STOCK EXCHANGE PRACTICES

THURSDAY, JANUARY 4, 1934

UNITED STATES SENATE,
SUBCOMMITTEE OF THE COMMITTEE ON
BANKING AND CURRENCY,
Washington, D.C.

The subcommittee met at 10 a.m., pursuant to adjournment on yesterday, in Room No. 301 of the Senate Office Building, Senator Duncan U. Fletcher, presiding.

Present: Senators Fletcher (chairman), Adams (proxy for Costigan), Townsend, Couzens, and Goldsborough (substitute for Norbeck).

Present also: Ferdinand Pecora, counsel to the committee, Julius Silver and David Saperstein, associate counsel to the committee, and Frank J. Meehan, chief statistician to the committee.

The CHAIRMAN. The subcommittee will come to order. You may proceed, Mr. Pecora.

Senator COUZENS. Who will you have first this morning, Mr. Pecora?

Mr. PECORA. Colonel Walsh.

Mr. LORD. Mr. Pecora, Colonel Walsh is confined to his bed at the hotel, under the care of a physician and a nurse.

Mr. PECORA. Is he quite sick?

Mr. LORD. Yes, he is quite sick.

The CHAIRMAN. Then who will you have first, Mr. Pecora?

Mr. PECORA. I will recall Mr. Lord.

TESTIMONY OF ROBERT O. LORD—Resumed

Mr. PECORA. Mr. Lord——

Mr. LORD (interposing). Mr. Pecora, before you begin your examination of me may I make a statement?

Mr. PECORA. Yes.

Mr. LORD. During the session of this committee held on Friday, reference was made to certain annual statements for the years 1929, 1930, 1931, and 1932.

Mr. PECORA. What Friday do you refer to?

Mr. LORD. Friday, December 22.

Mr. PECORA. All right.

Mr. LORD. In regard to the Guardian Detroit Union Group, Inc., statements submitted to the Securities Commission of the State of Michigan, photostatic copies of which statements submitted here, were apparently made from office copies taken from the office of the Group, which office copies made it appear that they were not properly acknowledged before a notary public as required by law. In addition, the photostatic copy from the office copy of a report of

one of the years made it appear that the record had been actually signed by others than myself and Mr. Haberkorn, respectively, president and secretary of the corporation. I have secured and am handing to this committee photostatic copies of the originals of those four reports filed with the Michigan Securities Commission, which show clearly that the originals, as required by law to be filed with the Michigan Securities Commission, at Lansing, were complete as to signatures, acknowledgment, and were in proper form. Furthermore, those reports were at all times open to public inspection.

Now, the two reports which were referred to—and I should like, first, to turn these photostatic copies of the reports over to you, Mr. Pecora, so that you may have correct copies of them here, for the 4 years 1929, 1930, 1931, and 1932.

The two reports which were compared—that is, the Annual Report to stockholders and the report of the Group Corporation individually—are not comparable at all. The annual report to the stockholders is a consolidated report for the year's business of all the units that make up the group, including the Group Co. itself. While the report to the Michigan Securities Commission is the report of the holding company alone, which, under the requirements of the Michigan Securities Commission, does not and cannot reflect the earnings or losses of the units of the Group or of their condition.

The earnings of the holding company come chiefly from dividends from the units. If the holding company alone paid out more than it received in dividends or other income, it would naturally show a deficit. That, however, would not mean a loss on the year's business of the units making up the Group. It would merely mean a deficit for the holding company alone and not of the Group as a whole.

Now, as perhaps further clarifying these Michigan Securities Commission reports, I should like to read the statement of Fred Guider, the examiner of the Michigan Securities Commission, which statement appeared in a Detroit newspaper of Sunday, December 31, 1933, and which I think is quite clear. This article reads as follows:

Mr. PECORA (interposing). What article are you now referring to and proposing to read?

Mr. LORD. An article from the Detroit News of December 31, 1933, and which contains a statement made by Mr. Guider, which statement I think will probably clarify better than I can just what these commission reports mean.

Mr. PECORA. Well, we do not have to take our evidence from a newspaper story. That is not legal evidence.

Mr. LORD. This is a statement made by Mr. Guider as examiner for the Michigan Securities Commission, and seems to me has a bearing on these reports.

Mr. PECORA. If you want any views of Mr. Guider submitted to this committee let Mr. Guider come here and submit to an examination about such views.

The CHAIRMAN. I scarcely think any newspaper account of what Mr. Guider may have said would be proper testimony. We may disagree entirely with that statement and are entitled to examine him and have the matter clarified.

Mr. LORD. It is not merely a question of commenting on the reports. He is simply commenting on what the reports to the Securities Commission are.

The CHAIRMAN. But you do not know whether he reported right or not.

Mr. LORD. Whether he reported right?

The CHAIRMAN. Yes.

Mr. LORD. He is employed by the Michigan Securities Commission.

Mr. PECORA. The reports to the Securities Commission speak for themselves, and they are in evidence here. They will tell what they are better than anybody else can. Here they are, and have been made a part of the record of this committee.

Mr. LORD. It seems to me, however, that Mr. Guider's comments on those reports are quite pertinent to this inquiry.

Senator COUZENS. I think the committee would have no objection to Mr. Guider coming down here and testifying if he wishes to do so. But we can hardly take a newspaper account of his comments.

Mr. LORD. I have no doubt that Mr. Guider would testify to the same effect that he has written in regard to these commission reports.

Senator COUZENS. I think it is the committee's rule not to take any evidence unless the person himself comes and gives it. That is the rule we have followed right along, not to take any newspaper items as evidence.

The CHAIRMAN. I scarcely think a newspaper account of what was said would be proper evidence here. However, probably that is not very material anyhow. We know what the reports are, and we know what the law required. Is there anything else you wish to say along that line, Mr. Lord?

Mr. LORD. No, I thank you.

The CHAIRMAN. Do you offer these photostatic copies of the originals?

Mr. LORD. Yes, sir; I do.

Mr. PECORA. The annual reports made by the Guardian Detroit Union Group, Inc., to the Michigan Securities Commission for the calendar years 1929, 1930, 1931, and 1932, respectively, have been been presented by the witness. I ask that they may be marked in evidence in the order in which I have designated them.

The CHAIRMAN. Let them be received.

Senator COUZENS. We are not making them a part of the record, but are simply marking them in evidence.

Mr. PECORA. Yes; I just ask that they may be marked in evidence. As I understand it, the only purpose Mr. Lord has in presenting these photostatic copies is to show that the originals were duly signed and acknowledged.

Senator COUZENS. Then these photostatic copies will be marked as exhibits and held for the purposes of the committee.

Mr. PECORA. Yes.

The CHAIRMAN. Let them be admitted as exhibits and filed.

(A photostatic copy of a report made for the year 1929 by the Guardian Detroit Union Group, Inc., to the Michigan Securities Commission, was marked "Committee Exhibit No. 59, Jan. 4, 1934", and will be retained in the committee's files.)

(A photostatic copy of a report made for the year 1930 by the Guardian Detroit Union Group, Inc., to the Michigan Securities Commission, was marked "Committee Exhibit No. 60, Jan. 4, 1934", and will be retained in the committee's files.)

(A photostatic copy of a report made for the year 1931 by the Guardian Detroit Union Group, Inc., to the Michigan Securities Commission, was marked "Committee Exhibit No. 61, Jan. 4, 1934", and will be retained in the committee's files.)

(A photostatic copy of a report made for the year 1932 by the Guardian Detroit Union Group, Inc., to the Michigan Securities Commission, was marked "Committee Exhibit No. 62, Jan. 4, 1934", and will be retained in the committee's files.)

Mr. PECORA. Mr. Lord, have you a copy of the statement that you read into the record a few minutes ago?

Mr. LORD. No. I have only my own notes that I used.

Mr. Pecora. You read from some manuscript, did you not?

Mr. LORD. I have some piecemeal notes of my own.

Mr. PECORA. Well, may I just have them for my guidance in examining you about them? I want to have the exact text of your statement before me.

Mr. LORD. All right [handing to Mr. Pecora a paper].

Mr. PECORA. Now, I am interested particularly in this portion of the statement which you read into the record and which I will repeat to you:

> The two reports are not comparable at all. The annual report to the stockholders is the consolidated report of the year's business of the units that make up the group, including the Group Co. itself. The report to the securities commission is the report of the holding company alone, which, under the requirements of the Michigan Securities Commission, does not and cannot reflect the earnings or losses of the units of the group or their condition. The earnings of the holding company come chiefly from dividends from the units. If the holding company alone paid out more than it received in dividends or other income, it would naturally show a deficit. That, however, would not mean a loss on the year's business of the units making up the group. It would merely mean a deficit for the holding company alone.

Now, Mr. Lord, in making that statement, the two reports to which you refer as not being comparable at all were the reports respectively made by the Group Corporation to its stockholders embodied in its printed annual report, and the report made by the Group Corporation to the Michigan Securities Commission, were they not?

Mr. LORD. Yes, sir.

Mr. PECORA. Now, why do you say that the two reports are not comparable at all?

Mr. LORD. Because in the one case, the annual report to stockholders was a report of operations of the entire group including its units. On the other hand, the report to the securities commission was a report of the Group Corporation as such and did not include the operations of the units that constituted the assets of the Group Corporation.

Senator COUZENS. Mr. Lord, is that a correct statement in view of the testimony we have heretofore had in respect of the annual reports to stockholders—that is, not including the many affiliates that are units of the group?

Mr. LORD. Senator Couzens, I do not understand your question. Will you kindly repeat it?

Senator COUZENS. As I remember the prior testimony it was to the effect that your annual report to stockholders did include the operating results of the many affiliates?

Mr. LORD. The annual report to the stockholders did include that as I understand.

Senator COUZENS. Of the various affiliates?

Mr. LORD. Yes, sir; as I understand them.

Senator COUZENS. I did not recall that those reports included all of the affiliates.

Mr. PECORA. It only includes the banking units that were members of the group.

Mr. LORD. Which report are you now referring to?

Mr. PECORA. The annual report to the stockholders of the group.

Mr. LORD. For 1929?

Mr. PECORA. Yes; or any of the years reported.

Mr. LORD. A report of earnings and operations as included in the annual reports covered the operations of all the units, including the Group Corporation itself, according to my understanding. And I think that is correct.

Mr. PECORA. Does it show earnings or deficits, whichever it may be, that the group as a whole earned or suffered, as the case might be?

Mr. LORD. Do you mean the Group Corporation?

Mr. PECORA. Yes; in its annual report to its stockholders.

Mr. LORD. My understanding is that it does.

Mr. PECORA. Will you point out in the printed annual report of the group to its stockholders for the year 1929 where that may be found?

Mr. LORD. The results of operations during 1929 according to my understanding included the operations of all the units, and the operations of the Group Corporation itself.

Mr. PECORA. Point out from the printed report of the group to its stockholders for the year 1929 any statement which tells the stockholder what the earnings of the group as a whole were for the year, if any, or what the deficit of the group as a whole was for the year, if any.

Mr. LORD. Mr. Pecora, this statement says:

> The results of operations of the above unit institutions of Guardian Detroit Union Group, Inc., for the year ending December 31, 1929, were satisfactory—

And then it lists them below. I admit that it does not state that the operations of the Group Corporation as such are included, but they were included.

Senator COUZENS. On what page is that, please?

Mr. LORD. On page 8 of the printed annual report for 1929.

Mr. Pecora. The annual report to which you have referred says:

> The results of operations of the above unit institutions of Guardian Detroit Union Group, Inc., for the year ending December 31, 1929, were satisfactory in spite of the difficult condition which confronted every banking institution during the last 10 weeks of the calendar year.

Mr. LORD. Yes, sir. And it then follows with the aggregate gross earnings of the units of the Group, stating that they amounted to $41,847,489.21. And it says:

> From which all expenses (including taxes of all kinds, and depreciation of buildings and equipment) were paid to the amount of $32,435,031.08.

Then it says:

Leaving net earnings from operations (after writing off all known losses) in the amount of $9,412,458.13.

Then it says:

Or at the rate of 30.58 percent on outstanding capital stock of 1,538,801 shares of $20 par value.

Then it says:

Of this amount, there was set aside reserves for unforeseen contingencies in the amount of $1,704,732.73.

Then it says:

Leaving available for dividends $7,707,725.40, or at the rate of 25.04 percent on outstanding capital stock of 1,538,801 shares of $20 par value.

Then it says:

Of this amount there was paid out in dividends during the year by the group or by the member banks prior to affiliation with the group $4,246,359.04.

And then follows:

Leaving for additions to surplus or undivided profits $3,461,366.36.

If you will look at that corporation report made to the Michigan Securities Commission you will find for the year 1929 that the Group Corporation did not incur any deficit, that its expenses equalled its income.

When you come to the 1930 report you will find a deficit of the Group Corporation, as stated, was $39,387.57. And the expenses of the Group Corporation according to our auditors were included in the earnings' statement of 1930.

Mr. PECORA. On what page?

Mr. LORD. On page 9.

Mr. PECORA. Now, the annual report filed with the Michigan Securities Commission for the year 1930 by the Guardian Detroit Union Group, Inc., shows that the group as a whole incurred a deficit for that year of $39,387.57, does it not?

Mr. LORD. Yes, sir; I believe so.

Mr. PECORA. Will you point out in the statement embodied in the printed annual report to stockholders for the year 1930, which was published and issued by the Guardian Detroit Union Group, Inc., which also states or which reflects the fact that the group as a whole for the year 1930 operated at a deficit of $39,387.57, or operated under any deficit whatsoever.

Mr. LORD. Mr. Pecora, the Group Co. as such did not make a separate statement because it would not have been the true picture of the group as a whole. The 1930 statement, however, showing the combined operating earnings and expenses of the various units of the group, include the expenses of the Group Corporation. It includes that deficit of $39,387.57.

Mr. PECORA. Where do you see it in the report?

Mr. LORD. It is not specifically mentioned, but——

Mr. PECORA (interposing). Well, where is it mentioned at all, either specifically or generally?

Mr. LORD. It is included in these figures.

Mr. PECORA. Where?

Mr. LORD. In these operating figures, that deficit is included.

Mr. PECORA. Will you take the figures shown on page 9 of the printed report to stockholders of the group for the year 1930—have you a copy there?

Mr. LORD. I have it here.

Mr. PECORA. And give us the calculation from which anyone could deduce from it that the group as a whole that year operated at a loss or a deficit of $39,387.57.

Mr. LORD. Mr. Pecora, the group did not operate at a loss. The Group Corporation as such incurred a deficit after dividends and after paying its own expenses, of $39,387.57.

Mr. PECORA. Well, I am talking about the group, or the company called Guardian Detroit Union Group, Inc. That is a holding company, isn't it?

Mr. LORD. Yes, sir.

Mr. PECORA. Now, that company, which for the sake of convenience I will refer to as the group, in its annual report filed with the Michigan Securities Commission showed that it operated at a loss, or incurred a loss of $39,387.57 for the year 1930, did it not?

Mr. LORD. It incurred a deficit after dividends. This report includes the operating earnings and the operating expenses of every corporation in the group, including the Group Corporation itself.

Mr. PECORA. Well, show me in the printed report to the stockholders issued by the group or holding company, any statement which indicates that the group incurred a deficit for the year 1930.

Mr. LORD. Mr. Pecora, that particular statement is not made, but the statement shows that the combined operating earnings and expenses of the various units of the group were as follows—and then the group Corporation itself was included in those earnings.

Mr. PECORA. Well, show me any figures or any set or grouping of figures in this annual report to stockholders, from which any reading thereof could inform the reader that the holding company, otherwise referred to as the group, incurred a deficit of over $39,000, or incurred any deficit whatsoever in the year 1930.

Mr. LORD. There is no such statement in there, because it was our best judgment—and I have conferred with Haskins & Sells to find out if our judgment was wrong as to the fair and proper method of reporting the operations of the group.

Mr. PECORA. Did Haskins & Sells advise you to make this kind of report to your stockholders?

Mr. LORD. They did not. My conference with Haskins & Sells was last week, to see if we had presented a proper report.

Mr. PECORA. And did they advise you that you had presented the facts properly to the stockholders of the group?

Mr. LORD. They did, sir.

Mr. PECORA. And did they base that advice upon an examination of the annual reports issued to the stockholders by the group for the years 1929, 1930, and 1931?

Mr. LORD. They did, sir.

Mr. PECORA. Which particular member or members of the firm of Haskins & Sells gave you that information?

Mr. LORD. Mr. Bontron, the partner in Detroit.

Mr. PECORA. Why did you consult him last week on this subject?

Mr. LORD. To see if my judgment was correct as to the presentation of those figures.

Mr. PECORA. Then it was on your judgment that these annual reports to stockholders were prepared and issued?

Mr. LORD. To some extent, and on the judgment of the committee. These reports went out on the order of the executive committee.

Senator TOWNSEND. Who were the members of the executive committee?

Mr. LORD. There were different members at different times. They are stated in here. The executive committee of the Group Corporation in 1930 were: Henry E. Bodman, chairman; Frank W. Blair; Harry C. Bulkley; C. H. Haberkorn, Jr.; Carlton M. Higbee; Sherwin A. Hill; Ernest Kanzler; Robert O. Lord; Charles S. Mott; Fred T. Murphy; Edwin H. Nelson; Phelps Newberry; Murray W. Sales; Henry H. Sanger; John N. Stalker; and James L. Walsh.

Mr. PECORA. Now, Mr. Lord, will you be good enough to tell us, in view of the fact that you consulted those accountants last week in order to find out if your judgment with regard to the preparation and issuance of these annual reports to stockholders was correct, why in issuing the annual reports to stockholders the reports were worded and presented in a fashion which concealed from the stockholders the fact that the company incurred a deficit in each of those operating years?

Mr. LORD. Mr. Pecora, there was no intention of concealing it from the stockholders.

Mr. PECORA. Well, tell us why it was done, whether there was any such intention or not. Tell us why reports were prepared in a fashion to withhold that information from the stockholders.

Mr. LORD. The reports were prepared in a fashion that, in our opinion, presented the full facts to the stockholders of the Group, and the facts in which they were interested.

Mr. PECORA. Well, the fact that the company operated under a deficit would be a fact in which any stockholder would be interested, wouldn't he?

Mr. LORD. I would not think so, no.

Mr. PECORA. You say you would not think so?

Mr. LORD. No. Because they are interested in the assets of the corporation, and the earnings of the corporation.

Mr. PECORA. Do you mean to say he is not interested in whether or not the corporation incurred a deficit in its year's business?

Mr. LORD. Not as such; no, I shouldn't think so.

Mr. PECORA. Have you always guided yourself in your business transactions in corporate matters by that opinion or principle that a stockholder is not interested in the fact whether or not his company operated at a deficit?

Mr. LORD. Mr. Pecora, I have been guided in my business transactions by telling the stockholder all information, and presenting it in the way I thought it gave him all the facts. Now, this may illustrate what might happen: If you had published an earnings picture of the Group Corporation itself, let us assume for the sake of the argument that out of undivided profits account rather than out of current earnings of the units, you had paid, we will also say for the sake of the argument only, $6,000,000 in dividends to the Group Corporation. Assume, then, that you encroach, in paying those dividends upon the undivided profits account of the separate units. Then assume that the Group Corporation had paid out the $6,000,000, and received as

dividends $3,000,000, and show an excess of income over dividends of $3,000,000. Had you presented that statement to the stockholders in the face of paying out of undivided-profits account rather than current earnings of the units, it would have been absolutely a misrepresentation of the situation. Now, we have shown in these reports the income accounts for the various units, and we have included in operating expenses in the combined figures, the operating expenses of the Group Corporation. I do not know of any fairer way, any fuller way, to present the proper picture of the Group Corporation and of its units than that. Now, that may be an accounting matter that somebody might differ about, but Mr. Bontron felt and told us that the presentation in this report was absolutely the way this matter should be handled.

Mr. PECORA. I should like to have Mr. Bontron, or whatever his name is, to come down here and tell this committee under oath what you say he told you.

Mr. LORD. Very well. Oh! It was Price, Waterhouse & Co. and not Haskins & Sells.

Mr. PECORA. It was a man representing Price, Waterhouse & Co.?

Mr. LORD. Yes, sir.

Mr. PECORA. Well, my desire stands to have that gentleman come here and tell this committee what you say he told you.

Mr. LORD. Very well.

Mr. PECORA. Now, in this printed annual report to the stockholders of the Group for the year 1930, the opening statement reads as follows:

To the stockholders of Guardian Detroit Union Group, Inc.:

During the past year the banks and trust companies affiliated in the Guardian Detroit Union Group have conducted their operations along most conservative lines, stressing safety and liquidity rather than profits.

Is that a correct statement of the facts, Mr. Lord, as you know the facts?

Mr. LORD. I think it is, sir.

Mr. PECORA. In view of that statement of yours, isn't the fact to your knowledge that during the year 1930 many of the bank and trust company units of the Group paid dividends that were not justified by current earnings?

Mr. LORD. I do not think so.

Mr. PECORA. Isn't it the fact that many of those banking units of the Group during that year paid dividends partly out of capital funds as well as out of earnings?

Mr. LORD. What do you mean by "capital funds?"

Mr. PECORA. The surplus and undivided profits. You know what I mean by capital funds.

Mr. LORD. Not to my knowledge, Mr. Pecora. I haven't the individual figures here, but I can get them for you.

Mr. PECORA. Well, just check up on that, please.

Mr. LORD. All right. (Witness leaves the table and goes to his papers for additional records.) I have here the operating earnings of the units for 1930 and the dividends paid. Shall I read them separately?

Mr. PECORA. Yes.

Mr. LORD. I might say here, while looking at this figure, that I see the Union Guardian Trust Co. paid for 1930 $62,000 from its undivided profits account.

Mr. PECORA. From its undivided-profits account?

Mr. LORD. Yes, sir.

Mr. PECORA. And not from earnings?

Mr. LORD. And the balance from current earnings. Now, taking the units: The Guardian National Bank of Commerce, which is set up to include both the Guardian Detroit Bank and the National Bank of Commerce, which had not been consolidated, but these figures are put together; in 1930 the earnings were $2,337,205.90, and the dividends paid were $1,761,782.

Mr. PECORA. How much was paid out of undivided profits or surplus account?

Mr. LORD. In their case they had an excess of earnings over dividends of four hundred and odd thousand dollars.

Mr. PECORA. Well, were any reserves set up against losses that year out of those earnings?

Mr. LORD. There were some charge-offs made probably from the reserve account.

Mr. PECORA. Made out of the earnings for the year?

Mr. LORD. You cannot follow them separately. Earnings go into undivided profits, and where you set up reserves, customarily you charge the undivided profits account with the reserves. In other words, it is a matter of two steps. Current earnings go into undivided profits. Undivided profits are charged to create reserves or take care of whatever charge-offs there are.

Mr. PECORA. Can you give the committee the amount of the charge-offs or reserves set up by that bank for the year 1930?

Mr. LORD. The net amount charged off was five hundred twenty and odd thousand dollars.

Mr. PECORA. Yes.

Mr. LORD. Those charge-offs may have come from reserves already created, or may have come from the undivided profits account.

Mr. PECORA. From undivided profits account as swelled by current earnings?

Mr. LORD. Yes, sir; because earnings go into the undivided profits account.

Mr. PECORA. In the first statement of the earnings of that bank for the year 1930, then the amount of set-up for reserves against losses or contingencies, this amount of charge-offs or write-offs appears and this amount of dividends declared.

Mr. LORD. Yes, sir.

Mr. PECORA. Now, give us those four figures for that year.

Mr. LORD. The earnings were $2,337,205.94. Now, what was the next figure you desired?

Mr. PECORA. The amount set up as a reserve against losses.

Mr. LORD. The statement is not handled in that way. It shows the net charge-offs. Do you want that figure?

Mr. PECORA. Well, give it as you show it there.

Mr. LORD. It is $520,678.35.

Mr. PECORA. Yes.

Mr. LORD. And dividends paid $1,761,800.

Mr. PECORA. Now, in the earnings figure of $2,337,205.94 does that represent gross earnings or earnings after expenses?

Mr. LORD. That is after expenses. The gross earnings were twenty-seven million, six hundred and ninety-five thousand——

Mr. PECORA (interposing). Oh, no. You do not mean 27 million dollars, do you?

Mr. LORD. No. That figure I gave you up there represented the net earnings after operating expenses and reserves for depreciation in the matter of furniture, fixtures, and so on.

Mr. PECORA. That means net earnings after operating expenses and taxes?

Mr. LORD. Yes, sir.

Mr. PECORA. And the net charge-offs amounted to $520,628.35?

Mr. LORD. Yes, sir.

Mr. PECORA. That does not include anything set up for reserves, does it?

Mr. LORD. It does not show any set-up for reserves in these statements.

Mr. PECORA. Were there any reserves set up for that year by that bank?

Mr. LORD. I cannot tell you from these figures.

Mr. PECORA. Well, you know that it was the policy of the group not to have unit banks set up reserves, don't you?

Mr. LORD. No, sir; I do not.

Mr. PECORA. Don't you know that that fact was adverted to repeatedly by the national-bank examiners in their reports made from time to time of the unit banks? Hasn't that fact been shown in evidence here?

Mr. LORD. No. I have never seen that.

Mr. PECORA. You have not?

Mr. LORD. No, sir. The statements themselves show reserves, so how could that be the policy?

Mr. PECORA. Well, it was the policy to set up as small an amount for reserves as possible, wasn't it?

Mr. LORD. No, that is not a fair statement, or at least I don't think so.

Mr. PECORA. Well, now, let us take, for instance, the evidence before this committee, which included Committee Exhibit No. 8, December 19, 1933, consisting of an intra-group memorandum, sent to you by Mr. John N. Stalker, who was then the president of the Union Guardian Trust Co., one of the banking units of the group, and which is dated June 26, 1930, and in which he said as follows:

MY DEAR BOB: I commented in a recent letter on the matter of the dividends which should be paid by the Union Guardian Trust Co. the latter half of this year. The loss of our bond department affects our earnings very seriously. For the 5 years from 1925 to 1929, inclusive, the net earnings of that department after the payment of expenses average a trifle over $296,000 a year. If we had those earnings today, I believe we could pay a 20-percent dividend or $1, 000, 000 a year. We do not in any way question the transfer of the bond department to the Guardian Detroit Co. This seems to us logical and proper. The effect on our earning capacity, however, cannot be ignored.

As against $500,000 in dividends which we are paying the first 6 months of this year, our earnings will probably not run over $425,000, and this without setting up any reserves at all. Our policy in the past has always been to set up liberal reserves, although we were fortunate enough to need them only to a very limited extent. At the present time we feel that reserves are rather urgently required, and find ourselves unable to provide them.

Now, doesn't that letter indicate what the policy of the group was with respect to setting up reserves?

Mr. LORD. I do not think so, Mr. Pecora.

Mr. PECORA. What does that letter indicate to you, then?

Mr. LORD. It indicates to me that Mr. Stalker felt that dividend was larger than it should be under the circumstances, and in view of the fact that they, in that institution at that time, were not setting up any reserves.

Mr. PECORA. And they were not setting up reserves because the Group did not want the bank to set up reserves, isn't that so?

Mr. LORD. No; I do not think so.

Mr. PECORA. Well, doesn't that appear from the testimony given here by Mr. Stalker, as well as the documentary evidence introduced while he was on the stand, as well as while you were on the stand week before last?

Mr. LORD. I think Mr. Stalker went into the details, or at least as I recollect his testimony, as to the expectation of increased earnings for the latter half of the year, and as to an expectation of economies through the consolidation which had been made and just completed, of the Guardian Trust Co. and the Union Trust Co. And the dividend, which as I recall it that the Union Guardian Trust Co. declared at that time, was at a lower rate than the combined rates of the institutions.

Mr. PECORA. And the earnings were much lower than they had been in previous years, and the dividends were declared at a rate that Mr. Stalker himself pointed out to you were not justified by current earnings. Do you recall that testimony given by Mr. Stalker?

Mr. LORD. I recall that Mr. Stalker felt that that particular dividend was larger than should be paid at the time.

Mr. PECORA. And nevertheless that dividend, larger than should have been declared, was declared because the group asked that it be declared.

Mr. LORD. No; because it was recommended to the board by him and others, and the board of the Union Guardian Trust Co. declared that dividend.

Mr. PECORA. Recommended by you, or requested by you, and recommended by the board, including Mr. Stalker.

Mr. LORD. Well, now——

Mr. PECORA (interposing). Well, that is a fact, as has been stated here.

Mr. LORD. Yes, sir; I believe so.

Mr. PECORA. And Mr. Stalker recommended that dividend after he had first pointed out to you the unwisdom of a dividend at the rate which the group has asked be declared.

Mr. LORD. Yes, but he recommended that dividend because he must have felt that it was justified.

Mr. PECORA. How can you say that in view of Mr. Stalker's own letters to you, in which he proceeded to state the situation, and deferred to the rate suggested by you only in deference to the suggestions of the group?

Mr. LORD. Well, why should he have recommended it to the board if he did not favor it?

Mr. PECORA. Well, do you want me to answer that question? If so, I will say it was because he was under the domination of the group and its officers, if you want me to answer it.

Mr. LORD. No.

Mr. PECORA. And because his position as president depended upon his retaining the good will of the group, which owned the stock of his bank. And let me point out to you, on page 12 of the printed annual report of the Group Co. to its stockholders for the year 1930, the following statement:

> In the case of the Guardian Detroit Co. a special inventory reserve of $4,500,000 has been made by the transfer of $2,900,000 from capital account and $1,600,000 from undivided profits.

Now, in this instance the Guardian Detroit Co. depleted its capital resources to the extent of 4½ million dollars in order to set up this reserve, didn't it?

Mr. LORD. Yes, sir.

Mr. PECORA. Now, how many banking units of the group for the year 1930 depleted their capital resources in order to set up reserves or in order to take care of write-offs or charge-offs?

Mr. LORD. Well, I can give you the totals. Do you want them individually?

Mr. PECORA. I should like to have them individually, with a mention of the facts.

Mr. LORD. All right.

Senator GOLDSBOROUGH. Mr. Pecora, how many institutions constituted this group? Were there 22 or 23 banks, and how many affiliates?

Mr. PECORA. I think there were 27 units all told. Is that right, Mr. Lord?

Mr. LORD. No; I think there were more than that. Right at the time spoken of, including all the affiliates. But they were either being liquidated or consolidated.

Mr. PECORA. Well, out of the units of the group, 20 of them were banking units, weren't they?

Mr. LORD. I think 21 at the time.

Senator ADAMS. Mr. Lord, you are using the term "depletion of capital resources." Is this really a depletion or is it a recognition of an existing depletion?

Mr. LORD. It was a recognition of the existing values of the securities.

Senator ADAMS. This was a matter, rather, of bookkeeping entries, which did not change the condition existing?

Mr. LORD. Those were merely taken out. I can give you from these figures the capital funds and the reserves as of December 31, 1929, and as of December 31, 1930.

Mr. PECORA. All right.

Mr. LORD. Which I think will give the information you want.

Mr. PECORA. All right.

Mr. LORD. Under the Guardian National Bank of Commerce as of December 31, 1929——

Mr. PECORA (interposing). Well, the Guardian National Bank of Commerce was not in existence on December 31, 1929, was it?

Mr. LORD. Well, they have lumped all these figures for the three banks that afterward made up the Guardian Detroit National Bank

of Commerce. By the end of 1930 I think the Bank of Detroit and the Guardian Detroit Bank had consolidated.

The figure as of December 31, 1929, was $27,695,914.97. At the time of the consolidation of the Bank of Detroit with the Guardian Detroit Bank, the Bank of Detroit paid into the Group in the form of Government securities 2½ million dollars in the form of a liquidating dividend. Taking that item out, there is a reduction in the capital structure to $25,229,365.35. If you add that item back, it shows that the combined capital structure, plus the liquidating dividend which went to the group, is a little in excess of the capital funds as of December 31, 1929.

In the case of the Union Guardian Trust Co. as of December 31, 1929, the figure is $16,100,722.15. During 1930 the Union Guardian Trust Co. declared to the Group Corporation as a liquidating dividend the capital stock of the Union Building Co., which stood on the books at 5 million dollars. That leaves the capital funds as of December 31, 1930, at $11,025,952.04.

Mr. PECORA. Why did that bank do that?

Mr. LORD. Because it would result in a very substantial saving in the matter of taxes. In the State of Michigan bank stock is taxed on its amount. And in addition the Trust Co. was paying taxes on the real estate. In other words, there was a duplication of taxes. You are taxed on your building and real estate as real estate, and the Union Guardian Trust Co. was also taxed on its capital.

Mr. PECORA. What was the value of the real estate at the time of the transfer to the group?

Mr. LORD. Well, the stock stood on the books at 5 million dollars. The Corporation owned this Union Guardian Building, which had cost between 11 and 12 million dollars.

Senator GOLDSBOROUGH. And the statute of Michigan does not permit the reduction of real estate from bank stock?

Mr. LORD. Not to the full extent. I think it saved us between $50,000 and $60,000 in the matter of taxes. Furthermore, we found that by operating it as a separate unit and not as owned by the Trust Co., was very much more satisfactory from the standpoint of the operation of the building.

Continuing these figures as to capital structure: In the case of the Highland Park State Bank, on December 31, 1929, it had a capital structure of $3,488,594.87, and on December 31, 1930, it was $3,547,-203.82, an increase of approximately $59,000.

In the case of the Highland Park Trust Co., the capital structure on December 31, 1929, was $825,562.36, and at the end of the year 1930 it was $878,815,83, an increase of approximately $53,000.

In the case of the Union Industrial Trust & Savings Bank, of Flint, the capital structure on December 31, 1929, was $3,765,420.29, and at the end of 1930 it was $3,941,141.37, or an increase of approximately $170,000.

In the case of the Grand Rapids National Bank, the capital structure as of December 31, 1929, was $1,925,660.75, and at the end of 1930 it was $1,743,919.30, or a decrease of about $180,000.

In the case of the Grand Rapids Trust Co, the capital structure as of December 31, 1929, was $1,624,106.30, and at the end of the year 1930 it was $1,595,932.48.

In the case of the Union & Peoples National Bank, of Jackson, as of December 31, 1929, its capital structure was $1,563,166.36, and at the end of the year 1930 it was $1,632,968.37, an increase of approximately $69,000.

In the case of the Second National Bank & Trust Co. of Saginaw, its capital structure as of December 31, 1929, was $3,187,985.08, and at the end of the year 1930 it was $3,274,978.07.

In the case of the First National Trust & Savings Bank of Port Huron, its capital structure as of December 31, 1929, was $1,406,-605.20, and at the end of the year 1930 it was $1,458,181.64.

In the case of the Capital National Bank of Lansing, its capital structure as of December 31, 1929, was $1,693,578.11, and at the end of the year 1930 it was $1,797,443.46.

In the case of the First National Bank & Trust Co. of Kalamazoo, its capital structure on December 31, 1929, was $1,188,277.15, and at the end of the year 1930 it was $1,246,468.96.

In the case of the City National Bank & Trust Co. of Battle Creek, as of December 31, 1929, its capital structure was $1,357,542.27, and at the end of the year 1930 it was $1,393,219.52.

In the case of the Guardian Bank of Dearborn, its capital structure as of December 31, 1929, was $979,162.49, and at the end of the year 1930 it was $985,635.02.

In the case of the Michigan Industrial Bank of Detroit, its capital structure as of December 31, 1929, was $694,871.66, and at the end of the year 1930 it was $706,923.97.

In the case of the National Bank of Ionia, its capital structure as of December 31, 1929, was $318,161.28, and at the end of the year 1930 it was $338,896.07.

In the case of the City National Bank & Trust Co. of Niles, its capital structure as of December 31, 1929, was $311,497.35, and at the end of the year 1930 it was $318,985.02.

In the case of the Guardian Bank of Trenton, its capital structure as of December 31, 1929, was $92,006.78, and at the end of the year 1930 it was $92,496.92.

In the case of the Guardian Bank of Grosse Pointe, its capital structure as of December 31, 1929, was $135,023.94, and at the end of the year 1930 it was $142,701.77.

In the case of the Bank of Hamtramck, its capital structure as of December 31, 1929, was $248,775.57, and at the end of the year 1930 it was $227,919.34.

The CHAIRMAN. What does all that tend to show?

Mr. LORD. Mr. Pecora asked for the capital structure at the beginning of 1930 and at the end of 1930, of these various institutions.

Mr. PECORA. Is it not a fact that at the end of 1931 the capital structure of nearly all of these banks you have just alluded to had become reduced still further than they had been between the beginning and the end of the year 1930?

Mr. LORD. Yes, sir.

Mr. PECORA. And also between the beginning of 1932 and the end of 1932 those capital structures in many instances were still further reduced; is not that so?

Mr. LORD. Yes, sir.

Mr. PECORA. Are you able to tell the committee, for the years 1930, 1931, and 1932, respectively, the banks which were units of the

group which, in paying dividends for those years, had to dip into their capital funds?

Mr. LORD. Which years, Mr. Pecora?

Mr. PECORA. 1930, 1931, and 1932. Take them for each year, separately, if you will.

Mr. LORD. There are two ways of answering that question; that is, to make it clear to you. In the first place, charge-offs were set up for reserves. Reserves are usually taken out of undivided profits and charge-offs are made direct out of the reserve accounts. If you consider charge-offs out of reserves made out of current performance rather than out of previous reserves, that is one thing; or if you want me to show the earnings and the dividends, that is, the operating earnings and the dividends, I can answer it in that way and show what institutions encroached upon their undivided profit accounts to pay dividends during those years.

Mr. PECORA. Well, do it the second way.

Mr. LORD. We will take 1930. The Union Guardian Trust Co. in 1930 encroached upon its undivided profit account in the payment of dividends to the extent of about $62,000.

Mr. PECORA. How much?

Mr. LORD. About $62,000. The Grand Rapids National Bank, to the extent of $73,000 odd. The Grand Rapids Trust Co., to the extent of $5,900, about. Those are the only institutions in 1930 that encroached upon their undivided profit accounts for the payment of dividends.

Mr. PECORA. How many of the other banking units of the group, during that year, out of undivided profits or surplus, set up reserves or made write-offs or charge-offs?

Mr. LORD. They all made some charge-offs. They show figures of net charge-offs.

Mr. PECORA. In how many instances in the year 1930, as among the banking units of the group, were dividends paid by the bank where the amount of the dividends paid, plus reserves and charge-offs, exceeded the amount of net earnings?

Mr. LORD. Do you want them separately named?

Mr. PECORA. Yes.

Mr. LORD. The Guardian National, or the combination of those banks——

Mr. PECORA. You had better take the banks as they existed at that time.

Mr. LORD. I had not the separate figures at that time. The Guardian National did not show a deficit after charge-off. The Trust Co. did. The Highland Park State Bank did not. The Highland Park Trust Co. did not. The Union Industrial Trust and Savings Bank did not, or the Grand Rapids National. The Grand Rapids Trust Co. did. The United States and Peoples National Bank at Lansing did. The Second National Bank & Trust Co. of Saginaw did not. The First National Trust and Savings of Port Huron did not. The Capital National at Lansing did not. The First National Bank of Kalamazoo did not. The City National Bank & Trust Co. of Battle Creek did not. The Guardian Bank of Dearborn did not. The Industrial Bank did not. The National Bank of Ionia did not. The City National Bank & Trust Co. at Niles did not. The Guardian Bank of Trenton did show a deficit after

both charge-offs and dividends. The Guardian Bank at Grosse Pointe did not; and the Bank of Hamtramck did, after its charge-offs.

Mr. PECORA. If I have followed your recital correctly, six of the banks showed deficits after paying dividends, setting up reserves and charge-offs.

Mr. LORD. These charge-offs, Mr. Pecora, may have come from reserves already set up. All I have in this statement here is the net charge-offs which would change the capital structure; and in capital structure I have included capital surplus and reserves.

Mr. PECORA. Will you give us that information for the calendar year 1931?

Mr. LORD. With the exception of the Second National Bank at Saginaw and the Guardian Bank of Trenton, all made charge-offs after dividends which ate into their capital funds in some form.

Mr. PECORA. Which what?

Mr. LORD. Which encroached upon their capital funds.

Mr. PECORA. That is, it really would yield a deficit for that year after declaration and payment of dividends?

Mr. LORD. If you consider the charge-offs made during any year in a bank as applicable to that particular year's operations; yes.

Mr. PECORA. That is an unfair way of looking at it, is it?

Mr. LORD. Yes; I think it is.

Mr. PECORA. For the purpose of declaring dividends is that an unfair thing to take into consideration? Should not dividends, in other words, be declared on the basis of existing condition?

Mr. LORD. No; I do not think so, necessarily, Mr Pecora.

Mr. PECORA. Well, we differ.

Mr. LORD. I would like to comment on that point in this way. I am not going to name these banks, because we do not want to discuss another bank's affairs; but here is a list of some of the leading banks in the United States. Here is a bank—I will name them if you want me to——

Mr. PECORA. No. I am not examining you about the activities or the conduct of banks other than banks of your group.

Mr. LORD. No; but you are asking me on a question of policy.

Mr. PECORA. I am asking you on a question of what was done in your case; that is, in the case of your group and its banking units.

Mr. LORD. I have answered that. We paid dividends at the same time that the charges were made against capital account; and other banks were doing it—some of the finest banks in the country.

Mr. PECORA. And you did it under circumstances which made those dividends, plus the charge-offs, exceed the net earnings?

Mr. LORD. In the current year; yes.

Mr. PECORA. Do you think that is good, sound banking practice?

Mr. LORD. Under the circumstances; yes.

Mr. PECORA. Do you think it was sound banking practice particularly at a time when banks should have conserved all of their resources in the interests of depositors?

Mr. LORD. Under the circumstances; yes. And I believe that the boards and committees, if they had it to do over again, with conditions as they were, would do it the same way, Mr. Pecora.

Mr. PECORA. What were the benefits accruing from that policy?

Mr. LORD. Stabilization of the whole situation.

Mr. PECORA. What do you mean by that? That is rather a mouth-filling phrase, and it is so general that I am not sure that I know its full meaning.

Mr. LORD. The question of public fear, of panic, that prevailed at that time was such that the action taken in regard to dividends was, in our opinion, absolutely wise and the thing to do.

Mr. PECORA. Do you mean it was better to pay dividends rather than to conserve the cash resources of the bank, in order to inspire public confidence in the bank?

Mr. LORD. Infinitely better than not to pay dividends and lose public confidence and have a run on the bank and have the depositors destroy their own institutions.

Mr. PECORA. Were you not virtually trying to pull yourself up by your own bootstraps by that process?

Mr. LORD. No, sir.

Mr. PECORA. Were you not putting off the evil day of reckoning and aggravating it when it should come?

Mr. LORD. No, sir.

Mr. PECORA. Was it not necessary, in your opinion as a banker, for banks to conserve their resources in the interests of the depositors during the period of depression?

Mr. LORD. Not if the payment of dividends was the wise thing to do.

Mr. PECORA. That is begging the question.

Mr. LORD. Not to the extent of breaking down public confidence if there should take place a run on the institution.

Mr. PECORA. What was the sense of building up public confidence upon a false basis?

Mr. LORD. It was not on a false basis.

Mr. PECORA. Was it not on a false basis, in view of the fact that dividends were being paid not because earnings justified them, but in order to maintain public confidence?

Mr. LORD. The operating earnings did justify it.

Mr. PECORA. When you say that operating earnings did justify it, you are excluding from consideration the setting up of reserves and charge-offs or write-offs for losses, are you not?

Mr. LORD. Yes, sir.

Mr. PECORA. Well, that is not fair, is it?

Mr. LORD. Under the circumstances, I believe it is fair.

Mr. PECORA. What circumstances do you refer to?

Mr. LORD. I am talking about the conditions that existed in regard to banks. I would just like to put into this record some of these banks and what they did, to show——

Mr. PECORA. Are you going to refer to your banks or to banks outside of your group?

Mr. LORD. I am going to refer to banks outside of our group, to show that the policy we followed was a sound policy in the opinion of other banks.

Mr. PECORA. If you want to indict the judgment of other bankers, that is one thing——

Mr. LORD. I do not.

Mr. PECORA (continuing). But if you want to indict the judgment of banking executives generally, the information you want to give

the committee would be useful for that purpose and for that purpose only.

Mr. LORD. I do not propose to indict the judgment of other banks. I think they did the wise thing, just as I think we did under the circumstances.

Mr. PECORA. Do you think, in the light of all that has happened, that that judgment was vindicated?

Mr. LORD. Yes, sir.

Mr. PECORA. Are the depositors better off today because that judgment was followed?

Mr. LORD. I think they probably are, because of the liquidation that took place in those banks while the banks were allowed to remain open.

Mr. PECORA. And the amount of cash that otherwise should have been available to pay depositors has been reduced by that policy, has it not?

Mr. LORD. Mr. Pecora——

Mr. PECORA. No. Is it or is it not?

Mr. LORD. It is in some respects; but don't forget that during the years 1930, 1931, and 1932 the Group Co. put back into those banks $8,400,000 in cash.

Senator ADAMS. How does that compare with the amount of dividends taken out in those years?

Mr. LORD. It was more.

Mr. PECORA. What?

Mr. LORD. It was more than was taken out during those years.

Mr. PECORA. Oh, just look at your figures, and I think you will come to a different conclusion about that. During those years the amount of dividends received by the group totaled $9,744,064.09, according to committee's exhibit no. 32 of December 20 last.

Mr. LORD. I was talking about the years 1930, 1931, and 1932.

Mr. PECORA. Well, I am adding the year 1929, which was one of the years.

Mr. LORD. All right. We will take that, of course. The Group Co. then took out $1,300,000 in dividends over four and a fraction years less than they put in. They put in $8,414,000, as I remember the figure.

Mr. PECORA. And took out how much?

Mr. LORD. $9,789,000.

Senator ADAMS. In what way was the money put back?

Mr. LORD. Paying for undesirable or slow assets.

Senator ADAMS. It was not in the shape of a loan?

Mr. LORD. No, sir; they were purchased and the assets lifted out.

Mr. PECORA. And that left the group without assets to meet the claims of depositors of the banking units under its liability as a stockholder of the banks, did it not?

Mr. LORD. No, sir; I would not say that. It left the group with an indebtedness; yes; but the group still had assets in the form of the stock in these banks and a certain amount of cash.

Mr. PECORA. The group had the assets in the form of the capital stock of the banks?

Mr. LORD. The banks which it owned; yes.

Mr. PECORA. So that that was not bringing into the banks for the purpose of making funds avilable to depositors any moneys outside of the capital stock of the bank itself, was it?

Mr. LORD. It certainly brought in $8,400,000 available to the depositors of the bank.

Mr. PECORA. You know that a stockholder of a bank is under a legal liability in favor of the depositors?

Mr. LORD. I do; certainly.

Mr. PECORA. And the stockholder, virtually the sole stockholder of nearly all if not all of the unit banks that composed the group, was the group holding company?

Mr. LORD. Correct.

Mr. PECORA. The only assets that the group holding company had, or its assets in large part, consisted of the capital stock of the unit banks themselves?

Mr. LORD. Yes, sir.

Mr. PECORA. It had virtually no property outside of that?

Mr. LORD. A small amount of cash.

Mr. PECORA. So that the situation thereby created was that with the Group Co., the holding company, as the sole stockholder of the unit banks, the depositors of any of those unit banks could not look, under the liability clause of the law imposed upon bank stockholders, to any independent property which the stockholders owned outside of the capital stock of the banks themselves?

Mr. LORD. That is true to a certain extent; but that did not change, of course, the liability provision in the stock certificate which passed on that liability——

Mr. PECORA. And which is now very much in doubt in the courts?

Mr. LORD. I understand so.

Mr. PECORA. And some of the founders of the group itself who are among the stockholders of the group are setting up in actions now pending in the courts of your State the claim that they are not liable as stockholders of the group to the banks that were units?

Mr. LORD. I understand so; yes.

Senator ADAMS. How much in dividends did the group pay out to its stockholders during those 4 years?

Mr. PECORA. I have that amount here, Senator, as $9,293,639.90.

Senator ADAMS. Substantially the same amount was paid out by the Group as came in in dividends?

Mr. PECORA. There is about a half million dollars difference. The witness said it was paid back to the unit banks. Is not that so, Mr. Lord?

Mr. LORD. They paid back to the unit banks $8,400,000 odd and paid to the stockholders $9,200,000. That makes about $800,000 difference.

The CHAIRMAN. Would it not have better effected public confidence Mr. Lord, to have stated to the public generally that whereas the stockholders were entitled to dividends, they preferred to leave them in the bank and not draw them but let them go to the undivided profits of the bank?

Mr. LORD. That was not the judgment of the board. It is very difficult, Senator Fletcher, for perhaps the members of this committee to realize fully the situation as it particularly was existing in Detroit at that time. We had gone through a very serious situation

beginning in March, 1931, when the American State Bank was about to fail and the Detroit clearing house banks took it over. From then on, all through the years following, covering October 1933, there was a continuous story of bank failures throughout Michigan. I presented the first day here a chart which showed the failures for about a year and 2 or 3 months, and there were 195 bank failures in the State in that period. In addition, we were very seriously affected by withdrawals at the time Chicago had its runs on the downtown banks, and at the time approximately 200 of the Chicago outlying banks failed. In Toledo, which is only 60 miles from Detroit, in the summer of 1931 I think all except one or two banks in Toledo failed. All of that reacted on us so that the public mind was volatile, to say the least.

The CHAIRMAN. I can understand that, and I can see how declaring dividends might give the public the impression that the bank was on a sound basis; but the stockholders, while they were entitled to the dividends, might have left them in the bank and the bank would have had the money available there.

Mr. LORD. That of course is a question of judgment; and it was the judgment of the board and of the committee that the dividends should be paid. You may recall that the dividends were cut down gradually and finally cut off entirely after April 1931.

Senator ADAMS. Mr. Lord, with regard to the eight million-odd dollars that you put back, did the Group have the money available or did it borrow it?

Mr. LORD. It borrowed it.

Senator ADAMS. Where?

Mr. LORD. From New York and Chicago banks.

Senator ADAMS. It did not borrow it from its own banks?

Mr. LORD. No, sir. It borrowed it, if you will recall, Senator, partly on its own credit and partly on the endorsement of Mr. Edsel Ford and Mr. Mott.

Mr. PECORA. The annual report for the year 1931 filed by the group or the holding company with the Michigan Securities Commission, as has already been indicated, showed a deficit for the year of $288,930.33——

Mr. LORD. That deficit, however, Mr. Pecora, includes the carry-over of $39,000 from the previous year. If you will notice——

Mr. PECORA. Yes; I see that.

Mr. LORD. That is the accumulated deficit.

Mr. PECORA. It shows a deficit for that year itself of about $248,000, does it not?

Mr. LORD. That is correct.

Mr. PECORA. Making allowances for the carry-over of $39,000 of deficit in the preceding year?

Mr. LORD. That is right.

Mr. PECORA. Look at the copy of the printed annual report to the stockholders for the year 1931 issued by the Group and point out to this committee if you can any statement or any information therein contained which informed the stockholders that the Group for the year 1931 had incurred a deficit.

Mr. LORD. There is no direct statement to that effect.

Mr. PECORA. Is there any indirect statement to that effect, or any statement of any kind which so informed the stockholders?

Mr. LORD. I would say so; yes.

Mr. PECORA. Where?

Mr. LORD. The statement on page 7 shows the net earnings of the banks and trust companies of the Group after all expenses of operation and after setting aside adequate reserves for taxes and depreciation, banking quarters and equipment, $3,887,000 plus. That takes only the banks and trust companies. On the next page, in the middle of the page, the total operating loss of institutions other than banks and trust companies amounted to $542,957.68. That loss of $542,957.68 included also a deficit of the Group Corporation for that year.

Mr. PECORA. How can anybody reading this report and even putting emphasis on the portions thereof that you have just read deduce that for the year 1931 the Group or the holding company had a deficit, exclusive of the carry-over of the deficit for the preceding year, of nearly $250,000?

Mr. LORD. It cannot. This was a picture of all of the units, including the Group.

Mr. PECORA. There was no annual report issued to the stockholders of the group for the calendar year 1932, was there?

Mr. LORD. There was not.

Mr. PECORA. Why not? But before you answer that question, which I will withdraw temporarily, let me ask you this: Is it not a fact that the annual report filed by the group for the year 1932 with the Michigan Securities Commission showed that the deficit incurred by the group for the year 1932 was $714,331.26, which included the carry-over of the deficit for the two preceding years, aggregating $288,000?

Mr. LORD. That is correct, sir.

Mr. PECORA. Now I will ask you the question, why wasn't an annual report made of the group for the calendar year 1932?

Mr. LORD. There was a verbal report made to the stockholders by Mr. Kanzler, chairman of the board, at the annual stockholders' meeting held, I believe, on January 28.

Mr. PECORA. Was there any minute anywhere or any document which shows what that verbal report or oral report was?

Mr. LORD. Any stockholders' minutes?

Mr. PECORA. Showing just what the report was that you say was made?

Mr. LORD. I don't know.

Mr. PECORA. What is that?

Mr. LORD. I don't know of any. I know that there had been in course of preparation the document itself. After the meeting of January 28 Mr. Kanzler by appointment left for Washington in connection with the Trust Co. loan from the R.F.C.

Mr. PECORA. I know, but why wasn't an annual report printed and published and given to the stockholders for the year 1932?

Mr. LORD. Because Mr. Kanzler was then in negotiation in connection with the loan from the R.F.C. and expected to include in the annual report a separate statement as to the result of those negotiations.

Mr. PECORA. My dear man, anything done in 1933 should not be contained in the report for 1932, should it?

Mr. LORD. He wanted to bring the stockholders down to date. Upon the conclusion of the——

Mr. PECORA (interposing). An annual report merely embraces the operations for the calendar year for which it is issued, does it not?

Mr. LORD. Yes; but it seems to me——

Mr. PECORA (interposing). Then why wasn't an annual report for the year 1932 issued?

Mr. LORD. I just stated, Mr. Pecora, that Mr. Kanzler left the day after the meeting. So far as the annual report is concerned for 1932, that was in charge of Mr. Huelsman, Mr. Kanzler, and Mr. Waldow, the auditor.

Mr. PECORA. Was it not also in charge of you?

Mr. LORD. No; it was not.

Mr. PECORA. Why wasn't it for the year 1932, although it apparently had been for the preceding years?

Mr. LORD. It was for this reason: The executive committee meeting at which the annual report to be issued was discussed was held on January 20.

The CHAIRMAN. What year?

Mr. LORD. In 1933. And at that time I was spending most of my days and some of my nights at Port Huron, where our competitive bank had failed across the street, trying to save our own institution. I was not at that meeting. I had no activity and no part in the preparation of the annual report for '32 at all.

Mr. PECORA. Now let me ask you to tell this committee how many stockholders actually attended the annual meeting of the Group which was held on January 24, 1933.

Mr. LORD. I would say 30 or 40.

Mr. PECORA. Out of a total of how many stockholders?

Mr. LORD. Eight or nine thousand.

Mr. PECORA. Those 30 or 40 for the most part were men who were either officers or members of the board of the group, were they not?

Mr. LORD. I should say—when I said 30 or 40 I meant outside stockholders besides the officers, Mr. Pecora. I should say there were 50 or 60 there perhaps out of 8 or 9 thousand.

The CHAIRMAN. About how many?

Mr. LORD. Eight or nine thousand stockholders.

Mr. PECORA. Now, let me read to you from photostatic copy which I have of the minutes of the annual meeting of the stockholders of the group held on January 24, 1933, in which it appears——

Mr. LORD (interposing). When was that?

Mr. PECORA. January 24, 1933—in which it appears Mr. Ernest Kanzler presided as chairman of the board. I will read from the minutes as follows [reading]:

> Whereupon the chairman presented the annual report of the corporation for the year ended December 1, 1932, which, upon motion duly seconded and carried by unanimous vote, was approved, and a copy of said report was ordered placed on file with the corporate records of the company and similar copies mailed to all stockholders of record.

Now, where is that report that was placed on file and which, according to this motion which was unanimously carried, was ordered mailed to all the stockholders of record?

Mr. LORD. I attended that meeting, and my recollection is that Mr. Kanzler gave a verbal report, reading from some various notes.

There certainly was not at the meeting any printed copy of an annual report to my knowledge.

Mr. PECORA. There was a written copy, was there not?

Mr. LORD. Not to my knowledge. He had a typewritten paper.

Mr. PECORA. Then what does this motion mean?

Mr. LORD. I don't know. I don't know what—I should say that is incorrect, because I remember Mr. Kanzler standing there and reading from various notes that he had in his hand and discussing the situation in regard to the various units.

Mr. PECORA. Well, it is customary for the head of a corporation at the annual stockholders' meeting to present to the stockholders a full report, is it not?

Mr. LORD. He did.

Mr. PECORA. Of the corporation for the preceding year?

Mr. LORD. He did, verbally.

Mr. PECORA. But apparently, according to the minutes of the annual stockholders' meeting of the group held on January 24 last, the report which was presented to the stockholders by the chairman of the board, Mr. Kanzler, was approved "and a copy of said report was ordered placed on file with the corporate records of the company and similar copies mailed to all stockholders of record."

Mr. LORD. Mr. Pecora, I——

Mr. PECORA (interposing). Is that minute of the meeting wrong?

Mr. LORD. I should say the minute is incorrectly worded. There was not, I am certain, at that meeting a printed copy of an annual report.

The CHAIRMAN. Or a written copy, any kind of a copy?

Mr. LORD. As I say, Mr. Kanzler stood there, as I recall it, and he had various notes, sheets, and he took up one subject after another and read it and talked about it verbally.

Mr. PECORA. Is Mr. Kanzler here?

Mr. LORD. He is in town.

Mr. PECORA. Do you know where he is at the moment? I want him here this afternoon.

Mr. LORD. I will try to reach him. Do you want me to reach him now or this noon?

Mr. PECORA. Mr. Chairman, would you allow the witness to suspend just a few minutes? I would like to find out if Mr. Kanzler will be here this afternoon?

The CHAIRMAN. We will adjourn very soon now.

Mr. PECORA. You can do it at 12 o'clock when the committee will take a recess.

Now, do you recall an instance where, as a result of the consolidation of two of the banking units of the Group, the capital structure of the consolidated corporation was reduced and a dividend of $2,500,000 in bonds was declared to the Group Co.?

Mr. LORD. I do, sir. Consolidation of the Guardian Detroit Bank and the Bank of Detroit.

Mr. PECORA. Yes. When did that take place?

Mr. LORD. My recollection is in the middle of 1930. (After referring to data.) I haven't the information right here. I think it was the middle of 1930. Do you want me to give the exact date?

Mr. PECORA. No. Mr. Chairman, that would involve considerable examination of this witness. It is 5 minutes of 12. I suggest we recess.

The CHAIRMAN. You spoke about Mr. Kanzler's coming on to Washington to negotiate the loan from the R.F.C. Did he get that loan?

Mr. LORD. It is a long story. He did not.

Mr. PECORA. I am going to go into that in detail, Mr. Chairman.

The CHAIRMAN. We will take a recess now until 2 o'clock.

Mr. PECORA. Will you be good enough to ask Mr. Kanzler to be here?

Mr. LORD. Yes.

(Accordingly, at 11:55 a.m., a recess was taken until 2 p.m. of the same day.)

AFTER RECESS

(The subcommittee reconvened at the expiration of the recess at 2 p.m., Thursday, Jan. 4, 1934.)

The CHAIRMAN. The committee will come to order. Proceed, Mr. Pecora.

Mr. PECORA. Mr. Ernest Kanzler.

TESTIMONY OF ERNEST KANZLER, 2501 IROQUOIS AVENUE, DETROIT, MICH.

The CHAIRMAN. You solemnly swear that you will tell the truth, the whole truth, and nothing but the truth, regarding the matters now under investigation by the committee. So help you God.

Mr. KANZLER. I do.

Mr. PECORA. Mr. Kanzler, will you give for the record your full name, address, and business or occupation?

Mr. KANZLER. Ernest Kanzler; residence, 2501 Iroquois Avenue, Detroit, Mich.; president of the Universal Credit Corporation, with addresses at 1700 United Artists Building, Detroit, Mich.

Mr. PECORA. Mr. Kanzler, were you connected, as an officer or otherwise, with the corporation called the Guardian Detroit Union Group, Inc.?

Mr. KANZLER. Yes, sir. I was chairman of the board during the year 1932.

Mr. PECORA. Were you connected with that corporation as an officer or director from its inception?

Mr. KANZLER. Yes, sir. I was one of the organizers. Do you want me to sketch the history?

Mr. PECORA. Yes. Just give an outline of your connection with the company from its inception.

Mr. KANZLER. In 1926 I was interested in organizing a bank, which was later called the Guardian Detroit Bank, with five other gentlemen. This bank opened its doors in June 1927.

Senator COUZENS. That was under a State charter, was it not?

Mr. KANZLER. That was under a State charter, Senator Couzens, in June 1927. The bank was affiliated with the Guardian Trust Co. and the Guardian Detroit Co. I was the vice president of this institution and a director in the Trust Co., and in the company. I left the active operation in March 1928, but since that time, and up to February 11, I retained a directorship in several of the affiliated insti-

tutions connected with the companies growing out of that original organization.

Mr. PECORA. February 11 of what year?

Mr. KANZLER. 1933. I presume I continued beyond that, but it was not active.

Senator COUZENS. When you left in 1928, Mr. Kanzler, when did you return to the organization?

Mr. KANZLER. I returned—I never was on the pay roll of the organization. Whenever I have served, I have served in just what time I could devote from my credit company business. I served as chairman of the board of the Group Co. after my election to that office, I think, from January 26, 1932.

The CHAIRMAN. What has been your business?

Mr. KANZLER. What is my business?

The CHAIRMAN. Yes.

Mr. KANZLER. The Universal Credit Corporation, which is an automobile financing corporation with branches in 35 cities, financing time sales of automobiles. This is a rather extensive business, and it has occupied a considerable amount of my time. We have done about $900,000,000 worth of financing since 1928.

Mr. PECORA. Do you recall attending and presiding over the annual meeting of the stockholders of the Guardian Detroit Union Group, Inc., which was held on January 24, 1933?

Mr. KANZLER. Yes, sir.

Mr. PECORA. And which, as I understand, was the last annual meeting of the stockholders of that company.

Mr. KANZLER. Yes, sir. I conducted that meeting.

Mr. PECORA. About how many stockholders attended that meeting?

Mr. KANZLER. I should judge there were about 130 or 140 people there. There must have been about 20 rows, and about 8 or 10 in a row.

Mr. PECORA. At that meeting do you recall whether or not an annual report was submitted or presented in any form whatsoever to the stockholders for the year 1932?

Mr. KANZLER. At that meeting I made some remarks to the stockholders from notes that I had which I read, because it was the first meeting I had ever conducted, and I was not quite sure of myself as to how to conduct a meeting of that kind, so I had prepared some notes which I read to the stockholders, and I also had prepared some charts which indicated the growth of the various institutions that were members of the group, and after I had read up to the point where those charts were material, I left off the writing that I had prepared and continued an informal discussion about each of the various units, and commented on the conditions in those cities as illustrated by the charts.

Mr. PECORA. Do you know whether or not there is in existence either the original or any copy of the notes from which you read your report, or part of it, to the stockholders at that annual meeting?

Mr. KANZLER. I have the actual notes which I prepared for my own reading and which I read.

Mr. PECORA. Do you have them with you?

Mr. KANZLER. Yes, sir; I have.

Mr. PECORA. Will you please produce them?

Mr. KANZLER. Yes, sir [producing a document].

Mr. PECORA (after examining document). Mr. Kanzler, did you read to the stockholders at the last annual meeting all of the matter which is typewritten and handwritten on the document which you have handed me?

Mr. KANZLER. I have not changed the document any, and I presume I read it all just as it is.

Mr. PECORA. Is it fair to assume that those portions of this document which are deleted by lead pencil lines were not read?

Mr. KANZLER. Yes, sir.

Mr. PECORA. I offer it in evidence.

The CHAIRMAN. Let it be admitted and entered in the record.

(Kanzler notes, annual meeting of stockholders, Guardian Detroit Union Group, Inc., Jan. 24, 1933, were received in evidence, marked "Committee's Exhibit No. 63, Jan. 4, 1934," and the same were subsequently read into the record by Mr. Pecora.)

Mr. PECORA. The document, which has been marked "Committee's Exhibit No. 63", reads as follows [reading]:

Annual reports of 1932 are hardly complete without reference to economic conditions, to the need for drastic curtailment of governmental expenditure, the necessity of finding solutions for the European situation and unemployment, and the desirability of enacting banking legislation.

These problems are controversial. They have been debated by experts; writers of authority have discussed them in the public prints.

We have very definite opinions on these problems and our organization has contributed liberally in time and effort to help solve them.

But, since the full discussion of even one of these problems affecting the economic situation would, were it adequately treated here, consume infinitely more time than is at our disposal, we want you to know that we are constantly on the alert to changing conditions. We have at our disposal the best obtainable counsel and in our operations during the past year we have been guided by this counsel and have charted our course accordingly.

The safety of funds which our deositors have entrusted to us is paramount to every other consideration. From this viewpoint, 1932 was a year of notable improvement.

Despite the generally adverse business conditions which prevailed, no less than $100,000,000 of assets of our banks and trust companies are held as cash or invested in United States Government securities against aggregate deposit liabilities of $290,000,000. This degree of liquidity is not excelled by any bank or group of banks in the entire State of Michigan.

Mr. KANZLER. Mr. Pecora, may I interrupt? I think you will find "any bank" is crossed off.

Mr. PECORA (reading):

This degree of liquidity is not excelled by any group of banks in the entire State of Michigan.

Is that the way you think that was read?

Mr. KANZLER. I am sure it was, because I remember it at the time. I thought it was an overstatement, and that there might be some bank that was 100 percent liquid, or 90 percent liquid, and so that was crossed off.

Mr. PECORA (continuing reading):

While bettering their liquid position, our banks have at all times continued to render constructive, helpful service to customers and have played an important part in encouraging industry to maintain employment and in rendering distinct assistance and cooperation to their respective communities.

The pursuance of this sound policy of looking first to the stability and liquidity of our banks and trust companies necessarily affected our earning power—for liquidity can be maintained only at the expense of profits. For the year 1932,

operating earnings of the banks and trust companies in the Group, after all expenses of operation, taxes, depreciation on banking houses and equipment and losses on securities sold, but before reserves, were $2,619,443. On the same basis and for the same period, the consolidated net operating earnings of the Group Co., banks, trust companies and all other affiliated companies, amounted to $1,316,952.

Dividends paid during the year amounted to $375,134. Conservative policies made advisable the discontinuance of dividends during the second quarter of 1932. The remaining earnings of $941,818, together with recoveries of $1,131,005, from items charged off in previous years, plus sums taken from capital funds in an amount of $8,966,932, totaling $10,939,756, were transferred to reserves.

Computed on the basis of the aggregate capital, surplus, and undivided profits of the unit banks and trust companies, as reflected by their published statements of December 31, 1932, plus the net worth of the other affiliated companies at market prices of securities on December 31, 1932, the book value of the group stock amounts to $17.04 per share. This figure does not include total reserves remaining in the banks and trust companies exceeding $6,700,000, nor does it include a reserve of $5,000,000 on the books of the Group Co. for contingencies not determinable at this time, but which your management has deemed it prudent to create, in view of the present business situation.

The policy of liquidating securities affiliates which was initiated in 1931 has been continued during 1932 in an orderly manner. During 1932, a difficult period for liquidation, securities carried on the books at $1,712,821 were sold with a resultant net loss of only $42,201, accomplishing this liquidation by the sale of the least desirable holdings and retaining only the highest grade securities. On December 31, 1932 the aggregate market value of securities owned by these companies was $5,688,797.

Outside of the banks and trust companies whose statements are regularly published, and in addition to the securities companies which are in liquidation, as stated above, there are included also in the Group the following three operating companies—the Union Title & Guaranty Co., the New Union Building Co., and the Guardian Safe Deposit Co.

The Union Title & Guaranty Co. depends upon real estate activity for its profitable volume of business. During 1932 there was continued stagnation of real estate activity in the metropolitan Detroit district. In spite of the greatly curtailed field for title-company operations, this company was able to show a small profit ($1,600) in 1932 as against a $47,000 loss in 1931. Though its operating income declined 20 percent, its expenses were cut about 30 percent to produce this result.

The year 1932 has been one of continued difficulties for office-building operation. Under the existing leases with the New Union Building Co., the Union Guardian Trust Co. handles all details of building management, and all results of such operations are reflected in the trust company statement as published. Under this arrangement, the New Union Building Co. made a profit of $219,000 before depreciation. Depreciation of building and equipment amounted to $290,000.

The funds which are being accumulated in the reserve for depreciation are used to make principal payments on the mortgage obligation of the building company. Since completion of the building in 1929, the building has been written down by $1,227,916.66, and during the same period its mortgage indebtedness has been reduced by $575,000 to $6,425,000. This indebtedness is now being reduced at the rate of $250,000 per year. Except for current operating accounts, the building company has no obligations other than the mortgage debt.

There was a greater than normal demand for safety-deposit boxes this year, and a as result the Guardian Safe Deposit Co., which operates all the safe-deposit business in metropolitan Detroit and a few other units, had a slight increase in its earnings, the total for the year being $4,800.

Drastic economies of operation were continued during the year with satisfactory results. In spite of the fact that total operating income of banks and trust companies decreased 18.32 percent, the controllable operating expenses—i. e., other than interest on deposits—were reduced 25.41 percent.

To effect further operating economies, the Grosse Pointe unit, the Guardian Bank of Grosse Pointe, was merged with the Guardian National Bank of Commerce on December 31, 1932.

FINANCIAL STABILIZATION

In the latter part of December 1931 the American State Bank of Lansing, one of the three largest banks in Lansing, had been forced to close its doors. Public

confidence in Lansing was badly shaken. The public hysteria was directed almost entirely against the City National Bank, whose deposits were rapidly being withdrawn.

To protect the citizens of Lansing from a catastrophe from which the city would have taken many years to recover, and to establish financial stability for the city of Lansing, the Capital National Bank of Lansing, our unit, on December 28, 1931, took over the City National Bank of Lansing, which then was an institution with total footings of approximately $9,000,000.

To protect our unit against possible loss in taking over the assets of the City National Bank, certain of the directors of that institution, together with some public-spirited corporations and other individuals, put up in trust as a guaranty fund, securities having a market value of $1,500,000.

Announcement that one of the Guardian units had guaranteed deposits of the City National Bank immediately quieted the fears of the Lansing public and financial tranquility was reestablished within short order.

The wisdom of this action has been fully demonstrated and public confidence in Guardian institutions and Guardian policies has increased in no small degree.

On January 14 of this year, the only other bank in Port Huron outside of our unit was compelled to close its doors. At the same time, two small banks, one in Algonac and one in Marine City, nearby communities, also closed their doors.

As was to be expected, the public in Port Huron became apprehensive as to the safety of their deposits. For a day or two even our own bank at Port Huron suffered withdrawals. These withdrawals have ceased, and funds which had been placed in safety-deposit boxes by frightened customers have already begun to return to our bank.

It is an inherent feature of the present banking situation, involving as it does such a delicate and fragile thing as credit reputation, that the many instances of assistance rendered by the group to communities and institutions of Michigan can never be detailed. Actual results, however, have developed an understanding in many quarters of the effectiveness of group banking as conducted in your corporation, and have made for our units many new friends and an enhanced reputation.

The banking units of the Guardian Detroit Union Group are located in 16 communities

It is interesting to note that, as measured by deposits, in 11 of these communities the Guardian units are first in size; in 4 cities they are second in size; and 1, in Hamtramck, is in third place.

Putting it in another way, in 3 cities our units have 100 percent of the deposits in the city; in another 3 cities our units have more than 75 percent of all deposits; in 2 cities our units have more than 50 percent; in 5 cities our units have more than 25 percent; and in 3 cities we have less than 25 percent.

That our units are gaining in good will and strength in the eyes of the various communities of the State is best demonstrated by the fact that two of our largest out-State units, which at the beginning of the year had been in second place, went to first place in their respective cities. Two other units advanced their position from third place to second. Only one unit in the Group, namely, Dearborn, lost its relative position during the year, the same having been passed by the Deaborn State Bank.

Fourteen of the twenty banks and trust companies in the Group are 20 years old or more. Seven of these are 60 years old or more—the average age being 35 years.

Mr. KANZLER. Mr. Pecora, if I may interrupt here, it was at this point that I brought out the charts, and in connection with this information I discussed the situation of each unit and the community.

Mr. PECORA. You have not any copy of those charts?

Mr. KANZLER. They were all extemperaneous. I think the charts probably are still in Detroit.

Mr. PECORA. I will resume my reading of Committee's Exhibit No. 63 [continuing reading]:

The stock ownership of your corporation is the best evidence of the confidence the directors and officers have in the future of the group. Its institutions are manned by men who are outstanding citizens in their respective communities, who have for years been identified with their institutions, and who are familiar with industrial and economic conditions of each city. They are men who are

themselves large holders of stock in your corporation and whose every effort is devoted to an interested development of service to the public and the community in which they are located.

Shares owned by officers and directors of units of the group as of January 12, 1933, amounted to over 400,000 shares, or more than 26 percent of the total of 1,544,844 shares outstanding; 1,435,978 shares, or 93 percent, are owned by residents of the State of Michigan. There was a substantial increase in the number of shareholders during the last year. There are now 9,837 shareholders, compared with 8,945 on December 31, 1931. Ownership of large holdings of stock remained practically unchanged during the year.

IN MEMORIAM

It is with deep regret that we report the great loss the Group has suffered by deaths during the year—

On March 26: Edwin H. Nelson, president Nelson, Baker & Co.

On April 1: John R. Russel, vice president Clayton Lambert Manufacturing Co.

On June 23: Daniel D. Brown, chairman First National Trust & Savings Bank, Port Huron.

These men were all directors of the Guardian Detroit Union Group, and their memory is warmly cherished by those with whom they were associated.

Notwithstanding the exceptionally trying times and their effect upon our banking institutions during the year, our unit banks are entering the new year prepared to furnish better and more efficient banking service to the communities which they serve.

Perhaps never in the history of banking has more been demanded of directors, officers, and staff than in the past year. It has been an inspiration to note the unselfishness with which our organization has faced its daily problems.

We wish to take this occasion to express to them our appreciation for their zeal, loyalty, and cooperation which has been shown.

We also take this opportunity to thank our shareholders for their splendid support during the year 1932, which has resulted in an increased amount of business being directed to units of the Group. Continuance of this confidence during 1933 will stimulate the operating staff to even greater endeavors in the interest of the stockholders.

The preeminence of the Guardian Detroit Union Group, Inc., as a vital factor in the economic and financial life of Michigan becomes impressive when one considers the outstanding men representing its affiliated institutions as directors. With these contacts, any economic improvement or further development of Michigan's industries will directly reflect such prosperity within our own institution.

Mr. KANZLER. This next was not read, Mr. Pecora. That was just a computation.

The CHAIRMAN. And right after that meeting you proceeded to Washington to get a loan from the Reconstruction Finance Corporation.

Mr. KANZLER. Yes, sir.

Mr. PECORA. Does this comprise substantially what you gave to the stockholders orally at the meeting of January 24 last, as the annual report of the Group or holding company for the year 1932?

Mr. KANZLER. It does, plus the remarks I made in commenting on the situations in the local communities that were represented by those charts.

Mr. PECORA. Could you give this committee now, from your recollection or from any notes that you may have, the substance of those remarks you made?

Mr. KANZLER. I had no notes. I commented on the conditions of the banks throughout Michigan, as I recall it, and the fact that there had been many banking failures. I commented on the—well, I cannot generalize, Mr. Pecora. I would have to sort of think back over each city. I remember I commented on the fact that the automobile

industry had very seriously affected conditions in Flint and in Jackson; that conditions were a little bit better in Kalamazoo, because the paper business had been rather satisfactory. I had commented on the fact that in Port Huron the situation was particularly difficult because of the fact that it was so easy for depositors to take money across the river and put it into Canadian banks. I commented on the general real estate situation involved in all units. I think that about represents it. There probably was some more said, but I do not recall exactly what it was.

Mr. PECORA. Mr. Kanzler, who prepared this document which has been marked in evidence as Committee's Exhibit No. 63 of this date?

Mr. KANZLER. Most of the text was prepared by myself. I asked for the figures from different individuals who were operating men in the group.

Mr. PECORA. Did you know whether or not, at the time you made this report to the stockholders on January 24 last, the group had incurred a deficit for the year 1932?

Mr. KANZLER. Are you speaking of the group as a group company, or of the banks and trust companies and affiliated institutions of the group?

Mr. PECORA. I am speaking of the group as a separate corporate entity.

Mr. KANZLER. I do not recall that I was particularly conscious of what the particular books of that one corporation showed. Any interest of the stockholders was in what their combined investment had done during the year, and that was the figure I was trying to give them. I did not think it was particularly important to know just what one of the corporations in the group had done.

Mr. PECORA. The stockholders to whom this report was made were stockholders only of the group, were they not?

Mr. KANZLER. Yes, sir.

Mr. PECORA. And, as such, do you not think they were interested in the financial condition of the group as a separate corporate entity?

Mr. KANZLER. I can only answer that by saying this, that we had prepared and had before our executive committee a form of the consolidated figures of all the banks and trust companies and all the affiliates and the Group Co., and we were publishing that because the stockholder then could see what the whole picture amounted to.

Mr. PECORA. Did you personally know, when you made this report at the last annual meeting of the stockholders of the group, whether or not the group, for the calendar year 1932, had done business at a net profit, or showed a deficit at the end of the year?

Mr. KANZLER. Mr. Pecora, I will have to answer that question this way. We did not pay any attention to the amount of dividends that might be received from group units to the Group Co., because we were not on a dividend-paying basis. The Group Co. paid no dividends. It was of no material moment at that time as to whether or not the cash position of the Group Co. was larger or less by reason of some dividends that either had been declared or had not been declared; and another reason——

Mr. PECORA. One moment. You said the Group Co. paid no dividends. You mean it paid no dividends during that year.

Mr. KANZLER. No; at that time.

Mr. PECORA. It did pay some dividends during the year 1932, did it not?

Mr. KANZLER. Yes, sir.

Mr. PECORA. Do you know what the aggregate amount of those dividends was?

Mr. KANZLER. I think it is stated in the report as something like $375,000.

Mr. PECORA. $375,134?

Mr. KANZLER. Yes, sir. That was the first quarter of 1932.

Mr. PECORA. Well now, can't you answer the question which I put to you before and which I think is rather simple and which I will repeat perhaps in another form: When, on January 24 last, you as chairman of the board of the Group made this annual report to the stockholders that were present, did you or did you not know that during the calendar year 1932 the Group as a separate corporate entity had incurred a deficit of $714,331.26, which included the carry-over of deficits for the 2 preceding years amounting in the aggregate to $288,930?

Mr. KANZLER. In the way our reports were being made that was not material, to my mind.

Mr. PECORA. I have not asked you about its materiality or immateriality. I ask you if as a matter of fact you knew that during the calendar year 1932 the holding company or the Group had incurred a deficit in the amount stated?

Mr. KANZLER. The reason I am answering the way I am is because it never was material, and I do not know whether I ever saw a sheet showing a deficit or not, because of the manner of our keeping the books.

Mr. PECORA. Did you know whether or not the company had incurred a deficit for the calendar year 1932 when you made the annual report for that year to the stockholders at the meeting held on January 24, 1933?

Mr. KANZLER. I cannot say now, because I do not recall having placed particular emphasis on what the holding company position was.

Mr. PECORA. What was your purpose in making an annual report to the stockholders of the group if it did not include the purpose or object of stating to the stockholders whether or not their company, the group, the Guardian Detroit Union Group, Inc., had developed a deficit or a surplus for the year 1932?

Mr. KANZLER. The purpose was to tell them what the combination did, and that is what was told them.

Mr. PECORA. For the purpose of telling them what the combination did. Eliminate from your purposes that of telling them what the group as a separate corporate entity did on the whole.

Mr. KANZLER. Well, the Group Co. figures, whatever they were, were included in the consolidated figures. Nothing was eliminated. There was no deficit that was not stated if there was a deficit. There was no profit, if there was a profit, that was not stated in the combined figures.

Mr. PECORA. Have you a copy of committee's exhibit no. 63 of this date? That is this report or document that you handed me and which you say you read to the stockholders.

Mr. KANZLER. I just gave one away. I think I have another one here.

Mr. PECORA. Will you look at it, please?

Mr. KANZLER. Yes, sir.

Mr. PECORA. Look at it carefully. Point out to this committee anything therein stated which indicated in words or substance that the Guardian Detroit Union Group, Inc., for the calendar year 1932 had shown a deficit of any amount.

Mr. KANZLER. We stated this on page—I think it is marked "page 1":

> That on the same basis and for the same period the consolidated net earnings of the group companies, banks, trust companies and all other affiliated companies, amounted to—

this figure.

Mr. PECORA. Where do you see that?

Mr. KANZLER. That is on page 1.

Mr. PECORA. I don't see it on page 1 of my copy.

Mr. KANZLER. Maybe if I can see your copy, Mr. Pecora, I can clarify that. [Pointing on Mr. Pecora's copy.] Beginning with that sentence.

Mr. PECORA. It is really page 3 of the document you handed me, although at the bottom of the page there appears the numeral 1.

Mr. KANZLER. That is right. I was looking at that when I said page 1.

Mr. PECORA. All right. Now read the portion that you said informed the stockholders of the group that they had a deficit for the year 1932.

Mr. KANZLER (reading):

> On the same basis and for the same period the consolidated net operating earnings of the group companies, banks, trust companies, and all other affiliated companies, amounted to $1,316,952.

Mr. PECORA. Is that the statement that you say informed the stockholders that the group operated at a deficit that year, or had a deficit at the end of the year?

Mr. KANZLER. That would include any operations of the Group Co., and if there had been a deficit or if there had been a profit that could have been included in that figure.

Mr. PECORA. Where is the language, figures, or statement of any kind here that by any manner of construction or interpretation that you choose to apply to the words used here, informs the stockholder that the group or the holding company showed a deficit at the end of the year 1932?

Mr. KANZLER. Mr. Pecora, I can only say this, that that was a clearing company and we did not show the exact earnings of some of the other affiliates here, because the whole picture was a consolidtaed picture, and we felt that whatever was material in the operations of a clearing company which could have been changed by the mere declaration of a dividend or by the transfer of some expense would have changed that figure. So it really was not a figure that the stockholder should have been or would have been interested in.

Mr. PECORA. Why do you think a stockholder would not have been interested in any figure or statement that would have informed him exactly to the effect that the company, the Group Co., for the year 1932, showed a deficit at the end of the year? Why didn't you consider that a thing that the stockholder of the Group Co. would be interested in?

Mr. KANZLER. For this reason: It might have been very misleading information. You might have had a subsidiary company making a great deal of profit and holding that profit, but simply not declaring it to the Group Co. Then to bring out a statement and say that the holding company was operating at a deficit because it had not transferred a dividend from a subsidiary company to a holding company and that for that reason it ran at a deficit, would not be telling an intelligent story.

Mr. PECORA. Do you think an intelligent picture of the financial condition of the Group Co. was conveyed to the stockholders through the medium of this report?

Mr. KANZLER. I think so, when taken in conjunction with the balance sheet.

Mr. PECORA. What balance sheet?

Mr. KANZLER. Well, we had a balance sheet that we were to publish with this report.

Mr. PECORA. That you were to publish?

Mr. KANZLER. Yes, sir.

Mr. PECORA. Why wasn't it published?

Mr. KANZLER. Because the next day I took the train to Washington, and from that time on until 2 and 3 o'clock every morning we were engaged in the operations which finally led up to the holiday.

Mr. PECORA. Those operations were necessitated by reason of the financial condition of the banks that were units of the Group, were they not?

Mr. KANZLER. They were occasioned by our desire to provide for the future of what we thought might happen in certain eventualities.

Mr. PECORA. And what you thought would be a proper provision for the future was the obtaining of loans?

Mr. KANZLER. Yes, sir.

Mr. PECORA. And you sought those loans from the Reconstruction Finance Corporation?

Mr. KANZLER. Yes, sir.

Mr. PECORA. And that was occasioned by the financial condition of the banking units of the Group?

Mr. KANZLER. No, sir; it was occasioned by the financial conditions throughout the whole State of Michigan, by the financial condition of institutions in the cities where we had units. Our units were in comparably better position than many of the units in cities where we were doing business, and in conjunction with Mr. Leyburn we had thought it was essential that we develop a position for this Group, so that regardless of what might happen economically or what might burst out, what flame might burst out somewhere in Michigan, we would have spinal column of banks that would maintain itself regardless of what happened.

Mr. PECORA. Is there anything set forth in this report which you made to the stockholders which reflected that that was the situation, the situation which prompted you the day after you delivered this report for the year 1932 to the stockholders, to rush to Washington to seek financial assistance from the R.F.C.?

Mr. KANZLER. Why, I think so, decidedly. We had told them about the experience we had just had in Port Huron. They knew the conditions throughout the State of Michigan. They knew how many

banks had failed. These were the strongest, practically without exception the strongest, surviving units in every city.

Senator COUZENS. Including Detroit?

Mr. KANZLER. No. But stockholders there knew the Detroit situation. There was no need describing to them the condition in which the city found itself and that we were working day and night to keep the city bonds from going into default. The general conditions of the country were well known.

Senator COUZENS. You said a while ago that some of the units, or the units of some of your competitors or the other group, were worse off than you were and that you had the strongest chain, if I interpret your testimony correctly. Is it not a fact that some of your units were in equally bad condition?

Mr. KANZLER. Well, I don't know what you call in bad condition. Certainly there were some units that we wanted to make more liquid, because were there a run to start in some of those cities it is obvious that they would have had a difficult time.

Senator COUZENS. You made a comparison between the units of the other group. I assume there was only one other group?

Mr. KANZLER. No, sir; I did not mean it in that sense. I was making a comparison. If I may state an example: We might have a unit, we will say, in Saginaw. There might be other banks in Saginaw that might not be as strong as our units. Should there be difficulty in one of those other units, it would immediately react upon our unit, and therefore it was our desire and our purpose, and that was why we came to the R.F.C., to make that Saginaw unit—I am just using that as an example—so powerful that it could withstand any difficulty in that particular city. Now, as a matter of fact, Saginaw we felt was such a strong bank that we did not ask for any assistance for it at all.

Senator COUZENS. What banks did you ask for assistance for?

Mr. KANZLER. I haven't a recollection of all that now, Senator. That is, I think, a matter of record.

Senator COUZENS. Where?

Mr. KANZLER. Oh, I think the R.F.C. must have all those applications.

Senator COUZENS. Did you not make an application for the Group as a whole and take securities from a number of your units to make up the aggregate security for the R.F.C.?

Mr. KANZLER. No, sir; that was not the original application.

Senator COUZENS. I am not talking about the original; I am talking about the final application.

Mr. KANZLER. Well, the final application it was a question of applying for a loan for a mortgage company.

Senator COUZENS. Yes.

Mr. KANZLER. And the mortgage company was to receive assets from individual units throughout the State.

Senator COUZENS. That is the point I am trying to get at. What individual units throughout the State?

Mr. KANZLER. May I refer to a record that I have here?

Senator COUZENS. Yes; certainly.

The CHAIRMAN. Had the mortgage company been organized and was it operating, or were you going to organize one?

Mr. KANZLER. The Mortgage Company, Senator Fletcher, was a company that developed about February 3 or 4 or 5. The holiday was declared on the night of the 13th. Mr. Allee of the R.F.C. came with Mr. McKee on Saturday, January 28, and as a result of some phone conversations from Detroit to Washington that plan was finally decided upon, and then counsel in Detroit and Mr. Allee representing the R.F.C. had the mortgage company papers all prepared and it was ready to function for that purpose as of that week end that the holiday was declared.

The CHAIRMAN. I did not mean to interrupt your answer to the other question.

Mr. KANZLER (after referring to data). To answer your question, Senator Couzens, in its final form—and by final form I must recall those days which were very hectic—the application had been handled and rehandled from January 26, when it was first proposed to the R.F.C., until the final date when the holiday was declared, and originally there were many more banks included in this application.

The final proposal from the R.F.C. was an offer with a condition attached to it that if those conditions were satisfied they would loan on collateral as offered 37 million dollars, and under that offer as it was then scheduled the recipients of those funds, banks in the State, were the Guardian National Bank of Commerce——

Senator COUZENS. How much?

Mr. KANZLER. $10,500,000. Union Industrial Bank of Flint—do you want to know the collateral on those? Shall I give that detail?

Senator COUZENS. Yes; I would like to have it.

Mr. KANZLER. The Guardian National Bank of Commerce of Detroit required a loan of $10,500,000. It offered $11,655,000 worth of securities, which consisted of $3,200,000 of city of Detroit bonds, $1,100,000 of Fisher & Co. loan, whch incidentally has been paid, approximately $2,300,000 of Simmons Co. bonds—that is Simmons Bed Co.—and approximately $5,000,000 of selected first mortgages.

The Union Industrial Bank of Flint was to receive out of this $37,500,000, $1,500,000, and for this it was offering a first mortgage on two banks and office buildings, one of them being the largest office building in Flint, which had just been then built, and the cost of these two buildings was $3,772,000, and there was no mortgage debt, but the amount required was a million and a half as against that 3 million seven.

The next bank was in Grand Rapids, the Grand Rapids National Bank. This was for a loan of a million dollars, and it was offering a first mortgage on a 13-story bank and office building in the heart of the city, which had been built some time before. The cost was $2,160,000.

We wanted $600,000 for the City National Bank of Battle Creek. That bank incidentally is open today. This bank was offering a mortgage on its bank and office building, which cost $1,204,000, the loan being $600,000.

The next bank that required liquidity was Jackson. The loan was $500,000. It offered a first mortgage on its bank and office building, 20-story building, the outstanding building of the city, which had been built about 2 years before, cost about $3,489,000.

That made a total of $14,100,000. Then there was an additional loan asked for the Union Guardian Trust Co. of $13,077,000. They already had a loan or a commitment of $14,000,000. The combined total for the trust company would have been $27,800,000. I am giving more or less round figures.

For this collateral had already been pledged of $31,790,000, and additional collateral of $6,300,000 was being offered, which was accepted by the R.F.C.

In addition to that collateral the Group Co. offered $898,000 of marketable securities and its building, the Union Guardian Building, in which it had an equity of $4,100,000, and all its assets in the Congress Corporation, which had some but uncertain value, which, while their face was 4 million five, that is not a representative figure as to what they were worth. They were worth less than that. They were worth very much less than that, because of items which had been lifted out from the various banks by the Group Co.

That made a total loan required of $41,000,000, and this collateral, including that 4 million five of the Congress Corporation, was $67,947,000.

This loan was offered us on condition that we raise 2 million dollars for the capital of a mortgage company and an additional $4,218,000.

Senator COUZENS. What was that additional for, in cash?

Mr. KANZLER. That was cash, yes; to further secure this loan.

Senator COUZENS. Was there any other promise made to the R.F.C. as security for the loan?

Mr. KANZLER. No, sir; not that I know of.

Senator COUZENS. What did the R.F.C. value that at, the amount of the offer, 37 millions plus?

Mr. KANZLER. They offered $37,720,000.

Senator COUZENS. And that is what they valued the security at, is it?

Mr. KANZLER. That is the loan value that they attached.

Senator COUZENS. Yes; that is what I mean.

Mr. KANZLER. Yes, sir.

The CHAIRMAN. That is to all trust companies, banks in the Group, all together?

Mr. KANZLER. Yes, Senator Fletcher. We never knew how much loan value they would put up against, for instance, this item or that item or another item. We were just told that the total that we had offered had a loan value of $37,720,000.

Senator COUZENS. Was there not at that time discussed the subordination of some large deposits?

Mr. KANZLER. Yes, Senator Couzens; that is included in this figure that I have here.

Senator COUZENS. For the Union Guardian Trust Co.?

Mr. KANZLER. Yes, and when I say the Union Guardian Trust Co. asked for a certain amount, that subordination is included.

Mr. PECORA. Mr. Kanzler, in the preparation of this report which you read to the stockholders at the last annual meeting of the Group this report was calculated to give the stockholders a rather pleasing and confidence-inspiring picture of the situation, wasn't it?

Mr. KANZLER. Well, I don't think we inspired their confidence by telling them that we just had a run in Port Huron particularly. I think we tried to tell them about what the conditions were.

Mr. PECORA. Well now, among other things, you said:

The safety of funds which our depositors have entrusted to us is paramount to every other consideration. From this viewpoint 1932 was a year of notable improvement.

Had it been a year of notable improvement in that respect?

Mr. KANZLER. It certainly had. We had increased the liquidity of the Guardian National Bank of Commerce from 30 percent to 40 percent.

Mr. PECORA. Yes.

Mr. KANZLER. We had been very highly complimented on that. That certainly was a notable improvement. In other units, the exact conditions of which I cannot recall right now, there had also been great improvement. It is obvious, of course, that the depression was not getting any better. The depression was getting worse, and everybody knew it.

Mr. PECORA. But you were improving your condition according to this report?

Mr. KANZLER. I think by comparison with what was going on we certainly were improving; our operations were improving.

Mr. PECORA. No, not by comparison with what was going on, but by comparison with the preceding year, had the safety of the funds of the depositors, the various banking units of the group, been improved over the preceding year?

Mr. KANZLER. Certainly you improve the safety of the funds of the bank when you improve it from 30 to 40 percent.

Mr. PECORA. Had they been improved?—is what I am asking you. Had the safety of the depositors' funds been improved for the year 1932 over the preceding years?

Mr. KANZLER. I think there was a great improvement from the consideration of the safety of funds which our depositors entrusted to us.

Mr. PECORA. Where was that improvement manifest?

Mr. KANZLER. It was manifested in the greatly increased liquidity of some of our units.

Mr. PECORA. How about all of the units as a whole? You were referring in this report to the safety of the funds in all of your banking units, were you not?

Mr. KANZLER. I did not refer—I admit that we had not done as well in the city of Dearborn where we had passed by another bank. I did not try to make this figure specific for every institution.

Mr. PECORA. You tried to give the general picture of the situation of all of the unit banks in the Group?

Mr. KANZLER. Yes, and I enlarged on it in my remarks with the charts.

Mr. PECORA. Yes, but in this portion, which is the only portion reduced to writing and of which we have an authentic record, you were referring to the safety of the funds of the depositors of all of the bank units, were you not?

Mr. KANZLER. Yes, sir.

Mr. PECORA. Now, considering the safety of those funds in all of the banking units as a whole, had their safety been improved during the year 1932 over the preceding year?

Mr. KANZLER. I felt we had done—it was a notable improvement all along the line.

Mr. PECORA. You mean the actual safety of all the depositors' funds had shown an improvement over the safety of those deposits for the preceding year, do you?

Mr. KANZLER. I would say so.

The CHAIRMAN. Had your deposits increased?

Mr. KANZLER. No, sir; our deposits had declined.

Mr. PECORA. Now you say also in your report:

> Despite the general adverse business conditions which prevailed, no less than $100,000,000 of assets of our banks and trust companies are held as cash or invested in United States Government securities against aggregate deposit liabilities of $290,000,000.

In that statement of the cash or Government securities assets of the banks, the banking units of your group, in that estimate of a hundred million dollars as the value of such assets did you include the Government bonds or securities which were pledged?

Mr. KANZLER. Yes, sir.

Mr. PECORA. How many of them were pledged and in what amount?

Mr. KANZLER. I don't believe I can tell you.

Mr. PECORA. That is not something to be taken into account in determining the liquidity of the bank. Don't you deduct the pledged securities for the purpose of determining liquidity?

Mr. KANZLER. Well, these figures were compared with the preceding year, and they showed a great improvement.

Mr. PECORA. Well, that does not answer my question, Mr. Kanzler.

Mr. KANZLER. Well, Mr. Pecora, there are limitless ways of determining liquidity.

Mr. PECORA. Isn't that one of the ways?

Mr. KANZLER. That is one way.

Mr. PECORA. And isn't it a safe and sound way and an honest way?

Mr. KANZLER. Well, I think it is a great improvement. I think banks now for the first time are publishing statements showing pledged Government securities.

Mr. PECORA. Whether they are publishing them now for the first time or not, isn't it the safe, sound, and honest way of determining liquidity of a bank?

Mr. KANZLER. I think banks generally are improving their statements.

Mr. PECORA. That still does not answer my question, Mr. Kanzler. Let me put it in another way: In this report to the stockholders of the group you attempted or purported to present to them a picture of the operations of the banking units of the group as a whole for the year 1932, didn't you?

Mr. KANZLER. Yes, sir.

Mr. PECORA. And in that report you included a statement which meant in substance that the liquidity of the banks had improved during the year 1932 over the preceding year, didn't you?

Mr. KANZLER. The liquidity of the banks and trust companies as a group.

Mr. PECORA. Now, Mr. Kanzler, as evidence of the liquidity of the banking units of the group you have stated in this report that

Not less than 100 million dollars of assets of the banks and trust companies are held as cash or invested in United States Government securities against an aggregate of deposit liabilities of 290 million dollars.

And you did not in that estimate of 100 milliom dollars of cash and Government assets eliminate the Governemt bonds that were pledged, did you?

Mr. KANZLER. Not as compared to the preceding year. And that is the way you get your improvement. But it was common practice for us to look at our liquidity in that way. And everybody looked at it in that way. And the only way to get a comparison was to see what you had done before, and on the basis of what we had done before, and what everybody had done before, it had improved, and that is what we tried to state.

Mr. PECORA. Did you know how liquid your banks were when you included in the assets of the banks those Government securities which were pledged?

Mr. KANZLER. Mr. Pecora, when you ask me whether I personally know, of course I don't know. I never made any entries. I was not an operating man. We had an operating department, and they gave me figures in response to my questions, which I believed were reasonable and were thoroughly reliable. I had my regular business, and I would come and spend a good deal of my time attending to this business.

Mr. PECORA. To which business, your regular business?

Mr. KANZLER. No; to this business.

Mr. PECORA. Do you mean the group business?

Mr. KANZLER. Yes, sir. I did everything I could to try to help it along. Among the things I would do would be to ask questions about matters like this; and, quite naturally, I did not go through all the units to see whether any accounts were kept one way or another. I had to rely on the figures they gave me, and I believed them to be true.

Mr. PECORA. You knew that in that figure of 100 million dollars of cash and Government securities as assets, there was included Government securities which had been pledged by the various unit banks.

Mr. KANZLER. Well, we were making a comparison, and they had been included the year before.

Mr. PECORA. But you knew at this time that they were included in this statement of 100 million dollars cash and Government securities as assets?

Mr. KANZLER. Oh, yes. I knew that they were included.

Mr. PECORA. In this report you further stated to the stockholders:

While bettering their liquid position our banks have at all times continued to render constructive and helpful service to customers, and have played an important part in encouraging industry to maintain employment, and have rendered distinct assistance in cooperating with their respective communities.

And in this statement you also make some mention of the fact, or what you stated to be a fact, that the unit banks had bettered their liquid position during 1932.

Mr. KANZLER. Yes, sir. I said this, as it shows, that as a group they were more liquid.

Mr. PECORA. Now, it was your purpose in compiling the figures embodied in your annual report to the stockholders to present a true and accurate picture, wasn't it?

Mr. KANZLER. Yes.

Mr. PECORA. And to give nothing that would be misleading.

Mr. KANZLER. There was nothing misleading.

Mr. PECORA. But I ask, that was your purpose, wasn't it?

Mr. KANZLER. Yes, sir.

Mr. PECORA. Now, you then say as follows, in this report:

The pursuance of this sound policy of looking first to the stability and liquidity of our banks and trust companies, it necessarily affected our earning power, for liquidity can be maintained only at the expense of profits.

Wasn't that true during the years 1930 and 1931 also, namely,that liquidity could be maintained only at the expense of profits?

Mr. KANZLER. I would say so.

Mr. PECORA. Then why was it that during those years, 1930 and 1931, as appears from considerable evidence, documentary and otherwise, that has been introduced before this committee, the Group was urging the banks, or suggesting to the unit banks, the payment of dividends which could only be paid by dipping into the capital funds of the banks?

Mr. KANZLER. Only, as I see it now, because it was considered the wisest thing to do in the light of all the circumstances.

Mr. PECORA. Then you say in your annual statement as follows:

For the year 1932 the operating earnings of the banks and trust companies in the group, after all expenses of operation, taxes, depreciation on banking houses, and equipment, and losses on securities sold, but before reserves, were $2,919,443. On the same basis and for the same period the consolidated net earnings of the member banks and trust companies, and all other affiliated companies, amounted to $1,316,952.

Now, in estimating or determining the amount of the net operating earnings of the Group Co. and all of its banking units and affiliates, was there any deductions made for reserves, and for mark-offs and write-offs?

Mr. KANZLER. In estimating earnings?

Mr. PECORA. Net operating earnings, which are stated to have been $1,316,952.

Mr. KANZLER. No, sir; I think not.

Mr. PECORA. Do you think that gives an accurate picture of the net earnings, without first deducting reserves, write-offs and mark-offs?

Mr. KANZLER. Well, it was stated as being before reserves. But I might say, Mr. Pecora, that these paragraphs were given to me complete by our operating staff.

Mr. PECORA. I am asking you if you think that is the proper way of presenting an accurate picture.

Mr. KANZLER. Well, in those times everybody knew that there would be plenty of items that had to be written off.

Mr. PECORA. Everybody didn't know any such thing, because neither you nor I nor anyone else can tell what anybody else knew. That is so, isn't it? Aren't you assuming too much when you are assuming to tell this committee, or even to tell yourself, what everybody else knew?

Mr. KANZLER. Well, I knew and everybody else knew that there was a depression on, certainly, with the resulting effect of depreciation of assets.

Mr. PECORA. I wonder if the board of directors of the group knew that there was a depression on when they were suggesting to the unit banks to pay dividends that could only be paid by recourse to capital funds in addition to earnings. Did they know that there was a depression on when they adopted that policy?

Mr. KANZLER. There was a general depression on throughout all banks.

Mr. PECORA. Now, you say further in your report:

The policy of liquidating securities values, which was initiated in 1931, continued during 1932 in an orderly manner. During 1932, a difficult period for liquidation, securities carried at $1,712,821 were sold with a resultant net loss of only $42,201, accomplishing this liquidation by the sale of the less desirable holdings and retaining only the highest grade securities.

Will you tell this committee just how that was done? Who bought those securities which were being liquidated?

Mr. KANZLER. They were an inheritance from 1929 and—or I think all were probably from 1929, and——

Mr. PECORA (interposing). But who bought them from the companies being liquidated?

Mr. KANZLER. They were sold by the trust investment department of the Trust Co.

Mr. PECORA. But I asked you, who bought them?

Mr. KANTZLER. I am trying to explain that. I do not know through whom or to whom they were sold, but they were sold, I presume, in the market.

Mr. PECORA. Who bought them, do you know?

Mr. KANZLER. No; I do not know.

Mr. PECORA. Do you know whether or not the Group Co. itself bought those securities from the affiliate companies at a figure which showed a loss of only $42,000?

Mr. KANZLER. Oh, not at all.

Mr. PECORA. You are certain of that?

Mr. KANZLER. No. I am not certain of it, because I am not able to tell for sure anything that I do not know about for sure. But I am quite certain that Dr. Badger does not attempt any operations like that, or make any report like that.

Mr. PECORA. Do you know who bought those securities?

Mr. KANZLER. I don't know; but I think it was the public. I think they were sold in the market.

Mr. PECORA. Can you find that out?

Mr. KANZLER. I think you can; yes, sir.

Mr. PECORA. All right.

The CHAIRMAN. What kind of securities were they? Can you tell whether they were notes, mortgages, or what?

Mr. KANZLER. I am very sorry, Senator Fletcher, that I do not know the details. There was a mass of securities held there, and they were being liquidated under the supervision of Dr. Badger; and those which he thought—or I think his general principle was this: That those he thought might be recovered upon were retained and those that he thought less desirable and might not be recovered

when he found a good price in the market he sold. I think that was the principle upon which he was liquidating.

Mr. PECORA. I have the recollection, though perhaps faulty, that Mr. Lord gave some testimony before this committee this morning, which, among other things, included the statement that the group had put in something like 8 million dollars or more, into the various banking units, to help them out. And I have the further recollection that in that process of relief they took over a lot of securities. That is why I asked you a moment or two ago if any of those securities were purchased by the group at a price which resulted in a loss of only $42,000.

Mr. KANZLER. I see the import of your question, Mr. Pecora, and can almost state positively that that was not the case. The securities that were taken over by the group were securities that were purchased from unit banks and trust companies throughout the State. That was the situation as I understand it, and that was the purpose of the funds.

Mr. PECORA. And they were purchased at figures in excess of the prevailing market prices at the time?

Mr. KANZLER. From the banks?

Mr. PECORA. Yes; from the banks.

Mr. KANZLER. Yes; I think they were. They were figured at the—well, I cannot tell you at what figures they were purchased, but I think in some cases at face, and in other cases there may have been a write-down first to the market, and then they were sold at the market. I do not know the details of that.

Mr. PECORA. The day after you delivered this annual report to the stockholders you came to Washington to seek relief from the Reconstruction Finance Corporation, didn't you?

Mr. KANZLER. Yes, sir.

Mr. PECORA. Do you recall the picture that you painted to the R.F.C. of the condition of the banking units of the group?

Mr. KANZLER. Yes, sir.

Mr. PECORA. What was that picture?

Mr. KANZLER. May I make a statement on that?

Mr. PECORA. I am asking you what that picture was.

Mr. KANZLER. I have a statement here I should like to read, if I may.

Mr. PECORA. Before you read it suppose I read to you from the minutes of the Reconstruction Finance Corporation, what they say concerning the statement you made to the R.F.C. last January.

Mr. KANZLER. Yes, sir.

Mr. PECORA. You are reported to have said to them:

> Mr. Kanzler stated that $20,500,000 would be required to liquidate the deposits of the Union Guardian Trust Co. of Detroit, but that the assets which they could offer as security for such loan would have a face value of only about 6 million dollars. He said that in those circumstances if the necessary aid could not be obtained from the corporation——

Mr. KANZLER (interposing). May I ask you what date was that?

Mr. PECORA. February 6, 1933.

Mr. KANZLER. That was not the next day, then.

Mr. PECORA. Well, it was——

Mr. KANZLER (continuing). And that was, Mr. Pecora, after Mr. McKee had come to Detroit and had looked over all our figures,

and had given us that additional information I am now reporting on in that report to the R.F.C. In other words, there was an examination made by the R.F.C., and that is their opinion.

Mr. PECORA. Well, you say it was their opinion. It is given here as a statement or summary of the statement which you made to the board of the R.F.C.

Mr. KANZLER. And which I made after Mr. McKee and a corps of about 15 assistants had been in Detroit appraising the assets and telling us what they thought qualified as assets, and what they thought they could accept as additional collateral for this loan that we were asking.

Mr. PECORA. Then the information which you had on January 24, 1933, when you made this annual report to the stockholders of the Group, was not, apparently, complete; was it?

Mr. KANZLER. Well, it did not compare with the information and the position which the R.F.C. took about those assets which I was reporting on in the statement you are reading.

Mr. PECORA. Very well; which was the truer picture, the one you presented to the stockholders on January 24 last as a result of the information, facts, and figures that had been given to you by the employees or officers of the group, or the picture which you presented to the board of the R.F.C. on February 6 last when you were seeking financial assistance?

Mr. KANZLER. I cannot tell today which was the truer picture. There was a corps of people inspecting the assets, and there was a difference of opinion, and whose opinion today is correct I do not know.

Mr. PECORA. You do not know today?

Mr. KANZLER. No; and I do not think anybody else knows today, just exactly what those assets were worth. They would have to be appraised by a rule of reason.

Mr. PECORA. Let me continue reading from the minutes of the R.F.C. of February 6, 1933, at which meeting you appeared in support of your application for relief for the unit banks——

Mr. KANZLER (interposing). Now, that happened substantially after the event where you suggested I made those remarks. In other words, that did not happen the day after I went to Washington.

Mr. PECORA. It happened within 2 weeks afterwards; didn't it?

Mr. KANZLER. It happened after a great deal had transpired. Things were moving very fast then. And I should like very much, if I may, to read the statement I have here as to——

Mr. PECORA (interposing). Well, let me read this statement that you made to the board of the R.F.C. on February 6, last, and then you can read whatever statement you desire.

Mr. KANZLER. All right.

Mr. PECORA. I will start again, at the beginning:

Mr. Kanzler stated that $20,500,000 would be required to liquidate the deposits of the Union Guardian Trust Co. of Detroit, but that the assets which they could offer as security for such loan would have a face value—

But not market value—

of only about 6 million dollars. He said that in those circumstances if the necessary aid could not be obtained from the Corporation, he and his associates felt that there would be no course open except to close the Union Guardian Trust Co. This action, he said, would result in the collapse of the entire Guardian

group, as well as every banking institution throughout the State of Michigan, thus endangering the State's entire financial structure, and seriously affecting that of other States.

Mr. Kanzler said that there were some 900 million dollars of deposits in all banks of the 16 communities in which members of the Guardian group operated, and that since the Guardian group members were in a more liquid condition than other banks of those communities, he did not see how any of the other banks could avoid closing, in event of the collapse of the Guardian group, in those communities; how, in fact, any bank in the State of Michigan could continue to operate.

He said that in his opinion it would not be feasible to induce depositors to subordinate their claims during the life of a loan by the Corporation, if made, with the exception possibly of a few of the larger customers of the Guardian group, including the Ford Motor Co. In connection with the deposits of this company, totaling about 30 million dollars in the various member banks of the Guardian group. However, Mr. Kanzler said that not only had Henry Ford within the past 3 years aided the group to the extent of about 16 million dollars, but he felt that he had done enough. But that they would be obliged to go to Mr. Ford again to assist in raising the 5 million dollars of new capital for the proposed mortgage company.

Mr. Kanzler said that it would be impossible in his opinion to obtain this 5 million dollars advance from Mr. Ford if the deposits of the Ford Motor Co. in the Guardian Group banks were frozen.

Mr. Kanzler admitted that there was a considerable gap between the value of the collateral which could be pledged and the amount of the loan desired, but said that the Guardian group situation involved imminent danger of financial disaster of major proportions affecting the State of Michigan and the country at large, and that he and his associates, feeling that if possible something should be done to avert this, had decided to lay the circumstances before the board of directors of this Corporation.

Now, that is a picture which is vastly different from the one presented in the annual report which you read to the stockholders about 2 weeks before, isn't it?

Mr. KANZLER. No, sir; I don't think it is.

Mr. PECORA. You think it is the same thing?

Mr. KANZLER. Well, there is a difference in the matter of time, and there is a difference——

Mr. PECORA (interposing). Two weeks' time is the difference there.

Mr. KANZLER. And during that 2 weeks' time there was a difference of appraisal, and a difference of expectation of what help we could get from the R.F.C. Now, may I read this statement?

Mr. PECORA. Who prepared the statement you want to read?

Mr. KANZLER. I did; in conjunction with my attorney.

Mr. PECORA. What is his name?

Mr. KANZLER. Mr. Gust.

Mr. PECORA. Have you copy of it?

Mr. KANZLER. Yes, sir.

Mr. PECORA. I should like to have a copy as I want to follow you.

Mr. KANZLER. All right. Here is a copy.

Mr. PECORA. You may go ahead.

Mr. KANZLER. It might appear that certain remarks made to the stockholders at the annual meeting and the preliminary draft of the annual report in preparation for sending to stockholders seem to be inconsistent with statements contained in the Reconstruction Finance Corporation application. They are not inconsistent. To fairly understand these matters requires a careful analysis of their purpose and of the situation governing as of the time they were made. In order that this committee may be fully and fairly informed as to the facts, I have prepared a short statement which I ask the privilege of reading [reading]:

The period was the latter part of January 1933. The annual meeting under the bylaws was set for the last week in January. As chairman of the board of directors of the Guardian Detroit Union Group, I was called upon to preside at that meeting and to report to the stockholders as to the operations of the group during the preceding year. In order to make this report, I was furnished with the data and operating figures to submit to the stockholders. At the same time, I also tried to do everything that I could to assist the units of the group to obtain a loan from the Reconstruction Finance Corporation, and with Mr. Leyburn, the chief national bank examiner, I actively participated in those negotiations.

Our first duty was to the depositors. It was imperative that these banks and trust companies be kept open if the interests of the depositors were to be protected.

We were also expected to apprise the stockholders at the annual meeting of the results of the preceding year. The fact is that under most trying conditions, splendid work has been done during the year in liquidating loans and in effecting economies. Many of the units of our group were able to function in the communities in which they were located better than competing banks in those communities. In the aggregate the units of the group had earnings to report before reserves.

These items are usually commented upon at such meetings.

The stockholders were advised that additional substantial reserves of ssveral millions had then been set aside out of earnings, recoveries, and capital funds of the various units to meet contingencies. The stockholders were also advised of an additional reserve of $5,000,000 for contingencies not determinable at that time but which the management deemed it prudent to create. The remarks to the stockholders at the annual meeting, considered in the light of our duty as we saw it at that time, and as we see it now, were the proper remarks to make.

At that time it was realized that the Union Guardian Trust Co. presented a serious problem, although the trust company still had an uncalled for part of a commitment of approximately $6,000,000 from the Reconstruction Finance Corporation. Its statement published on December 31, 1932 showed bills payable of $9,478,000. It was also generally published in the press that the trust company had borrowed from the Reconstruction Finance Corporation. Over the preceding 2 years it had liquidated its deposit liabilities to the extent of nearly $20,000,000, or approximately 40 percent. Many of its assets were real-estate assets and mortgages.

The Union Guardian Trust Co. was the oldest trust company in Michigan. Its past record of earnings was outstanding. We believed, and we had every reason to believe, at the time of the stockholders' meeting, that the new application we were then making to the Reconstruction Finance Corporation would be granted. These additional funds were not only for the trust company to liquidate its banking business entirely, but also to place all the institutions in the Group on such an unquestionable, liquid and sound basis that their continuance would be assured.

At that time, and for 2 weeks prior thereto, we had been in conference with Mr. Leyburn, chief examiner for the seventh district, with a view to obtaining from the Reconstruction Finance Corporation a

loan on the slower assets of some units of the Group for the purpose of making certain that under even the most stressing cirsumstances that might develop, all of these units could continue their operations and preserve and protect the deposits of their thousands of depositors throughout the State. The trust company was to be taken out of the banking business entirely and its real estate was to be gradually liquidated and its future business was to be strictly and solely that of a trust and fiduciary company and nothing more.

In preparing this application to the Reconstruction Finance Corporation, Mr. Leyburn cooperated with us. In fact, the plant presented was as much Mr. Leyburn's as it was ours. He personally participated in all conferences we had with the Reconstruction Finance Corporation and in our presence advocated the plan. He advised us that in presenting his own views to the Reconstruction Finance Corporation Board in private session without presence on February 7, he strongly recommended the plan. In setting up this application and in selecting the type of security to be offered, we were also counseled by Governor Talley, head of the bank division of the Reconstruction Finance Corporation in Washington. We had available more liquid assets as collateral to the loan, but at the time of our first visit to the Reconstruction Finance Corporation, we were advised to select and offer the slower, nonliquid type of collateral, so that after the loan had been granted, there would remain in the units, substantial further capacity to develop additional liquidity if necessary, through the regular means of the Federal Reserve and correspondent banks.

At the time of the stockholders' meeting, we had also observed the assistance rendered by the Reconstruction Finance Corporation to other banks and trust companies. We believed that the Reconstruction Finance Corporation, organized for the purpose of rendering the assistance that was being asked, would be ready and willing to come forward with such an advance when our application was formally acted upon. Up to that time our banks, and, in fact, all of the banks in the State of Michigan, had sought comparatively little help from the Reconstruction Finance Corporation, considering the total amount of the deposits in the banks in Michigan as compared to the total deposits in any other section of the country, or the country as a whole. The banks in the State of Michigan had, I believe, received only a very small percentage of aid from the Reconstruction Finance Corporation compared to that given to banks throughout the United States.

We believed then, and we believe now, that the loan should have been granted. The application to the Reconstruction Finance Corporation speaks for itself. We were preparing for every future contingency. The potential seriousness of the nonliquid condition of the Union Guardian Trust Co. could not be overemphasized to the Reconstruction Finance Corporation. If future events should cause the trust company to exhaust its liquid funds, we were fearful that without the proper help at that time there would be "runs" on the other banks, and unless assistance was immediately forthcoming the banking system of the State of Michigan, and perhaps of the entire country, would be paralyzed.

Prior to this time, directors had given most generously of their own funds to strengthen the liquid position of the unit banks. Moreover, the application to the Reconstruction Finance Corporation included, if necessary, the subordination of up to 7½ million dollars

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of deposits in the trust company, and additional group-owned assets, so that all the remaining deposits in the trust company could be paid in full from the proceeds of this loan.

The board of the Reconstruction Finance Corporation was willing to lend 37½ million dollars, but 43½ million dollars was necessary.

Six million dollars would have kept these institutions from closing. As a result of closing them, the added welfare contributions required from the Reconstruction Finance Corporation and the loss of income from the State of Michigan alone, to say nothing of the direct loss to the Government due to the closing, will amount to many, many times more than that 6 million dollars. Nine of our former units have been reopened and are doing business.

Mr. PECORA. You say in your prepared statement "are doing business 100 percent."

Mr. KANZLER. I am sorry.

Mr. PECORA. Do you want to eliminate that 100 percent?

Mr. KANZLER. Nine of our former units have been reopened and are doing business 100 percent. I would venture to say that no national bank in the United States being liquidated by a receiver at this time has made a showing comparable with that of the Guardian National Bank of Commerce, the largest unit. These facts, together with the results of the liquidation of other units even under the adverse circumstances of receiverships, offer positive proof of the soundness of our view of the situation at the time of our application. That this loan was not granted, to my way of thinking, is a great tragedy.

In conclusion, therefore, let us say that if you review the remarks made at the stockholders' meeting, and the application made to the Reconstruction Finance Corporation, which was prepared about the same time and revised shortly thereafter, in the light of the conditions as they then existed, I believe that you will find the statements in both of them fully justified by the facts.

My own confidence in the situation is best indicated by the fact that from January 24, 1933, the date of the stockholders' meeting, to February 11, 1933, the last day the Guardian National Bank of Commerce was open for business, deposits of companies of which I am president, increased $2,095,000.

Mr. PECORA. When did you prepare this statement?

Mr. KANZLER. In my office.

Mr. PECORA. When?

Mr. KANZLER. Since I was here the last time, I mean in Washington.

Senator COUZENS. That was about December 23 or 22, wasn't it?

Mr. KANZLER. Yes, sir; I think so.

Mr. PECORA. When you prepared this statement did you anticipate that you were going to be questioned about the annual report you made to the stockholders of the group on January 24 last, and the statement that you made to the Board of the Reconstruction Finance Corporation 2 weeks later?

I began to see that we were not going to be able to express and portray the conditions under which we were then operating, and I felt—when I say, we were not going to be able to, I mean, speaking extemporaneously on the witness chair, and I felt that I ought to

prepare what the facts were so that they would be considered in an orderly manner.

Mr. PECORA. When you prepared this statement was there some apprehension in your mind that anyone comparing your annual report to stockholders of January 24 last with the statement you made on February 6, last, to the Reconstruction Finance Corporation, would find an inconsistency between them?

Mr. KANZLER. No, sir; I thought it would be a reasonable question that would come up.

Mr. PECORA. Did you anticipate that anyone reading those two statements would find an inconsistency therein?

Mr. KANZLER. No; I thought that the position should be explained.

Mr. PECORA. At the very outset of this prepared statement which you have just read into the record you say:

> It might appear that certain remarks made to the stockholders at the annual meeting and the preliminary draft of the annual report in preparation for sending to stockholders seem to be inconsistent with statements contained in the Reconstruction Finance Corporation application.

So apparently you did fear that somebody, in comparing the two statements, might see an inconsistency between them.

Mr. KANZLER. I thought that somebody not fully familiar with the facts might think that there was an inconsistency.

Mr. PECORA. Do you say there is no inconsistency?

Mr. KANZLER. I am satisfied that there is not.

Mr. PECORA. No inconsistency in saying to the stockholders of the Group, for instance, among other things, that "The year 1932 was a year of notable improvement on the subject of the safety of funds which our depositors have intrusted to us"; or in saying that "Despite the generally depressed business conditions which prevailed, no less than $100,000,000 of assets of our banks and trust companies are held as cash or invested in United States Government securities against deposit liabilities of $290,000,000"; or in saying, "While bettering their liquid position our banks have at all times sought to render constructive, helpful service", and so forth; or in saying, "Actual results, however, have developed an understanding in many quarters of the effectiveness of group banking as conducted and have made for our units many new friends and an enhanced reputation"?

Mr. KANZLER. Mr. Pecora, I cannot recall all of the details of that situation, but——

Mr. PECORA. I am reading to you certain extracts from your report to the stockholders.

Mr. KANZLER. Yes.

Mr. PECORA. You say that is not inconsistent with the statement to the Reconstruction Finance Corporation, in saying to the Reconstruction Finance Corporation Board on February 6, last, that $20,500,000 would be required to liquidate deposits of the Union Guardian Trust Co. of Detroit but that the assets which they could offer as security for such loan would have a face value of only about $6,000,000?

Mr. KANZLER. Mr. Pecora, that is after the R.F.C. with a corps of 15 men had been working day and night over these assets. There were 10 or 12 million of assets that the R.F.C. never looked at. It was this $6,000,000 that they said qualified and there were 12 million

of assets besides. What we were doing in that case was taking the Trust Co. entirely out of the banking business. That was the deposit liability of the Trust Co.

Senator COUZENS. You say the R.F.C. examiners did not examine the other 11 or 12 million dollars?

Mr. KANZLER. Did I say they did not examine it?

Senator COUZENS. Yes.

Mr. KANZLER. I misspoke myself. They did not accept it. It did not qualify under their various rules which I do not know. I think some of them were advances to trusts and things of that kind. They were receivables.

Senator COUZENS. Do you say now that they did qualify?

Mr. KANZLER. No; I say they did not qualify under the rules of the R.F.C.; but that does not mean that they were not assets.

Senator COUZENS. But I mean, do you think that they did qualify?

Mr. KANZLER. I think Mr. McKee was a capable man, and when his examiners decided they did not qualify, they probably did not qualify.

Mr. PECORA. According to the minutes of the meeting of the board of the R.F.C. on February 6, last, you admitted that there was a considerable gap between the value of the collateral which could be pledged and the amount of the loan desired.

Mr. KANZLER. That is somebody else's language.

Mr. PECORA. Did you not say anything like that in words or substance?

Mr. KANZLER. The only thing that I know is the facts——

Mr. PECORA. Did you say anything like that in words or in substance?

Mr. KANZLER. That there is a gap?

Mr. PECORA. A considerable gap?

Mr. KANZLER. I do not know whether I said that or not.

Mr. PECORA. A considerable gap between the value of the collateral which could be pledged and the amount of the loan desired?

Mr. KANZLER. I do not know whether I said that. That is not my language. I don't know who said that. I can state the facts, if you are interested in them, Mr. Pecora.

Senator COUZENS. I am curious to know how that got into the minutes of the Reconstruction Finance Corporporation if you did not say it.

Mr. KANZLER. Well, I can't tell you that. I can tell you the facts, which are very clear, and they are right in this application which I just read.

Mr. PECORA. Did you say this, in words or substance, to the Board of the Reconstruction Finance Corporation on February 6, last [reading]?

Mr. Kanzler stated that they would be willing to proceed along that line despite the fact that they had been fearful of laying the situation before even a few of the largest corporation depositors or the directors of the Union Guardian Trust Co. because of the danger of knowledge of the situation spreading with resultant withdrawals of deposits.

Did you say anything like that to the R.F.C. last February?

Mr. KANZLER. After the R.F.C. examiners were in Detroit and they appraised the assets on that basis and we were being asked to secure subordination, it was in reply to that, if any such statement

was made, namely, that we could not go to the national corporations which had deposits in the Union Guardian Trust Co., which also had deposits in our various units of the bank, and say, "Will you please subordinate some of these deposits, because if we get enough maybe we can get an R.F.C. loan." I think that would have been a very dangerous situation, and we did not dare to do it.

Senator COUZENS. Who were present at the meeting when you were alleged to have made the statement?

Mr. KANZLER. I think the whole board, Senator Couzens—Mr. Leyburn, Mr. McKee, Mr. Longley——

Mr. PECORA. Who was Mr. McKee?

Mr. KANZLER. In the absence of Governor Tally, who was ill, Mr. McKee was in charge of bank loans for the R.F.C.; and Governor Tally thought that this was so important that he immediately sent Mr. McKee, who returned with us the day after we were in Washington, and he came to Detroit on a Saturday and we worked incessantly about 18 hours a day preparing these schedules; that is, the scheduling was under the supervision of some of the active officers of the institution.

Senator COUZENS. Who else was at the meeting?

Mr. KANZLER. I think, Senator Pomerene, Ogden Mills, Judge McCarthy, Mr. Miller, president of the Reconstruction Finance Corporation; and there was a rather long table, and on both sides of it there was a group of individuals whose names I do not recall.

Senator COUZENS. Who took down the record of your statements? Do you know?

Mr. KANZLER. I have no idea.

The CHAIRMAN. As a matter of fact, there was a gap in the amount of the loans and securities, was there not?

Mr. KANZLER. The gap was the $6,000,000, Senator Fletcher, that we were asked to provide.

Mr. PECORA. What was the loan that you asked for—$65,000,000, was it not?

Mr. KANZLER. I think we asked for an additional $48,000,000 or $49,000,000, and that involved all the banks and trust companies in the State, and that was done——

Mr. PECORA. You asked for a total of $65,000,000, did you not?

Mr. KANZLER. No; $14,000,000 had already been granted, so we asked for the difference between the two.

The CHAIRMAN. What was the total amount you asked for?

Mr. PECORA. In other words, what was the total that you had received and what did you ask for additionally?

Mr. KANZLER. We asked for approximately $50,000,000 additional. We had approximately $15,000,000 at the time.

Mr. PECORA. So this figure of $65,000,000 is accurate, is it not?

Mr. KANZLER. Yes. I do not want to quibble about that. Incidentally in that connection we were told by Governor Tally, "If you are going to make a loan of this size or anywhere near this size"—this was when we were down in the first instance—he said—

> Be sure that you ask for a sufficient amount of money, because we would be very unhappy if we thought there should be relief given to those 24 banks and trust companies and should find that you did not do this thing adequately and should find that we failed in our purpose.

And he suggested that we be sure that we asked for enough.

The CHAIRMAN. You had got $14,000,000?

Mr. KANZLER. $14,000,000 for the trust company had been previously committed for.

The CHAIRMAN. It had not been received?

Mr. KANZLER. No, sir.

The CHAIRMAN. And you never did receive it?

Mr. KANZLER. No, sir; never did receive it all.

Senator COUZENS. How much of it did you receive—about $11,000,000, was it not?

Mr. KANZLER. Finally, I think about $11,000,000, Senator; I don't remember. We did not sleep days or nights, and some of those figures I do not recall.

Mr. PECORA. Did you state to the Reconstruction Finance Corporation Board on February 6, last, that Mr. Henry Ford had helped the group out in the preceding three years to the extent of about $16,000,000?

Mr. KANZLER. No, sir.

Mr. PECORA. Did you say anything like that?

Mr. KANZLER. Oh, yes; something very much like it. I said Mr. Edsel Ford had loaned collateral and loaned some cash and had signed his name to some notes.

Mr. PECORA. Did you say in substance to the Reconstruction Finance Corporation Board last February 6, "In connection with the deposits of this company"——

That is, the Ford Motor Co.

Totaling about $30,000,000 in the various member banks of the Guardian Group, Mr. Kanzler stated that not only had Mr. Henry Ford in the past 3 years aided the Group to the extent of about $16,000,000 and felt that he had done enough, but they would be obliged to go to Mr. Ford again to assist in raising $5,000,000 of new capital for the proposed mortgage company. Mr. Kanzler stated it would be impossible, in his opinion, to obtain this $5,000,000 advance from Mr. Ford if the deposits of the Ford Motor Co. in the Guardian Group of banks were frozen.

Mr. KANZLER. I think that is a natural error for somebody reporting to make that "Henry Ford." That meant the Ford interests.

Mr. PECORA. In all other respects did you in substance say what I have read to you?

Mr. KANZLER. That we could not go back to him for more, or that he had given that specific sum?

Mr. PECORA. That he had given you $16,000,000.

Mr. KANZLER. I do not recall that figure, and I do not believe it compares with the figures I have. I have in mind it was a loan of $5,000,000 worth of bonds, a loan of $1,000,000, the signing of a note of 2½ million. That would be about 8½ million. And taking a note of 3½ million. That would be about 12 million. It would be about 12 million dollars, as I recall it now.

Mr. PECORA. Had the Ford interests, whether represented by either Henry Ford or Edsel Ford, separately or jointly, come to the relief of the Group in the preceding 3 years to the extent of $12,000,000 or thereabouts?

Mr. KANZLER. Yes, sir. I did not want to be misunderstood. That was not a gift; that was in the way of providing liquidity.

Mr. PECORA. Was it in the way of a loan or what? It was given in what form?

Mr. KANZLER. Yes; a loan of securities, or the lending of a name for endorsement, or something of that nature.

Mr. PECORA. In the annual reports to the stockholders for the years 1929, 1930, and 1931 which have been received in evidence before this committee heretofore, and in the annual report for the year 1932 which you delivered to the stockholders and which was put in evidence this afternoon in connection with your testimony, was there any mention made anywhere of the condition of the group at any time existing during those years which required this kind of assistance from the Ford interests or from anybody else?

Mr. KANZLER. I recall that in previous annual reports I think the statement was made about borrowing 7½ million dollars to take out undesirable assets, to lift out assets from banks; also 7½ million dollars in working out an orderly liquidation of the securities companies.

Mr. PECORA. Have you a recollection of any such information being embodied in any of the annual reports issued to the stockholders of the group?

Mr. KANZLER. I think so.

Mr. PECORA. You are not sure of it, yourself, are you?

Mr. KANZLER. I have not seen some of them for some time, and I would not want to——

Mr. PECORA. By the way: Did you have anything to do with the preparation of those annual reports for the years 1929, 1930, and 1931 as well as for the year 1932?

Mr. KANZLER. I may have changed some of the verbiage here and there. I think I was consulted about it. I did not sit down and work the thing through, but I think I saw some of the text of it from time to time.

The CHAIRMAN. When was this $12,000,000 of assistance extended?

Mr. KANZLER. I think the Guardian Detroit Co. got a loan for its securities. That was not extended to the Group. That was extended to the Guardian Detroit Co. I think that was at the end of 1930. And then Mr. Mott and Mr. Ford endorsed in 1931, and the last assistance was given in December, I think, of 1932.

The CHAIRMAN. Were any of these paid back?

Mr. KANZLER. No, sir.

The CHAIRMAN. In 1932, in your report, did you advise the stockholders of that?

Mr. KANZLER. Yes, sir. That would be in the consolidated balance sheet.

Mr. PECORA. Which was never sent out?

Mr. KANZLER. That was never sent out.

Mr. PECORA. Then you did not advise the stockholders of that fact?

Mr. KANZLER. The annual report that would have been sent out would have included it, and it was approved by the executive committee.

Mr. PECORA. But you did not actually give out that information?

Mr. KANZLER. That was not an annual report. Those were remarks to stockholders.

Mr. PECORA. You say it was remarks to stockholders. Was it not regarded as the annual report? Was not a motion made and unanimously carried that the report which you now say was remarks

to stockholders should be placed on file and printed and mailed to all of the stockholders of record?

Mr. KANZLER. Yes, but I could not put my extemporaneous remarks on file. I had not reported the balance sheet, and it certainly went with an annual report. We did have a tentative form of the annual report which went to the executive committee and which they approved. I have a copy here if you would like to see it.

Mr. PECORA. I would like to see it. In fact, I would like to offer it in evidence.

Senator COUZENS. Did I understand you to say that Mr. Edsel Ford put up $5,000,000 of his own securities?

Mr. KANZLER. Yes, sir.

Senator COUZENS. What was the nature of the securities?

Mr. KANZLER. I think they were city of Detroit bonds.

Senator COUZENS. With whom did he put them up?

Mr. KANZLER. I did not have anything to do with the transaction, so I cannot give you the details; but I am inclined to believe it was with the Guardian Detroit Co.

Senator COUZENS. What did they use them for?

Mr. KANZLER. For collateral on their loans.

Senator COUZENS. From whom?

Mr. KANLZER. I am not certain about that; I think it was the Bankers Trust Co.

Senator COUZENS. Of New York?

Mr. KANZLER. Yes, sir.

Senator COUZENS. Are they still there?

Mr. KANZLER. I do not know. I am inclined to think not.

Senator COUZENS. Do you think the Trust Co. has paid lff?

Mr. KANZLER. Yes, sir.

Senator COUZENS. And Mr. Ford got his securities back again?

Mr. KANZLER. I cannot tell you, Senator Couzens. I had better not endeavor to answer that question, because I do not know.

Mr. PECORA. I offer in evidence the document produced by the witness as the contemplated annual report or the tentative report——

Mr. KANZLER. It was a draft for discussion.

Mr. PECORA. I offer it in evidence.

The CHAIRMAN. Let it be admitted.

(Mimeographed copy of document addressed to the stockholders, Guardian Detroit Union Group, produced by the witness, was received in evidence, marked "Committee Exhibit No. 64, Jan. 4, 1934, and will be found printed in full at the end of today's record.)

Mr. PECORA. Do you recall having attended a meeting of the executive committee of the board of directors of the group on January 20, 1933, 4 days before the stockholders' meeting?

Mr. KANZLER. Yes, sir.

Mr. PECORA. I show you what purports to be a photostatic reproduction of the minute book of the executive committee of the board of directors of the Guardian Detroit Union Group, Inc., including minutes of the meeting of the executive committee held on January 20, 1933, beginning at page 185. Will you look particularly at the page of those minutes of that meeting entitled "Consolidated Statement of Earnings and Expenses", and tell us what the last row of figures on that page represents?

Mr. KANZLER. The last row down this way [indicating]?

Mr. PECORA. The bottom row. What do those figures represent?

Mr. KANZLER. It is headed "Current Period Profits" for the month of December 1932, month of November 1932, month of December 1931, and for the period to date for the year 1932 and the period to date for the year 1931.

Mr. PECORA. For the period to date for the year 1932 what is the figure?

Mr. KANZLER. The figure shows $1,798,069.

Mr. PECORA. In the red or black?

Mr. KANZLER. There is an "R" behind it—red, I presume.

Mr. PECORA. What does that indicate?

Mr. KANZLER. I would say that indicates a method of compiling the profit for the year 1932 in the red.

Mr. PECORA. A profit in the red?

Mr. KANZLER. A profit or loss figure, which shows in the red.

Mr. PECORA. What was the amount of the figure for the year 1932 as there indicated?

Mr. KANZLER. $1,798,469.

Mr. PECORA. You were present at that meeting of the executive committee of the board held on January 20 last, were you not?

Mr. KANZLER. Yes, sir.

Mr. PECORA. And you presided over the meeting of the stockholders held 4 days later?

Mr. KANZLER. Yes, sir.

Mr. PECORA. Did you make any mention at all in any statement made to the stockholders of that figure?

Mr. KANZLER. I would have to examine it to find how it was arrived at. I do not recall seeing this particular statement.

Mr. PECORA. It was presented to the meeting of the executive committee of the board on January 20, was it not?

Mr. KANZLER. Well, the very next statement shows——

Mr. PECORA. Please confine yourself to my question and not to something else.

Mr. KANZLER. I do not recall whether it was or not. I presume it was, but I don't remember seeing any such figure.

Mr. PECORA. You see it now, do you not?

Mr. KANZLER. Yes, sir.

Mr. PECORA. You do not doubt the authenticity of it, do you?

Mr. KANZLER. I think it would have to be explained before you would understand it.

Mr. PECORA. You do not want me to explain it, do you?

Mr. KANZLER. Maybe if I have time I might be able to explain it.

Mr. PECORA. Can you explain it now?

Mr. KANZLER. May I take a look at this?

Mr. PECORA. Surely.

Mr. KANZLER. I think this shows a comparison of figures with other years on a different system of accrual.

Mr. PECORA. I am afraid I do not understand that. Will you enlighten me a little bit further?

Mr. KANZLER. I think this is the basis of conducting the banking books—I am presuming now—on what would be termed a cash basis instead of on an accrual basis, and this was gotten up for purposes of comparison.

Mr. PECORA. With what?

Mr. KANZLER. With preceding years where they adopted a different method of accounting.

Mr. PECORA. How many methods of accounting did this group adopt at one and the same time?

Mr. KANZLER. I presume, only one at a time.

Mr. PECORA. Did it adopt one method of accounting for the purpose of informing the executive committee of the board of directors, another method of accounting for the purpose of advising the whole board of directors, and a third method of accounting for the purpose of advising the stockholders?

Mr. KANZLER. I will answer that definitely, no. They had one method of accounting for reporting to the group executive, for the Group directors, and for the stockholders.

Mr. PECORA. Why, then, do you say that this is a loss according to a certain method of accounting for the purpose of comparing it with the result that would be obtained according to some other method of accounting?

Mr. KANZLER. I think that must be simply a reconciliation of figures to a different method of accounting which prevailed in previous years.

Mr. PECORA. Let me ask you again: Were there different methods of accounting employed by this group?

Mr. KANZLER. Oh, certainly. Accounting methods change from time to time.

Mr. PECORA. And did each one of those methods produce a different result from the others?

Mr. KANZLER. They are bound to produce a different result.

Mr. PECORA. The method presented to the executive committee meeting on January 20 last showed a loss of over $1,700,000 for that year, did it not?

Mr. KANZLER. No, sir; because on the very method that was presented there, a page or two over, it shows the method by which the books were kept, and that showed——

Mr. PECORA. Just confine yourself to the page from which you read that figure of $1,700,000-odd and which you said represented a "profit in the red", which really means a loss.

Mr. KANZLER. Now you are picking me up when I misspoke myself. This figure is a reconciliation figure to some other method of accounting.

Mr. PECORA. Why were different methods of accounting used to produce different results?

Mr. KANZLER. Because conditions were changing all the time, and the banking business was conducted on a different basis.

Mr. PECORA. As conditions changed was a different method of accounting adopted by the group?

Mr. KANZLER. Yes, sir.

Mr. PECORA. How frequently did a change of condition require the adoption of a different method of accounting?

Mr. KANZLER. I am only aware of one change.

Mr. PECORA. When was that change effected?

Mr. KANZLER. That was made in the fall of 1932.

Mr. PECORA. What happened in the fall of 1932 that necessitated that change of accounting method?

Mr. KANZLER. In the fall of 1932 the banks were told that it was patriotic not to foreclose on mortgages. The Comptroller issued instructions to receivers not to foreclose on mortgages; and Mr. Fort said that homes were the very life and essence of our civilization, and as long as the mortgages would be ultimately paid off, the banks should do everything within their power to go along and let people live in their homes, provided ultimately the mortgages were going to be paid. As a result of that there were some interest payments which were considered absolutely good on items which the bank examiner considered good and which were considered as a receivable, and that receivable was accrued and that accrual was considered as income. I think that was the change that you refer to.

Mr. PECORA. What was the actual situation? Which method of accounting gave a truer picture, the one that showed the loss of $1,700,000 odd, or the other one?

Mr. KANZLER. I think the one that showed the receivables showed the true picture. The accrual method of accounting, I think, is sound, and it is one that I think is generally used, and I think as far as I understand from the accounting experts, that is the logical way to keep your books in the banking business.

Mr. PECORA. Under that method of accounting, would the loss of $1,700,000 odd have been shown?

Mr. KANZLER. No.

Mr. PECORA. A profit would have been shown?

Mr. KANZLER. Yes, sir.

Mr. PECORA. Forming part of the minutes of the executive committee of January 20 last is another statement entitled "Consolidated Statement of Earnings and Expenses for the Year 1932", and the total of all group members, in the column entitled "Profits available for dividends" appears as the figure $1,422,935, and then the letter "R" after that, which indicates "In the red"—a profit in the red.

Mr. KANZLER. May I see that statement?

Mr. PECORA. Yes, sir (handing paper to the witness). It is the last column, the total at the bottom.

Mr. KANZLER. That, Mr. Pecora, is because there were reserves set up against all receivables until collected, and at that time the group company was not paying any dividends, and we decided that until we received that money, we would not think of paying any dividends until collected and therefore that was given that sort of a heading. That simply means that we were all adopting among ourselves as conservative a point of view as possible; that we would keep in our mind that anything, though we considered it a sound receivable—until we had received it, we would not think of dividends at the same time.

Mr. PECORA. Was that information confined only for the use of the members of the executive committee of the board?

Mr. KANZLER. No, sir; also the directors of the Group.

Mr. PECORA. How about the stockholders? Were they ever permitted to know anything about the result that system of accounting would show?

Mr. KANZLER. This is an operating statement, and I do not think one usually burdens the stockholders with operating statements.

Mr. PECORA. You did it in your annual reports, did you not, for the years 1929, 1930, and 1931, the printed annual reports?

Mr. KANZLER. Not this kind of statement.

Mr. PECORA. I know not that kind, but you did give operating statements, did you not, in your preceding annual reports?

Mr. KANZLER. That was quite a long time before I had anything to do with the reports, and I just followed the form of the preceding report, and this kind of report certainly has no place in a stockholder's report.

Mr. PECORA. Is the information there accurate information?

Mr. KANZLER. Yes, sir; it is accurate. It shows a profit of $2,900,000 before extraordinary income and expenses, and before reserves.

Mr. PECORA. What does it show as a profit or deficit after deductions?

Mr. KANZLER. After deductions it would show a red figure.

Mr. PECORA. A red figure.

Mr. KANZLER. After deduction of reserves

Mr. PECORA. Of how much?

Mr. KANZLER. $1,422,000, after deduction of reserves.

Mr. PECORA. Which set of figures were the stockholders permitted to obtain?

Mr. KANZLER. The stockholders were given the net income figures.

Mr. PECORA. Which set—before deduction for reserves?

Mr. KANZLER. Before reserves.

Mr. PECORA. And that was giving them a true picture of the financial condition, was it?

Mr. KANZLER. Yes, sir. That is the income before reserves.

Mr. PECORA. Do you think that is sound?

Mr. KANZLER. I do think it is sound.

Mr. PECORA. Why were the members of the executive committee, then, given this additional information?

Mr. KANZLER. The members of the executive committee get a lot of detailed information that is not put out in an annual report.

Mr. PECORA. Why were they given this information while it was being withheld from the stockholders?

Mr. KANZLER. It was an operating problem. The fact that these reserves were set up would give you an idea as to what extent they were allowing interest to become delinquent. It was a policy in the bank, when an individual came in to pay a note, and to pay his interest—he was told no, that a renewal could not be had unless he also was prepared to make a reduction of his principal. That was a policy to effect and assist in liquidation. As a result of that, there was quite a bit of discussion between the borrower and the bank officer handling the account, which forced many of these loans past due, but that did not mean that past due interest was not collectable interest, and that was accrued. Incidentally, this whole accrual system was put up to Mr. Leyburn, and he specifically approved it.

Mr. PECORA. Mr. Kanzler, at all stockholders' meetings prior to the one held on January 24, 1933, the annual report actually printed and mailed to the stockholders for the preceding calendar year was set up in printed form and available at the annual meetings, was it not?

Mr. KANZLER. Yes, sir.

Mr. PECORA. Why was it not done at the annual meeting held on January 24, last?

Mr. KANZLER. In the first place, the pressure on Detroit was something that it is pretty difficult to reproduce at this particular time.

Mr. PECORA. Would that pressure have anything to do with the ability of your accounting staff and other officers to get up their annual report, following the custom of all preceding years?

Mr. KANZLER. I was just beginning to tell you a little about this picture. This pressure was tremendous. We had this run in Port Huron that delayed things considerably. Besides that, we had been working day and night with Mr. Leyburn on a plan to provide for all future eventualities, and we had hoped that by February 4 or 5 or 8, we would be able also to include in our annual report a statement as to what had been done in connection with taking the trust company out of the banking business, and to liquefy all our institutions throughout the State.

Senator COUZENS. How did you arrive at these reserves that you set up, do you know?

Mr. KANZLER. I do not know personally, Senator Couzens. That is a matter for the technical operating staff of the bank, and I do not know that.

Senator COUZENS. You quote Mr. Leyburn, the former chief national bank examiner for the seventh district, as approving the adoption of the accrual system. It is my observation that in using this accrual system, they use it on loans which are in default, and which, in all probability, will not be paid. That obviously creates a padded earning, does it not?

Mr. KANZLER. If it is used on loans which in all probability will not be paid, it would not be sound.

Senator COUZENS. What I am trying to get at is this. Where would you draw the line in the use of the accrual system?

Mr. KANZLER. If you have an asset on your books which you can consider live, and on which you have not been paid your interest—in the case of a mortgage, for example, where the property should be worth the value of the loan plus the interest as it is accruing, and you are accruing past default, and considering it income, that is considered standard practice among all banks.

Senator COUZENS. When was that practice established?

Mr. KANZLER. I understand the Peoples Wayne County Bank always did that.

Senator COUZENS. When did you first do it?

Mr. KANZLER. I think it was done in November, in conjunction with the general trend throughout the country, and the statements from officials that we should not foreclose, and that we should be a little more lenient, and when our collection policy permitted loans to go delinquent, it was then thought that would be a more adequate and proper statement of the income.

Senator COUZENS. So, up to that time you did not use the accrual system?

Mr. KANZLER. We used the accrual system too——

Senator COUZENS. I was asking when you began the accrual system.

Mr. KANZLER. I think the accrual system—I think it would be better if some of the operating men were asked that question. I do

not know the exact date that was started, but I think it was—I am inclined to think the Guardian Detroit Bank had it back in 1927.

Mr. PECORA. Mr. Kanzler, you said a moment or two ago, in answer to questions as to the reason why the annual report was not actually set up and ready for the annual meeting of the stockholders held on January 24, last, that the Port Huron situation delayed you. Was that a serious situation?

Mr. KANZLER. Yes; it was very unpleasant.

Mr. PECORA. It affected your bank there?

Mr. KANZLER. Yes; very much so.

Mr. PECORA. Very much.

Mr. KANZLER. To the extent that we had a run, and they took a lot of their funds out, and funds finally started coming back again.

Mr. PECORA. Let me remind you how you treated that serious situation in the remarks you made to the annual meeting of the stockholders on January 24, last. I am reading from committee's exhibit no. 63 of this date [reading]:

> As was to be expected, the public in Port Huron became apprehensive as to the safety of their deposits. For a day or two even our own bank at Port Huron suffered withdrawals, These withdrawals have ceased, and funds which had been placed in safety deposit boxes by frightened customers have already begun to return to our bank.

That would not indicate a very serious situation—a run of a day or two—which should have delayed the preparation of your annual report to the stockholders, would it?

Mr. KANZLER. Yes; I think it does. I do not think that was the time when one should be over-emphasizing runs on banks all the time.

Mr. PECORA. No.

Mr. KANZLER. In other words, President Hoover told us it was patriotic to try to stop hoarding.

Mr. PECORA. I know.

Mr. KANZLER. And that was just as much in accordance with that program as anything else.

Mr. PECORA. When did this run of a day or two take place on the Port Huron bank?

Mr. KANZLER. I cannot give you exact dates. We were working day and night, and some of those dates mean very little to me.

Mr. PECORA. Don't you think a rather slighting reference was made in these remarks to the stockholders, as to that Port Huron situation if, as a matter of fact, it was as serious as you now tell us it was?

Mr. KANZLER. It is obvious that a run on a bank is something serious. You do not have to emphasize that to a stockholder.

Mr. PECORA. That is the situation which delayed the preparation of the annual report?

Mr. KANZLER. No. That was just one of the factors.

Mr. PECORA. It is the only one I recall you gave.

Mr. KANZLER. No. I was interrupted, I think, when I started to tell you about how we were working night and day, working out the problem involving the city's credit. I think I had made two trips to New York on that question. We were on the sleepers half the time. We were meeting with Mr. Sloane, Mr. Chrysler, Mr. Hutchinson, and the city officials, in an effort to put through a special act of the legislature to permit us to issue some bonds. Then we tried to get the industrialists of the city to agree to buy these bonds with the idea

that over the next 5 years they could use these bonds in payment of taxes. Everything was crumbling at that time, and it is very difficult for us here, with hindsight, to understand what pressure we were under at that time.

Mr. PECORA. Will you look at Committee's Exhibit No. 63 and tell me in whose handwriting the lead-pencil notations on the last page thereof were made?

Mr. KANZLER. I know all about those. Those are my own notes, Mr. Pecora, and they were made when I thought there might be some hecklers at this meeting that might ask me some questions.

Mr. PECORA. Let us see what notes you made in anticipation of being heckled by stockholders. [Reading:]

1. Dividend.
2. Action of stock.
3. Double liability.
4. Book value.
5. Earnings after reserves.
6. Selling to employees.
7. Loans to officers.
8. Group Co. statement.
9. Difference between 2.6 and 1.3.

Mr. KANZLER. That was $2,600,000 and $1,300,000.

Mr. PECORA (continuing reading):

10. Are they progressing?
11. Reconstruction Finance Corporation.

Had any stockholders heckled you on the matter of double liability, what were you prepared to say to them?

Mr. KANZLER. I was going to tell them what I thought it was.

Mr. PECORA. What was it?

Mr. KANZLER. I thought it was $16 a share, or something like that.

Mr. PECORA. "Sixteen" is the figure appearing here. Were you prepared to assure them that that liability rested upon the stockholders of the Group?

Mr. KANZLER. I do not know what I was prepared to assure them at that time. I would have told them that the double liability was $16 a share. That is what I thought it was, I believe. I do not recall. You are asking me to recall just what was in my mind at that time, and it is not very clear.

Mr. PECORA. I cannot ask anyone else what was in your mind.

Mr. KANZLER. I am giving you my best opinion.

Mr. PECORA. Can you not recall what you were prepared to tell the stockholders, if any of them heckled you on the matter of double liability?

Mr. KANZLER. I think I would have said it was $16 a share.

Mr. PECORA. What were you prepared to tell them on the subject of earnings after reserves?

Mr. KANZLER. I would have told them what we had done in the way of setting up reserves against accrued interest.

Mr. PECORA. What would you have told them if you had been heckled.

Mr. KANZLER. I would have told them that we had set up reserves against unpaid interest.

Mr. PECORA. What would you have told them about those reserves? Would you have told them that those reserves would have exceeded the earnings?

Mr. KANZLER. I cannot recall. I suppose so.

Mr. PECORA. Why didn't you tell them that anyway, without waiting to be heckled?

Mr. KANZLER. Because I do not think it represents a fair picture of the earnings. Those accruals were good accruals. I think the record will show that they were collected ultimately.

Mr. PECORA. What were you prepared to tell a heckling stockholder on the subject of selling to employees, had you been asked?

Mr. KANZLER. Well, there were some rumors about the street that we were selling a lot of stock to employees.

Mr. PECORA. Was it true?

Mr. KANZLER. No, sir.

Mr. PECORA. Had any stock been sold to employees?

Mr. KANZLER. Yes; some stock had been sold. I recall, when I was in the bank in 1927, we had sold some stock to the employees.

Mr. PECORA. Is that what you were going to tell them, about something that happened in 1927?

Mr. KANZLER. I do not remember just exactly what that note refers to, but it would probably have been as to whether or not we were selling stock to employees.

Mr. PECORA. Would your answer have been in the negative?

Mr. KANZLER. Isn't there a further memorandum there?

Mr. PECORA. No; not under that topic.

Mr. KANZLER. I would have told them that we were not selling any stock to the employees, and had no employees' plans at that time.

Mr. PECORA. What would you have told them on the subject of loans to officers?

Mr. KANZLER. That we had changed our bylaws some year and a half or two years before, which made it imperative not to lend any officer, as I recall it, and that any loans to directors had to have the consent of the board of directors.

Mr. PECORA. What would you have told a heckling stockholder on the subject of Group Co. statements?

Mr. KANZLER. I would have told him that in view of the fact that the banks and trust companies were kept on our books in the Group Co., at their capital structure, omitting their surplus and their undivided profits and their reserves, that that was simply a bookkeeping statement, and did not have any significance, and that, as to whether or not it showed an operating profit or loss, was simply a clearing corporation, for purposes of operation.

Mr. PECORA. In other words, you would have evaded telling this heckling stockholder——

Mr. KANZLER. I would not have evaded.

Mr. PECORA. Pardon me. Let me finish my question. I have asked you to tell us what you would have told a heckling stockholder about the absence of a Group Co. statement, and the answer you made suggests to me that you were not prepared, and would not have told a heckling stockholder, on that score, that a Group Co. statement would have shown a deficit. You would not, would you?

Mr. KANZLER. I think you will find in our statement that you put in evidence, that there is a Group Co. statement which it was proposed to put in intelligent form, because I think that keeping our group units on our books at their capital, regardless of their surplus and

undivided profits, was not a very practical way of keeping a statement for public consumption.

Mr. PECORA. Won't you please answer the question simply? I will repeat it. Had you been heckled by a stockholder at that meeting on the subject of the absence of a Group Co. statement, were you prepared to tell such a heckling stockholder that a statement so made would have shown a deficit?

Mr. KANZLER. Mr. Pecora, I do not recall exactly what was in my mind in making that note. It is a small note. It does not elaborate very much, and I do not know just exactly what the purport of that particular thing was, except I would have explained that the Group Co. statement, in itself, as it was kept, was a clearing statement, and had very little significance.

Mr. PECORA. What would you have told a heckling stockholder if he had asked you the question "Are they progressing?" What do you mean by that?

Mr. KANZLER. I would have told him they were very progressive. I would have talked about the liquidity we had achieved in the various units. Our chart showed that our units had passed many other competitor banks in unit cities, and I would have told him that decidedly our organization was fighting and was at war with the depression.

Mr. PECORA. Was that a stock phrase that somehow or other all officers and directors of the group learned to use, the one about fighting a war against the depression? The reason I ask is because both Mr. Lord and Mr. Patterson have used it in their testimony before the committee.

Mr. KANZLER. I think it was very generally used. I think Senator Couzens used it. I think we have all used it.

Mr. PECORA. What would you have told a heckling stockholder if he had asked you about the R.F.C.?

Mr. KANZLER. I would have told him, as I recall it, that we were borrowing, in the trust company, a certain amount, and in our banks a certain amount, and I think the total was something around $13,000,000.

Mr. PECORA. Why didn't you tell the stockholders that without waiting to be heckled on that subject?

Mr. KANZLER. It was published in the newspapers.

Mr. PECORA. How do you know your stockholders had read the newspapers?

Mr. KANZLER. Mr. Pecora, I can assume that they are reading the newspapers, and I did not think it was up to me to get up there and say, "Gentlemen, I want you to know that one of the important things is that we are borrowing from the R.F.C."

Mr. PECORA. In the notation you made on the last page of Exhibit No. 63, referring to this R.F.C. notation, you have three sets of numerals, one under the other, reading as follows: "13; 9.4; 35."

What do they refer to?

Mr. KANZLER. I think those were the borrowings of the various banks from the R.F.C. I think those are the figures I just quoted.

Mr. PECORA. Had those borrowings been made at that time?

Mr. KANZLER. Oh, yes. Those were published.

Mr. PECORA. Borrowings of nearly $55,000,000—more than that.

Mr. KANZLER. No, sir; $13,000,000, I think it was.

Mr. PECORA. Here are the figures, 9.4 and, underneath, 35.

Mr. KANZLER. No; that is 3.5.

The CHAIRMAN. I thought the only borrowing was by the trust company.

Mr. PECORA. I do not see any point in the figure "35" unless my eyesight is failing.

Mr. KANZLER. The facts are, Mr. Pecora, that they were borrowing $3,500,000. I beg your pardon, Mr. Chairman?

The CHAIRMAN. I thought the only borrowing was by the trust company.

Mr. KANZLER. No, sir. Several of the other units were borrowing from the R.F.C. in lesser amounts. The substantial loan was to the trust company.

Senator COUZENS. I am curious to know, Mr. Kanzler, why you did not apply for a loan in January or February of 1931, or January or February, of 1932, in view of the fact that you state that your conditions were much better in January 1933. I am curious, because you say you were progressively getting better, and over those years you had not asked for a loan. In view of the fact that you were progressively getting better, you asked for a loan?

Mr. KANZLER. Senator Couzens, the exposures in 1932 was very much greater than the exposure in 1931. You might have a better bank in 1932, but it would go down if a competitor bank went down, even though the year before, when all banks were in perhaps worse condition, none of them would have had a run, and you would have been able to survive. Conditions were getting awful in Michigan.

Senator COUZENS. I understood they were, and that is the reason for your applying, in 1933, because of the condition of your competitive banks, rather than your own condition?

Mr. KANZLER. We were afraid runs would start. We had just had the experience in Port Huron. We had become, 100 percent, the only bank in Port Huron. We had become the only bank in Ionia. We were practically the only bank in Lansing. We had to take over the other bank in Lansing. As a matter of fact, in Michigan there was a system developing whereby the directors were passing by-laws, and under those bylaws they did not pay their depositors. They just decided that if somebody came in and said "Here, cash my check,' they would say "What do you want it for?" and if they did not think he should have had the money, they did not let him have it. Under those circumstances our banks were standing up there and paying 100 cents on the dollar to anybody that asked for it.

The CHAIRMAN. We will take a recess now until 10:30 tomorrow morning.

Mr. PECORA. The witnesses in attendance will return tomorrow.

(Whereupon, at 4:45 p.m., Thursday, Jan. 4, 1934, the subcommittee adjourned to meet tomorrow, Friday, Jan. 5, 1934, at 10:30 a.m.)

COMMITTEE EXHIBIT NO. 64, JANUARY 4, 1934

(This exhibit appears only in the committee's copy of the transcript.)

(This exhibit is a mimeographed copy of a 6-page report addressed "To the Stockholders, Guardian Detroit Union Group," referred to by witness Kanzler in his testimony as a draft of report.)

To the Stockholders, Guardian Detroit Union Group.

The liquidity of our banking institutions has continued to improve, notwithstanding the conditions existing in the year 1932. The cash position of our banks and trust companies on December 31, 1932 totaled $100,079,745.74 in Cash and U. S. Government Securities against total deposit liabilities of $290,075,462.10. While bettering their liquid position, our banks have at all times continued to render constructive, helpful service to customers and have played an important part in encouraging industry in maintaining employment and in rendering distinct assistance and cooperation to their respective communities.

The pursuance of this sound policy of looking first to the stability and liquidity of our banks and trust companies necessarily affected our earning power—for liquidity can be maintained only at the expense of profits. For the year ending December 31, 1932, the consolidated net earnings of the Group Co., banks, trust companies, and all other affiliated companies, after all expenses of operation, taxes, depreciation, and losses on securities sold, but before reserves, amounted to $1,316,952.00, equivalent to 85¢ per share on the 1,544,844 shares of stock outstanding (par value $20.00).

Dividends paid during the year amounted to $375,134.00. Conservative policies required discontinuance of dividends during the second quarter of 1932. Remaining earnings of $941,818.52 together with recoveries of $1,031,005.93 plus sums taken from capital, surplus and undivided profits accounts in an amount of $8,966,932.17 totaling $10,939,756.62 were transferred to Reserves.

The book value of group stock computed on the basis of the aggregate Capital, Surplus and Undivided Profits as reflected by the statements of the unit banks and trust companies, but not including Reserves, plus the net worth of the group and other affiliated companies at market prices of securities on December 31, 1932 amounts to $20.72 per share.

The policy of liquidating securities affiliates which was initiated in 1931 has been continued during 1932 in an orderly manner. During 1932 securities carried on the books at $1,712,821.68 were sold with a resultant net loss of $42,201.91. A consistent effort has been made to liquidate only the least desirable holdings. On December 31, 1932 the aggregate market value of securities owned by these companies was $5,688,797.10.

Rigid economies of operation were continued during the year with outstanding results. Expenses of operation for the year 1932, exclusive of interest paid depositors, were 25% less than for the year 1931. To effect further operating economies, the Grosse Pointe unit, the Guardian Bank of Grosse Pointe, was merged with the Guardian National Bank of Commerce on December 31, 1932.

There was a substantial increase in the number of shareholders during the last year. There are now 9,697 shareholders compared with 8,945 on December 31, 1931. Ownership of large holders of stock remained practically unchanged during the year.

Perhaps never in the history of banking has more been demanded of directors, officers and staff than in the past year. We wish to take this occasion to express our appreciation for the effort, loyalty and cooperation which has been shown. We also take this opportunity to thank our shareholders for their splendid support during the year 1932 which has resulted in increasing the amount of business directed to units of the Group. It is a privilege to call upon you during 1933 for a continuance of this confidence.

The preeminence of the Guardian Detroit Union Group, Inc. as a vital factor in the economic and financial existence of Michigan becomes impressive when one considers the outstanding men representing its affiliated institutions as directors. With these contacts there can be no economic development of Michigan's industries without a direct reflection of such prosperity within our institution.

Respectfully submitted.

(ERNEST KANZLER)
Chairman of the Board.
(ROBERT O. LORD)
President.

Consolidated balance sheet, Guardian Detroit Union Group, Inc., including banks, trust companies and other affiliated companies December 31st 1932

RESOURCES

Cash in Vault and in Banks		$55, 664, 590. 06
U. S. Government Securities	$34, 332, 919. 57	
Municipal and Corporate Bonds	44, 812, 591. 42	
		79, 145, 510. 99
Stock of the Federal Reserve Bank		1, 161, 300. 00
Loans and Discounts		133, 731, 431. 67
Real Estate Mortgages		66, 552, 210. 79
Customers' Liability under Acceptances and Letters of Credit		925, 882. 51
First Mortgage Bond Trust Fund		1, 973, 947. 40
Banking Quarters and Other Real Estate		40, 460, 305. 85
Accrued Income Receivable and Other Reseurces		11, 086, 237. 29
Total Resources		390, 701, 416. 56

LIABILITIES

Capital Stock	$30, 896, 880. 00	
Surplus and Undivided Profits	15, 342, 359. 12	
		$46, 239, 239. 12
Reserves		7, 088, 989. 91
Accrued Interest, Taxes, Etc		977, 041. 57
Liabilities under Acceptances and Letters of Credit		926, 875. 45
Mortgages and Bonds Outstanding		8, 330, 500. 00
Circulation		10, 620, 775. 00
Bonds Sold Subject to Repurchase		1, 291, 777. 82
Bills Payable and Rediscounts		31, 621, 617. 01
Deposits		276, 610, 576. 62
Other Liabilities		6, 994, 024. 06
Total Liabilities		390, 701, 416. 56

NOTE.—In the above statement all inter-company accounts have been eliminated. Among these are deposits $13,464,857.13 carried by affiliated companies and banks in the transaction of regular business with other unit banks of the group.

Aggregate resources and liabilities of banks and trust companies affiliated with Guardian Detroit Union Group, Inc. December 31, 1932

RESOURCES

Cash in Vault and in Banks		$65, 874, 955. 62
U. S. Government Securities	$34, 204, 790. 12	
Municipal and Corporate Bonds	39, 064, 849. 67	
		73, 269, 639. 79
Stock of the Federal Reserve Bank		1, 161, 300. 00
Loans and Discounts		127, 094, 738. 24
Real Estate Mortgages		64, 894, 918. 27
Customers Liability under Acceptances and Letters of Credit		925, 882. 51
First Mortgage Bond Trust Fund		1, 973, 947. 40
Banking Quarters and Other Real Estate		28, 850, 730. 56
Accrued Interest Receivable and Other Resources		5, 834, 249. 12
Total resources		369, 880, 361. 51

LIABILITIES

Capital Stock	$26, 000, 000. 00	
Surplus	14, 755, 000. 00	
Undivided Profits	1, 442, 028. 31	
		$42, 197, 028. 31
Reserves		6, 723, 537. 42
Accrued Interest, Taxes, Etc		1, 014, 135. 43
Liabilities under Acceptances and Letters of Credit		926, 875. 45
First Mortgage Bonds Outstanding		1, 905, 500. 00
Circulation		10, 620, 775. 00
Bonds Sold Subject to Repurchase		1, 291, 777. 82
Bills Payable and Rediscounts		15, 125, 298. 33
Deposits		290, 075, 433. 75
Total liabilities		369, 880, 361. 51

CHANGING GROUP COMPANY BOOKS TO REFLECT BOOK VALUE PER SHARE

(1) Group Co. does not own all of shares of unit banks. Directors' qualifying shares and minority holdings must be excluded. Consequently, it becomes necessary to figure the exact portion of capital funds of each unit which belong to Group Co.

(2) Loans to subsidiaries other than banks and trust companies must be appraised on a basis of the liquidating value of collateral held by Group Co., no allowance being made for liabilities of subsidiaries direct or contingent, other than those to the Group Co.

(3) Stock of subsidiaries other than banks and trust companies to be carried on Group Co. books at book value of such subsidiaries. Each subsidiary to carry assets on its respective books at market value in case of securities and appraised value in case of other assets.

(4) Group Co. stock as well as other securities owned by Group Co. should be carried on its books at market value.

(5) In order that the books of the Group Co. reflect the condition outlined in the above four paragraphs, the carrying value of such assets must be adjusted at the end of each month by increasing or decreasing the reserve account with offsetting entry in the surplus or undivided profits account to reflect changes which took place during the month in each subsidiary.

(6) Operating under such a plan of accounting, it becomes necessary to write off against the Group Co. surplus account in similar amounts any sums written off against capital, surplus or undivided profits accounts at unit banks and trust companies.

(7) If such a method of operating the Group Co. books is adopted, it will result in present capital arrangement as follows at this time:

Capital	$30, 896, 000. 00
Surplus and undivided profits	3, 152, 000. 00
	34, 048, 000. 00
Reserves	15, 137, 000. 00

Book value of 1,544,844 shares, equals $22.05.

Adjusted balance sheet, Group Company, Dec. 31, 1932

RESOURCES

	Amount	Estimated loss	
Cash on Hand and in Banks			$527,000
Loans to Subsidiaries:			
Peninsular Securities, Inc	$6,803,000	$5,003,000	
Fort Investment Company	2,426,000	1,786,000	
Guardian Holding Company	43,000	43,000	
Congress Corporation	8,270,000	7,443,000	
	17,542,000	14,275,000	17,542,000
Group Company Stock Owned	378,000	238,000	378,000
Other Securities	146,000		146,000
Stock of Unit Banks & Tr. Co's			42,197,000
Stock of Other Subsidiaries	4,896,000	624,000	4,896,000
		15,137,000	
Receivables			30,000
Bonds Pledged			4,967,000
			70,683,000

LIABILITIES

Capital	30,896,000
Surplus and Undivided Profits	3,298,000
Total	34,194,000
Reserves	15,137,000
Bills Payable	16,259,000
Accounts Payable	126,000
Borrowed Bonds	4,967,000
	70,683,000

NOTE.—Investment in Stocks of Unit Banks and Trust Companies shown above as $42,197,000 is carried at and is equal to the total Capital Surplus and Undivided Profits of such Banks and Trust Companies, but not including Reserves, and includes minority holdings and directors qualifying shares.