form, documents and records.

5.Disaster Recovery. The cost of services, equipment, facilities and other charges necessary to provide disaster recovery for any and all services listed in this Agreement.

D.Representations and Warranties of RPS

RPS represents and warrants to the Fund that:

1.It is a corporation duly organized and existing and in good standing under the laws of Maryland.

2.It is duly qualified to carry on its business in Maryland.

3.It is empowered under applicable laws and by its charter and by-laws to enter into and perform this Agreement.

4.All requisite corporate proceedings have been taken to authorize it to enter into and perform this Agreement.

5.It has and will continue to have access to the necessary facilities, equipment and personnel to perform its duties and obligations under this Agreement.

6.It is registered with the Securities and Exchange Commission as

a Transfer Agent pursuant to Section 17A of the '34 Act.

E. Representations and Warranties of the Fund

The Fund represents and warrants to RPS that:

1. It is a corporation or business trust duly organized and existing and in good standing under the laws of Maryland, or Massachusetts, as the case may be.
2. It is empowered under applicable laws and by its Articles of Incorporation or Declaration of Trust, as the case may be, and By-Laws to enter into and perform this Agreement.
3. All proceedings required by said Articles of Incorporation or Declaration of Trust, as the case may be, and By-Laws have been taken to authorize it to enter into and perform this Agreement.
4. It is an investment company registered under the Act.
5. A registration statement under the Securities Act of 1933 ("the '33 Act") is currently effective and will remain effective, and appropriate state securities law filing have been made and will continue to be made, with respect to all shares of the Fund being offered for sale.

F. Standard of Care/Indemnification

Notwithstanding anything to the contrary in this Agreement:

1. RPS shall not be liable to the Fund for any act or failure to act by it or its agents or subcontractors on behalf of the Fund in carrying or attempting to carry out the terms and provisions of this Agreement provided RPS has acted in good faith and without negligence or willful misconduct and selected and monitored the performance of its agents and subcontractors with reasonable care.
2. The Fund shall indemnify and hold RPS harmless from and against all losses, costs, damages, claims, actions and expenses, including reasonable expenses for legal counsel, incurred by RPS resulting from: (i) any action or omission by RPS or its agents or subcontractors in the performance of their duties hereunder; (ii) RPS acting upon instructions believed by it to have been executed by a duly authorized officer of the Fund; or (iii) RPS acting upon information provided by the Fund in form and under policies agreed to by RPS and the Fund. RPS shall not be entitled to such indemnification in respect of actions or omissions constituting negligence or willful misconduct of RPS or where RPS has not exercised reasonable care in selecting or monitoring the performance of its agents or subcontractors.
3. Except as provided in Article K of this Agreement, RPS shall

indemnify and hold harmless the Fund from all losses, costs, damages, claims, actions and expenses, including reasonable expenses for legal counsel, incurred by the Fund resulting from negligence or willful misconduct of RPS or which result from RPS' failure to exercise reasonable care in selecting or monitoring the performance of its agents or subcontractors. The Fund shall not be entitled to such indemnification in respect of actions or omissions constituting negligence or willful misconduct of such Fund or its agents or subcontractors; unless such negligence or misconduct is attributable to RPS.

4. In the event either party is unable to perform its obligations under the terms of this Agreement because of acts of God, strikes or other causes reasonably beyond its control, such party shall not be liable to the other party for any loss, cost, damage, claims, actions or expense resulting from such failure to perform or otherwise from such causes.

5. In order that the indemnification provisions contained in this Article F shall apply, upon the assertion of a claim for which either party may be required to indemnify the other, the party seeking indemnification shall promptly notify the other party of such assertion, and shall keep the other party advised with respect to all developments concerning such claim. The party who may be required to indemnify shall have the option to participate with the party seeking indemnification in the defense of such claim, or to defend against said claim in its own name or in the name of the other party. The party seeking indemnification shall in no case confess any claim or make any compromise in any case in which the other party may be required to indemnify it except with the other party's prior written consent.

6. Neither party to this Agreement shall be liable to the other party for consequential damages under any provision of this Agreement.

G. Dual Interests

It is understood that some person or persons may be directors, officers, or shareholders of both RPS and the Fund and that the existence of any such dual interest shall not affect the validity of this Agreement or of any transactions hereunder except as otherwise provided by a specific provision of applicable law.

H. Documentation

1.As requested by RPS, the Fund shall promptly furnish to RPS the following:

a. A certified copy of the resolution of the Directors/Trustees of the Fund authorizing the

appointment of RPS and the execution and delivery of this Agreement;

b. A copy of the Articles of Incorporation or Declaration of Trust, as the case may be, and

By-Laws of the Fund and all amendments thereto;

c. Specimens of all forms of outstanding and new stock/share certificates in the forms

approved by the Board of Directors/Trustees of the Fund with a certificate of the Secretary

of the Fund as to such approval;

d. All account application forms and other documents relating to shareholders' accounts;

e. An opinion of counsel for the Fund with respect to the validity of the stock, the number

of Shares authorized, the status of redeemed Shares, and the number of Shares with respect

to which a Registration Statement has been filed and is in effect; and

f. A copy of the Fund's current prospectus.

The delivery of any such document for the purpose of any other agreement to which the Fund and

RPS are or were parties shall be deemed to be delivery for the purposes of this Agreement.

2.As requested by RPS, the Fund will also furnish from time to time the following documents:

a. Each resolution of the Board of Directors/Trustees of the Fund authorizing the original

issue of its shares;

b. Each Registration Statement filed with the Securities and Exchange Commission and

amendments and orders thereto in effect with respect to the sale of shares with respect to

the Fund;

c. A certified copy of each amendment to the Articles of Incorporation or Declaration of

Trust, and the By-Laws of the Fund;

d. Certified copies of each vote of the Board of Directors/Trustees authorizing officers to give

instructions to the Fund;

e. Specimens of all new certificates accompanied by the Board of Directors/Trustees'

resolutions approving such forms;

f. Such other documents or opinions which RPS, in its discretion, may reasonably deem

necessary or appropriate in the proper performance of its duties; and

g. Copies of new prospectuses issued.

3.RPS hereby agrees to establish and maintain facilities and procedures reasonably acceptable to the Fund for safekeeping of check forms and facsimile signature imprinting devices, if any, and for the preparation or use, and for keeping account of, such forms and devices.

I.Recordkeeping/Confidentiality

1.RPS shall keep records relating to the services to be performed hereunder, in the form and manner as it may deem advisable, provided that RPS shall keep all records in such form and in such manner as required by applicable law, including the Act and the '34 Act.

2.RPS and the Fund agree that all books, records, information and data pertaining to the business of the other party which are exchanged or received pursuant to the negotiation or the carrying out of this Agreement shall remain confidential, and shall not be voluntarily disclosed to any other person, except: (a) after prior notification to and approval in writing by the other party hereto, which approval shall not be unreasonably withheld and may not be withheld where RPS or the Fund may be exposed to civil or criminal contempt proceedings for failure to comply; (b) when requested to divulge such information by duly constituted governmental authorities; or (c) after so requested by the other party hereto.

J.Ownership of Software and Related Material

All computer programs, magnetic tapes, written procedures and similar items purchased and/or developed and used by RPS in performance of the Agreement shall be the property of RPS and will not become the property of the Fund.

K.As Of Transactions

For purposes of this Article K, the term "Transaction" shall mean any single or "related transaction" (as defined below) involving the purchase or redemption of shares (including exchanges) that are processed at a time other than the time of the computation of the Fund's net asset value per share next computed after receipt of any such transaction order by RPS. If more than one Transaction ("Related Transaction") in the Fund is caused by or occurs as a result of the same act or omission, such transactions shall be aggregated with other transactions in the Fund and be considered as one Transaction.

1.Reporting

RPS shall:

a. Utilize a system to identify all Transactions, and shall compute the net effect of such

Transactions upon the Fund on a daily, monthly and rolling 365 day basis. The Monthly and rolling 365 day periods are hereinafter referred to as ("Cumulative").

b. Supply to the Fund, from time to time as mutually agreed upon, a report summarizing the Transactions and the daily and Cumulative net effects of such Transactions both in terms of aggregate dilution and loss ("Dilution") or gain and negative dilution ("Gain") experienced by the Fund, and the impact such Gain or Dilution has had upon the Fund's net asset value per share.

c. With respect to any Transaction which causes Dilution to the Fund of \$25,000 or more, immediately provide the Fund: (i) a report identifying the Transaction and the Dilution resulting therefrom, (ii) the reason such Transaction was processed as described above, and (iii) the action that RPS has or intends to take to prevent the reoccurrence of such as of processing ("Report").

2.Liability

a. It will be the normal practice of the Fund not to hold RPS liable with respect to any Transaction which causes Dilution to any single Fund of less than \$25,000. RPS will, however, closely monitor for each Fund the daily and Cumulative Gain/Dilution which is caused by Transactions of less than \$25,000. When the Cumulative Dilution to any Fund exceeds 3/10 of 1% per share, RPS, in consultation with counsel to the Fund, will make appropriate inquiry to determine whether it should take any remedial action. RPS will report to the Board of Directors/Trustees of the Fund ("Board"), as appropriate, any action it has taken.

b. Where a Transaction causes Dilution to a Fund of \$25,000 or more ("Significant Transaction"), RPS will review with counsel to the Fund, the Report and the circumstances surrounding the underlying Transaction to determine whether the Transaction was caused by or occurred as a result of a negligent act or omission by RPS. If it is determined that the Dilution is the result of a negligent action or omission by RPS, RPS and outside counsel for the Fund, as appropriate, will negotiate settlement. All such Significant Transactions will be reported to the Board at its

next meeting (unless the settlement fully compensates the Fund for any Dilution). Any Significant Transaction, however, causing Dilution in excess of the lesser of \$100,000 or a penny per share will be promptly reported to the Board. Settlement will not be entered into with RPS until approved by the Board. The factors the Board or the Funds would be expected to consider in making any determination regarding the settlement of a Significant Transaction would include but not be limited to:

- i. Procedures and controls adopted by RPS to prevent As Of processing;
- ii. Whether such procedures and controls were being followed at the time of the Significant Transaction;
- iii. The absolute and relative volume of all transactions processed by RPS on the day of the Significant Transaction;
- iv. The number of Transactions processed by RPS during prior relevant periods, and the net Dilution/Gain as a result of all such transactions to the Fund and to all other Price Funds; and
- v. The prior response of RPS to recommendations made by the Funds regarding improvement to the Transfer Agent's As Of Processing Procedures.

L. Term and Termination of Agreement

1. This Agreement shall run for a period of one (1) year from the date first written above and will be renewed from year to year thereafter unless terminated by either party as provided hereunder.
2. This Agreement may be terminated by the Funds upon one hundred twenty (120) days' written notice to RPS; and by RPS, upon three hundred sixty-five (365) days' writing notice to the Fund.
3. Upon termination hereof, the Fund shall pay to RPS such compensation as may be due as of the date of such termination, and shall likewise reimburse for out-of-pocket expenses related to its services hereunder.

M. Notice

Any notice as required by this Agreement shall be sufficiently given (i) when sent to an authorized person of the other party at the address of such party set forth above or at such other address as such party may from time to time specify in writing to the other party; or (ii) as otherwise agreed upon by

appropriate officers of the parties hereto.

N. Assignment

Neither this Agreement nor any rights or obligations hereunder may be assigned either voluntarily or involuntarily, by operation of law or otherwise, by either party without the prior written consent of the other party

O. Amendment/Interpretive Provisions

The parties by mutual written agreement may amend this Agreement at any time. In addition, in connection with the operation of this Agreement, RPS and the Fund may agree from time to time on such provisions interpretive of or in addition to the provisions of this Agreement as may in their joint opinion be consistent with the general tenor of this Agreement. Any such interpretive or additional provisions are to be signed by all parties and annexed hereto, but no such provision shall contravene any applicable federal or state law or regulation and no such interpretive or additional provision shall be deemed to be an amendment of this Agreement.

P. Further Assurances

Each party agrees to perform such further acts and execute such further documents as are necessary to effectuate the purposes hereof.

Q. Maryland Law to Apply

This Agreement shall be construed and the provisions thereof interpreted under and in accordance with the laws of Maryland.

R. Merger of Agreement

This Agreement, including the attached Schedule supersede any prior agreement with respect to the subject hereof, whether oral or written.

S. Counterparts

This Agreement may be executed by the parties hereto on any number of counterparts, and all of said counterparts taken together shall be deemed to constitute one and the same instruments.

T. The Parties

All references herein to "the Fund" are to each of the Funds listed on Appendix A individually, as if this Agreement were between such individual Fund and RPS. In the case of a series Fund or trust, all references to "the Fund" are to the individual series or portfolio of such fund or trust, or to such Fund or trust on behalf of the individual series or portfolio, as appropriate. Any reference in this Agreement to "the parties" shall mean RPS and such other individual Fund as to which the matter pertains. The "Fund" also includes any T. Rowe Price Fund which may be established after the date of this Agreement.

Any reference in this Agreement to "the parties" shall mean the Funds and RPS.

U.Directors, Trustees and Shareholders and Massachusetts Business Trust

It is understood and is expressly stipulated that neither the holders of shares in the Fund nor any

Directors or Trustees of the Fund shall be personally liable hereunder. With respect to any Fund which

is a party to this Agreement and which is organized as a Massachusetts business trust, the term "Fund"

means and refers to the trustees from time to time serving under the applicable trust agreement

(Declaration of Trust) of such Trust as the same may be amended from time to time. It is expressly

agreed that the obligations of any such Trust hereunder shall not be binding upon any of the trustees,

shareholders, nominees, officers, agents or employees of the Trust, personally, but bind only the trust

property of the Trust, as provided in the Declaration of Trust of the Trust. The execution and delivery

of this Agreement has been authorized by the trustees and signed by an authorized officer of the Trust,

acting as such, and neither such authorization by such Trustees nor such execution and delivery by such

officer shall be deemed to have been made by any of them, but shall bind only the trust property of the

Trust as provided in its Declaration of Trust.

V.Captions

The captions in the Agreement are included for convenience of reference only and in no way define

or limit any of the provisions hereof or otherwise affect their construction or effect.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed in their

names and on their behalf under their seals by and through their duly authorized officers.

T. ROWE PRICE RETIREMENT PLAN DATED: _____
SERVICES, INC.

ATTEST:

BY:

T. ROWE PRICE ADJUSTABLE RATE U.S
GOVERNMENT FUND, INC.

T. ROWE PRICE BALANCED FUND, INC.

T. ROWE PRICE BLUE CHIP GROWTH FUND,

INC.

T. ROWE PRICE CAPITAL APPRECIATION

FUND

T. ROWE PRICE DIVIDEND GROWTH FUND,

INC.

T. ROWE PRICE EQUITY INCOME FUND

T. ROWE PRICE GNMA FUND

T. ROWE PRICE GROWTH & INCOME FUND,

INC.

T. ROWE PRICE GROWTH STOCK FUND, INC.

T. ROWE PRICE HIGH YIELD FUND, INC.

T. ROWE PRICE INDEX TRUST, INC.

T. Rowe Price Equity Index Fund

INSTITUTIONAL INTERNATIONAL FUNDS,

INC.

Foreign Equity Fund

T. ROWE PRICE INTERNATIONAL EQUITY

FUND,

INC.

T. ROWE PRICE INTERNATIONAL FUNDS,

INC.

T. Rowe Price International Bond Fund

T. Rowe Price International Discovery

Fund

T. Rowe Price International Stock Fund

T. Rowe Price European Stock Fund

T. Rowe Price New Asia Fund

T. Rowe Price Global Government Bond

Fund

T. Rowe Price Japan Fund
T. Rowe Price Short-Term Global Fund
T. Rowe Price Latin America Fund

INC.

T. ROWE PRICE MID-CAP GROWTH FUND,

T. ROWE PRICE OTC FUND, INC.

T. ROWE PRICE NEW AMERICA GROWTH FUND

T. ROWE PRICE NEW ERA FUND, INC.

T. ROWE PRICE NEW HORIZONS FUNDS, INC.

T. ROWE PRICE NEW INCOME FUND, INC.

T. ROWE PRICE PRIME RESERVE FUND, INC.

T. ROWE PRICE SCIENCE & TECHNOLOGY

FUND,
INC.

T. ROWE PRICE SHORT-TERM BOND FUND,

INC.

T. ROWE PRICE SMALL-CAP VALUE FUND,

INC.

T. ROWE PRICE SPECTRUM FUND, INC.

Spectrum Growth Fund

Spectrum Income Fund

T. ROWE PRICE U.S. TREASURY FUNDS,

INC.

U.S. Treasury Intermediate Fund

U.S. Treasury Long-Term Fund

U.S. Treasury Money Fund

T. ROWE PRICE SUMMIT FUNDS, INC.

Summit Cash Reserves Fund

Summit Limited-Term Bond Fund

Summit GNMA Fund

DATED: _____

ATTEST:

BY:

APPENDIX A

The following Funds are parties to this Agreement, and have so indicated their intention to be bound by such Agreement by executing the Agreement on the dates indicated thereon.

| | |
|--|------------------------|
| Adjustable Rate U.S. Government Fund, Inc. | T. Rowe Price |
| Fund, Inc. | T. Rowe Price Balanced |
| Chip Growth Fund, Inc. | T. Rowe Price Blue |
| Appreciation Fund | T. Rowe Price Capital |
| Growth Fund, Inc. | T. Rowe Price Dividend |
| Income Fund | T. Rowe Price Equity |
| GNMA Fund | T. Rowe Price |
| Growth & Income Fund, Inc. | T. Rowe Price |
| Growth Stock Fund, Inc. | T. Rowe Price |
| High Yield Fund, Inc. | T. Rowe Price |
| Index Trust, Inc. on behalf of the T. | T. Rowe Price |
| Equity Index Fund | Rowe Price |

| | |
|--|--|
| Institutional International Funds, Inc. on Fund | T. Rowe Price behalf of the Foreign Equity |
| International Equity Fund, Inc. | T. Rowe Price |
| International Funds, Inc. on behalf of the | T. Rowe Price |
| International Bond Fund and | T. Rowe Price |
| International Stock Fund | T. Rowe Price |
| International Discovery Fund | T. Rowe Price |
| European Stock Fund | T. Rowe Price |
| New Asia Fund | T. Rowe Price |
| Global Government Bond Fund | T. Rowe Price |
| Japan Fund | T. Rowe Price |
| Short-Term Global Fund | T. Rowe Price |
| Latin America Fund | T. Rowe Price |
| New America Growth Fund | T. Rowe Price |
| New Era Fund, Inc. | T. Rowe Price |
| New Horizons Fund, Inc. | T. Rowe Price |
| New Income Fund, Inc. | T. Rowe Price |
| OTC Fund, Inc. | T. Rowe Price |
| Prime Reserve Fund, Inc. | T. Rowe Price |
| Science & Technology Fund, Inc. | T. Rowe Price |
| Short-Term Bond Fund, Inc. | T. Rowe Price |
| Small-Cap Value Fund, Inc. | T. Rowe Price |
| Spectrum Fund, Inc. on behalf of the | T. Rowe Price Spectrum Growth |

| | | |
|------------------------------|-----------|-------------------------------|
| Fund | | Spectrum Income |
| Fund | | |
| U.S. Treasury Funds, Inc. on | behalf of | T. Rowe Price |
| Intermediate Fund | | the |
| Long-Term Fund | | U.S. Treasury |
| Money Fund | | U.S. Treasury |
| Summit Funds, Inc. | | T. Rowe Price |
| Reserves Fund | | Summit Cash |
| Limited-Term Bond Fund | | Summit |
| Fund | | Summit GNMA |
| | | AMENDMENT NO. 1 |
| | | AGREEMENT |
| | | between |
| | | T. ROWE PRICE RETIREMENT PLAN |
| SERVICES, INC. | | |
| | | and |
| | | EACH OF THE PARTIES |

INDICATED

The Retirement Plan Services Contract of January 1, 1994, between T. Rowe Price Retirement Plan Services, Inc. and each of the Parties listed on Appendix A thereto is hereby amended, as of July 27, 1994, by adding thereto the T. Rowe Price Personal Strategy Funds, Inc.

Notwithstanding anything to the contrary herein, it is understood that the T. Rowe Price Personal Strategy Funds, Inc. (referred to as the "Funds") shall not be responsible for paying any of the fees or expenses set forth herein but that, in accordance with the Investment Management Agreements, dated July 27, 1994, between the Funds and T. Rowe Price Associates, Inc. (referred to as "T. Rowe Price"), the Funds will require T. Rowe Price to pay all such fees and expenses.

| | |
|---------------------|--------------------------|
| RATE U.S GOVERNMENT | T. ROWE PRICE ADJUSTABLE |
| | FUND, INC. |

| | |
|---------------------------------|--------------------------|
| FUND, INC. | T. ROWE PRICE BALANCED |
| GROWTH FUND, INC. | T. ROWE PRICE BLUE CHIP |
| APPRECIATION FUND | T. ROWE PRICE CAPITAL |
| GROWTH FUND, INC. | T. ROWE PRICE DIVIDEND |
| INCOME FUND | T. ROWE PRICE EQUITY |
| INCOME FUND, INC. | T. ROWE PRICE GNMA FUND |
| STOCK FUND, INC. | T. ROWE PRICE GROWTH & |
| FUND, INC. | T. ROWE PRICE GROWTH |
| TRUST, INC. | T. ROWE PRICE HIGH YIELD |
| Index Fund | T. ROWE PRICE INDEX |
| INTERNATIONAL FUNDS, INC. | T. Rowe Price Equity |
| INTERNATIONAL EQUITY FUND, INC. | INSTITUTIONAL |
| INTERNATIONAL FUNDS, INC. | Foreign Equity Fund |
| International Bond Fund | T. ROWE PRICE |
| International Discovery Fund | T. ROWE PRICE |
| International Stock Fund | T. Rowe Price |
| Stock Fund | T. Rowe Price |
| Fund | T. Rowe Price European |
| | T. Rowe Price New Asia |
| | T. Rowe Price Global |

Government Bond Fund

T. Rowe Price Japan Fund

T. Rowe Price Short-Term

Global Fund

T. Rowe Price Latin

America Fund

T. ROWE PRICE MID-CAP

GROWTH FUND, INC.

T. ROWE PRICE OTC FUND,

INC.

T. ROWE PRICE NEW

AMERICA GROWTH FUND

T. ROWE PRICE NEW ERA

FUND, INC.

T. ROWE PRICE NEW

HORIZONS FUNDS, INC.

T. ROWE PRICE NEW INCOME

FUND, INC.

T. ROWE PRICE PERSONAL

STRATEGY FUNDS, INC.

T. Rowe Price Personal

Strategy Balanced Fund

T. Rowe Price Personal

Strategy Growth Fund

T. Rowe Price Personal

Strategy Income Fund

T. ROWE PRICE PRIME

RESERVE FUND, INC.

T. ROWE PRICE SCIENCE &

TECHNOLOGY FUND, INC.

T. ROWE PRICE SHORT-TERM

BOND FUND, INC.

T. ROWE PRICE SMALL-CAP

VALUE FUND, INC.

T. ROWE PRICE SPECTRUM

FUND, INC.

Spectrum Growth Fund

Spectrum Income Fund

TREASURY FUNDS, INC.

Intermediate Fund

Fund

T. ROWE PRICE SUMMIT
FUNDS, INC.

Fund

Fund

Attest:

Lenora V. Hornung,
Secretary

Attest:
PLAN

Barbara A. VanHorn,
Vice President
Assistant Secretary

T. ROWE PRICE U.S.

U.S. Treasury

U.S. Treasury Long-Term

U.S. Treasury Money Fund

Summit Cash Reserves

Summit Limited-Term Bond

Summit GNMA Fund

By: Carmen F. Deyesu

T. ROWE PRICE RETIREMENT
SERVICES, INC.

By: Henry H. Hopkins,

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LHC\RPS94

CONSENT OF INDEPENDENT ACCOUNTANTS

To the shareholders and Board of Directors of T. Rowe
Price Adjustable Rate U.S. Government Fund, Inc.:

We consent to the incorporation by reference in this Post-Effective Amendment No. 8 to the Registration Statement of the T. Rowe Price Adjustable Rate U.S. Government Fund, Inc. on Form N-1A (File Number 33-42206) of our report dated June 17, 1994, relating to the financial statements and financial highlights appearing in the May 31, 1994 Annual Report to Shareholders, which is incorporated by reference in the Registration Statement. We also consent to the reference to our Firm under the captions "Financial Highlights" in the Prospectus and "Independent Accountants" in the Statement of Additional Information.

/s/Coopers & Lybrand
COOPERS & LYBRAND
Baltimore, Maryland
August 1, 1994