STOCK EXCHANGE PRACTICES

THURSDAY, FEBRUARY 1, 1934

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

The subcommittee met at 10:30 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), Costigan, and Couzens.

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. Mr. Pecora, you may proceed.

Mr. PECORA. Mr. Stair.

The CHAIRMAN. Mr. Stair, please come forward to the committee table, stand, hold up your right hand, and be sworn:

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. STAIR. I do.

TESTIMONY OF EDWARD DOUGLAS STAIR, NEWSPAPER PUBLISHER, DETROIT, MICH.

Mr. PECORA. Mr. Stair, will you give your full name, address, and business or occupation to the committee reporter for the record?

Mr. STAIR. My name is Edward Douglas Stair. My principal occupation is that of publisher of a newspaper. My address is no. 8330 East Jefferson Ave., Detroit, Mich.

Mr. PECORA. Mr. Stair, were you connected at any time with an organization known as the Detroit Bankers Co.?

Mr. STAIR. Yes, sir.

Mr. PECORA. When did you first become connected with that company?

Mr. STAIR. Well, do you mean as an officer or as a stockholder?

Mr. PECORA. First, as an officer, or director.

Mr. STAIR. I became a director in—well, I wouldn't say whether it was the latter part of 1931 or the first part of 1932. I was not a director in the early history of the company.

Mr. PECORA. Weren't you a director of the Detroit Bankers Co. in the early part of 1930?

Mr. STAIR. Well, I can't remember just when I became a director.

Mr. PECORA. Do you recall when the Detroit Bankers Co. was incorporated?

Mr. STAIR. I recall that.

Mr. PECORA. How long after that date did you first become a director of it?

Mr. STAIR. The company was organized, and a majority of the officers were from the officers of the banks. I believe there were only four laymen on the board.

Mr. PECORA. The evidence here shows that the Detroit Bankers Co. was incorporated on January 8, 1930.

Mr. STAIR. Yes.

Mr. PECORA. Now, how long after that date did you become for the first time a director of that company?

Mr. STAIR. I think it was in 1931.

Mr. PECORA. I beg pardon?

Mr. STAIR. I say, I think it was in 1931.

Mr. PECORA. I have before me——

The CHAIRMAN (interposing). Do you mind sitting a little closer to the microphone there before you on the table, Mr. Stair?

Mr. STAIR. Certainly.

Mr. PECORA. I have before me a copy of the printed annual report to stockholders, issued by the Detroit Bankers Co. for the year 1930, and it lists your name as one of the members of the board of directors.

Mr. STAIR. Well, I must have been, then. I do not recall the year; I know that I was not originally a director.

Mr. PECORA. Well, did you continue to serve as a director of the company from the time when you first became a director?

Mr. STAIR. Yes, sir.

Mr. PECORA. Did you at any time become an officer of the Detroit Bankers Co.?

Mr. STAIR. Yes, sir.

Mr. PECORA. What office did you hold in the company?

Mr. STAIR. I was prevailed upon to accept the office of president, I think it was in June of 1932.

Mr. PECORA. You succeeded Mr. John Ballantyne in that office, did you?

Mr. STAIR. Yes, sir.

Mr. PECORA. And you continued to serve as president from that time until the receiver was appointed for the Detroit Bankers Co. in March of 1933?

Mr. STAIR. Yes, sir.

Mr. PECORA. When did you first become a stockholder of the Detroit Bankers Co.?

Mr. STAIR. When it was organized.

Mr. PECORA. At the time it was organized, in January of 1930, were you an officer or director of any of the banks that became units of that company?

Mr. STAIR. I was a director of the First National Bank, and also of the Detroit Trust Co.

Mr. PECORA. And both of those banks were among the five original banking units of the company, were they not?

Mr. STAIR. I believe so.

Mr. PECORA. Had you been a director of the First National Bank in Detroit for many years prior to 1930?

Mr. STAIR. I became a director at the time it was merged with the old Detroit National Bank.

Mr. PECORA. And that was in what year?

Mr. STAIR. I could not tell you, sir.

Mr. PECORA. It was many years ago, wasn't it?

Mr. STAIR. Senator Couzens here can tell you, probably. He has a better memory than I have.

Senator COUZENS. I think it was about 1915 or 1916, if I recall correctly.

Mr. STAIR. At the time of the merger I went from the old Detroit National Bank to the new bank.

Mr. PECORA. And when did you first become a director of the Detroit Trust Co.?

Mr. STAIR. Well, I think it was when it was organized.

Mr. PECORA. And that was about 1901, wasn't it?

Mr. STAIR. It was about 30 years ago.

Mr. PECORA. Now, Mr. Stair, did you take part in any of the discussions and conferences that were held over a period of several months prior to January 8, 1930, in which the subject of the organization of the Detroit Bankers Co. was discussed?

Mr. STAIR. I was not a part of that.

Mr. PECORA. You took no part in any of those conferences?

Mr. STAIR. I wasn't a part of that at all.

Mr. PECORA. Well, as a director of the First National Bank and likewise of the Detroit Trust Co., you knew that plans were in contemplation for the formation of the Detroit Bankers Co., which was designed to acquire all of the capital stock of both the First National Bank and the Detroit Trust Co.

Mr. STAIR. Yes, sir.

Mr. PECORA. Was the matter of the acquisition of the stock of both of those banking institutions by the Detroit Bankers Co. made the subject of discussion among the members of the board of directors of each of those two institutions?

Mr. STAIR. I believe it was.

Mr. PECORA. Prior to the incorporation of the Detroit Bankers Co.

Mr. STAIR. Prior to the merger.

Mr. PECORA. Yes. By "merger" you mean acquisition of the capital stock of those companies by the Detroit Bankers Co.?

Mr. STAIR. Yes, sir.

Mr. PECORA. Well, the term "merger", technically speaking, isn't the term to apply to such a situation. What were the advantages it was considered by the directors of the two banking institutions, in which you sat as a member, would accrue to those banking institutions from the organization of the Detroit Bankers Co. and the exchange of the capital stock of those two banking institutions for the capital stock of the Detroit Bankers Co.?

Mr. STAIR. Well, in the first place, economy of operation; the merging of branch banks and the giving of better service to the larger industrial institutions of the town. The argument was that by having greater capital they could take better care of institutions that needed it in Detroit.

Mr. PECORA. Well, when was this Detroit Bankers Co. first conceived so far as you know, and when was the idea of its organization first discussed with you by anybody?

Mr. STAIR. I haven't any memory for dates, and I couldn't tell you just when it started. Being mildly opposed to a merger I was not drawn into the inner conferences to any great extent. But afterward I agreed that it might be a good thing.

Mr. PECORA. According to evidence before this committee there was sent out, under date of October 5, 1929, a circular letter in behalf of the 5 banks that composed the original banking units of the Detroit Bankers Co., and which letter was addressed to the stockholders of those 5 banks. From the substance of this circular letter it would seem that by October 5, 1929, virtually all the plans had been completed for the formation of the Detroit Bankers Co. and the exchange of its capital stock for the capital stock of the five banks in question. Now, that took place about 3 months prior to the actual incorporation of the company. Did you have any conferences with any officers or directors of any of those 5 banks with regard to the making of the offer embodied in this circular letter to the stockholders of those 5 banks?

Mr. STAIR. I cannot recall it. I probably did, but I cannot recall any definite conversation.

Mr. PECORA. Did you attend with regularity, or with a fair degree of regularity, the meetings of the board of directors of the Detroit Bankers Co. from the time when you first became a member of its board?

Mr. STAIR. Quite regularly, yes, sir; when I was in town.

Mr. PECORA. You knew, I presume, that prior to the actual organization of the Detroit Bankers Co., which was effected on January 8, 1930, a dividend policy had been decided upon by the organizers of the Detroit Bankers Co., which fixed the rate of dividend at 17 percent per annum upon the par value of its capital stock?

Mr. STAIR. I do not recall any such understanding, except as it has been produced here in evidence.

Mr. PECORA. Well, among the evidence produced here is this circular letter addressed to the stockholders of these five original banking units, dated October 5, 1929. Now, you knew of the existence of that letter, and of the use that was made of it, before you read anything about it in connection with the evidence presented to this committee, didn't you?

Mr. STAIR. I probably did.

Mr. PECORA. And according to this letter, dated 3 months or more prior to the date of the organization of the Detroit Bankers Co., dividends at the rate of 17 percent per annum, payable quarterly, were proposed to be paid on the common stock of the Detroit Bankers Co., then not yet in existence. You knew that fact, didn't you?

Mr. STAIR. I probably did.

Mr. PECORA. Now, did you, as a director of the First National Bank and of the Detroit Trust Co., which you said you were, in January of 1930 approve the proposal to organize this Detroit Bankers Co. and have it acquire, upon an exchange of capital stock basis, the capital stock of those five original banks?

Mr. STAIR. I cannot say that I did.

Mr. PECORA. Well, what can you say about it?

Mr. STAIR. Well, I can only say that when the combination was first talked of I was rather opposed to it.

Mr. PECORA. Well, before the corporation became organized did you change your views about it?

Mr. STAIR. I probably did.

Mr. PECORA. Isn't your recollection clear about that?

Mr. STAIR. No; it is not.

Mr. PECORA. You qualify your answer by saying that you probably did.

Mr. STAIR. My recollection is not clear. I was rather a busy man, and advancing years do not improve one's memory.

Mr. PECORA. And you feel that your recollection generally is more or less clouded?

Mr. STAIR. More or less; yes.

Mr. PECORA. Do you regard it as clouded generally with regard to the events transpiring in connection with the Detroit Bankers Co. and its acquisition of the capital stock of these five original banking units?

Mr. STAIR. As to the details it is absolutely cloudy.

The CHAIRMAN. Mr. Stair, what is your age?

Mr. STAIR. Seventy-five.

The CHAIRMAN. Oh! You are young, then. [Laughter.]

Mr. STAIR. Well, I find my memory is slipping.

Mr. PECORA. Now, Mr. Stair, you know, don't you, that in addition to the Detroit Bankers Co. having a board of directors it also had a number of trustees, 12 in number, as I recall it, who held a certain class of stock known as "trustee stock", amounting in the aggregate to 120 shares, of the par value of $10 per share?

Mr. STAIR. I don't remember that. Does that allude to the governing board or the governing committee?

Mr. PECORA. Well, it alludes to the 12 men who by virtue of their ownership of that trustee stock had the sole voting power in the Detroit Bankers Co. on the matter of election of officers and directors, and also had conferred upon them certain other exclusive rights and powers not shared by the members of the board of directors. Do you recall that?

Mr. STAIR. I do not recall it clearly. But I know there was what I considered a voting trust or governing committee.

Mr. PECORA. Well, was this governing committee, as you call it, composed of the 12 men who had this trustee stock?

Mr. STAIR. I am not sure about that.

Mr. PECORA. Do you recall whether or not you were ever made one of those 12 so-called "trustees"?

Mr. STAIR. I remember that I was made one of the governing committee.

Mr. PECORA. Do you recall whether you were ever made one of the so-called "12 trustees"?

Mr. STAIR. I do not recall it. Was I one of them, Senator Couzens?

Senator COUZENS. No. You were never an officer of the Detroit Trust Co. or of the First National Bank, were you?

Mr. STAIR. No.

Mr. PECORA. Mr. Stair, do you recall the circumstances under which you were elected president of the Detroit Bankers Co. in June of 1932?

Mr. STAIR. Yes.

Mr. PECORA. Will you state what they were?

Mr. STAIR. Well, the expenses of the Detroit Bankers Co. were very heavy, salaries were running around $40,000 a month. The governing committee wanted to eliminate this expense as far as possible, and they wanted to appoint an honorary president. I objected very seriously to becoming that officer, and said I would not accept the office, but finally I accepted it on the ground that there would be no salary, and no duty except to preside at meetings. I finally accepted it with the very definite understanding that it was an economical move; and subsequent events proved that, because the salary list dropped from $40,000 a month for the Detroit Bankers Co. down to about $18,000, within 3 months. And further reductions were then in view.

Mr. PECORA. You succeeded Mr. Ballantyne to that office, did you?

Mr. STAIR. Yes, sir.

Mr. PECORA. Do you know the circumstances under which Mr. John Ballantyne resigned?

Mr. STAIR. Well, I was not a member of the committee that waited upon Mr. Ballantyne. I only know that things were—well, that the cooperation and coordination of the various units were not being made as they wanted them; I mean as the governing committee wanted them made. And Mr. Ballantyne was rather inactive. There was a great deal of friction there.

Mr. PECORA. Do you mean between Mr. Ballantyne and the governing committee?

Mr. STAIR. Yes, sir.

Mr. PECORA. Were you a member of the governing committee?

Mr. STAIR. I was a member of the governing committee.

Mr. PECORA. Have you familiarized yourself with the testimony given by Mr. Ballantyne in recent days before this committee?

Mr. STAIR. I have not.

Mr. PECORA. Have you read any of that testimony given by him?

Mr. STAIR. I have read some of it.

Mr. PECORA. Some of Mr. Ballantyne's testimony?

Mr. STAIR. Yes, sir.

Mr. PECORA. Did you read it from any transcript that you had of the testimony as given here?

Mr. STAIR. I read it as it came through the Detroit Free Press.

Mr. PECORA. And the Detroit Free Press is the newspaper of which you are publisher?

Mr. STAIR. With which I am connected.

Mr. PECORA. And have been for many years?

Mr. STAIR. Well, for 27 years, I think.

Mr. PECORA. Had it come to you, through whatever channel it came, that Mr. Ballantyne testified here over last Friday that at the time he resigned he felt that he could no longer remain and retain his self-respect?

Mr. STAIR. I read that part of it; and I agree with him that he could not remain and retain his self-respect, because he was not performing services.

Mr. PECORA. I do not recall reading that part of it in the Detroit Free Press at any time.

Mr. STAIR. Well, it was there. That is where I read it.

Mr. PECORA. Now, Mr. Ballantyne further testified in connection therewith that one of the reasons that caused him to resign was because he did not have the power which he felt he should have as president, and that he had requested a granting of that power from the governing authorities of the company, but that it had been denied to him. Are you familiar with that part of his testimony?

Mr. STAIR. I understand that. I read that part of it. Mr. Ballantyne was not only the president of the Detroit Bankers Co. but he was chairman of the First National Bank.

Mr. PECORA. Yes.

Mr. STAIR. He had complete authority, authority that had been given by the board to Mr. Ballantyne. But Mr. Ballantyne was not in good health and he was not very active. And Mr. Leyburn came there and criticized us for having too many "up officers", as he called them, men getting $20,000 a year and up; that we had too many of them, and that they were not being eliminated, and that coordination was not being brought about, and there is where the friction came.

Mr. PECORA. And you felt that Mr. Leyburn's criticism was good?

Mr. STAIR. That it was just.

Mr. PECORA. Was that the reason why, generally speaking, in your opinion at least, Mr. Ballantyne resigned, because of that kind of friction?

Mr. STAIR. I understood from Mr. Ballantyne's testimony, and he used the expression often that he was "on his way out", and that he did not feel like working hard. I do not know what his inner reason was, because I was not, as I say, one of the committee that waited upon him just before he resigned.

Mr. PECORA. Now, Mr. Stair, you know, don't you, that during the years 1930 and 1931, the Detroit Bankers Co. paid dividends on its capital stock at the rate of 17 percent per annum?

Mr. STAIR. Yes.

Mr. PECORA. Based on the par value of the stock?

Mr. STAIR. That was until 1932.

Mr. PECORA. It paid dividends at the old rate during all of the years 1930 and 1931?

Mr. STAIR. Yes.

Mr. PECORA. In 1931 do you recall that the Detroit Bankers Co. received special dividends as the owner of the capital stock of two banking units of the company, namely, the Detroit Trust Co. and the First National Bank in Detroit, and the special dividends that year aggregated, as I recall it, $3,500,000? Are you familiar with those special dividends?

Mr. STAIR. I was a member of the committee at the time, but I don't recall the details.

Mr. PECORA. You are familiar with the fact that those two institutions declared special dividends?

Mr. STAIR. I am familiar with the fact that they paid 17 percent up until July of 1932, I believe, and the earnings warranted it.

Mr. PECORA. You say the earnings warranted it?

Mr. STAIR. Yes, sir.

Mr. PECORA. That the earnings of the unit banks warranted it?

Mr. STAIR. The earnings of the First National Bank warranted it.

Mr. PECORA. Now, Mr. Stair, as a director of the First National Bank in Detroit, was there brought before you as well as before the other members of the board of the bank, at various times for consideration, reports of examinations of the bank made by national bank examiners under the Comptroller of the Currency?

Mr. STAIR. Yes, sir.

Mr. PECORA. Now, there was an examination of the First National Bank made as of the 25th day of September 1931, and in the report of that examination the examiner makes the following general remarks as appear from a copy of the report of that examination which I have before me:

> This report reflects a very unsatisfactory condition, showing the classified losses and doubtful paper aggregating approximately the surplus and profits of the bank, without taking into consideration a large amount of slow assets.

Do you recall discussing that comment or remark of the national bank examination with members of the board of your bank?

Mr. STAIR. I do not recall that particular one.

Mr. PECORA. Do you think that a report of that sort, assuming it was based on fact, indicates a condition in the bank which justified the payment of not only the regular dividend which that bank paid for the year 1931 but the special or extra dividend amounting to 2 million dollars as I recall it, that this bank paid?

Mr. STAIR. Well, the earnings at that time were ample.

Mr. PECORA. Well, do you consider only earnings in determining dividends that should be paid by a bank?

Mr. STAIR. No. The bank was charging off nearly everything that the examiners thought should be charged off. Some of their criticisms were unjust, and they did not know values, they were not familiar with values in the town. For instance, as to one loan there, a Catholic loan, they charged off as no good. But that loan was being taken care of and was in proper shape, and it amounted to about 11 million dollars. There was always a committee appointed, those reports were laid upon the table and a committee appointed, and they generally conferred with the examiners, and went over them very carefully.

Mr. PECORA. Now, in this report of the examination of September 25, 1931, it appears that the examiner had discussed with members of the executive committee of the bank, and with 14 of its officers, various matters that are made the subject of comment or criticism in the report.

Mr. STAIR. I was not at that conference.

Mr. PECORA. You were not at that conference at all?

Mr. STAIR. No. I was at the one following that, in 1932. There was a conference in June of 1932, and Mr. Leyburn and one of its other examiners were present, and he was, apparently, quite gratified that the members of the board were very familiar with everything that had been recommended, and were cooperating. He advised continuing the dividend, by the way.

Mr. STAIR. He advised continuing the dividend, by the way.

Mr. PECORA. I beg pardon?

Mr. STAIR. And he advised continuing the dividend at that time.

Mr. PECORA. Did he advise the payment of the special dividend of 2 million dollars in 1931?

Mr. STAIR. I don't remember that. I am speaking of 1932.

Mr. PECORA. I am speaking first of 1931, because you said a few minutes ago that the declaration of dividends by the Detroit Bankers throughout the years 1930 and 1931 at the rate of 17 percent of the par value of its capital stock was justified by the earnings of the First National Bank alone.

Mr. STAIR. To the best of my knowledge and belief that is true, Mr. Pecora, that they were justified.

Mr. PECORA. Did you know what the condition of the bank was in September 1931? I am referring now to the First National Bank.

Mr. STAIR. I thought I did.

Mr. PECORA. And did you know to what extent there had been an impairment of capital and surplus accounts?

Mr. STAIR. I cannot recall what the impairment was. I knew they were making heavy charge-offs.

Mr. PECORA. Did you know that the classified losses and doubtful paper in September 1931 aggregated approximately the capital, the surplus and profit of the bank?

Mr. STAIR. No; I didn't know that. I don't believe it.

Mr. PECORA. Well, what knowledge have you that prompts you to say you don't believe this remark made by the national bank examiner was based on the fact?

Mr. STAIR. Because his charge-offs were unduly and unwisely heavy, and many of those accounts that he wanted to charge off were good and they have been paid.

Mr. PECORA. Do you know what charge-offs he took into account that time?

Mr. STAIR. No; I don't know that.

Mr. PECORA. I am still talking of the examination of September 1931, not any examination made in 1932.

Mr. STAIR. No.

Mr. PECORA. Let me read further, Mr. Stair, from the general remarks of the examiner in his report of this examination in September 1931 [reading]:

This condition—

That is, the very unsatisfactory condition he already alluded to—

has been brought about by two major causes, namely, general business depression and shrinkage in the inflated value of real estate, and poor management.

Now, there was a general business depression, was there not, at that time?

Mr. STAIR. Certainly was.

Mr. PECORA. Which was getting worse throughout the years?

Mr. STAIR. Yes.

Mr. PECORA. Continued to grow worse after the beginning of 1932. And there was a steady shrinkage in the value of real estate?

Mr. STAIR. Yes.

Mr. PECORA. At about that time, was there not?

Mr. STAIR. Yes, sir.

Mr. PECORA. Had been since the beginning of the year at least?

Mr. STAIR. No doubt.

Mr. PECORA. And continued during all of the following year 1932?

Mr. STAIR. Yes, sir.

Mr. PECORA. He also says another major cause of this unsatisfactory condition was poor management. In whom was the management actually vested at that time or exercised?

Mr. STAIR. Mr. Ballantyne.

Mr. PECORA. I will read further now from these general remarks of the examiner in his report of examination made on September 25, 1931:

In the first instance—

That is, referring to the general business depression and shrinkage in real-estate values—

Detroit has suffered along with other large cities from the depression, and more particularly because of the slow condition of the motor industry. The city has a large floating population relying to a great extent on this one industry for its income. When this source of income is materially reduced all other branches of business are to some extent affected. This condition is reflected to a very marked degree in the value of real estate.

Would you say that those observations are based on facts?

Mr. STAIR. They are quite accurate.

Mr. PECORA. What?

Mr. STAIR. They are quite accurate, I would say.

Mr. PECORA. The examiner proceeds further in his general remarks in this report as follows:

Real estate values in 2 years have been cut in half with little activity on this basis. Large buildings have not shown any market whatever. Foreclosures and receiverships are numerous. The Detroit Clearing House Association have agreed to withhold from the market any parcels of real estate received from foreclosure for 6 months, hoping by this procedure to increase values.

Would you say that that was a fair comment?

Mr. STAIR. I would say so.

Mr. PECORA. This comment is also made by the examiner in his report of examination as of September 25, 1931:

With respect to the management of this bank, it is necessary to state that for the past several years the management has been weak. Mr. Dwight Douglas failed to disclose executive ability sufficient to hold the loaning officers in line with prudent credit policies, and as a result each officer carried on his particular department just about as he saw fit, and in most instances totally disregarding the advices of the credit department.

Would you say that that was a fair comment or expression of opinion?

Mr. STAIR. I would not say it was entirely. I think it is exaggerated.

Mr. PECORA. Do you think it is materially exaggerated?

Mr. STAIR. It might have been his judgment that Dwight Douglas was not a good manager, but I don't think the loaning department of the First National Bank was being carried on the way he states.

Mr. PECORA. You don't?

Mr. STAIR. No; the loans came up to the executive committee, and many loans were turned down.

Mr. PECORA. Are you familiar with the fact that some time during the early part of 1932 Mr. Verhelle, who was the comptroller of the Detroit Bankers Co., was requested to make a sort of confidential investigation concerning certain of the loaning policies of the bank?

Mr. STAIR. I don't know of it.

Mr. PECORA. You don't know of it?

Mr. STAIR. Never heard of it before.

Mr. PECORA. Did you, in the course of your reading, through whatever channels it was made available to you, of the evidence presented to this committee in recent days, learn that Mr. Verhelle had made such an examination at the request of both Mr. Mills and Mr. Ballantyne, and had submitted a confidential report or memorandum setting forth the results of his examination and making certain recommendations?

Mr. STAIR. I know of a recommendation that came from Mr. Verhelle to the governing committee or the board of the Detroit bankers, and that a committee was appointed to go into that matter thoroughly, but so far as that being a secret report I didn't know that, because that report was submitted to the—if you are talking about the officers' loans—that report was submitted to the full board.

Mr. PECORA. I did not refer to it as a secret report. I simply referred to it as a confidential report or memorandum.

Mr. STAIR. Yes.

Mr. PECORA. Which is exactly what it is called on its own face—"Private and confidential memorandum."

Mr. STAIR. Well, I knew nothing about the source of that—that is, I knew nothing about the request for the report. But I believe I was present when the report was read.

Mr. PECORA. Before whom was this report read; I mean this private and confidential memorandum?

Mr. STAIR. It was read before the board; the governing board.

Mr. PECORA. Of the Detroit Bankers Co.?

Mr. STAIR. Yes, sir.

Mr. PECORA. What action, if any, was taken on it?

Mr. STAIR. A committee was appointed. If I remember right, Judge Murfin was appointed as chairman of a committee to investigate it. Ex-Senator Newberry, I believe, was another member. I cannot recall all the members. It was a very able committee.

Mr. PECORA. Yes.

Mr. STAIR. And they gave a most thorough examination to that report.

Mr. PECORA. And did they make a report of their review of this memorandum?

Mr. STAIR. They certainly did.

Mr. PECORA. Was it in writing?

Mr. STAIR. I think so. I think it could be found. I am not sure.

Mr. PECORA. Can you put us in possession of a copy of it?

Mr. STAIR. Well, I haven't any copy.

Mr. PECORA. Do you know anyone that has?

Mr. STAIR. No, sir; but I think without a doubt Judge Murfin is in the room, and he can enlighten you on that.

Mr. MURFIN. I have a copy of it.

Mr. MILLS. I also have one.

Mr. PECORA. May I have a copy, then, if you gentlemen have it?

Mr. MILLS. Certainly.

(Mr. Mills came forward and submitted two documents to Mr. Pecora.)

Mr. PECORA. Now, Mr. Wilson Mills has just furnished me with what purport to be photostatic copies or reproductions of reports, two certain reports, made by the gentlemen composing this special committee that you have just referred to, Mr. Stair. Will you look at them and tell me if you can identify them as true and correct copies of reports submitted to the governing committee by the members of this special committee?

Mr. STAIR (after perusing one document). It is a rather severe test on my memory, but I should say this is the exact substance of the report. [And after perusing another document:] Yes, sir; I believe I heard that report read.

Mr. PECORA. I will offer them both in evidence.

The CHAIRMAN. Let them be admitted.

(Report dated July 9, 1932, signed by Truman H. Newberry, Wilson W. Mills, Lawrence K. Butler, and George J. Pipper, was designated "Committee Exhibit No. 125, Feb. 1, 1934", and appears in the record immediately following, where read by Mr. Pecora.)

(Report dated May 25, 1932, signed by Wilson W. Mills, J. O. Murfin, Truman H. Newberry, and Lawrence K. Butler, was designated "Committee Exhibit No. 126, Feb. 1, 1934", and appears immediately following, where read by Mr. Pecora.)

Mr. PECORA. They have been marked in evidence as "Committee's Exhibits 125 and 126", respectively. Exhibit no. 126 precedes the other one in date, and I will read Exhibit No. 126 first [reading]:

The undersigned, being all the members of the committee appointed to investigate and report upon certain charges made against various officers and employees of the bank, have met and thoroughly examined all the items affecting John R. Bodde and Donald N. Sweeny, and report that in our judgment neither of these officers has done anything whatsoever detrimental to the interests of the bank, but, on the contrary, have in all cases mentioned acted in an upright and proper manner under the circumstances.

We wish to take this occasion to say that not only were they innocent of wrongdoing, but the committee have all been impressed with the belief that the written memorandum delivered to the members of the committee, which set forth certain facts, was prepared in such a manner as to show animosity on behalf of the person making the memorandum against these particular officers, and the memorandum was prepared in such a way as to impute wrongdoing without having examined or brought in all of the other existing facts.

A subsequent report or reports will be made upon the balance of the officers and employees mentioned.

May 25, 1932.

WILSON W. MILLS.
J. O. MURFIN.
TRUMAN H. NEWBERRY.
LAWRENCE K. BUTLER.

Then follows this:

I agree with the decision of the committee respecting all items affecting John R. Bodde and Donald N. Sweeny as expressed in the first paragraph hereof.

GEORGE J. ———.

What is that name?

Mr. MILLS. Pipper.

Mr. PECORA. Pipper P-i-p-p-e-r.

The other report marked as "Committee's Exhibit No. 125" is dated July 9, 1932, and reads as follows [reading]:

The undersigned, being members of the committee appointed to investigate and report upon certain charges made against various officers and employees of the bank have, since its report on May 25, 1932, caused to be considered the items against:

Arnot Moody—in view of the fact that Mr. Moody was retired as a vice president of the First Wayne National Bank on July 5, for reasons totally unconnected with the report, and in view of the fact that after that date Mr. Moody will have no official connection with the bank, and further because of his acquaintanceship in the neighborhood of Ecorse, Wyandotte, and River Rouge, we believe he can be of some good will to us, and finally, in view of his long service with the bank, the committee were unanimously of the opinion that there was no good purpose to be accomplished by further investigating the charges. The committee, however, does reserve the right to change this opinion if subsequent developments make it seem advisable to do so.

Rupert Pletsch—the committee is not as well satisfied in connection with Mr. Pletsch's explanation of the Ramm & Co. transaction as it would like to be. However, we are unable to put our finger upon any particular item, and at the same time are far from satisfied that any particular item exists. The loans arose and continued due largely to the methods then in vogue at the Wayne County & Home Savings Bank, and Mr. Julius H. Haass, as well as vice presidents George Wiley and Arthur Loch, were fully aware of the transactions when they were made. Pletsch did not, until after the loans were made, become a small stockholder in Ramm & Co. In view of Mr. Pletsch's long service with the institution and his present good work, the committee unanimously feel that with a severe reprimand to Mr. Pletsch (which has been administered) the matter can rest as it is.

Gilbert W. Beasley—the principal charge made was that he violated a rule of the bank in having a margin account with customers. The charge is unfounded. He did purchase $130,000 of shares of bank stock and paid for the same to a broker outright, from whence the inference was drawn. Instead of buying this stock, he should have applied the purchase money upon the loan to the bank. The committee felt his action was quite natural under the circumstances, although he has been informed that this must not occur again. He has a salary of $35.000 a month, of which he pays $150 to the bank—

There is some mistake there—

and supports five of his family on the remaining $200.

That is a typographical error, apparently. It should be 350, should it not?

Mr. MILLS. I believe it should be 350.

Mr. PECORA. It reads here "$35 a month." [Resuming reading:]

The charge of speculation in foreign exchange was properly explained.

Mason Borgman—the charge against him is that he and members of his family have a large number of mortgages delinquent in the mortgage department. There is nothing very unusual in this item, and the entire matter has been turned over to the special loan department to be worked out. He has a salary of $300 per month. Proper deductions are being made and applied to his loans.

Elvin G. Krebs—this charge involves a loan made by a man named Houser for the joint account of Houser and Krebs at the Central Savings Bank. It appears that the loan was perfectly good when made, and no rule of the Central Savings Bank existed which prevented an officer from borrowing from it. The loan later became a bad one, and the stock, which consisted of American Twist Drill Co. and Reynolds Spring Co., was not sold, although probably it should have been.

Then appears the following typewritten matter which is ruled out apparently by pen and ink. I will read the portion as ruled out:

An additional charge was that Krebs O.K.'d a note for a friend of his named Panyard. This was disproved, inasmuch as Krebs was in the mortgage department of the Central Savings Bank and never approved at any time a commercial or collateral loan.

Then follows this typewritten matter, which is unqualifiedly stated; that is, it has no lead-pencil lining or ink lining out:

He has a salary of $416.66 a month, and should pay half of the Houser loan. Proper deductions are being made and applied to his loans.

The item against M. D. Irwin and F. E. Morrison were satisfactorily explained.

Henry Roehrig—this man was president of our Wyandotte Bank. He lost his wife and two children, all in violent deaths; and, while the action of Mr. Roehrig in this connection possibly was not above criticism, he has been criticized for his action, which criticism we believe to be sufficient.

D. J. Goniea—the charge against this man is quite similar to that against Roehrig, and the committee has drawn the same conclusions therefrom and taken the same action in connection therewith.

J. O. Murfin did not participate in these matters, owing to illness.

TRUMAN H. NEWBERRY.
WILSON W. MILLS.
LAWRENCE K. BUTLER.
GEORGE J. PIPPER.

Was the matter of investigating all of the things set forth and alluded to in this so-called private and confidential memorandum of Mr. Verhelle delegated to the committee whose names are signed to these two reports?

Mr. STAIR. Yes, sir; I believe it was.

Mr. PECORA. You had nothing to do with any——

Mr. STAIR (interposing). Nothing to do with it.

Mr. PECORA. Investigation of the matters set forth in Mr. Verhelle's report?

Mr. STAIR. No, sir.

Mr. PECORA. Now, I will return to the general remarks set forth in the national bank examiners report of his examination of the First National Bank as of September 25, 1931. The general remarks continue as follows:

About a year ago Mr. Herbert Chittenden was elected president to succeed Mr. Douglas, and it was hoped that he would institute new policies designed to correct this situation. Unfortunately, the new management has utterly failed in bringing about the necessary changes.

In discussing the procedure necessary to bring about the desired correction of this bank with officials of the Detroit Bankers Co., it was decided to take the necessary steps to merge the First National Bank and the Peoples Wayne County Bank under the charter of the First National Bank in Detroit.

Thereupon Mr. Mark Wilson, vice president of the Detroit Bankers Co., went to Washington for a conference with the comptroller. Mr. O. P. Layburn, chief national bank examiner, and myself subsequently had a conference with Mr. John Ballantyne, president, Mr. Mark Wilson, vice president, and the attorneys of the Detroit bankers. At this meeting written authority was given to this department to make an asset examination of the Peoples Wayne County Bank of Detroit. The result of this examination is set forth in a separate report and should be considered in conjunction with this report in determining the merits of the proposed merger.

Are you familiar with those matters referred to in that part of these general remarks, Mr. Stair?

Mr. STAIR. I was not on the committee reporting on that examination. So I am not familiar with it.

Mr. PECORA. You were not one of the officials of the Detroit Bankers Co. with whom the discussion referred to in this portion of the report was had by the national bank examiner?

Mr. STAIR. No, sir.

Mr. PECORA. The general remarks in this report of examination continue as follows:

Through this merger it is proposed that Mr. John Ballantyne be made president of the bank. Mr. Ballantyne is eminently qualified to handle this position because of his sterling character, large banking experience, and acknowledged conservative policies. It is proposed that a very strong man be placed

in charge of loan activities to carry out Mr. Ballantyne's policies, and within all probability this man will be Mr. Mark Wilson. Mr. Wilson is an exceptional choice for this position because of his past experience and forceful character. Numerous changes will take place from this point down, all of which will be intended to create such an organization as to relieve this office from further embarrassment.

That merger was effected on December 31, 1931, was it not, Mr. Stair?

Mr. STAIR. Yes, sir; it was.

Mr. PECORA. And Mr. Ballantyne was made president of the consolidated institution?

Mr. STAIR. He was made president of the Detroit Bankers and remained chairman of the First National Bank.

Mr. PECORA. And was Mr. Mark Wilson made vice president?

Mr. STAIR. He was.

Mr. PECORA. Would not the fact that those changes were made after a discussion of the surrounding circumstances with the national bank examiner tend to indicate, Mr. Stair, that the criticism of the weak management of the bank found lodgment even in the minds of the directors of the bank?

Mr. STAIR. It did find lodgment.

Mr. PECORA. And they acted upon the criticism by making the change?

Mr. STAIR. They did.

Mr. PECORA. Now let me read further from the general remarks of the examiner contained in his report of examination of September 25, 1931:

Other benefits derived from this merger will be noted in the report of examination of the Peoples Wayne County Bank. All of the losses classified in this report will be eliminated prior to the merger.

Was that done, Mr. Stair?

Mr. STAIR. Mr. Wilson can tell you about that. I don't know whether that was done or not.

Mr. PECORA. Now I will read further; under the caption of "Redford banks" appears the following:

Kindly note remarks in connection with this matter on page 11–N of this report. This acquisition of assets without the consent of the Comptroller of the Currency is subject to the most severe criticism. The assets found in these two banks are largely unacceptable or nonconforming. On the basis of value as applied at this time, the experience has cost the bank at least $500,000. This estimated loss, however, was not set up at this time, because it is my opinion that some other method should be found to remove these assets from the bank. If in your opinion the directors are responsible for any loss resulting from this deal your letter should so state.

What was the situation referred to in that portion of these general remarks?

Mr. STAIR. I am not familiar with it at all. I cannot recall.

Mr. PECORA. Don't you know anything about the acquisition of the Redford banks?

Mr. STAIR. I haven't the slightest recollection of the details.

Mr. PECORA. Not the slightest?

Mr. STAIR. No, I haven't; because Mr. Mark Wilson was an expert banker. He had been head of various institutions there, and the directors would naturally suppose that the officers or the attorneys were carrying on not only legally but judiciously.

Mr. PECORA. It appears that there was an examination made of the First National Bank, Detroit, as of May 6, 1932, and I think that was the first examination made after the bank had been consolidated with the Peoples Wayne County Bank.

Mr. STAIR. Yes, sir.

Mr. PECORA. You continued as a director of the bank and was serving as such at that time?

Mr. STAIR. Yes, sir.

Mr. PECORA. In May 1932 and thereafter?

Mr. STAIR. Yes, sir.

Mr. PECORA. Now, Mr. Stair, as a director of the bank, were any of the matters that were made the subject of comment or report by the national bank examiner based upon his examination as of May 6, 1932, ever brought to your attention?

Mr. STAIR. Yes, sir.

Mr. PECORA. And were they discussed by you with other members of the board of the bank?

Mr. STAIR. Not only with members of the board but with Mr. Leyburn and one of his assistants.

Mr. PECORA. Have you a fairly good recollection of the matters that were the subject of discussion at that time with your codirectors as well as with Mr. Leyburn and his assistant?

Mr. STAIR. Well, I cannot remember the details. In a general way I can remember that he criticized our overhead, said we had too many officers, and he was quite surprised to find the committee were familiar with what he considered the doubtful loans. We discussed the question of dividends. Directors were then ready to eliminate dividends, and he thought it would be bad policy to do it.

Mr. PECORA. Now, let me, possibly refreshing your recollection of matters taken up for discussion at that time, read to you from copy of the report of the national bank examiner of his examination as of May 6, 1932, under the caption of "General remarks":

> This is the first examination since the consolidation of the First National Bank of Detroit and the Peoples Wayne County Bank of Detroit. Both of these banks were members of the Detroit Bankers Co. group, and as it stands now the capital stock of subject bank is the principal asset of the Detroit Bankers Co.

That was the fact, wasn't it?

Mr. STAIR. I believe so.

Mr. PECORA. I will read further from the general remarks in this report:

> In commenting on this institution it is believed well to devote said comments to the various items of criticism as listed on page 11 and 11–B, as such an outline would give a more comprehensive picture of the situation.

Then under the caption of "Management" appears the following—let me first refer to what appears under the caption of "Commercial Loans":

> The straight lines of credit plus the collateral loans are, frankly speaking, in an extremely bad condition. It is believed that such loans as were in the Peoples Wayne County Bank are perhaps in a more frozen condition than the commercial loans of the First National Bank. This is probably due to two reasons: First, the loaning officers of the Peoples Wayne County Bank were apparently much weaker, and second, the State Department of Michigan apparently permitted them to make a larger percentage of loans which strictly speaking, should not have been allowed in a commercial bank.

A very large percentage of loans are based on real estate security, some first mortgages, and a great many junior mortgages. Such mortgages as these that were taken over from the Wayne County Bank are listed as non-conforming in the real estate loan schedule.

The examiner cannot stress too strongly the fact that it will take almost superhuman effort to ever bring these loans down and put them on a proper basis. Certainly it seems almost impossible for them to do it with the present type of loaning officers.

What would you have to say about that comment, Mr. Stair, based upon any knowledge you had of conditions in the bank at that time?

Mr. STAIR. Well, he asked for an interview with a selected committee. We met with him. He went over these subjects. He found out that strenuous efforts were being made to correct those matters, and before he got through with the committee he complimented it on the progress that was being made.

Mr. PECORA. Who did?

Mr. STAIR. Mr. Leyburn. And he found, not including myself, because I was not active, but other members of the board, Mr. Mills, Mr. Newberry, and others, were very familiar and were giving a great deal of time gratuitously to straighten matters out.

Mr. PECORA. Was the condition indicated by this comment a condition that existed with regard to the loans that had been made on real estate?

Mr. STAIR. That I don't know.

Mr. PECORA. Under the caption of "Employee's Loans" appears the following comment in the national bank examiner's report:

A separate schedule is contained in the report showing the loans to officers and employees aggregating over 4 million dollars, and that at the beginning of the examination there was approximately 2 million dollars loss in these items alone. At the close of the examination the market was so much lower on Detroit bankers' stock that the loss will be much greater.

Most of these employees' loans were for for the purpose of buying stock in the Detroit Bankers Co. This state of affairs has caused a breaking down of the morale of said employes and is very dangerous from a morale standpoint. It is believed that the directors should relieve the employes of all of these obligations.

What have you to say about that, Mr. Stair?

Mr. STAIR. I would say that was a very unfortunate condition that came about through the various mergers; that these officers borrowed from other banks. They finally all got into the same hopper. But they were not unethical when they borrowed. As I understand it, they borrowed from outside banks, and those banks were taken in.

Mr. PECORA. Were those borrowings by employees or officers made principally to enable such borrowers to buy stock of the Detroit Bankers Co.?

Mr. STAIR. That I don't know. The report says so. I don't know.

Mr. PECORA. You have no knowledge to the contrary?

Mr. STAIR. No, sir.

Mr. PECORA. You have no knowledge at all on the subject?

Mr. STAIR. I have no knowledge except that I know that this report was investigated and found true, that the officers were heavily indebted and a good many of them on Bankers stock.

Mr. PECORA. Those loans were secured in many cases, if not in most cases, entirely by the Detroit Bankers Co. stock?

Mr. STAIR. That, of course, I don't know.

Mr. PECORA. Do you know how heavy a concentration there was of collateral consisting of Detroit Bankers Co. stock in the First National Bank of Detroit?

Mr. STAIR. No, sir.

Mr. PECORA. Did you ever know?

Mr. STAIR. No, sir.

Mr. PECORA. Didn't the board of directors of the bank at times make a review of the affairs and conditions of the bank in such fashion as would have acquainted them with any heavy concentration of collateral of the particular kind as security for the loans?

Mr. STAIR. I think they must have.

Mr. PECORA. Well, you say you think they must have. From the fact that you do not know anything about whether or not there was a heavy concentration of Detroit Bankers Co. stock as collateral for loans in the bank I inferred that you had not learned of any heavy concentration of any particular kind of collateral. Was that an unjust inference?

Mr. STAIR. Well, in a way, yes. I may have learned that there was a heavy concentration, but the exact amount I cannot recall.

Mr. PECORA. How heavy was it according to your best recollection?

Mr. STAIR. I haven't the slightest recollection of how much it was. Figures have no charm for me and I don't remember them.

Mr. PECORA. I am not asking for a specific figure; I am asking for an approximation.

Mr. STAIR. Well, I cannot tell you approximately, Mr. Pecora.

Mr. PECORA. You could not tell whether it was 10,000 shares or 150,000 shares?

Mr. STAIR. No, sir. No, sir. I might have heard it at the time and it went out of my mind. I probably did hear it.

Mr. PECORA. Would a knowledge of the heavy concentration of collateral consisting of Detroit Bankers Co. stock pass out of your mind readily?

Mr. STAIR. I think it would, after the proper steps were taken.

The CHAIRMAN. How many shares of Detroit Bankers stock do you have?

Mr. STAIR. At the time of the complete organization of the Detroit Bankers I had something over 6,000 shares. The exact number I cannot recall. I have a statement of that with me.

Mr. PECORA. Would it surprise you to know that in November 1932 there was in this bank approximately 25 million dollars worth of loans secured either in whole or in principal by Detroit Bankers Co. stock?

Mr. STAIR. Yes, I would be surprised.

Mr. PECORA. Would you be surprised because you would regard that figure as excessive?

Mr. STAIR. No; I would not regard it excessive as the stock was at that time. I had great faith in the stock, as everybody else.

Mr. PECORA. Speaking of November 1932, Mr. Stair?

Mr. STAIR. Oh, November 1932? Well, November 1932 we thought it was going along pretty good.

Mr. PECORA. Would it surprise you to know that in November 1932 the bank had outstanding loans aggregating approximately 25 million dollars which were secured either wholly or in large part by collateral consisting of the stock of the Detroit Bankers Co.?

Mr. STAIR. I don't know as it would surprise me. It might and it might not.

Mr. PECORA. Would you think that that was a healthy condition to have in the bank at that time?

Mr. STAIR. It depends upon what portion of that was collateral.

Mr. PECORA. Well, I have already indicated. I said all or a greater part of it.

Mr. STAIR. Well, what part of it?

Mr. PECORA. The greater part of it.

Mr. STAIR. I should say perhaps that was a little over the balance.

Mr. PECORA. Did you know of that condition?

Mr. STAIR. No, sir.

Mr. PECORA. Let me read further from the general remarks of the examiner in his report of the examination of the bank made as of May 6, 1932. Under the caption of "Detroit Bankers Co." appears the following:

This company which controls the group consisting of subject bank and a number of other State and National banks throughout Michigan is in the examiner's opinion the root of a large amount of the present trouble. The stock of this company, which is backed practically entirely by the stock of subject bank, has dropped in price from over $300 a share to $20 a share at the beginning of the examination and $9 at the close of examination. By referring to large loans it will be noted that the bank contains approximately 250,000 shares of Detroit Bankers Co. stock as collateral to commercial loans. Certainly this was a dangerous act on the part of the directors in allowing such a condition to take place and does not speak much safety for the group-bank plan. The bank contains a loan of $4,000,000 of this company, which of course is not collectible at the present time, in fact is in reality a loss to the bank on the present basis.

Now, what would you say with regard to that statement, Mr. Stair, based upon whatever knowledge you may have possessed of conditions existent in the bank as of May 6, 1932?

Mr. STAIR. I don't believe I understand thoroughly the question.

Mr. PECORA. What is there about the question you do not understand? I have asked you what comment, if any, or what thought you had concerning the general remarks that I have just read to you from the national bank examiner's report under the caption of "Detroit Bankers Co."

Mr. STAIR. I would say that that was probably an unfortunate condition, but when those loans were made they were undoubtedly amply secured, there was ample collateral. That is to the best of my knowledge and belief. I haven't any——

Mr. PECORA. Were you acquainted with the conditions referred to by the examiner in this report at this point which I have just read to you from among his general remarks under the caption of "Detroit Bankers Co."?

Mr. STAIR. I don't think so.

Mr. PECORA. You don't think you are. You did not know then that in May 1932 there were only a quarter of a million shares of capital stock of the Detroit Bankers Co. held by the bank as collateral to commercial loans?

Mr. STAIR. I didn't know it; no, sir.

Mr. PECORA. That had never been brought to the attention of the board at any meeting which you attended?

Mr. STAIR. Well, it may have, but not at any meeting that I attended.

Mr. PECORA. And you were a fairly regular attendant at board meetings, were you?

Mr. STAIR. Quite fairly well.

Mr. PECORA. Don't you think that that was a condition that should have been brought to the attention of the board at its meeting, that is, the condition reflected by this heavy concentration of collateral?

Mr. STAIR. It should have been brought probably and possibly was.

Mr. PECORA. But not at any meetings that you attended?

Mr. STAIR. I didn't happen to be at any meeting; no, sir.

Mr. PECORA. And you never knew that that was the extent of concentration of collateral in May 1932?

Mr. STAIR. I knew that there was considerable Detroit bankers stock in as collateral. It was taken in there when it was selling around $125 then, and I didn't know to the extent you referred to there.

The CHAIRMAN. What was the par value of that stock?

Mr. STAIR. $20.

Mr. PECORA. Now let me read this to you from the general remarks of the examiner in his report of examination of the bank as of May 6, 1932, and this appears under the caption of "Real Estate Loans":

> The real-estate loan schedule will show a highly unwarranted aggregate of real-estate loans which are causing a frozen condition. Much more so is this true in Detroit than in most cities, because of the rapidity with which Detroit grew due to the automobile industries. These real-estate loans are going defaulted by the hundreds, as will be noted by the separate foreclosure schedules totaling over $8,000,000.
>
> It is believed, technically speaking, there are a great many more nonconforming loans than shown in the real estate loan schedule, but is practically an impossibility to properly analyze them, due to there being in the neighborhood of 60,000 mortgages alone. From these loans will arise a tremendous amount of other real estate.

Were you cognizant of that condition alluded to in this portion of the examiner's report, Mr. Stair?

Mr. STAIR. I believe I was.

Mr. PECORA. And for what period of time or for how long a period of time prior to May 1932 had the condition been in the development which is alluded to by the examiner in this fashion?

Mr. STAIR. I think it had been developing since the early part of 1930 probably.

Mr. PECORA. Yes.

The CHAIRMAN. Has there been an improvement in the real estate situation since this?

Mr. STAIR. It is improving just slightly. Detroit was probably the worst hit city in the universe, not only by the closing of these two banks but by the industry, which is now on its feet again.

The CHAIRMAN. Is there any real estate being sold?

Mr. STAIR. Yes; some being sold. I understand that some of the property that the receiver has taken over was sold at a slight profit.

The CHAIRMAN. The bank had to acquire a great deal of real estate, I take it, by foreclosure and otherwise?

Mr. STAIR. Most of these banks that came in were savings banks. They were serving the community by lending money for the building and purchase of homes, and I presume that those banks helped at

least a hundred thousand people buy or build homes. In other words, the bank was serving the community. They were not money changers.

Mr. PECORA. Those were the banks that were taken over eventually——

Mr. STAIR. All of them, yes, sir.

Mr. PECORA. By the First National?

Mr. STAIR. Commencing with the Central right up, yes.

Mr. PECORA. When did that process of the acquisition of these banks start, Mr. Stair?

Mr. STAIR. It started with the Central Savings Bank.

Mr. PECORA. When?

Mr. STAIR. What year I cannot remember, but that was the first bank taken over by the First National, and they had mortgages, and they were good mortgages.

Mr. PECORA. And up to what time were these other banks taken over?

Mr. STAIR. Well, you must have the record there. I can not remember the year. I can just barely remember the year I was born. Dates do not seem to click with me. But the Home Savings Bank merged with the State, and both of those banks were very heavy savings institutions with plenty of mortgages—and good mortgages. I don't remember whether the Peninsular had many or not. Then there was the Merchants National that merged with the Peninsular or with the Dime. They all came into this one hopper.

Mr. PECORA. The one hopper that you referred to is what, the First National Bank or the Detroit Bankers Co.?

Mr. STAIR. The First National Bank.

Mr. PECORA. Let me read the following from the general remarks of the national examiner in his report of the examination of May 6, 1932, which appears under the caption of "Other real estate":

> The bank now contains $8,000,000 in other real estate, and potential other real estate will be two or three times that amount or probably more if conditions do not change. The amount shown as doubtful is unquestionably a loss.

Now, from your knowledge of conditions in the bank in May 1932, would you say that that comment of the examiner was a fair one?

Mr. STAIR. It might be fair from his standpoint. I think it is a little exaggerated from the bank's standpoint.

Mr. PECORA. To what extent do you believe it is exaggerated?

Mr. STAIR. Well, I believe he overestimated the losses.

Mr. PECORA. What do you think the losses should have been estimated at?

Mr. STAIR. That I cannot figure. I am not a mathematician. I know this——

Mr. PECORA (interposing). Do you mean that seriously, Mr. Stair, that you cannot figure it because you are not a mathematician?

Mr. STAIR. Well, who can tell how much losses are going to be on, say, 60,000 mortgages?

Mr. PECORA. I have asked for your estimate. You have already characterized the examiner's estimate as exaggerated. Now, what was your estimate? You must have had something in mind, in view of the fact that you characterized someone else's as "exaggerated"

Mr. STAIR. Well, I certainly had nothing in mind particularly.

The examiners generally find fault and pick out flaws, and it is their business and it is very essential.

Mr. PECORA. The examiners are there to find faults which exist, are they not?

Mr. STAIR. Well, some of them exist and some of them do not.

Mr. PECORA. Did this fault exist?

Mr. STAIR. I think that they overestimated it.

Mr. PECORA. To what extent?

Mr. STAIR. Well, I will take one loan to illustrate, the Catholic mortgage. He threw them out as not good. Now, there has never been one of them defaulted, the whole thing paid up to date. They are paying their money.

Mr. PECORA. Are they included in this "other real estate" comment?

Mr. STAIR. They are included in mortgage loans.

Mr. PECORA. Are they included in this "other real estate" comment?

Mr. STAIR. I don't know as to that.

Mr. PECORA. Now let me read the following, Mr. Stair, from the general remarks of the examiner in his report of examination of May 6, 1932, which appears under the caption of "Banks Taken Over":

This includes the American State Bank and two banks at Redford, Mich. Upon referring to the schedule it will be noted that there is approximately $10,000,000 loss in these banks at the present time, and it is believed there will be considerably more due to the very lax manner in which the liquidation of their assets is being handled. It apparently was a poor piece of business for them to take this bank over, as they not only have large losses but subject bank is also liable on many leases which will run into a serious amount. The liability on these leases is also shown on the schedule of the American State Bank. The loss of these banks has been placed in the doubtful column at this time.

Would you say that that criticism or observation——

Mr. STAIR (interposing). Is just.

Mr. PECORA. Is just?

Mr. STAIR. Yes, sir. I think it was a mistake, but it was done with the best intention. The clearing house bank took over that bank to save runs on other banks and to save the depositors, and it cost them a pretty penny. It was not just this one bank alone, it was the clearing house. There was a savings bank with $40,000,000 of deposits, a very serious situation in the town. They contemplated the loss, as I understand it—I was not there at the time the thing was done—of not to exceed a million or a million and a half, and the losses ran up to ten or eleven million dollars.

The CHAIRMAN. What bank was that?

Mr. STAIR. That was the American State.

The CHAIRMAN. A savings bank?

Mr. STAIR. Yes.

Mr. PECORA. Now let me read this statement that next follows under general remarks in this report of examination. It appears under the caption of "Bond Account":

While the account contains a sizable depreciation, it is believed that many of the bonds will come back, and perhaps this account is the least of their troubles.

You would agree with that, I presume?

Mr. STAIR. Yes; O.K.

Mr. PECORA. As being a fair comment or criticism?

Mr. STAIR. Yes.

Mr. PECORA. Now follows the following comment under the caption of "Branches":

The bank has approximately 178 branches in the city of Detroit, which is extremely dangerous, and should fear ever enter the minds of depositors, they could, through these banks, make short work of their job.

Would you agree with that observation?

Mr. STAIR. I agree they had too many branches; always have. But these branches were accumulated from the various units, and they were being consolidated or eliminated just as fast as they could be.

Mr. PECORA. How many were eliminated, all told, by consolidation and other methods?

Mr. STAIR. Well, they were accumulated by consolidations.

Mr. PECORA. How many were eliminated after the accumulation?

Mr. STAIR. After Mr. Mills got a hold there I believe he was eliminating at the rate of, oh, probably 2 or 3 a week.

Mr. PECORA. How many all told?

Mr. STAIR. I don't know. Mr. Mills can answer that. I know that they were being eliminated just as fast as they possibly could, or consolidated. Some of these branches were being consolidated. They were doing it as fast as they could without disturbing the community.

(Addressing Mr. Mills.) May I ask how many? Can you tell me?

Mr. MILLS. I have the statement right here.

Mr. STAIR. I think it is interesting to know.

Mr. PECORA. Well, I will examine Mr. Mills later.

Mr. STAIR. You asked me, and I am sorry I cannot give you that.

Mr. PECORA. Under the caption of "Liquidity" appears the following comment in the examiner's report as of May 1932:

It will be noted that the liquidity is entirely too small for a bank of this size, especially when taking into consideration their condition.

What is your opinion of that criticism?

Mr. STAIR. It was smaller than I would have liked.

Mr. PECORA. You mean the liquidity was smaller?

Mr. STAIR. Yes; smaller. The bank did not take the position of selling people out. It tried to help them. Not only was that its attitude toward its customers, but to the smaller banks in the State. It went to the rescue of quite a number.

The CHAIRMAN. What is the legal rate of interest in Michigan?

Mr. STAIR. Seven percent. I don't know of this bank ever charging over 6. I am not certain about the legal rate. It used to be that. What is it, Senator?

Senator COUZENS. I don't remember.

Mr. STAIR. It used to be 7. I don't remember of this bank ever charging over 6.

The CHAIRMAN. The customary rate is 6 percent, but you could contract for 7?

Mr. STAIR. Yes, sir.

Mr. PECORA. Now, let me read the following comment of the examiner in his report of the May 1932 examination under the caption of "Dividends":

The first quarterly dividends were paid on the basis of 16 percent annually. This is entirely too large, and while the examiner feels that it should be eliminated entirely, the effect of so doing would probably cause them too much trouble. To eliminate dividends altogether would mean the Detroit Bankers Co. could not, in turn, pay dividends, and this would demoralize the market and perhaps cause a run on the bank. It is therefore suggested that they be allowed to pay up to 8 percent annually for the present—

The words "for the present" being underlined.

What is your opinion with regard to the soundness and fairness of that comment?

Mr. STAIR. I agree with it.

Mr. PECORA. Agree with it in its entirety?

Mr. STAIR. Yes, sir. I was present at the conference when they were asking—the question was discussed with Mr. Leyburn. I take it this is his report.

Mr. PECORA. Well, it is countersigned by him as chief examiner of the district.

Mr. STAIR. Yes, sir. Well, he was there in person. And if I remember right, the dividend was cut for July 1932 on that basis.

Mr. PECORA. Doesn't that condition, Mr. Stair, suggest to you the weakness or unsoundness or unwisdom of group banking, or of having a holding company?

Mr. STAIR. You are asking me an embarrassing question. I haven't been in favor of group banking at all.

Mr. PECORA. You haven't been in favor of it——

Mr. STAIR (interposing). No, sir.

Mr. PECORA (continuing). At any time?

Mr. STAIR. No, sir. But it turned out to be to the interest of the town as long as it existed. However, I never was in favor of consolidation. I though that every bank ought to be built up on its own stump; but the majority was the other way, and their arguments were good.

Mr. PECORA. Their arguments at least prevailed on your mind?

Mr. STAIR. Well, their arguments were good.

Mr. PECORA. Their arguments were better than yours, do you mean?

Mr. STAIR. Well, apparently they were. The majority believed that way, and I always believed in majority rule.

Mr. PECORA. In the light of events that have taken place since then, would you say that what has happened has vindicated your judgment?

Mr. STAIR. Well, no, sir.

Mr. PECORA. Then do you think it has vindicated those who favored group banking?

Mr. STAIR. No; I think those things would have occurred just the same.

Mr. PECORA. Would this condition have occurred that the national-bank examiner commented upon, on the subject of dividends, just the same?

Mr. STAIR. Well, as to that I cannot say.

Mr. PECORA. Isn't it quite apparent that that condition would not have prevailed if the First National Bank had not been a part of this group banking system that was represented by the Detroit Bankers Co. as the holding company?

Mr. STAIR. Oh, I believe this: That things occurring in any of the other banks of the town would have reflected upon the larger banks. I do not see how you could have avoided the trouble.

Mr. PECORA. You have told us that your opinion always was that group banking was not the thing.

Mr. STAIR. I was not favorable to it.

Mr. PECORA. You were not favorable to it?

Mr. STAIR. I was not favorable to group banking; no.

Mr. PECORA. And your faith in it has not been increased by the experience since 1930—I mean the experience of the Detroit Bankers Co.

Mr. STAIR. Yes, sir; I believe it was a wise move. I believe I was mistaken about it.

Mr. PECORA. Do you still believe that?

Mr. STAIR. I still believe I was mistaken as to that.

Mr. PECORA. You still think that group banking, then, is a good thing?

Mr. STAIR. I think that group banking was a good thing for the town.

Mr. PECORA. You say "was." Do you confine that statement of opinion to the past or does it reflect your opinion at the present time?

Mr. STAIR. No. After the group got into action they began to clear things up, and I think it was a very good thing, because it would enable the bank to make proper loans to the town's industries. Detroit was a great industrial city, as you know, and at that time——

Mr. PECORA. (interposing). Why couldn't the bank make proper loans without being a unit bank?

Mr. STAIR. Its capital was not sufficient.

Senator COUZENS. Oh, Mr. Stair, the Detroit Bankers Co. did not increase the capital.

Mr. STAIR. Yes.

Senator COUZENS. It still remained in the matter of the individual units at the limitation that was placed upon the capital of the individual units, and not on the capital of the Detroit Bankers Co.

Mr. STAIR. When the banks were all merged into the First National Bank they had a great deal larger capital than they had had originally.

Senator COUZENS. That is true, but——

Mr. STAIR (continuing). Its loaning power was increased.

Senator COUZENS. That is not what Mr. Pecora is discussing. He is discussing the organization of the Detroit Bankers Co., of that group. The mere organization of a holding company in no sense increased the loaning capacity of the individual unit, did it?

Mr. STAIR. No. Then I did not understand his question.

Mr. PECORA. I was trying to get from you your opinion as to the soundness of group banking in the light of the experience of the Detroit Bankers Co.

Mr. STAIR. Well, I haven't given it serious thought.

Mr. PECORA. What was that answer?

Mr. STAIR. I say, I haven't given that particular question serious thought. That was done, and then——

Mr. PECORA (interposing). Would it be necessary for you now to give it serious thought in order to enable you to express an opinion as to the wisdom or soundness, or the lack thereof, of the group-banking system? Haven't your experiences since 1930 served to formulate an opinion in your mind?

Mr. STAIR. I cannot say that it has changed my opinion as to group banking. But I believe this group bank was probably the wise thing to do.

Mr. PECORA. Well, now, for what reason?

Mr. STAIR. Just for the reasons I have said.

Mr. PECORA. The reason you said was that it improved the loaning power of the banks.

Mr. STAIR. It did.

Mr. PECORA. Well, how did it improve the loaning power if it did not increase their capital structure?

Mr. STAIR. It increased the capital and surplus of the First National Bank, and then the First National Bank could loan larger sums.

Senator COUZENS. Well, they could have done that without the organization of the Detroit Bankers Co., couldn't they?

Mr. STAIR. You are now speaking of the holding company?

Senator COUZENS. Yes. What we are trying here now to do is to get your view of the holding company.

Mr. STAIR. Well, that is on the legality of it.

Mr. PECORA. I am not asking you as to the legality of it, but as to the soundness of it. Have you any opinion about that?

Mr. STAIR. I have no opinion.

Mr. PECORA. Then the knowledge you have gained from the experience of the Detroit Bankers Co., and its various units, since January of 1930, has not served to give you any opinion, or caused you to form any opinion concerning the merits or lack of merit of the holding company system?

Mr. STAIR. It has not convinced me of any demerits.

Mr. PECORA. Has it convinced you of any merit?

Mr. STAIR. Well, I wouldn't say that it had.

Mr. PECORA. Then you haven't been able to form any opinion about it at all; is that your answer?

Mr. STAIR. I wouldn't say that.

Mr. PECORA. What is the opinion that you have formed, if you have formed any opinion?

Mr. STAIR. My opinion is that it was desirable at the time it was done.

The CHAIRMAN. It was not very successful, was it?

Mr. STAIR. What was that, Mr. Chairman?

The CHAIRMAN. I say, it was not very successful, was it?

Mr. STAIR. It did not prove to be successful.

Mr. PECORA. You said your opinion was that it was desirable at the time it was done. Yet you have also testified that you were not in favor of it at the time when it was done.

Mr. STAIR. I was not particularly in favor of it—I mean of so many consolidations. But as to the method, I had no argument as

to that—I mean the method of conducting the business after it was organized.

Mr. PECORA. Now, for what reason do you think that the holding-company system of banking, and I will call it that in order to cause no confusion in your mind by using the term "group banking"—for what reason do you think it was a good thing at the time it was done in the case of the Detroit Bankers Co.?

Mr. STAIR. Well, it brought about consolidation in a successful way.

Senator COUZENS. Couldn't the Peoples and the Wayne County and the First National have consolidated without their having been consolidated into a holding company?

Mr. STAIR. I think so.

Mr. PECORA. What consolidation are you now referring to?

Mr. STAIR. The consolidation of the various banks.

Mr. PECORA. Do you mean all of the banks acquired by the Detroit Bankers Co.?

Mr. STAIR. All the banks that went into the group.

Mr. PECORA. But those banks continued to function under their respective charters, didn't they?

Mr. STAIR. For a time.

Mr. PECORA. Well, until there were consolidations effected, they continued to operate under their respective charters?

Mr. STAIR. Yes, sir.

Mr. PECORA. And until such consolidations as were effected took place the banks continued to function under the charters as one of the constituent banks such as prior to the consolidation, didn't they?

Mr. STAIR. Well, now——

Mr. PECORA (interposing). How did the fact that these unit banks were owned by the Detroit Bankers Co. confer any benefits upon any unit bank, or upon any community being served by such bank?

Mr. STAIR. As to that I do not know.

Senator COUZENS. May I ask you, Mr. Stair, if you believe that the Home Savings Bank at the corner of Michigan and Griswold, of which Mr. Haass was the head for a long time; and if the Wayne County Bank, of which Mr. Collins was the head for a long time; and the Peoples Bank at the corner of Wayne and Fort, under George Russell for a long time, had continued under that sort of management they would be closed today?

Mr. STAIR. Well, you are asking me——

Senator COUZENS (continuing). I am asking you for your opinion, because you have been for a long time a resident there and you have seen the Detroit Savings Bank continue under these circumstances.

Mr. STAIR. That would be a hard question to answer, Senator Couzens.

Senator COUZENS. How do you account for the fact that the Detroit Savings Bank has continued over all these years as an independent unit, when equally good banks, such as the Wayne County Bank and the Peoples Bank and the Home Savings Bank have disappeared?

Mr. STAIR. That question I cannot answer.

Senator COUZENS. Haven't you any opinion on that?

Mr. STAIR. My opinion is that they were purely savings banks. They had very little commercial business, and had a good line of

mortgages, and while not making a large amount of money, the Detroit Savings Bank is a sound bank.

Senator COUZENS. And these other banks probably would have been sound banks today?

Mr. STAIR. No. They had the advantage of being under a State charter, and they had friendly and kindly help, the Detroit Savings Bank did, when the crisis came. National banks had nothing. They had no help at all.

Senator COUZENS. That is not what I am talking about. I am talking about a continuation of the old Home Savings Bank, which was an old reliable bank for many years; and the Wayne County Bank, and the Peoples State Bank, all of which had State charters. I have never been able to conceive of the necessity for these banks all going out of existence and consolidating into one unit. What I am trying to find out is if, in your observation, they had continued as such, the same as the Detroit Savings Bank did, wouldn't they be in existence today?

Mr. STAIR. The chances are that they would, because they would have had the friendly cooperation of the State of Michigan, whereas the national banks got no help. They were seized.

Senator COUZENS. The Detroit Savings Bank continued as an individual unit over all the years, and it was not closed.

Mr. STAIR. And neither was the Commonwealth.

Senator COUZENS. And if these other banks had continued along the same line they would be in existence today, wouldn't they?

Mr. STAIR. Possibly that is true.

Senator COUZENS. That is what I wanted to get from you.

Mr. STAIR. Possibly that is true.

Senator COUZENS. Because I have never been able to see the idea of consolidating all these good old, sound, and safe savings banks that did a satisfactory and safe business.

Mr. STAIR. Neither did I. But you must understand that these banks you are referring to had help and consideration. The First National Bank had no consideration whatever.

Senator COUZENS. But these banks I have been referring to were not in existence when the crisis came.

Mr. STAIR. No.

Senator COUZENS. The Wayne County Bank and the Home Savings Bank and the others were not then in existence.

Mr. STAIR. But the Commonwealth and the Detroit Savings Bank were in existence, and they had help.

Senator COUZENS. And I think the others would have been in existence if they had not been consolidated.

Mr. STAIR. No doubt; because they would have had State help.

Senator COUZENS. What I am trying to bring out is this: That it was the mere consolidation of all these banks, that made such a colossal institution, that they were wiped out when the crisis came. While the others, who retained their State charters, were not wiped out.

Mr. STAIR. Well, Senator Couzens, you were on the board of the old Detroit National Bank at the time of the consolidation and you know what my attitude was.

Senator COUZENS. Yes. I am quite familiar with it.

Mr. STAIR. It was that way all the way through.

The CHAIRMAN. You spoke about certain banks having help. What kind of help did they have?

Mr. STAIR. Well, they had consideration. They were permitted to open up on a partial basis, and finally on a final basis. They were not hampered. And I maintain that the First National Bank was without any kind of help at all. Even with the help that was promised it could have gone along normally, because it was serving the community.

The CHAIRMAN. Do you mean that——

Mr. STAIR (continuing). There was not the slightest reason for the closing of the First National Bank in Detroit, notwithstanding it had some of these bad loans. Over a period of 2 years I should say at least a million to a million and a half of dollars a week of deposits were oozing out through the unfortunate publicity of the radio priest there. But notwithstanding all that, they had taken care of all of their depositors and their business as they went along. Yet they must have suffered many millions of dollars, maybe $100,000,000 of withdrawals in the last 2 years. And still they were in good condition when the wreck occurred.

The CHAIRMAN. Well, their connection with the units outside, through this combination, helped to close them, didn't it?

Mr. STAIR. I imagine so.

The CHAIRMAN. All right. Go ahead, Mr. Pecora.

Mr. STAIR. I would say this, Mr. Pecora, if I might interpolate: Regarding your criticism of management, if we had had the management 2 years prior to the time we got the management last May or June, our banks would have been in very much better shape.

Senator COUZENS. You meant in 1932 rather than last year, didn't you?

Mr. STAIR. Yes; the last half of the year.

Senator COUZENS. You meant in 1932, when you said last May or June, instead of last year, didn't you?

Mr. STAIR. Yes; the last half of 1932.

Mr. PECORA. What prevented you from obtaining that management?

Mr. STAIR. I cannot tell you.

Mr. PECORA. Well, I am sure that I cannot. Do you know of anything that stood in the way?

Mr. STAIR. Nothing only our belief, the belief of the directors, that we had the right man.

Mr. PECORA. Now we come to that portion of the general remarks of the examiner in this report of his examination of May 1932, under the caption "Management", which reads as follows:

From the above paragraphs—

And he is referring to the paragraphs which I have already read to you—

one can readily determine that the officers of this bank are not of the proper type. With the exception of two or three, they are very weak and could be considered nothing but fair weather bankers, who in times like these do not know how to cope with a mean situation. This is a serious problem due to the fact that they should deliberately fire about 20 of their key men and employ a dozen good men who would have some idea of cooperation and efficiency.

So far do you think that is a fair and just criticism?

Mr. STAIR. Well, I think it a little severe, but more or less proper. And, after reading that, we asked him and several of his fellow examiners to point out to us the best men in the loaning line. And they very reluctantly did it. They told us of some of the best we had; and eliminations were being made as fast as they could be made.

Mr. PECORA. Mr. Stair, I am rather inclined to marvel at a situation where the directors and officers of the bank sought advice on their personnel from national bank examiners, who come around twice a year to make examinations.

Mr. STAIR. Well, they sought his advice because he had made this assertion.

Mr. PECORA. Well, you now say the assertion, fairly speaking, was just and reasonable.

Mr. STAIR. Yes; we had too many.

Mr. PECORA. Not too many alone, but he says you did not have enough of the right kind. Isn't that the substance of this criticism?

Mr. STAIR. No; the substance of it, or at least largely in the conversation with us was, that we had too many, and some of them were too weak.

Mr. PECORA. Yes. And you asked the examiners to advise you concerning the personnel and the changes that should be made in the personnel of the bank.

Mr. STAIR. No; not that far.

Mr. PECORA. That is what I understood you to say a moment ago.

Mr. STAIR. This is what I said. These examiners were examining the condition of the work under the people in the banks, and going over their accounts, and we wanted to know the men who showed the best record and who had the clearest conception of their work. And he did point out a number of men that he thought were the best in the bank.

Mr. PECORA. But, Mr. Stair, don't you think that the executive officers of a bank, as well as the directors, had far superior facilities and opportunities for determining the work of the various members of the personnel, than would be possessed by national bank examiners who come around twice a year to examine the condition of a bank?

Mr. STAIR. Yes, I think so. But we had gone through a period of inactivity. The head of the bank didn't function in that way.

Mr. PECORA. Of whom are you now speaking specifically?

Mr. STAIR. The president of the Detroit Bankers Co. and chairman of the First National Bank.

Mr. PECORA. Do you mean Mr. Ballantyne?

Mr. STAIR. Yes, sir.

Mr. PECORA. Well, how long did he function as president of the Detroit Bankers Co. and chairman of the board of the First National Bank before you realized that he did not measure up?

Mr. STAIR. Well, he was being urged and urged, for months and months before his final resignation, to do something, to get cooperation, to get coordination.

Mr. PECORA. I venture to say, Mr. Stair, from that answer of yours, that you controvert the statement made to this committee by

Mr. Ballantype, which, in substance, was that he resigned partly because as the president of the company and as the chairman of the board of the bank, he felt he did not have the power that he should have had, and that when he sought that power it was denied to him.

Mr. STAIR. He had all the power.

Mr. PECORA. Then you controvert Mr. Ballantyne's statement?

Mr. STAIR. Yes, sir. He had the power and authority and was asked to exercise it.

Mr. PECORA. And notwithstanding your opinion, the opinion that you now express, that his management was weak, no change was made until——

Mr. STAIR (interposing). Well, I haven't said that.

Mr. PECORA. Well, I inferred that that was your opinion. Is it an unfair inference on my part? If so, I do not want to indulge in it.

Mr. STAIR. I have the highest respect for him as a man and citizen, but as the operator of that bank he was a complete and absolute failure. That is my opinion, and I say that very reluctantly, because I am very fond of Mr. Ballantyne personally.

Mr. PECORA. Was that opinion to your knowledge shared by other members of the boards, both of the company and of the bank?

Mr. STAIR. I think so.

Mr. PECORA. Then, why didn't they make a change?

Mr. STAIR. They did.

Mr. PECORA. Yes; they did after a year.

Mr. STAIR. Well, you have got to give a man a chance, haven't you?

Mr. PECORA. He was permitted to serve his whole year out.

Mr. STAIR. Yes.

Mr. PECORA. And all along you were conscious of the fact that his management was weak, and yet that management had a responsibility attached to it that involved hundreds of millions of dollars of the depositors' money.

Mr. STAIR. Well——

Senator COUZENS (interposing). Mr. Stair, what authority was it that Mr. Ballantyne asked for that he could not get and that he complained about?

Mr. STAIR. I never heard him ask for any authority.

Senator COUZENS. You never heard him ask for any authority?

Mr. STAIR. No. He was provided with that authority, and the committee constantly asked him to do certain things, to get cooperation and coordination, and to get rid of a lot of officers.

Mr. PECORA. Can you be more specific than that? What things had the governing committee asked him to do?

Mr. STAIR. I cannot remember, except that proper coordination did not exist between the two banks when they were operating as units. The Wayne Bank did not know what the other bank was doing, and we thought there should be greater coordination. And we thought they were overofficered, and no changes were being made. He had one man drawing $20,000 a year, or thereabouts, with nothing to do; and he finally resigned, saying he could not draw his salary any more and retain his self-respect. That was Mr. Douglas. It was because he was given nothing to do.

The CHAIRMAN. What was Mr. Ballantyne's salary?

Mr. STAIR. It was $50,000 at the beginning, I believe. Or it may have been $60,000.

Mr. PECORA. Let me read the balance of the comment made by the national bank examiner in this report of examination of May 1932, under the caption "Management":

In the past the bank has been governed entirely by the Detroit Bankers Co., of which Mr. John Ballantyne was the president and Mark Wilson the executive vice president. About a week after this examination commenced these two men resigned, so that the brunt of the operation of the bank falls on Mr. Wilson Mills, the chairman of the board, who, up until a year and a half ago, was an attorney.

The manner of management was thoroughly discussed with the governing committee, and a policy will be worked out along the lines of doing everything possible to add strength.

Would you say that that is a fair and reasonable comment to make?

Mr. STAIR. Yes, sir. I further would say that if Mark Wilson had been given the authority he should have had he would have done mighty good work in the bank.

Mr. PECORA. Who denied him that authority?

Mr. STAIR. I imagine it was his superior. I do not know that he was denied authority, but he certainly could not get things done.

Mr. PECORA. Why didn't the board of directors see that it was done?

Mr. STAIR. Well, they didn't know what was going on.

Mr. PECORA. They did not know what was going on?

Mr. STAIR. No; not in the inner workings of the politics of the bank.

Mr. PECORA. Now, under the caption of "General", let me read the following in the general remarks of the examiner as contained in this report:

This bank has four large offices down town, and, as stated above, approximately 178 branches throughout the city. All these banks and branches were entered at 3.15 p.m. on May 6 for the starting of the examination, and of the men there to start with, with some assistants, there were 460 in number. Every examiner and assistant in the Seventh Federal Reserve District, with the exception of two, were used, and the balance of the men came from the auditing department, and some from the various branches of the bank itself.

The job is almost unbelievable in size, and is certainly very difficult to get to the bottom of due to the manner in which the business is conducted, as well as the deplorable condition of the management of assets.

For the Department's consideration the examiner wishes to state that the losses in the bank are considerably more than are shown in the recapitulation on page 11a. The fact is that the bank, in the examiner's opinion, at the present time contains at least $70,000,000 in slow assets, $54,000,000 in doubtful assets, and approximately $49,000,000 in losses. This amount cannot be shown in the recapitulation as there is absolutely no way to take care of such losses, and the directors, upon seeing such items, would be completely demoralized.

Just how the institution will ever work out of such a burden cannot be foretold. Earnings, it is believed, will decrease.

For the Department's information the examiner did not call loans secured by the Detroit Bankers' stock doubtful. Such loans as are secured by this stock should be considered doubtful, but in fairness to them and because of other large questionable assets, such loans were only reclassified as slow.

At the close of the examination a meeting was held by Chief Examiner Leyburn with the entire governing committee, and all matters as above outlined were freely discussed. It was concluded not to take out more than approximately $8,500,000 in losses, the balance being shown as doubtful

As rapidly as possible weak officers are to be replaced.

Mr. STAIR. Is that the end of it?

Mr. PECORA. This is the report of the examination made as of May 6, 1932. In other words, it was the first examination made after the consolidation of the Peoples Wayne County Bank and the First National Bank in Detroit.

Mr. STAIR. Well, some of those comments were very strenuously objected to, as to some of those items, as being unfair.

Mr. PECORA. Which were objected to as being unfair?

Mr. STAIR. Well, the 74,000——

Mr. PECORA (interposing). You mean the $74,000,000?

Mr. STAIR. Yes.

Mr. PECORA. Was there anything else?

Mr. STAIR. Well, I don't remember. There was quite an argument going on there.

Mr. PECORA. Do you remember the substance of the argument?

Mr. STAIR. Well, that he had overestimated the losses. And we agreed upon the charge-offs, but I don't remember what it was.

Mr. PECORA. Did you find that the national-bank examiners with whom you discussed these items were disposed to be as helpful as possible?

Mr. STAIR. I think they were.

The CHAIRMAN. The subcommittee will now take a recess until 2 p.m.

(Thereupon, at 12:55 p.m., Thursday, Feb. 1, 1934, the subcommittee recessed to meet at 2 p.m. the same day at the same place.)

AFTERNOON SESSION

The subcommittee resumed its session at the expiration of the recess.

The CHAIRMAN. The committee will come to order.

TESTIMONY OF EDWARD DOUGLAS STAIR, NEWSPAPER PUBLISHER, DETROIT, MICH.—Resumed

Mr. PECORA. The next examination of the First National Bank in Detroit following that of May 6, 1932, appears to have been made as of November 18, 1932, and the report of such examination was made on December 30, 1932, as appears from a photostatic copy which I have of such report. Do you recall having discussed with either the examiners in charge of that examination or members of the board of the bank or any of its officers any items of criticism that appeared in that examiner's report?

Mr. STAIR. I was not present when the report was read nor at any of the discussions.

Mr. PECORA. You were then the president of the bank, were you not?

Mr. STAIR. Of the Detroit Bankers Co. I was a nonactive president; that is, a nonsalaried president.

Senator COUZENS. Were you not active in reducing the expenses of the Detroit Bankers Co.?

Mr. STAIR. No; that was left to Mr. Mills and his assistants.

Senator COUZENS. What was Mr. Mills' position in the Detroit Bankers Co. at that time?

Mr. STAIR. I do not remember whether he was chairman or just a member of the board.

Senator COUZENS. Was he chairman of the First National Bank at that time, in 1932, and later?

Mr. STAIR. I think so; I think he was. He was chief executive. Everything was thrown on to his shoulders.

Mr. PECORA. Mr. Stair, let me read to you the following, under the caption of "General remarks", from the report of the examiner of his examination of November 1932 [reading]:

> The enormous amount listed as doubtful cannot but help reveal the extent of losses which this bank will be called upon to absorb, and I am frank to admit that the classifications are most lenient and have been made not from the standpoint of segregating bankable assets from collectible assets, but with the thought of ultimate collection at most any future date. A real analysis of the mortgage loans, together with additional funds on collateral mortgages, would unquestionably present a most deplorable picture. The real estate speculators have subdivided the country within a radius of 30 to 35 miles, and the freedom with which these banks, subject banks and amalgamations of several banks, both State and National, passed out money for real estate and stock speculation is incomprehensible. Most every loan in the bank depends either on real estate or upon an upturn in the automobile industry, and the real estate situation depends on the latter. Loan after loan in sizable amounts was made to persons who had no license whatever to borrow money and who are so badly involved that it is useless to even consider that they can ever attempt to pay.

Are you familiar with the condition reflected by that statement, Mr. Stair?

Mr. STAIR. No, sir. I do not remember ever hearing that statement. Was that on the yellow report or on the regular?

Mr. PECORA. Well, it now appears on a photostatic copy, which is neither red nor yellow; but I understand it was on the yellow portion.

Mr. STAIR. I guess so. No such report ever came to the bank that I know of.

Mr. PECORA. Were you a member of the governing board of the bank at that time?

Mr. STAIR. Yes, sir.

Mr. PECORA. The examiner, Mr. R. S. Beatty, who signs this report, together with Chief Examiner Leyburn, in this report states that meetings and discussions were held with the chief examiner and members of the governing board with respect to the items of criticism in this report. Apparently if such meetings were held, you were not present?

Mr. STAIR. I was not in the city.

Mr. PECORA. As a director of the bank and a member of its governing board, did you have that knowledge of the bank's condition in November 1932, which would enable you now to state whether or not this criticism or observation which I have read to you, of the examiner, was fair and reasonable?

Mr. STAIR. My opinion in November, and also in January, was that the bank was in a mighty good condition. I never read or saw anything of that kind. We knew we had bad loans, and we knew a great many of them were going to whip out.

Mr. PECORA. Did you know the amount of bad loans that you had in November 1932?

Mr. STAIR. It was read, yes; at the time—along in January.

Mr. PECORA. Did you know in November 1932?

Mr. STAIR. I did not know in November. At the close of the year the questionable loans were reported to the governing committee.

Mr. PECORA. Do you remember what the amount of them was?

Mr. STAIR. I do not. If I might guess, it was somewhere around $50,000,000.

Mr. PECORA. Do you remember what action was taken by the governing committee on the report respecting those bad loans?

Mr. STAIR. They were turned over to the collection department to urge the collection as far as it could be made.

Mr. PECORA. When you said, as you did a few moments ago, that you knew in December 1932 and in January 1933 that the bank was in "mighty good condition", just what did you mean by that?

Mr. STAIR. I thought so.

Mr. PECORA. You merely thought so?

Mr. STAIR. Yes.

Mr. PECORA. What knowledge did you have?

Mr. STAIR. The knowledge that was brought to us by the controller.

Mr. PECORA. By the Controller of the Currency?

Mr. STAIR. No; the controller of the bank—the auditor, you may say.

Mr. PECORA. What was that knowledge? Do you recall that? What was the knowledge you acquired through that means?

Mr. STAIR. The knowledge that I acquired was through the annual statement of the Detroit Bankers Co.

Mr. PECORA. The Detroit Bankers Co.?

Mr. STAIR. Yes.

Mr. PECORA. You signed that annual statement, did you not?

Mr. STAIR. Yes, sir.

Mr. PECORA. It went out over your signature?

Mr. STAIR. Yes, sir.

Mr. PECORA. Did you prepare it?

Mr. STAIR. No, sir.

Mr. PECORA. Did you prepare the text of the report itself?

Mr. STAIR. No, sir.

Mr. PECORA. Who prepared it?

Mr. STAIR. I think it was prepared by Mr. Dodge.

Mr. PECORA. He was then a vice president of the bank?

Mr. STAIR. Vice president and auditor.

Mr. PECORA. Also a vice president of the Detroit Bankers Co.?

Mr. STAIR. I do not know whether he was or not. He was vice president of the First National Bank.

Mr. PECORA. So that there will be no confusion about it in either your mind or mine, are you now referring to the annual report of the Detroit Bankers Co. to its stockholders?

Mr. STAIR. Yes, sir.

Mr. PECORA. For the year 1932?

Mr. STAIR. Yes, sir.

Mr. PECORA. In this report of examination made as of November 1932, let me read the following statment, under the caption of "Loans and Discounts" [reading]:

> Classification is indicative of the tremendous continued effort necessary to minimize loss. Examiner feels that bank has too many large dormant loans of a capital nature.

2. Policy loans which are usually an expensive type of business.
3. Old loans depending on guarantors who should be requested to pay or at least to properly collateralize their guarantee or substantiate.
4. Loans to officers and employees of small concerns collateralized by stock in their company wherein concentration of bank's loans represents practically the capital investment in the company.
5. Loans secured by Detroit Bankers stock.
6. Loans secured by list of stocks where bank has a large concentration of such stock and to liquidate loans would demoralize the market. Such loans should be placed on an orderly liquidation basis.
7. Loans depending on real estate equities and/or potential sale of vacant or improved real estate.
8. Loans predicated on receivables and concerns which are none too strong wherein no legal precaution is taken to prevent assignment of receivables to other creditors. This cannot be done in Michigan without notice.
9. Loans carried in loaning division which should be in special loan department and where bank should have their own representative on the ground dictating policies.
10. Loans on which the interest rate is not commensurate with the type of loan or high enough to encourage clean-up.
11. Loans on which interest is being paid wherein loss is practically a certainty in whole or in part and upon which payments should be applied on principal and interest. Notes taken and carried as nonledger assets.
12. Loans made to business concerns which carry good balances but in no manner strengthens or justifies personal loan.
13. Loans which loaning officers do not defend but which they are obliged to initiate and tolerate through the interference of directors. Examiner appreciates the abnormal times and realizes that bank cannot revolutionize in a short time practices which, although inconsistent with good banking principles, have been in force for years, but the sooner the bank gets on a discount basis and insists on periodic clean-up the better for both bank and borrower. In too many instances, it appears, officers are too timid or sympathetic in demanding payment or other requirements, and in some cases too optimistic in regard to return of real-estate values and large salaries.
14. Loans to directors, many of which are of long standing and which are undercollateralized or unsupported by statements.
15. Loans to officers and employees the reduction of which is not only disproportionate to the amount loaned, but appears disproportionate as to groups.

Are you familiar with the conditions reflected in that criticism in regard to loans and discounts in the bank in November 1932?

Mr. STAIR. I would not say that I am familiar with the loans individually. I believe there is a good deal of sound advice in that criticism, and that the bank was proceeding along that course.

The CHAIRMAN. What do you mean by "policy loan"?

Mr. STAIR. I do not know what they mean by policy loans.

Mr. PECORA. Have you never heard that term before?

Mr. STAIR. Well, yes.

Mr. PECORA. What did you understand by it?

Mr. STAIR. Policy loans?

Mr. PECORA. Yes; policy loans.

Mr. STAIR. I don't know. I have never been a policy man. I would not know how to define it.

Mr. PECORA. I have not asked you whether you ever participated——

Mr. STAIR. I suppose a loan probably might be made with a view of getting business or of getting influence or something of that kind; but so far as I know, in the board of directors or in the executive committee I never heard of anybody suggesting a policy loan.

Mr. PECORA. Apparently, according to the examiner's criticism here, there were many such policy loans in that bank.

Mr. STAIR. They might have regarded them as policy loans. I don't know of any policy loans.

Mr. PECORA. Would you regard loans made to public officers on inadeqate collateral as policy loans or as coming within that category possibly?

Mr. STAIR. I would say it would be stupid loans.

Mr. PECORA. Do you know whether or not there were many such loans made by this bank?

Mr. STAIR. I heard of 5 or 6 of them.

Mr. PECORA. Only 5 or 6?

Mr. STAIR. That is all I knew about. Those were made to politicians.

Mr. PECORA. Those were made for what?

Mr. STAIR. To politicians.

Mr. PECORA. Do you make any distinction between politicians and public officers?

Mr. STAIR. There is not very much.

Mr. PECORA. Would you include judges in that category, Mr. Stair?

Mr. STAIR. Judges in Detroit are politicians. They have to be. They are elected to office.

Mr. PECORA. Then you would include them in that category?

Mr. STAIR. I would; yes.

Mr. PECORA. Did you know that there were a large number of loans made to judges by this bank?

Mr. STAIR. Those are the ones that I did know about.

Mr. PECORA. And they were policy loans?

Mr. STAIR. I would not say so, entirely. Some of the judges were very able and competent to pay.

Mr. PECORA. Do you know the status of any of those loans?

Mr. STAIR. I do not.

Mr. PECORA. Do you know how many such loans were made to judges?

Mr. STAIR. I do not.

Mr. PECORA. You spoke of knowing about 5 or 6 policy loans having been made.

Mr. STAIR. I would say about that, that I knew of.

Mr. PECORA. Did you know that there were loans made to 43 judges by your bank?

Mr. STAIR. I didn't know that there were 43 judges in that community.

Mr. PECORA. Well, apparently there were.

Mr. STAIR. I did not know it to that extent.

Mr. PECORA. What?

Mr. STAIR. No; I did not know of loans to that extent. I only knew of 5 or 6.

Mr. PECORA. Did they include judges practically throughout the whole system of your judiciary and of your courts?

Mr. STAIR. They were principally Detroit judges on the circuit bench and on the recorder's bench.

Mr. PECORA. Mr. Stair, according to an examination or research made of the books of the receiver of the First National Bank, the loans carried on the books on December 11, 1933, to judges aggregated the amount of $639,631.23. Does that statement surprise you?

Mr. STAIR. It certainly does.

Mr. PECORA. Have you any opinion as to the reliability of these figures or the authenticity of them, or their accuracy?

Mr. STAIR. No. It seems almost inconceivable.

Mr. PECORA. Many of these judges were stockholders, were they not, of the Detroit Bankers Co.?

Mr. STAIR. That I do not know.

Mr. PECORA. Have you ever heard of any such thing?

Mr. STAIR. I cannot recall hearing of any of the judges except one owning stock of the bank.

Mr. PECORA. Who was that? Not stock in the bank, but in the Detroit Bankers Co.

Mr. STAIR. I understood Judge Tuttle owned some stock. He was a United States judge. That is the only one I knew of.

Mr. PECORA. Now let me read the following portion from the criticisms of the examiner in his report of examination in November 1932 under the caption of "Real Estate Mortgages" [reading]:

Exceed 50 percent of savings deposits. While no loss has been estimated at this time, with the present demoralized real-estate market, aggravated in this city, virtually a one-industry city, by an unprecedented orgy of real-estate speculation and the present tax situation it is inconceivable to anticipate anything but eventual substantial loss and the acquisition of a large amount of other real estate. Mortgage totals do not reflect the total potential other real estate as loans and discounts, and contain a large number of loans, the ultimate payment of which will depend on liquidation of mortgages on homes or industrial properties or the sale of the underlying properties.

Are you familiar with the condition indicated by that criticism?

Mr. STAIR. You mean, the general condition?

Mr. PECORA. Yes.

Mr. STAIR. I certainly am.

Mr. PECORA. Do you think the criticism was based upon a proper understanding and appreciation of existing general conditions?

Mr. STAIR. No doubt.

Mr. PECORA. Under the caption of "Other Real Estate" appears the following criticism in this report [reading]:

This constantly growing account, together with investment in bank building and loans under foreclosure exceeds bank's capital and over 50 percent of its surplus accounts, without taking into consideration the large amount of potential other real estate or the amount carried not due from banks in liquidation which it is bound to inherit. This presents a real and harzardous problem and a large potential loss.

Are you familiar with the condition indicated in that criticism, Mr. Stair?

Mr. STAIR. Reductions were under way and were being pursued vigorously——

Mr. PECORA. But is the condition referred to in this criticism a condition that you say existed at that time?

Mr. STAIR. No doubt it did.

Mr. PECORA. Let me read the following criticism in this report, under the caption of "Land Contracts" [reading]:

Over 50 percent are in default or under foreclosure. See real estate loans recapitulation. This is apparently due to a large extent to the past policy of selling properties with little or no down payment, wherein the so-called "purchaser" has little more invested than if he were paying rent, and too willing to turn back the property at a depreciated value. No particular reason was advanced why these contracts should be handled through the Detroit Trust Co., and I am inclined to believe bank could reduce the cost of collection by handling its own collections.

Are you familiar with the condition referred to in that criticism?

Mr. STAIR. No. This was in December, was it?

Mr. PECORA. The report was made in December of an examination made in November 1932.

Mr. STAIR. The bank had set up a collection department of its own, as I understand it.

Mr. PECORA. Well, perhaps that was done in response to the suggestion contained in this criticism.

Mr. STAIR. It might have been done before. That was a very vigorous department.

Mr. PECORA. If it were done before, would not that likely have become known to the examiner in the course of his examination?

Mr. STAIR. It should have been.

Mr. PECORA. You do not know whether it was done before this examination, do you?

Mr. STAIR. No.

Mr. PECORA. Would you say that the condition referred to by the examiner in this criticism was the existant condition?

M. STAIR. It must have been if he says so.

Mr. PECORA. Under the caption of "Due from banks in liquidation" appears the following criticism in this report [reading]:

Reserve set up is far from being adequate, and bank will sustain an additional large loss. In arriving at estimated worth of assets of the American State Bank you will note examiner accepted an appraisal which I deem to be very liberal. As previously reported, it does not appear that proper attention is being given toward liquidation of these assets. This is especially true in the case of the Redford Bank where a better collector should be put in charge.

Were you cognizant of those conditions?

Mr. STAIR. No, sir. That is a detail that I was not familiar with.

Mr. PECORA. Would you say that this criticism was warranted or unwarranted, or don't you know?

Mr. STAIR. I don't know.

Mr. PECORA. Under the caption of "Earnings and accruals" appears the following criticism or comment in this report [reading]:

When a loan is past due 30 days, bank reverses accrued interest to maturity date only. Interest is accrued on mortgage loans until date of foreclosure, but no reverse entries are made, and the accrued interest is carried in the other real-estate account. The charge-offs in this real-estate account have been negligible. In addition, approximately $1,250,000 representing tax, insurance, and abstract advances have been added to the individual mortgage loans and is constantly being accrued. While the average loan in the bank is small, yet bank is accruing on about $12,000,000 statutory mortgages as well as a large amount of other past-due loans. Interest is being accrued on $30,000,000 due from banks on a 5-percent basis when it is known that bank must absorb an eventual dividend loss. During examination bank decided to set up a $500,000 reserve against mortgage accruals and discontinue accruing on mortgages 90 days delinquent. This method will still leave anticipated earnings on a substantial amount of loans for a 6 or 9 months' period, and is not, in my estimation, the most commendable method of handling it. Their present method of accruing appears inconsistent, as they are on a semiaccrual and semicash basis. The examiner feels that bank is overestimating its earning power due to their present method of accrual and the accrual on loans as explained above, where they will be fortunate if they salvage the principal in time. Getting their commercial loans on a discount basis should eliminate part of the above criticism. With the exception of eight loans, interest is paid on checking accounts without deducting the amount of depositor's loan.

Were you familiar with the condition set forth in this criticism?

Mr. STAIR. No, sir.

Mr. PECORA. Have you any opinion as to whether or not this criticism was warranted by the facts?

Mr. STAIR. It is very easy to find fault and to criticise. That is the easiest thing a man can do. They are paid for that; that is their business. But they exaggerate——

Mr. PECORA. Do you think this is an exaggerated statement?

Mr. STAIR. I imagine some of those statements are exaggerated.

Mr. PECORA. What portion do you say is an exaggeration?

Mr. STAIR. On the accruals they cannot guess any more than the bank officials can guess as to what is a fair accrual.

Mr. PECORA. If it is a matter of guess work, what is your guess?

Mr. STAIR. I didn't have any.

Mr. PECORA. Why do you say their estimate is exaggerated?

Mr. STAIR. I say, probably.

Mr. PECORA. Oh.

Mr. STAIR. I have no direct knowledge.

Mr. PECORA. Under the caption of "Detroit Bankers Co." let me read this criticism in this report [reading]:

This company owns all the subject banks stock, and in addition to the $3,783,000 loans held in subject bank, it has debts to other banks. Examiner refers you to large loan schedule for concentration of this stock held in subject bank. While this stock is quoted daily the market would absorb only a small amount, and too much value is placed on it for collateral purposes. This company is so closely affiliated with subject bank that it cannot be divorced. Its only income is from bank savings from which its creditors must be paid. Examiner refers you to the following remarks under "Dividends."

Would you say that that criticism was a fair statement of the existing fact?

Mr. STAIR. I would say it would be fair from their standpoint.

Mr. PECORA. Well, I am not asking you to estimate it from any particular standpoint but from a general standpoint.

Mr. STAIR. I should say it is a fair criticism.

Mr. PECORA. Under the caption "Dividends" let me read this criticism from this report [reading]:

Dividends paid by subject bank are paid into the Detroit Bankers Co., which in turn has been paying dividends to its stockholders. With the potential losses which subject bank faces it appears entirely unwarranted to be paying dividends to the public. In view of the fact that the Detroit Bankers Co. have other bank loans and their principal source of income is from subject bank, no effort was made by examiner to discontinue dividends of subject bank at this time, but it is distinctly understood and agreed that no further dividends will be paid to the holders of the Detroit Bankers Co. stock without first obtaining the permission of the Comptroller of the Currency. Examiner refers you to comparative earning and dividend report, showing dividends and losses less recoveries of subject bank over a 5½-year period ending June 30, 1932, exceed its earnings by $14,951,459.

Are you familiar with the conditions referred to in this criticism?

Mr. STAIR. No, sir; I am not.

Mr. PECORA. Do you think that is a fair criticism?

Mr. STAIR. Not fair from what I had understood, that we were more than earning our dividend, and that the chief examiner did advise paying the January dividend, I am told; I was not there.

Mr. PECORA. You mean, January 1933?

Mr. STAIR. Yes.

Mr. PECORA. The dividend for the last quarter of 1932?

Mr. STAIR. Yes; that was advised, and it was understood then there would be no more dividends. Quite a number of the board were not in favor of paying dividends for some time, but they consulted with the Government authorities and they though they should go on.

Mr. PECORA. Are you in position now, or have you the facts at hand which would enable you to dispute or controvert the statement made in this criticism, that over a 5½-year period ending on June 30, 1932, the dividends paid out by the bank exceeded its earnings, taking into account losses, less recoveries of the bank, by nearly $15,000,000?

Mr. STAIR. I have no figures or no way of controverting it. My opinion is that it is not so.

Mr. PECORA. Is that opinion based upon a definite knowledge of the facts, or is it a mere assumption on your part?

Mr. STAIR. The knowledge that every time we paid a dividend our statements indicated that we had more than earned it. He has taken in supposititious losses there, not actual.

Mr. PECORA. Let us see if he has.

Mr. STAIR. He must have.

Mr. PECORA. He says [reading]:

Examiner refers you to comparative earning and dividend report showing dividends and losses less recoveries of subject bank.

Would that indicate that he was taking into account merely supposititious losses?

Mr. STAIR. I cannot tell how he arrived at that. My information always was that we were more than earning our dividend.

Mr. PECORA. That is merely based upon information you got through the medium of reports of conditions of the bank?

Mr. STAIR. Of our own auditor.

Mr. PECORA. Issued from time to time?

Mr. STAIR. Yes, sir. Personally I never would vote a dividend that was not earned.

Mr. PECORA. In declaring dividends or in the decisions which you reached as a director of the bank on resolutions to declare dividends was your decision influenced by earnings after deduction of losses charged off during the year?

Mr. STAIR. Losses were often charged from undivided profits.

Mr. PECORA. From surplus funds?

Mr. STAIR. Yes; and undivided profits or from contingent funds that they had.

Mr. PECORA. In basing a declaration of dividend upon your knowledge or information of earnings did you eliminate from consideration losses that had been charged off?

Mr. STAIR. That was my understanding.

Mr. PECORA. Whether the losses were charged off out of undivided profits or surplus or not?

Mr. STAIR. Always. That was my understanding always.

Mr. PECORA. That those losses were eliminated from consideration?

Mr. STAIR. Yes, sir.

Mr. PECORA. That is how you reached the conclusion that you have given expression to, that dividends were always justified by the earnings?

Mr. STAIR. I have always believed they were; yes.

Mr. PECORA. That was because charge-offs and losses were not set up against earnings, you reached that conclusion?

Mr. STAIR. I take it they were.

Mr. PECORA. That is inconsistent with the answer you just made to the previous question. What is the fact? What was the operation of your mind as a director with regard to the declaration of dividends?

Mr. STAIR. That they had been earned—more than earned.

Mr. PECORA. That the dividends had been earned?

Mr. STAIR. More than earned.

Mr. PECORA. And in computing or estimating the earnings no account was taken of charge-offs representing losses; is that right?

Mr. STAIR. I don't know whether account was taken or not.

Mr. PECORA. You do not know?

Mr. STAIR. No. I imagine——

Mr. PECORA. I am still puzzled, Mr. Stair, with regard to the testimony you want to give on that point. In answer to one question you said that those losses were eliminated from consideration.

Mr. STAIR. I imagine they were.

Mr. PECORA. And then you said you did not know whether they were or not. Now you say they were charged off or you suppose they were.

Mr. STAIR. I say, I imagine they were.

Mr. PECORA. You imagine so?

Mr. STAIR. Yes.

Mr. PECORA. Have you any specific knowledge as to the fact?

Mr. STAIR. None whatever. I never carried a slip of paper away from the bank with me; I never carried any statements with me.

Mr. PECORA. Then, as a director of the bank for many years, you are unable to tell this committee whether in voting for the declaration of dividends you were influenced by earnings without taking into consideration charge-offs representing losses that were made, from undivided profits or surplus funds?

Mr. STAIR. I always believed, and thoroughly believed, that the declaration of dividends was made from net earnings.

Mr. PECORA. In estimating or calculating the net earnings, was any consideration given to losses charged off during the year, either from surplus account or undivided profits?

Mr. STAIR. That I do not know. That would show in the surplus account.

Mr. PECORA. That you do not know?

Mr. STAIR. No, sir.

Mr. PECORA. Under the caption of "Directors' Loans", let me read to you the following criticism from the examiner's report of the November 1932 examination [reading]:

Examiner insisting on controller's requirement that loans not properly secured by marketable collateral be supported by current signed financial statements. Directors' statements must be on file for loans properly secured or collected. Classifications have been advanced in some cases during this exami-

nation on account of lack of statement. Authenticity of officers' verbal information is not the point in question. Neither is this verbal information acceptable.

What, in your view of the matter, is referred to in that item of criticism?

Mr. STAIR. My understanding was that a director, if he was not in active business, must supply collateral good and sufficient, and if he wanted to borrow any other way he must supply a statement.

Mr. PECORA. Where he originally furnished collateral; but the loan became undercollateralized through depreciation in collateral value; what then was done?

Mr. STAIR. Every effort was made to get good collateral, additional collateral; and in the two cases that I know about it was given. One man gave a mortgage on his home.

Mr. PECORA. Did you know what the condition was as to collateralization of loans to directors in the bank in November 1932?

Mr. STAIR. I cannot say that I did. I do not know even how many directors were borrowing.

Mr. PECORA. Was not the matter of making loans to directors brought up at directors' meetings whenever such loans were approved?

Mr. STAIR. No; it was brought up at executive committee meetings.

Mr. PECORA. The information concerning such loans was not regularly given to the board of directors?

Mr. STAIR. It might have been. The board consisted of about 90 men. There were conventions once a month. But I don't know that the directors' loans were discussed there; they were in the committee.

Mr. PECORA. By the way, Mr. Stair, now that you have referred to that fact, why was the board of directors of this bank made so large in number?

Mr. STAIR. Taking in so many banks in order to take care of the directors of the various banks that formed this board.

Mr. PECORA. Didn't that make for an unwieldy board?

Mr. STAIR. I think so.

Mr. PECORA. For the consolidated bank?

Mr. STAIR. I think so.

Mr. PECORA. Couldn't that be taken care of——

Mr. STAIR. It was taken care of.

Mr. PECORA. By proper regulation——

Mr. STAIR. It was taken care of.

Mr. PECORA. And action?

Mr. STAIR. It was taken care of.

Mr. PECORA. When?

Mr. STAIR. Well, it was taken care of the last of 1932.

Mr. PECORA. What was done at that time to take care of that situation?

Mr. STAIR. The number was reduced, I believe, over half. I am not sure.

Mr. PECORA. In 1932?

Mr. STAIR. 1932. That is for the meeting coming up.

Mr. PECORA. You mean for the annual meeting of 1933?

Mr. STAIR. Yes.

Mr. PECORA. There was no reduction made in the number during 1932?

Mr. STAIR. Yes; I think before that. I think, if you look it up, you will find they were reduced about half.

Senator COUZENS. You mean at the January 1933 annual meeting?

Mr. STAIR. No; I was not there at that meeting. I know the board was reduced. Part of it was by resignations. They were put onto the Detroit Bankers board, a lot of them.

Senator COUZENS. Was that during the calendar year 1932?

Mr. STAIR. I cannot remember just when it was done. I know it was done. Going to these meetings was incidental to me. It was not part of my business.

(At this point Mr. Murfin whispered to Mr. Stair.)

I have just been informed it was in January 1933. It was determined in 1932, but not until 1933 was it done.

Mr. PECORA. It did not take effect until 1933?

Mr. STAIR. Yes; the annual meeting. I think it was discussed for some time.

Mr. PECORA. Under the captain "Management" let me read to you the following criticism from this report of examination:

> Examiner recognizes the improvement shown in this regard since last examination, but feels there is room for additional improvement. Outstanding weakness in some of loaning officers is discounting the future too much on borrowers' past accomplishments, placing too much strength in balances, fear of offending borrower or his friends, including directors, if his loan is called, contention that part of loans under his supervision are not of his making, and probably in some cases the decreased deficiency due to personal indifference, which may be conducive to sympathetic attitude which is apparent in many loans.

Would you say that that criticism was a fair one?

Mr. STAIR. I should say that that was a splendid criticism.

Mr. PECORA. Why was this condition allowed to develop, Mr. Stair?

Mr. STAIR. I tell you the banks were all being brought together and you had these things to contend with. We had a rather inactive management for quite a while. After the 1st of June, I believe it was, or some time in June or the 1st of July, they commenced to get coordination and cooperation.

Mr. PECORA. Now, the fear of the loaning officers to enforce a loan obligation against a borrower because of offending the borrower or his friends, including directors, is not due to the condition that you have referred to, is it?

Mr. STAIR. I cannot explain the psychology of any man's mind. It is possible that they were. I know most of the directors that I am familiar with were very meticulous about their loans, looking over security, and never ask about the rate. When I borrowed money I never asked what the rate was. I expected the going rate, no less, no more. I always took collateral. And I have always been an advocate of a director supplying good collateral unless he had an active business that would warrant his having a business loan.

Senator COUZENS. Was that true of all of the companies which the directors were managing?

Mr. STAIR. That I don't know.

Senator COUZENS. Was it true of the companies in which you were a member of the board?

Mr. STAIR. You mean the Graham?

Senator COUZENS. Of the corporation or the industry borrowing from the bank on whose board you were a member.

Mr. STAIR. The boards that I was on, the only one that borrowed money that I know of was the Graham, except one small company that I started my secretary and others in, and then I endorsed.

Senator COUZENS. And did the Graham Co. borrow?

Mr. STAIR. I don't believe they have the last year. I don't believe they borrowed a nickel there for a year and a half, and when I borrowed money I put up collateral.

In this subpena, Mr. Pecora, you asked questions. I don't know whether they are just formal or not, and I have had my secretary prepare an answer to all of them with regard to—they would probably be accurate.

Mr. PECORA. Will you let me have the statement?

Mr. STAIR. Yes, sir. [Handing document to Mr. Pecora.] And this is the subpena, and I had my secretary draw it, too. All of my transactions are there. That is the stock holdings you have now. I belonged to Stair, Jordan & Serry, but not myself; that is my boy and two employees.

Mr. PECORA. In compliance with item no. 1, embodied in the subpena duces tecum served upon you, you were asked to produce all books, records, agreements, and documents pertaining to the following:

Any loans or advances made to you personally or to any corporation in which you were an officer, director, or majority stockholder, or to any pool, syndicate, or joint account in which you participated, by the Detroit Bankers Co., or by any of their units, between January 8, 1930, and February 11, 1933.

And in the typewritten statement that you have produced in response to that provision of the subpena appears the following:

1. Ninety-day demand note for $75,000 at 5¾ percent, of the Stair-Schubert Realty Co., to the First National Bank, dated February 10, 1930. It was paid by May 12, 1930.

That is a complete statement in answer to that provision?

Mr. STAIR. Yes, sir.

Mr. PECORA. The second item in the subpena called for the production of such records, and so forth—

With regard to any sales, purchases, or other transactions of stock in the Detroit Bankers Co. or First Detroit Co. by you or any corporation or by any pool, syndicate, or joint account in which you participated, between January 8, 1930, and February 11, 1933.

The statement you make in response to that I will read from the typewritten document you have produced here:

On February 20, 1930, I received 5,619.4 shares of Detroit Bankers Co. stock, 1,600 shares for my 160 shares of Detroit Trust Co. stock, and 4,019.4 shares for my 900 shares of First National Bank stock, and I purchased six tenths of a share of Bankers to make my holdings 5,620 shares, from which I never sold a single share.

On June 3, 1930, I deposited with the Detroit Trust Co. 281 shares of Detroit Bankers in conformance with an agreement between trustees of the First National Co. and directors, said agreement dated January 10, 1930.

Purchases and sales of Detroit Bankers stock from January 8, 1930, to February 11, 1930, listed on attached schedule.

And is this the schedule to which that refers?

Mr. STAIR. Yes, sir; that is it.

Mr. PECORA. That is entitled "Purchases and sales of Detroit Bankers stock from January 8, 1930, to February 11, 1933."

"None from original holdings." The purchases shown on this schedule are of 200 shares in 4 blocks on June 19, 1930, which appear to have been sold on December 28, 1931.

Purchase of 50 shares on November 18, 1930, which appear to have been sold on December 16, 1931.

Purchase of 281 shares on November 18, 1930, which also appears to have been sold on December 16, 1931.

Purchase of 50 shares on March 28, 1931, which appears to have been sold on December 16, 1931.

Purchase of 100 shares on November 17, 1931, and of 381 shares on February 4, 1932, which do not appear to have been sold.

Mr. STAIR. That statement is my present holdings.

Mr. PECORA. Yes. Were those sales enumerated on this schedule, Mr. Stair, made in order to enable you to deduct capital loss from your taxable income?

Mr. STAIR. The sales were made to pay taxes. I am unfortunately a heavy real-estate holder there, and in December I needed the money very bad and I sold some stock. I got some money in and I bought back stock. I didn't take a very heavy loss on it, if I recall. I sold other stocks in December.

Mr. PECORA. Well, now——

Mr. STAIR (interposing). I paid about a 150 or 160 thousand taxes there, to show you I believed in the stock, or I would not have been buying it.

Mr. PECORA. Well, you sold all you bought with the exception of the last two purchases of 100 shares and 381 shares, respectively. You made those sales during the latter part of December 1931?

Mr. STAIR. Yes, sir.

Mr. PECORA. That is why I asked if those sales were made in order to enable you to offset capital loss against taxable income.

Mr. STAIR. They were made in order to get money to pay taxes. Taxes were very heavy, and, of course, I didn't object to taking the loss.

Mr. PECORA. You did not overlook that?

Mr. STAIR. I did not overlook it; no. I had a legal right to do it. That might have influenced me.

Mr. PECORA. I am not questioning that right.

Mr. STAIR. I certainly would not sell stocks at a profit.

Mr. PECORA. You would not sell stock at a profit?

Mr. STAIR. No.

Mr. PECORA. I don't know what you mean by that, Mr. Stair.

Mr. STAIR. Stocks that were going up were good stocks to hold, weren't they?

Mr. PECORA. You would not realize the profit by a resale?

Mr. STAIR. Well, not unless I needed money bad. To be candid, I don't think I needed any loss on account of Government taxes that year, because I had had heavy losses all along. I had lost five or six hundred thousand dollars in business, and I don't think I needed that loss. I don't think that had any bearing on it whatever.

Mr. PECORA. But whatever loss accrued you deducted from your taxable income?

Mr. STAIR. Yes. That is one of the years I did not pay any tax at all, and I was away behind so far as earnings were concerned.

Mr. PECORA. You had lots of illustrious company that year.

Mr. STAIR. Yes; and I lost a lot of money.

Mr. PECORA. A third provision in the subpena called for the production by you of records showing your holdings of stock in any of the units of the Detroit Bankers Co. or the Detroit Trust Co. at the time of the acquisition of said units by the groups and the cost of such stock holdings to you, and that is answered in this typewritten statement that you produced under no. 3?

Mr. STAIR. Yes, sir.

Mr. PECORA. The fourth requirement of the subpena was for the production of records of any transactions between you and the Detroit Bankers Co. or any of its units between January 8, 1930, and February 11, 1933. And your response to that from this typewritten statement you produced reads as follows:

At the time of the closing of the bank I owed nothing personally to any of the units of the Detroit Bankers Co., but was endorser on the note of George deB. Keim for $125,000 at 6 percent, dated December 21, 1932, for 90 days, due March 20, 1933, which was collateralized with 4,000 shares of Abbotts Dairies, Inc., common stock, and 500 shares of Chandler & Co., Inc., first preferred stock. Took this note out of bank on June 27, 1933, by buying above stock for $78,000 and having $48,646.95 charged as an off-set against my personal charge of $102,988.83, balance on February 11, 1933.

Also endorser on note of Stair, Jordan & Cerre, Inc., originally dated January 18, 1931, for $15,000, which was reduced by payments on renewal dates until there was a balance due on February 11, 1933, of $8,000, and their bank balance of about $3,317.73 was off-set against the $8,000.

Also guarantor on three notes of Detroit Transfer Co., as follows:

Date of original note, December 16, 1929, for $10,000. Amount paid thereon, $4,400. Balance due on February 11, 1933, $5,600.

Note dated January 9, 1930, for $28,000. Amount paid, $4,400. Balance due on February 11, 1933, $23,600.

Note dated February 10, 1930, for $12,000. Amount paid, $3,400. Balance due on February 11, 1933, $8,600.

Showing an aggregate of face amount of the three notes of $50,000, amount paid thereon aggregating $12,200, balance due thereon on February 11, 1933, of $37,800.

Mr. STAIR. That is a business of a nephew, and I offered to——

Mr. PECORA (after consulting an associate). Were you an officer or director during the year 1932 of a corporation called the Buhl Stamping Co.?

Mr. STAIR. A director.

Mr. PECORA. Did you know that that company had a direct loan amounting to $130,000 in the bank in 1932?

Mr. STAIR. Endorsed by a very competent endorser, by L. D. Buhl. I remember when the loan came up and I was on the committee and I thought it should not be taken without an endorsement. That is Lawrence Buhl.

Mr. PECORA. Why wasn't that loan set forth in answer to the first provision of the subpoena, Mr. Stair, in your typewritten statement?

Mr. STAIR. Well, I think my secretary did not know about it and I overlooked it. I was not involved in that loan at all.

Mr. PECORA. The subpoena asked for the production of records relating to any loans or advances in which you were an officer, director, or majority stockholder.

Mr. STAIR. I just happened not to get it out of my books, that is all. My secretary did not know about it, lost sight of it. But I assure you that that loan was endorsed.

Mr. PECORA. Was it paid?

Mr. STAIR. I don't know whether it has been paid or not. Oh, I think it has. I think that has been taken out of there and is over in the new bank.

Mr. PECORA. Were you an officer or director of the Wabash Railway?

Mr. STAIR. Director.

Mr. PECORA. Did that railway have a loan in the bank during the year 1932?

Mr. STAIR. I don't know.

Mr. PECORA. Amounting to $125,000?

Mr. STAIR. I don't know that they did. They might have.

Mr. PECORA. What?

Mr. STAIR. I don't know that they did. I think they had some participation in some loan that was floated in New York.

Mr. PECORA. In the national-bank examiner's report of his examination of the bank as of November 1932 such a loan is reported.

Mr. STAIR. Well, it must be a loan to the company.

Mr. PECORA. A loan of $125,000 to the Wabash Railway, and you are listed as one of the officers or directors of the railway.

Mr. STAIR. I am a director, but had nothing to do with the loan. The loan was made in New York and partitioned among the banks along the line.

Mr. PECORA. And $125,000 of it taken over by the First National Bank, Detroit?

Mr. STAIR. Probably, through its New York correspondent. Wasn't that paid up when the——

Mr. PECORA. And returned in the report of the examination of November 18, 1932, as an outstanding loan, as was also the $130,000 loan to the Buhl Stamping Co.

Mr. STAIR. Both good. But I understand that the Wabash loan was made to the Hanover National Bank of New York and pieced out around among their correspondent banks, and the collateral was held by the Hanover Bank. As far as the Buhl loan is concerned, that was absolutely good. If it has not been paid, it is just as good as a Government bond.

Mr. PECORA. In the examiner's report of November 1932 examination you are listed as one of the directors of the bank under an indirect liability amounting to $47,028.91. Do you recall the origin of that indirect liability?

Mr. STAIR. No, sir. I cannot imagine what it is.

Mr. PECORA. The total amount of directors' loans and direct liability reported by the examiner as of November 1932 appears to be $6,588,192 plus an indirect liability aggregating $2,634,273.58. Did you know of the amount of those loans?

Mr. STAIR. No; I was not there at that time.

Mr. PECORA. Did you know of that condition of affairs?

Mr. STAIR. No.

Mr. PECORA. Apart from the revealment of it by the national bank examiner?

Mr. STAIR. Did not. You remember that bank had 90 directors who were prominent manufacturers and business men. I would say that it was 98 percent good, at least.

Mr. PECORA. Ninety-eight percent of these loans good?

Mr. STAIR. I say, I am just guessing that they must be 98 percent good, the directors' loans.

Mr. PECORA. How long have those loan accounts been outstanding, Mr. Stair?

Mr. STAIR. I don't know.

Mr. PECORA. You say, you guess they are 98 percent good?

Mr. STAIR. Well, because of the character of the men that were directors.

Mr. PECORA. How long have these loans been outstanding?

Mr. STAIR. That I don't know.

Mr. PECORA. Do you know how much in the way of payments has been made on account of any of these loans at any time?

Mr. STAIR. No, sir.

Mr. PECORA. Do you know how they are collateralized?

Mr. STAIR. No, sir.

Mr. PECORA. I am going to offer in evidence, Mr. Chairman, the typewritten statements produced by the witness in response to the provisions of the subpena duces tecum, and ask that they be marked in order in which they were taken up. I also introduce the pertinent portions of the subpena.

(Portion of subpena duces tecum was thereupon designated "Committee Exhibit No. 127, Feb. 1, 1934", and is as folows:)

COMMITTEE EXHIBIT NO. 127, FEBRUARY 1, 1934

And you, the said E. D. Stair bring with you and have ready to produce before the Committee at the time and place aforesaid, all books, records, agreements, correspondence, and documents in your possession showing or pertaining to any of the following:

1. Any loans or advances made to you personally or to any corporation, in which you were an officer, director, or majority stockholder, or to any pool, syndicate, or joint account in which you participated, by the Detroit Bankers Company, Detroit Trust Company or by any of their units, between January 8, 1930 and February 11, 1933.

2. Any sales, purchases or other transactions in the stock of Detroit Bankers Company, or First Detroit Company by you or by any corporation or by any pool, syndicate, or joint account in which you participated, between January 8, 1930 and February 11, 1933.

3. Your holdings of stock in any of the units of the Detroit Bankers Company and/or Detroit Trust Company, at the time of the acquisition of said respective unit by said respective groups; and the cost of said stockholdings to you.

4. Any transactions between you and the Detroit Bankers Company, or any of its units between January 8, 1930 and February 11, 1933.

5. Any transactions in which you participated as an officer, director, or employee of the Detroit Bankers Company or any of its units between January 8, 1930 and February 11, 1933.

6. Also all books, records, agreements, correspondence, and documents of the Detroit Bankers Company or any of its units, in your possession.

(Statement of loans was thereupon designated "Committee Exhibit No. 128, Feb. 1, 1934", and appears in the record a few pages back, where read by Mr. Pecora.)

(Statement of purchases and sales of Detroit Bankers stock by Mr. Stair from Jan. 8, 1930, to Feb. 11, 1933, was thereupon desig-

nated "Committee Exhibit No. 129, Feb. 1, 1934", and appears in the record in full as follows:)

COMMITTEE EXHIBIT NO. 129—FEBRUARY 1, 1934

Purchases and sales of Detroit Bankers stock from January 9, 1930 to February 11, 1933

PURCHASES

Date	Certificate numbers	Cost
June 19, 1930, 100 sh. at $111	O 24649-58	$11,100.00
June 19, 1930, 30 sh. at $112	O 24659-61	3,360.00
June 19, 1930, 10 sh. at $112	O 24662	1,120.00
June 19, 1930, 60 sh. at $112	O 24663-7 & O 245418	6,720.00
Nov. 18, 1930, 10 sh. at 94⅜	O 32140	948.75
Nov. 18, 1930, 40 sh. at 95	O 32141-4	3,800.00
Nov. 18, 1930, 281 sh. at 103.278	14340-1 & O 34118	29,021.27
Mar. 29, 1931, 50 sh. at 77¾	O 38615	3,912.50
Nov. 17, 1921, 100 sh. at 73.146	O 54271-80	7,314.60
Feb. 4, 1932, 381 sh. at 32.50	20741-3 & O 59276	12,382.50
		79,679.62

SALES (NONE FROM ORIGINAL HOLDINGS)

Dec. 28, 1931, 100 sh. at 30	O 24649-58	$2,949.60
Dec. 28, 1931, 30 sh. at 30	O 24659-61	884.88
Dec. 28, 1931, 10 sh. at 30⅛	O 24662	296.21
Dec. 28, 1931, 60 sh. at 31	O 24663-7 & O 25418	1,829.76
Dec. 16, 1931, 10 sh. at 29½	O 32140	295.00
Dec. 16, 1931, 40 sh. at 29½	O 32141-4	1,180.00
Dec. 16, 1931, 281 sh. at 29½	14340-1 & O 34118	8,289.50
Dec. 16, 1931, 50 sh. at 29½	O 38615	1,475.00
		17,199.95

Mr. STAIR. I would like to know what the $47,000 is.

Mr. PECORA. Well, perhaps if you consulted the records of the bank you might find out, because the examiner got that item from the records of the bank.

Mr. STAIR. But how can I consult the records of the bank?

Mr. PECORA. What is that?

Mr. STAIR. How will I get them?

Mr. PECORA. They were available to you as a director during the year 1932, I presume, weren't they?

Senator COUZENS. I think if you ask the receiver he will tell you about it.

Mr. PECORA. Mr. Stair, I have here what purports to be a copy of the printed annual report of the Detroit Bankers Co., to its stockholders for the year 1932, showing a combined statement of condition of its banking units at close of business on December 31, 1932. This report bears what purports to be your facsimile signature as president of the company. Will you look at it and tell me if you recognize it to be a true and correct copy of the annual report issued to the stockholders of the Detroit Bankers Co. for the year 1932?

Mr. STAIR. It is a facsimile of my signature, all right.

Mr. PECORA. Don't you recognize the report itself?

Mr. STAIR. It looks like it.

Mr. PECORA. I beg your pardon?

Mr. STAIR. It looks like the report. I would say so.

Mr. PECORA. I offer it in evidence.

The CHAIRMAN. Let it be admitted.

(Annual report of Detroit Bankers Co., dated Dec. 31, 1932, was thereupon designated "Committee Exhibit No. 130, Feb. 1, 1934", and appears in full only in the Government Printing Office copy at the end of today's record.)

Mr. PECORA. I understood, in the earlier part of your examination today, you to say this report was not prepared by you.

Mr. STAIR. It was not.

Mr. PECORA. By whom was the report prepared?

Mr. STAIR. Prepared by the auditors of the bank and Mr. Dodge. I think he is vice president.

Mr. PECORA. When you say "prepared by the officers of the bank" do you mean——

Mr. STAIR. The auditor.

Mr. PECORA. The auditors of the bank?

Mr. STAIR. I cannot tell you just who prepared it. I imagine that the auditor prepared it, and it was brought over to my office and laid on my desk by Mr. Dodge.

Mr. PECORA. You read it and signed it?

Mr. STAIR. I asked him if he wanted it signed, and he said it was immaterial one way or the other. I looked it over, it looked pretty accurate, and I said, "I guess I better sign it", and I signed it.

Mr. PECORA. You signed it knowing that it was to be sent out as the annual report to the stockholders?

Mr. STAIR. I imagined it would be sent out at least to the directors.

Mr. PECORA. Only to directors?

Mr. STAIR. I didn't know. I said I imagined it would be sent to them. I didn't know who it was going to be sent to. Nothing was said about that. I didn't know even it was going to be published.

Mr. PECORA. Well, didn't you notice that it was addressed specifically to the stockholders of the Detroit Bankers Co.?

Mr. STAIR. I didn't notice it; no.

Mr. PECORA. Did you sign it without reading it?

Mr. STAIR. I read it.

Mr. PECORA. When you read it didn't you observe on the face of it at the very outset that it was addressed to the stockholders of the Detroit Bankers Co.?

Mr. STAIR. It did not impress me at all. I signed it as a matter of course because I believed that it was accurate. To the best of my knowledge and belief every statement made there was.

Mr. PECORA. What knowledge did you have of the accuracy of this statement?

Mr. STAIR. Just the statement that was given to me.

Mr. PECORA. The knowledge you got of the accuracy of the statement is that given to you by the statement itself; is that it?

Mr. STAIR. Absolutely.

Mr. PECORA. You have no other knowledge?

Mr. STAIR. No other knowledge.

Mr. PECORA. In other words, you assumed that it was?

Mr. STAIR. I believed that it was absolutely true, and I still believe it.

Mr. PECORA. You believed and assumed that it was absolutely true because it was set forth in the statement——

Mr. STAIR. Because I had every faith in it.

Mr. PECORA. Presented to you for your signature——

Mr. STAIR. Yes; because I had every faith in it.

Mr. PECORA. By Mr. Dodge?

Mr. STAIR. Yes; I had every faith he was giving me an accurate statement.

Mr. PECORA. In the combined statement of condition in the banking units at close of business December 31, 1932, which appears in this annual report of the Detroit Bankers Co. for the year 1932, which has been received in evidence as exhibit no. 130, why was there not included a statement of the condition of the units of the Detroit Bankers Co. other than banking units?

Mr. STAIR. That I don't know.

Mr. PECORA. There were such other nonbanking units that were owned by the Detroit Bankers Co., were there not?

Mr. STAIR. Yes. But I imagine that Mr. Dodge was following precedent.

Mr. PECORA. Well, if he was following precedent, was it a precedent that you were familiar with as a director of the Detroit Bankers Co. for some time prior to 1932?

Mr. STAIR. I don't get you there.

Senator COUZENS. Repeat the question.

The SHORTHAND REPORTER [reading]:

If he was following precedent, was it a precedent that you were familiar with as a director of the Detroit Bankers Co. for some time prior to 1932?

Mr. STAIR. I would not say that I was familiar with the precedent, but it was because I believed his statement to be accurate and true. I signed it without question.

Mr. PECORA. I am not discussing that question with you at this moment. I will come to that subsequently. I am asking you specifically why, in the combined statement of condition at the close of business December 31, 1932, there was not included a statement of the condition of the units of the Detroit Bankers Co. other than banking units?

Mr. STAIR. I don't know why it was not included.

Mr. PECORA. You realized that as president of the company this annual report to its stockholders was going out over your signature, didn't you?

Mr. STAIR. Realized it was going out?

Mr. PECORA. Over your signature?

Mr. STAIR. Yes, sir.

Mr. PECORA. And that a stockholder reading it would accept it upon your responsibility as president of the company?

Mr. STAIR. No; I think more upon the board of directors.

Mr. PECORA. Didn't you consider the stockholder would attach any responsibility to your identification with the company as its president?

Mr. STAIR. I hoped some of them would at least.

Mr. PECORA. Well, now, as president of the company and with some realization of that responsibility which you felt the stockholders looked for in you as president of the company, can you tell

the committee why the condition of the nonbanking units of the Detroit Bankers was not shown in this combined statement of condition?

Mr. STAIR. I don't know any reason for their not being shown or any reason for their being shown.

Mr. PECORA. Who is responsible for the fact that they were not shown?

Mr. STAIR. The men who prepared the statement.

Mr. PECORA. Didn't you consider you had some responsibility in the matter as president of the company?

Mr. STAIR. I had every faith in the men who were preparing it, and I had no ability as a bookkeeper or an accountant. I could not go and check over everything. I believed.

Mr. PECORA. Would it be necessary for you to have any experience as a bookkeeper or accountant in order to determine the policy of whether or not in the annual report to the stockholders of the company information of the financial condition of the nonbanking units of the company should be given to them?

Mr. STAIR. I say I know of no reason why they should not, or know of no reason why they should.

Mr. PECORA. Well, who was responsible for the policy of not including that information in the annual report?

Mr. STAIR. That I don't know.

Mr. PECORA. That you don't know at all?

Mr. STAIR. No, sir.

Mr. PECORA. Did you consider that you were merely the nominal head of the company while you were functioning as its president?

Mr. STAIR. That I was what?

Mr. PECORA. That you were merely——

Mr. STAIR. No, sir.

Mr. PECORA. The nominal head of the company while you were functioning or acting as its president?

Mr. STAIR. I was an honorary officer for the purpose of reducing expenses.

Mr. PECORA. Was the office of president regarded as an honorary office?

Mr. STAIR. It was as set up then.

Mr. PECORA. Who was the executive head then under the set-up that was made?

Mr. STAIR. Mr. Mills and Mr. Dodge.

Mr. PECORA. What office did Mr. Mills hold in the Detroit Bankers Co. in 1932 at the time that you became its honorary president, as you choose to call it?

Mr. STAIR. He was the chairman.

Mr. PECORA. Chairman of the board?

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

Senator COUZENS. Of the Detroit Bankers?

Mr. STAIR. No; of the First National Bank.

Mr. PECORA. I am talking about the Detroit Bankers Co.

Mr. STAIR. Yes.

Mr. PECORA. Not the First National Bank, Mr. Stair.

Mr. STAIR. I don't know what his position was, but he was executive head of the operating company and cutting down the expenses in this particular organization.

Mr. PECORA. Well, now——

Senator COUZENS (interposing). As a matter of fact, he was not an officer of the Detroit Bankers Co. at that time, as I understand it.

Mr. STAIR. I don't believe he was. We just regarded this company as a holding company without any particular function.

Mr. PECORA. You say you regarded the Detroit Bankers Co. as a holding company without any particular function?

Mr. STAIR. Yes; or without any operating function.

Mr. PECORA. Without any operating function?

Mr. STAIR. Yes, sir.

Mr. PECORA. Well, you knew that the Detroit Bankers Co. was virtually the sole stockholder of all the banking units, didn't you?

Mr. STAIR. Yes; but it was not operating, except as to auditing and looking after insurance and minor work.

Mr. PECORA. What was the annual salary roll of this nonoperating company?

Mr. STAIR. At the time that Mr. Ballantyne resigned it was over $40,000 a month.

Mr. PECORA. And over half a million dollars a year?

Mr. STAIR. Yes, sir; and, according to my memory, it was reduced to about $18,000 a month, and with still further reductions in view.

Mr. PECORA. And even after the reduction to about $18,000 a month, that gave you a salary roll of close to a quarter of a million dollars a year.

Mr. STAIR. Well, we had——

Mr. PECORA (continuing). For a company that you say was not actively operating.

Mr. STAIR. Not operating. They were an auditing company, and looking after insurance; auditing all the units.

Senator COUZENS. Well, as a matter of fact, after you reduced the roll from $40,000 a month to about $18,000 a month they discontinued the auditing of the units, didn't they?

Mr. STAIR. No; not at that time.

Senator COUZENS. When did they discontinue that work?

Mr. STAIR. As to that I don't know.

Senator COUZENS. Mr. Verhelle testified here that they discontinued the auditing.

Mr. STAIR. I didn't so understand it; but if Mr. Verhelle says so, it must have been so.

Senator COUZENS. That was how he accounts for the records having been removed from the Detroit Bankers Co.

Mr. STAIR. Well, I was not active there. The details I haven't in mind, and never had them.

Mr. PECORA. As a matter of fact, Mr. Stair, do you know whether or not the nonbanking units of the Detroit Bankers Co. operated at a loss or at a profit during the year 1932?

Mr. STAIR. I don't know.

Mr. PECORA. You don't even know that?

Mr. STAIR. No.

The CHAIRMAN. Did you know the condition of the nonbanking units at the time this report was made?

Mr. STAIR. No.

Mr. PECORA. Do you know how many nonbanking units it had at the close of the year 1932?

Mr. STAIR. I think there were two, but I am not sure.

Mr. PECORA. Just how much time from your general business affairs did you give to the discharge of your duties as president of the Detroit Bankers Co. during the year that you served as its president?

Mr. STAIR. I was president for about 6 months, I guess, or a little over. I gave no time whatever, and it was so understood I was not to give any of my time, except to preside at the meetings.

Mr. PECORA. At the meetings of the board of directors?

Mr. STAIR. Yes, sir.

Mr. PECORA. Well, how much time did you give from your general business affairs to the discharge of your duties as a director of the First National Bank during the time that it was one of the units of the Detroit Bankers Co.?

Mr. STAIR. I went to all of the meetings when I was in town, unless something unusual kept me away. I tried to be regular in my attendance.

Mr. PECORA. Likewise, with respect to your functions as director of the Detroit Trust Co. during that period of time?

Mr. STAIR. Yes, sir; I thought I was fairly faithful.

Mr. PECORA. And that faithfulness consisted in your attendance at meetings of the board?

Mr. STAIR. And in entering into discussions. So far as the details of the bank were concerned, I knew nothing, or not any further than as they came up to the committees.

Mr. PECORA. And is the testimony that you have given here today with respect to the knowledge about which you have been asked, that you had regarding the business affairs of the Detroit Bankers Co. and the business affairs of the two unit banks of which you were a director, fairly typical of the understanding and knowledge you had of the affairs of the company generally as well as of the two banks?

Mr. STAIR. I did not quite get that question, Mr. Pecora.

Mr. PECORA. Well, I have asked you many questions today with regard to certain activities or with regard to conditions existing in the First National Bank, and you know to what extent you have been able to answer those questions, or as to where your answers were based upon personal knowledge, don't you?

Mr. STAIR. Yes, sir; and according to memory. As president of the Detroit Bankers Co. I was simply the means of reducing the expenses and getting it out of an operating position. I did not promise, nor did I expect, one penny of remuneration, and I did not accept any remuneration. I never occupied the office itself, never was at the desk. I depended entirely upon the men who were operating the bank to operate the bank.

The CHAIRMAN. Evidently you were about the only honorary officer who did not receive any pay.

Mr. STAIR. What was that, Mr. Chairman?

The CHAIRMAN. I say you were about the only honorary officer who served without pay.

Mr. STAIR. Well, I don't know as to that. I know that I wasn't rendering service, and I would not accept pay.

The CHAIRMAN. Did anybody else do that? In other words, you were the only honorary officer serving without pay?

Mr. STAIR. I think it may be that is so. I do not think there were any other honorary officers.

The CHAIRMAN. I would judge from the size of the pay roll that that is about so.

Mr. STAIR. I talked to Mr. Dodge about this statement, and he says it is absolutely accurate [pointing to a paper Senator Couzens was reading].

Mr. PECORA. Did you know that the figures showing the financial condition of the nonbanking units of the Detroit Bankers Co., as of December 31, 1932, were available?

Mr. STAIR. Did I know that they were available?

Mr. PECORA. Yes.

Mr. STAIR. I imagine they were.

Mr. PECORA. Did you know that such figures had been included or incorporated in the annual report for 1932 filed in behalf of the Detroit Bankers Co. with the Michigan Securities Commission?

Mr. STAIR. I did not know it.

Mr. PECORA. Did you know anything about the annual report for the year 1932 that was filed with the Michigan Securities Commission on behalf of the Detroit Bankers Co.?

Mr. STAIR. I did not know it.

Mr. PECORA. Do you know whether or not you signed such a report?

Mr. STAIR. I do not recall signing such a report.

Mr. PECORA. The fact of the matter is, as appears from a photostatic copy of that report, that it was not signed by you but was signed by the vice president, Mr. McPherson Browning, as well as by the secretary. Now, do you know of any reason why you were asked to sign the annual report to the stockholders of the Detroit Bankers Co., but were not asked to sign the report of that company to the Michigan Securities Commission?

Mr. STAIR. I do not know, Mr. Pecora. The fact of the matter is that I do not know anything about that statement.

Mr. PECORA. Do you know what the condition of the Detroit Bankers Co. was as shown by the report for the year 1932 filed with the Michigan Securities Commission?

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

Mr. PECORA. Do you know whether or not the annual report of the Detroit Bankers Co. to its stockholders for the year 1932, a copy of which you have identified here, was ever discussed at a meeting of the board of directors of the Detroit Bankers Co. before it was sent out?

Mr. STAIR. I was told that it had been passed, and it was brought over to me and laid on my desk.

Mr. PECORA. Is that all that you know about it?

Mr. STAIR. That is all that I know about it.

Mr. PECORA. You do not know whether it was discussed at a meeting of the board of directors?

Mr. STAIR. I do not. I imagine it was. It says: "By order of the board of directors."

Senator COUZENS. I notice in reading this report that you have a statement of operating results of the First National Co. building and garage, and of the First Detroit Co. but that there is no men-

tion made of the First National Co. Do you know how that happens to be?

Mr. STAIR. I haven't the slightest idea, unless they were following precedent. I just don't know.

Senator COUZENS. They seem to have included a statement in this annual report, committee exhibit no. 130, of the First National Bank building and garage, the First Detroit Co., and the Detroit Bankers Safe Deposit Co., but have made no mention of the First National Co., which was the company that, as I understand the previous testimony indicated, put the Detroit Bankers Co. into a debt of something like 7½ million dollars.

Mr. STAIR. That debt was acquired long before I was on the board of directors. I do not know anything about it.

Mr. PECORA. Do you know anything about the origin of that indebtedness of $7,200,000?

Mr. STAIR. I do not. I happened to be, prior to that time, one of the objectors to the company being constituted; that is, its board, entirely of officers. But I knew nothing about operations inside.

Mr. PECORA. Mr. Stair, did you ever discuss the contents of this annual report of 1932 to the stockholders of the Detroit Bankers Co. with any of the other directors of the company?

Mr. STAIR. I did not.

Mr. PECORA. Was it ever considered at any meeting of the board of directors of the Detroit Bankers Co.?

Mr. STAIR. I do not know that. At about the time that that was laid on my desk I made a copy of my signature, and I wasn't very well, and started motoring to California. Whatever was discussed, I don't know.

Mr. PECORA. Now, Truman H. Newberry was one of the directors of the Detroit Bankers Co., wasn't he?

Mr. STAIR. Yes, sir.

Mr. PECORA. You say this report, which you signed as president of the company, was prepared and placed before you for your signature by Mr. Joseph M. Dodge, vice president of the First National Bank?

Mr. STAIR. I understand that he had the final compiling of it.

Mr. PECORA. I have before me what purports to be a photostatic copy of a letter addressed to Mr. Dodge by Truman H. Newberry, dated January 17, 1933, in which, after acknowledging receipt of a copy of this annual report to stockholders for 1932, he makes the following statement:

> It was probably wise to omit any reference to the First National Co. or its successor, the Assets & Realization Co.

Can you conceive of any idea or opinion why that——

Mr. STAIR (interposing). I haven't the slightest.

Mr. PECORA (continuing). Was considering the wise thing to do?

Mr. STAIR. I haven't the slightest idea why it was done or why it should not have been done. It was never discussed with me. I signed the statement.

Mr. PECORA. Now, in the annual report for the year 1932, filed with the Michigan Securities Commission. by the Detroit Bankers Co., there appears a charge-off of notes receivable, made during the year, in the sum of $3,100,000. Are you familiar with that item?

Mr. STAIR. No, sir.

Mr. PECORA. Do you know what that charge-off was due to?

Mr. STAIR. No, sir.

Mr. PECORA. Do you know what accounts receivable were charged off?

Mr. STAIR. I do not.

Mr. PECORA. Do you know that it was an account receivable from the First National Co.?

Mr. STAIR. I do not know.

Mr. PECORA. Do you know anything about that note?

Mr. STAIR. I do not know anything about that transaction.

Mr. PECORA. Could a charge-off of $3,100,000 in accounts receivable be made by the Detroit Bankers Co. during the year 1932, throughout all of which time you were a director and during the greater part of which time you were the president of the company, without your knowing anything about it?

Mr. STAIR. It might be and apparently was.

Mr. PECORA. Do you know anything today about this charge-off?

Mr. STAIR. No, sir.

Mr. PECORA. Are you now hearing about it for the first time?

Mr. STAIR. I am now hearing about it for the first time.

Mr. PECORA. Did the stockholders of the Detroit Bankers Co., or were they ever told while you were the president of it, that you were merely an honorary president, as you called yourself this afternoon?

Mr. STAIR. Well, I don't know.

Mr. PECORA. Well, you know they were not given any such information, don't you?

Mr. STAIR. I never gave anybody any information, except when somebody congratulated me I said, "Well, I am not active." It was more or less the means of reducing expenses. The work is being done inside by the bank officials.

Mr. PECORA. Do you know what the reduction was in the surplus of the Detroit Bankers Co. during the year 1932?

Mr. STAIR. No, sir.

Mr. PECORA. Do you know that it was over 9 million dollars?

Mr. STAIR. I do not.

Mr. PECORA. Did you know that there was a reduction in the surplus during that year of any amount?

Mr. STAIR. Why, I believe there was a reduction. But what was that in?

Mr. PECORA. I am referring now to the Detroit Bankers Co.

Mr. STAIR. No; I do not.

Mr. PECORA. Well, from the annual report for the year filed with the Michigan Securities Commission, such reduction of surplus, in a sum of over 9 million dollars, is set forth. And I am assuming that this report is accurate. Yet you know nothing about it?

Mr. STAIR. I assume it is accurate if it was made by those men.

Mr. PECORA. But you know nothing about that reduction in surplus having occurred during the year that you served——

Mr. STAIR (interposing). I did not serve a year.

Mr. PECORA. Well, during the year in which you served for a part of the time as the president of the company, in fact for the greater part of the year?

Mr. STAIR. Yes.

Mr. PECORA. That is the situation, is it?

Mr. STAIR. Yes, sir; that is the situation.

Mr. PECORA. Mr. Stair, is there any statement or any other evidence you want to give to this committee without being asked specifically about it?

Mr. STAIR. I do not know that there is particularly, thank you. I was a layman, and I allowed myself to be used for the benefit, as I supposed, of the bank.

Mr. PECORA. Well, you were a layman in what sense?

Mr. STAIR. I was inactive.

Mr. PECORA. Were you a layman so far as the bank's operations were concerned?

Mr. STAIR. I was a director. I attended directors' meetings, and entered into discussions, and then I was through.

Mr. PECORA. Well, would you characterize yourself as a layman?

Mr. STAIR. Yes, sir.

Mr. PECORA. In so far as the banking field is concerned?

Mr. STAIR. As far as the banking field is concerned, yes; because I was not a banker.

Mr. PECORA. Judge Murfin, will you take the stand?

The CHAIRMAN. Mr. Pecora, are you now excusing Mr. Stair?

Mr. PECORA. Do you want to say anything further, Mr. Stair?

Mr. STAIR. Are you now excusing me?

Mr. PECORA. I think so.

The CHAIRMAN. All right. Mr. Stair, you will now be excused.

Mr. STAIR. Thank you.

Mr. PECORA. Mr. Murfin, will you come forward?

The CHAIRMAN. Judge Murfin, please stand, hold up your right hand, and be sworn:

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. MURFIN. I do.

TESTIMONY OF JAMES O. MURFIN, DETROIT, MICH.

Mr. PECORA. Judge Murfin, will you give your full name, address, and business or occupation to the committee reporter for the purpose of the record?

Mr. MURFIN. James O. Murfin, Detroit, Mich.; lawyer.

Mr. PECORA. Were you at one time holding any official office?

Mr. MURFIN. I was a circuit judge in Michigan from the spring of 1908 until the fall of 1911, when I resigned to go back into practice.

Mr. PECORA. You have been in attendance before this committee during its sessions today, have you?

Mr. MURFIN. I have.

Mr. PECORA. And you have heard all of the testimony that has been introduced here today?

Mr. MURFIN. I have.

Mr. PECORA. Did you hear the testimony of Mr. Stair, the preceding witness, with respect to the appointment of a committee to

inquire into the matter embodied in a so-called "private and confidential memorandum", addressed by Mr. Verhelle to Mr. Mills, chairman of the board of the First National Bank, dated May 18, 1932, and which has been received in evidence before this committee as exhibit no. 95?

Mr. MURFIN. I heard Mr. Stair's testimony, but I think he was guilty of one error. The committee as appointed consisted of myself, Truman Newberry, Lawrence Butler, and when we were making a preliminary canvass of this matter, I myself suggested that we should have George Pipper, the bank auditor, to render us assistance. So, Pipper, while not originally appointed by my suggestion, did come and sit with the committee, and bring reports and data, and gave assistance as we wanted it. Pipper came at my suggestion, not as an original appointment, but as I have stated.

Mr. PECORA. There was produced by Mr. Mills, who has also been in attendance at this hearing today, photostatic copies of two reports, both of which were introduced in evidence, as you doubtless recall.

Mr. MURFIN. I do.

Mr. PECORA. One of these reports was signed by you in conjunction with Mr. Mills, Mr. Newberry, and Mr. Butler, as well as by Mr. Pipper, and that is the one dated May 25, 1932.

Mr. MURFIN. Correct.

Mr. PECORA. And the other report you did not sign because of your illness at the time.

Mr. MURFIN. That is correct.

Senator COUZENS. Mr. Murfin, did you read this confidential memorandum when it was referred to your committee?

Mr. MURFIN. Oh, yes. I do not know what the other members of the committee did, but I had that report for 2 or 3 days and made lead pencil notes on it, as to where I wanted to ask specific questions about it before the meeting.

Senator COUZENS. Have you a copy of that report on which you made pencil memorandums?

Mr. MURFIN. I do not know whether I have or not.

Senator COUZENS. If you have, we would like to see it.

Mr. MURFIN. I think I have it [looking in his portfolio]. Yes, here it is [handing it to Mr. Pecora]. I assume I will get that paper back.

Mr. PECORA. Yes, you may have it back. I ask that it may be marked for identification, Mr. Chairman.

Mr. MURFIN. I do not think you will find much that you can decipher in my pencil memoranda, for I doubt if any human being in the world could read them.

Mr. PECORA. Well, we may ask you to read them for us.

Mr. MURFIN. And I will be very glad to do it.

Mr. PECORA. Mr. Chairman, I now ask to have this paper marked for identification.

The CHAIRMAN. That may be done.

(The witness' copy of the private and confidential memorandum made by Mr. Verhelle and addressed to Mr. Mills, as chairman of the board of the First National Bank, dated May 18, 1932, was marked

"Committee Exhibit No. 131 for identification, Feb. 1, 1934," and was returned to the witness after being used by Mr. Pecora.)

Mr. PECORA. Now, Judge Murfin, on page 6 of the copy which you have produced of this private and confidential memorandum, which corresponds to that copy thereof which has been received in evidence here as Committee Exhibit No. 95 as of January 26, 1934, I notice this marginal notation in lead pencil, appearing twice:

Explain this.

Mr. MURFIN. That, doubtless, refers to something about which I wanted to get information.

Mr. PECORA. And on page 9 I find a question mark and a check mark, alongside the following paragraph:

The commercial account of the Wise Chrome Products Co. was overdrawn $201.84 from March 16, 1932. This overdraft is chronic, and is said to be authorized by Mr. Sweeny.

Senator COUZENS. Judge Murfin, did you find that that was authorized by Mr. Sweeny?

Mr. MURFIN. We found that it was not authorized by Mr. Sweeny; and some man, whose name has now escaped me, was brought in by Mr. Pipper, and he testified before our committee that he, contrary to Mr. Sweeny's express instructions, had permitted that overdraft.

Mr. PECORA. Judge Murfin, did you find that overdrafts in that account of the Wise Chrome Products Co. were chronic?

Mr. MURFIN. Now, I have not had a chance to go over this at all. I just got my subpena on yesterday at 10:30. But there was some question about overdrafts, in which Mr. Sweeny was charged with having permitted them, and of there having been chronic overdrafts, and in which this other man, and I think he was a branch-bank manager, and I am not sure of his name, but he came in and said he was responsible for the overdrafts in spite of Mr. Sweeny's instructions to the contrary. Whether they had that account or not I just cannot recall those names.

Mr. PECORA. Now, Judge Murfin, let me call your attention to the fact that the extract that I have read to you from page 9 of your copy of this private and confidential memorandum, and alongside which this question mark appears, is not the language or comment by Mr. Verhelle, but is a quotation by him from a report of the auditors of the bank.

Mr. MURFIN. Oh! I don't remember that.

Mr. PECORA. Well, that appears from the text of the private and confidential memorandum.

Mr. MURFIN. Well, what of it?

Mr. PECORA. He says:

The auditors further reported on January 14, 1932: "Wise Chrome Products Co. pay-roll account. Chronic ovedrafts and deposits to cover. O.K.'s by Mr. Sweeny."

And then continuing the quotation from the auditors' report, on page 9:

Wise Chrome Products Co. deposits to cover chronic O.D.'s.

Meaning chronic overdrafts, doesn't it?

Mr. MURFIN. Yes, sir.

Mr. PECORA (continuing):

It was again referred to Alfred T. Wilson on April 14, 1932, the following being the extract:

"Commercial account of the Wise Chrome Products Co. was overdrawn $201.84 from March 16, 1932. This overdraft is chronic and is said to be authorized by Mr. Sweeney."

Mr. MURFIN. And it turned out that it was not.

Mr. PECORA. Did you examine the auditors who originally reported, several months prior to the confidential investigation made by Mr. Verhelle, as to whether these overdrafts were chronic and were okayed by Mr. Sweeney?

Mr. MURFIN. Mr. Pipper was the chief auditor of the Group, of the bank. He had been with the old Wayne County Bank, and he sat with the committee and rendered us every possible assistance. What better person could we have had than the chief auditor?

Mr. PECORA. You might have questioned the auditors who made the report.

Mr. MURFIN. I cannot tell you who we questioned now. A lot of water has gone over the dam in this banking business since that committee met.

Mr. PECORA. On page 17 of your copy of this private and confidential memorandum of Mr. Verhelle's there appears lead-pencil marginal notation [and Mr. Pecora stops as if unable to read something].

Mr. MURFIN. If you can read my writing, you are a handwriting expert. Do you want help?

Mr. PECORA. I am afraid I will have to ask for your help. I can read some of it, but I would like to have the entire notation read.

Mr. MURFIN. It says—

Who made, when made, and how secured.

Mr. PECORA. That appears alongside the following matter appearing on page 17 of the exhibit in evidence, consisting of your copy of that private and confidential memorandum:

Charles H. Nevins, who was involved in approximately 58 mortgages in the mortgage department, a large number of which have had no payments since 1927, 1928, 1929, and 1930 is indebted to the commercial department in the sum of approximately $10,000, which was obtained by him in the middle of 1931. According to the average balance card the average balance in 1931 was $400. Such a loan is, of course, out of order. His full relations with the General Building Corporation are not known, but the records indicate that he has a mortgage assumed by the General Building Corporation. This mortgage was later assumed by Sam Dickman. The last principal payment was made in July of 1930, and interest is now in arrears since February 15, 1932.

Is that correct?

Mr. MURFIN. That is correct.

Mr. PECORA. What did you find with regard to that criticism appearing in Mr. Verhelle's private and confidential memorandum?

Mr. MURFIN. I have no recollection whatsoever. But if I may suggest something—and if I am out of order you will correct me—when this report was brought before this committee and the papers were brought in, Mr. Sweeny—and he is very sick, by the way, and is in a very serious condition, I am afraid—was very much disturbed about it, and wanted to know where the report of our committee was. He had had a copy given to him months ago, and he wanted to know

what he could do about it. He was much disturbed because his doctor would not let him come down here, and I suggested that he make a typewritten statement of his recollection of all these charges. He made such typewritten statement and he gave a copy of it to Mr. Mills, and yesterday, half an hour before coming to the train, his secretary gave me a copy of it. I have not read it, and if you want it I will give it to you.

Mr. PECORA. Is it in verified form?

Mr. MURFIN. I don't know. I don't think it is [taking a paper from his portfolio]. No; it is not.

Mr. PECORA. If you will produce a statement in verified form, let us have it.

Mr. MURFIN. Well, this was just dictated from his bed to his secretary, and that is all that I know about it.

Mr. PECORA. But, Judge Murfin, you know that the testimony given here is given under oath.

Mr. MURFIN. I appreciate that.

Mr. PECORA. And if anything given here under oath is to be controverted, it has to be controverted under the sanction of an oath.

Mr. MURFIN. I do not believe that if I were to refer to Mr. Sweeny's statement, which I have had no chance to do, it would refresh my memory a particle about this specific inquiry. This was in 1932. That is a long time ago and a lot of things have happened.

Mr. PECORA. Judge Murfin, was Mr. Verhelle brought face to face with Mr. Sweeny and Mr. Bodde, these other officers of the bank whose activities and conduct are made the subject of his private and confidential memorandum, either by you or any other member of the special committee?

Mr. MURFIN. I only participated in the inquiry into Mr. Bodde and Mr. Sweeny, and at that inquiry Mr. Verhelle was not sent for. May I ask, Mr. Pecora: You have made the suggestion that if Mr. Sweeny would swear to this matter you would receive it. If he would swear to this statement that I have would the committee receive this? Mr. Sweeny is really quite worried. He stands very high indeed in our community, and he has had a wonderful reputation, which he prizes very much, and he is worried about the blackening of his reputation owing to the misunderstanding of this report. If by his swearing to this statement it might be received in evidence in here, it would make a sick man feel a good deal better.

Mr. PECORA. Judge Murfin, get that statement in verified form and we will receive it.

Mr. MURFIN. All right; and then I will mail it to you.

Mr. PECORA. Now, Judge Murfin, let me ask you this: This report which bears your signature and which is dated May 25, 1932, was made, apparently, a week after the date of Mr. Verhelle's private and confidential memorandum to Mr. Mills. Did you come to the conclusion, as a member of this special committee that investigated these complaints or criticisms of Mr. Verhelle, that Mr. Verhelle had blackened Mr. Sweeny?

Mr. MURFIN. I certainly did, and I thoroughly believe it today.

Mr. PECORA. Did you so report it to anybody?

Mr. MURFIN. I reported it to everybody that talked to me about the charge against Don Sweeny.

Mr. PECORA. Mr. Verhelle was continued in the employ, in a very responsible position, of the Detroit Bankers Co. for many months after May 1932, wasn't he?

Mr. MURFIN. I do not think for many months.

Mr. PECORA. Well, as I recall his testimony, he did not resign until November of 1932.

Mr. MURFIN. It so happens, Mr. Pecora—and I hesitate to say this in public—that my legs went back on me shortly after this and I did not get near the bank until December. So what happened between the latter part of May and the early part of December I do not know.

Mr. PECORA. To whom was this report, a copy of which has been received in evidence as committee exhibit no. 126 of this date, submitted?

Mr. MURFIN. Mr. Mills said he would submit it to the governing committee, and afterwards he told me he had submitted it to the governing committee.

Mr. PECORA. Do you know whether or not the feeling you have just given expression to, to the effect that Mr. Sweeny had been blackened by Mr. Verhelle in Mr. Verhell's private and confidential memorandum of May 18, 1932, was also shared by the other members of the committee who signed this report, committee exhibit no. 126?

Mr. MURFIN. I can only answer that question by saying that Mr. Sweeny is and always has been held in the highest regard and esteem as an honest and conscientious man.

Mr. PECORA. I did not ask you that. I asked you if the opinion which you entertained with regard to Mr. Verhelle having blackened Mr. Sweeny in his private and confidential memorandum of May 18, 1932, was also shared by the other members of the special committee who made this report after their investigation of Mr. Verhelle's memorandum.

Mr. MURFIN. It was shared by all of the committee except Mr. Pipper. You will notice that Mr. Pipper concurred in the part exonerating Mr. Sweeny, but did not concur in the part of it where the committee said Mr. Verhelle was actuated by improper motives. Mr. Pipper was very particular to make that distinction. And I might add that Mr. Pipper today is auditor in the new bank of which Mr. Verhelle is comptroller.

Mr. PECORA. What is that?

Mr. MURFIN. Mr. Pipper today is auditor in the new bank in which Mr. Verhelle is comptroller. I cannot remember the name of the new bank. Is it the Manufacturers?

Senator COUZENS. The Manufacturers National Bank.

Mr. MURFIN. All right.

Mr. PECORA. In this report of your committee, to which your signature is appended, you state, among other things, as follows:

> We wish to take this occasion to say that not only were they innocent of wrongdoing—

Referring to Sweeny and Bodde—

> but the committee have all been impressed with the belief that the written memorandum delivered to the members of the committee, which set forth certain facts, was prepared in such a manner as to show animosity on the part of

the person making the memorandum against these particular officers. And the memorandum was prepared in such a way as to impute wrongdoing without having examined or brought in all the other existing facts.

Now, I take it that that statement represented the conclusions and opinions of all the members of this examining committee, or this special committee?

Mr. MURFIN. Except Mr. Pipper.

Mr. PECORA. And do you know why under those circumstances Mr. Verhelle's employment in the responsible position of comptroller of the company, the Detroit Bankers Co., was continued until November of 1932?

Mr. MURFIN. Frankly, I did not realize that he had continued there that long.

Mr. PECORA. Well, do you know how long he was permitted to continue?

Mr. MURFIN. No; I do not.

The CHAIRMAN. It has already appeared, but for my own information, what position did Mr. Sweeny hold in the bank?

Mr. MURFIN. He was president of the First National Bank.

The CHAIRMAN. At that time?

Mr. MURFIN. Yes, sir.

Mr. PECORA. Judge Murfin, will you let me have your copy of Mr. Verhelle's private and confidential memorandum again?

Mr. MURFIN. Certainly.

Mr. PECORA. On page 21 of your copy of Mr. Verhelle's private and confidential memorandum there is a marginal notation, in lead pencil, reading:

How?

With a question mark after that word. And that is alongside of the following statement appearing on that page of the confidential memorandum:

In addition to the five mortgages described in the report in the case of Mr. Mills there appears to be unquestioned legal liability in connection with seven other mortgages totaling approximately $4,400,000.

Do you recall your reason for making that notation?

Mr. MURFIN. I do not. If you will let me look at the copy, it may be I will. But I do not now.

Mr. PECORA. Here is your copy of the private and confidential memorandum.

Mr. MURFIN. What page is it on?

Mr. PECORA. On page 21.

Mr. MURFIN. Yes; I remember that very well.

Mr. PECORA. All right; tell us about it.

Mr. MURFIN. Mr. Sweeny had operated more or less in real estate, and there were pieces of property—and I can't get this exactly straight, I am afraid—in which he had an interest, and he sold without assuming the mortgage. He had gotten rid of them, and had made money on them, and did not assume the mortgage. This report indicated that he had assumed it, and this was false. And I might say that the information was in the bank, and any man in 2 seconds could have learned of the falsity of that statement.

Senator COUZENS. Did you investigate to see if Mr. Sweeny had an interest in the Wise Chrome Products Corporation?

Mr. MURFIN. Yes. He and Mr. Bodde each had a small stockholding interest, but I cannot tell you how much. If permitted, I might see if it is in Mr. Sweeny's notes here [pointing to a paper]. But they were merely stockholders. Now, this is my memory of it, and you must remember that we did not have a stenographer present, and that this was a long time ago, and a lot of things have happened since. But my memory is that Mr. Bodde and Mr. Sweeny held some stock in that company, and they lost all that they had put into it. They never got any money out of it at all. Neither one of them was an officer or director, but the man who was running this company—and I have even forgotten his name. Was it Wise?

Senator COUZENS. The Wise Chrome Products Co.

Mr. MURFIN. He had been quite a money-maker, and it was something in connection with automobiles, and I don't remember now whether he had lost his grip or that automobiles quit using his product. But Sweeny and Bodde had put money into that company, and it did not turn out very well, so they lost their money. And I think Sweeny loaned that company some money once to help it along. That was all that that was. They did not buy their stock until long after the company had been a customer of the bank. Yes; it had been a customer of the bank for a long time when they bought their stock.

Mr. PECORA. On page 23 of your copy of this private and confidential memorandum I find a lead-pencil notation reading:

Bad.

Alongside the following paragraph:

On Saturday, April 30, the last day of the month, a check was drawn by A. E. Moody in the sum of $600, and the balance in his account that day being $308.24.

Mr. MURFIN. Pardon me, Mr. Pecora, and I can save you a little time.

Mr. PECORA. All right.

Mr. MURFIN. These notes other than in connection with Mr. Sweeny and Mr. Bodde I made in anticipation that my legs would get well instead of worse. But I heard no testimony of any of these people, I mean on any of these people, except Sweeny and Bodde. If you are now on the Moody part of it, I am out.

Mr. PECORA. Well, then, I have covered all of the lead-pencil notations or other kinds of notations that appear in your copy of Mr. Verhelle's private and confidential memorandum relating to Mr. Bodde and Mr. Sweeny.

Mr. MURFIN. I would presume so, from your statement.

Mr. PECORA. I think I have. And I now return your copy to you.

Mr. MURFIN. And I acknowledge its return.

Senator COUZENS. I think there is mention in this report which you have in your hand of the fact that Dr. Davis had his matters in the care of Mr. Sweeny. Does that occur in the report that you have, Mr. Pecora?

Mr. PECORA. Yes.

Mr. MURFIN. That is correct. Mr. Sweeny carried a special account in the bank for the benefit of Dr. Davis, in the name of Don M. Sweeny, special, or Don M. Sweeny, trustee, and I have for-

gotten what it was. I read something in the paper about Dr. Davis having written a letter or sent a telegram down here to you gentlemen.

The CHAIRMAN. Yes.

Senator COUZENS. He wrote a letter to the chairman of the committee.

Mr. PECORA. Judge Murfin, did you find as a member of this special committee after inquiring into the confidential memorandum of Mr. Verhelle, that substantially all the statements appearing as statements of fact were warranted on the basis of the actual facts?

Mr. MURFIN. Substantially that is an accurate statement. But the difficulty with that was, as we lawyers know, they were half truths and quarter truths. They were statements it would have been so easy to have checked up and verified and thereby showed a complete absence of wrongdoing in any particular. That was the reason we thought there was something back of this report.

Senator COUZENS. Did you find whether there was anything back of the report?

Mr. MURFIN. I think nearly everything in the report was true, but it did not tell one third of it. That was the difficulty.

Senator COUZENS. Why did you think there was animus back of the report?

Mr. MURFIN. Because it was such an unfair report, such an unfair comment. He had access to all the facts, and yet he only put the worst foot forward, just as I take it an investigating committee does sometimes.

Senator COUZENS. Well, why didn't you call in Mr. Verhelle and ask him about it?

Mr. MURFIN. Well, we had the chief auditor of the bank. He knew more about it than anybody.

Senator COUZENS. I know, but he had not made the report.

Mr. MURFIN. That is true.

Senator COUZENS. It seems to me if I had been on the committee, I would have asked what prompted Mr. Verhelle to make such a statement as you allege he made.

Mr. MURFIN. Well, we did not do it. The suggestion was never made. It never occurred to any of us. That is the only answer I can give you.

Mr. PECORA. Were you referring to this committee when you said just now:

> Just as I take it an investigating committee does sometimes?

Mr. MURFIN. Partly so; yes.

Mr. PECORA. What basis have you for that statement?

Mr. MURFIN. Because I think this committee so far has just produced the worst side of our picture instead of the good side of the picture.

Mr. PECORA. Well, let me tell you, Judge Murfin, if you are not familiar with the complete record of these hearings, that there has scarcely been a witness examined before the committee who has not been asked, as Mr. Stair was this afternoon in your hearing——

Mr. MURFIN (interposing). I can hear you all right, Mr. Pecora.

Mr. PECORA. Yes; I know it, and I want to make sure that you can.

Mr. MURFIN. I can hear you all right.

Mr. PECORA. Who has not been asked before he was finally excused, if there was any statement he wanted to make to the committee, or anything further that he wanted to bring to the notice of the committee, without the necessity of being questioned specifically about it?

Mr. MURFIN. All right.

Mr. PECORA. And that wherever a witness has indicated a desire to lay other matters before the committee he has been accommodated in that desire?

Mr. MURFIN. That does not change my opinion a particle, not a particle.

Mr. PECORA. And the committee has been open to anybody, yourself included, to present any evidence that you may want to present, Judge Murfin, with regard to the situation that the committee is inquiring into now.

Mr. MURFIN. I shall cheerfully answer any of your questions, and give you any information I have that you want that might be helpful.

Mr. PECORA. Do you think you have more information with regard to the matters I have questioned Mr. Stair about this afternoon than he showed?

Mr. MURFIN. Please do not ask me to answer that question. It is not fair to ask one witness to characterize the testimony of any other witness and, as you know, it is not allowed in court.

Mr. PECORA. Do you think it is fair of you to characterize the conduct of the investigation by this committee with the apparently limited knowledge you have of the record made here?

Mr. MURFIN. I have a pretty fair knowledge of this record.

Mr. PECORA. Are you familiar with the entire record?

Mr. MURFIN. I am pretty familiar.

Mr. PECORA. Do you know anything in the record that has been presented so far that is not in accordance with the facts?

Mr. MURFIN. I am not going into that.

Mr. PECORA. By the way, Judge Murfin, did you, as a member of this special investigating committee that passed upon Mr. Verhelle's private and confidential memorandum, ascertain the facts and circumstances with regard to the transaction referred to therein that related to the discounting of a note by the bank, a note that was dated 3 weeks after the death of the maker of the note?

Mr. MURFIN. I haven't any recollection of that whatever.

Mr. PECORA. You have no recollection of it at all?

Mr. MURFIN. No; I haven't any recollection of it whatever.

Mr. PECORA. Well, it is referred to in some detail in Mr. Verhelle's private and confidential memorandum, which you were supposed to inquire into.

Mr. MURFIN. Which officer did that—Mr. Bodde or Mr. Sweeny?

Mr. PECORA. It is included in Mr. Verhelle's private and confidential memorandum.

Mr. MURFIN. Well, I do not know anything about that. I did not get into anything except as to Bodde and Sweeny.

Mr. PECORA. Did you read the entire private and confidential memorandum of Mr. Verhelle?

Mr. MURFIN. I certainly did, and tried to get myself thoroughly prepared to conduct a fair and impartial investigation of the facts.

Mr. PECORA. You do not recall having inquired into that particular item in Mr. Verhelle's private and confidential memorandum, regarding the discounting by the bank of a note about 3 weeks after the death of the maker of the note?

Mr. MURFIN. That could not have been in the Bodde or Sweeny part, was it?

Mr. PECORA. It was in Mr. Verhelle's private and confidential memorandum.

Mr. MURFIN. Well, outside of Bodde and Sweeny, I do not remember about it.

Senator COUZENS. Judge Murfin, you testified a while ago that you were familiar with all of the testimony before this committee.

Mr. MURFIN. Well, I am. I read that in the paper. But I do not remember the details of it. And I do not think I said I was familiar with all of it. I said I had been following it very carefully.

The CHAIRMAN. That is one trouble the committee has to deal with, when they get a witness on the stand he does not know anything.

Mr. MURFIN. Well, you still have that trouble.

The CHAIRMAN. Yes. We are trying to get the facts, is all.

Mr. PECORA. Yudge Murfin, is there any evidence you would like to bring to the notice of the committee pertaining to the subject matter of this inquiry?

Mr. MURFIN. I would rather not, for if I started out I would sit here for a week. And I think the sooner this thing is stopped the happier my friends in Detroit are going to be. I do not want to contribute to their unhappiness by stirring things up by a long statement or a short statement or anything else. I would rather not.

Mr. PECORA. You say you would rather not?

Mr. MURFIN. I would rather not.

Mr. PECORA. You are invited to do it if you wish.

Mr. MURFIN. I appreciate the invitation, and if you do not mind I will not accept it.

Mr. PECORA. By the way, Judge Murfin, you were one of the stockholders of the Detroit Bankers Co., weren't you?

Mr. MURFIN. I am sorry to say I was, and much larger than I would have liked.

Mr. PECORA. You were a director of it?

Mr. MURFIN. Not of the Detroit Bankers Co.—now, wait a minute. I was a director of the Detroit Bankers Co. for, I should say, less than a month.

Mr. PECORA. When was that?

Mr. MURFIN. At the annual meeting in 1933, in order to reduce the size of the board of the First National Bank and not hurt the feelings of some charming directors who had been bank directors for a great many years, they took all of the directors of the First National Bank and made them directors of the Detroit Bankers Co., and in that way I became a director of the Detroit Bankers Co. We had two meetings—one meeting at which we elected officers and the next meeting we voted for voluntary dissolution. So that my connection with the Detroit Bankers Co. was practically nil.

Mr. PECORA. You are familiar with the fact, as a stockholder of the Detroit Bankers Co., that the certificates of stock issued by that company bore upon them——

Mr. MURFIN (interposing). Yes. I am very familiar with that. It was article 9.

Mr. PECORA. Article 9 of the articles of association or incorporation of the company regarding the statutory liability——

Mr. MURFIN (interposing). I am very familiar with that.

Mr. PECORA (continuing). Of the stockholders of the Detroit Bankers Co.

Mr. MURFIN. Yes; I am very familiar with that.

Mr. PECORA. You are identified at the present time in a professional capacity, not as a party in interest, with litigation now pending in the courts of Michigan, in which the stockholders of the Detroit Bankers Co. are seeking to avoid the liability referred to on those certificates of stock.

Mr. MURFIN. I have been asked by my associates in that litigation to try that case, and that is one reason I am anxious to get back home and complete my preparation of it. I know that case, I think, by heart now. And we are going to win it.

Mr. PECORA. And you are going to win it?

Mr. MURFIN. We are going to win it.

Mr. PECORA. And by such victory deprive the depositors of those banks of the protection that the statute—at least it was thought—gave them.

Mr. MURFIN. Ninety odd percent of the depositors are stockholders, and they will be more benefited if I win my case than if I should lose it.

Mr. PECORA. Ninety-two percent of the depositors are stockholders of the Detroit Bankers Co.?

Mr. MURFIN. No, sir; of the First National Bank. This suit is not against the stockholders of the First National Bank. It is against the stockholders of the Detroit Bankers Co.

Mr. PECORA. I know that.

Mr. MURFIN. And you would not ask me to try my lawsuit with you here, would you?

Mr. PECORA. I am neither asking you nor suggesting it, Judge Murfin. I merely wanted to show your interest.

Mr. MURFIN. I am very much interested. Yes; I am very much interested.

Mr. PECORA. All right. Now, is there anything more you can tell this committee with regard to the investigation that you and Mr. Mills and Mr. Newberry and Mr. Butler and Mr. Pipper made of the allegations and criticisims contained in Mr. Verhelle's private and confidential memorandum?

Mr. MURFIN. I have not. We tried to be as thorough as we could. We had the junior officers before us, and the records and a lot of papers, and we made a report that stated our conclusions.

The CHAIRMAN. And you were all personal friends of those people?

Mr. MURFIN. Yes, sir; personal friends—or business friends is the better way to put it, Senator Fletcher. Here were men, esteemed at home, against whom nothing of any kind before had ever been said. These men had risen from the ranks, from the bottom up,

and you cannot rise from the bottom up unless you are a pretty high-grade man. And these charges on their face, although they sounded very serious, yet on investigation were found to have no foundation in fact.

Mr. PECORA. Judge Murfin, it will be necessary for you to appear again tomorrow, I am sorry to say.

Mr. MURFIN. So am I. And I hope when we are through tomorrow we won't be sorry again.

Mr. PECORA. I am only sorry because you have to appear again tomorrow.

Mr. MURFIN. Very well. I will be here.

Mr. PECORA. Because you wanted to get away today, and I should like to have accommodated you.

Mr. MURFIN. I will be here.

The CHAIRMAN. The subcommittee will now stand adjourned until 10:30 tomorrow morning.

(Thereupon, at 4:50 p.m., Thursday, Feb. 1, 1934, the subcommittee adjourned until 10:30 the following morning.)

COMMITTEE EXHIBIT No. 130, FEBRUARY 1, 1934

EXHIBIT K-1,—ANNUAL REPORT DETROIT BANKERS COMPANY, DETROIT, DECEMBER 31, 1932

Combined statement of condition of the banking units at close of business, December 31, 1932

RESOURCES

Cash on Hand and in Banks		$80,643,226.09
United States Government Securities		43,044,445.27
Other Bonds and Securities		40,042,561.41
Stock in Federal Reserve Bank		1,882,500.00
Loans, Discounts and Advances		178,851,033.13
Loans Secured by Mortgages		172,812,455.90
Banking Offices and Real Estate		36,807,720.50
Accrued Income Receivable		4,758,284.68
Customers' Liability on Acceptances and Letters of Credit		894,576.09
Total Resources		$559,736,802.98

LIABILITIES

Capital		$29,910,000.00
Surplus		29,140,000.00
Undivided Profits		3,329,267.03
Reserve for Interest, Taxes, etc		2,239,730.82
Bills Payable		901,065.16
Acceptances and Letters of Credit		895,232.00
Circulation Outstanding		8,588,140.00
Deposits:		
Demand	$192,820,109.65	
Time	291,913,258.32	
		484,733,367.97
Total Liabilities		559,736,802.98

JANUARY 9, 1933.

To the Stockholders of the Detroit Bankers Company:

The year 1932, just passed, is the third full year after the economic upset of 1929. In it, individuals and businesses generally have felt the accumulated effects of three years of depression. Your Company, as banker for many hun-

dred thousands of persons in the Detroit Metropolitan area, and over 95% of every type of business represented there, has necessarily been a focus point for individual and business problems. It has been organized and conducted so as to safely meet these problems from the standpoint of its customers and depositors, and has, as rapidly as possible, adjusted its own affairs and those of its unit organizations to face the requirements of the present general business situation.

During the year there was only a minor change in the outstanding capital of the Detroit Bankers Company, represented by the issuance of $2,679.60 of par value of Detroit Bankers Company stock in exchange for outstanding and unexchanged shares of the First National Bank—Detroit. There are at present outstanding 1,775,598 shares of $20.00 par value.

In February, 1932, the Detroit Bankers Company established the First National Bank at Pontiac, contributing $500,000.00 of Capital and $250,000.00 of initial Surplus. This was a newly incorporated National Banking Institution for the purpose of taking over the deposits and liquidating the assets of the First National Bank & Trust Company of Pontiac.

The general result of operations for the year 1932 is best shown by a comparison of the total Capital, Surplus and Undivided Profits of all the banking units as of December 31, 1931, and December 31, 1932, as follows:

Capital, Surplus and Undivided Profits 12/31/31		$68,459,912.03
Add:		
Capital Stock $500,000.00, Surplus $250,000.00 of new First National Bank at Pontiac		750,000.00
Total		$69,209,912.03
Add:		
Net Earnings after depreciation and all other charges but before Dividends		5,740,348.29
Total		$74,950,260.32
Deduct:		
Dividends Paid	$2,813,500.00	
Transfers to Reserves	9,757,493.29	
		12,570,993.29
Total Capital, Surplus and Undivided Profits 12/31/32		$62,379,267.03

Provision was made for reductions in asset values by transfers to Reserves of nearly $10,000,000.00, in addition to nearly $3,000,000.00 of Reserves already provided for during the year out of current earnings and other sources.

The banking units of your Company have, in the past three years of its existence, endeavored to meet the present economic conditions by setting up provisions for losses and contingencies in excess of $37,000,000.00.

The combined statement of all banking units shows a decrease in total Income for the year, of $4,776,911.95, over 1931, slightly less than 14 per cent, due mostly to loss of Income as a result of liquidation of earning assets. The close control of operating and other expenses throughout the Group is evidenced by the fact that total Expenses in the same period were reduced $3,061,657.20, leaving a reduction of Net Operating Income of $1,715,254.75. Net earnings, after all charges but before Dividends for 1932, were $5,740,348.29, as compared with $7,475,293.47 for the year 1931 preceding—a decrease of $1,734,945.18.

Dividends have been substantially reduced in greater proportion than the decline in Net Earnings. A total of $2,813,500.00 was paid in 1932 as against $6,051,400.00 in the year 1931. This dividend reduction of $3,237,900.00 exceeds the reduction in Net Earnings by $1,502,954.82, the capital investment being thereby strengthened by this latter amount.

The First National Bank—Detroit, Board of Directors has had the large number of seventy-six members. It was determined, in December, 1932, to reduce the number of the Board of Directors of the Bank to thirty-eight, five to be Bank Officers and three Trust Company Officers, all of the present Directors of the Bank being made Directors of the Detroit Bankers Company at the annual meeting in January.

The general activities of the Detroit Bankers Company, operating as a Holding Company, are rapidly being reduced to the simplest possible form. It will act almost solely as a holder of the stock of its constituent units, its

every other function having been eliminated but that of joint Tax, Auditing and Insurance Departments for all units.

Every effort has been put forth by your Management in the interests of economy and to reduce the burden of expense of the Holding Company to the affiliated units. The operating expenses of the Detroit Bankers Company itself, have been reduced from an average of approximately $46,000.00 per month at the first of the year of 1932, to an average estimated amount not to exceed $18,000.00 per month for the beginning of 1933. This reduction is at the rate of $336,000.00 a year. Further economies will be made in 1933, during which time the full benefit of this year's changes will be felt. Official salaries of the Detroit Bankers Company for the month of December, 1931, were $12,075.30; in December, 1932, $3,633.30, and in March, 1933, will be further reduced to $1,633.30. This alone is a reduction of $10,400.00, or at the rate of $124,800.00 a year. All other salaries were $21,973.30 for the month of December, 1931, and are estimated for the month of January, 1933, at $7,000.00—a monthly reduction of nearly $15,000.00 or at the annual rate of $180,000.00.

The following are reports of various corporations owned by your Company:

FIRST NATIONAL BANK—DETROIT

On December 31, 1931, the First National Bank in Detroit and the Peoples Wayne County Bank were consolidated into the First Wayne National Bank, thus combining in one institution, under a National Charter, all of the Detroit city banking business of this Company. This has made possible substantial economies in corporate expenses and operating organization.

On October 10, 1932, the name was changed from First Wayne National Bank to First National Bank—Detroit, perpetuating the name of the oldest member of the banking units, originally established in 1863.

The total Operating and Other Income for the First National Bank—Detroit was reduced $3,645,068.95 in the year 1932 from the year 1931. This was largely represented by loss of Interest Income resulting from liquidation of loans and other assets and the reduced rates of interest obtainable on investments made in the year 1932. This reduction was partially offset by an increase of miscellaneous income due to the specific efforts of the Management to establish suitable charges for services that have heretofore been unprofitable.

To meet the reduction of Income, expenses of all kinds have been carefully surveyed and controlled. The expense reduction for the year 1932 as compared to 1931 was $2,753,240.79.

Net Operating Income, before recoveries and charges, for 1931 was $8,103,945.07; for 1932, $7,212,116.91, a reduction of $891,828.16, or approximately 11 per cent.

Dividends paid by the First National Bank—Detroit, to the Detroit Bankers Company during the year were $2,295,000.00 less than in 1931. This reduction in dividend payments recovered for the Bank the loss in Net Operating Income of $891,828.16, and retained $1,403,171.84 of operating profits. Provision was made for depreciation and more than $11,000,000.00 set aside for other Reserves.

Beginning the year 1933 the total annual payroll will be approximately $1,000,000.00 less than at the beginning of the year 1932, as a result of general equalizations and salary reductions of Officers and Employees and some necessary eliminations.

In keeping with the prevailing trend of interest rates on investments and the policies already established by large banks throughout the Country, interest rates paid on commercial accounts were reduced during the year. In addition, a regulation was recently passed by the Detroit Clearing House Association whereby, effective January 1, 1933, the maximum interest rate to be paid on Savings deposits will be 2½% per annum instead of 3% as heretofore. These changes will be reflected in the year 1933 by a substantial reduction in interest expense.

During the year 34 branches with over-lapping territories were consolidated and substantial operating economies obtained with very little loss of deposits due to these changes. This policy of consolidating competing branches will be continued.

Resources, deposits and number of customers of First National Bank—Detroit, are greater than the total of all other Detroit banks combined.

DETROIT TRUST COMPANY

In last year's annual report to the Stockholders, attention was called to the fact that the Detroit Trust Company had transferred to the Detroit Bankers Company its ownership of the First Detroit Company, which transacted the bond and investment business of the Company, and that it would thereafter devote its attention to activities of a purely corporate and fiduciary nature.

The net earnings of the Company of 1932 were $782,614.39, which is about 10% upon the average of its Capital, Surplus and Undivided Profits for the year. During the year the Company has charged out of its Undivided Profits account and paid on account of its participation in the guaranty of deposits of the American State Bank and other banks, the sum of $390,506.00. It has transferred to reserves from Undivided Profits and current earnings, after payment of dividends, the sum of $955,114.39. Its Capital, Surplus and Undivided Profits of December 31, 1932, were $7,273,008.18.

In spite of existing business and financial conditions, a large volume of new trust business has been placed upon the books of the Company during the year.

AFFILIATED BANKS

Peoples Wayne County Bank of Dearborn
Peoples Wayne County Bank of Ecorse
Peoples Wayne County Bank of Hamtramck
Peoples Wayne County Bank of Highland Park
Peoples Wayne County Bank of River Rouge
Peoples Wayne County Bank of Wyandotte
Grosse Pointe Savings Bank
First National Bank of Pontiac

During the year just passed the Detroit Bankers Company caused a new bank to be organized in Pontiac, namely, the First National Bank at Pontiac. The present eight outlying units are the result of the merging and consolidating of fifteen affiliated or independent institutions. This completes our chain of eight wholly owned unit banks operating eighteen banking offices which serve suburban districts of Metropolitan Detroit and the city of Pontiac.

These units have a combined invested capital of $3,347,647.35 and are used as depositaries for upward of 70,000 customers. Deposits in these eight suburban institutions total in excess of $23,000,000.00.

Net Operating Income for these banks in the year 1932 amounted to $155,450.49. During the year provision for reduction in asset values were set-up, amounting to $543,350.28.

A comparison of the operations of these banks for the year 1931 and 1932 is difficult, owing to the acquisition, during the latter year, of the First National Bank of Pontiac. If, and when, the Glass Bill passes, with its provision for State-wide branch banking, it is contemplated that all these banks, with the possible exception of the First National Bank at Pontiac, will become branches of First National Bank—Detroit.

FIRST NATIONAL BANK BUILDING COMPANY AND GARAGE

The operations of this company are absorbed in the First National Bank—Detroit. Net income before depreciation, but after taxes, in 1932 was $349,447.57, as compared with $364,747.98 on the same basis for 1931, a decrease of only $15,300.41.

In 1932 as compared with 1931, building rental income was down $54,892, or 4.3%; operating expense was down $50,838, or 14.2%; construction expense was up $4,325, or 8.1%; fixed expense was down $36,262, or 6.8%.

Including the garage, the year closed with a net loss of $1,552, as compared to a net profit of $13,748 in the previous year. The garage loss in 1932 was greater by $20,197 than it was in 1931. (The garage paid the building $42,000 rent). It is seen, therefore, that except for the garage, earnings were better in 1932 than in 1931.

FIRST DETROIT COMPANY

This is the investment unit of your company. On December 31, 1932, it had Capital, Surplus and Undivided Profits of $1,116,916.73. For the year 1932 its Net Operating Profit was $96,844.07. Of this amount $36,227.68 was transferred to the Reserve for Contingencies, making that Reserve $466,672.22, and adjusting the Company's inventory acquired prior to 1932 to market value, no adjustment being necessary on securities purchased during the year. $13,954.85 in Special Operating Reserve was carried forward into 1933, and the balance of $46,661.67 was transferred to Undivided Profits. For the second consecutive year each office of the Company was operated at a profit. Branch offices of the Company were operated in New York, Chicago and San Francisco, the Boston and Los Angeles offices having been eliminated. Salaries and expenses were sharply contracted during the year, resulting in a total reduction of 46.71%.

DETROIT BANKERS SAFE DEPOSIT COMPANY

This corporation with a capital of $100,000 was operated at a small profit in 1932.

IN CONCLUSION

You will be interested in the following excerpt from a speech made by the Hon. Carter Glass, Chairman of the Senate Banking and Currency Committee, upon the floor of the United States Senate on Thursday, January 5th, commenting upon the two principal Michigan Banking groups.

"I am glad to testify from the thorough investigation of the Banking and Currency Committee, that the group banking system of the State of Michigan has been as thoroughly and effectively well-managed as is possible to a chain banking system, and has been of great service to the commercial, industrial and the credit requirements of that State. . . . They are capitalized upon a fair and honest basis. They have not gone out, as the managers of some such systems have done and stripped their victims by watering their stock in a shameful way."

By Order of the Board of Directors.

E. D. STAIR,
President.

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