

STOCK EXCHANGE PRACTICES

FRIDAY, MAY 4, 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 call following adjournment on yesterday, in room 301 of the Senate Office Building, Senator Duncan U Fletcher presiding

Present Senators Fletcher (chairman) and Adams

Present also: David Saperstein, associate counsel to the committee, and Frank J Meehan, chief statistician to the committee

The CHAIRMAN The subcommittee will come to order, please. Mr. Saperstein, you may proceed with the matter that you want to present this morning

Mr SAPERSTEIN Mr Chairman, I should like to place upon the record this morning the reports prepared by our examiners and accountants in Cleveland, under the direction of Mr Meehan, in relation to the Union Trust Co , together with the exhibits which support those reports Those exhibits have already been placed in the Government Printing Office, and consequently will not be physically produced here this morning However, I should like the record to indicate that they will be submitted in evidence

The CHAIRMAN The reports refer to the exhibits so they may be clearly understood, as I understand

Mr SAPERSTEIN The reports being submitted this morning refer to the exhibits, now at the Government Printing Office Each exhibit has a letter and a number indicating the corresponding letter and number appearing on the report. That is, a letter and a number appear opposite the paragraph or paragraphs in the reports which relate to the particular exhibits

The CHAIRMAN Very well It will be understood that the exhibits are offered and received at the same time the reports are offered and received in evidence

Mr. SAPERSTEIN. I will ask Mr. Meehan to take the stand again.

**TESTIMONY OF FRANK J. MEEHAN, NO. 215 EAST FOURTH STREET,
BROOKLYN, N. Y.; CHIEF STATISTICIAN TO THE COMMITTEE**

Mr. SAPERSTEIN. Mr. Meehan, in addition to the reports which were introduced in evidence on yesterday referring to the Guardian Trust Co , of Cleveland, Ohio, were there also prepared by the investigators and accountants of the staff under your immediate direction

and supervision, reports relating to the Union Trust Co., of Cleveland, Ohio?

Mr. MEEHAN. Such reports were prepared and are now in my possession.

Mr. SAPERSTEIN. How many such reports are there?

Mr. MEEHAN. There are 22 such reports.

Mr. SAPERSTEIN. And are those the reports which I have here before me, with the exception of those numbered 15 and 19, the only copy of each of which is now at the Government Printing Office; which reports relate to the Union Trust Co. of Cleveland, Ohio?

Mr. MEEHAN. Yes.

Mr. SAPERSTEIN. They were prepared by the investigators and accountants of the committee under your supervision?

Mr. MEEHAN. Yes.

Mr. SAPERSTEIN. Now I have a report—

Senator ADAMS (interposing). Cannot they all be identified, practically in the form of a group, without having to go through the individual indication as to each report?

Mr. SAPERSTEIN. That could be done.

Senator ADAMS. That is merely an inquiry made in order to save time. If it is preferable that it should be done the other way, of course, I have no objection.

Mr. SAPERSTEIN. I suppose that could be done, Senator Adams, except that I think the committee's record ought to show the titles of the respective reports, so that the exhibits may be related to the particular title under which they may fall.

Senator ADAMS. I was simply thinking of saving time. There was no question as to whether you might not inquire about the fact as to how the reports were made, and have them marked as exhibits, as to each individual report, and have it understood that in each case it was prepared under the immediate direction of Mr. Meehan.

Mr. SAPERSTEIN. I think that can be done very readily.

The CHAIRMAN. You may proceed to present the reports and the exhibits that are to accompany them.

Mr. SAPERSTEIN. Mr. Meehan, I show you a report entitled "Union Trust Co., Cleveland, Ohio—Summary", and ask you whether you can identify it as being a report prepared by members of the staff of investigators and accountants of the committee, under your immediate direction and supervision.

Mr. MEEHAN. Yes; this is the report so prepared.

Mr. SAPERSTEIN. I ask that the same will be received in evidence, together with the exhibits which are now at the Government Printing Office.

The CHAIRMAN. The report and exhibits will be received in evidence and appropriately marked by the committee reporter.

(The report entitled "Union Trust Company, Cleveland, Ohio—Summary", together with the exhibits now at the Government Printing Office relating thereto, were received in evidence and marked "Committee Exhibit No 1, May 4, 1934", and are as follows:)

COMMITTEE EXHIBIT No 1, MAY 4, 1934

UNION TRUST CO., CLEVELAND, OHIO**SUMMARY**

In the individual reports covering the various phases of our investigation into the affairs of the Union Trust Co, we have submitted in detail the history and facts regarding the respective subjects. We shall endeavor in this report to summarize as briefly as we can the main facts as disclosed by our investigation.

(Report re Corporate History)

The corporations making up the Union Trust Co group are the following

- 1 Union Trust Co
- 2 Union Cleveland Corporation
- 3 Union Lennox Co
- 4 P A Frye Co
- 5 Akers-Folkman Co
- 6 Cleveland & Boston Co

The Union Trust Co was organized in 1920 by a consolidation of the First Trust & Savings Co and the Citizens Savings & Trust Co. It has a combined capital of \$35,000,000 consisting of—

914,000 shares, \$25 par value each.....	\$32, 850, 000
Surplus.....	12, 150, 000
	<hr/>
Total capitalization.....	35, 000, 000

The Union Cleveland Corporation was organized in July 1929, as the security affiliate of the bank. Each bank stockholder has Union Cleveland Corporation stock to the amount of one tenth of his bank stock, ownership being evidenced by endorsement on his bank stock certificate.

The Union Lennox Co. is a wholly owned subsidiary of the bank and was formed to hold title to the main bank building.

(Report re Corporate history)

P. A. Frye Co. is also a wholly owned subsidiary of the bank and was used to manage, operate, and dispose of the foreclosed properties turned over to it by the bank.

The Akers-Folkman Co. was another wholly owned subsidiary and was simply a travel agency bureau.

The Cleveland & Boston Co. is owned 62 percent by the bank and was formed to be a holding company for assets taken in the foreclosure of the Cleveland-Akron Bag Co.

MANAGEMENT

The management policies of the Union Trust Co. were dictated by a small group of men. Chief among these men was the bank's first president—Joseph R. Nutt—later elected chairman of the board.

Others associated with Mr. Nutt in the domination of the bank's policies were:

Wilbur M Baldwin, president
 George A Coulton, vice-president
 Frank H Ginn, director
 Kenyon V Painter, director
 Otto Miller, director

As we have pointed out in our "Van Sweringen loan" report, there is very little doubt that the affairs of the Union Trust Co. were dictated by Mr. Nutt, and, too, that there is very little doubt but that the policies and acts of Mr. Nutt were, in a great measure, influenced and dictated by the Van Sweringens.

(Minutes of directors' meeting, pp 1040, 1045)

Certain of the directors of the Union Trust Co, being entirely "fed up" with the domination of the bank's affairs by this group, rebelled. Although the minutes of the bank do not show the true reasons, the dissenting directors forced the resignation of Joseph R. Nutt as chairman of the board on May 24, 1932, to be effective as of June 30, 1932. Mr Joseph R Kraus was elected chairman on that date.

Later in 1932, these dissenting directors insisted upon a thorough examination being made of the Union Trust Co. Thereupon, three of the directors were appointed to conduct this examination, viz: E P Lenihan, R C. Norton, and R T King.

These directors completed their examination early in 1933 and submitted their report to the board of directors. The report is filled with criticism of Messrs Nutt, Baldwin, Carlson, U P, Painter, et al, and the conduct of each. We have a complete copy of this report

(U-1)

Shortly after arriving in Cleveland and after having read the "Lenihan report", the writer attempted to contact Mr Lenihan to discuss with him certain aspects of the report. Mr. Lenihan was out of town; but the writer succeeded in obtaining an interview with Mr. Robert C. Norton instead. He is one of the partners of Oglebay-Norton & Co, engaged in the steel business.

Attached is a memorandum of the interview between Mr Norton and the writer. Mr. Norton corroborated what we have already pointed out in this report and what we point out and substantiate in practically every single report written in connection with the investigation of the Union Trust Co.

That the management of the Union Trust Co was dominated by this small group of men. Messrs Nutt, Baldwin, Carlson, Ginn, et al, and that behind this group, at all times, was the influence of the Van Sweringens.

(Report re Compensation to officers)

The salaries of the principal officers of the Union Trust Co. were as follows:

J. R Nutt.....	\$50, 000
J R Kraus.....	50, 000
W M Baldwin.....	50, 000
G A Coulton.....	50, 000
Allard Smith.....	40, 000

FAILURE OF THE UNION TRUST CO

(Report re Financial condition, 1929-33)

Opinions have been orally expressed in and around Cleveland by certain individuals, as in Detroit, that the closing of the Union Trust Co in particular and the Cleveland banks in general was due to "a political plot" and to the "Michigan bank holiday". These charges are grossly untrue. The failures of both the Union Trust Co and the Guardian Trust Co were not the result of the "Michigan holiday", "The national bank holiday", or any sudden disturbance of economic conditions; nor were they caused by any "plot", political or otherwise. The failure of the Union Trust Co was the result of unsound banking practices over a period of years.

(Report re Financial condition, 1929-33)

The reasons for the failure of the Union Trust Co. may be summarized as follows

1. Heavy investment in real estate owned.
2. Bad loan policy.
 - (a) Excessive concentration of loans to the Van Sweringen and Eaton interests
 - (b) Loans to officers, directors, and their affiliated corporations
 - (c) General loans.
 - (d) Real estate loans
3. Poor investment policy.
4. Inadequacy of reserves for losses.
5. Bad dividend policy in the face of impaired capital.
6. Rapid decline in deposits.
7. Exhaustion of ability to borrow.

(Report re Financial condition, 1929-33, p 5)

1 Real estate owned.—Even prior to 1929, more than 50 percent of the bank's capital and surplus was invested in real estate. In January 1929 this investment represented 50.3 percent of the total capitalization, and by January of 1933 the figure had grown to 57.7 percent. In this one item of "Real estate owned", the Union Trust Co. had invested almost \$18,000,000

(Report re Financial condition, 1929-33, p 9)

Although the bank owned considerable real estate in addition to the main bank building, it did not pursue a conservative policy of setting up provisions for physical depreciation for each year on its books, other than depreciation on the main bank building. However, on its Federal income tax returns the bank did take the benefit of such depreciation on all its properties, regardless of the fact that it was not recorded on the bank's general books. As of December 31, 1932, the accumulated amount of depreciation reported on income tax reports, and not recorded on the books, was \$747,941.86.

We intend to point out later in this report the fact that the bank did not write off sufficient amounts each year as a reserve for losses. The net effect of those failures to record the true facts was an inflation of the assets on the statements of the bank and an annual inflation of the earnings statements.

(Report re Financial Condition, 1929-33, p 20)

2 *Loans*—The percentage of total loans to total deposits, exclusive of trust deposits, was as follows:

	<i>Percent</i>
January 1929.....	76 2
March 1931.....	75
December 1932.....	87 3
January 1933.....	91

(Report re Financial Condition, 1929-33, p 20)

From March 1931 to December 1932 the deposits of the bank dropped in the amount of \$123,000,000, while the loans for the corresponding period dropped only \$70,000,000. Even as long ago as March 1931, there were \$43,000,000 of unsecured loans open on the books of the Union Trust Co.

(Report re Financial Condition, 1929-33, p 15)

On December 20, 1932, the total nonaccrual loans were \$23,000,000, and by January 20, 1933, had increased by more than another million dollars.

(Report re Financial Condition, 1929-33, p 13)

The loans to directors and officers and their affiliated corporations, exclusive of the loans to the Van Sweringens, totaled:

January 1929.....	\$15, 000, 000
March 1931.....	34, 000, 000
January 1933.....	30, 000, 000

(Report re Financial condition, 1929-33)

The relation of real-estate loans to total loans was as follows:

Date	Total loans	Real-estate loans	Percent of total
Jan 25, 1929.....	\$220, 346, 080 63	\$76, 846, 359 10	34 9
Mar 27, 1931.....	222, 805, 076 90	74, 168, 249 06	33 3
Dec 20, 1932.....	152, 404, 226 68	66, 429, 477 43	43 6
Jan 24, 1933.....	161, 821, 516 39	66, 157, 760 91	43 5

Correspondingly, reserves for losses on loans were as follows:

Jan 25, 1929.....	\$404, 335 42
Mar. 27, 1931.....	360, 440. 59
Jan. 20, 1933.....	1, 196, 389 07

3. *Investments*.—Monthly schedules were submitted to the officers and directors of the bank showing in detail the securities and investments of the Union Trust Co. Pencil notations appear on these schedules, indicating the shrinkage of the market value of these investments from the figures at which they were carried on the books. The following shows the amount of this shrinkage, according to the bank's own records, and the reserve being carried to offset the losses

(Report re Financial condition, 1929-33, p. 21)

Date	Shrinkage in investments	Reserve carried
July 1932.....	\$16,500,000	\$3,891,487 15
September 1932.....	15,000,000	3,819,553 97
January 1933.....	15,000,000	3,704,071 92

In their December 1932 report to the board the directors' examining committee pointed out:

(U-1-39)

A schedule of all investments held by the bank was priced according to market values on all listed securities, and where no market value was available an estimated value was given

(U-1-39)

On our books, total \$40,276,013.45; market value, \$23,856,913 40; shrinkage, \$16,410,100 05; reserve for investment variation \$3,704,071.92

(U-1-40)

Also in this same report the committee pointed out the results of a "privately arranged deal" which had been handled by W. M. Baldwin, president of the bank. This deal was regarding bonds of the Van Sweringen Co. owned by the bank and was made possible by Mr. Baldwin's close relationship with the Van Sweringens. However, like practically all deals involving the Van Sweringens, the bank came out second best and lost money on the transaction. The committee, in its report, states:

In looking over the securities held by our securities and investment department out attention was drawn to \$200,000 Missouri-Pacific Railway convertible 5½ percent bonds on our books at \$119,000, and having a market value of \$16,500. Upon further questioning, we found that these bonds came to us on an exchange of securities upon which the committee desires to comment further.

(U-1-40)

The committee then traces the events that actually happened and sets out the losses, following through with what the results would be if the remaining securities should be sold and setting out the further losses. In comparison with this the committee reviews what should have transpired had Baldwin not "privately arranged" the deal, and shows that the bank suffered a greater loss of \$209,221.37 than it would otherwise have suffered. The committee then concludes with the statement.

(U-1-40)

It is evident that the best interests of the bank were not served when this exchange was negotiated

(Report re. Financial History, p. 3)

Dividend policy.—In the face of the shrinkage in value of its investments and the large uncollectible loans which were standing on the bank's books, the board of directors voted large dividends year after year. The dividend rate of the Union Trust Co from 1921 to 1927

was 10 percent. The rate was changed in 1927 to 12 percent and continued until 1932 when it was reduced to 8 percent. From 1921 to 1932 the Trust Co. has paid cash dividends of \$27,904,750.

WINDOW DRESSING

(Report re Window Dressing)

While considering the facts regarding "window dressing" practices carried on by the Union Trust Co., it might be well to bear one very important point in mind, i.e., that these "window dressing" transactions were consummated prior to the "call" dates. This supports the conclusion that notice was given to the Union Trust Co. sufficiently in advance to permit the officers to negotiate the transactions necessary to carry out their desires.

In order to aid the Trust Co. to publish a report showing a good liquid position, the Van Sweringens, in 1931, were prevailed upon to "lend" \$10,000,000 of United States Government securities to the Union Trust Co. through one of their corporations, namely, the Van Sweringen Corporation. These bonds were "loaned" for "window dressing" purposes only, and the "loan" was reversed 9 days after it was made.

(Report re Window Dressing)

The bonds were in the possession of J. P. Morgan & Co. and were being held by them for safekeeping. The "window dressing" transaction was arranged by letter agreements, by which the Trust Co. agreed to purchase the bonds from the Van Sweringen Corporation, crediting a special checking account of the latter with the purchase price, and pledging the bonds as security for the "deposit." Actually, the whole transaction was handled through book entries, physical possession of the bonds not changing hands, nor was there any exchange of cash.

(Report re Window Dressing)

Another method of "window dressing" employed by the Union Trust Co. was the sale of loans under repurchase agreements. In September 1931 the Union Trust Co. sold to certain New York banks, through the facility of repurchase agreements, various loans for which the Trust Co. received cash totaling almost \$12,500,000. When the statement of condition of the Trust Co. was published, "Total loans" was reduced and the item "Due from domestic correspondent New York banks" was correspondingly increased. However, the contingent liability of the Trust Co., due to the repurchase agreement, was not shown.

VAN SWERINGEN LOANS

As we have stated previously in this report, one of the chief causes of the ultimate failure of the Union Trust Co. was the excessive concentration of loans to the Van Sweringen interests.

(Report re Van Sweringens, p 11)

The loans due the Union Trust Co. from the Van Sweringens and their controlled companies may be summarized as follows.

Commercial and collateral loans.....	\$11, 412, 908 54
Mortgage loans.....	772, 064 57
Land contracts.....	1, 000, 000 00
Total.....	13, 184, 973 11
Interest delinquent to May 1, 1933.....	1, 089, 045 83
Total.....	14, 274, 018 94

At times during the past few years the loans to some one of the individual companies or to the Van Sweringens themselves exceeded the legal limits of the bank's loaning powers. When this was questioned by the State examiner, the bank simply arranged to transfer part of the loans from the name of one of the Van Sweringen companies to the name of another company

(U-119)

Certain of the directors and senior officers had realized the unsoundness of so great a concentration of loans and had complained. On December 10, 1931, Mr D L Johnson, a director of the bank, wrote a letter to Mr Crawford, secretary of the bank, dissenting from the making of any more loans to the Van Sweringens and asking that his dissent be noted on the bank's minutes

(Minutes of Directors' Meeting, p. 971, 987)

The record of the minutes shows this dissension. Mr Johnson again dissented from another loan to the Higbee Co (a Van Sweringen corporation) on December 8, 1931; but the loan, nevertheless, was made

Early in 1932 Mr Johnson was not reelected to the board of directors of the Union Trust Co

(Report re Van Sweringen Loans, p 7)

However, sentiment among some of the directors was so strong that no more loans should be made to the Vans, that an unsecured loan to the Daisy Hill Co was refused in the main office. This refusal in the main office did not prevent the loan from being made, however. It was made through the terminal office on the oral approval of Mr. Nutt

(Report re Van Sweringen Loans, pp 20-25)

In 1930, the Van Sweringens had borrowed every dollar from the Cleveland banks that it was possible for them to borrow. In October of 1930 they found it necessary to make large additional borrowings. Accordingly, arrangements were made to borrow from J. P. Morgan & Co \$39,500,000, but to do this substantial collateral had to be pledged. Every bit of collateral securing the loans made from the Cleveland banks was sorely needed if those loans were to be adequately secured. The Union Trust Co. was trustee for the other Cleveland banks which had participated in these loans and as such was responsible for the collateral. However, the Vans needed help and the Union Trust Co. supplied it. Practically all of the collateral having any market value was released from the Cleveland loans and given over to the Van Sweringens to pledge against the loans they were receiving

from J. P. Morgan & Co and this switch was evidently done without the knowledge of the other participants.

LOANS TO DIRECTORS

(Report re Loans to Directors)

When the bank closed in February 1933 the directors were indebted to the bank in the amount of \$8,148,788 38 Due principally to sale of collateral, these loans have been somewhat reduced since the bank has been in liquidation However, there still exists \$6,129,491 36 of unpaid loans made to the directors. Many of these loans will suffer very large losses

If the laxity of effort to collect and reduce these directors' loans had existed in all loans, the results would have been disastrous. Undoubtedly, the directors, because of their being directors, were given undue leeway in making and in repaying their loans.

(Report re Painter Loan)

Painter loan —When the Union Trust Co. closed on February 25, 1933, Mr K V Painter, a director, was indebted to the bank in the amount of \$3,000,000—an indebtedness that has never been repaid. Mr Painter has been a director and a member of the executive committee for more than 10 years

Our investigation discloses that virtually all of this indebtedness resulted from unlawful collusion between Painter, Baldwin, and Carlson, for the purpose of wilfully misapplying the moneys, funds, and credits of the bank for the direct use, benefit, and advantage of Painter, and indirectly for the use, benefit, and advantage of Baldwin and Carlson Recently, Messrs. Baldwin and Painter were indicted by the Common Pleas Court of Cleveland for their acts in regard to the Painter loans

(Report re Painter Loan)

In substance, the general scheme of operation was as follows: Painter would convey to the bank certain real-estate holdings, leaseholds, and real-estate equities together with certain unlisted and unknown stocks of doubtful worth, all to be held by the bank in trust as collateral security for future borrowings Subsequently, Painter would execute his demand note, or notes, for sums averaging about \$300,000 each These notes would not immediately be recorded on the bank records for their face amounts and like credits passed to Painter's account, but instead would be withheld by Baldwin or Carlson and used only at such times and in such amounts as would be necessary to avoid an overdraft in Painter's personal account

By this arrangement, each note was recorded as constituting a series of loan transactions rather than as one independent borrowing. Furthermore, such irregular procedure was decidedly beneficial to Painter, in view of the fact that at no time was he required to pay interest on any unused portion of his loans He also enjoyed a preferential interest rate on his loans, being charged a lesser rate of interest than other borrowers were required to pay

(Report re: Painter Loan)

The loans to Painter began in July of 1930 and continued until October 1931. All of the funds were used to purchase the stock of the Union Trust Co in an effort to maintain the market. Baldwin handled all of the transactions for Painter—arranging the loans and purchasing the stock. Whether Baldwin was acting for himself as well as Painter we do not know

However, the advances to Painter ceased rather abruptly in October 1931. Obviously, Baldwin had no intentions of extending further credit to Painter, as is evidenced by a \$300,000 note of Painter's dated August 31, 1931, having an unused balance of \$235,000. Upon the note there is an unsigned notation: "No more advances."

(Report re: Painter Loan)

We do not know who insisted upon there being "no more advances" to Painter, but whoever it was, he, at the time, had more authority than the bank president. However, Baldwin and Painter were not to be prevented from obtaining more money. Although the loans to Painter at the Union Trust Co. were undercollateralized, Baldwin released collateral of \$315,000 and arranged a loan in the name of Painter at the Chemical Bank & Trust Co. of New York.

(Report re: Loans to Mather)

Loan to William G. Mather.—Among the largest of loans to directors were those made to William G. Mather. On June 15, 1932, Mather owed six different banks a total of \$2,500,000. He is indebted to the Union Trust Co. for a direct loan of \$857,523.99. In addition, the trust company has loaned Otis & Co \$725,000 because of Mather's being a director of the trust company and prominent in the Otis & Co. group of companies.

(Report re: J. P. Harris Loan)

J. P. Harris Loan.—There seems to be little doubt that J. R. Nutt was directly responsible for a loss of over \$165,000 being suffered by the Union Trust Co. because of loans made by the bank to J. P. Harris, formerly a vice president.

Mr. Harris had been operating a rather active brokerage account at a local broker's office. Evidence in our possession seems to indicate that this brokerage account was probably a joint account belonging to Messrs. Nutt and Harris and that it was being managed by the latter. At any rate, the account was collateralized by certain stock which belonged to Mr. Nutt. The brokerage firm finally insisted an additional collateral, and upon the instance and approval of Mr. Nutt a loan was arranged at the Union Trust Co. in the name of J. P. Harris. Mr. Nutt loaned additional stock to Mr. Harris and then approved this loan from the bank in the amount of \$263,000, the proceeds of which were used to pay off the brokerage account.

No payments were made on the loan, and on January 3, 1934, the liquidator of the Union Trust Co. sold the collateral at public auction, the bank suffering a loss of \$165,056.61.

Subsequently, the superintendent of banks has filed an action against Mr. Nutt to recover the amount of this loss, Mr. Harris having gone into voluntary bankruptcy.

LOANS TO OFFICERS AND DIRECTORS OF OTHER BANKS

(Report re Loans to officers and directors of other banks)

The Union Trust Co loaned a great deal of money to officers and directors of other Cleveland banks. Many of these loans should never have been made and obviously were made mostly as a matter of business policy.

There is one loan of \$68,000 to J. Arthur House, president of the Guardian Trust Co. Mr. House was indebted to practically every bank in Cleveland, including his own bank, and is now "broke" and cannot make any payments on his loans. The Union Trust Co. also loaned \$18,000 to Mr. Monks, senior vice president of the Guardian Trust Co., the collection of even a part of which is doubtful.

However, the Guardian was not the only bank represented. F. H. Hobson, vice president of the Cleveland Trust Co., still owes the Union Trust Co. \$55,000. Two directors of the Cleveland Trust Co., Belden Seymour and M. J. Mandelbaum, owe \$38,000 and \$110,000 respectively.

UNITED MILK PRODUCTS CORPORATION

(Report re United Milk Products Corporation)

In 1925, Mr. Nutt was given the opportunity of purchasing at \$100 per share 25,000 shares of the preferred stock of a newly formed milk company—United Milk Products Corporation. Mr. Nutt, not desiring to take up all this stock himself, allotted portions of his option to his friends, to outside customers of the bank, and to the individual trust estates of the bank. He personally approved and arranged loans from the bank at 100 percent of the value of the collateral in order to bring about these purchases.

Trading accounts were maintained in the name of C. W. Carlson for almost 2 years after the original issue.

Subsequently, Mr. Nutt, and probably most of his friends did the same, disposed of the greater part of his holdings. No warning was given to the small investor, and he was "left" holding the stock, with the market on the stock having dropped very badly. The Union Trust Co. still has several loans unpaid with the principal collateral being the stock of United Milk Products.

(Report re United Milk Products Corporation)

The charge has been made repeatedly that Mr. Nutt and his associates organized this company for their own personal gain.

CORRIGAN-MCKINNEY STEEL CO.

(Report re Corrigan-McKinney Steel Co.)

In May 1925, J. R. Nutt was instrumental in the formation of a corporation known as the McKinney Steel Holding Co., which purchased control of the McKinney Steel Co. For the purchase by the

McKinney Steel Holding Co of a certain block of McKinney Steel Co stock, Mr Nutt received a commission of \$130,000, which, although turned over to the bank by Mr Nutt 7 months after he had received it, has been a transaction causing very much dispute and discussion

(Report re Corrigan-McKinney Steel Co)

Mr. E. S Burke, owner of 13¼ percent of the stock of the McKinney Steel Co, approached Mr. Nutt and offered the latter a 2 percent commission if Mr. Nutt would arrange the sale of Mr. Burke's block of stock. E. S. Burke, in his agreement with Mr. Nutt, insisted that the commission was to be paid to Nutt personally.

(Report re Corrigan-McKinney Steel Co)

In accordance with the plan worked out for the sale, the McKinney Steel Holding Co. was formed and issued its \$7,250,000 par value preferred stock for the 13¼ percent stock interest of McKinney Steel Co., then owned by Burke. Burke then entered into an agreement with the Union Trust Co. to sell to the bank the entire issue of McKinney Steel Holding Co. preferred stock at \$6,500,000. From this \$6,500,000, Burke paid the \$130,000 to Mr. Nutt, and evidently it was from the participation of the Union Trust Co. instead of Nutt in the transaction that the other directors felt the commission belonged to the bank and not to Nutt personally. This preferred stock, which was purchased at 89 655 percent a share, was finally sold by the bank to the public at \$100 per share

(Report re Corrigan-McKinney Steel Co)

We have heard rumors expressed around the bank that Mr. Nutt considered this \$130,000 as a personal transaction and that it did not belong to the bank—an opinion that was not shared by the other senior officers and directors. According to these rumors, Mr. Nutt refused to turn the \$130,000 over to the bank, but on the other hand was afraid to take it himself, with the result that he held the check for 7 months before he turned it over to the bank. Mr. Nutt claims this is all untrue and that he always considered that he was acting as president of the Union Trust Co. in this transaction and that he did not "hold" the check at all, but turned it over to the bank immediately. Further, Mr. Nutt states that it was a personal check of Mr Burke's that he had and turned over to the bank. Actually, Mr. Burke purchased Union Trust Co. official check no. A-83106 in the amount of \$130,000, payable to the order of J. R. Nutt, and that check was dated May 16, 1925, but not credited to income on the bank's books until December 24, 1925.

(Report re: Corrigan-McKinney Steel Co)

We have carefully reviewed the files and records of the Union Trust Co. and can find no reference whatever showing that this check was turned over to the bank prior to December 1925. Messrs Nutt and Baldwin have both written letters to the liquidator attempting to explain this 7-months' delay. The open attitude expressed in these letters might be disarming if it were not for the facts as we have presented them in our detailed report. To a man such as J. R. Nutt,

accustomed to making important decisions frequently and quickly, it does not appear reasonable or creditable that it would take 7 months for him to decide whether he should keep the commission or turn it over to the bank. It does appear, however, that J. R. Nutt would like to create the impression of a magnanimous gesture, whereas the elapsed time would indicate the contrary and after much indecision

(Report re. Corrigan-McKinney Steel Co.)

In 1930, the Union Trust Co., in participation with several other banks, arranged a loan of \$25,000,000 to the Cleveland Cliffs Iron Co. in order that the Iron Co. might purchase the McKinney Steel Co. stock. No payments have ever been made on these Cleveland Cliffs Iron Co. loans. The Union Trust participation was \$3,387,500.

In renewal of the loans to Cleveland Cliffs Iron Co., the Union Trust Co. charged certain commissions for the renewals. As a result of these commissions, usury was paid by the Iron Co. Subsequently, in December 1933, the Iron Co. forced the Trust Co. to pay back the \$145,000 of usury. An officer of the bank testified in court that it was known when the commissions were being charged that it was usurious.

UNION CLEVELAND CORPORATION

(Report re. Union Cleveland Corporation)

The Union Cleveland Corporation, as the security affiliate of the bank, engaged in many stock and bond issue underwritings. Very little of this participation was as the sole underwriter, and in practically all cases the corporation was a participant in "Banking groups" formed by one of the large New York financial houses. In order to carry on its operations the affiliate consistently borrowed from the Trust Co. In October 1933, the corporation had a deficit of almost two million dollars and was indebted to the bank in the amount of an additional five million.

The details of this corporation's affairs are outlined fully in a report titled "Union Cleveland Corporation"

The corporation did not actively trade through any pool participation in the stock of the bank.

Union Cleveland Corporation tax evasion.—The General Code of Ohio levied, in 1930 and 1931, a personal-property tax upon the assets of corporations such as the Union Cleveland Corporation. Taxable under this code were such assets as cash, accounts receivable, investments (stocks and bonds), etc. However, the securities representing Ohio corporations were exempt from this taxation.

The Union Cleveland Corporation was, because of the nature of its business, in possession of large investments in the stock of out-of-State corporations and, therefore, would be subject to a substantial tax. The Union Trust Co. as a bank was not subject to this tax, principally, we assume, because by law the Trust Co. was prevented from owning the stocks

In order to avoid this taxation the Union Cleveland Corporation would, on December 30, sell the taxable securities to the Union Trust Co. for cash. As the cash itself was taxable, the corporation would then pay the amount of the cash it had received to the Trust Co. in reduction of its ever-existent loans. This transaction allowed

the Trust Co. to show on its published statement an increase in "Investments" and a decrease in "Advances to subsidiaries", and allowed the Union Cleveland Corporation to avoid a large payment of tax.

The following is a comparison of the tax the corporation paid to the amount it should have paid, in the years 1930 and 1931:

Year	Amount actual tax liability	Amount of tax paid
1930.....	\$54,244 94	\$27 09
1931.....	76,786 82	

WALTER H SEYMOUR,
Senior Examiner

Mr. SAPERSTEIN. I now hand you a report entitled "The Union Trust Company—Corporate History", and ask you whether that is a report made by the investigators and accountants of the staff, under your direct supervision.

Mr. MEEHAN. It is.

Mr. SAPERSTEIN. Mr. Chairman, I offer the report in evidence, together with the exhibits now at the Government Printing Office, which support the report.

The CHAIRMAN. The report and exhibits will be received in evidence and appropriately marked.

(The report entitled "The Union Trust Company—Corporate History", together with exhibits to support same but which are now at the Government Printing Office, are received in evidence and marked "Committee Exhibit No. 2, May 4, 1934," and are as follows:)

COMMITTEE EXHIBIT No. 2, MAY 4, 1934

CORPORATE HISTORY

COMPANIES INVOLVED

1. The Union Trust Co., Cleveland, Ohio.

AFFILIATED COMPANY

2. Union-Cleveland Corporation, Cleveland, Ohio.

SUBSIDIARY COMPANIES, 100 PERCENT OWNED

3. Union Lennox Co., Cleveland, Ohio.
4. P. A. Frye Co., Cleveland, Ohio.
5. Akers-Folkman Co., Cleveland, Ohio.

SUBSIDIARY COMPANY OWNED THROUGH CONTROL (62 PERCENT)

6. Cleveland & Boston Co., Cleveland, Ohio.

THE UNION TRUST CO.

(U-82)

Reference is made to exhibit entitled "The Union Trust Family Tree" showing the development and growth of the two constituent companies

(U-83, minutes of stockholders' meeting, pp 1, 2)

The Union Trust Co was organized December 31, 1920, by consolidation of the First Trust & Savings Co. and the Citizens Savings & Trust Co. (both Ohio companies). The capital stock of the Union Trust Co. was the combined capital of the two institutions, namely, \$13,333,333 33 divided into 133,333 $\frac{1}{2}$ shares of \$100 each

(U-84, minutes of stockholders' meeting, pp 20, 21)

On January 17, 1921, the Woodland Avenue Savings & Trust Co. and the Broadway Savings & Trust Co were consolidated in the name of the Union Trust Co. with an authorized capital stock of not less than \$14,833,333 33 divided into 148,333 $\frac{1}{2}$ shares of par value of \$100 each

(Minutes of meeting of board of directors, pp 32, 33, 34)

On March 11, 1921, the authorized capital stock was increased from \$14,833,333.33 to \$22,250,000 and to stockholders of record March 14, 1921, a 50 percent stock dividend of 74,166 $\frac{1}{2}$ shares (\$7,416,666 67) was declared and distributed. There was concurrently an entry made transferring from surplus account to capital account the par value of shares so distributed.

On December 31, 1921, \$375,000 was transferred from undivided profits account to surplus account making the surplus \$11,125,000.

(U-85)

On April 17, 1926, the consolidation of the State Banking & Trust Co. was effected and accordingly the capital stock of the Union Trust Co. was increased by \$600,000 to \$22,850,000 and surplus increased by \$625,000 to \$11,750,000, and on January 8, 1927, the surplus was increased by \$400,000 to \$12,150,000 making a combined figure of capital and surplus of \$35,000,000, which figure remained until the bank closed

(U-86)

On August 3, 1929, the stockholders of the Union Trust Co. approved a "plan and agreement" which had been submitted to them by the directors to form a security affiliate and to reduce the par value of the bank stock.

(Minutes, stockholders' meeting, pp 786-790)

The par value of the Union Trust Co. stock was reduced from \$100 to \$25 per share. As a result of this reduction in par value, 914,000 new shares were exchanged for 228,500 shares then outstanding. The split-up of bank shares, the plan stated, was made to increase the number of stockholders.

(Minutes of a meeting of the board of directors, p. 764, U-86)

Bank shares are today being recognized for their investment character and possibilities, and the smaller units which we now propose to create should enable many of our friends and customers, who may not now be stockholders, to become such.

The security affiliate, the formation of which was approved by the stockholders, was Union Cleveland Corporation. It was formed to deal—

(U-86)

To a large extent in stocks which the bank is unable lawfully to handle

At the time of the closing of the bank in February 1933 there were approximately 4,250 stockholders

UNION CLEVELAND CORPORATION

(U-88)

The Union Cleveland Corporation was organized on July 24, 1929, as a security and investment company to be owned by the stockholders of the Union Trust Co

(U-89)

The Union Trust Co.'s stockholders are the owners of the Union Cleveland Corporation, as investment company affiliate. By individual subscription, the bank's stockholders supplied the capitalization of \$2,285,000 for the company in direct proportion to their stockholdings in the bank. Each bank stockholder has Union Cleveland Corporation stock to the amount of one tenth of his bank stock, ownership being evidenced by endorsement on his bank stock certificate.

(U-87A)

Thus, ownership of the investment company was identical with that of the bank; its executive control was vested in the bank's directorate, and its affairs were, in effect, part and parcel of the bank itself.

This corporation was organized "for the organization and operation of a securities and investment company", and took over the major portion of the business of the bank's bond department

The plan and agreement which was approved by the stockholders at their meeting on August 3, 1929, vested the voting control of the Union Cleveland Corporation in five "voting trustees," all of whom were directors of the bank and some of whom were officers of the bank. By the terms of this agreement these voting trustees were given the right to name the officers and the management, and direct the operations of the corporation, and in case of the resignation of any trustee to even elect his successor. As provided in the agreement:

(U-87C)

The trustees and/or such other persons as they may designate shall constitute the first board of directors of the Securities Co. This board will name the officers and management and will direct the operations of the Securities Co. The charter regulations and bylaws of said corporation will be as determined by the trustees.

THE TRUSTEES

Messrs H G. Dalton, G. W. Grandin, Warren S. Hayden, Wm. G. Mather and J. R. Nutt have been suggested by the officers, approved by the board of directors of the bank, and have agreed to act, as trustees under this plan and the agreement herein referred to. There shall be five trustees Any trustee may resign at any time and in case of any vacancy in the number of trustees it shall be filled with the trustees remaining No person shall be named a trustee who shall not be an officer or director of the bank and any trustee who shall cease to be a director or officer of the bank shall also cease to be a trustee hereunder. The trustees shall be under no liability whatever for their acts or the acts of others. The trustees in all cases may act by a majority of their number either at a meeting or by writing with or without a meeting

THE UNION LENNOX CO.

(U-90, U-90C)

The Union Lennox Co. was incorporated May 9, 1922, in the State of Ohio, with 1,000 shares of no par value. On May 11, 1922, a stated value of \$200 per share was declared. The Union Trust Co. accepted 995 shares of stock for warranty deed and transfer to Union Lennox Co ownership in fee and leasehold to certain properties on which it was proposed to build the present bank building, and also a stock of structural steel and supplies to be used in its proposed building constructions.

(Minutes of stockholders' meeting, Jan 8, 1925)

On January 1, 1925, the capital stock of Union Lennox Co. was reduced from \$200,000 to \$100,000 No reason for such a change has been determined.

P. A. FRYE CO.

(U-91, U-92)

The P A. Frye Co was incorporated May 23, 1930, for the purpose of buying and holding, leasing and dealing generally in real estate, land contracts, leaseholds, etc. Its real function, however, was to manage, operate, and/or dispose of foreclosed properties turned over to it by the Union Trust Co.

The authorized capitalization was 50 shares of no par value and the Union Trust Co. subscribed to all of the stock for \$5,000 or \$100 per share.

THE AKERS-FOLKMAN CO.

This company was incorporated June 8, 1919, with an authorized capital stock of \$10,000. The amount subscribed was \$1,000, all subscribed by the Union Trust Co or its nominees. The actual amount paid in was \$100.

This company was wholly owned by the Union Trust Co. and dealt in the purchase and sale of steamship tickets and transportations, the reason for its formation being to assume this class of service and remove the bank from a direct participation in a nonbanking enterprise.

(U-93)

The capital stock of this company was sold on October 30, 1933, to Mr. Joseph Folkman for \$75. The minute books are in the

hands of Mr. Folkman and they are not deemed of sufficient importance to review in connection with the corporate history.

THE CLEVELAND-BOSTON CO.

(U-94, U-95)

This company was organized in Ohio on October 9, 1928, to be the holding company for the assets taken in foreclosure from the Cleveland Akron Bag Co. It was capitalized at 500 shares of no par value, the value of which was declared to be \$100 per share. The Union Trust Co.'s proportionate share represents 53 eighty-fifths of the balance of \$740,183.88 remaining unliquidated as of December 31, 1931. The other 32 eighty-fifths is owned by the following:

The Central United National Bank, Cleveland, Ohio, 15 eighty-fifths; the Bank of Manhattan Trust Co., New York, N.Y., 17 eighty-fifths.

The Union Trust Co. was trustee, along with Isaac H. Orr on \$2,000,000 first mortgage, 15-year 8-percent sinking fund gold bond issue of the Cleveland Akron Bag Co. and subsidiaries, dated April 1, 1921, which was eventually foreclosed, and the Cleveland-Boston Co. represents the assets taken at the foreclosure.

WALTER H. SEYMOUR,
Senior Examiner.

This report based upon preliminary report and complete investigation by Committee Examiner Frank H. Ensign.

Mr. SAPERSTEIN. Next, Mr. Meehan, I hand you a report entitled "The Union Trust Company and Affiliated Companies—Nature of Business and Financial History", and ask you if that report was made by members of the staff of the committee under your immediate direction.

Mr. MEEHAN. It was.

Mr. SAPERSTEIN. Mr. Chairman, I offer in evidence the report, as well as the exhibits supporting the report, which exhibits are now in the Government Printing Office.

The CHAIRMAN. The report and exhibits will be received and appropriately marked by the committee reporter.

(The report entitled "The Union Trust Company and Affiliated Companies—Nature of Business and Financial History", together with exhibits now at the Government Printing Office, were received in evidence and marked "Committee Exhibit No. 3, May 4, 1934," and are as follows:)

COMMITTEE EXHIBIT No. 3, MAY 4, 1934

NATURE OF BUSINESS AND FINANCIAL HISTORY

THE UNION TRUST CO.

(U-82)

The banking institution known as the Union Trust Co. was the result of a series of 30 separate consolidations and mergers. The original bank (Bank of Commerce) was organized in 1853. The

principal business of the Union Trust Co. was conducted at the main bank institution.

At the time the bank was closed there were 22 branches operating in the city of Cleveland and suburban districts. The company was to operate a general banking business within the limitations prescribed in its charter and has been under the supervision of division of banks, State of Ohio. The wide latitude covered in the business career of the Union Trust Co. will be noted from the business activities of the various affiliated and subsidiary companies. After the formation of these various companies and the withdrawal of that particular line of activity from the bank's regular business it finally evolved itself into the situation where its business consisted principally of general commercial banking and the management of trust estates and the necessary operations attached to foreclosure of real estate properties.

The bank's activities have been very intricate and involved, and the various phases which ultimately brought about the closing of the bank and its liquidation will be discussed under separate subjects.

The business affairs of the Union Trust Co. were directed by a board of directors consisting of 60 prominent business men in the city of Cleveland. The affairs of the bank, however, were practically dominated by a small group of men

There are several officers and directors who have served the bank since its organization in 1920 and who have been actively interested in its management. In the course of our examination the following names recur many times, and in connection with many phases of the bank's operation W. M. Baldwin, George A. Coulton, Frank H. Ginn, Joseph R. Kraus, J. R. Nutt.

With the exception of J. R. Nutt, who resigned in May 1932 (May 24 to be exact), these men have been active in the bank from 1920 until the time of its closing. During this entire period they have held the most important positions and it is believed that they practically governed the management of the Union Trust Co.

(U-98)

It will also be noted later, covering the operation of the Union Cleveland Corporation, that these men were active in its affairs from its organization up to the time of the closing of the bank.

The main bank building is a very imposing institution and is a part of a building 20 stories in height. The banking space used by the Union Trust Co. occupied the first three floors and the actual banking floor is reputed to be the largest of any bank in the world.

The financial transactions, except as to certain subjects, have not been traced prior to 1929.

(Minutes of stockholders' meeting, pp 20, 21)

The capital stock and surplus of the Union Trust Co. at the time of its organization in 1920 consisted of capital stock in the amount of \$13,333,333.33, and its surplus \$10,750,000.00. Total, \$24,083,333.33. The capital between 1920 and December 31, 1932, has been increased through the purchase of the various banks taken into the organization and by a contribution from undivided profits to surplus account and by a stock dividend to \$35,000,000.

(U-96)

A stock dividend of \$7,416,666.67 was declared in 1921, which amount was appropriated from surplus and undivided profits at the time of the declaration. This left remaining in undivided profits at this time \$129,736.60.

(U-96-A)

The profits from operation before any write-off for depreciation in value of securities for the period from 1921 to 1932 inclusive have amounted to \$49,342,949.17

(U-97)

Cash dividends of this same period have amounted to \$27,904,750. It should be noted that the total amount of cash dividends exceeds the total amount of cash invested by a very substantial amount. Dividends from 1921 to 1927 were paid at the rate of 10 percent. The rate in 1927 was changed to 12 percent and continued until 1932 when it was reduced to 8 percent. An analysis of undivided profits from January 1, 1928, to December 31, 1932, shows that while the earnings were substantial in these 5 years, the undivided-profits account has been decreased, in the amount of \$606,160.07, through payment of dividends and amounts appropriated for a reserve for losses.

The Union Trust Co was closed by the superintendent of banks of the State of Ohio on February 28, 1933. Shortly after, from the cash reserves on hand, a 5 percent dividend was paid to depositors. Subsequent thereto, from proceeds received from the Reconstruction Finance Corporation, a further dividend of 35 percent of the balance of the account was paid, making a total dividend to depositors since the closing of the bank of 40 percent.

From February 28 to June 15, 1933, the bank was operated under a conservator appointed by the superintendent of banks. It being apparent that the bank could not reopen and that the only solution was a liquidation of its assets, a liquidator was appointed by the superintendent of the banks on June 15, 1933, and has been in charge of its affairs since that date.

All pertinent matters pertaining to the closing of the bank and the eventual appointing of a liquidator are discussed under separate headings.

UNION CLEVELAND CORPORATION

(U-88)

Union Cleveland Corporation was organized July 24, 1929, under the laws of the State of Ohio with an authorized capital consisting of 228,500 shares having no par value. The purpose of its incorporation was simply to carry on the business of dealing in securities which the Union Trust Co could not legally do.

(U-88, U-100, U-101)

The 228,500 shares of its capital stock were given a stated value of \$10 per share and were set up on the books of the corporation as:

Capital.....	\$2,000,000
Paid in surplus.....	285,000

On August 20, 1929, the Union Trust Co. sold to the Union Cleveland Corporation stocks and bonds in the amount of \$407,202.51. Among other investments made by the corporation were purchases of 6,072 shares of the Union Trust Co. stock from April 11, 1930, to June 13, 1930, ostensibly to maintain a market in the Union Trust Co. stock. For this and other financing the Union Trust Co. loaned large sums of money, which illustrates how, under the guise of an affiliate, the bank maintained and supported the market with its own stock and with its own money. This matter will be discussed under a separate subject.

(U-102)

Another of the activities of this corporation was the acquiring of the stock of the Chagrin Falls Banking Co. The purchases of this stock began in September 1929 and extended through November 1929; all at \$650 a share. It will be noted that this period of time extends beyond the stock market decline of October 1929 with the price of \$650 still being maintained. This is true in spite of the fact the apparent book value of the stock in September 1929 (the 23d) was \$365.92. This subject, too, will be covered fully in a separate report.

The operations of the Union Cleveland Corporation from its incorporation in August 1929 to December 31, 1932, showed the following results

Year		
1929 (8-20 to 12-31), loss	-----	\$50, 290. 65
1930, profit	-----	311, 687. 80
1931, loss	-----	23, 577. 75
1932, loss	-----	165, 784. 99
Total profit for period	-----	69, 034. 41

(U-99)

In 1931 securities were written down to a market value at December 29 in the amount of \$1,517,748.14. Further adjustments in 1932 followed, and the corporation showed a deficit at December 31, 1932, of \$1,960,999.14. There was owing to the Union Trust Co. on December 31, 1932:

Secured	-----	\$2, 214, 008. 79
Unsecured	-----	993, 426. 64

Represented in the above figures is the investment in the Chagrin Falls Banking Co. of \$757,423.98, which is regarded by the bank examiner as being a total loss.

The Union Cleveland Corporation rented space from the Union Trust Co. in the same building, and, to all appearances, operated as if it were part of the bank. Rental was paid for space until 1932 and apparently this charge has been waived since that time.

The corporation has handled for the bank many security dealings, refinancing companies which were debtors of the bank, and has absorbed from time to time some of the investments of the bank.

Various activities of the Union Cleveland Corporation will be discussed as separate subjects.

Attention is called to the following extract of the articles of incorporation of the Union Cleveland Corporation.

(U-88)

No contract or other transaction between the corporation and any other corporation and no act of the corporation shall in any way be affected or invalidated by the fact that any of the directors of the corporation are pecuniarily or otherwise interested in, or are directors or officers of, such other corporation; any director individually or any firm of which any director may be a member, may be a party to, or may be pecuniarily or otherwise interested in, any contract or transaction of the corporation, provided that the fact that he or such firm is so interested shall be disclosed or shall have been known to the board of directors or a majority thereof; and any director of the corporation who is also a director or officer of any such other corporation or who is so interested may be counted in determining the existence of a quorum at any meeting of the board of directors of the corporation which shall authorize any such contract or transaction and may vote thereat to authorize any such contract or transaction with like force and effect as if he were not such director or officer of such other corporation or not so interested.

THE UNION LENNOX CO

(U-103)

At the time of the incorporation of this company the Union Trust Co. accepted 995 shares of stock for warranty deed and transfer to Union Lennox Co., ownership in fee and leasehold to certain properties on which it was proposed to build the present bank building, and also a stock of structural steel and supplies to be used in the proposed building constructions.

(Minutes, meeting of stockholders, p 36 to 40, inclusive)

On January 8, 1922, there was authorized a loan of \$6,500,000 from the Northwestern Mutual Life Insurance Co. of Milwaukee, Wis., to be secured by first mortgage on building equipment, the loan to be for 20 years at 5½ percent per annum, payable semiannually. It was also agreed to give the insurance company the assignment of the lease to the Union Trust Co for the building as additional security. This lease is dated January 31, 1923, and is between the Union Lennox Co., lessor, and the Union Trust Co., lessee.

(U-104)

The records of the Union Lennox Co. show that \$6,300,000 was the actual amount of money received from the mortgage and that the first repayment on the principal was made January 30, 1925 in the amount of \$300,000. Thereafter, a similar amount was paid every year until at December 31, 1932 there remained a balance due on this loan of \$3,900,000.

The books of the Union Lennox Co. were opened on May 10, 1922, by an entry setting up capital stock \$1,000. On July 10, 1922, there is an entry setting up on the books cost of real estate, leaseholds, and contracts taken over from the Union Trust Co. in the amount of \$4,942,070 59 and the credit is capital stock issued for the same amount

From July 10, 1922, to June 28, 1923, the capital stock account shows additions as the result of advances and payments made by the Union Trust Co. The total amount appearing in the capital stock account on June 28 was \$9,560,000. On June 29, 1923, there appears a journal entry transferring \$4,616,929.41 from the capital stock account to an account called "Accounts payable of the Union Trust

Co ” The explanation for this entry is as follows: “To convert to accounts payable as per resolution of board of directors on account advances by the Union Trust Co have been credited to capital stock in error ”

(U-105, U-106)

On January 1, 1925, there appears another transfer from the capital stock account in the amount of \$4,843,070 59 to the account called “Accounts payable of the Union Trust Co ” explained as follows: “To reduce capital stock by converting to accounts payable ” After these two journal entries the balance remaining in the “Capital stock issued” is \$100,000 Thereafter the account called “Accounts payable to the Union Trust Co ” reflects all further advances made by the Union Trust Co and is reduced regularly by the amount of depreciation charged against the building Payments on account of reduction of the mortgage liability to the Northwestern Mutual Life Insurance Co , namely, \$300,000 each year, are also credited in a similar manner as other advances to the account “Accounts payable to the Union Trust Co ” and do not appear as credits to the account “Rent income ”

Until December 31, 1925, the records of the Union Lennox Co. reflect income and expense operations; in other words, there is an account called “Interest on mortgage” and the charges to this account are offset by similar credits to rent income. After December 31, 1925, no detailed accounts appear on the books of this company reflecting expenses and income of the Union Lennox Co

The operations of the Union Lennox Co after December 31, 1925, were all absorbed by the Union Trust Co and reflected directly in their statements without any entries in the books of the Union Lennox Co. At no time does there appear on the accounts of this company the item of rent income in the amount of \$300,000, being the payments on account of principal, which should be credited as rent in accordance with the terms of the lease.

On the books of the Union Trust Co there is carried an account called “Union Lennox Co ” which corresponds in detail to the account on the Union Lennox Co books called “Accounts payable to the Union Trust Co.”, except for the item of \$100,000 capital stock which is also included in the account “Union Lennox Co ”; in other words, on December 31, 1931, the “Accounts payable to the Union Trust Co ” on the Union Lennox books reflected a credit in the amount of \$10,583,357.53 and the account “Capital stock issued” reflected a credit of \$100,000, and on the same date the corresponding account called “Union Lennox Co.” on the books of the Union Trust Co. reflected a debit balance in the amount of \$10,683,357.53.

(U-107)

On December 31, 1932, on the Union Lennox Co. books the account called “Accounts payable Union Trust Co.” reflected a credit balance of \$10,611,255.85 and the capital stock issued a credit of \$100,000 and on the same date the Union Trust Co. books reflected in the account called “Union Lennox Co.” a debit balance of \$10,711,255.85.

On December 31, 1932, the records of the Union Lennox Co. disclose the following analysis of the building account:

Cost of land Euclid-E 9th property.....	\$3, 493, 501. 49
Cost of leaseholds.....	21, 127. 42
Cost of construction.....	13, 180, 086 62
Architect fees.....	425, 000 00
<hr/>	
Total cost of the buildings and land in the amount of.....	17, 119, 715. 53
Deducting therefrom the reserve for depreciation to Dec. 31, 1932, in the amount of.....	2, 508, 459. 68
<hr/>	
There remains a net book figure of land and building (real estate) in the amount of.....	14, 611, 255. 85

(U-107)

As of this date the balance due on the mortgage payable was \$3,900,000, so that the total equity of the Union Lennox Co. in its real estate as of December 31, 1932, was \$10,711,255.85.

(U-107)

The Union Trust Co, on December 31, 1932, in its published statement carries the item "Bank buildings and real estate owned" \$19,828,783 61 and on December 31, 1931, \$18,588,116 32. As part of these totals the Union Trust Building is carried on December 31, 1931, as \$10,683,357.53 and on December 31, 1932, as \$10,711,255 85.

This method of reflecting the Union Trust Co's advances to the Union Lennox Co is misleading, inasmuch as it is carried as bank buildings and real estate owned, whereas, in fact the Union Trust Co. did not and does not own the main bank building and only has an account due it for advances in the amount of \$10,611,255 85 on December 31, 1932, and the amount of \$10,583,357 53 on December 31, 1931, and it further owns capital stock in the amount of \$100,000 which rightfully belongs in its account "Securities and investments "

In absorbing the properties of the Union Lennox Co. (a 100-percent owned company) the Union Trust Co. in effect assumes the position of a consolidated company and its published statements being headed "Statement of condition as of December 31, 1931. The Union Trust Co, Cleveland, Ohio", is a misrepresentation, inasmuch as these statements are consolidated statements of the Union Trust Co., the Union Lennox Co., and the P. A. Frye Co.

Further, in setting up these advances to the Union Lennox Co. as "Bank buildings and real estate owned" the Union Trust Co. does not show the total cost of the real estate and the partial offsetting liability on account of the mortgage payable which is a very substantial amount. The amount of this mortgage at one time was \$6,300,000 and as of December 31, 1931, was \$4,200,000 and on December 31, 1932, \$3,900,000. This method of setting up the statement is subject to criticism insofar as a very substantial liability is concealed and the cost of the real estate misstated.

(U-108)

As further evidence that this company was a separate entity the records disclose that on January 2, 1924, the Union Lennox Co. borrowed \$50,000 from the commercial loan department of the bank on which a discount of \$148.89 was charged. This loan was repaid on February 11, 1924. The record of the loan and the interest appears in the general ledger of the Union Lennox Co.

The Union Trust Co. in its bank earnings included each year the earnings from the Union Lennox Co. Building, which was the main bank building. The net profits from the operations of the Union Trust Building as reflected on the annual statements which are part of the financial reports of the Union Trust Co., are as follows:

(U-109)

1926.....	\$219, 852 80	1930.....	\$601, 672. 14
1927.....	448, 468 94	1931.....	537, 275. 11
1928.....	543, 508. 60	1932.....	402, 996. 81
1929.....	584, 392 10		

It is very evident, therefore, that the net profit from the building was a very material item in the earnings of the bank for all the years listed. At no time does the \$300, 000 annual amortization of the principal of the mortgage appear as rent expense to the Union Trust Co. and nowhere on the records of the bank is there an account "Mortgage payable."

THE P. A. FRYE CO.

The Union Trust Co. owns all the capital stock of the P. A. Frye Co., which was formed to take over the bank's foreclosure real estate. No dividends have ever been paid. The company sustained losses in each year of operation, which losses have been absorbed by the bank so that the company's capital remains unimpaired.

The following extract of a letter dated July 26, 1930, sets forth clearly the intent and purpose of this company:

The undersigned desires to transfer to your company the legal title to certain parcels of real estate and from time to time hereafter plans to transfer to your company the legal title to additional parcels of real estate, all to be held by your company subject to the following understanding:

You are to hold said legal title for the account of and subject to the order of the undersigned. Unless and until specific direction shall be given your company as to the disposition of the title to the properties thus conveyed, your company is authorized to manage for the undersigned all of said properties, to effect such changes, alterations, or improvements in or upon said properties as in your judgment may be desirable with a view to the ultimate disposition thereof, to negotiate and consummate sale of said properties on such basis as in your judgment is desirable (subject always to the right of the undersigned to give your company binding instructions in connection therewith), and to make necessary conveyances in connection with such sale. Upon the consummation of any sale involving conveyance of title by you, to the extent that the proceeds shall be represented by net cash payments and obligations secured by mortgage, you are to account immediately to the undersigned for such proceeds, but to the extent that such proceeds shall be represented by other real estate you are to hold the title to said real estate in the same manner and subject to the same terms as are herein provided with reference to the title to the real estate transferred to you by the undersigned. In cases of sale under land contract you are to account monthly to the undersigned for the payments received on such contracts until such time as title shall be conveyed by you, at which time you are to account to the undersigned for the entire balance of the proceeds of such sale.

This arrangement is to be subject to termination or modification at any time at the pleasure of the undersigned.

(U-110)

The balance sheet of the company shows at December 31, 1931, "Real estate Union Trust Co." as an asset \$1,898,971.61 and shows as a liability Union Trust Co. in a similar amount. At December 31, 1932, it shows an asset "Real estate Union Trust Co." \$2,941,100.97 and shows as a liability Union Trust Co. in a similar amount.

The Union Trust Co. carries the same amounts upon their books; as "Real estate, buildings, leaseholds, etc."

The same criticism applies as that in the case of the Union Lennox Co., wherein the Union Trust Co., owning stock of a subsidiary company, shows upon its statement of condition as of December 31, 1931, the assets of this subsidiary company listed under bank buildings and real estate owned.

THE AKERS-FOLKMAN CO.

This company was owned 100 percent by the Union Trust Co. and operated a traveling service operated by the bank as an added service to its clients. It specialized in steamship tickets.

Formation of a subsidiary company to assume this service was to remove the bank from direct participation in a nonbanking enterprise.

Dividends were declared and paid to the Union Trust Co. in amounts totaling all the profits for each year, as follows:

(U-111)

Year	Amount	Year	Amount	Year	Amount
1923.....	\$1,000 00	1926.....	\$10,224 12	1929.....	\$4,184 14
1924.....	7,651 01	1927.....	12,000 00	1930.....	1,072 26
1925.....	9,520 60	1928.....	9,695 65		

In the year 1931 a loss of \$4,257.96 was sustained. In the year 1932 a profit of \$40.72 was shown so that there was at December 31, 1932, a deficit of \$4,217.24. There was also due the Union Trust Co. in the form of notes payable at this same date \$2,000.

THE CLEVELAND-BOSTON CO

There is no further comment in connection with this company other than that stated in the caption "corporate structure", and supplemented by a statement taken from the superintendent of banks report of January 20, 1933, which reads:

It is apparent that the liquidating value of the Cleveland-Boston Co is almost entirely a slow work-out proposition of undeterminable value at this time.

UNION CLEVELAND CO , INC.

(U-112)

This company is mentioned merely because of its similarity in name to the Union Cleveland Corporation

This company was organized in February 1920, and acted principally as a messenger service and an information office for the Union Trust Co. at 120 Broadway, New York City.

The company was formally dissolved on October 31, 1932, and is no longer in existence.

WALTER H. SEYMOUR,
Senior Examiner.

This report is based upon preliminary report and complete investigation by committee examiner Frank H. Ensign.

Mr. SAPERSTEIN. I now hand you a report entitled "The Union Trust Company—Financial Condition, 1929 to 1933", and ask you if that is a report made under your immediate supervision by the members of the investigating staff of the committee

Mr. MEEHAN. Yes.

Mr. SAPERSTEIN. Mr. Chairman, I now offer in evidence this report, together with the exhibits at the Government Printing Office which support same.

The CHAIRMAN. The report and exhibits will be received in evidence and appropriately marked.

(The report entitled "The Union Trust Company—Financial Condition, 1929 to 1933", together with the exhibits now at the Government Printing Office, were received in evidence and marked "Committee Exhibit No. 4, May 4, 1934", and are as follows:)

COMMITTEE EXHIBIT No. 4, MAY 4, 1934

FINANCIAL CONDITION 1929 TO 1933

(U-5-1, U-5-2, U-5-3, p 4)

A detailed analysis of the Ohio State bank examiner's reports rendered as of January 25, 1929, March 27, 1931, January 20, 1933 and the special directors' examination as of December 20, 1932, known as the "Lenihan report", discloses the fact that the seeds for the final closing of the bank in February 1933 were sown as far back as 1928.

Before reporting on the results of our analysis, however, we should like to point out one thing relative to the above-mentioned State examinations. Section 710-19 of the Ohio State bank laws requires that the superintendent of banks make an examination of each bank

(Ohio bank law, sec 710-19)

At least twice each year and as often as the superintendent of banks may deem necessary

except that in cities having a clearing house association only one examination each year is required

(Ohio bank law, sec 710-19)

* * * when the superintendent of banks deems a second examination unnecessary.

It will be noted from the above that the Union Trust Co. was examined approximately once every 2 years by the State banking department. The regulations of the Clearing House Association require that each bank be examined by the association at least once each year and the Federal Reserve Bank had the right to make an examination once each year. The Clearing House Association made its last examination of the Union Trust Co. in 1926. The Federal Reserve has never made an independent examination of the Union Trust Co.

While we believe that the officers and directors of the Union Trust Co. are responsible for their own acts and for allowing the bank to drift into its present condition, we do feel that the State banking

department is in a great measure responsible for the fact that examinations were not made often enough, and that when they were made, corrective measures were not taken to arrest the threatening doom of the Union Trust Co

We are not trying in any way to lay at the door of the State banking department the responsibility for the closing of the Union Trust Co. We believe that bankers have a great deal more knowledge about the banking business than State officials, and, therefore, know what is and what is not good banking practice; and we do not believe that because Government banking department officials have not called to the attention of bankers the latter's wrongful or imprudent acts the responsibility of the bankers is in any way relieved or removed. Neither do we subscribe to the belief that a banker has a right to perform some act simply because it is not legally wrong to do so, but is morally or ethically wrong. After all, the bankers have had the benefit of eminent and astute counsel before performing their acts to see that they were within the law. In other words, we feel that the Ohio State Banking Department has a great deal to answer for in the closing of the Union Trust Co., but that its responsibility is wholly apart from that of the bank's directors and officers.

UNION TRUST'S FAILURE

In summary, the reasons for the bank's extremely nonliquid condition, which resulted in its failure to reopen, were as follows:

1. Heavy investment in real estate owned.
2. Bad loan policy and inadequacy of reserve for losses.
 - a. Excessive concentration of loans to the Van Sweringen interests and Eaton interests.
 - b. Loans to officers, directors, and their affiliated corporations.
 - c. General loans.
 - d. Real estate loans.
3. Poor investment policy.
4. Bad dividend policy in the face of impaired capital.
5. Rapid decline in deposits
6. Exhaustion of ability to borrow.

(U-5-a, consisting of U-5-1, p. 3; U-5-2, p. 4; U-5-8, p. 2; U-5-3, p. 1)

For the purpose of convenient reference, there is submitted a comparative statement of condition as per State bank examiner's reports and directors' report (Lenihan report), which embody the statements of resources and liabilities appearing in each of the above-mentioned State bank examiner's reports and directors' examination.

(U-5-B)

It should also be noted that the Ohio State bank examination, dated as of January 20, 1933, was not completed by the examiner as the bank holiday was declared before its completion, and the bank was denied a license to reopen.

The reports of the State examiner consist of some 300 or 400 sheets and we have not taken photostatic copies. We have requested the bank officials to have these reports in Washington in case they be needed during the committee hearing and we shall refer to the reports

frequently in our report, exhibits U-5-1, U-5-2, and U-5-3 being the State bank examiner reports.

1. *Heavy investments in real estate owned.*—The item of real estate owned, as carried on the books of the bank and reflected in statements, represents the Union Trust Co. main bank building, which is a building of 20 floors, its other branch bank buildings, and other real estate owned.

The main bank building was built shortly after the consolidation of the banks forming the Union Trust Co. in 1922, when a separate corporation was formed, called the Union Lennox Co., wholly owned by the bank—title to the bank building being placed in the name of the Union Lennox Co. The Union Lennox Co. leased the bank building to the bank and also procured a mortgage loan of \$6,300,000 from the Northwestern Mutual Life Insurance Co. of Milwaukee.

The bank carries this real estate on its books and in its statements each year at the net amount of its advance to the Union Lennox Co., less annual depreciation. The mortgage liability, however, is not reflected on the books of the bank, the total cost of the building being thereby understated by the amount of the mortgage.

Confining ourselves in this report, however, to the valuations of real estate owned as reflected on the above mentioned four bank examinations, the following appears as a summary

(U-5-a)

	Banking prop- erties	Percent of capital and sur- plus	Percent of total deposits	Other real estate owned	Total real estate owned	Percent of capital and sur- plus	Percent of total deposits
Jan 25, 1929	\$13,008,872 03	37 2	4 5	\$4,581,517 27	\$17,590,389 30	50 3	6 1
Mar 27, 1931	13,600,994 17	38 8	4 6	5,976,445 04	19,577,439 21	55 9	6 6
Dec 20, 1932	13,622,088 00	39 0	7 8	6,464,045 48	20,086,064 48	57 4	11 5
Jan 20, 1933	13,614,480 66	38 9	8 2	6,569,343 89	20,183,824 55	57 7	12 1

From this analysis it will be seen that over 50 percent of the bank's capital and surplus was at all times invested in real estate, without taking into consideration the fact that the actual investment in real estate was considerably greater by reason of the mortgage liability not reflected on the books of the bank or on its statements. This obvious element of unhealthy condition prevailed from the very organization of the Union Trust Co. in 1922. Such large real-estate investments denote lack of conservative banking inasmuch as such investments are definitely nonliquid; and it is considered generally to be very poor banking policy to have such a large percentage of the capital and surplus, and the correspondingly large percentage of total deposits, tied up in assets of this nature.

It should be noted, however, that the bank was entirely within its legal rights in constructing its main office building in 1922, although it did come perilously close to the 60 percent limitation of its paid-in capital and surplus. Reference is here made to section 710-108 of the Ohio banking laws.

Sixty percent of its paid-in capital and surplus of \$35,000,000 would set a limitation of real estate owned for banking quarters in the amount of \$21,000,000.

The actual cost of the construction of the main office building at Euclid and East Ninth Street, according to the books of the Union Lennox Co., was as follows

Cost of land, Euclid and East 9th Street property.....	\$3, 493, 501 49
Cost of leaseholds.....	21, 127 42
Cost of construction.....	13, 180, 086 62
Architect fees.....	425, 000. 00

Total cost of the main office buildings and land in the amount of 17, 119, 715. 53

Against this cost the Union Lennox Co. placed a mortgage of \$6,300,000 as mentioned above

The bank, of course, on its own books and in its statements did not carry this building at the actual total cost of \$17,119,715.53, but carried it, as indicated before, at a figure representing the net advance made to the Union Lennox Co.

However, going behind the book figures to actual facts, we find that the bank had an investment of \$17,119,715.53 in its main office building at the time of its construction. That, together with its other banking properties at cost, made its actual investment in real estate owned for banking purposes, a sum not much short of its legal limitation of \$21,000,000.

(U-5-1)

It is interesting to note the comments of the State bank examiner in his report of January 23, 1929, regarding real estate:

Question 1. State whether banking house is owned or leased.

Answer. Owned

Question 3. Is deed in name of the bank?

Answer. Union Lennox Co

Question 6. Is property encumbered? If so, is bank liable on encumbrance?

Answer Yes. Mortgage to Northwestern Mutual Life Insurance Co. for \$5,100,000 at 5½ percent, amortization \$300,000 yearly.

(U-5-2, p. 100)

Similar questions and answers appear also in the report dated March 27, 1931, except that the answer to question 6 is "\$4,200,000 balance due on mortgage held by Northwestern Mutual Life Insurance Co., rate 5½ percent "

However, in 1929, the State bank examiner did point out that the real estate holdings were unwarrantedly high and in his confidential report to his department stated.

(U-5-4)

REAL ESTATE

Main office and branch buildings are apparently worth book value. This amount, however, should be watched very closely in the future or else it will soon reach a staggering figure. The main office will be necessarily increased \$300,000 each year as this amount is each year's amortization figure. This alone is a sufficient amount for the real estate to be increased. Regarding the other real estate, it is practically impossible to rate the actual amount of loss which will be suffered by this bank. On certain pieces of real estate, the examiner is positive that a loss will be suffered; but it is impossible to determine that amount. The law has been disregarded in certain instances regarding the outright purchase of various pieces of real estate. This was brought to their attention, and it is the opinion of the examiner that this practice will be discontinued in the future. Also, some parcels of real estate have been held longer than the allotted time; this was brought to their attention and a requirement was made. The condition

of the other real estate is probably the most unsatisfactory item in the bank at this time; they are taking their losses as they see fit, and are earnestly trying to place all real estate on the books at actual value

Although the bank owned considerable real estate in addition to the main bank building, it did not pursue a conservative policy of setting up provisions for physical depreciation for each year on its books, other than depreciation on the main building.

On its Federal income tax reports, however, the bank took the benefit of such depreciation on all its properties, regardless of the fact that they were not recorded on the bank's general books; 1929 was the only year in which depreciation was charged off, and that in the amount of \$250,000, indicated as depreciation "for prior years." The accumulated depreciation on the real estate owned which was not recorded on the books as of December 31, 1931, totaled \$569,877.54.

For the year 1932 an amount of \$178,064.32 was claimed in a deduction on the income-tax return, but not charged off on the books. As of December 31, 1932, the accumulated amount of depreciation reported on income-tax reports, and not recorded on their books, was \$747,941.86.

The net effect of this method of accounting is that the real estate owned assets were inflated by the amount of the depreciation not deducted, and the earning statements were also inflated by such amounts of depreciation applicable to each year not deducted.

Nowhere in the State bank examinations is there any criticism relative to this inaccuracy and misrepresentation in the accounts of the bank.

(Ohio bank laws, secs 710-122)

2 *Bad loan policy and inadequacy of reserve for losses*—(a) Excessive concentration of loans to the Van Sweringen and Eaton interests: As far back as early 1929, the State bank examiner's report shows that the bank loans to the Van Sweringen interests were in excess of the statutory limitation, which is 20 percent of the total capital and surplus (in the case of this bank this limitation being \$7,000,000).

(U-5-1, p 98)

In the State examiner's report dated January 25, 1929, the examiner found that total loans made to the Van Sweringen interests amounted to \$8,069,890.25, being excessive thereby in the amount of \$1,069,890.25.

(U-5-2, pp 45, 46)

On March 27, 1931, the loans to the Van Sweringen interests amounted to \$11,623,928.92, and to Cyrus S Eaton interests \$4,579,862. Nevertheless, in the confidential report of the examination the bank examiner, Mr Thomas McEldowny, states as follows.

(U-5-5)

COLLATERAL LOANS

This department with its tremendous activity is well managed. Regardless of the downward swing in the stock market, this department has admirably met the situation. Short loans have been kept to a minimum amount. The collateral loan department is not subject to any criticism at the present time.

Further under confidential comments headed "General" he states:

(U-5-5)

Management appears to be of the highest grade. The Van Sweringen concentration of credit and the real-estate situation appear to be the only items of worry at this time. However, no definite stand can be taken on these items at the present. The officers are well aware of this situation and are keeping in constant touch with it. The general condition of this bank with the above two exceptions is satisfactory. The examiner's requirement will not be taken care of immediately, but will be complied with as soon as possible.

Nevertheless, in spite of these comments, indicating apparent dangers, the following appears in the body of the report of the bank examiner

(U-5-2, p 6)

Question 10 and answer are as follows

Q What elements of danger or weakness are in the bank?

A None—apparent.

(U-5-6, p 7)

Also reference is made in a special report of the examining committee of directors, dated November 14, 1930, to the subject of excessive loans, indicating excessive loans to the Van Sweringen interests in the amount of \$2,249,455 03. Total amount of these loans was as follows.

Collateral loans to O. P. and M. J. Van Sweringen.....	\$7, 800, 000 00
Endorsers on collateral loan.....	20, 000. 00
Endorsers on unsecured loan.....	6, 955 03
Guarantors on collateral loan to Metropolitan Utilities, Inc.....	1, 422, 500 00
Total.....	9, 249, 456. 03
Excess.....	2, 249, 455 03

(U-5-6, p 7)

The following note also appears thereon:

The loan to Metropolitan Utilities, Inc, was paid off November 26, 1930.

(U-5-7)

This statement appears to be only partially true, as the records of the bank indicate that whereas the loan to Metropolitan Utilities, Inc, in the amount of \$1,422,500, was paid off on November 26, 1930, a new loan on the same date was made to the same company in the amount of \$1,632,500. Both these loans were certificates of participation, and the only difference between them was that the loan of \$1,422,500 was guaranteed by O. P. and M. J. Van Sweringen, while the loan of \$1,632,500 was guaranteed by the Vaness Co.

The above-mentioned large loans to the Van Sweringen interests and Eaton interests finally resulted in their inclusion, to a substantial extent, in the total loans considered as bad at the closing of the bank.

- (b) Loans to officers, directors, and their affiliated corporations
- (c) General loans
- (d) Real-estate loans.

(U-5-1, p. 7)

As of January 25, 1929: Loans to officers and directors, \$5,550,198 55; loans to corporations with which the directors were affiliated, \$9,351,147.41.

(U-5-2, pp. B and F)

As of March 27, 1931. Loans to officers and directors, \$9,325,059.94; loans to corporations with which they were affiliated, \$24,345,442.12.

(U-5-3, p 16)

As of January 20, 1933. Loans to officers and directors, \$9,165,677.11; loans to corporations with which they were affiliated, \$20,510,620.43.

It should be noted that in these figures the State bank examiner did not consider the Van Sweringen loans in the category of loans to corporations affiliated, whereas J. R. Nutt owned a 10-percent interest in the Vaness Co.

(U-1-10c)

On December 20, 1932, the total nonaccrual loans were \$22,715,190.46.

(U-1-8)

These were loans on which the bank ceased accruing interest; or, in other words, loans which in the opinion of the bank's officers were bad, or at least very doubtful of collection. They were loans which were, perhaps, properly collateralized at their inception, but were permitted to become "sour" and delinquent in interest payments because the management apparently did not have the ability to collect on the collateral, or refused to embarrass what might have been preferred borrowers. Of the above figure \$4,719,200 were non-accrual loans of officers and directors.

The following comments by the directors' committee regarding loans to directors are very pertinent:

(U-1-8)

Committee comment.—While these loans should be among the best loans in the bank and be predicated upon the highest type securities, in some cases the reverse is true and the bank now finds itself with loans greatly undersecured or secured by other items for which there is no market whatsoever. Further, some of these loans have necessarily been placed on a nonaccrual basis.

The committee knows that in some cases, even though our loan is still undersecured, the borrower has come forward and offered such other security as he may have had and such action is highly commended. However, there are other loans on which we should bring pressure to get a mortgage on their homes and insist that they arrange for the payment of delinquent interest and reduction of the principal.

(U-1-10)

The estimated losses on account of these loans, on December 20, 1932, were \$13,560,556.70.

(U-5-3, p. 183; U-5-3, pp 41 and 75)

As of January 20, 1933, the nonaccrual items, exclusive of bonds and securities, were \$24,119,748.65, and the estimated losses on loans were \$11,582,275.82.

In estimating the above two mentioned losses appearing on the examiner's reports, it is definitely stated that these losses do not include any possible real-estate losses on account of real-estate loans or real-estate owned, as no proper estimate could have been made of such losses.

(U-1)

In fact, the directors' examining committee stated:

Because of extremely abnormal conditions affecting real-estate, the committee made no attempt to place an independent value on real-estate loans or on real-estate owned by the bank.

Reference is also made to the state bank examiner's report as of January 20, 1933, regarding real-estate mortgage loans:

(U-5-3, p. 248)

In attempting to classify loans none was classified as absolute loss unless the bank expressed an intention of abandoning the property or where a loss was apparent from a reappraisal of the subject property.

Half the delinquent loans are over a year past due in interest and nearly all such loans are delinquent in taxes—with such delinquency increasing at an alarming rate—thus weakening the equity that may exist to the property owned. The bank now has 103 suits in foreclosure and the officer in charge of real-estate loans stated that the bank expected to be forced to bid in at least 81 of these properties. As the delinquent interest and taxes increase it is bound to result in one thing—the property owner will move out and turn the property over to the bank. In most cases the properties have been reappraised since the loan was granted. Some startling facts are revealed in the reappraisal. From the appraisals of 1927 to 1929 the 1931 and 1932 appraisals show a reduction in value from 20 to 50 percent. And the balance due on the bank's loan in a great many cases equals the 1932 appraisal. Unless some relief is granted or business conditions change I believe the bank will be forced to take over at least 300 of these delinquent loans.

Another bad feature is the fact that the bank has over \$2,000,000 loaned on vacant property. No attempt is now made to foreclose on such loans. All are delinquent in taxes. The bank will suffer most on allotment loans. The delinquent taxes are increasing and eating away the values back of the bank's mortgage.

Analyzing the loans further, the following is the relation of real-estate loans to total loans:

(U-5-a)

Date	Total loans	Real-estate loans	Percent of total
Jan 25, 1929.....	\$220,346,080 63	\$76,846,359 10	34 9
Mar 27, 1931.....	222,808,076 90	74,168,249 06	33 3
Dec 20, 1932.....	182,404,226 63	66,429,477 43	43 6
Jan 24, 1933.....	151,821,516 39	66,187,760 91	43 5

Correspondingly, reserves for losses on loans were as follows:

(U-5-1, p. 130; U-5-2, p. 77; U-5-3, p. 299)

Jan. 25, 1929.....	\$404,335.42
Mar. 27, 1931.....	360,440.59
Jan. 20, 1933.....	1,196,389.07

Loans were classed as slow, doubtful, and losses, as follows:

Date	Slow	Doubtful	Loss
Jan 25, 1929.....	\$9,734,141 90	\$298,262 11	\$44,428 00
Mar. 27, 1931.....	8,838,165 90	1,193,915 86	254,834 92

(U-5-2, pp 14, 77)

As of March 27, 1931, the bank examiner also found real-estate loans in the amount of \$5,185,215.43 delinquent in interest; and

collateral and unsecured loans in the amount of \$3,313,248 14, delinquent in interest Reserves for losses on March 27, 1931, were only \$360,440 59.

The following notation appears in the examiner's report of March 27, 1931, regarding the mortgage loans:

(U-5-2, p 14)

Mortgage loans listed as being delinquent as to interest have been in such a condition for a period of 6 months or longer.

(U-5-2, p. 73; U-5-a)

In this connection it is important to note that the classification of loans mentioned above as of March 27, 1931, covers only the analysis of unsecured loans of \$13,114,457.65; whereas the total unsecured loans on that date were \$42,804,615.32.

(U-5-2, p. 138; U-5-a)

The analysis of the collateral loans covers only \$11,677,332 98, whereas the total collateral loans was \$94,348,212.30. In other words, the Bank Examiner's report on March 27, 1931 reflects an analysis of only small portions of the loans outstanding at that time.

It should also be noted that no comment whatever appears in the report of March 27, 1931, regarding the large loans to O.P. and M. J. Van Sweringen which, as of that date, totaled \$6,900,000, except in the confidential report to the State superintendent under "General," which we have referred to previously in this report.

In spite of the amount of loans to the Van Sweringens and the general condition of the bank, the examiner answered the following questions thusly:

(U-5-2, p 15; U-5-2, p 6)

3. Q. Do corporations or enterprises in which any director or officer is interested borrow to an undue extent?—A. Apparently none.

10. Q. What elements of danger or weakness are in the bank?—A. None apparent.

These answers to questions certainly appear in a very poor light in view of the acknowledged questionable condition of the real-estate loans as indicated in the confidential comments of the examiner as follows.

(U-5-5)

REAL-ESTATE LOANS

The real-estate loans comprise 33 2 percent of the total loans Delinquent loans in both main office and branches total \$5,185,215 43, or 6.9 percent of the total loans After taking into consideration the prevailing unsatisfactory condition of the real-estate situation in the city of Cleveland, the above figures appear satisfactory. The bank is foreclosing on a number of properties at the present time. Any loss that is suffered in the real-estate department is immediately written off The real-estate situation is probably the most troublesome one in the bank. Additional losses will unquestionably be suffered The general depression, lack of employment of our borrowers, and a tremendous decline in the present day value of real estate are the chief reasons for the unsatisfactory condition in this department.

A comparison of the total loans and the total deposits, exclusive of trust deposits, indicates the following:

(U-5-a)

Date	Total loans	Total deposits
Jan 25, 1929.....	\$220,346,080 63	\$289,021,704 05
Mar 27, 1931.....	221,808,076 90	296,928,523 08
Dec 20, 1932.....	152,404,228 63	174,528,029 55
Jan 20, 1933.....	151,821,516 39	166,864,901 17
A drop in percentage of.....	31 1	42 3

From these figures it will be seen that whereas the deposits dropped between March 27, 1931, and December 20, 1932, in the amount of \$122,400,493.53, loans for the corresponding period dropped only in the amount of \$70,403,850 27; and that whereas the deposits further dropped between December 20, 1932 and January 20, 1933 in the amount of \$7,663,128.38, the loans for the corresponding period dropped only in the amount of \$582,710.24.

The percentages of total loans to total deposits, exclusive of trust deposits, were as follows

	Percent
Jan 25, 1929.....	76 2
Mar. 27, 1931.....	75 0
Dec. 20, 1932.....	87. 3
Jan. 20, 1933.....	91 0

3. *Bad investment policy inadequate reserves.*—From examination of monthly schedules of securities and investments which we have reason to believe were regularly placed before the executive committee and directors it is very evident that the senior officers and executive committee were cognizant for some time past that the value of their securities and investments were shrinking progressively.

(U-5-10)

Pencil notations appear on these monthly schedules, indicating that on November 30, 1931, there was a shrinkage in the values of investments in the amount of \$14,771,051 08 against which there was a reserve for security variations of only \$2,200,000. Similarly, on the following dates corresponding figures were as follows.

(U-5-11, 12, 13, 14, 15)

Date	Shrinkage in investments	Reserve carried
July 31, 1932.....	\$16,467,013 29	\$3,891,487 15
Aug 31, 1932.....	13,946,578 11	3,852,879 56
Sept 30, 1932.....	14,896,132 77	3,819,553 97
Dec 31, 1932.....	14,710,285 75	3,704,071 92
Jan 31, 1933.....	14,757,080 74	3,704,071 92

4. *Bad dividend policy in the face of impaired capital*—It is apparent that the executive committee and directors were aware of the serious impairment to the capital by reason of a large shrinkage in investment values in 1931 and 1932, and by reason of a large shrinkage in the values of loans during these periods

(U-97)

In spite of this knowledge they nevertheless continued to pay cash dividends in substantial amounts during the year 1931 and the full year of 1932. Prior to 1927, the Union Trust Co paid dividends at the rate of 10 percent. The rate in 1927 was changed to 12 percent and continued until 1932, when it was reduced to 8 percent.

Conservative banking would have dictated that dividends should be omitted and larger reserves set up to provide for losses on account of loans and investments.

In the case of this bank it is very evident that additional contributions of capital should have been made, even in 1931 and certainly in 1932.

It must be remembered that in reflecting estimated losses on loans as set up by the State bank examiner, no attempt was made to evaluate the real-estate loans on which, unquestionably, large losses were obvious.

5. *Rapid decline in deposits.*—Comparative decline of deposits has already been indicated in the report above under the caption "General Loans as Compared to Deposits."

6. *Inability to borrow.*—During the years 1931 and 1932, the pledged assets of the Union Trust Co were increasingly large. As indicated by the State bank examiner's reports, public funds on deposit and bills to the Federal Reserve bank were secured by assets of the Union Trust Co, pledged as follows:

(U-5-1, p 70)

Jan. 25, 1929		
Public funds.....	-----	\$4, 097, 400 27
Bonds pledged.....	-----	7, 543, 000 00
Federal Reserve bills.....	-----	3, 000, 000 00
Assets pledged.....	-----	7, 000, 000 00

(U-5-2, p 78)

Mar 27, 1931		
Public funds.....	-----	8, 130, 980. 67
Bonds pledged.....	-----	12, 835, 000. 00

(U-1-42)

As of December 20, 1932, a total of \$58,466,312.38, consisting of bonds, mortgages, and other assets, were pledged to secure public funds and bills payable to the banks and the Reconstruction Finance Corporation; and as of January 20, 1933, total assets pledged were \$60,142,577.62, consisting of the following:

(U-5-3, p 8)

Unsecured loans.....	-----	\$5, 293, 398. 07
Mortgages.....	-----	41, 505, 679. 55
Bonds.....	-----	13, 343, 500. 00

Alfred P. Leyburn, in his testimony on January 11, 1934, given before the committee (speaking of the general banking situation) stated:

(Testimony of Leyburn, Jan 11, 1934)

Then we go to the Union Trust Co of Cleveland, with deposits of \$194,000,000 on the 31st of December, 1932; bills payable of \$15,878,000; cash \$35,000,000. In addition to borrowing that \$15,000,000 they had borrowed through an affiliated mortgage company about \$21,000,000. They had just about exhausted their

borrowing power After the bank holiday, that bank, with the aid of the Reconstruction Finance Corporation, paid out 35 percent.

The additional \$21,000,000 stated above as being borrowed through an affiliated mortgage company is the money borrowed through the medium of the Western Reserve Mortgage Co., organized to meet the requirements of the Reconstruction Finance Corporation, on the subject of which a separate report is being written.

It is believed that the purpose in borrowing from the Reconstruction Finance Corporation through the medium of the Western Reserve Mortgage Co. was twofold:

1. To obviate the necessity of reflecting on the bank statements such large additional bills payable, which would result in an increased alarm on the part of the public;

2. To enable the bank to borrow money in excess of its borrowing limit.

The details of the borrowings by the Union Trust Co. from the Reconstruction Finance Corporation both before and after the bank's closing will be covered fully in a separate report

CONCLUSION

Concluding this report, it is believed that as much as the officers and directors may have been largely responsible for allowing the bank to get in so bad a condition that it could not reopen, the Ohio State Banking Department too must shoulder the responsibility for allowing this condition to prevail. It is further believed that the State banking department did not perform its duties diligently and fearlessly, and definitely violated the law by not making examinations at least once a year as prescribed by law, and further, by condoning practices in the bank which were subject to severe criticism. These practices, if criticized in time, could have been checked, and the result would have been that the bank would not have sunk to as bad a condition as it did. The final result would have been that the depositors would not have been faced with so large a loss in the tying up of their assets; as turned out to be the fact.

It is a very sad commentary that the State banking department, in the light of definite poor banking practices, should give the bank's officers and directors what amounts to a pat on the shoulder and in effect tell them what amounts to "Your bank is in excellent condition and you have a very fine management."

A true conclusion of the State bank examiner's reports would have indicated severe criticism and severe requirements for ending the practices which resulted in the bank's final closing. It is also believed that if the State banking department would have made an examination early in 1932 (which it did not do) it would have disclosed a serious impairment of capital, and if the examination were conducted properly and fearlessly, it should have resulted in a demand for additional capital on the part of the stockholders, or in case of refusal or inability to meet such assessment, it would have been the duty of the State banking department to step in and save the institution from subsequent additional losses.

WALTER H. SEYMOUR,
Senior Examiner.

Mr. SAPERSTEIN. Mr. Meehan, I hand you a report entitled "Schedule of directors and officers, years 1929 to 1933, inclusive, of the Union Trust Company and the Union Cleveland Corporation," which I will ask you to identify and state whether it was prepared under your immediate supervision by the members of the investigating staff of the committee

Mr. MEEHAN It is and was

Mr SAPERSTEIN Mr Chairman, I wish to offer this report in evidence, and I do not believe there is any reference to any exhibits in connection therewith

The CHAIRMAN The report will be received in evidence and appropriately marked

(The report entitled "Schedule of directors and officer, years 1929 to 1933, inclusive, of the Union Trust Company and the Union Cleveland Corporation," was received in evidence, marked "Committee Exhibit No 5, May 4, 1934," and is as follows.)

COMMITTEE EXHIBIT No. 5, MAY 4, 1934

Schedule of directors and officers, years: 1929-33, inclusive

[Asterisk (*) indicates year serving]

UNION TRUST CO

Name	Directors					Officers				Office held	
	1929	1930	1931	1932	1933	1929	1930	1931	1932		1933
W M Baldwin, president, Union Trust Co....	*	*	*	*	*			*	*	*	President
E S Barkwill, secretary, Cleveland Builders Supply & Brick Co	*	*	*	*	*						
George Bartol, chairman of executive committee, Otis Steel Co	*	*	*	*	*						
W P Belden, Belden, Young & Beach.....	*	*	*	*	*						
Alexander C Brown, president, Industrial Brownhouse Corporation	*	*	*	*	*						
Geo P Comey, president, the Comey & Johnson Co	*	*	*	*	*						
Henry W Corning.....	*	*	*	*	*						
Geo A Coulton, vice chairman of the board, The Union Trust Co	*	*	*	*	*						
W J Crawford, Jr, president, Crawford Realty Co	*	*	*	*	*						
H G Dalton, Pickands, Mather & Co.....	*	*	*	*	*						
F B Fretter, president, the National Refining Co	*	*	*	*	*						
W H Gerhauser, president, the American Ship Building Co	*	*	*	*	*						
F H Ginn Tolles, Hogsett & Ginn, attorneys	*	*	*	*	*						
Tom M Girdler, chairman of board and president the Republic Steel Corporation	*	*	*	*	*						
Geo C Gordon, president the Park Drop Forge Co	*	*	*	*	*						
G W Grandin, secretary the Missouri Lumber & Mining Co	*	*	*	*	*						
E R Grasselli, director Grasselli Chemical Co	*	*	*	*	*						
Thos S Grasselli, director E I Du Pont De Nemours & Co, president Grasselli Chemical Co	*	*	*	*	*						
Geo Gund, Gund Realty Co.....	*	*	*	*	*						
J A Hadden, Andrews, Hadden & Burton....	*	*	*	*	*						
H M Hanna, chairman of board, The M A Hanna Co	*	*	*	*	*						
W A Harshaw, president Harshaw Chemical Co	*	*	*	*	*						
F H Haserot, president the Haserot Co.....	*	*	*	*	*						
W S Hayden, Hayden, Miller & Co.....	*	*	*	*	*						
Parmely W Herrick, New York City.....	*	*	*	*	*						
Geo H Hodgson, chairman of board, the Cleveland Worsted Mills Co	*	*	*	*	*						

Schedule of directors and officers, years 1929-33, inclusive—Continued

Name	Directors					Officers				Office/held	
	1929	1930	1931	1932	1933	1929	1930	1931	1932		1933
David L Johnson, M B & H H Johnson, attorneys	*	*	*	*	*						Vice chairman of board
Emil Joseph, attorney	*	*	*	*	*						
Adrian D Joyce, president, the Glidden Co.	*	*	*	*	*						
Ralph T King, vice president, the Realty Investment Co	*	*	*	*	*						
John A Kling, president, the Cleveland Builders Supply Co	*	*	*	*	*						
J R Kraus, ¹ chairman of board, the Union Trust Co	*	*	*	*	*			*	*		
E J Kulas, president, Midland Steel Products Co, president, Otis Steel Co	*	*	*	*	*						
E A Langenbach, chairman of board, Mitchell, Herrick & Co, Canton Ohio	*	*	*	*	*						
E P Lenihan, Lenihan & Co	*	*	*	*	*						
Bascom Little, Crowell & Little Construction Co	*	*	*	*	*						
Samuel Mather, Pickands, Mather & Co.	*	*	*	*	*						
Philip R Mather, Pickands, Mather & Co.	*	*	*	*	*						
William G Mather, president, Cleveland Cliffs Iron Co	*	*	*	*	*						
Otto Miller, Hayden, Miller & Co.	*	*	*	*	*						
T. W Miller, chairman of board, Faultless Rubber Co, Akron, Ohio	*	*	*	*	*						
Ralph D Mitchell, Mitchell & Co	*	*	*	*	*						
R V Mitchell, president, Mitchell, Herrick & Co	*	*	*	*	*						
Herman Moss, general agent, the Equitable Life Assurance Society of N Y	*	*	*	*	*						
P A Myers, president, the F E Myers & Bros Co, Ashland, Ohio	*	*	*	*	*						
Laurence H Norton, Oglebay, Norton & Co	*	*	*	*	*						
Robert C Norton, Oglebay, Norton & Co	*	*	*	*	*			*	*		
J. R. Nutt, chairman of the board, the Union Trust Co	*	*	*	*	*						
Carl N Osborne, treasurer, the M A Hanna Co	*	*	*	*	*						
Kenyon V Painter, real estate	*	*	*	*	*						
N G Richman, the Richman Bros Co.	*	*	*	*	*						
Thos. P Robbins, vice president, the Cleveland Hardware Co	*	*	*	*	*						
Jos E Rogers, president, the American Multigraph Corporation	*	*	*	*	*						
F. F. Root, president, E P Root Co.	*	*	*	*	*			*	*	*	
Allard Smith, executive vice president, the Union Trust Co	*	*	*	*	*			*	*	*	
Samuel Lewis Smith, vice president, National Malleable & Steel Castings Co	*	*	*	*	*						
Andrew Squire, Squire, Sanders & Dempsey, attorneys.	*	*	*	*	*						
Henry G Tremmel, president, the North American Fibre Products Co	*	*	*	*	*						
J H. Wade, Jr, Wade Realty Co.	*	*	*	*	*						
Whitney Warner, W H Warner & Co.	*	*	*	*	*						
Fred B White, Baker, R & L Co.	*	*	*	*	*						
Thos H White	*	*	*	*	*						
Windsor T White	*	*	*	*	*						
R W Woodruff, chairman of board, the White Motor Co, president, the Coca Cola Co	*	*	*	*	*						

UNION CLEVELAND CORPORATION

W M Baldwin	*	*	*	*	*	*	*	*	*	*	Vice president. ¹
E F Carter	*	*	*	*	*	*	*	*	*	*	
A C Coney	*	*	*	*	*	*	*	*	*	*	Vice president and manager
G A Coulton	*	*	*	*	*						
H. G Dalton	*	*	*	*	*						
G W Grandin	*	*	*	*	*						
Warren S Hayden	*	*	*	*	*						
John A Kling	*	*	*	*	*						
J. R. Kraus	*	*	*	*	*						
E J Kulas	*	*	*	*	*						

¹ J R Kraus elected chairman of board June 30, 1932

² President after July 12, 1932.

Schedule of directors and officers, years: 1929-33, inclusive—Continued

UNION CLEVELAND CORPORATION—Continued

Name	Directors					Officers					Office held
	1929	1930	1931	1932	1933	1929	1930	1931	1932	1933	
O B Lincoln.....	*	*	*	*	*	*	*	*	*	*	Vice president President
J R Nutt.....	*	*	*	*	*	*	*	*	*	*	
Wm G Mather.....	*	*	*	*	*	*	*	*	*	*	Assistant secretary- treasurer ²
E N Wagley.....	*	*	*	*	*	*	*	*	*	*	
Windsor T White.....	*	*	*	*	*						Assistant treasurer Secretary-treasurer Treasurer Assistant treasurer
L C West ⁴					*						
O C Merrifield.....					*					*	
R C Hyatt.....					*	*				*	
Henry Ranft.....					*	*	*	*	*	*	
L J Roeder.....					*	*	*	*	*	*	

AKERS-FOLKMAN CO

Jos Folkman.....								*	*	*	President Secretary Director
Grover Hull.....								*	*	*	
Allard Smith.....								*	*	*	

CLEVELAND-BOSTON CO

L C Gilger.....	*	*	*	*	*	*	*	*	*	*	Secretary. President Vice president and treasurer
Grover H Hull.....	*	*	*	*	*	*	*	*	*	*	
W J O'Neill.....	*	*	*	*	*	*	*	*	*	*	
John C McConnell.....					*			*	*	*	Secretary-treasurer. Vice president President
A L Wieland.....					*			*	*	*	
James S Royan.....					*			*	*	*	

P A. FRYE CO

P. A. Frye.....		*	*	*	*	*	*	*	*	*	President Secretary-treasurer Vice president and as- sistant secretary. Vice president
Charles M Knight.....		*	*	*	*	*	*	*	*	*	
L H Stofer.....		*	*	*	*	*	*	*	*	*	
A. W Lewis.....								*	*	*	

THE UNION LENNOX CO.

W M. Baldwin.....	*	*	*	*	*	*	*	*	*	*	President and treas- urer Vice president.
Allard Smith.....	*	*	*	*	*	*	*	*	*	*	
M S Haliday.....	*	*	*	*	*	*	*	*	*	*	Do President
O W Carlson.....	*	*	*	*	*	*	*	*	*	*	
Grover H Hull.....	*	*	*	*	*	*	*	*	*	*	Assistant secretary and assistant treasurer Secretary Vice president Secretary Treasurer
H E Hills.....	*	*	*	*	*	*	*	*	*	*	
S J Blair.....	*	*	*	*	*	*	*	*	*	*	
Charles M Knight.....	*	*	*	*	*	*	*	*	*	*	
James S Rogen.....	*	*	*	*	*	*	*	*	*	*	
O B Anderson.....	*	*	*	*	*	*	*	*	*	*	
P W Jewell.....					*			*	*	*	Secretary.

WALTER H. SEYMOUR,
Senior Examiner.

Mr. SAPERSTEIN. Mr. Meehan, I now hand you a report entitled "The Union Trust Company—Compensation to officers", and ask you if that was prepared under your supervision by members of the investigating staff of the committee.

Mr. MEEHAN. It was.

² Secretary in 1929

⁴ Elected director July 31, 1933, also elected president.

Mr. SAPERSTEIN. Mr. Chairman, I offer the report in evidence, together with the exhibits referred to on the report and which exhibits are now at the Government Printing Office

The CHAIRMAN The report and exhibits will be received and appropriately marked

(The report entitled "The Union Trust Company—Compensation to officers", together with exhibits referred to therein and which exhibits are at the Government Printing Office, were received in evidence and marked "Committee Exhibit No 6, May 4, 1934", and are as follows)

COMMITTEE EXHIBIT No. 6, MAY 4, 1934

COMPENSATION TO OFFICERS

It is interesting to note in analyzing the income and expenses of Union Trust Co , that while earnings (before depreciation) decreased over \$2,000,000 from 1928 to 1932, the decrease in compensation paid to officers was less than \$300,000

(U-17-1, 5, 6, 9)

According to bank records, the total compensation paid to officers for the year 1928 was \$1,304,409, and for the year 1932, \$1,008,605, indicating a decrease of \$295,804, whereas, the net operating income before depreciation for the year 1928 was \$4,997,152 67, and for the year 1932, \$2,929,636 57, indicating a decrease of \$2,067,516 10. Considering each decrease from a percentage viewpoint, earnings decreased 41 percent plus, officers' compensation decreased 22 percent plus

Below is a comparative statement compiled from the bank records showing for the years 1928 to 1932

(U-17-1 to 5, 6 to 9)

	Compensation paid to officers	Total operating expenses	Net operating income before depreciation
1928.....	\$1,304,409 00	\$5,135,926 70	\$4,997,152 67
1929.....	1,345,901 08	5,642,469 72	5,026,480 37
1930.....	1,296,132 00	4,249,744 65	4,566,259 33
1931.....	1,286,910 00	5,211,016 28	4,355,605 13
1932.....	1,008,605 00	4,252,310 59	2,929,636 57

The head of this banking institution should be questioned as to the efforts made to decrease compensation paid to officers so as to be in line with the corresponding decrease in earnings

In 1932 there appears to have been a general decrease in officers' salaries of from 10 to 20 percent, which, in our opinion, and in view of the vast decrease in earnings, was insufficient

There were no bonuses paid to officers during the years under review.

Comparative salaries of the "key men" for the years under review are as follows

	1928	1929	1930	1931	1932
W. M Baldwin.....	\$45,000	\$48,333	\$50,000	\$50,000	\$44,166
G A Coulton.....	50,000	50,000	50,000	50,000	40,916
J R Kraus.....	45,000	48,333	50,000	50,000	44,166
J R Nutt.....	50,000	50,000	50,000	50,000	1 22,916
Allard Smith.....	35,000	37,500	40,000	40,000	33,333

¹ For half year only

WALTER H. SEYMOUR,
Senior Examiner.

This report based upon preliminary report and complete investigation by Committee Examiner M. J. La Padula.

Mr SAPERSTEIN. I now hand you a report entitled "The Union Trust Company—Loans to directors", and ask you if that report was made by members of the investigating staff of the committee under your immediate supervision

Mr. MEEHAN It was.

Mr SAPERSTEIN. Mr. Chairman, I offer the report in evidence, together with the exhibits mentioned thereon, which exhibits are now at the Government Printing Office

The CHAIRMAN. The report and exhibits will be received in evidence and appropriately marked

(The report entitled "The Union Trust Company—Loans to directors", together with the exhibits connected therewith and which exhibits are now at the Government Printing Office, were received in evidence and marked "Committee Exhibit No. 7, May 4, 1934", and are as follows:)

COMMITTEE EXHIBIT No 7, MAY 4, 1934

LOANS TO DIRECTORS

(U-6-54-a, b)

According to an analysis prepared and furnished to us by the liquidator of the Union Trust Co, directors of the Trust Co. were indebted to the bank on February 25, 1933, the day the bank closed, as follows:

Direct liability.....	\$7,393,805 63
Contingent liability.....	859,460 12
Total.....	8,253,265 75
Less duplications account of joint liability.....	104,477 39
Total.....	8,148,788 36

On February 17, 1934 (this date was selected as being nearest to the termination of our investigation), the liability of directors to the bank was as follows:

(U-6-54-a, b)

Direct liability.....	\$5,549,384 41
Contingent liability.....	589,940 67
Total.....	6,139,325 08
Less duplications account of joint liability.....	10,833 72
Total.....	6,128,491 36

Special reports have been prepared on the following directors: William G. Mather, Kenyon V. Painter, hence no specific comments relative to these directors are contained in this report

LENIHAN REPORT

(U-1-1 to 45)

Conditions in regard to loans to directors of the Union Trust Co. were brought to the attention of directors in the so-called "Lenihan report," dated February 3, 1933. This report was the result of an examination as of December 20, 1932. Page 9 of this report indicates the directors' liability as of that date amounted to \$9,252,586 80, made up as follows

	(U-1-7)	
Direct.....	-----	\$8, 470, 478 05
Contingent.....	-----	782, 108. 75
Total.....	-----	<u>9, 252, 586. 80</u>

(U-1-8)

Page 10 of the report contains the following comments:

Loans to directors—undersecured

Wm P Belden.....	-----	\$12, 700. 00
Geo. P. Comey.....	-----	82, 000 00
T M Girdler.....	-----	10, 000 00
G W Grandin.....	-----	313, 000 00
T S Grasselli.....	-----	371, 530 70
John A Haddan.....	-----	16, 839 00
W S Hayden.....	-----	90, 900 00
Adrian D Joyce.....	-----	709, 500 00
Ralph T. King.....	-----	38, 743. 64
Bascom Little.....	-----	37, 343. 44
R V Mitchell.....	-----	15, 400 00
C N. Osborne.....	-----	90, 000 00
Whitney Warner.....	-----	149, 143 20
Total.....	-----	<u>1, 937, 099 98</u>

Now on nonaccrual basis

W. J. Crawford, Jr.....	-----	61, 400. 00
Parmely W. Herrick.....	-----	808, 800 00
Otto Miller.....	-----	¹ 919, 000. 00
K. V Painter.....	-----	2, 930, 000. 00

Total..... 4, 718, 200. 00

(U-1-8)

Committee comment.—While these loans should be among the best loans in the bank and be predicated upon the highest type securities, in some cases the reverse is true and the bank now finds itself with loans greatly undersecured or secured by other items for which there is no market value whatsoever. Further, some of these loans have necessarily been placed on a nonaccrual basis.

The committee knows that in some cases, even though our loan is still undersecured, the borrower has come forward and offered such other security as he may have had and such action is highly commended. However, there are other loans on which we should bring pressure to get a mortgage on their homes, and insist that they arrange for the payment of delinquent interest and reduction of the principal

¹ Only \$520,000 on nonaccrual basis.

It will be noted that at that time (February 3, 1933), out of total loans to directors of \$9,252,586 80, the total undersecured amounted to \$6,655,299 98, or over 71 percent of the total loans to directors

If this laxity were followed in the case of all loans, the results obviously would be disastrous. However, the fact that the borrowers were directors of the bank undoubtedly influenced the policy in regard to these loans

(U-1-2)

The total amount of collateral loans on December 20, 1932, were \$64,876,214 05. With the possible exception of \$100,000 the direct loans to directors of \$8,470,478 05 were collateral loans, indicating that directors were borrowing approximately 12 percent of the total collateral loans

COMMENTS ON INDIVIDUAL LOANS

Below is a brief history of individual directors' loans. Those loans which have been paid since the closing of the bank February 25, 1933, have been eliminated.

Otto Miller—On January 20, 1933, the date of the last examination by the Ohio State Banking Department, Otto Miller was indebted to the Union Trust Co in the amount of \$894,000. We quote from the bank examiners' report.

(U-5-3, p 107)

Otto Miller (director) \$894,000—Iroquois Securities Inc, \$50,522 25—Miller's personal loans amount to \$805,000, \$420,000 of this amount is delinquent in interest since April 1, 1932, and \$100,000 is delinquent in interest since July 1, 1932. His personal loans are collateralized by various listed and unlisted securities having a present estimated market value of \$328,000. The bank also holds 1,578 shares of Malvery Land Co., which had a book value of \$72 per share on July 11, 1932. This company is a real-estate holding company whose holdings consist principally of Shaker Heights properties. It is impossible to determine the true value for this stock. No reductions have been made on Miller's personal loans in more than 1 year. He is probably broke and it is apparent that a substantial loss must eventually be taken. For the purpose of this examination \$475,000 has been classed doubtful. The balance of the loans charged against Miller, which amount to \$89,000, are obligations of Hayden Miller & Co., of which he is a partner. These loans are being kept in current condition but the value of the collateral pledged against them amounts to only \$28,000. It is believed, however, that the other partners in this firm are financially responsible. The Iroquois Securities, Inc., is owned equally by W S Hayden, L B Williams, D W Myers, and Otto Miller. The value of the marketable collateral pledged against this loan is \$35,000. Other collateral pledged is 3,520 shares Wood Chemical Products Co., class B stock, and 135 shares Cushman Willis Co. It is believed that these two latter stocks have sufficient intrinsic value to cover the loan.

(U-6-54)

On February 25, 1933, the date the bank closed, Mr. Miller owed \$805,000, and on December 31, 1933, \$726,920.71. Since that date and to the present writing there have been principal reductions of \$8,647.20. These reductions were the results of sales of collateral pledged for the loans.

Attention is directed to the examiner's comments above, wherein he declared that the bank will eventually sustain a loss of approximately \$475,000.

(U-1-8)

In the so-called "Lenihan report", dated December 20, 1932, page 10, loan to Otto Miller, in amount of \$919,000, is shown under the caption "Loans to directors—Under-secured—Now on nonaccrual basis," to the extent of \$512,000 This caption is followed by several comments of the committee on the general policy of loans to directors

(U-6-55)

The attached exhibit from the files of the receiver clearly indicates that a large loss will eventually be incurred by the bank in the liquidation of this loan

Adrian D. Joyce—On January 20, 1933, date of last examination by Ohio State Banking Department, Mr Joyce was indebted to the bank in the amount of \$709,500 In commenting on the loan the examiner stated

(U-5-3, p 100)

Adrian D Joyce \$709,500 loan—Maker is president of the Glidden Co Loans is collateraled by various listed stocks worth approximately \$168,000 at the present market prices, together with an assignment of a living trust which has an estimate worth of \$265,000 The principal item of collateral held is a block of 700 shares of Glidden Co, which is currently quoted at \$16 per share The loan depends largely on a recovery in market value of Glidden stock Two hundred and seventy-five thousand dollars is the approximate shortage at this time, and this portion has been classed undetermined

(U-6-71 to U-6-74)

On February 25, 1933, Mr Joyce owed \$708,841 50, and on December 31, 1933, \$707,539 06 No other reductions have been made since June 30, 1933; Mr Joyce's liability at this writing being \$707,539 06

The so-called "Lenihan report" dated February 3, 1933, shows the total loans \$709,500, secured by collateral valued as follows

Securities.....	\$353, 297
100 shares Joyce Realty Co capital stock, being entire capitalization of company whose main asset is a 153-acre farm and equipment valued at.....	200, 000
Life insurance assigned.....	150, 000

(U-1-16)

Committee comment—We do not approve of personal holding companies such as Joyce Realty Co Why not get a mortgage on the farm instead of the capital stock and additional collateral?

Whitney Warner—On January 20, 1933, the date of the last examination by Ohio State banking department, Whitney Warner was indebted directly in the amount of \$9,925 20, and indirectly in amount of \$590,082 49 We quote from the bank examiner's report

(U-1-28-, 28a)

W H. Warner Coal Co.....	\$103, 980 00
Warner Collieries Co, end W H Warner Coal Co.....	300, 000 00
Whitney Warner.....	9, 925 20
Ralston Fox Smith, end Whitney Warner.....	20, 000 00
Ohio River Edison Coal Co, end W H Warner Coal Co.....	120, 000 00
W H Warner & Co.....	36, 227 49
K B Whitworth, end Whitney Warner.....	9, 875 00
Total.....	600, 007 69

(U-5-3, p 125)

The W H Warner Coal Co is a holding company for a number of coal companies. W H Warner & Co is a partnership which owns the majority of the stock of W H Warner Coal Co, and also functions as a sales company for the various subsidiary coal companies. The above detailed lines of credit have been in the bank for a number of years, but are being gradually worked out under the direction of vice president Steele. The various loans are collateralized by stocks and obligations of the various subsidiary companies. Due to the interlocking nature of the various companies and the interdependence of one company on another it is impossible to determine any dollar values for these stocks. In discussing the above loans with vice president Steele, he stated that the companies are ably managed and feels confident that reductions will continue on same proportion that they have in the last few years.

Balances of these loans as of February 19, 1934, are as follows

		(U-6-54)
W H Warner Coal Co		
Feb 25, 1933.....	\$103,980	00
Feb 19, 1934.....	103,980	00

		(U-6-54)
Warner Collieries Co		
Feb 25, 1933.....	300,000	00
Dec 31, 1933.....	203,887	52
Feb 19, 1934.....	199,887	52

		(U-6-54)
Ralston Fox Smith		
Feb 25, 1933.....	20,000	00
Feb 19, 1934.....	20,000	00

This note entered the assets of the bank Nov 10, 1924, in the amount of \$26,000. Only reduction May 12, 1928 (4 years later) Still in assets of bank, \$20,000

		(U-6-54)
K. B. Whitworth:		
Feb 25, 1933.....	9,875	00
Feb 19, 1934.....	9,875	00

George P. Comey—On January 20, 1933, date of last examination by Ohio State Banking Department, Mr Comey was indebted to the bank in the amount of \$32,000. In commenting on the loan the examiner stated

(U-5-3, p. 86)

\$32,000 loan—George P. Comey, value of collateral pledged is \$20,000, which includes 400 shares of the Union Trust Co. It is impossible to obtain any additional collateral and payment depends on recovery of stocks held.

(U-6-75)

The liability of \$32,000 of Mr Comey has existed since January 2, 1932, the only reduction is \$645.84 on June 30, 1933, which makes his liability at this writing \$31,354.16.

(U-1-12)

The so-called "Lenihan report", dated February 3, 1933, shows the total loan \$32,000, secured by collateral valued at a total of \$18,340, undersecured at that time \$13,660.

(U-5-3, p 87)

W. J Crawford, Jr —On January 20, 1933, date of last examination by Ohio State banking department, Mr Crawford was indebted to the bank in the amount of \$59,100 In commenting on the loan the examiner stated:

W J Crawford, Jr, \$59,100 —Interest is delinquent since April 1, 1932 The loan is collateralized by listed stocks worth \$9,000, together with various other real estate, stocks, and bonds of undetermined value Maker is heavily in debt at practically all of the other local banks A creditors' agreement has been made and all of his unpledged assets are held for the pro rate benefit of the banks interested Outcome of this loan cannot be determined at this time.

(U-6-76, 77, 78)

On February 25, 1933, Mr. Crawford owed \$59,100, and on December 31, 1933, \$57,997 24. Since that date and at the present writing there has been only one small reduction in the amount of \$71.25.

(U-1-11)

The so-called "Lenihan report" dated February 3, 1933, shows the total loan \$59,100, secured by collateral valued at a total of \$15,200, undercollateralized at that time \$43,900

Parmely W. Herrick.—On January 20, 1933, date of last examination by Ohio State Banking Department, Mr. Herrick was indebted to the bank in amount of \$805,642 50. In commenting on the loan the examiner stated

(U-5-3, p 98)

Parmely W Herrick loan of \$805,642 50 —Interest is delinquent since July 1, 1932 Value of collateral pledged is \$517,000 On November 7, 1932, Herrick owed \$1,069,000 to various Cleveland banks At that time an extension agreement was signed by all the banks and the above borrower His worth is represented largely in stock ownership in the Union Carbide & Carbon Co., and there are 10,525 shares of that stock pledged on this loan Although the borrower is greatly overextended at this time, it is believed that he can work out of his present difficulties Loan is classed as undetermined at this time

(U-6-54)

On February 25, 1933, Mr Herrick owed \$805,642 50, and on December 31, 1933, \$751,499 12 Since that date and to the present writing there have been principal reductions of \$42,245 41. The liability of Mr. Herrick at this writing is \$709,253 71.

(U-1-15, U-6-79, 80, 81)

The so-called "Lenihan report" dated February 3, 1933, shows the total loans \$808,800, secured by collateral valued at a total of \$499,212, under-collateralized at this time \$309,588.

(U-5-3, p. 94)

G W Grandin —On January 20, 1933, date of last examination by Ohio State Banking Department Mr Grandin was indebted to the bank in the amount of \$312,000 In commenting on the loan the examiner stated.

G W Grandin, \$312,000 —Loan is collateralized by various marketable stocks worth \$123,000, together with 865 shares of the Grandin Coast Lumber Co.,

which has a book value of \$116, and 950 shares of Louisiana Central Lumber Co, which has a book value of \$283 per share Collateral is believed to have sufficient value to protect the loan and substantial reductions have been made during the last 2 years

(U-6-54a)

On February 25, 1933, Mr Grandin owed \$312,000, and on December 31, 1933, \$206,935 75 The total reductions of \$105,064 25 were cash payments

His total liability at the present writing is \$206,935 75, secured by collateral valued on February 10, 1934, in the amount of \$265,563

(U-1-13)

The so-called "Lenihan report" dated February 3, 1933, shows the total loans \$313,000, secured by collateral valued at a total of \$131,000 undercollateralized at this time, \$182,000

(U-1-13)

Committee questions the value of stock in privately conducted enterprise as collateral to loan, therefore classes this loan as undersecured Recommends securing other collateral

WALTER H SEYMOUR,
Senior Examiner

This report based upon preliminary report and complete investigation by Committee Examiner M J La Padula

Mr SAPERSTEIN I hand you a report entitled "The Union Trust Company—Loans to Officers and Directors of Other Banks", and ask you if that report was made by members of the investigating staff of the committee under your immediate supervision

Mr MEEHAN It was.

Mr SAPERSTEIN Mr Chairman, I offer the report in evidence, together with the exhibits referred to therein, which exhibits are now at the Government Printing Office.

The CHAIRMAN. The report and exhibits will be received in evidence and appropriately marked

(The report entitled "The Union Trust Company—Loans to Officers and Directors of Other Banks", together with the exhibits connected therewith and now at the Government Printing Office, were received in evidence and marked "Committee Exhibit No. 8, May 4, 1934", and are as follows)

COMMITTEE EXHIBIT NO 8, MAY 4, 1934

LOANS TO OFFICERS AND DIRECTORS, OTHER BANKS

(U-11-1, 2)

In a consideration of loans made by the Union Trust Co, to officers and directors of other banks, consisting of over 6½ percent of the total loans, it is noted that in most instances other collateral was presented in addition to bank stock Consequently, it would appear that it was much easier to obtain loans through the Union Trust Co than through the bank with which the officer or director was connected. If the loans were based only on capital stock of these other banks for collateral, the situation could be readily understood, inasmuch as a

director or officer may not borrow from his own bank, using that bank's capital stock as collateral.

There is no doubt that a large number of these borrowers from the Union Trust Co, were also borrowers from other banks, and from what files have been reviewed, this fact had very little consideration in determining whether a loan was acceptable to the Union Trust Co.

The loan history of several of these borrowers is given in the following as representative of the group

J A HOUSE, PRESIDENT, GUARDIAN TRUST CO.

(U-11-3a)

Among the officers of other banks who borrowed heavily from the Union Trust Co was J Arthur House. At the time the Union closed in February 1933, Mr. House was indebted to the bank in the amount of \$67,900. In January of 1933 when the Union Trust was examined by the State Banking Department, the examiner, commenting on this loan, stated:

(U-5-3)

Value of listed collateral pledged is \$13,000. Bank also holds 500 shares of M A Hanna Co common stock which has book value of \$30 per share. House is known to be heavily in debt, and is unable to make reductions or furnish additional collateral; \$55,000 has been classed doubtful and will probably result in a loss.

(U-11-3b, 4)

Since the bank has been closed the liquidator has credited the loan with the amount of dividends (totaling \$157 55) received from the collateral and has sold some of the collateral, realizing \$4,875 25. The balance of the loan still unpaid is now \$62,840 40. On January 23, 1934, Mr Cox, bank liquidator, wrote to Mr House stating that an undue insurance premium was due in the amount of \$207 40. House, using the unused portion of the letter, replied

(U-11-5)

I regret to advise that I am at present unable to pay the premium due on the policy in question. I have heretofore explained my situation to you, namely, that I am unemployed—all of my securities are pledged to various loans at different banks—and all dividends and income are impounded. * * *

On January 25, 1934, Mr House called the Union Trust and—

(U-11-4)

He is rather indignant about our having sold the Industrial Rayon stock, which he claims caused him a loss of approximately \$5,000, and asked that in the future before we sold any of his securities to get in touch with him * * *

(U-11-4)

* * * He said that the Cleveland Trust loan to him is secured entirely by Guardian stock and that his loan in New York with the Chemical is also undercollateralized, but that institution permitted him to make a switch in his securities in order that he could buy some Industrial, inasmuch as he was a member of the executive committee of the latter company. Our action in selling the Industrial Rayon caused him considerable embarrassment * * *

The conservator has adequately expressed the situation upon an analysis of the financial condition of J A House, as appears in a memorandum from a report dated August 25, 1933, as follows:

(U-11-6a)

Mr House, formerly president of the Guardian Trust Co, appears to be in a hopeless financial condition. His obligations are in excess of \$800,000, and all his assets are pledged thereunder. He is not able to make interest payments, nor even keep up insurance premiums on policies pledged with various institutions.

THOMAS E. MONKS, VICE PRESIDENT, GUARDIAN TRUST CO

(U-11-7a)

The indebtedness of Mr Monks to the Union Trust Co is \$18,000. Comments from State bank examiner's report of January 20, 1933, regarding this loan was as follows:

Maker is a vice president of the Guardian Trust Co. Loan is collateralized by stock of a local real-estate holding company, value questionable. Bank also has a \$38,000 note and first-mortgage request-allotment property located in Cleveland Heights. No appraisal of this property is on file. Maker is unable to make any reductions at this time. An asset of undetermined value.

This loan of Mr Monks is dated January 31, 1931, and was originally due on July 31, 1931. There have been five renewals of the loan and no payments have ever been made of the principal. The last interest payment was January 20, 1933.

A perusal of the credit file regarding the borrowings of Thomas E. Monks revealed loans to him as early as August 1921. These loans were evidently paid. The conservator in an attempt to liquidate Monks' indebtedness of \$18,000, reports:

(U-11-8)

He states he is without immediate funds to make payments at this time as he has been without employment since the closing of the bank, and income from his real-estate investments is practically nil.

(U-11-8)

Besides our loan, he is owing a considerable sum to the Guardian Trust Co, and the Society for Savings, which he stated would be paid within a reasonable length of time.

It should also be noted that Thomas E. Monks holds stock of Guardian Trust Co, which will mean a double liability, further establishing his inability to pay.

BELDEN SEYMOUR, DIRECTOR, CLEVELAND TRUST CO

(U-11-9a)

Mr. Seymour is indebted to the Union Trust Co in the amount of \$37,215 from loans originating in October 1928. He last paid interest on his loan on April 1, 1932.

In his report of January 20, 1933, the State examiner stated:

(U-5-3)

Loan is delinquent in interest since April 1, 1932. Maker is a director of the Cleveland Trust Co. Value of the collateral pledged is \$12,000. Payment depends largely on collateral held; \$25,000 is classed as doubtful.

The liquidator has tried to collect some payment from Seymour but without success. A memorandum dated October 10, 1933, states

(U-11-10)

Mr Seymour called at our request. He stated he is still unable to make payments, but his insurance business has picked up considerably and he has hopes of selling three unencumbered lots within the next short while and that we will receive our proportionate share of the net amount realized. He has previously refused to give us mortgages on these lots or the assignment of any life insurance.

M J MANDELBAUM, DIRECTOR, CLEVELAND TRUST CO

(U-11-11a, 11b)

Mr Mandelbaum is indebted to the bank for two loans, one dated June 23, 1930, with a balance in the amount of \$7,000 and the other dated July 1, 1932, in the amount of \$102,812 68. Concerning these loans the State examiner stated in his January 20, 1933, report

(U-5-3)

Maker is a director of the Cleveland Trust Co. Collateral pledged is 273 shares Cleveland Trust Co stock, together with 8% shares Manning Realty Co. Latter company owns a leasehold on property located at 2020 Euclid Avenue, but the value of the stock cannot be determined. Maker is unable to make any reductions, and claims that he has no additional collateral which can be pledged. For the purpose of this examination, \$78,000 has been classed doubtful.

A perusal of the correspondence in the credit files of M J Mandelbaum shows his first loan connection in December 1916. His borrowings were frequent and were paid, consequently, he was considered a good customer. This favorable attitude continued until it was discovered he could not pay on his latest loans totalling \$109,812 68.

On May 31, 1932, a letter to G B Bliss, Canadian Bank of Commerce, reflects the changed opinion in a sentence as follows

(U-11-12)

Confidentially, we are of the opinion that he, like other large investors, has felt very keenly the present condition of the securities market.

(U-11-13)

Subsequent inquiries on the part of the conservator have disclosed that there is little possibility of recovery on this loan aside from the pledged collateral.

F. H. HOBSON, VICE PRESIDENT CLEVELAND TRUST CO.

Mr Hobson is indebted to the Union Trust Co. in the amount of \$54,193 07. Concerning this the examiner pointed out on January 20, 1933:

(U-5-3)

Value of collateral pledged is \$20,000, of which the principal item of collateral is 147 shares of Cleveland Trust Co., and payment depends largely on the future of that bank. Hobson is unable to make any payments at this time, \$35,000 is classed as doubtful.

On June 7, 1933, the value of collateral had dropped to \$15,829 00; this would increase the doubtful amount to \$39,271 00. Hobson's income for 1933 was from his salary as vice president of the Cleveland Trust Co —\$20,000. Of this, he stated in a statement required by the liquidator on June 15, 1933, \$7,000 would go for interest, \$3,000 for insurance, and \$6,000 for alimony to his divorced wife. This would leave a balance of \$4,000 for living expenses and other obligations. This would seem to prove the doubtful character of the loan and undoubtedly substantiate the State examiner's conclusions.

Certainly the examples presented in this report cannot be construed as loans of good policy. Granted that the declining period has its effect, nothing can justify anything but a conservative policy for a bank or its bankers. No liberal attitude was shown the "man in the street" nor the small depositor, the mask of conservatism was donned for them, but to a bank president the vaults were open, a situation apparently justified because of the borrower's connections.

WALTER H SEYMOUR,
Senior Examiner

Mr SAPERSTEIN I next hand you a report entitled "The Union Trust Company—Loan to J. P. Harris", and ask you if that report was made by members of the investigating staff of the committee under your immediate supervision.

Mr MEEHAN It was.

Mr SAPERSTEIN Mr Chairman, I offer the report in evidence, together with the exhibits referred to therein, which exhibits are now at the Government Printing Office.

The CHAIRMAN. The report and exhibits will be received in evidence and appropriately marked.

(The report entitled "The Union Trust Company—Loan to J. P. Harris," together with the exhibits referred to therein, which exhibits are now at the Government Printing Office, were received in evidence and marked "Committee Exhibit No 9, May 4, 1934", and are as follows.)

COMMITTEE EXHIBIT NO 9, MAY 4, 1934

LOAN, J P HARRIS

In reference to the loan made December 22, 1930 by the Union Trust Co. to J. P. Harris, former vice president of the Union Trust Co., your examiners are of the opinion that J. R. Nutt, formerly chairman of the board of directors of the Union Trust Co., was directly responsible for a loss of \$165,056 61 suffered by the bank in the above-mentioned loan.

(U-22-7)

Mr Harris in December 1930 was carrying a brokerage account with Hornblower & Weeks, and included in the collateral were 1,500 shares F. E. Myers & Bros. stock which had been "loaned" to him by Mr Nutt. The brokers were pressing Mr. Harris for additional collateral, whereupon Mr Nutt "loaned" Harris 500 additional shares of

F. E. Myers & Bros. stock and transferred Harris' loan in the amount of \$263,000 to the Union Trust Co.

When the loan was placed with the Union Trust Co., the collateral was valued at \$291,300 as follows

Shares	Security	Approximate market value	Total
10	Hidden prior preferred.....	73.....	\$730
1,000	United States Fidelity & Guaranty.....	25b-23a.....	26,500
500	Insurance shares.....	No market.....
600	Thatcher Manufacturing.....	14½.....	8,400
2,000	Pennsylvania Dixie Cement.....	2¾.....	2,750
100	United Fruit.....	45½.....	4,850
6,200	F E Myers & Bros.....	40½.....	248,000
	Total.....	291,230

(U-22-4)

Mr. Harris gave his promissory note dated December 22, 1930, to the Union Trust Co. in the amount of \$263,000. This note bears the following notation: "O.K. J R N.", which notation refers to J. R. Nutt, formerly chairman of the board of directors of the Union Trust Co.

(U-22-5, 5a, 6)

The proceeds of the note, \$263,000, were deposited on December 22, 1930, to the account of J P. Harris and on the same day Harris paid Hornblower & Weeks, stockbrokers, the amount of \$264,344 52.

The collateral pledged for the loan, with the exception of 2,000 shares of F E. Myers & Bros. Co. stock, was the property of J. P. Harris

(U-22-7, 8)

The 2,000 shares of Myers & Bros Co stock, as above, were the property of J R. Nutt This is supported by a written memorandum furnished your examiners by Mr. Nutt on February 13, 1934, in which he gives his version of the transaction under review and by a letter from J. P. Harris to Oscar L Cox, conservator of the Union Trust Co, in which Mr. Harris' attempts to explain the transaction

At a meeting of the finance committee of the Union Trust Co. held December 19, 1930, the following comment appears:

(U-22-1)

It was agreed to loan J. P. Harris \$263,000 secured by collateral

At the meeting held December 23, 1930, the loan was approved in the following notation:

(U-22-2)

Loans made at the main office under date of December 22, 1930, as described below, were approved

* * * * *

Collateral loans nos 80553 to 80635, \$1,643,036 49

(U-22-3)

Reference to the attached exhibit "Demand Collateral Loan Register" of December 22, 1930, indicates loan no 80609 in the amount of \$263,000 was made to J P Harris on the following collateral.

	<i>Shares</i>
F E Myers & Bros Co.....	6, 200
Thatcher Manufacturing Co.....	600
Insurance Share & General Management Union Trust Co.....	500
United Fruit Co.....	100
Pennsylvania Dixie Cement.....	2, 000
United States Fidelity & Guaranty Co.....	1, 000
Glidden Co.....	10

The comments in the so-called "Lenihan Report" dated February 3, 1933, state as follows in reference to the loan:

(U-1-38)

J P Harris Value of collateral, \$61,000, amount of loan, \$284,000.

(U-22-9)

Committee comment—We should get life insurance Committee was under the impression Mr J R Nutt guaranteed this loan, but has not been able to find such a guarantee on files

On January 3, 1934, the collateral to the loan was sold at public auction and the sale resulted in a loss to the bank of \$165,056 61

(U-22-9)

On February 15, 1934, the superintendent of banks of the State of Ohio instituted suit against J R Nutt for recovery of the loss sustained by the bank, J P Harris having gone into voluntary bankruptcy

In commenting on this loan, the Ohio State banking department in its report of January 20, 1933, page 96, stated as follows

(U-22-14)

J P Harris, \$284,000 Maker, a former vice president of the bank, is now unemployed. The loan is collateralized by various listed stocks worth \$54,000 at the present market prices Other collateral held is 356 shares of the Georgian Apartment Co Value undetermined Payment depends entirely on the collateral held and on the future ability of the borrower to earn For the purpose of this investigation \$100,000 has been classed as a loss and an additional \$120,000 has been classed as doubtful

(U-22-15, 16)

There are several factors in this case which indicate that J. R. Nutt should reimburse depositors of the Union Trust Co. for the loss suffered

There have been insinuations that Mr. Harris' account at Hornblower & Weeks was a joint account between Nutt and Harris and when it was transferred to the Union Trust Co the joint participation

(U-22-10)

still existed. A letter written by Harris to Nutt on January 11, 1928, states as follows:

I hereby acknowledge receipt from you of your check for \$10,000 which is to be used in our joint account as discussed in our conversation this morning

(U-22-11)

Further there is a letter addressed to Nutt by Harris under date of July 22, 1928, which discusses the advisability of selling certain securities. These securities were apparently in the bank's portfolio, but the letter is an indication of the relationship existing between Nutt and Harris in regard to stock market conditions and seems to indicate Nutt relied on Harris as to market forecasts, hence the handling of a joint brokerage account by Harris.

If the account at Hornblower & Weeks was a joint account and this fact was not disclosed to the bank when the loan was made, Nutt is certainly responsible for the deficiency in the account.

(U-22-12)

Further, in our opinion, the loan at the time it was made was not properly collateralized. It will be noted that the total value of the collateral was \$291,230 and that 6,200 shares of F. E. Myers Co. stock were valued at 40% or a total value of \$248,000. Thus 85 percent of the value of the collateral was in one block of stock. It is quite obvious that if the stock, which was a very inactive and closely held stock, had been sold it would not realize a market value of 40% since the unloading of a 6,200-share block would undoubtedly knock down the market price to much lower levels. The price range in December 1930 was 37%—41.

The loan was undoubtedly made on the strength of Mr. Nutt's approval and it was the opinion of the Lenihan committee as noted above "that Mr. Nutt had guaranteed the loan", though no such guarantee was found in the credit files.

The bank's major contention is that Mr. Nutt transferred the loan to the bank to protect his own interests in the loan, namely, the 1,500 shares F. E. Myers stock which he had loaned Mr. Harris. Had Hornblower & Weeks "sold out" Harris' account Mr. Nutt would have suffered to the extent of some \$60,000. His being chairman of the board of the Union Trust Co., and since it was the general belief among directors of the bank that he had an interest in the loan, undoubtedly influenced the granting of the loan.

There is no written evidence that Mr. Nutt advised directors or officers of his interest in the Harris loan.

At the time the loan was made Harris was in no way financially able to meet any deficiency in the loan if such did occur, his only method of repayment would have been an enhancement in the value of the collateral, which to our minds was entirely speculative. Mr. Nutt, of course, was entirely familiar with this when he "saddled" the loan onto the depositors of the Union Trust Co.

WALTER H. SEYMOUR,
Senior Examiner

This report based upon preliminary report and complete investigation by committee examiner, M. J. La Padula.

Mr. SAUERSTEIN. Mr. Meehan, I now hand you a report entitled "Union Trust Company, Loans to Directors—William G. Mather", and ask you if that report was made by members of the investigating staff of the committee under your immediate supervision.

Mr. MEEHAN. It was

Mr SAPERSTEIN Mr Chairman, I offer the report in evidence, together with the exhibits referred to therein, which exhibits are now at the Government Printing Office

The CHAIRMAN The report and exhibits will be received in evidence and appropriately marked by the committee reporter

(The report entitled "Union Trust Company, Loans to Directors—William G. Mather", together with the exhibits referred to therein, which exhibits are at the Government Printing Office, were received in evidence and marked "Committee Exhibit No 10, May 4, 1934," and are as follows)

COMMITTEE EXHIBIT No. 10, MAY 4, 1934

LOANS TO DIRECTORS

WILLIAM G. MATHER

Mr. William G Mather, a director of the Union Trust Co., Cleveland, Ohio, was considered one of the wealthiest men in Cleveland. He was associated with many large companies, including the following:

Cleveland Cliffs Iron Co , president; Munising Paper Co ; Mesaba Cliffs Iron Mining; Negaunee Mine Co ; Cleveland Steamship Co ; Trumbull Cliffs Furnace Co ; Kelly Island Lume & Transport Co , director; Otis Steel Co , director; Central Steel Co , director; Central Furnace, director

(U-6-4A)

On June 15, 1932, W m G Mather had direct liabilities of \$2,282,-546 39 and indirect liabilities of \$61,240 89, or a total of \$2,343,787.28 due to six different banks.

The greater part of his collateral was stock of Cleveland Cliffs Iron Co , the value of which had decreased greatly and consequently the banks found themselves facing the possibility of incurring heavy losses on the loans made to Mather in the event the loan had to be liquidated.

COLLATERAL TRUST INDENTURE

On July 21, 1932, a collateral trust indenture was entered into between William G. Mather and the Union Trust Co. of Cleveland, Ohio, the Union Trust Co to act as trustee The purpose of this trust indenture was to rearrange the personal assets and liabilities of Mr. Mather. It is based upon the principle of utilizing his total assets to secure the payments of his total liabilities, and so provide as to insure the regular payment of his current interest obligations to banks and trust companies as they mature

(U-6-1, pp 1 and 2)

Mr. Mather's obligations to banks and trust companies as shown in the collateral trust indenture as of that date are as follows

Union Trust Co , Cleveland.....	\$800, 000 00
Cleveland Trust Co , Cleveland.....	125, 000 00
Central United National Bank, Cleveland.....	250, 000 00
Guardian Trust Co , Cleveland.....	348, 031 39
Miners National Bank, Ishpeming, Mich.....	50, 000 00
Irving Trust Co , New York, N Y.....	9, 000 00

Total..... 1, 582, 031 39

(U-6-1 p 1)

The indebtedness of \$800,000 to the Union Trust Co. consists of the following promissory notes

(U-6-2, 3)

Date	Amount	Interest rate	Maturity
Mar 9, 1932.....	\$450,000	Percent 6	Demand.
Do.....	350,000	6	Do

(U-6-1, p 1)

The above notes were secured by a promissory note of the Cleveland Cliffs Iron Co. in the amount of \$200,000, issued under and secured by a trust agreement dated March 23, 1932, between said company and the Union Trust Co ; a \$2,000 promissory note of the Cleveland Cliffs Iron Co.; 31,253 preferred shares of the Cleveland Cliffs Iron Co.; and 8,000 common shares voting trust certificates of the Cliffs Corporation

(U-6-4, 4A)

The annual interest accruing on these notes beginning 1933 amounts to approximately \$102,000, and as appears from the exhibit attached taken from the credit file of W. G. Mather, Mr Mather would not be able to meet these interest obligations without additional borrowings from the banks.

Additional loans were made by the Union Trust Co to Mr. Mather subsequent to the trust agreements and were also secured by the collateral trust indenture, and are as follows

(U-6-5 and U-6-10)

Date	Amount	Interest rate	Maturity
Jan 1, 1933.....	\$12,322 50	Percent 6	Time loan.
Oct 1, 1933.....	10,474 11	6	Do
Apr 18, 1933.....	12,322 50	6	Do
July 1, 1933.....	6,777 39	6	Do
Jan 1, 1934.....	2,811 70	6	Do.
Sept 30, 1932.....	24,645 00	6	Do
Total.....	69,353 20		

(U-6-1, p 3)

In addition, Mather is indebted to colleges and universities on unsecured notes as follows

Trinity College.....	\$75,000
Kenyon College.....	75,000
Diocese of Marquette, Mich, musical arts.....	21,000
Association Western Reserve University.....	216,000
Cleveland Museum of Art.....	3,265
Total.....	390,265

(U-6-1, p 3)

Also, a note to Trinity College for \$60,000, secured by 5,000 preferred shares of the Cleveland Cliffs Iron Co.

(U-6-1, p 3)

To individuals and corporations he is indebted on unsecured notes as follows.

Katharine L. Mather.....	\$36, 000
Marian S Bower.....	100, 000
Cleveland Cliffs Iron Co.....	4, 250
The Union Trust Co , Burgwin.....	10, 000
Total.....	150, 250

(U-6-11 to U-6-17)

An analysis of the notes to the Union Trust Co which total the \$800,000 promissory note under the collateral trust indenture indicates the following:

Proceeds.	<i>Notes Union Trust Co</i>
Interstate Foundries, Inc.....	\$174, 000
Wm G. Mather, personal.....	425, 000
To purchase Continental shares.....	200, 000
Cashier's check, W G Mather.....	1, 000
Total.....	800, 000

(U-6-17A)

The note of \$174,000 is a consolidation of three notes which entered the assets of the Union Trust Co in 1922, 12 years ago, in a total amount of \$220,000 secured by Interstate Foundries, Inc first-mortgage bonds. The only reduction on the loans, were on February 7, 1928, of \$20,000, and on November 16, 1929, in the amount of \$26,000

The note of \$425,000 is a consolidation of three notes secured by Cleveland Cliffs Co which entered the assets of the Union Trust Co. in 1928, 1929, and 1931. No reductions were ever made on these loans.

The note of \$200,000 entered the assets of the Union Trust Co May 23, 1931. The proceeds were used to purchase 40,000 shares of Continental shares. No reduction was ever made on this loan.

In 1931, Mr. Mather agreed with his associates to purchase shares of Continental stock which were up as collateral for Otis & Co's loans at banks and trust companies.

OTIS & CO PARTICIPATION LOAN

In order to explain the loan of \$200,000, it is necessary to review the general history of the participation loan made to Otis & Co. by a number of Cleveland banks.

Otis & Co, investment bankers, were founded in 1900 and in 1931 operated 21 offices in the larger cities of the United States. The Cleveland members of the firm were M C Harvey, C. S Eaton, Richard Inglis, J O Eaton, S E Klune

Otis & Co is a national organization engaged in underwriting and distribution of investment securities, is a member of the principal exchanges in the country, including New York and Chicago

In April 1931 Otis & Co., disposed of their commission brokerage business by selling it to E. A. Pierce & Co, but continued to do business in the brokerage line as agents of E. A. Pierce & Co.

This was done in an effort to take Otis & Co. out of the difficulties gotten into during the boom years.

(U-6-18 to 26)

On May 21, 1931, the total liability of Otis & Co. to the Union Trust Co. amounted to the sum of \$950,823.31, consisting of eight notes as follows. \$163,429.50, \$68,680, \$631,329, \$4,940, \$2,900, \$2,200, \$43,000, and \$34,344.81, totaling \$950,823 31; which notes on May 22, 1931, were consolidated into a participation loan in the amount of \$3,684,000 distributed among four Cleveland banks as follows

(U-6-27 to 30)

Union Trust Co.....	\$1, 252, 560
Cleveland Trust Co.....	1, 252, 560
Guardian Trust Co.....	736, 800
Central United National Bank.....	442, 080
Total.....	3, 684, 000

(U-6-31, 32)

These banks agreed to loan Otis & Co. up to a total of \$4,182,000 secured by collateral which has been valued at approximately \$4,716,968. This collateral includes 179,226 shares of Continental Shares, Inc., common, valued at \$3 per share on May 22, 1931.

(U-6-33)

In addition to the assistance granted by the four Cleveland banks to Otis & Co., on May 21, 1931, Mr. Wm. G Mather in behalf of himself and his associates agreed to purchase from Otis & Co 300,000 shares of the fully paid and nonassessable common stock of Continental Shares, Inc., at \$5 per share.

The bank's records indicate 300,000 shares were taken up by the following persons in the proportion indicated below

Delivered to—	Number of shares	Amount	Delivered to—	Number of shares	Amount
Wm G Mather.....	65, 000	\$325, 000	E B Green.....	4, 000	\$20, 000
Seaboard By-Products			J H Wade, Jr.....	6, 000	30, 000
Coke Co.....	100, 000	500, 000	G G Wade.....	15, 000	75, 000
Southern Ohio Power Co....	20, 000	100, 000	Helen W Green.....	15, 000	75, 000
H A Hanna Co.....	20, 000	100, 000			
Newberry Investment Co....	25, 000	125, 000	Total.....	300, 000	1, 500, 000
Finance Corporation of America.....	30, 000	150, 000			

The above 300,000 shares were released from loans of Otis & Co. at the following banks:

(U-6-34 to 39)

Name	Shares	Amount	Name	Shares	Amount
Union Trust Co.....	179, 226	\$396, 130 00	Cleveland Trust Co , Cleve- land Chase National Bank, New York City.....	62, 000	{\$250, 729 17 59, 270 83
Philadelphia National Bank Philadelphia, Pa..	6, 300	31, 500 00			
Commercial Exchange Na- tional Bank & Trust Co , Philadelphia, Pa.	10, 460	52, 300 00			
			Total.....	300, 000	1, 500, 000 00

In order to accomplish this, the following associates of Mather borrowed from the Union Trust Co. to pay in part for the Continental Shares, Inc.

(U-6-40 to 44)

Name	Number shares	Amount of note	Name	Number shares	Amount of note
Southern Ohio Power Co...	20, 000	\$50, 000	Edward B Green.....	4, 000	\$20, 000
Newberry Investment Co...	25, 000	62, 500	Wm G Mather.....	40, 000	200, 000
G G Wade.....	15, 000	37, 500			
J H Wade, Jr.....	6, 000	30, 000	Total.....	110, 000	400, 000

The balance of \$1,100,000 for the remaining 190,000 shares of Continental shares was paid for by checks drawn by Mr. Mather and his associates

There was additional collateral to secure the above loans when made, all of which loans have been paid with the exception of the \$200,000 loan of Wm. G. Mather, which note at this time is a part of the \$800,000 collateral trust indenture as explained above.

The following are excerpts taken from the State bank examiner's report of January 20, 1933, in regard to the loans of Mr. W. G. Mather and Otis & Co.:

(Complete copy of State bank examiner's report to be in Washington if needed)

Wm G Mather, \$857,523 99—Loans are based principally upon preferred stock of the Cleveland Cliffs Iron Co, and common stock of the Cliffs Corporation Bank also holds \$204,000 notes receivable of the Cleveland Cliffs Iron Co It is impossible to make an accurate appraisal of any of the securities held as collateral Quotations on the Cleveland Cliffs Iron preferred stock vary all the way from \$5 per share to \$25 per share Mather's total indebtedness to all banks is known to be in excess of \$2,000,000 Under the terms of a creditors' agreement between Mather and his various creditor banks his indebtedness was extended to January 1, 1936 Mather in turn has trusted all of his tangible assets for the prorata benefit of the various creditor banks The outcome of this credit depends largely upon the future of the Cleveland Cliffs Iron Co Officers believe that the line can eventually be worked out

Otis & Co, \$713,987 65—Interest paid to May 1, 1932 A former local brokerage house whose activities have now been practically discontinued This loan is a participation with other local banks in a total loan of \$2,100,000 It is collateralized by marketable stocks having a present market value of approximately \$143,000, together with a great many other issues which are unlisted and on which the value cannot be determined A loss of \$450,000 is estimated, and this estimate was agreed upon by officers of the bank.

Excessive loans to directors, we believe, were a contributing factor to the eventual collapse of the Union Trust Co. This case clearly indicates that the bank was absolutely negligent in its loan policy and was guided principally by the fact that Mather was a director of the

bank and that he was prominent in many companies in which other directors and officers of the Union Trust Co. had heavy interests

(U-6-17A)

The loan of \$174,000 was allowed to run for 12 years in the assets of the bank

The loan of \$425,000, 50 percent of the entire Otis & Co. participation was withdrawn from the institution by Mather and used for his personal use

The loan of \$200,000 was loaned to him for his participation in a speculative venture and involved the bailing out of a brokerage firm with funds of the bank

The action of the bank in this particular loan is subject to severe criticism

The \$200,000 was used to liquidate part of his participation in the purchase agreement to acquire 300,000 share of Continental Shares Inc

WALTER H. SEYMOUR,
Senior Examiner

This report based upon preliminary report and complete investigation by committee examiners, M. J. La Padula and T. A. Donaldson.

Mr SAPERSTEIN I now hand you a paper entitled "The Union Trust Company—Loans—K V Painter", and ask you if that report was made by members of the investigating staff of this committee under your immediate supervision.

Mr. MEEHAN. It was

Mr SAPERSTEIN Mr Chairman, I offer the report in evidence, together with the exhibits referred to therein, which exhibits are now at the Government Printing Office

The CHAIRMAN. The report and exhibits will be received in evidence and appropriately marked

(The report entitled "The Union Trust Company—Loans—K V. Painter", together with the exhibits referred to therein, which exhibits are at the Government Printing Office, were received in evidence and marked "Committee Exhibit No. 11, May 4, 1934," and are as follows)

COMMITTEE EXHIBIT No 11, MAY 4, 1934

LOANS

K V PAINTER

Kenyon V Painter has been a director and a member of the executive committee of the Union Trust Co for more than 10 years. As we pointed out in our report regarding the "Painter, Bradley, Nutt Syndicate", Mr Painter has been very closely associated with Mr Nutt for a great many years

When the Union Trust Co closed on February 25, 1933, Mr K. V Painter was indebted to the trust company in the amount of \$2,930,000—an indebtedness which has not as yet been paid

(U-4-1)

Mr Ira J Fulton, superintendent of banks of Ohio, appointed a Mr Robert M Huston as "special deputy" to make an investigation of certain transactions of the Union Trust Co. Among the matters investigated by Mr Huston were the loans made to K V. Painter. Mr Huston completed his task and submitted his report to Mr. Fulton on September 18, 1933. We have obtained a copy of this report and shall refer to its comments, as made by Mr Huston, frequently in our report.

Regarding Mr Painter's loans and his acts as director, the report states.

(U-4-1a, p. 1)

Kenyon V Painter is 66 years of age and has been a director of the Union Trust Co for approximately 10 years. He has also been a member of its executive committee for about the same period of time. From the evidence at hand it appears that Painter has never seriously recognized the responsibilities of a bank director, but has construed his official position with the Union Trust Co as one of unusual and irregular liberties and privileges. It further appears that both Wilbur M Baldwin and Charles W Carlson, president and vice president, respectively, of the Union Trust Co, had the same mistaken idea regarding the duties of their respective positions as well as the courtesies and privileges due a director.

(U-4-1a, p. 1)

Wilbur M Baldwin is 58 years of age and has been a director of the Union Trust Co for approximately 10 years. March 25, 1930, Baldwin was elected to the presidency of the Union Trust Co. and continuously served in that capacity until the early part of this year (1933).

(U-4-1a, p. 2)

Charles W Carlson is about 48 years of age and was a vice president of the Union Trust Co from January 11, 1928, to the date of failure. Carlson was never a director of the bank nor was he ever considered a senior loaning officer or a member of any important committee.

At the date of failure of the Union Trust Co, Painter was indebted to that bank to the enormous amount of \$2,930,000, only a small fraction of which sum was adequately or properly secured. Our investigation discloses that virtually all of this indebtedness resulted from unlawful collusion between Painter, Baldwin, and Carlson for the purpose of willfully misapplying the moneys, funds, and credits of the bank for the direct use, benefit, and advantage of Painter and indirectly for the use, benefit, and advantage of Baldwin and Carlson.

(U-4-1a, p 2)

In substance the general scheme of operation was as follows. Painter would convey to the bank certain real-estate holdings, leaseholds, and real-estate equities together with certain unlisted and unknown stocks of doubtful worth, all to be held by the bank in trust as collateral security for future borrowings. Subsequently, Painter would execute his demand promissory note, or notes, for sums averaging about \$300,000 each. These notes would not immediately be recorded on the bank records for their face amounts and like credits passed to Painter's account, but instead would be withheld by Baldwin or Carlson and used only at such times and in such amounts as would be necessary to avoid an overdraft in Painter's personal account.

(U-4-1a, p 2)

By this arrangement each note was recorded as constituting a series of loan transactions rather than as one independent borrowing. Furthermore, such irregular procedure was decidedly beneficial to Painter in view of the fact that at no time was he required to pay interest on any unused portion of his loans. He also enjoyed a preferential interest rate on his loans, being charged a lesser rate of interest than other customers of the bank were required to pay

(U-4-1a, p 5)

The indebtedness of Painter began on July 1, 1930, and continued up to and including October 1931, and totaled, as we have already pointed out, \$2,930,000 at the time the bank closed. There was also due the Trust company accrued interest, delinquent as of April 1, 1933, of \$224,411 55.

(U-4-5, 8, 4)

The Union Trust Co., through its president, Mr. Baldwin, and vice president, Mr. Carlson, loaned these moneys to Painter to be used by him for the most part in the purchase of the stock of the bank. The shares of stock were purchased almost daily and registered in Painter's name

(U-4-18)

During our investigation rumors were expressed around the bank that the loans to Painter and the stock market activities of Painter were really for the account of Mr. Nutt and Mr. Painter, an allegation we have been unable to substantiate. However, we do know that Mr. Baldwin personally handled the transactions for Painter, and that Baldwin, it has been claimed, was Mr. Nutt's right-hand man.

(U-1-22, 22a)

In their December 1932 report the directors' examining committee devoted a great deal of space to the Painter loan and showed that the \$2,930,000 was made up of about 78 separate advances ranging, generally, from \$10,000 to \$50,000 each. It is also noted in this report that the interest rate being charged to Painter was as follows:

(U-1-22, 22a)

Date	Interest rate	Principal of loan
	<i>Percent</i>	
July 1, 1930.....	5½	\$950,000
Dec 10, 1930.....	5	1,050,000
July 1, 1931.....	4½	2,210,000
Nov 10, 1931.....	5	2,850,000
Jan 1, 1932.....	6	2,930,000

(U-1-23)

The committee also states the value and the details of the present collateral and of the collateral released. They value, as of December 13, 1932, the collateral at \$1,131,960 but we will take this particular item up later in this report.

(U-1-21)

Committee's comment—The directors' examining committee, in reporting the facts of the Painter loan, made, in part, the following comments.

Your committee submits herewith the result of its investigation into the K. V. Painter loan, which is now on a nonaccrual basis:

Balance due on principal.....	\$2, 930, 000 00
Accrued interest due from Jan 1, 1932, to Dec 31, 1932.....	183, 613 37

We submit various data in connection with this transaction in the order named:

(U-1-22, 23, 24, 25, 26)

1. Transcript of his loan record.
2. List of present collateral.
3. Itemized list of collateral released.
4. Copy of release dated September 30, 1931.
5. Transcript of Union Trust stock record of borrower.
6. Transcript of the commercial account of W. M. or John Wyeth (K. V. Painter's brother-in-law)

(U-1-21)

Your committee wishes to call your attention to the transcript of the loan account and a comparison of it with the stock record purchase of the borrower. By a comparison of the two accounts it is the conclusion of the committee that the funds advanced by the bank from time to time were used to purchase Union Trust Co. stock, and further, from an investigation of the receipts for the stock certificates that the officers in charge of the loan had full knowledge that the funds were being so used

(U-1-21)

From November 24, 1930, to September 30, 1931, Mr. Painter purchased 13,680 shares at an approximate cost of \$860,000

(U-1-21)

The loan records also show a release on October 3, 1931, of marketable securities, having an approximate market value of \$316,000, to K V Painter without payment, approved by W. M. B. We are unable to find that the finance committee approved the release of this collateral before it was made

The loan department register shows that the transaction was approved by the finance committee on October 13, 1931 (sheets are initialed F P R) (F P Root, a director)

(U-1-21)

Your audit committee fully realizes that some releases must be made before being formally approved by the finance committee. However, the committee does not believe that releases such as the above come under this classification, inasmuch as the loan was greatly under-secured before any collateral was released, and, therefore, the borrower should have been asked to pledge additional security instead of receiving collateral already pledged.

(U-1-21a)

Other facts found by the committee are that on June 15, 1931, Mr Painter's fairmount boulevard estate was deeded to his brother-in-law, W M Wyeth On October 7, 1931, our bookkeeping department opened a new account in the name of W M or John Wyeth with a check of Vickers operating and running expense account, which is a K. V Painter account Further investigation of the transcript of this account shows other credits from the same source and likewise, charges against this account and credits to Vickers operating and running expense account It would appear that these are K V Painter's funds.

On December 15, 1931, the Painters closed their safe-deposit box here

(U-4-3, 6, 7, 10, 14, 15, 16, 25)

We have carefully perused the files of The Union Trust Co regarding Kenyon V. Painter and have taken photostatic copies of several letters typical of hundreds in the files These letters are simply confirmation letters written by Mr Baldwin and addressed to Mr Painter saying that he had purchased a blank number of shares of Union Trust Co stock for blank dollars However, as an indication to whether or not the transactions of Painter were for the sole account of Painter, the following are excerpts of some of the letters between Mr. Baldwin and Mr. Painter A longhand letter, dated November 23, 1930, on the stationery of Mr Kenyon V. Painter and addressed to Mr. Baldwin, states, in part, as follows

We are leaving this morning for St Joseph I see yesterday about 400 Union Trust sold Would it not be a good thing to lower our bid As I said, I am very glad to try to take up all Union Trust sold, but of course we do not want to give more than necessary for it

(U-4-13)

On January 15, 1931, Mr Baldwin wrote to Mr Painter in care of the Biltmore Hotel after having talked with Mr Painter over the long distance telephone Mr Baldwin stated

Briefly, my reason for wanting to talk to you was the sudden break in the market price of Union Trust stock yesterday

(U-4-13)

Mr Baldwin stated that there were 1,000 shares offered at 74 and that when it was offered to him he knew of no one interested at that price, and that the price had kept dropping until it reached 69½, of which I bought for you 474 shares at that price

(U-4-13)

It is quite apparent to me that this particular holding was some distressed stock—that the owner had to have some money quick

(U-4-17)

And on April 6, 1931 Mr Baldwin wrote a memorandum to Mr. Carlson in which he stated

I wish you would say to Mr Painter that I am very glad that he reduced the bid on the remaining block of 193 shares to 68½, because I had a memorandum

to talk to him about that this morning, but was not permitted to come to the office or use the telephone; and for the next week or 10 days I would not feel adverse to having the bid reduced to even 68, and then watch the market so that if a block of 200 shares or more should be offered, drop the bid a full point at once and let it stay down for a few days to see if the stock is purchased elsewhere

(U-4-23)

As we have stated above, the borrowings of Painter began on July 1, 1930, with a loan of \$950,000, and continued, increasing bit by bit, until October 1931, when the balance had reached a total of \$2,930,000.

However, the advances to Painter ceased rather abruptly in October 1931. Obviously, Baldwin had intentions of extending further credit to Painter, as is evidenced by a \$300,000 note of Painter's, dated August 31, 1931, having an unused balance of \$235,000. Upon this note there is an unsigned notation: "No more advances", which, we understand, is in the handwriting of a loan clerk (one R. J. Rutenbeck) Mr Rutenbeck claims not to remember by whose authority the advances were stopped.

(U-4-1-a, p. 20)

Mr Huston claims that there was also another note in the amount of \$300,000 signed by Painter, as of October 5, 1931, "in Baldwin's possession".

We have not been able to find any copy of this note in the files of the Union Trust Co and have not contacted Mr Baldwin. However, we have definite knowledge that Baldwin did have the note and that he returned it to Painter on October 8, 1931, a transaction to be taken up later in this report.

COLLATERAL PLEDGED AND COLLATERAL RELEASED

(U-4-2-a, p 1)

On July 13, 1931, Mr. Painter executed a new agreement with the Union Trust Co, pledging certain real estate. With this pledge agreement Mr. Painter submitted a financial statement showing his estimate of the value of his holdings. Messrs. M. G. Lutsch and P. A. Frye, of the bank, each made appraisals of Painter's property, and Mr. R. Huston, State investigator, submits a comparative statement of the Painter, Lutsch, and Frye appraisals, the totals of each of which are as follows

(U-4-2-a, p 2, U-4-1-a, p 14, 15)

Painter appraisal.....	\$5, 127, 714 50
Lutsch appraisal.....	1, 056, 090 00
Frye appraisal.....	1, 253, 930 00

(U-4-1-a, p. 15)

As pointed out in Mr Huston's report, Mr Painter valued (as of July 13, 1931) 8,000 shares of Akley Camera stock at \$138 a share, while a statement of the company as of December 31, 1931, shows a book value for the stock of \$12.08 a share. Mr. Huston states that Baldwin claims to have no knowledge of these appraisals; but a

memorandum found in the files of the Union Trust Co. from one officer to another states, in part:

(U-4-21)

I am also returning for your loan files the appraisal Mr. Painter signed on the 21st of May, 1931, together with some appraisals of Mr. Stuber and other data Mr. Baldwin handed to me

On October 3, 1931, certain of the collateral securing the Painter loan was released. We quote Mr. Huston's comments regarding this release, in full

(U-4-1-a, p 18)

October 3, 1931, the bank released a large block of listed securities as collateral to Painter's indebtedness, without consideration or payment on his indebtedness. These securities were, in substance, the same as those securities received from the New York Trust Co. July 13, 1931, at the time Painter borrowed \$575,000 from the Union Trust Co. with which to pay a note in that amount held by the New York Trust Co. We have caused these securities to be valued as of October 3, 1931, by the Directors' Research Association, Inc., of Cleveland, Ohio, located in the Federal Reserve Bank Building

(U-4-1-a, p 19)

The following schedule shows the securities released, the amount of each, and the valuation placed thereon by the Directors' Research Association, Inc., as of October 3, 1931:

4,800 shares Manufacturers Trust Co of New York.....	\$154, 800 00
6,684 shares the Glidden Co common.....	34, 250 50
2,000 shares the White Motor Co capital.....	16, 000 00
1,100 shares Chesapeake & Ohio Ry common.....	28, 600 00
600 shares the Midland Steel Products common.....	4, 500 00
400 shares the Gillette Safety Razor Co.....	4, 450 00
100 shares the Midland Steel Products Co 8-percent cumulative preferred.....	4, 500 00
100 shares the American Chicle Co common.....	3, 300 00
800 shares the Richman Bros Co.....	28, 000 00
200 shares the Missouri Pacific Ry preferred.....	5, 400 00
100 shares United States Steel common.....	6, 800 00
100 shares the Goodyear Tire & Rubber Co common.....	2, 100, 00
400 shares Chesapeake Corporation.....	6, 800 00
100 shares the New York, New Haven & Hartford Ry.....	3, 600 00
500 shares the United Corporation common.....	6, 000 00
100 shares the New York Central capital.....	5, 500 00
Total.....	314, 600 50

With the exception of 3,300 shares of Manufacturers Trust Co stock and 2,684 shares of Glidden Co. common, all of the aforementioned securities were sent to the Chemical Bank & Trust Co. of New York City, to be held by that bank as additional collateral to Painter's note for \$305,000 to that bank.

(U-4-23)

In connection with the above release of collateral, it should be borne in mind that the bank held Painter's note, with an unused balance of \$235,000, and Baldwin had in his possession another note in the amount of \$300,000, but someone, evidently with higher authority than the bank president, said, "No more advances"

Therefore, Baldwin arranged a loan for Painter in the amount of \$305,000 from the Chemical Bank & Trust Co., New York, taking the necessary collateral from that securing the Painter loan at the

Union Trust Co Mr Baldwin then wrote a letter to Mr Painter, dated October 8, 1931, stating

(U-4-22)

Referring to your letter of October 3, I wish to report that under date of October 6 I arranged a loan at the Chemical Bank & Trust Co of New York of \$305,000, which loan is dated October 6, 1931, and payable April 6, 1932, with interest at 4 percent per annum

Mr Baldwin then states

(U-4-22)

I return herewith your note dated October 5, 1931, for \$300,000 which you gave me to use

(U-4-1a, p 21)

Again, on October 26, 1931, the bank released 7,000 shares of Manufacturers Trust Co. capital stock in consideration of Painter's paying \$150,000 on his loan. According to a valuation made for Mr. Huston, this stock was worth, on October 26, 1931, \$38 a share, a total of \$266,000

GENERAL

As of January 20, 1933, the State banking department made an examination of the Union Trust Co, and the examiner stated, regarding the Painter loan

(U-4-11)

In passing this loan at the time of previous examination, the examiner was compelled to rely solely upon verbal information furnished by bank officers.
* * *

The examiner has classed \$1,000,000 as doubtful and believes that he is very charitable in this classification

In the files of the liquidator at the bank there is a memorandum of a conference between Mr Cox, the liquidator, and Mr Nutt This memorandum states

(U-4-12)

Mr Nutt never trusted Painter fully He told the bank's income-tax man to "watch his step" in preparing Painter's documents in connection with taxes, and was impelled to this caution because Painter was notoriously a small income-tax payer, "paying less than my young son"

In conclusion we wish to call attention to exhibit U-4-20, which is a copy of section 13105-1 of the General Code of Ohio. We believe that the acts of Mr. Painter in submitting his financial statement on May 21, 1931, with his appraisal, and the acts of Mr Baldwin in accepting this statement and allowing Painter to borrow Union Trust Co funds, were direct violations of the Ohio law We also believe that Mr Baldwin violated his duties as an officer and director of the Union Trust Co. throughout the transactions with Mr Painter, and especially in allowing the release of the collateral and the arranging of a loan from another bank with the collateral released, after further credit was refused by the Union Trust Co

WALTER H SEYMOUR,
Senior Examiner

Mr SAPERSTEIN. Mr. Meehan, I hand you a report entitled "Loans Made by the Union Trust Company to Van Sweringens and Controlled Companies", and ask you if that report was prepared by the members of the investigating staff of the committee under your immediate supervision

Mr MEEHAN It was.

Mr. SAPERSTEIN. Mr Chairman, I offer the report, together with the exhibits referred to therein, which exhibits are now at the Government Printing Office in order to facilitate printing, in evidence and ask that same be received

The CHAIRMAN The report and exhibits will be received in evidence and appropriately marked

(The report entitled "Loans Made by the Union Trust Company to Van Sweringens and Controlled Companies," together with exhibits referred to therein, which are now at the Government Printing Office, were received in evidence, marked "Committee Exhibit No 12, May 4, 1934", and are as follows)

COMMITTEE EXHIBIT No 12, MAY 4, 1934

LOANS MADE BY THE UNION TRUST CO TO VAN SWERINGENS AND CONTROLLED COMPANIES

(Brought out in detail; pp 7, 23 to 25, 27, 28, 30, and 36)

The troubles and the closing of the Union Trust Co are due, in a large measure, to the loans made by the Union Trust Co to and the investments it made in the Van Sweringen enterprises There is little doubt that the policies and business management of the Union Trust Co, as will be shown in almost every report, were dictated by Mr Joseph R Nutt Neither is there much doubt but that the policies and business management of Joseph R Nutt were influenced and dictated by the Van Sweringens As nominal head of this large institution, Nutt allowed the Vans to borrow in excess of the legal limit; he allowed them to substitute worthless collateral for good, and when a loan to the Vans was refused in the main office of the Union Trust Co it was granted at a branch of the Union Trust Co, upon the oral approval of Mr. Nutt.

In the report, "Van Sweringen Enterprises", written in connection with our examination of J P. Morgan & Co, we covered fully the details regarding the formation of the Vaness Co and the voting trust agreement of the Van Sweringens However, at the expense of repeating, we believe that the details should again be brought out in this report in order to show the relationship between the Van Sweringen brothers and certain officers and directors of the Union Trust Co.

VANESS CO AND VOTING TRUST

(U-2-2)

The Vaness Co was incorporated under the laws of Delaware on January 9, 1922, as a personal corporate vehicle for O. P. and M. J.

Van Sweringen and their associates. The original shareholders were as follows:

	<i>Shares</i>
J R Nutt, chairman of the board, the Union Trust Co.....	16, 250
C L Bradley, director, the Union Trust Co.....	16, 250
W. S Hayden, director, the Union Trust Co.....	16, 250
Otto Miller, director, the Union Trust Co.....	16, 250
O P and M J Van Sweringen.....	97, 500
Total.....	162, 500

On July 15, 1922, a voting trust agreement was entered into between the above-named persons and the Union Trust Co., as trustee—

(U-2-2, 2-3)

Whereby the trustee, held, as trustee, all the voting common stock for the lives of the six persons named and for 21 years after the death of the last survivor. The trustee was required to deliver proxies to vote the stock to the two Van Sweringens, Nutt, Bradley, Hayden, and Miller for the stock deposited by them respectively during the life of the agreement, regardless of who owned the "certificate of interest"

(U-2-2)

On January 11, 1934, the Messrs, Hayden and Miller sold their interest in the Vaness Co. to the Van Sweringen brothers. Since then the stock of the Vaness Co. has been owned as follows

	<i>Shares</i>
J R Nutt.....	16, 250
C L Bradley.....	16, 250
O P and M. J. Van Sweringen.....	130, 000
Total.....	162, 500

(U-2-3)

At the time of the sale of their holdings by Hayden and Miller to the Van Sweringens a new voting trust agreement was entered into. Provisions of the new voting trust agreement were substantially the same as those contained in the previous agreement. This second agreement terminated in 1927 at which time options were granted by J. R. Nutt and C L Bradley to O P and M J Van Sweringen covering the purchase by the Van Sweringens of the interests owned by J R Nutt and C. L. Bradley in the event of their death.

(U-57)

In addition to the above-named directors of the Union Trust Co associated with the Van Sweringens there are others, two of whom stand out rather prominently, viz, the Messrs F H Ginn and W M. Baldwin

(Committee hearings, J P. Morgan & Co), (Exhibit with directors and officers)

Mr. Ginn, as evidence already presented before the committee clearly states, has for a good many years actively represented the various Van Sweringen corporations as counsel. Evidence has also been presented to show that Mr Ginn has acted as counsel and was a director of the Union Trust Co and was a member of the so-called Morgan & Co. "preferred list" It should also be borne in mind that

Mr Ginn was a member of the board of directors (1925 through 1933), executive committee (1925 through 1933) of the Union Trust Co

(Related orally by Mr. Norton to Mr Seymour)

Mr Robert C Norton, another director of the Union Trust Co. and member of the examining committee of December 1932, informed the writer that Mr Ginn had been very active around Cleveland for the Van Sweringens, and by getting himself appointed to this important committee (executive) had aided Mr. Nutt a great deal in his domination of the trust company business

(Minutes of meeting of board of directors, May 24, 1932, p 1041)

Wilbur M Baldwin was formerly vice president and later president of the Union Trust Co He is, we understand, in some way related to the Van Sweringens and, as it has been very adroitly expressed, is Mr Nutt's "Man Friday" J R Nutt put Baldwin in the trust company and when Nutt resigned the presidency and was elected chairman of the board, he had Baldwin elected president The association of Nutt and Baldwin will be shown in several of the reports on the affairs of the Union Trust Co The Van Sweringens, individually and through their various corporations, were constant borrowers from the Union Trust Co almost from the formation of the trust company. J R Nutt was one of the organizers of the trust company and was its first president He retained the position of president of the Union Trust Co until December 30, 1931, when he was elected chairman of the board, which he resigned on June 30, 1932

The Van Sweringens borrowed heavily from the Union Trust Co. and later borrowed even more heavily from J. P. Morgan & Co and other New York banks In order to make these New York loans, valuable collateral had to be pledged. All the collateral of any value whatsoever was taken from the loans of Cleveland banks and used as security for the New York banks Conditions in Cleveland kept getting worse and worse and finally, early in 1933, the Union Trust Co, loaded down with loans of all kinds (the Van Sweringens being the principal borrowers), was forced to close We shall review the loans made to the Van Sweringens in detail, taking each loan separately and following through its history, feeling that to report on the total loans chronologically would only complicate the report. Before giving the details of each loan, however, we should like to give a summary of the loans as shown by a report of examination as of December 1932 and a summary as prepared by the staff of the liquidator of the trust company

(Related by Mr. Norton to Mr. Seymour)

BOARD OF DIRECTORS' EXAMINATION COMMITTEE, DECEMBER 20, 1932

Certain directors of the Union Trust Co. had been "fed up" for some time with the domination of its management and its business by Mr Nutt and his associates In June of 1932 they had been successful in forcing Mr Nutt to resign as chairman of the board, and late in December 1932 insisted on a committee being formed to examine the affairs of the trust company

(U-1-1)

As of December 20, 1932, an examining committee was appointed by the board of directors to make an examination and report on the condition of the Union Trust Co. The committee completed and submitted its report on February 3, 1933. The committee was composed of the following directors.

(U-1-4-45)

E P Lenihan, R C Norton, R T. King

In its report, the committee pointed out to the board the status of the Van Sweringen loans. J R Nutt was no longer with the bank and evidently the committee felt that for once it could speak freely. The committee listed total loans made to the Van Sweringens and their various interests and enterprises, with delinquent interest as of January 1, 1933, as follows

(U-1-30, 1-9)

	Principal	Interest delinquent Jan 1, 1933
Collateral loans to Van Sweringens and controlled companies.....	\$11,702,594 15	\$1,000,964 50
In addition, there was listed in "doubtful" loans Higbee Co and "under-secured".....	317,000 00	-----
Pittsburgh & West Virginia R R land contract.....	450,000 00	-----
O P and M J Van Sweringen	1,000,000 00	-----
Total.....	13,469,594 15	-----

We quote the committee's comment regarding these loans to the Van Sweringens in full

(U-1-30)

The above loans, totaling over \$11,000,000 have been the subject of public criticism against the Union Trust Co., and in our opinion, have done more than any other single factor to undermine public confidence in this institution

(U-1-30)

Owing to the various ramifications in interlocking companies, your committee admits that it is at a loss to establish in a reasonable time without considerable expense, the value behind these loans. However, it is of the opinion that these loans cannot be classed as being worth more than 25 cents on the dollar at the present time; this is more or less of a guess

(U-1-30)

These immense loans, we understand, were sponsored by Mr J R Nutt, C L Bradley, and their associates in the Van Sweringen deals, who, although connected with the bank in an official capacity, were also prominently connected with the Van Sweringen operations

(U-1-30)

It is your committee's recommendation that the bank employ a capable independent attorney, without any present or past connection with the Van Sweringens, to thoroughly investigate the entire situation and to take any action necessary to protect the interests of this bank without delay

(Related orally by Mr Norton to Mr Seymour)

During the course of our investigation, the writer attempted to contact Mr Lenihan to discuss with him the various matters brought out in the committee's report. Mr. Lenihan was out of town

Therefore, the contact and discussion were had with Mr Robert C. Norton. When asked for a little more explanation regarding the last paragraph quoted above, Mr Norton stated that the Van Sweringens had made a habit of "throwing" cases now and then to practically every law firm in Cleveland and that it was almost impossible to get any lawyer of Cleveland to take a case against the Van Sweringens

(U-1-30-A)

Daisy Hill Co loan.—The Daisy Hill Co. is the name of the corporation through which the Van Sweringen brothers own the "farm" on which they live in Shaker Heights, Gates Mills, Cleveland. The Union Trust Co had loaned to this company \$51,000 on March 7, 1930, and \$487,000 later in the same year—the details of which will be given later in this report. The committee, commenting on these loans to the Daisy Hill Co, stated:

(U-1-30-A)

This bank has loaned to the Daisy Hill Co. \$538,000. Besides the questionable value of the collateral, interest has not been paid. The Van Sweringens occupy these premises as their residence and therefore should pay some manner of rent. As we understand it, they receive a substantial income.

We are informed that the loan of \$51,000 made at the terminal office on March 7, 1930, was declined at the main office and subsequently made through the terminal office on the authority of Mr Nutt.

(Related orally by Mr. Norton to Mr Seymour)

During our discussion with Mr Norton, we asked for the name of the officer at the main office who had refused this loan to the Daisy Hill Co. When asked the name of the officer who had made the refusal, Mr. Norton stated that it was probably himself, that he and a few of the other directors had at various times expressed a very strong dislike and disapproval of any more Van Sweringen loans being made until after they had been approved by the finance committee (the efforts of the dissenting directors—if seriously made, were unsuccessful in preventing loans to the Van Sweringens, as will be shown later in this report. No mention was made of any dissension in the minutes of the trust company). At any rate, it is claimed by Mr Norton and the other members of the examining committee that the loan of \$51,000 to the Daisy Hill Co was refused at the main office but was granted by Mr Armstrong of the terminal office of the trust company. Mr. Norton stated that the examining committee called upon Mr Armstrong to appear before the committee and that he (Armstrong) stated that he had accepted this loan upon the instructions of Mr Nutt and that it is believed by the committee that subsequently to this (the appearance of Armstrong before the committee) Mr. Nutt had a talk with Mr Armstrong and encouraged Armstrong to deny any participation by Nutt in this transaction. Mr. Norton stated that the committee had thought of obtaining an affidavit from Armstrong regarding this matter, but had not done so, feeling that he was right here in the city of Cleveland and that if any court action was taken, he could be sworn.

Other committee comments—The committee in its report then pointed out that the total capital stock of the Vaness Co consisted

of 50,000 shares of preferred and 162,500 shares of common and that the Union Trust Co had:

(U-1-33)

Pledged on loans		Shares
Preferred stock		
The Daisy Hill Co.....	-----	7, 935
O P & M J Van Sweringen.....	-----	9, 000
John Hecker.....	-----	150
J J McGinty.....	-----	225
S J Gibbs (terminal).....	-----	750
Total (0 3612 of total outstanding).....	-----	<u>18, 060</u>
Common stock:		
O. P. & M. J. Van Sweringen.....	-----	97, 500
Do.....	-----	16, 250
Total (0 70 of total capitalization).....	-----	<u>113, 750</u>

(U-1-34)

With holdings of this size, why are we not controlling the board of directors?
Do we know the salaries paid to officials?

Regarding other corporations in which the Van Sweringens were interested, and stock of which had been pledged securing loans, the committee stated:

METROPOLITAN SECURITIES CO

By pledge of stock of the above company we control 10,296 shares.
Why did we permit a vote in favor of the Vans' control for another 3 years?
Why do we not control the board of directors?
Do we know what salaries are paid?

CLEVELAND BASEBALL CLUB

Total capital—500,000% at \$100 per share
Alva Bradley loan, 378 shares
Vaness Co loan, 1,250 shares

CALUMET TRUST

Total certificates of interest outstanding, 25,203½
O P Van Sweringen, managing trustee
Otto Miller, trustee
Mitchell D Follansbee, trustee
We hold as collateral 17,999½ shares, or 0 7142 of total outstanding
Statistical department file contains a copy of a letter to Otto Miller, February 2, 1932, from L M Nicholson, secretary of trust, stating that he checked assets and liabilities with the idea of determining the actual or real value of the trust certificates, shows

Assets.....	-----	\$841, 166 32
Liabilities.....	-----	55, 000 00

Net worth (\$31 19 per share)..... 736, 166 32

Comment Why do we not have representation on or control board of directors?

By the time the examining committee had an opportunity to present its report to the board of directors, the bank was closed, and it was too late to answer the above questions

(U-34, 34-A)

However, Mr Nutt, answering the references made to him in the committee's report, wrote a letter to the Union Trust Co on April 13,

1933, which he requested be filed with the report of the examining committee

Referring to the charge that he had sponsored the Van Sweringen loans, Mr Nutt said.

(U-34-A)

The understanding of the Committee is not correct. I never sponsored loans to the Van Sweringen interests. These loans were approved by the finance committee, of which Mr J R Kraus is chairman (of which I have never been a member) before being made.

Mr Nutt also denied any knowledge of approving the Daisy Hill loan, stating, in part

(U-34-A)

If Mr Armstrong at the terminal office asked me about the loan, I doubtless told him I thought it was all right, but I do not remember that he ever made any inquiry

APPOINTMENT OF LIQUIDATOR

The Union Trust Co closed on February 25, 1933, and on April 8, 1933, Mr Oscar L Cox was appointed conservator, which title he held until June 15, 1933, when he was appointed liquidator. Immediately after his appointment as conservator, Mr Cox designated a Mr C C Merrifield, who was assistant treasurer of the Union Trust Co, to make a study and report on the Van Sweringen loans. Mr Merrifield completed his task and submitted his report on June 3, 1933. He submitted a detailed analysis of all of the Van Sweringen loans covering some 25 pages of schedules (exhibits U-69 to U-69-X), copies of which we have. However, each of these schedules and each of several memoranda written in connection with them bears a statement from Mr Cox that the memorandum or schedule is not part of the Trust Co's records, that it was prepared by a "junior" member of the staff, and that it has not been verified as to facts. Mr Merrifield was assistant treasurer of the Union Trust Co and could hardly be classed as a "junior" member of the staff not capable of making up a correct statement. Incidentally, so far as we have been able to check his statements, they are a true statement of the facts.

Mr Merrifield classes the loans due from the Van Sweringens and their controlled companies as follows

(U-69)

Commercial and collateral loans.....	\$11, 412, 908 54
Mortgage loans.....	772, 064 57
Land contracts.....	1, 000, 000 00
Total.....	13, 184, 973 11
With interest delinquent May 1, 1933.....	1, 089, 045 83
Total.....	14, 274, 018 94

We shall refer to these memoranda in closing the history of each of the several loans.

**\$2,800,000 PARTICIPATION IN TOTAL DEMAND COLLATERAL LOAN OF
\$9,000,000 DUE FROM O. P AND M J VAN SWERINGEN**

(U-2-10)

A loan to the Van Sweringen brothers, personally, in the amount of \$9,000,000, is still unpaid and is participated in by four Cleveland banks, as follows

(U-2-10)

The Union Trust Co.....	\$2, 800, 000
The Guardian Trust Co.....	2, 500, 000
The Cleveland Trust Co.....	2, 500, 000
The Midland Bank.....	1, 200, 000
Total.....	9, 000, 000

(U-20-A; U-69-T to 69-X)

This obligation of the Van Sweringens grew out of some loans that had originally been made to the Vaness Co. We shall detail the history of this loan from July 1928 until the present, and show just how Mr. Nutt allowed the Van Sweringens to use the Union Trust Co. Even as far back as 1928 the Van Sweringens were allowed to substitute collateral having no market value for that which was marketable. The Vaness Co. had made many loans prior to 1926, but on April 19, 1926, was entirely paid out at the Union Trust Co.

(U-69-A, 2-3)

On July 21, 1926, the Vaness Co. started its borrowing again with a loan of \$225,000. The loans increased gradually, reaching a peak on July 1, 1927, of \$2,250,000. There was \$1,900,000 paid off on October 4, 1927, after which loans again increased until they reached a total of \$4,350,000 on June 23, 1928. The million dollars was paid off at the end of June 1928, and on July 28, 1928, with the debts totaling \$3,350,000, the loans were revamped in respect to \$2,000,000. The remaining \$1,350,000 was gradually paid off to July 23, 1929. On July 27, 1928, there were five loans exclusive of the \$1,350,000 mentioned above unpaid, in the name of the Vaness Co., as follows:

(U-20-A, 77)

Date	Loan no	Amount
Dec 28, 1927.....	26399	\$250, 000
Feb 17, 1928.....	29180	500, 000
Feb 20, 1928.....	29182	500, 000
Jan 14, 1928.....	27338	500, 000
Mar 1, 1928.....	29700	250, 000
Total.....		2, 000, 000

On that day (July 27, 1928) the above loans were canceled and a new loan, no. 36759, was set up in the name of the Vaness Co. in the amount of \$2,000,000

(U-2-4)

In November 1933 special investigators for the Ohio State Banking Department made an examination of certain loans at the Union Trust

Co In their report on loans made to the Van Sweringens and their controlled companies, the examiners detailed these loans and the collateral carefully Referring to the above transaction by which the five loans were refunded and a new one set up; the examiners pointed out that—

(U-2-4)

Comparison of the collateral given to secure the loans which were refunded for that given to secure the new note is stated below

	Loans nos 26599, 29160, 29162, 27338, and 29700 total amount, \$2,000,000	July 27, 1928, loan no 38759, amount, \$2,000 000
New York Chicago & St Louis R R common.....	Shares 18, 000	Shares
The Terminal Properties Co		
First preferred.....	32, 600	32, 631
Second preferred.....	27, 300	30, 265
Common.....	93, 300	95, 600

(U-2-4)

The collateral security covering the new note did not include the 18,000 shares of New York, Chicago & St Louis Railroad common which, together with the Terminal Properties Co stock, was pledged on the refunded loans The Nickel Plate shares, having a market value of \$2,263,500, were released to the Vaness Co and additional shares of the Terminal Properties Co stock were substituted as follows

First preferred, 31 shares, par value.....	\$3, 100
Second preferred, 2,955 shares, par value.....	295, 500
Common, 2,300 shares, par value.....	230, 000
Total, par value.....	528, 600

The above Terminal Properties stock pledged was owned as follows

	Vaness Co	O P & M J Van Sweringen
First preferred.....	Shares 23, 044	Shares 9, 587
Second preferred.....	29, 425	330
Common.....	43, 960	51, 980

The common stock of Terminal Properties Co was owned on July 27, 1928, as follows

(U-2-4)

	Shares
Vaness Co.....	44, 045
O P & M J Van Sweringen.....	51, 980
Others.....	3, 975
Total.....	100, 000

The unpaid dividends on the preferred stock totaled \$5,505,510

(U-2-4)

Here we have a case as far back as 1928 (and, incidentally, as far back as we have gone) where good collateral was released for that of less value when The Union Trust Co released stock with a market value of \$2,263,500 and received in return stock of a closely held corporation

on which there was no market whatsoever. Not only that, but Terminal Properties Co had continually operated at a loss and a consolidated balance sheet as of December 31, 1927 showed a deficit of \$19,696,007 16

Approval of \$2,000,000 loan—The acts of the officers of the Trust Co in making loans were ratified and approved by two committees namely, the discount or finance committee, and the executive committee, before being approved by the board of directors. In analyzing the minutes of these meetings, some curious facts present themselves, which we will try to outline as clearly as possible

(Minutes of discount committee, The Union Trust Co, p 2655)

At the meeting of the discount committee held July 30, 1928 the loan to The Vaness Co was approved. This meeting was attended by the following Messrs Otto Miller, Thomas P Robbins, G. A. Tomlinson, Whitney Warner, J. R. Kraus, W M Baldwin, J. G. Geddes, vice president, John Sherwin, Jr vice president, George P. Steele, vice president; W Tonks, vice president, R S Crawford, vice president

(Minutes of executive committee, p 695)

It will be noted that five of the persons that were present at this meeting were officers of the bank, who, according to the bylaws in effect at that time, were not qualified to act as members of the discount committee. Therefore, only four votes were necessary to ratify the loan. On August 6, 1928, the executive committee ratified all loans approved by the discount committee on July 30, 1928. According to the executive committee minutes there were nine members present, which constitutes a quorum (there were also present the Messrs Farnsworth and Harris, who were not qualified to vote). Included in the nine qualified to vote were five members who had acted upon the loan as members of the discount committee and J R Nutt, who was financially interested in the borrower. The five members of the executive committee who had previously voted on this same loan were as follows: W M Baldwin (J R Nutt's lieutenant), Otto Miller (Van Sweringen associate), J R Kraus, Thos P Robbins, Whitney Warner

(Minutes of board of directors, the Union Trust Co p 704)

On August 14, 1928, the board of directors approved and confirmed the action of the executive committee, but there was not a quorum present

(Board of directors p 704)

On September 11, 1928, the following resolution was adopted by the board of directors:

Upon motion duly made, seconded and unanimously carried it was

Resolved, That the minutes of the meeting of June 26, 1928, be and the same are hereby approved, and the actions taken at the meetings of July 10, 1928, July 24, 1928, August 14, 1928, and August 28, 1928, at which quorums were not present, are hereby ratified, adopted, and confirmed as the actions of this board

An analysis of the directors present at the meeting set forth in the above resolution gives the following information:

Name	Voted as member of discount committee July 30, 1928	Voted as member of executive committee Aug 6, 1928	Voted as member of board of directors Sept 11, 1928
W M Baldwin	Yes	Yes	Yes
Otto Miller	Yes	Yes	Yes
J R Kraus	Yes	Yes	
T P Robbins	Yes		Yes
Whitney Warner	Yes	Yes	Yes
Emil Joseph		Yes	Yes
E J Kulas		Yes	Yes
J R Nutt		Yes	Yes
G A Tomlinson	Yes		Yes

(a) Seven of the directors who voted on September 11, 1928, for the above resolution were not present at any of the four meetings, the actions of which they ratified.

(b) Fourteen of the thirty-five directors who voted for the foregoing resolution were not present at the meetings held on July 10 and July 24, 1928

(c) Of the 14 members of the board who were present at both of the directors' meetings on August 14, 1928, and September 11, 1928, 4 (Messrs Nutt, Joseph, Baldwin, and Robbins) had previously voted at least once on the merits of this particular loan. Of those present at the board of directors' meeting on September 11, 1928, 4 had voted twice previously in favor of this loan, and 3 had voted once previously as members of either the executive or discount committees.

No payments were made on this \$2,000,000 loan during 1928 and 1929. On November 1, 1929, the Vaness Co negotiated a new and larger loan, canceling the \$2,000,000 loan

(Committee hearings, J P Morgan & Co)

Brokerage loan paid off—It will be remembered from other data previously acquired and from the reports previously written in connection with our examination of the Van Sweringens that the Vaness Co had maintained an active brokerage account with the New York Stock Exchange firm of Paine, Webber & Co. It would also be recalled that one of the senior partners of this brokerage firm, Mr. Kenneth Steere, was included on J P Morgan's so-called "selected list" in the sale of Alleghany Corporation common stock. At the committee's hearings held in the spring of 1933, information was presented (with Mr O P Van Sweringen as the witness) showing that large borrowings had been made by the various corporations controlled by these two Van brothers, the proceeds of which have been used, in part, to pay off the indebtedness of the Van Sweringens' margin account at Paine, Webber & Co.

(U-59, 69-B; U-59-A)

In studying the data pertaining to loans made by the Cleveland banks to the Van Sweringens' interests, one finds the same situation existing. The Van Sweringens, operating an active margin trading account with Paine, Webber & Co, evidently in an effort to support the market of the Chesapeake Corporation and the Alleghany Corporation stocks. Their tradings during 1929 were very heavy and during the stock market crash they lost heavily and incurred an indebtedness at Paine, Webber & Co running well over \$30,000,000.

On December 31, 1929, the Van Sweringens owed Paine, Webber & Co \$25,031,736. In order to pay off the indebtedness of their margined account, the Van Sweringens had to obtain money somewhere; and so they increased their loan from 2 to 9 million dollars, using the proceeds to pay off some of the Vaness Co indebtedness to a large extent, at Paine, Webber & Co. The Union Trust Co took a \$2,000,000 participation in this total loan of \$9,000,000, the remainder being split up by three other Cleveland banks.

(U-2-5)

The Union Trust Co was trustee for the participants in this loan. The participants and the amount of their respective participations were as follows:

(U-78)

The Union Trust Co.....	\$2, 000, 000
The Guardian Trust Co.....	2, 500, 000
The Cleveland Trust Co.....	3, 300, 000
The Midland Bank.....	1, 200, 000
Total.....	9, 000, 000

(U-2-6)

The collateral securing the above loan was almost the same as that securing the \$2,000,000 loan, with the addition of 122,000 shares of Van Sweringen Co. common stock and 100 shares of Cleveland Terminal Building Co common. Both of these latter companies were wholly owned subsidiaries of the Terminal Properties Co. It is difficult to figure out how this additional collateral materially strengthened the security behind this loan.

APPROVAL OF PARTICIPATION IN \$9,000,000 LOAN

(Minutes of the Union Trust Co finance committee, p. 5161; executive committee p. 820; board of directors, p. 737)

The finance committee approved this loan on November 2, 1929; and the executive committee approved and confirmed the action of the finance committee on November 4, 1929. There were 11 members present at the meeting of the executive committee. The vote of the executive committee was unanimous, however. Approval of the loan to the Vaness Co was assured, because 4 of the 11 members present had previously voted favorably on the loan as members of the finance committee, and the vote of these 4, together with the vote of J. R. Nutt (who was interested in the borrower) and W. M. Baldwin (Nutt's right-hand man) constituted a majority. On January 9, 1929, by action of the board of directors, the bylaws of the Union Trust Co. were amended in several respects one of which was as follows:

Article 2, section 3, to read as follows:

"Certain loans. No loans shall be made to an officer of the bank, or to a syndicate or partnership in which an officer is a participant or a partner, unless first approved by the executive or finance committee. When a loan is applied for or has been currently made, by or to a corporation in which an officer has a substantial interest, it shall be the duty of that officer to state immediately the fact of his interest therein to the executive or finance committee."

Mr. Joseph R. Nutt was 1 of the 4 stockholders of the Vaness Co., owning 16,250 shares. The records of the finance and executive com-

mittees failed to show any mention of this fact's being made by Mr. Nutt when the question of these loans was discussed

(U-2-8)

Although in May 1930 the Alleghany Corporation carried out some new financing, through J P Morgan & Co and the Guaranty Trust Co of New York (issuing \$12,500,000 par value of preferred stock, and the \$25,000,000 third bond issue of the Alleghany Corporation) the Vaness Co was unable to pay off its \$9,000,000 indebtedness in Cleveland; and on May 13, 1930, the total loan was renewed

(U-39, 72)

The Union Trust Co increased its participation by \$800,000. The participation of the Cleveland Trust was reduced from \$3,300,000 to \$2,500,000 and the participation of the Union Trust Co was increased from \$2,000,000 to \$2,800,000. When this new loan of \$9,000,000 was renewed May 13, 1930, the Terminal Properties Co stock and the 100 shares of Cleveland Terminals Building Co. were released, 600,000 shares of Van Sweringen Corporation stock being pledged instead. Comparison of the collateral securing this \$9,000,000 obligation on November 1, 1929, and May 13, 1930, is as follows

(U-2-8)

Loans by the Union Trust Co to the Vaness Co

	Nov 1, 1929, loan no 61049, \$2,000,000 partic- ipation in \$9,000,000 loan	May 13, 1930, loan no 70739, \$2,800,000 partic- ipation in \$9,000,000 loan
The Terminal Properties Co	<i>Shares</i>	<i>Shares</i>
First preferred.....	32,893	0
Second preferred.....	33,187	0
Common.....	99,222	0
The Van Sweringen Co Common.....	122,000	122,000
The Cleveland Terminals Building Co Common.....	100	0
Van Sweringen Corporation Common.....	0	600,000

(U-33)

On May 10, the other participants with the Union Trust Co. agreed to the renewal of this loan and the substitution of 600,000 shares of Van Sweringen Corporation stock in place of the 100 shares of Cleveland Terminals Building Co. stock, but, as was pointed out by the State Banking Department examiner in his special report of November 13, 1933—

(U-2-8)

* * * no mention is made regarding the release of 32,893 shares of the Terminal Properties Co first preferred; 33,187 shares of the Terminal Properties Co second preferred, and 99,222 shares of the Terminal Properties Co common, which shares have been pledged to secure the loan being refunded. However, consent was given to the substitution of 600,000 shares of Van Sweringen Corporation common for 100 shares of the Cleveland Terminals Building Co

(U-2-8)

No reasons are given in the directors' minutes of the Union Trust Co. or the Guardian Trust Co for refunding of this loan at this time or for the release of the

collateral security consisting of the Cleveland Terminals Building Co stock and substitution therefor of 600,000 shares of Van Sweringen Corporation common stock

The substitution of collateral was made because the Van Sweringen brothers had formed the Van Sweringen Corporation to acquire the assets of Terminal Properties and Cleveland Terminals Building Co. The Van Sweringen Corporation then (May 15, 1930) sold through the Guaranty Trust Co of New York \$30,000,000 5-year 6-percent gold notes and issued 1,744,800 shares of its common stock at \$25 a share (or \$43,620,000) to the stockholders of Terminal Properties Co for the assets acquired. The Examiner pointed out that—

(U-2-9)

(3) On or about May 13, 1930 the Cleveland Terminals Building Co (wholly owned by the Terminal Properties Co) caused an entry to be placed on their books setting up the appraised value of certain building sites (air rights) in the Terminal group at \$16,285,000, which apparently had not previously been carried on the books as an asset

These "air rights" were the principal assets which the Van Sweringen Corporation received and, as was pointed out by the State examiner—

(U-2-9)

The collateral released, namely, the Terminal Properties Co. and the Cleveland Terminals Building Co stock, was valued by the stockholders thereof at approximately \$43,620,000 on or about May 13, 1930, at which time the assets of the company were sold to the Van Sweringen Corporation

(U-2-9)

The value of the collateral substituted (600,000 shares Van Sweringen Corporation common), valued on the same basis, would have been worth \$15,000,000¹. However, both valuations are arrived at after adding \$16,285,000 appreciation covering an appraised value of "air rights"

(U-2-9)

To have secured the new loan as fully as the loan which was refunded, there should have been a pledge of approximately all of the Van Sweringen Corporation shares issued (1,744,800) instead of only 600,000

(Committee hearings, J P Morgan & Co, May 1933; U-79)

No payments were made on the principal of this loan from the date it was made to October 30, 1930. On that day the Van Sweringens, through their two companies, the Vaness Co and the Cleveland Terminals Building Co, borrowed from a group of New York banks, headed by J P Morgan & Co, \$39,500,000. In making this loan in New York, the Van Sweringens pledged, among other collateral, all of the assets of the Vaness Co. Also, the Vaness Co agreed with J P Morgan & Co that it would not incur any other indebtedness of more than \$1,000,000, than that due to Morgan. In order to do this, a "switch" or substitution of collateral had to be made with the security pledged on the Cleveland loans. In accordance with the Morgan agreement, the Vaness loan at the Union Trust Co had to be paid off. This was easily handled—not by the payment of any money to the trust company but by simply transferring the debt to one in the name of the Van Sweringen brothers.

¹ The examiner based this \$15,000,000 on the fact that the stock was sold at \$25 a share in the trade with Terminal Properties

(U-2-9)

Accordingly, on October 30, 1930, this \$9,000,000 obligation of the Vaness Co was canceled and a new note signed by O. P. and M. J. Van Sweringen. It might be well to state at this point that on the same day (Oct 30, 1930) there was another loan of the Vaness Co in the amount of \$5,000,000 transferred to the name of the Van Sweringen brothers with the "switch" of unmarketable collateral for marketable security. The details of this switch will be given later in connection with the \$5,000,000 loan. This \$9,000,000 loan of the Vaness Co was credited in full, and a new loan, no 78310, was set up in the name of O. P. and M. J. Van Sweringen. This new loan was participated in by the other banks in the same ratio as the old loan; that is

(U-2-9)

The Union Trust Co.....	\$2,800,000
The Guardian Trust Co.....	2,500,000
The Cleveland Trust Co.....	2,500,000
The Midland Bank.....	1,200,000
Total.....	9,000,000

(U-2-9)

The collateral pledged to secure the new note was as follows:

(U-79)

97,500 shares the Vaness Co common, issued in the name of Winifred C Bloom

Comparison of the collateral security for each of the foregoing loans is set forth as follows

(U-2-10)

	July 27, 1928, loan no 37659, by the Union Trust Co to the Vaness Co, amount \$2,000,000	Nov 1, 1929, loan no 61949, by the Union Trust Co to the Vaness Co., \$2,000,000 Participation in \$9,000,000 loan	May 13, 1930, loan no 70739, by the Union Trust Co to the Vaness Co., \$2,800,000 Participation in \$9,000,000 loan	Oct 30, 1930, loan no 78310, by the Union Trust Co to O. P. & M. J. Van Sweringen, \$2,800,000 Participation in \$9,000,000 loan
	Shares	Shares	Shares	Shares
The Terminal Properties Co., first preferred.....	32,631	32,893	-----	-----
The Terminal Properties Co., second preferred.....	30,255	33,187	-----	-----
The Terminal Properties Co., common.....	95,600	99,222	-----	-----
The Van Sweringen Co., common.....	-----	122,000	122,000	-----
The Cleveland Terminal Building Co., common.....	-----	100	-----	-----
Van Sweringen Corporation, common.....	-----	-----	600,000	-----
The Vaness Co., common.....	-----	-----	-----	97,500

(Minutes of finance committee, the Union Trust Co, p 6359)

We have carefully checked the minute books of the finance and executive committees and the board of directors regarding the approval of this loan. No specific reference is made in either the finance or executive committees' minutes to this loan, and no reasons are given in any of the minutes of the Trust Co for the retirement of the Vaness Co note and the substitution thereof of a note of like amount signed by O. P. and M. J. Van Sweringen, or for the release of the stock pledged to secure the Vaness Co and the substitution of the Vaness Co stock on the new loan, except at a meeting of the finance committee on October 28, 1930, 2 days before the transaction

(Minutes of finance committee, the Union Trust Co , p 6359)

It was agreed to accept participation of \$2,800,000 in a loan of \$9,000,000 to O P and M J Van Sweringen, to be secured by 60 percent of the entire issue of common stock of the Vaness Co. The other participants in this loan are the Cleveland Trust Co , the Guardian Trust Co , and the Midland Bank

No payments have ever been made on the principal of the 9 million-dollar loan. Unpaid interest accrued by the Union Trust Co on their \$2,800,000 participation totaled \$391,774 64 on September 1, 1933.

(U-16)

On January 18, 1933, Mr O'Neil, vice president of the Union Trust Co., wrote to the other participants in the \$9,000,000 loan regarding the 97,500 shares of Vaness Co. stock, stating that—

(U-37)

Messrs O P. and M. J. Van Sweringen have now requested that we execute and deliver to Mr Charles W Stage, secretary of the Vaness Co , a proxy for said stock

Mr. Robinson, executive vice president of the Guardian Trust Co., answered on January 23, 1933, stating:

(U-38)

It seems to me that owing to the fact that the trustee has such a large stock interest he should be represented in some manner in a corporation set-up for 1933, especially in view of the fact that no payments are being made upon the interest or principal of the participated loan

I am aware of the fact that most of the securities in the Vaness portfolio, upon which we depended when we made the loan, have been shifted to New York. Whether or not the pledging of these securities was done with or without the knowledge of the trustee I am not advised, but, irrespective of that, it may be that in the future some policy may be taken by the Vaness management which would be harmful to our interests, and I feel that the banks should have some one representing them on the board who would know in advance of the establishment of any policy which might affect our loan one way or another and advise the interested banks promptly in reference thereto

Mr. O'Neill answered Mr Robinson on January 26, 1933, in part, as follows

Referring to the suggestion in your letter of the 23d instant as to the pledging of Vaness Co stock in New York, it appears that on or about October 30, 1930, the note of the Vaness Co for \$9,000,000, representing a loan in which the banks had participated, was canceled and the collateral surrendered, and there was substituted therefor the note of O P and M J Van Sweringen, with 97,500 shares of stock of the Vaness Co as collateral, and certificates of participation in this new loan were issued to the banks. Therefore, the banks, as participants in this loan, would not be in a position to object to the pledge made by the Vaness Co. in New York, and it is my understanding that all of the local banks knew at that time that the New York pledge was being made

We have been unable to find, anywhere in the files of the Union Trust Co , any notice to the participants by the trustee of this collateral switch.

O P AND M J VAN SWERINGEN COLLATERAL LOAN, \$4,100,000

(U-1-30)

There is also still due the Union Trust Co from O P and M J Van Sweringen personally a direct demand loan in the amount of \$4,100,000 Interest on this loan has not been paid since July 1,

1931, and there was delinquent on May 1, 1933, interest accrued of \$408,012 17 This loan, like the \$9,000,000 loan, arose out of original borrowings by the Vaness Co. The Union Trust Co had loaned to the Vaness Co. the sum of \$5,000,000 on October 29, 1929, secured by collateral having a market value of \$7,295,750, as follows.

(U-20-C)

	Price per share	Market value Oct 29 1929
32,000 shares Cleveland Railway Co.....	100	\$3,200,000 ¹
6,500 shares Midland Bank.....	465	3,022,500
30,000 shares Alleghany Corporation, common.....	205%	618,750
6,000 shares United Corporation, common.....	25%	154,500
3,000 units Western Reserve Investment Corporation, 6 percent preferred.....	100	300,000
Total.....		7,295,750

¹ No market Indicated value \$100.

(U-20-C, 11-A)

On October 30, 1930, when all the other financing was being done for the Vaness Co and the 9-million-dollar loan was being renewed in the name of the Van Sweringen brothers, this \$5,000,000 loan in the name of the Vaness Co was refunded by a new loan of the same amount in the name of O P and M J Van Sweringen. The collateral which had been pledged on the Vaness Co loan and which had an estimated market value of \$4,942,000 was released, and collateral having a market value of approximately \$672,000 was accepted as security for this \$5,000,000 loan to the Van Sweringens. The following is the collateral accepted:

(U-11-A, U-79)

	Market value Oct 30, 1930
4,000 shares Niagara Hudson Power Corporation, common, at 12½---	\$50,000
5,000 shares Standard Brands, Inc, common, at 16¼-----	81,250
3,000 units Western Reserve Investment Corporation, common, at 85--	255,000
1,400 units Newton Steel Co, common, at 20½-----	28,700
33,000 units Peerless Motor Car Corporation, common, at 3¾-----	123,750
6,000 units United Corporation common, at 22¼-----	133,500
9,000 units Vaness Co, preferred, no market	
16,500 units Vaness Co, common, no market	
3,000 units Western Reserve Investment Corporation, no market	
17,999½ units Calumet Trust certificates, no market	
10,296 units Metropolitan Utilities, Inc, common, no market	
Total.....	672,000

and equity in the following, held in corporate trust department subject to previous pledge under Metropolitan Utilities, Inc \$3,100,000 loan:

(U-11-A, U-79)

100 shares Traction Stores Co, common, no market.
 5,800 shares Cleveland & Youngstown R R, common, no market.
 100 shares Cleveland Traction Terminal, common, no market
 1,465 shares Cleveland Interurban R R Co, common, no market.

Previously in this report we have shown how the Van Sweringens were able to substitute 97,500 shares of the stock of the Vaness Co,

which had no market value, for other marketable collateral, securing the \$9,000,000 obligation. Not only was this Vaness Co stock unmarketable but practically all of the assets of the Vaness Co, had been pledged with J P Morgan & Co

(U-II)

The "switch" of collateral on this \$5,000,000 loan was covered fully by the Ohio Senate banking committee during its hearings in September 1933. In order to be sure that a clear picture of the "switch" would be printed in the daily press, the committee issued a statement explaining the transaction. Mr. W M Baldwin, formerly president of The Union Trust, and, as we have pointed out previously in this report, Nutt's "Man Friday," then issued a statement

(U-II)

* * * with the desire of giving the committee more complete information regarding this subject and to present more accurately the information which was before the officers of the bank and which entered into their decision in approving this transaction

In his statement, Mr Baldwin said:

(U-12, 12-B)

It was apparent to the officers of the bank that the stock of the Cleveland Railway and of the Midland Bank, being salable only on the local stock exchange, would not under the then conditions realize the quoted prices and that the proposed arrangement with the New York banks which contemplated the use of certain of the collateral then pledged under the Vaness Co loan and the payment of this loan by the personal note of O P and M J Van Sweringen had the advantage of the personal responsibility of O P and M J Van Sweringen, which we consider very substantial, as well as the additional collateral offered to back up this note, which included all of that then securing the Vaness Co loan except the 32,000 shares of Cleveland Railway stock and 8,260 shares of Midland Bank stock, and 50,000 shares of Van Sweringen Corporation stock—the latter being an unlisted security and entirely held by the Vaness Co

(U-12, 12-B)

Although the stock of the Vaness Co pledged on this loan was not listed, it was considered to have substantial value at the time in excess of \$7,272,000 above stated. The Calumet land trust certificates, representing ownership in valuable Chicago real estate, also had substantial intrinsic value, although no market quotations were available because it was not listed on any exchange

(U-12)

In his statement, Mr Baldwin claimed that the value of the Vaness Co. stock was not difficult to estimate and that its value was a great deal greater than that of the listed stock that was released. J. P. Morgan & Co. evidently did not agree with Mr Baldwin or they would have accepted some of the Vaness Co. stock as collateral themselves and would not have demanded this other collateral that had been pledged at the Union Trust Co

(U-5)

On December 16, 1930, Mr O'Neill, vice president, wrote a letter to Mr Coulton, vice chairman, regarding the stock of Cleveland Interurban Railway Co., Cleveland Traction Terminals, and Traction Stores Co. pledged to secure the Van Sweringen loan. Mr.

O'Neill pointed out that all this stock was in the name of Metropolitan Utilities, Inc., and that there was no authorization for the Van Sweringens to use this stock. He stated in his letter

(U-5)

I talked to Mr. Murphy on the telephone last night and he said that the Van Sweringens had borrowed the money on our \$5,000,000 loan and others, to enable the Vaness Co. to pay off certain obligations. He mentioned specifically one obligation of \$4,200,000. He also said that he thought this action warranted the Vaness Co. in allowing the Van Sweringens to pledge the stock in question for the \$5,000,000 loan. Even this does not show what warrant there is for using the asset of Metropolitan Utilities, Inc., which is a subsidiary of the Vaness Co.

Mr. Murphy then promised to obtain the proper authorization.

(U-70, 20-D)

On November 20, 1930, the Union Trust Co. loaned \$800,000 to the Vaness Co. and the \$5,000,000 loan to the Van Sweringen brothers was reduced by a like amount—\$800,000. All the collateral having any market value at all was released from the Van Sweringen loan to be pledged as security on the Vaness Co. loan. This collateral had a market value on November 20, 1930, of approximately \$671,450 securing a loan of \$800,000.

This loan to the Vaness Co., in the amount of \$800,000, came about in the following manner. Examiners for the State banking department had found the loans to O. P. & M. J. Van Sweringen to be in excess of the legal limit, which was a violation of section 710-122 of the Ohio banking act. The examiner evidently spoke to the officers about this matter while he was conducting the examination.

(U-59)

Mr. Herzog, an aide of Mr. Cox, the liquidator, stated, after a conference with D. S. Barrett, a Van Sweringen representative:

(U-59)

The switch of \$800,000 from the debt of O. P. & M. J. Van Sweringen to an obligation of the Vaness Co. was at the request of the bank. The Van Sweringens owed \$7,800,000, which was \$800,000 in excess of the legal limit.

On January 3, 1931, the superintendent of banks wrote to the Union Trust Co. and stated that on November 14, 1930

(U-23)

We note an excessive line of credit to O. P. & M. J. Van Sweringen. It is set up as excessive to the extent of \$2,249,455, which amount has been reduced since November 14 in the sum of \$2,222,500, leaving \$26,955 in excess of the loan limit or 20 percent of the bank's capital and surplus.

(U-80)

The above reduction of \$2,222,500 is made up of the \$800,000 and \$1,422,500 loaned to Metropolitan Utilities, Inc., on January 8, 1931. Mr. Baldwin answered the superintendent of banks, stating that:

(U-81)

Referring again to your letter of January 3, I wish to advise that the excess loan has been closed

Actually, the excess loan was simply transferred from the Van Sweringens to the Vaness Co and Metropolitan Utilities, their corporations

The remaining \$4,200,000 loan, after the above \$800,000 payment, of the two Van Sweringen brothers was then secured by the following:

(U-20-D)

	<i>Shares</i>
Vaness Co preferred (no market)	9,000
Vaness Co., common (no market)	16,250
Metropolitan Utilities, Inc , common (no market)	10,296

On January 24, 1931, the Van Sweringens paid off \$100,000 of their loan, leaving a balance of \$4,100,000, which is outstanding today (January 31, 1934)

APPROVAL OF BOTH 9- AND 5-MILLION DOLLAR LOANS

(Minutes of the Union Trust Co finance committee, p 6359, Executive Committee, p 941)

The agreement to participate to the extent of \$2,800,000 in the total loan of \$9,000,000 to O P & M J Van Sweringen and the agreement to loan O P. & M J. Van Sweringen another \$5,000,000 was approved by the finance committee on October 28, 1930 The action of the finance committee was approved by the executive committee on November 10, 1930, at which meeting there were 13 members present, 5 of whom had attended and voted at the finance committee meeting, and 1 of whom (J R Nutt) was personally interested in the Van Sweringens.

(Minutes of Board of Directors, p 885)

The action of the executive committee was approved by the board of directors on November 12, 1930, which meeting was attended by 31 members Of these 31, the following members had voted in favor of this loan with either or both the finance committee and the executive committee

Name	Voted finance committee	Voted executive committee	Voted board of directors
W M Baldwin	Yes	Yes	Yes
G A Coulton	Yes	Yes	Yes
Otto Miller	Yes	Yes	Yes
T P Robbins	Yes	Yes	Yes
F P Root	Yes	Yes	Yes
Emil Joseph	Yes	Yes	Yes
J R Kraus	Yes	Yes	Yes
K V Painter	Yes	Yes	Yes
W T White	Yes	Yes	Yes

In his report to Mr. Cox, liquidator, Mr. Merrifield, assistant treasurer, speaking of the position of the Union Trust Co. as creditor, recommended—

Securing, if possible, a rescrumble of the collateral held by the various creditors, particularly obtaining the Cleveland Railway stock given up in 1930.

(U-58)

To help accomplish these ends, the Cleveland banks, and in particular the Union Trust, should have closer contact with the affairs of these companies

(U-35)

Ohio State bank examiners classed the loans due from the Van Sweringen brothers as an entire loss.

VANESS CO. DEMAND COLLATERAL LOAN, 304,183.75

(U-70)

As mentioned previously in this report regarding the \$4,100,000 loan to O. P. & M. J. Van Sweringen, the Vaness Co. borrowed from the Union Trust Co on November 20, 1930, the sum of \$800,000—the proceeds of which were applied against the Van Sweringens' loan. Collateral having a market value of \$671,540 was taken from the Van Sweringen brothers' loan and pledged as security on this Vaness Co. loan. Three payments have been made to the Union Trust Co. on the principal of this loan; one on November 19, 1931, in the amount of \$95,222.25, when 33,000 shares of Peerless Motor Car Corporation, common were released from the collateral, one in the amount of \$400,000 on November 31, 1931; and the third on December 12, 1931, when \$594 was paid. The \$400,000 payment resulted from the Van Sweringen Co. borrowing from the Union Trust Co. on November 31, 1931, the amount of \$400,000—pledging as collateral a \$645,000 note secured by deeds to real estate.

(U-1-30)

There remains due from the Vaness Co \$304,183 75 principal amount and interest from January 1, 1932, which, on January 1, 1933, amounted to \$18,979 60. The collateral securing this loan and its market value just prior to the closing of the Union Trust Co was as follows:

	<i>Market value May 31, 1933</i>
1,333 shares Niagara Hudson Power Corporation, common.....	\$13, 330
5,000 shares Standard Brands, Inc, common.....	100, 000
560 shares Corrigan McKinney Steel Co, voting common.....	5, 600
140 shares Corrigan McKinney Steel Co nonvoting common.....	1, 400
6,000 shares United Corporation, common.....	54, 000
3,000 shares Western Reserve Investment Corporation	No market
3,000 units Western Reserve Investment Corporation.....	No market
17,999½ shares Calumet Trust certificates.....	No market
1,250 shares Cleveland Baseball Co.....	No market
Total market value.....	174, 330

(U-45)

The banking department classed this loan as having an undeterminable value, and Mr Merrifield stated that—

(U-62)

* * * information submitted by the company to date indicates that Vaness Co securities could at no time in the past 4 years have been considered satisfactory collateral in large amounts for commercial bank loans

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TERMINAL BUILDING CO AND VANESS CO , COLLATERAL LOAN, \$557,000

(U-75, 67, 47)

On January 20, 1928, the Union Trust Co loaned to the Terminal Building Co. and the Vaness Co the sum of \$557,000. This borrowing was made by the Van Sweringens in order that they might exercise an option to purchase the property on which has been erected the Nickel Plate freight terminal. No payments have been made on the principal of this loan and interest has not been paid since January 11, 1932. The delinquent interest to May 1, 1933, amounted to \$45,626 08.

METROPOLITAN UTILITIES, INC , PARTICIPATION LOAN, \$557,000

(U-74)

Metropolitan Utilities, Inc, was incorporated under the laws of the State of Ohio on March 21, 1929, and is a wholly owned subsidiary of the Vaness Co. It has general powers to participate in every kind of commercial, mercantile, mining, or industrial enterprise, etc., in the United States or any foreign country. It is through the Metropolitan Utilities, Inc, that the Van Sweringens own and control the Cleveland Interurban Railroad Co, the Cleveland & Youngstown Railroad Co, the Traction Stores Co., and numerous other corporations owning and operating real estate in the downtown section of Cleveland.

The Metropolitan Utilities, Inc, borrowed in four separate advances—on August 14, 1930, September 15, 1930, November 26, 1930; and December 15, 1930—the total amount of \$4,500,000. These were participated in by three Cleveland banks, as follows:

(U-74)

The Union Trust Co.....	\$2, 100, 000
The Guardian Trust Co.....	1, 400, 000
The Midland Bank.....	1, 000, 000
Total.....	4, 500, 000

(U-74, U-69-I, J)

This total loan was secured by the following collateral:

- (a) \$4,331,444.72 note of the Cleveland Interurban Railroad Co.
- (b) \$989,069 86 note of the Cleveland Traction Terminals Co.
- (c) \$73,569 95 note of the Traction Stores Co
- (d) 1,465 shares of the Cleveland Interurban Railroad Co.
- (e) 100 shares of the Traction Terminals Co, capital stock.

No payments have been made on the principal of this loan, and there was delinquent interest due on the Union Trust Co.'s participation of \$2,100,000 from November 14, 1932, to May 1, 1933, in the sum of \$229,799.24.

Regarding the value of the collateral pledged to secure this loan, a memorandum in the confidential files of the liquidator states:

(U-69-I, U-63)

“While there does not appear to be any possibility of Metropolitan Utilities and its subsidiaries earning sufficient money to pay interest

on the above bank loans, the collateral securing the bank loans undoubtedly has some value because of the necessity of maintaining the Cleveland Interurban Railroad for the present need and further development of Shaker Heights ”

THE DAISY HILL CO., DEMAND LOAN, \$487,000

(U-76)

The Daisy Hill Co , as we have mentioned before in this report, is the corporate vehicle by which the Van Sweringen brothers own their country estate or “farm” in the Shaker Heights section of Cleveland. On November 1, 1930, the Daisy Hill Co borrowed from the Union Trust Co \$387,000; and on January 24, 1931, borrowed an additional \$100,000. This total loan of \$487,000 is secured by 7,935 shares of the Vaness Co preferred stock, which has no market value

(U-1-30-A, U-69-E)

About March 7, 1930, the Van Sweringens attempted to obtain an unsecured loan at the main office of the Union Trust Co in the amount of \$50,558 33, but were refused Upon being refused at the main office the Van Sweringens applied at the terminal office of the Union Trust Co for this loan, and upon the verbal approval of Mr Joseph R Nutt, the loan was granted

No payment has been made on the principal of either of the above loans On May 1, 1933, the two loans were delinquent in interest in the amount of \$48,101 58.

HIGBEE CO LOAN

(U-27)

The entire common stock of the Higbee Co is owned by the Cleveland Terminals Building Co , which is a subsidiary of the Van Sweringen Corporation

(U-27-J)

On November 17, 1931, five banks participated in a loan to the Higbee Co , with the Cleveland Trust Co as trustee The five banks and the amount of the respective participation of each was as follows

(U-28, U-27-J)

Union Trust Co.....	\$317, 000
Guardian Trust Co.....	200, 000
J P Morgan & Co.....	533, 000
Midland Bank.....	250, 000
Cleveland Trust Co.....	300, 000
	<hr/>
	1, 600, 000

No payments have ever been made by the Higbee Co on the principal of this loan Interest has been paid to June 1, 1933.

Exhibit U-27 is a complete history of the Higbee Co. and its bank borrowings We quote below the first two pages of this report, which gives as complete a picture as any analysis we might make.

CONTROL

(U-27)

Entire common stock is held by the Cleveland Terminals Building Co which is a subsidiary of the Van Sweringen Corporation. Voting control at the present time, however, is entirely vested in the first and second preferred stock issues due to the defaults in dividend payments. This voting control is, of course, subject to the rights of the creditors of the company who are in a position to dictate policies.

MANAGEMENT

Asa Shiverick, president, W T Higbee, vice president, G E Merrifield, vice president and treasurer, E H Pierce, vice president and secretary, G P Mitchell, assistant treasurer.

(U-27)

The officers with the exception of G E Merrifield, have been with the concern for a number of years. Asa Shiverick, the president, has been with Higbee's for more than 17 years while W T Higbee, a former president, is the son of E C Higbee, one of the founders of the business. G E Merrifield became associated with the company in November, 1932 and has taken charge of financial matters. He is understood to be a representative of the Morgan interests and has had long experience in the department store field. His previous associations were with Franklin Simon & Co and Associated Dry Goods Co.

DIRECTORS

Gardner Abbott, attorney, Tolles Hogsett & Ginn, representing Van Sweringen interests; T E Borton, Borton & Co, representing preferred stock interests; G E Merrifield, Morgan interests; E H Pierce, W T Higbee, and Asa Shiverick, management.

HISTORY

(U-27)

The Higbee department store business was originally established in 1860 as a partnership of John G Hower and Edwin C Higbee. The Higbee Co was incorporated in Delaware in May 1913, and the charter amended in March 1929. The company has three subsidiaries: Renee, Inc, and Langley, Inc, organized in December 1929, and the Twelve Seventy Seven Euclid Realty Co, organized in 1919. The first two concerns were organized to carry on certain phases of the merchandising business but they discontinued operation on December 24, 1932, and their remaining assets were transferred to the Higbee Co.

(U-27)

The Twelve Seventy Seven Euclid Realty Co succeeded to the business of the Higbee Realty Co on June 9, 1932, by change of name. The Higbee Realty Co was originally organized in 1919 as a realty holding company, subsequently constructing a building on leased properties on Euclid Avenue at Thirteenth Street which it in turn leased to the Higbee Co. The lease from the Higbee Realty Co to the Higbee Co expired May 31, 1932, and was not renewed. The lease of the Higbee Realty still has some years to run but that company has no assets other than the store property which it is unable to rent and has not been in a position to keep its lease in good standing. The holder of the fee has given notice to its intention to forfeit the lease and can do so at any time. The name Higbee Realty Co was probably changed to prevent as much stigma as possible from attaching to the Higbee name by reason of the default of this subsidiary and the consequent default in the payment of rental on the Euclid East Thirteenth Chester Leasehold Trust certificates which at one time were commonly known as the Higbee Corner Leasehold Trust certificates.

(U-27)

The Higbee Co has been engaged in a general department store business and for many years was a direct competitor of Halle Bros Co with its store located at Euclid Avenue and East Thirteenth Street. Higbee's did not carry a complete line of men's furnishings, sport goods, and similar lines but specialized

in women's furnishings, household goods, and related products. As contrasted with the Halle Bros. Co. reputation for quality of merchandise and service, Higbee's emphasized a combination appeal of price and quality and used sales forcing methods.

(U-27)

Early in 1929 the Vaness Co., a Van Sweringen affiliate, purchased the entire common stock of the company for \$7,500,000. The stock was subsequently sold to the Cleveland Terminals Building Co. in May 1930. This change in ownership was a forerunner of the removal of the Higbee Co. from its location on Euclid Avenue to a specially constructed building in the terminal area where it is now located. The actual shift in location did not come until September 7, 1931.

(U-27)

In making this change the Higbee Co. occupied a store building with 1,000,000 square feet of floor space which compared with about 315,000 square feet in the Euclid Avenue store. The rental requirements were increased very substantially as were taxes which are payable by the Higbee Co. In addition, the occupancy of the larger floor space tended to make a larger personnel and larger inventory necessary. All of these factors combined made it imperative that the Higbee Co. change the character of its business materially. It was necessary to extend the scope of the business with the addition of the lines of merchandise commonly found in the modern department store, and in general, to increase the volume of business to the point where the larger overhead and operating expenses could be carried.

(U-27)

Obviously, the Higbee Co. needed additional capital to accomplish its purposes. Some financing was originally contemplated but it was never carried through and no capital was provided on a permanent basis.

(U-27)

The capitalization of the company at the present time is nominally as presented below. Actually the company is being financed by its various classes of creditors subject to a number of agreements establishing their respective priorities. Everything, however, is on a purely temporary basis pending the consummation of some plan of reorganization or permanent financing.

CAPITALIZATION—MARCH 31, 1933

(U-27)

Term indebtedness (due Oct. 20, 1933, renewable for a period of one year)-----	\$1, 551, 042
First preferred stock, 7 percent ¹ -----	1, 140, 000
Second preferred stock, 8 percent cumulative ¹ -----	454, 900
Common stock, 100,000 shares-----	1, 900, 000
Profit and loss deficit-----	3, 852, 328

CREDIT INFORMATION GIVEN OUT

(U-29, U-31)

In perusing the credit files of the Union Trust Co. we came upon numerous memoranda stating that the Higbee Co. was in a good financial position and that it had always been successful. Exhibits U-29 and U-31 dated May 20, 1932, and June 25, 1932, respectively, are copies of a form letter the Union Trust used in answer to inquiries regarding the Higbee Co., which states in part:

We know of no reason why the Higbee Co. should not be considered at this time as worthy of its mercantile requirements. The present management is experienced and has always been successful.

¹ No dividends have been paid on either class of stock since 1931 and at the annual meeting in June 1933 sole voting rights will rest in the preferred stock by reason of the default in dividend payments and other provisions of the preferred issues.

(U-30)

On June 23, 1932, which was between the dates of the above two letters, Mr. Kraus wrote to Mr. Frick, vice-president of the Irving Trust Co., in which he states

(U-30)

Now, we are not in a position to give any very pretty picture of the Higbee Co. They started in last year before the holidays in the new location. The Van Sweringens bought the Higbee Co. and paid a large price for it, built a building on the public square and moved the company into it. The rental is too high for any store to be able to pay and show a profit.

The company has lost money ever since they have been in business.

I am giving you more than I would give to an outside inquiry, and will ask you to treat it as confidential.

(U-30)

There must be some reorganization of this company, either by new capital or a readjustment of their current debt, but how that is to be accomplished I don't know."

Mr. Kraus' letter hardly reconciles with the general form letters that were being sent out at the same time.

CHANCES OF BANK COLLECTING

(U-19, U-21)

On September 1, 1933, Mr. Herzog, an assistant of Mr. Cox, liquidator of the Union Trust, held a conference with Mr. Barrett, an associate of the Van Sweringens, regarding the "whole Van Sweringen picture." Mr. Herzog seems to be fairly well sold on the "Vans." He states in a memorandum written after this conference that

(U-19)

The two chief factors with which O P and M J Van Sweringen have to contend at the present time in connection with their railroad operations are the Alleghany reorganization. Concerning the former, Mr. Barrett said that with the increased dividends payable by the Chesapeake & Ohio to the Chesapeake Corporation and the possibility of an increase in the disbursements of the Chesapeake Corporation, the total income in all three issues of the Alleghany Corporation would be sufficient to take care of necessary charges, provided that the specific income were not held for specific issues. Under these circumstances he feels that the Messrs. Van Sweringen will not have much difficulty in borrowing in New York City to pay the interest on the Alleghany Corporation bonds due in 1950. Mr. Barrett feels that the time will be reached in the comparatively near future when the collateral securing the 44 and 49 issues will be adjudged at 50 percent of the bonds outstanding and as a result the income impounded will be released. This would enable the Alleghany Corporation to pay the funds borrowed with which to meet the interest on the 50's. Mr. Barrett feels that the longer the reorganization of the Missouri Pacific can be put off the better will be the position of the equities and it is primarily the equities in which the Messrs. Van Sweringen are interested. It is not to the advantage of O P and M J Van Sweringen to endeavor to rush through a reorganization at this time.

It will be noted in the above that "It is not to the advantage of O P and M J Van Sweringen * * *" to cause an immediate reorganization of Missouri Pacific. We have not made a study of the Missouri Pacific's Railroad troubles (except that we do know they received a large loan in 1932 from the R F C to pay off Morgan) and are in no position to judge, or possibly even comment, on a contemplated reorganization. However, the general tenor of the above does bear out so much that it is a Van Sweringen plan.

"It is not to the advantage of the Van Sweringens", no mention is made as to what would be to the advantage of the bondholders and the stockholders that have invested their life savings and now must depend on the Van Sweringen brains (which have always worked "to the advantage" of the "Vans") for a possible return of their investments

It will also be noted from the above quotation that, as usual, the Van Sweringens plan on getting out of trouble by borrowing from the banks. It hardly takes the power of a seer to foresee that some one or more of the Van Sweringen corporations will more than likely issue bonds or preferred stock and transfer some of these bank debts to the public. After all, the "Vans" have been successful at that sort of thing for more than 20 years

WALTER H. SEYMOUR,
Senior Examiner.

Mr. SAPERSTEIN. I hand you a report entitled "The Union Trust Company—Window Dressing", and ask you if that report was prepared by the members of the investigating staff of the committee under your immediate supervision

Mr. MEEHAN. It was

Mr. SAPERSTEIN. Mr. Chairman, I offer the report, together with the exhibits mentioned therein and which are now at the Government Printing Office, in evidence

The CHAIRMAN. The report and exhibits will be received in evidence and appropriately marked

(The report entitled "The Union Trust Company—Window Dressing", and exhibits mentioned therein, which are now at the Government Printing Office, were received in evidence, marked "Committee Exhibit No. 13, May 4, 1934", and are as follows)

COMMITTEE EXHIBIT No 13, MAY 4, 1934

"WINDOW DRESSING"

The purpose of this report is to present evidence that distortionary measures termed "window dressing" were resorted to during the year 1931 in the operations and functions of the Union Trust Co for the effect of presenting a financial statement of sound, liquid appearance which would place the bank in a very favorable position in the minds of the depositors and stockholders

(U-9-1, 2, 3)

The superintendent of banks of Ohio issued a "call" or demand upon the Union Trust Co for a statement of its condition as of September 29, 1931. At this point it might be well to observe that these "window dressing" transactions were consummated prior to the "call" date, as is shown, in the instance of "Government securities", by correspondence dated September 29, 1931, and, in the instance of "Repurchase agreements", appearing later in this report, by bank records dated as early as September 22 and 25, 1931. These circumstances support the conclusion that notice was given to the Union Trust Co. sufficiently in advance to permit them to negotiate these

transactions for the desired effect on their published financial statements of September 29, 1931. The "call" statement was requested on a form of the State of Ohio, division of banks, dated October 6, 1931, establishing the date of "call" as of September 29, 1931. Following this, a statement was submitted by the bank to the State department of banks and banking dated October 13, 1931, and a more condensed form published in the Cleveland News on October 15, 1931. It will be noted that the elapsed time between the earlier transaction and the call date was 7 days.

Government securities—In order to aid the Trust Co to publish a report with a good liquid position, the Van Sweringens were prevailed upon to "lend" 10 million dollars of United States Government certificates to the Union Trust Co through one of their corporations; namely, the Van Sweringen Corporation. These bonds were "loaned" for "window dressing" purposes only, and the "loan" was reversed 9 days after it was made.

This "window dressing" transaction was arranged by letter agreements between the Union Trust Co, Van Sweringen Corporation, and J P Morgan & Co. United States Government Treasury certificates and Treasury notes totaling at least 10 million dollars were being held by J. P. Morgan & Co in safekeeping for the account of Van Sweringen Corporation. The Union Trust Co agreed to purchase these 10 million dollars of bonds from the Van Sweringen Corporation, crediting a special checking account of the latter with the purchase price, and pledging the bonds as security for the "deposit." Actually the whole transaction was handled through book entries, physical possession of the bonds not changing hands, nor was there any exchange of cash.

(U-9-4)

The effect of the above transaction on the balance sheet of the Union Trust Co as of September 29, 1931, shows an increase in the assets under United States Government bonds owned by \$10,000,000 and a corresponding increase of demand deposits.

(U-9-7, 6, 5)

On September 29, 1931, the date of the published financial statement of the bank, the Union Trust Co "purchased" from the Van Sweringen Corporation \$10,000,000 of United States Government certificates and notes for \$10,030,000, plus accrued interest of \$82,540.98, or a total purchase price of \$10,112,540.98. Payment was made for the bonds by a journal entry on the books of the Trust Co, crediting an account called "Van Sweringen Corporation special account" in the amount of \$10,112,540.98.

The Union Trust Co addressed a letter to the Van Sweringen Corporation, dated September 29, 1931, confirming this "purchase", stating in part.

(U-9-8)

* * * and we have today credited your checking account with the proceeds of such sale in the amount of \$10,112,540.98

This deposit is subject to demand withdrawal, and as security for such deposit we have simultaneously transferred to J P Morgan & Co for your account the above mentioned \$10,000,000 par value of United States Government Treasury certificates and Treasury notes.

The Van Sweringen Corporation addressed a letter dated September 29, 1931, to J P Morgan & Co. as follows:

(U-9-9)

We have today sold to the Union Trust Co. of Cleveland \$10,000,000 principal amount of United States Government Treasury certificates and Treasury notes now held by you for our account. Please hold these subject to the instructions of the Union Trust Co. of Cleveland.

The Union Trust Co. also wrote a letter to J. P. Morgan & Co. confirming the purchase and the pledge of the bonds and asked Morgan & Co. to—

(U-9-10)

Kindly hold these Treasury certificates and Treasury notes for the account of the Van Sweringen Corporation as security for this demand deposit with us, all in accordance with the terms of the annexed letter.

(U-9-3)

The Union Trust Co. published its statement of condition on September 29, 1931, declaring the Government bonds as being assets of the bank. No mention was even made in the statement that these bonds had been specifically pledged.

(U-9-2)

Nine days after the above "purchase" the Van Sweringen Corporation repurchased these bonds from the Union Trust Co. by an exchange of letters and a reversal of book entries. The Van Sweringen Corporation wrote a letter dated October 7, 1931, to Morgan & Co. stating that the bonds had been "purchased" from the Union Trust Co. and that—

(U-9-11)

Payment of the purchase price therefor is to be (has been) made by withdrawal of said deposit.

And instructing Morgan & Co. that—

(U-9-11)

Upon receipt of appropriate instructions from the Union Trust Co., please hold these United States Government obligations for our account.

The Union Trust Co. then addressed a letter to Morgan & Co. dated October 7, 1931, and altered by hand to October 8, 1931, as follows:

(U-9-12)

We have today sold to Van Sweringen Corporation the \$10,000,000 principal amount of United States Government Treasury certificates and Treasury notes now held by you as security for demand deposits made by the Van Sweringen Corporation with this company in accordance with advice to you contained in our letter dated September 29, 1931, signed by J. R. Nutt, chairman of this company.

(U-9-12)

We have received from the Van Sweringen Corporation payment in full for the above mentioned United States Government obligations, and wish you would, therefore, kindly hold them for the account of the Van Sweringen Corporation.

It is perfectly obvious that this whole transaction was arranged and carried through for no other purpose than to "window dress" the statement of the Union Trust Co. This is borne out, not only by the fact that the Union Trust Co published its statement with the additional—

U.S. Government bonds owned.....	\$10,030,000 00
Accrued interest receivable.....	82,540 98

Demand deposits.....	\$10,112,540 98
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and then reversed the above entries 9 days later, but by the fact that interest was not charged by the Union Trust Co to the Van Sweringen Corporation for the intervening time between September 29 and October 8, 1931, the period during which the Union Trust Co claimed ownership of these Government securities

(U-9-25, 20-A, B)

Repurchase agreements—When an agreement is entered into between a buyer and a seller wherein the seller agrees to repurchase the consideration at the same price as that at which it was originally sold, and, in turn, the buyer receives whatever income accrues on the consideration, it is very evident that the matter becomes one of convenience accruing to the seller. That this convenience was resorted to by the Union Trust Co in order to increase its liquidity by exchanging loan paper, under agreement to repurchase, for cash, and thus issue a financial statement on September 29, 1931, affected thereby, is shown by the fact that on September 22 and September 25, 1931, the Union Trust Co sold to certain New York banks, through the facility of repurchase agreements, various loan instruments for which was received cash totaling \$12,296,422 44 and recorded on its books as \$3,555,141 19 from the Guaranty Trust Co, \$6,741,281 25 from the National City Bank, and \$2,000,000 from the Bankers Trust Co, all New York banks. The effect of this transaction appeared under "resources" on the records of the Union Trust Co, on September 22 and 25, 1931, as a reduction of "Total loans and discounts" of principally "time collateral loans" and "notes and bills" and also an increase of amounts "due from domestic correspondent New York City banks."

Again employing the post-dating policy on transactions for "window dressing" purposes, was the dating of the repurchase agreements as of October 6, 8, and 9, 1931; a period of about 14 days after the actual sale of the loans, and about 10 days after the issuance of the call statement of September 29, 1931.

The first post-dated repurchase agreement occurred in a letter dated October 6, 1931, the part "6th" by handwriting, confirming the agreement with the Bankers Trust Co on a \$2,000,000 loan, stating in part:

(U-9-21)

This confirms agreement made by the Union Trust Co, of Cleveland, with Bankers Trust Co, of New York, upon request to repurchase from Bankers Trust Co, at their face value, the loan and the certificate of participation in loans which you have to date purchased from us in the aggregate of \$2,000,000.

On October 8, 1931, a form of agreement was rendered to the Guaranty Trust Co regarding the sale and purchase of a loan in the amount of \$3,520,480.63. This refers to the \$3,555,141 19 transaction, the

difference being due to adjustments and part payments during the intervening period The agreement was substantially as follows:

(U-9-22a, 22b)

An agreement dated, by hand, the 8th day of October, 1931, between Union Trust Co., of Cleveland, Ohio, and Guaranty Trust Co., of New York, consisting of five articles which relate to the sale and subsequent repurchase of various loans totaling \$3,520,480 63 and the liability of one party to the other

There then was a letter dated October 9, 1931, to the National City Bank confirming the repurchase agreement on a loan of \$3,387,500 This was part of the \$6,741,281 25 transaction, of which \$3,500,000 was repurchased on October 7, 1931, details of which are given further on in this report The apparent difference, aside from the repurchased item, was due to adjustments and part payments The letter states in part

(U-9-23)

This is to confirm our repurchase agreement covering Certificate of participation of the Union Trust Co., of Cleveland, Ohio, in loan to the Cleveland Cliffs Iron Co., dated September 23, 1931, payable 6 months after date, in the amount of \$3,387 500 "Pursuant to our understanding, which we hereby confirm, you have agreed to resell the above certificate of participation to us and we hereby agree to repurchase same from you on or before December 23, 1931, on a 4½ percent per annum discount interest basis

These repurchase agreements were a costly convenience and only resorted to because of the desirability of presenting a financial statement of sound appearance on September 29, 1931 An idea of the cost is shown in a letter dated October 7, 1931, from the National City Bank to the Union Trust Co., as follows

(U-9-24)

Upon receipt of your telegram this afternoon with reference to the Cleveland Cliffs Iron Corporation, notes for \$3,500,000 payable on March 23, 1932, we charged your account with \$3,434,666 69 under advice The notes are returned to you herewith along with a memorandum covering the debit to your account

(U-9-26)

The apparent difference between the larger and smaller amounts is the discount charged by the National City Bank during the elapsed time between the original sale and later repurchase, an amount of \$65,333 91 The payment of such discounts as this was evidently not too much to pay in an emergency such as existed on September 29, 1931.

An illustration of the extremity of the situation was the disregarding of the Ohio banking act, which reads as follows

SEC 710-126 No bank may borrow money, bonds, or other securities in any sum exceeding the amount of its capital stock and surplus, except with the written consent of the superintendent of banks, provided that the rediscount of notes, bills of exchange, and acceptances shall not be considered money borrowed. Every such rediscount shall be entered upon the books of the bank, and the total amount thereof shall appear as a contingent liability on every report of condition made to the superintendent of banks or published by said bank

In accordance with this section of the law the Union Trust Co at the time of making these sales to the New York banks should have recorded the contingent liability of \$12,296,422 44 on its books and on its published statement of September 29, 1931. That they understood the law and complied with it later that year is evidenced by the

fact that on the published statement of December 31, 1931, the Union Trust Co showed among its liabilities "loans with repurchase agreement, \$5,772,320 63."

(U-9-27a, 27e)

We have carefully checked the files of the Union Trust Co. for letters or memoranda regarding the subsequent repurchase of these loans and could find none. However, we obtained copies of the loan ledger sheets which show the continuing reduction of the "collateral loans sold under repurchase agreements" indicating that the loans were repurchased over an extended time.

Secured deposits—The Union Trust Co as of September 29, 1931, held on deposit certain public funds and United States Government funds shown on the call statement of that date in the amount of \$15,124,218 11. This total was made up of

(U-9-2, 14)

Demand deposits	
United States deposit other than postal savings.....	\$2, 081, 945 19
Public funds (except postal savings).....	5, 783, 105. 39
Time deposits	
Public funds.....	6, 363, 457 86
United States postal savings.....	895, 709 67
Total.....	15, 124, 218. 11

(U-9-28a, 28m, 4)

On a statement prepared by the bank dated September 30, 1931, entitled "Bonds Pledged to Secure Public Funds", a description is given of the deposits and security for same and showing the amount of each as of September 30, 1931. No similar record being available as of September 29, 1931, this record was used to determine to what extent these public and United States Government deposits were secured by Government, municipal, or depository bonds. The daily consolidated financial statement of September 30, 1931, showed public and United States Government deposits totaling \$15,438,276 13, and the statement of bonds pledged to secure public funds showed bonds pledged to be \$22,237,000, which established the ratio to be in excess of 100 percent. It was determined, therefore, that on September 29, 1931, the same ratio applied, to be understood, as the bank agreed to pledge securities to at least 100 percent against amount of deposit as a guarantee of payment.

(U-9-14)

Based upon the foregoing, it will appear that again the bank employed a window-dressing transaction in that on the published financial statement of September 29, 1931, the Union Trust Co did not show in a total of \$50,603,752 43 United States Government and other bonds and securities any portion as having been pledged to secure deposits of public and Government funds. To the depositors it was, therefore, made to appear that he could look to this entire amount of \$50,603,752.43 as being behind his deposit however great or meager, whereas in reality he was being misled in this instance to the extent that \$15,124,218.11 were pledged securities.

(U-9-2, 3, 14)

Bank building and real estate —The Union Trust Co carried on its books bank building and other properties which it assumed by foreclosure and otherwise. On its financial statement of September 29, 1931, it was not disclosed that there existed a mortgage liability on the main bank building. This resulted in the cost of the property being understated, and by the same token the mortgage liability was not disclosed. In brief, only the equity in the property was shown. It should also be noted that the building values were not shown less depreciation. This had the effect of inflating the values by the amount of depreciation accrued to September 29, 1931. It is well to observe that for income-tax purposes, in which case depreciation is an allowable deduction, the bank kept a subsidiary record of its depreciation, so that it would lose no benefits from obtaining the maximum of deduction.

A true statement embodying the foregoing criticisms would show under resources, included in the bank-building item, the total cost of the property (not simply the equity) less the deduction of the accrued depreciation to September 29, 1931, and as a liability the unpaid balance due on the mortgage, as an encumbrance under the caption of mortgage payable on the real estate.

It is interesting to note some details on these transactions as they applied to the statement of September 29, 1931.

(U-9-15)

The mortgage on the main bank building of the Union Trust Co. was held by the Northwestern Mutual Life Insurance Co., in an original amount of \$6,300,000. On September 29, 1931, the balance due on this mortgage stood at \$4,200,000, by virtue of annual payments of \$300,000 each. This amount of \$4,200,000, therefore, should have appeared as a mortgage payable item under liabilities, thereby disclosing the encumbrance against the banking property.

(U-9-16, 16a)

The depreciation sustained by the bank to September 29, 1931, was approximately \$553,764 55. This amount, as mentioned before, was deducted on the income-tax report as an allowable deduction, but not deducted on its statement of condition as of September 29, 1931. The resource item, bank buildings and real estate owned, was, therefore, overstated by approximately \$553,764 55, as also was the income as reported to the depositors and stockholders on the published statement of condition under the caption of "Surplus and Undivided Profits", \$17,222,943 60.

See report on financial history of Union Lennox Co. for details of United Trust Co. building transactions.

Union-Cleveland corporation —There is an element of window dressing in the transaction between the Union Trust Co. and the Union-Cleveland corporation, in the latter's attempt to evade its personal property tax. This is fully described in the report on tax evasion.

Briefly, the Union Trust Co. purchased from the Union-Cleveland corporation securities of approximately \$2,000,000 in December 31,

1929, and \$2,780,000 in December 31, 1930 The Union-Cleveland corporation paid the Union Trust Co upon the result of this sale approximately the same amounts in reduction of their loans, and it is believed that the Union Trust Co acquired a much better asset for balance-sheet purposes by purchasing securities than it would have had if the transaction had not occurred, and it had shown as an asset loans receivable of an affiliated company

The loans by the Union Trust Co to the Union-Cleveland corporation were in the category of unsecured loans

Adjusted statement—It will be interesting to observe the effect of the transactions pointed out in this report had they been properly considered

(U-9-29, 30)

We have prepared a statement which offers an opportunity to compare the financial statement as issued by the Union Trust Co. as of September 29, 1931, with one that shows the actual condition. It will be readily seen to what extent certain items were misrepresented, and to what extremes the bank went in establishing these misrepresentations

(U-9-31)

Extent of distortion—An interesting exhibit appears in the special report entitled volume II, on the call statement of September 29, 1931, prepared by a Mr. Robert Huston, special deputy of the superintendent of banks In this report Mr. Huston shows a comparison of the statement issued by the Union Trust Co on September 29, 1931, and a true statement showing how it should have appeared if there had been included the transactions as of the correct date on the Government securities and repurchase agreement transactions. He also illustrates that the liquidity of the bank was distorted to the extent of 7 55 percent. His exhibit was as follows

(U-9-31)

	Statement as published by bank	True statement
DEPOSIT LIABILITIES		
Total demand deposits	\$124,699,552 90	\$114,587,011 92
Total time deposits.....	142,136,274 58	142,136,274 58
Total all deposits.....	266,835,827 48	256,723,286 50
Bills payable		12,431,903 12
QUICK LIQUID ASSETS		
Cash and cash items.....	3,998,080 77	3,998,080 77
Legal reserve, Federal Reserve bank.....	10,685,511 89	10,685,511 89
Due from banks and bankers, exchange, etc.....	44,471,671 71	44,471,671 71
Less bills payable.....	59,155,264 37	59,155,264 37
U S Government securities.....	22,117,016 83	46,723,361 25
	81,272,281 20	12,087,016 83
		58,810,378 08
Comparison of liquidity		
Published statement.....		Percent
True statement.....		80 45
Percentage of distortion.....		22 90
		7 55

As early as February 1930, methods were sought that would enable the Union Trust Co to present a more favorable appearing financial statement. It would appear that even at that early date the officers' thoughts were being warped into a channel which was so devious in its route that they failed to see its eventual return to engulf them.

On February 15, 1930, Mr Lewis, vice president, wrote a letter to the State superintendent of banks requesting an opinion as to whether or not they "would be criticized for showing amounts due from bankers" a resource item, "and balances due to bankers" a liability item, "at their gross amounts without any deduction for compensating balances." This plan "would", to quote the superintendent's reply of February 28, 1930, "have a tendency to undue inflation of resources." The letter of February 15, 1930, requesting the opinion, stated in part

(U-9-17)

As the Union Trust Co is a State bank, I am wondering if we would be criticized by showing the amount due from bankers and the balances due to bankers at their gross amounts without any deduction for compensating balances. The objection we find to the present practice is that the total amount shown on our daily statement as due from bankers does not show the total amount invested in such bank balances. In our case, it makes a difference on the average of from 3 to 5 million dollars. I will be pleased to have your opinion in this regard.

In a reply dated February 28, 1930, Mr O. C. Gray, superintendent of banks, pointed out the inflationary character of the plan in a paragraph of the reply as follows.

(U-9-18)

In reply we beg to advise it is the custom of this department, as well as of both the national department and Federal Reserve, to have the published statements show only the net. To do otherwise would have a tendency to undue inflation of resources. There can be no objection to a set-up as you suggest for your own convenience, but we respectfully request the published calls of condition be compiled as in the past.

A casual observer perhaps would consider the inquiry quite innocent, but viewing the matter in the light of the transactions as illustrated in this report on "Window Dressing", it is clear that situations of similar intent could have been considered and evidently were.

It is a matter of conjecture as to what the attitude of the depositors would have been had they been enlightened to the true condition of the Union Trust Co as of September 29, 1931, but the fact remains that they were not adequately informed, nor were they given the opportunity to form their own opinion.

WALTER H. SEYMOUR, *Senior Examiner.*

This report based upon preliminary report and complete investigation by committee examiner John H. Winchester

Mr SAPERSTEIN. I hand you a report entitled "Union Trust Company—Trust accounts", and ask you if that report was prepared by the members of the investigating staff of the committee under your immediate supervision.

Mr MEEHAN. It was

Mr SAPERSTEIN Mr Chairman, I offer the report in evidence, and I believe there is no mention of any exhibits in connection therewith.

The CHAIRMAN. The report will be received in evidence and appropriately marked

(The report entitled "Union Trust Company—Trust accounts", was received in evidence and marked "Committee Exhibit No 14, May 4, 1934", and is as follows)

COMMITTEE EXHIBIT No. 14, MAY 4, 1934

TRUST ACCOUNTS

An examination of the estate trust department of the Union Trust Co disclosed the fact that sales of securities to the trust clients at a profit was not wide-spread. It could be found in only a few isolated cases. The profits were made on issues in which the Union-Cleveland Corporation had participated in syndicates. The Union-Cleveland Corporation sold securities to the estate trust department at a profit. This department, in turn, sold said securities to its trust client at cost. This profit between the Union-Cleveland Corporation and the estate trust department was passed on to the trust client.

When the Union-Cleveland Corporation participated in a syndicate, it incurred not only a contingent liability for its commitment, but also had a penalty imposed on it for all the securities of its commitment that were sold in the market before the expiration date of the syndicate. This penalty was imposed by the underwriting house which evidently was supporting the market during the syndicate period. This penalty would be applied to the Union-Cleveland Corporation syndicate profit so that in some cases the penalty cut deeply into its profit.

The Union-Cleveland Corporation sold a comparatively small amount of its securities to the estate trust department. The bulk of its sales were to small Ohio banks and the general public.

Following are specific cases in which profits were made

On January 5, 1931, J C Hanna, trust no 133, and F H Moore, trust no 131, were sold \$100,000 of National Steel Corporation at \$99. These bonds the Union-Cleveland Corporation acquired at \$95½, a profit of 3½ points on \$100,000 worth of bonds, resulting in a profit of \$3,250 to the Union-Cleveland Corporation.

It is interesting to note that the Union Trust Co had authority to make investments in these two trusts, and that it selected securities in which the Union-Cleveland Corporation had a participation. Due to the fact that the Union-Cleveland Corporation's participation of \$1,778,000 in this issue, it is only logical for it to be in a better position to buy these bonds cheaper than the individual trust client.

No evidence of any investment charges to the trust clients was found

WALTER H SEYMOUR,
Senior Examiner

This report based upon preliminary report and complete investigation by Committee Examiner R. F. Muir.

Mr SAPERSTEIN Mr. Meehan, the next report on my list would be no. 15, but I believe it is a report of which we have only one copy and that one copy was sent down to the Government Printing Office,

being entitled "Final Report, Union Trust Co.—Union Trust's directorate in other concerns." Is that the reason we have not a copy of that report here?

Mr. MEEHAN. Yes

Mr. SAPERSTEIN. Did you have a copy of that report, and do you know that it was sent down to the Government Printing Office?

Mr. MEEHAN. Yes.

Mr. SAPERSTEIN. And that was a report prepared by members of the investigating staff of the committee under your immediate supervision?

Mr. MEEHAN. Yes.

Mr. SAPERSTEIN. Mr. Chairman, I wish to offer that report, which I believe does not have any exhibits accompanying it, and which report is at the Government Printing Office, in evidence.

The CHAIRMAN. The report will be received and appropriately marked by the committee reporter.

(A report entitled "Final Report, Union Trust Co.—Union Trust's directorate in other concerns", was received in evidence, marked "Committee Exhibit No. 15, May 4, 1934," and is as follows)

COMMITTEE EXHIBIT NO. 15, MAY 5, 1934

FINAL REPORT, UNION TRUST CO.

UNION TRUST'S DIRECTORATE IN OTHER CONCERNS

Among the business affiliations of the bank's directors and officers, as shown by authoritative records of directorships, are the following:

John C. Armstrong: Assistant secretary, the Union Trust Co ; other affiliations, Dreher Piano Co , Standard Land Co , Pemiscott Land & Cooperage Co , and Clardo Holding Co

John G. Armstrong. Vice president, the Union Trust Co ; other affiliations, J H R Products Co , Willoughby

W M Baldwin: President and chairman of trust committee, the Union Trust Co ; vice president and director, Union Cleveland Corporation, United States Coal Co., and the Stillman Co ; president and director, Canfield Realty Co , Canfield Apartments Co , Chester Realty Co , and Packard Holding Co. ; member of executive committee and director, Chesapeake & Ohio Railway Co , Pere Marquette Railway Co , and Virginia Transportation Corporation ; chairman of executive committee, Cleveland Clearing House ; director, National Refining Co , Kelley Island Lime & Transport Co , and Monarch Fire Insurance Co ; other affiliations, J B Savage Co , Union Lennox Co , Harbor View Co , J. S. Coal Co , Corrigan-McKinney Steel Co , Dillonvale & Smithfield Railroad, Union Club, and Mayfield Country Club.

Ernest S. Barkwill. Director, the Union Trust Co ; treasurer, the Common Brick Manufacturer's Association of America ; secretary, the Cleveland Builders Supply Co ; other affiliations, Cleveland Material Co., Cleveland Builders Realty Co , and Canfield Tank Line Co

George Bartol. Director, the Union Trust Co ; vice president and director, the Otis Steel Co ; other affiliations, Cleveland Lime & Transport Co , Beelick Knob Coal Co , and Cleveland Furnace Co

W P Belden. Director, the Union Trust Co and the Trumbull-Chiffs Furnace Co ; partner, Andrews & Belden ; general counsel, the Cleveland-Chiffs Iron Co. and Lake Superior & Ishpeming Railroad Co ; other affiliations, Belden, Young Veach, Piqua Handle & Manufacturing Co , Cleveland Industrial Exposition Co., and Low Volatile Coal Co

George P. Comey. Director, the Union Trust Co and the National Refining Co ; other affiliations, Comey & Johnson and Falls Rubber Co

Aims C. Coney. Vice president, general manager, and director, the Union Cleveland Corporation ; vice president, the Union Trust Co ; director, Automatic

Voting Machine Corporation, Union Trust Securities Corporation, Southeastern Coal Co ; other affiliations, Southern Coal Co , Monoc Coal Co., Dodge Manufacturing Corporation, and Automatic Registering Machine Co , Inc

Henry W. Corning Director, the Union Trust Co ; other affiliations, Cranwood Lumber Co , Investment Land Co , Standard Land Co , Lake Shore Realty Co , and Distillata Co.

George A Coulton (deceased) Vice chairman of board and director, the Union Trust Co ; director, Electric Controller & Manufacturing Co , Ferry Cap & Set Screw Co , Midland Steel Products Co , and Wheeling & Lake Erie Railroad Co ; other affiliations, Cleveland Window Glass & Door Co , Union Cleveland Corporation, Chagrin Falls Banking Co , Prospect and 22d Realty Co , Peerless Motor Car Co , Telling-Belle Vernon Co , and Van Dorn Iron Works

Robert S. Crawford: Executive vice president and secretary, the Union Trust Co ; other affiliations, Schaaf Hillcrest Co.

Willard J Crawford Jr Director, the Union Trust Co and Equity Savings & Loan Co ; vice president and director, Herrick Co ; president and director, Crawford Realty Co , Crawford Land Co., and Cleveland Realization Co.; other affiliations, Cuyahoga Valley Realty Co , Cleveland Realty Improvement Co , Crawford Woodhill Realty Co , Driving Park Realty Co , West Sixth Street Realty Co , Broad Rock Co , Courtney Leasehold Co , Western Reserve Club Co , Rayon Terminals Co , Cleveland Storage Co., Pepper Pike Club Co., Cuyahoga Co.

E. E. Creswell: Vice president, the Union Trust Co.; other affiliation, Rutzen Power Co.

Henry G. Dalton: Director, the Union Trust Co., Bethlehem Steel Corporation, Central Alloy Steel Corporation, Guardian Trust Co , Guaranty Trust Co of New York, Ohio Bell Telephone Co , Steel Co of Canada, Ltd , Youngstown Steel Door Co , Athens Iron Mining Co , Ashtabula & Buffalo Dock Co , Erie Dock Co , and Portage Coal & Dock Co ; partner, Pickands, Mather & Co ; president and director, Interlake Steamship Co , Balkan Mining Co , Bennett Mining Co , Boston Mine Co , Detour Dock Co , Hemlock River Mining Co , Hoyt Mining Co , James Mining Co , Mather Iron Co , Odanah Iron Co , Palmer Mining Co , Perry Furnace Co , James Pickands & Co , Plymouth Mining Co , Rugby Iron Co , Sagamore Ore Mining Co , Syracuse Mining Co , Vermillion Mining Co , and Verona Mining Co ; president, Perry Iron Co ; senior vice president and member executive committee, Youngstown Sheet & Tube Co ; vice president and director, Biwabik Mining Co , Corsica Iron Co , Crete Mining Co , Hobart Iron Co , Sunday Lake Iron Co , and Youngstown Mines Corporation, chairman of board and director, Interlake Iron Co ; vice president, Orwell Iron Co , Penn Iron Mining Co , Michigan, Penn Iron Mining Co , Wisconsin, Penn Store Co , and Mahoning Ore & Steel Co.; other affiliations, Bankers' Trust Co of New York, New Orleans, Texas & Mexico Railway Co , Mexican Railway Co , Missouri Pacific Railway, and Athens Mining Co

Charles E. Farnsworth Vice president, the Union Trust Co ; other affiliations, Conrad-Baisch-Kroehle Co , G C. Kuhlman Car Co , and Ellwell-Parker Electric Co.

Louis H. Fisher Vice president, the Union Trust Co ; other affiliations, Park Hill Land & Allotment Co.

Frank B. Fretter. Director, the Union Trust Co , and Canadian Oil Cos , Ltd , president and director, the National Refining Co.; president, Canadian Oil Co , Ltd ; other affiliations, Nor Oil Co., Atlas Oil Co., and Plomo Specialties Manufacturing Co.

William H. Freytag: Assistant vice president, the Union Trust Co ; other affiliations, Jaffa Co.

William H Gerhauser: Director, the Union Trust Co , Construction Materials Corporation, Union Savings & Loan Co.; president and director, American Ship Building Co.

Frank H. Ginn. Director, the Union Trust Co , the Telling-Belle Vernon Co , the National Refining Co , the Glenn L Martin Co., the Richman Bros Co , Industrial Rayon Corporation, Electric Controller & Manufacturing Co , the Midland Steel Products Co., the Otis Steel Co., the Chesapeake & Ohio Railway Co , Thompson Products Co , Inc , and Pere Marquette Railway Co ; partner, Tolles, Hogsett & Ginn; president and director, the Ohio & Pennsylvania Coal Co.; vice president and director, the Guarantee Title & Trust Co ; secretary, S.M A. Corporation; other affiliations, Moxahela Corporation of Delaware, Milk Products Co., Laboratory Products Co , Murray Ohio Manufacturing Co , Metropolitan Utilities, Inc , Covington & Cincinnati Elevated Railroad Co , C & O. Railway Co. of Indiana, Tiltonson & Woolcott Co , Cleveland Southwestern Railway & Light Co , Chesapeake & Hocking Railway Co , and Euclid Co.

Girdler, Tom L Director, the Union Trust Co ; other affiliations, Republic Steel Corporation, Goodyear Tire & Rubber Corporation, Goodyear Tire & Rubber Co , Trumbull Cliffs Furnace, Union National Bank of Pittsburgh, and Chase National Bank of New York

Charles B Gleason Vice president, the Union Trust Co ; other affiliations, Willoughby Terminals Co , Owens China Co , University Club Co , Distillata Co , and C T Investment Co

George C Gordon Director, the Union Trust Co ; president and director, the Park Drop Forge Co ; other affiliations, Ohio Crankshaft Co , and First Investment & Realty Co

George W Grandin Director, the Union Trust Co ; other affiliations, Missouri Lumber & Mining Co , Euclid Streator Co , Tavern Co , and F H. Hill Co

Eugene R Grasselli: Director, member of executive committee, member of finance committee, the Union Trust Co ; director, the Grasselli Chemical Co , and Cleveland & Pittsburgh Railroad Co. (Penn system)

Thomas S Grasselli Director, the Union Trust Co , the Wheeling & Lake Erie Railway Co , and E I du Pont de Nemours & Co ; president and director, the Grasselli Chemical Co ; other affiliations, Cleveland & Youngstown Railroad Co., Kirtland Country Club, and Grasselli Powder Co.

George F Gund Director, the Union Trust Co , the Kaffee Hag Corporation, Realty & Leasehold Co , Kellogg Co , Gund Realty Co , Sheriff Street Market & Storage Co ; other affiliations, Gund Co , Realty & Rental Co , and Cleveland Realization Co

John A Hadden Director, the Union Trust Co ; other affiliations, Andrews, Hadden & Burton, attorneys, Mentor Marsh Co., Haven Point Club Co , and Mentor Harbor Co

Howard M Hanna Director, the Union Trust Co , National Biscuit Co., Howe Sound Co , Hanna Coal Co , Hanna Iron Ore Co , and the Producers Steamship Co ; chairman and director, the M A Hanna Co and Susquehanna Collieries Co ; president and director, Hanna Ore Mining Co ; other affiliations, Marting Ore Co , Jefferson Coal Co , Lower Lake Dock Co , Wheeling & Lake Erie Coal Mining Co , M A Hanna Coal & Dock Co , Mead Iron Co , Massillon Coal Mining Co , Ohio & Western Pennsylvania Dock Co , Tod-Stambaugh Co , Valley Furnace Co , National Biscuit Co , Republic Iron & Steel Co , Calumet Transportation Co , Consumers' Ore Co , Eastern Coal Dock Co , Hanna Furnace Co , La Rue Mining Co , Susquehanna Ore Co , Wakefield Iron Co , and Richmond Iron Co.

William A Harshaw Director, the Union Trust Co. and the Laurel Realty Co ; president and director, the Harshaw Chemical Co ; Other affiliation, Stibium Products Co

Francis H Haserot Director, the Union Trust Co , Cherry Home Co , Highland Cherry Farm, Gypsum Canning Co., and Cherry Growers Factory, Inc.; president and director the Haserot Co

Warren S Hayden (deceased) Director, the Union Trust Co , Cleveland, Cincinnati, Chicago & St Louis Railway Co , Globe Machine & Stamping Co , Michigan Central Railroad Co., and New York Central Railroad Co ; partner, Hayden, Miller & Co ; vice president and director, Malvern Land Co ; also director, Strong, Carlisle & Hammond Co , West Shore Railroad Co , White Motor Co , New York & Harlem Railroad Co , and Zanesville & Western Railway; president and director, Cleveland Union Terminals Co.; other affiliations, New Western Railroad, Miami Paper Co , Nelson Rodgers, Inc., and Iroquois Securities Co

Parnely Webb Herrick Director, the Union Trust Co , National Surety Co , Harriman National Bank, New York Joint Stock Land Bank, Guarantee Title & Trust Co , and The Sun Investing Co ; president and director, Cuyahoga Co. and Thomas Young Nurseries, Inc (Delaware); vice president and director, Burkam-Herrick Publishing Co , Dayton, Ohio; trustee, Society for Savings, Cleveland; other affiliations, Mitchell, Herrick & Co , Crawford Realty Co., Crawford Land Co , Burkam-Herrick Publishing Co., Cuyahoga Valley Realty Co , Ohio-Pennsylvania Joint Stock Land Bank, Cleveland Land & Improvement Co , Cleveland Hardware Co , the Securities Co., Miami Securities Co., and Anable Avenue Factory Corporation of New York.

George H Hodgson Director, the Union Trust Co ; president and director, Cleveland Worsted Mills Co ; vice president and director, Sheriff Street Market & Storage Co

Grover H Hull Vice president, the Union Trust Co ; other affiliations, Cleveland & Baston Co , Union-Lennox Co , Akers-Folkman Co , Perkins Hough Realty Co , Gerecee Realty Co , and Sterling Realty Corporation, Inc.

John A Jackson Advisory board, the Union Trust Co ; other affiliations, Canfield Apartments Co , Chester Realty Co , Canfield Realty Co , Clinton Co , Canfield Tank Line Co , and Canfield Oil Co

Emil Joseph Director, the Union Trust Co ; attorney, 705 Union Trust Building; other affiliations, Tippecanoe Club Co

Adrian D Joyce Director the Union Trust Co , president and director, the Ghdden Co ; president Wood Chemical Products Co , and Owen Automatic Spring Machinery Co , other affiliations, Surkee Famous Foods Co , Chemical & Pigment Co , Ripahn Co , Metals Refining Co , Forest City Paint & Varnish Co , Wisconsin Food Products Co., and Joyce Realty Co

Ralph T King Director the Union Trust Co , vice president and director, the Realty Investment Co

John A Kling Director the Union Trust Co , Kelley Island Lime & Transport Co , Guardian Trust Co , Century Cement Corporation, Baker, R & L Co , Lithonia Granite Co , Northern Granite & Stone Co , Kling Realty Co , American Gypsum Co , Darlington Brick & Mining Co , and John A Kling Co ; president and director the Cleveland Builders Supply & Brick Co ; other affiliations, Roll Manufacturing Co , Cleveland Builders' Realty Co , Baker-Raulang Co , and Kelley Island Lime & Transport Co

Joseph R Kraus Vice chairman of board, chairman of finance committee, and director of the Union Trust Co ; vice president and director, the Pittsburgh & West Virginia Railway Co ; director, the Fremont Foundry Co , the Valley Mould & Iron Co , the United States Fidelity & Guaranty Co , and Union-Cleveland Corporation, other affiliations, Fisher Ohio Body Co , Donelsh Electric Co , General Tire & Rubber Co , Thompson Products, Inc , Rapid Transit Land Co , Cedar Heights Land Co , Northern Ohio Reconstruction Co , and Prudential Land & Home Building Co

Elroy J Kulas Member of executive committee and director, the Union Trust Co ; president and director, the Midland Steel Products Co , and the Otis Steel Co , director, the Perfection Heater & Manufacturing Co , the Pittsburgh & West Virginia Railway Co , and the Union-Cleveland Corporation; other affiliations, Beelick Knob Coal Co , Valley Railway Co , Parish & Bingham Co , Cleveland Lime & Transport Co , Cleveland Furnace Co , Cleveland Worsted Mills Co , and National Bond & Share Co

E. A. Langenbach Director, The Union Trust Co and First Trust & Savings Bank, Canton, chairman of board and director, Hercules Motors Corporation, Canton, R. V. Mitchell & Co , McCasky Register Co , and Ohio Alloys Corporation; president and director, Allied Coal Co and United Electric Co

Ernest P Lenihan Director, the Union Trust Co and Pittsburgh & West Virginia Railway; president and director, Lenihan & Co ; other affiliations, Johnson & Higgins and Wilcox, Peck & Hughes, Inc

Bascom Little Director, the Union Trust Co ; president, the Crowell & Little Construction Co ; vice president and director, the Cleveland Land & Securities Co and Bolton Square Improvement Co ; other affiliations, Cobb Realty & Investment Co , Reilly & Moriarty, Inc , Cleveland Land & Securities Co , Lakewood Land & Securities Co , Kerr Realty Co , Pilgrim Realty Co , and Tavern Co.

Philip R Mather Director, the Union Trust Co ; other affiliations, Mather Realty Co and Pickands, Mather Co

William G Mather Director, the Union Trust Co , Kelley Island Lime & Transport Co , and Cleveland & Mahoning Valley Railroad; president and director, the Cleveland-Chiffs Iron Co , the Lake Superior & Ishpeming Railroad Co , Gwinn (Mich) State Savings Bank, First National Bank of Alger County, Munising, Mich , and Corrigan, McKinney Steel Co ; vice president and director, Low Volatile Coal Co ; chairman and director, the Otis Steel Co ; member of executive committee and director, Republic Steel Corporation; other affiliations, Progress Steamship Co , Cleveland Chiffs Steamship Co , Negaunee Mine Co , Athens Iron Mining Co , Andaste Steamship Co , Presque Isle Transportation Co , Mesaba Chiffs Iron Mining Co , Chiffs Corporation, Cleveland & Mahoning Valley Railway Co , Medusa Portland Cement Co , Cleveland Industrial Exposition Co , and White Motor Co

Homer D Messick Vice president, Union Trust Co.; vice president and director, the Equity Savings & Loan Co ; secretary-treasury and director, Kalamazoo, Allegan & Grand Rapids Railroad; director, the Dreher Piano Co. and Acme Foundry Corporation; other affiliations, Ada Holding Co , Euclid-E 100th Co , Spencer Estates Co , and Stone Shoe Co.

Otto Miller Director, the Union Trust Co, the Chesapeake & Ohio Railway Co., the Pere Marquette Railway Co, the White Motor Co, the Globe Machine & Stamping Co, the Otis Steel Co, the Arthur G McKee Co, the Glidden Co, and the Cleveland Railway Co, partner, Hayden, Miller & Co; president and director, the Malvern Land Co; other affiliations, Iroquois Securities, Inc, White Co, Euclid-Streator Co, C U Q Railway Co, Covington & Cincinnati Elevated Railroad & Transfer & Bridge Co, Hocking Land & Development Co., Troop A Armory Co, White Motor Securities Corporation, White Motor Realty Co, Nelson Rodgers, Inc, Hocking Valley Railroad Co, Sparks-Withington Co., and Cleveland & S. W. Railway & Light Co.

Thomas Wm Miller: Chairman of board and director, the Faultless Rubber Co; director, the Union Trust Co., the First National Bank, Ashland, and the F. E. Myers & Bro Co

R V Mitchell Director, the Union Trust Co; other affiliations, Mitchell Herrick & Co, Harris Automatic Press Co, City National Mortgage Loan Co, Reliance Manufacturing Co, James Leffel & Co, Oblen-Bishop Co, Thompson Products, Inc, Henry Furnace & Foundry Co, Dill Manufacturing Co, Harris, Seybold-Potter Co, Ohio-Pennsylvania Joint Stock Land Bank, Troy Sunshade Co, Kaynee Co, Houghton Elevator & Machine Co, James Leffel Co, Byers Machine Co, Continental Shares, Inc

Herman Moss Director, the Union Trust Co, the Cleveland Worsted Mills Co, and the Citizens League; general agent, the Equitable Life Assurance Society of the United States

Charles A Nicola Advisory board, the Union Trust Co; other affiliations, Nicola, Stone & Meyers Co, Northern Ohio Lumber & Timber Co, Lakewood Lumber Co, Freehold Co, Saginaw Bay Transportation Co, and Myers-Parsons Lumber Co

Lawrence H Norton Director, the Union Trust Co, Oglebay, Norton & Co, and Cuyahoga Factory Development Co; vice president and director, Bristol Mining Co and Commonwealth Iron Co; treasurer and director, the David Z Norton Co; trustee, Society for Savings

Robert C Norton Director, the Union Trust Co, Lakeside & Marblehead Railroad Co, Baker-Raulang Co, the Independence Steamship Co, the Cleveland Storage Co, The American Ship Building Co, the Great Lakes Towing Co; president and director, Troop A Armory Co and the David Z Norton Co; treasurer and director, Oglebay, Norton & Co, Columbia Steamship Co, Castle Mining Co, Brule Mining Co, The St James Mining Co, the Ferro Engineering Co, Commonwealth Iron Co, Bristol Mining Co, and Bristol Holding Co; treasurer, Montreal Mining Co, the Nelson Mining Co, and the Fortune Lake Mining Co; other affiliations, Troop A Armory Co, Ferro Engraving Co, and Cleveland Storage Co

Joseph R Nutt Chairman and director, the Union Trust Co; vice president and director, New York, Chicago, & St Louis Railroad Co, director, the Faultless Rubber Co, the F E Meyers & Bros Co, the Quaker Oats Co, The White Motor Co, the Cleveland & Pittsburgh Railroad Co, the Goodyear Tire & Rubber Co, and the Alleghany Corporation; other affiliations, Union Cleveland Corporation, International Holdings, Wyoming Pocahontas Coal & Coke Co, F E Myers & Bros Co, Corrigan-McKinney Steel Co, Euclid-Streator Co, Cleveland Electrical Terminal, Cleveland & Youngstown Railroad Co, White Motor Securities Corporation, White Motor Realty Co, and Northern Ohio Power & Light Co.

Wilbert J O'Neill Vice president, the Union Trust Co; secretary-treasurer and director, the Damar Realty Co; secretary and director, the Superior-Doan Realty Co; president and director, the Ozolizer Co; vice president and director, the International Holding Co; treasurer and director, the Caston Land Co and the Miami Valley Brewing Co; director, the Chase Bag Co, Whitman & Barnes, Inc, the Whitman-Barnes Manufacturing Co, and the Superior Thirty Fourth Co, other affiliations, Sterling Realty Corporation, Inc, and Canton Land Co

Carl N Osborne Director, the Union Trust Co, the M A Hanna Co, and National Steel Corporation; secretary and treasurer, the M A Hanna Co; other affiliations, Tod-Stambaugh Co, Jefferson Coal Co, Lower Lake Dock Co, Valley Furnace Co, Stambaugh Iron Co, Ohio & Western Pennsylvania Dock Co, Mead Iron Co, La Belle Steamship Co, Marting Ore Co, East Steamship Co, Virginia Steamship Co, Wheeling & Lake Erie Coal Mining Co, and Chagrin Valley Hunt Club Co

Charles A. Otis Advisory board, the Union Trust Co; partner, Otis & Co; president and director, the Otis Safe Deposit Co; vice president and director,

Kanawha & Hocking Coal & Coke Co ; director, **Bulkley Building Co** and **William Edwards Co.**; other affiliations, **Otisito Mines Co.**, **Waite Hill Farms Co** and **Cuyahoga Co**

Kenyon V. Painter. Director, the **Union Trust Co.**; other affiliation, **Cleveland & Pittsburgh Railroad**

James L. Paton. Vice president, the **Union Trust Co** ; other affiliation, **Wheeler Realty Co**

Charles P. Pimonka Vice president, the **Union Trust Co** ; other affiliations, **Cleveland Home Investment Co.**, **Arrowhead Beach Sales Co** , **Willobee No 3 Land Co** , and **Russell Realty Co**

Henry J. Ranft Treasurer, the **Union Trust Co** ; other affiliation, **Union Cleveland Corporation**

N. G. Richman Director, the **Union Trust Co** ; chairman of board, the **Richman Bros Co**

Thomas P. Robbins Member of executive committee and director, the **Union Trust Co** ; first vice president and treasurer, the **Cleveland Hardware Co** ; director, the **Cleveland Hardware Co** ; president, the **Kirtland Mutual Co**

L. J. Roeder Assistant treasurer, the **Union Trust Co** ; other affiliation, **Union Trust Securities Co**

WALTER H. SEYMOUR,
Senior Examiner.

Mr. SAPERSTEIN. Mr. Meehan, I have here a report entitled "The Union Trust Company—Corrigan-McKinney Steel Co.", and ask you if that was prepared by the members of the investigating staff of the committee under your immediate supervision.

Mr. MEEHAN. It was.

Mr. SAPERSTEIN. Mr. Chairman, I now wish to offer that report in evidence, together with exhibits which are at the present time at the Government Printing Office for the purpose of facilitating printing.

The **CHAIRMAN.** The report and exhibits will be received in evidence and appropriately identified by the committee reporter.

(The report entitled "The Union Trust Company—Corrigan-McKinney Steel Co.", and exhibits referred to therein which are now at the Government Printing Office, were received in evidence, marked "Committee Exhibit No. 16, May 4, 1934", and are as follows:)

CORRIGAN-McKINNEY STEEL Co

This report relates to the interest of the **Union Trust Co.** in transactions which transpired in the eventual purchase of the **Corrigan-McKinney Steel Co** by the **Cleveland Cliffs Iron Co.**

The **Corrigan Steel Co.** was the original corporate name, having been formed in 1880. In 1917 the name was changed to the **McKinney Steel Co** , and then in 1926 it was again changed, this time to the **Corrigan-McKinney Steel Co.** In May 1925, **J. R. Nutt** was instrumental in the formation of a corporation known as the "**McKinney Steel Holding Corporation**", which purchased control of the **McKinney Steel Co.** For the purchase by the **McKinney Steel Holding Co.** of a certain block of **McKinney Steel Co.** stock **Mr. Nutt** received a commission of \$130,000, which, although turned over to the bank by **Mr. Nutt** 7 months after he had received it, has been a transaction causing very much dispute and discussion. The **McKinney Steel Holding Co.** in 1925 issued \$7,250,000 par value of preferred stock, the entire issue of which was purchased by the **Union Trust Co.** Subsequently, in 1930, the **Union Trust Co.** , in participation with several other banks, arranged a loan of \$25,000,000 to the **Cleveland**

Cliffs Iron Co in order that the Iron Co. might purchase the McKinney Steel Co. stock. No payments have ever been made on these Cleveland Cliffs Iron Co. loans.

An interesting news item appeared in the Cleveland Press of March 22, 1930, in which was given a brief history of the Corrigan-McKinney Steel Co. and which stated in part:

The story of the Corrigan-McKinney Steel Co. is one of the most spectacular and dramatic fights in the history of Cleveland

Old Capt James C Corrigan founded the firm after a battle with John D Rockefeller here, in which John D. whipped the young upstart who had borrowed from him the money to get control of Lake Superior ore properties

After this whipping Captain Corrigan and Stevenson Burke founded the little independent steel firm here in the early eighties * * * And Old Jim wrote a will that put his property in the hands of Price McKinney, his bookkeeper, to hold in trust * * *

* * * Meanwhile the name of the Corrigan Steel Co had been changed to the Corrigan-McKinney Steel Co, and finally to the McKinney Steel Co, the former bookkeeper voting the Corrigan stock he held in trust to write the name of the founder out of the firm name and his own name in

* * * Then in 1925 Young Jim came back to Cleveland. He had in his pocket 40 percent of the stock He also had 13 percent, got from E S Burke. He dropped into a directors' meeting, and the announcement that came out of that session fell like a bomb in Cleveland circles

The name of the firm had been changed to the Corrigan-McKinney Steel Co., and the former bookkeeper had been ousted as president * * *

(U-15-1a)

In the spring of 1919, Mr. J. R. Nutt was elected to the board of the then McKinney Steel Co at the request of Mr James W Corrigan. At that time, according to Mr Nutt, the ownership of the company was as follows:

	Percent
Mr. James W. Corrigan.....	40
Mr. Price McKinney.....	30
Mr E S Burke, Jr.....	13½
Mrs Ross (Burke's sister).....	8½
Mrs. Stevenson Burke.....	7½
Total.....	100

In the latter part of April 1925, Mr. E. S. Burke, Jr, called at the office of Mr Nutt and stated that he desired to sell his 13½-percent interest in the McKinney Steel Co, and asked Mr. Nutt to find a purchaser for the stock.

(U-15-2)

On May 1, 1925, Mr. Burke addressed a letter agreement to Mr. Nutt personally as follows:

I own 13½ percent of the authorized and issued capital stock of the McKinney Steel Co, which I give you exclusive authority to sell for \$7,000,000

If sold I will pay you a commission from the proceeds of sale of 2 percent of sale price

This authority is to you personally and good until June 15, 1925, 12 o'clock noon.

It is understood that you may yourself purchase or be interested in the purchase of the stock, and shall, in that event, be entitled to the commission stated.

(U-15-3, 4)

Mr. Nutt held conferences with Mr. Corrigan and with Mr. Burke for several days. It was planned to form a holding company which would issue preferred stock to Mr Burke in payment for his holdings

of McKinney Steel Co. On May 6, 1925, Mr Burke addressed a letter, on the stationery of the Union Trust Co., to Mr Nutt personally in which Mr Burke outlined the plan and then stated:

(U-15-3)

This letter will serve as your authority exclusively to represent me in this transaction and is given to you personally

Finally it was agreed that the holding company would be formed under the name McKinney Steel Holding Co. with an authorized common stock of 10,000 shares which were issued to Mr. James Corrigan in exchange for his 40-percent interest in McKinney Steel Co., and an authorized preferred stock of \$7,250,000 par value consisting of 72,500 shares which were issued to Mr E S Burke, Jr. in exchange for his 13% percent holdings of McKinney Steel Co. stock.

(U-15-7)

The stock of the McKinney Steel Co. which was represented by Corrigan's 40 percent and Burke's 13% percent was then turned over to the Union Trust Co. to hold as trustee—

(U-15-5)

* * * for safekeeping and to assure conformity with the preferred stock provisions prohibiting the sale, pledge, or otherwise imposing a lien on said stock, * * *

(U-15-6, 8)

Mr E. S. Burke then entered into an agreement with the Union Trust Co. to sell to the bank the entire issue of McKinney Steel Holding Co. preferred stock at 89 655 percent or \$6,500,000. It was from this \$6,500,000 received from the Union Trust Co. that Burke paid his 2 percent commission or \$130,000 to Nutt and, evidently, it was from the participation of the Union Trust Co. instead of Nutt in the transaction that the other directors felt the commission belonged to the bank and not to Nutt personally.

Mr Burke addressed a letter, dated May 13, 1925, to Mr. Nutt stating that upon receipt by him of the \$6,500,000 from the Union Trust Co. in cash, "I will pay you a commission equal to 2 percent of the sale price or \$130,000"

(U-15-10, 13, 12, 11)

The Union Trust Co. "banking department" purchased this entire McKinney Steel Holding Co. \$7,250,000 par value preferred stock from E. S. Burke at 89 655 percent, or \$6,500,000, paying Burke with official check No A83087 of the Union Trust Co. The "banking department" then sold the entire issue to the "bond department" at 93 percent or a profit to the "banking department" of \$242,500. The "bond department" then formed several groups each of which sold the stock as follows: Purchase group bought issue at 93; sold to special purchase group at 95½, which sold to banking group at 96½; which sold to selling group at 99½; which disposed of the stock to the public at 100.

(U-15-15)

The Union Trust Co. obtaining the following profits:

Banking department.....	\$242, 500. 00
Bond department.....	238, 355. 83
	<hr/>
	480, 855 83
Plus the 2-percent commission.....	130, 000. 00
	<hr/>
	610, 855. 83

(U-15-14, U-6-51)

Mr. Nutt received the \$130,000 commission from Mr. Burke on May 16, 1925, and it was not until 7 months later (Dec. 24, 1925) that the check was turned over to the bank for its own account

We have heard rumors expressed around the bank that Mr. Nutt considered this \$130,000 as a personal transaction and that it did not belong to the bank, an opinion that was not shared by the other senior officers and directors. According to these rumors Mr. Nutt refused to turn the \$130,000 over to the bank but on the other hand was afraid to take it himself, with the result that he held the check for 7 months before he turned it over to the bank. Mr. Nutt claims this is all untrue and that he always considered that he was acting as president of the Union Trust Co. in this transaction and that he did not "hold" the check at all but turned it over to the bank immediately. Further, Mr. Nutt states that it was a personal check of Mr. Burke's that he had and turned over to the bank. Actually Mr. Burke purchased Union Trust Co. official check no. A83106 in the amount of \$130,000 payable to the order of J. R. Nutt and gave that check and not his own to Mr. Nutt.

Shortly after the closing of the Union Trust Co. there was evidently some newspaper comment about this transaction and Mr. Nutt wrote to the Conservator of the bank on April 19, 1933, stating:

(U-15-17)

* * * I welcome your most searching investigation. You will find that every transaction between myself personally, and as chairman of the Union, with the above was in accordance with the best type of banking practice, open and above board and clean in every respect, and that not one dollar of profit ever went directly or indirectly to any officer of the Union Trust Co.

Mr. Nutt has prepared several memoranda and has written letters to the liquidator of the Union Trust Co. about this \$130,000 transaction.

In one of these memoranda Mr. Nutt states:

(U-15-16)

Mr. Burke gave me his personal check for my 2 percent or \$130,000 and congratulated me, supposing I had earned this for my personal account, and in order that there should be no false impression I stated to Mr. Burke at the time that I was not earning one dollar personal profit; that the \$130,000 was an earning for the bank

And then, in a letter dated April 20, 1933, to Mr. Cox, then bank conservator, Mr. Nutt stated:

(U-15-1a)

When Mr. Burke gave me his check for \$130,000 he congratulated me on making this nice commission. I stated to him that this was not coming to me personally but would go to the Union Trust Co. as earnings.

This was corroborated by Mr Baldwin in a letter to Mr Cox on April 21. However, Mr Baldwin attempts to explain the 7 months' delay by stating that—

(U-15-18)

At the time the check was received, credit was deferred because we had under consideration the creation of a pension plan for the benefit of officers and employees * * *

The open attitude expressed in the foregoing letters might be disarming if it were not for the facts presented in this report. To a man such as J. R. Nutt, accustomed to making important decisions frequently and quickly, it does not appear reasonable or creditable that it would take 7 months for him to decide whether he should keep the commission or turn it over to the bank. It does appear, however, that J. R. Nutt would like to create the impression of a magnanimous gesture, whereas the elapsed time would indicate the contrary and after much indecision.

Early in 1928 James W. Corrigan died, leaving in trust his estate for the benefit of his widow, Laura Mae Corrigan. The joint trustees were the Union Trust Co. and John H. Watson, Jr., president of the Corrigan-McKinney Steel Co. It was thought shortly after Corrigan's death that the stock of his company was for sale, and many inquiries were received from various reputable houses regarding its purchase.

There was considerable correspondence on this subject, but representative of them all was a letter from Dillon, Read & Co. to J. R. Nutt, dated February 6, 1928, stating in part:

(U-15-19)

We are very much interested in the possibilities of purchasing all or control of the McKinney Steel Co. and I would appreciate your advice as to whether there is anything that we can do at the present time to develop the situation. We would be glad to work on this business with you and your associates if the opportunity presents.

Mr Nutt answered this letter 2 days later, stating that the company was not for sale and that—

(U-15-20)

We elected Mr John H. Watson, Jr., as president of the company to succeed Mr. Corrigan, and we have announced that the property was not for sale, nor did we care to consider any scheme for consolidating it with other companies. Our plan is to go right ahead and operate the company. It is in splendid physical condition. Our costs are low, and if there is any business, we believe we will get our share of it and can handle it at a profit.

However, early in 1930 Cleveland Cliffs Iron Co. began negotiations toward the purchase of the McKinney Steel Holding Co. Mr. Nutt outlined this whole transaction to Mr. Cox in his letter of April 20, 1933, as follows:

(U-15-1b)

I think it was in March 1930, as president of the Union Trust Co., representing the Corrigan estate, I began negotiations with Mr. W. G. Mather for the sale of the Corrigan interest in the Steel Co., represented by 10,000 shares of the McKinney Steel Holding Co. common stock, which, as previously stated, controlled 53½ percent of the Corrigan, McKinney Steel Co. I also represented the 8½ percent owned by Mrs. Ross, or a total of 62½ percent. These negotiations finally resulted in a sale to the Cleveland Cliffs Iron Co.—the price agreed upon was to be on the basis of \$37,500,000 for the 62½ percent. Mrs. Ross' share amounted to \$5,250,000 and the Corrigan estate \$32,250,000. The Corrigan interest, however, was represented by common stock of the McKinney Steel Holding Co. and

the Steel stock was pledged as security for the preferred stock, so that from the \$32,250,000 there was deducted \$7,250,000 preferred at the call price of 105, or \$7,612,500, leaving a net of \$24,637,500—this amount being paid for all of the common stock of the McKinney Steel Holding Co. My recollection is that after Mr Corrigan's death the common stock of the McKinney Steel Holding Co was increased from 10,000 to 10,100 shares—this 100 shares being paid to Messrs M B and H H Johnson, with Mrs Corrigan's consent, in settlement of fees for a number of years of legal service—so that the net proceeds above mentioned were divided with all of these common stock shareholders. In the sale of Mrs Ross' 8½ percent for \$5,250,000 it might have been perfectly legitimate and proper to have charged her a commission or fee, but no charge of any kind was made to Mrs Ross

(U-15-21a, 23, 24a, 25)

On March 19, 1930, Mrs Laura Mae Corrigan, widow of the deceased Corrigan and principal participant in the transaction, in accord with proper legal license, consented to the sale of all of the common stock of the McKinney Steel Holding Co. This appeared in a letter to the Union Trust Co and John H Watson, Jr., trustees under the last will and testament of James W. Corrigan, deceased. In this letter, the sale price was stipulated as \$29,887,500, cash to be distributed \$24,152,500 pro rata to the holders of the common stock of the McKinney Steel Holding Co., \$5,060,000 to Parthenia Burke Ross, and \$675,000 as follows

Donald B Gillies.....	\$50,000
Henry T Harrison.....	50,000
James S McKesson.....	50,000
Edward G Resch.....	25,000
John H Watson, Jr.....	500,000

The distribution of \$675,000 to the above was for services rendered in the management of the Steel Co. and the estate, each of the stockholders bearing their pro rata share of the endowment.

(U-15-22a, 26, 27)

On March 21, 1930, the Cleveland Cliffs Iron Co. agreed to purchase the 10,100 shares of the McKinney Steel Holding Co. and the 218½ shares of the Corrigan-McKinney Steel Co., held by Parthenia Burke Ross, and pay the Union Trust Co. \$29,887,500. This they did and the Union Trust Co then distributed this sum as \$5,059,995.62 to Parthenia Burke Ross, \$675,000 endowment to officers, and the balance to the Corrigan estate.

In the financing of this purchase the Union Trust Co. participated in the amount of \$3,387,500 in a collateral-loan note, the aggregate principal amount of which was \$14,387,500. The participants in this loan, as evidenced by the collateral loan card, were:

(U-15-28c; 28d)

Union Trust Co, Cleveland.....	\$3,387,500
Guardian Trust Co, Cleveland.....	1,500,000
Central United National Bank, Cleveland.....	500,000
Cleveland Trust Co, Cleveland.....	300,000
Bankers Trust Co, New York.....	4,000,000
Continental Illinois Bank & Trust Co, Chicago.....	3,500,000
First National Bank, Chicago.....	1,000,000
William G Mather.....	200,000
Total.....	14,387,500

At the time of the Union Trust Co's participation in this loan it was considered by them to be well secured. This was not the opinion of J P Morgan & Co 2 years later, however, when the Union Trust Co. expressed a desire to sell this participation, on agreement to repurchase, to J P. Morgan & Co. In a letter of January 6, 1932, to Mr. T. W. Lamont, J. R. Nutt stated in part:

(U-15-29)

You will note under the Participated Secured Loans that the Union Trust Co. has an interest of \$3,387,500 I would like to sell this participation to you under our repurchase agreement or with our endorsement, whichever you prefer My thought is that if the Reconstruction Finance Corporation is authorized in Congress, and I believe it will be, as soon as it is in operation I can place this participation with that Corporation and relieve you of it I think this is only a matter of a very few weeks

In a reply dated January 13, 1932, Mr. T. W. Lamont, after presenting an analysis of the security for the loan, states:

(U-15-30a, b)

I am most regretful that the firm cannot see its way clear to take over this item, even under the repurchase agreement It falls too much in the category of dead-slow stuff You know how anxious we are to help in any way that is possible. We took over your British credit unhesitatingly We made an arrangement in the Higbee matter that was of relief to the Cleveland banks We have noted without objection the transfer of deposits from New York to Cleveland in an undue proportion, but in a way that would be of aid to the Cleveland banks, but this particular item, my dear Joe, is beyond us

(U-15-31, 32, 33)

The reply must have been discouraging, even though J. R. Nutt agreed with T. W. Lamont's analysis of the security for the loan, as evidenced in a letter to Lamont from Nutt, dated January 14, 1932, stating:

(U-15-34)

Thank you very much for your letter of the 13th. The man on your staff I think has analyzed the Cleveland Cliffs matter correctly I am, of course, sorry that you could not use the item in the way I suggested, but I understand the matter perfectly Be assured I deeply appreciate the careful consideration that you have given it.

(U-15-35i)

The discouraging aspect must have been due to the anticipation of an additional loan of \$3,500,000 to the Cleveland Cliffs Iron Co., which occurred on March 29, 1932, and which brought the total loans to approximately \$7,000,000. No principal payment having been made against these loans to April 25, 1933, must have restricted the bank's liquidity considerably.

(U-15-36; 37)

The Union Trust Co's beneficent attitude toward the Cleveland Cliffs Iron Co. changed when on June 23, 1932, a renewal of the loans was required, a 1-percent penalty in the form of a commission was applied against a total amount of \$6,887,500, or an amount of \$68,875. This is repeated on September 23, 1932, in the same amount, making a total commission charge of \$137,750 for the two renewals.

(U-15-37)

The commissions were received in the form of loans and so entered upon a loan card. The June 23, 1932, commission was carried on the books at full value, while the September 23, 1932, commission was carried at zero. The reason for not carrying the latter note at face value was that by doing so the Cleveland Cliffs Iron Co. would have loans in excess of its borrowing limit, namely 20 percent of the capital and surplus, that limit being \$7,000,000.

(U-15-38a)

It subsequently developed, as a result of a suit in court, that the commissions were considered usurious and the bank liquidator has been ordered to refund to the Cleveland Cliffs Iron Co. approximately \$145,000, representing excessive interest charges on loans to that company.

An interesting and pertinent point was brought out in the testimony during the cross-examination in the suit to recover the interest for the Cleveland Cliffs Iron Co., when W. J. O'Neill, a vice president of the Union Trust Co., was questioned by A. Kollin, an attorney, wherein it was established definitely that the bank knew the commissions were usurious from the beginning. The testimony was in part as follows:

(U-15-39d)

Mr. KOLLIN: But you had your doubts—not only a doubt, but you thought it was a usurious rate?

Mr. O'NEILL: I did not have any doubt at all. I was certain it was usurious.

(U-15-40)

Regardless of the knowledge of usury, the bank, nevertheless, pledged these commission notes on a loan from the Reconstruction Finance Corporation. The Reconstruction Finance Corporation, however, was informed of the usury after the loan was procured, in a letter dated August 8, 1933, to F. S. Collander, acting manager, Reconstruction Finance Corporation, from Oscar L. Cox.

(U-15-41, 42, 43, 44)

If only as a matter of record, it is interesting to note that after the bank closed, some of the stockholders gave considerable attention to J. R. Nutt's participation in the sale of the steel company stock when, on April 19, 1933, a firm of attorneys, Snyder, Thomsen, Ford, Seagrave & Roubush, of Cleveland, Ohio, requested that Oscar L. Cox, conservator of the Union Trust Co., bring suit against Joseph R. Nutt on behalf of Zella S. Olmstead and other owners of a large number of shares in the Union Trust Co., basing the suit on the understanding that J. R. Nutt received a sum of nearly \$1,000,000 for his part in the sale of the stocks of the Corrigan, McKinney Steel Co. and the McKinney Steel Holding Co.

(U-15-45)

The fact remains that the attorneys were not in possession of a perfect understanding of the situation. Several exhibits are offered substantiating this, which were brought out when Mr. Cox investi-

gated the facts. These exhibits also present the opinions of several people regarding the Corrigan, McKinney transactions.

Concluding, it can be stated that the Corrigan, McKinney transaction was a profitable one for the Union Trust Co. This, no doubt, was the foundation for the leniency in the credit extension to that company which later developed into the frozen liquidity which prevented the depositors from a realization of approximately \$7,000,000.

That J. R. Nutt did not relinquish his commission of \$130,000 as a "grand gesture" but only upon pressure or for fear of "losing face."

That even under the protection of a repurchase agreement "Dear Lamont" could not see his way clear to help "Dear Joe" on the Cleveland Cliffs Iron participation loan, it was that poorly secured.

And last, but not least, appeared the descension of the Union Trust Co. into usury, in an attempt to recover on their mistaken judgment.

WALTER H. SEYMOUR,
Senior Examiner.

(U-13-1, p. 1)

Mr. SAPERSTEIN. Mr. Meehan, I hand you a report which I understand was prepared by members of the investigating staff of the committee under your immediate supervision entitled "Painter-Bradley-Nutt Van Sweringen Syndicate". Will you please state whether that was prepared by members of the investigating staff under your immediate supervision?

Mr. MEEHAN. It was.

Mr. SAPERSTEIN. Mr. Chairman, I offer the report in evidence, together with exhibits referred to therein and which exhibits are now at the Government Printing Office.

The CHAIRMAN. The report and exhibits will be received in evidence and appropriately identified by the committee reporter.

(The report entitled "Painter-Bradley-Nutt Van Sweringen Syndicate", and exhibits referred to therein, which exhibits are now at the Government Printing Office, were received in evidence, marked "Committee Exhibit No. 17, May 4, 1934," and are as follows:)

COMMITTEE EXHIBIT No. 17, MAY 4, 1934

PAINTER-BRADLEY-NUTT-VAN SWERINGEN SYNDICATE

An illustration of the long and close relationship which existed between K. V. Painter, director and largest stockholder of the Union Trust Co., and J. R. Nutt, chairman of the board, is corporate trust no. 2975. There is nothing unusual or unethical about this trust. We are simply reporting it to further illustrate this close relationship which did exist, and had existed for a long time, between these certain individuals who controlled the Union Trust Co.

On August 5, 1915, an agreement was entered into between O. P. Van Sweringen, J. R. Nutt, K. V. Painter, and C. L. Bradley, to purchase and develop certain residential property in Cleveland Heights and on July 15, 1919, another similar agreement was entered into between the following: O. P. Van Sweringen, Van Sweringen Co., and Citizens Savings & Trust Co. (now the Union Trust Co.).

The Van Sweringens and their associates were desirous of developing and marketing the properties covered by the two agreements mentioned above, and on April 14, 1920, the beneficiaries of the two agreements conveyed their interests to a new syndicate, or trust, consisting of the following: K. V. Painter, C. L. Bradley, F. E. Myers & Bros., Citizens Savings & Trust Co., trustee, Van Sweringen Co.

(U-3-4, 5)

This agreement of April 14, 1920, provided that the Van Sweringen Co. would take the property over under an option at an aggregate price of \$1,000,000, with interest from January 1, 1920, at 6 percent for the benefit of the beneficiaries. The Union Trust Co., as successor by consolidation to the Citizens Savings & Trust Co., was appointed trustee. Certificates of equitable ownership in the allotment property were issued to the respective beneficiaries and the distribution was directed by O. P. Van Sweringen and C. L. Bradley as supervisors. Exhibit U-3-8 is a statement showing in detail how much each of the beneficiaries received from the corporate trust for the years 1924 to 1932, inclusive, summarized as follows:

(U-3-6, 8, 1, 2, 3)

Name	Percent	Amount
Van Sweringen Co.....	20	\$169,600
C L Bradley.....	20	150,800
Alva Bradley.....		
Estates department, the Union Trust Co		18,800
J R Nutt.....	20	169,600
K V Painter.....	20	169,600
Estate of F E Myers (J C Myers, administrator)	20	84,800
P A Myers.....		84,800
Total.....		848,000

WALTER H. SEYMOUR,
Senior Examiner.

Mr SAPERSTEIN Mr Meehan, I show you a report entitled "The Union Trust Company—The United Milk Products Corporation" Will you please state whether that report was prepared by the members of the investigating staff of this committee under your immediate supervision?

Mr MEEHAN. It was

Mr SAPERSTEIN. Mr Chairman, I wish to offer the report in evidence, together with the exhibits referred to therein and which exhibits are now at the Government Printing Office for the purpose of facilitating printing.

The CHAIRMAN. The report and exhibits will be received and appropriately identified by the committee reporter.

(A report entitled "The Union Trust Company—The United Milk Products Corporation," and exhibits referred to therein, which exhibits are now at the Government Printing Office, were received in evidence, marked "Committee Exhibit No. 18, May 4, 1934," and are as follows:)

COMMITTEE EXHIBIT No. 18, MAY 4, 1934

(U-13-1, p 1)

THE UNITED MILK PRODUCTS CORPORATION

The United Milk Products Corporation was incorporated in the State of Delaware in December 1925. Its organization represented a consolidation of 11 companies operating between 40 and 50 plants located in New York, Ohio, Indiana, Illinois, Michigan, Wisconsin, and California. These plants were engaged in the production, condensation, and canning of milk, the principal and largest plant being the Western Reserve Condensed Milk Co of Cleveland, Ohio.

The corporation had an authorized capital consisting of: 250,000 shares \$100 par value preferred and 250,000 shares no par value common.

All the common stock has been issued and there was originally issued 134,044 shares of the preferred, making the original capitalization—

(U-13-1, p 1)

7 percent cumulative preferred stock.....	\$13, 404, 400
No par value common stock shares).....	250, 000

(U-13-4)

Mr J R. Nutt and his wife were stockholders of the Western Reserve Condensed Milk Co , one of the companies acquired at the organization of the United Milk Products Corporation. Shortly after the formation of the United Milk Products Corporation, J. R. Nutt was given the opportunity of purchasing 25,000 shares of its preferred stock at par of \$100 per share with 1 share of common stock being given as a bonus with each share of preferred purchased. Mr. Nutt took up some of the stock himself and interested certain of his friends in this deal and sold some of the stock to them at the cost price to him. He then interested several of the employees of the bank in the stock; sold some to outside customers of the bank, and sold the remainder to the individual trust estates of the bank.

In order to bring about these purchases the Union Trust Co. loaned money to certain of the individuals and to the trust estates, taking as security for the loans the stock of the United Milk Products Corporation. Most of the loans were made in the amount of from 89 to 100 percent of the par value of the stock and practically all of the loans were made on the approval of Nutt

Subsequently Mr Nutt, and probably most of his close friends, disposed of the greater part of his holdings. However, no warning was given to the small investor and he was caught "holding the bag." The market on the stock dropped very badly. The Union Trust Co. still has several loans unpaid with the principal collateral being the stock of United Milk Products.

(U-13-1 and 2)

The charge has been made time and again that J. R. Nutt and his associates organized this company for no other reason than their own personal profit. No statements of the company were published, in

spite of continued requests, until some 2 or 3 years after it was formed and the stock had been sold. When it did issue statements the information given was grossly misleading. The liquidator of the Union Trust Co detailed a Walter G. Mitchell to make a study of the matter and report on it. Mr. Mitchell completed his examination and submitted two reports, one dated September 27, 1933, and the other on November 17, 1933. We have obtained copies of the narrative sections of both of these reports.

Mr Mitchell summarizes his findings in his supplemental report as follows:

(U-13-2, p. 1)

Placing the worst construction on all circumstances which have been indicated by this investigation, it may be assumed that the entire deal was a scheme to organize and float the United Milk Products Corporation for the personal benefit and profit of J R Nutt and/or other persons connected with the bank.

The first indication in the bank's files of the existence of such a company consists of a telegram in the credit department, dated November 2, 1925, in answer to an inquiry from J. H. Skinner, vice president, Bank of Italy, San Francisco, the contents of the telegram being the following:

(U-13-3)

Unable to get trace of company mentioned your night letter. Can you furnish address or names of principals.

This telegram was followed by a confirmatory letter to Mr Skinner signed by W. F. Copeland, assistant vice president of the bank in which he stated:

(U-13-5)

This concern is unknown to all of those with whom we talked including the leading milk companies, dairy supply houses, and brokers in the evaporated milk business.

In the short interval of only 1 month and 2 days Mr J R Nutt was sufficiently familiar with this corporation to prepare what amounts to a "sales letter" for the stock to be distributed, and to have an intimate knowledge of its financial condition to the degree that he wrote Mr Kraus, then vice president of the bank, the following on December 4, 1925:

(U-13-6)

I have never seen a deal quite like it in my life. Most new corporations of this kind want a lot of new money, but this company does not need nor want any, and they have had applications for eight and a half times the amount of stock they can prudently let out. In fact any stock sold is that amount additional of new cash in the treasury which is not needed.

Mr Kraus in a letter to C. S. Castle, president of the Standard Trust & Savings Bank of Chicago, used Mr Nutt's letter almost verbatim to inform Mr Castle that the available supply of the stock was very limited and

(U-13-7)

If you are allotted any of this stock, it will be on account of personal friendship of some one of the crowd.

Whether or not Mr. Nutt's statement concerning the applications for eight and a half times the amount of stock available is true or not is unknown.

There was no actual underwriting, nor were there any circulars or advertisements issued in the distribution of the stock.

(U-13-24a)

On December 31, 1925, Mr. Nutt subscribed to the 25,000 shares of preferred stock. The cash records of the United Milk Products show that Nutt paid for these 25,000 shares on January 2, 1926. Incidentally, Mr. Nutt's \$2,500,000 subscription was the first cash receipt by the corporation according to its records. On January 18, 1926, the certificates for 25,000 shares of the preferred and 25,000 shares of common were delivered to C. W. Carlson, vice president of the Union Trust Co. All of the close friends and business associates of Nutt were included in the list of persons receiving the stock. However, in the name of Nutt there appears to be only the following:

(U-13-9)

R. H. Nutt.....	500 shares of each
Mrs. Helen F. Nutt.....	50 shares of each

Approximately 8,000 shares were in the name of Carlson, however, and, as will be shown later, he acted as nominee for a group.

Mr. Mitchell points out in his report that—

(U-13-1, p. 2)

It appears that a large part of the opening capital of the United Milk Products Corporation was furnished by the Union Trust Co through the estates trust and collateral loan departments

(U-13-1, p. 2)

As of December 31, 1932, pursuant to a reorganization agreement, the United Milk Products Corporation was dissolved and the United Milk Products Co. organized as a successor. This resulted in an exchange of stock as follows

(U-13-1, p. 2)

United Milk Products Corporation	Exchanged for United Milk Products Co (new stock)
1 share (preferred).....	8/10 share (preferred) and \$3 cash.
1 share (common).....	1/6 share common).

(U-13-1, p. 2)

The preferred stock held as collateral to Union Trust loans has all been exchanged for stock in the new corporation with the exception of 100 shares held as security to a loan to W. J. O'Neil.

(U-13-1, p. 4)

Mr. Mitchell then lists the total amount of loans which were based on the stock of United Milk during the first 6 months of 1926. These loans total \$2,163,206.74. Mr. Mitchell then states that:

(U-13-1, p. 4)

In the period from January 2 to June 30, 1926, covered by schedule I, numerous loans appear in which an apparent excessive amount was loaned. Certain borrowers deposited a small amount of other collateral, but the following tabulation is submitted covering loans on which 80 to 100 percent of par value was allowed, solely upon United Milk preferred stock as collateral (in each case "par value" refers to the preferred stock, with an equivalent number of common shares which were given as a bonus);

(U-13-1, pp. 4, 5)

Borrower	Approved by—	Amount of loan	Percentage of par value
Matilda B Dowling.....	R S C	\$855 00	85½
C N Osborne.....	C L B	20,000 00	100
Ralph H Sharpe.....	C W C	4,500 00	90
John R Killits.....	J R N	9,000 00	90
E N Wagley.....	C W C	4,500 00	90
Leslie O Carr, Jr.....	J R N	4,000 00	80
Robert A Weppner and J E Weil.....	do.	9,000 00	90
E R Fancher.....	do.	9,000 00	90
L H Stofer.....	C W C	4,400 00	88
C B Anderson.....	do.	4,500 00	90
Sam W Emerson.....	do.	200,000 00	80
Maude H Bruce.....	do.	8,500 00	85
Leon S Miller.....	J R N	90,000 00	85
C L Bartshe.....	O W C	25,000 00	100
C L Ayers ¹	J R N	125,000 00	+92
Grace D and Chas K Arter.....	O W C	25,000 00	100
Matilda B Dowling.....	W M B	850 55	85
M H Hurst.....	C W C	5,000 00	100
A M Kelly.....	do.	5,000 00	100
R T Taylor.....	do.	5,000 00	100
C T Nixton.....	do.	5,000 00	100
W L Fox.....	do.	5,000 00	100
H M Jones.....	do.	5,000 00	100

(U-13-1, p. 5)

¹ Attention is invited to the loan to C L Ayers, above noted, in the sum of \$215,000, made March 8, 1926, approved by J R Nutt, secured by 1,350 shares preferred and 1,000 shares common stock of United Milk. On this loan the bank suffered a large loss, having charged off \$102,000 to reserve for losses, as follows: Nov 5, 30, \$25,000, Dec 30, 1930, \$10,000, Dec 30, 1931, \$67,000, total \$102,000.

(U-13-1, p. 6)

In addition to the loans above noted at over 80 percent of par value, there were also \$590,000 of loans secured by United Milk Products at 100 percent of its par value. These loans carried the endorsement of Mr. C L Bartshe, president of the corporation. Mr. Crawford and Mr. Nutt were the bank officials who approved these loans.

From the above it can readily be seen that while individuals were the nominal purchasers of this stock, the acquisition was made possible by the Union Trust Co; and by the pursuance of a lenient credit policy, the depositors' money being risked.

The Trust Co. officials were very "bullish" concerning the future of the corporation, but in their replies to requests for factual information the statement is frequently made:

(U-13-12)

No statements of the company are available, but some of our officers have seen the company's statement, which we understand shows an excellent financial condition, the company having large cash balances, with no debt.

(U-13-14)

Mr. Nutt prepared a memorandum dated May 6, 1926, from which it appears most of the answers to inquiries were written. This memorandum has a notation on the bottom addressed to Mr. Tonks, vice president, as follows. "The above to be used by your department with discretion."

The first financial statements available to the public were those as of December 31, 1928, some 3 years after the formation of the corporation. During this period, investors and those extending credit

to the corporation were forced to accept information furnished by the bank's officials. Below are some excerpts of letters which are representative of the information disseminated by the Union Trust Co.

(U-13-10)

As yet the company has issued no financial statements, although we are told that one is to be issued some time soon. We understand the company is in a good financial position, with around \$6,000,000 of cash and practically no debts

(U-13-11)

Letter dated April 9, 1926, Mr. Tonks to Mr. W. K. Adams

The company is in strong cash position, and we hold the management of the company in very high regard, and feel that the people associated with it represent the best experience in the milk business in this country.

(U-13-13)

Letter dated January 27, 1928, Mr. J. P. Harris to D. B. A. Richardson.

Your inquiry in regard to United Milk Products Corporation has been handed to me in view of my knowledge of that situation, I am very sorry to report, however, that I cannot send you a financial statement of this company, although the company's operations are known to us rather intimately. As yet, the company has not seen fit to issue any statements of any sort, but it is not at all impossible that in the not distant future they will decide that the time has arrived when the complete statement may be given out to all stockholders. In general, however, I may say that the company is very highly regarded by us here, that we have the highest respect for the quality of the management, which to our minds is one of the best in the industry in America, and that we know the company to be doing very well. As you probably know, they do not owe a dollar to any one, and are in the habit of discounting all bills. They are in a very strong cash position, while their current position generally is exceptional.

An effort by the liquidator to determine under what circumstances the borrowers from the collateral-loan department were induced to purchase the stock, brought to light the following:

(U-13-1, p 17)

In connection with the latter point, an interview was had with Mr Charles L. Bethel, formerly assistant treasurer, in charge of the Detroit-Cook office, and now employed in the main office. Mr Bethel, together with his wife, Ida M., appears as a borrower in the collateral-loan department, his loan still being open as of July 15, 1933, with 56 shares of United Milk Products preferred and 3% shares common (formerly 70 and 20 shares, respectively, of the old company) as part collateral. Asked as to the circumstances under which he was induced to purchase this stock, Mr Bethel stated that he was on the list of those invited to subscribe for the original issue of stock, receiving 20 shares of the preferred with a bonus of 20 common. This was financed by Mr Bethel's payment of \$500, and a bank loan of \$1,500, dated February 1, 1926.

(U-13-1, p. 17)

About a year later, Mr Bethel states he had sold his residence and having some cash available from the proceeds, Mr Nutt advised his wife, Ida M. Bethel, to purchase an additional 50 shares United Milk preferred, stating at the time that he would personally guarantee that she would never suffer a loss through this purchase. Acting upon this advice, Mrs Bethel purchased the stock recommended. Needless to say, Mr Nutt's guaranty was never made good.

Other pertinent information concerning the collateral loans is obtained from the liquidator's confidential report, as follows:

(U-13-1, p. 11)

In an attempt to secure additional information not revealed in the bank's records, a discreet interview was had with Mr. Brown, resident partner of Hornblower & Weeks, who was known to have had some knowledge of the affairs of the company, this information having come to light at the time the J. P. Harris account was analyzed. Mr. Brown stated that shortly after the organization of the United Milk Products Corporation, he noted that the stock was drifting in as collateral to Hornblower & Week's accounts. He was highly opposed to this as collateral and ordered it cleared from all accounts as rapidly as possible.

His objection to this security was based upon the following.

(U-13-1, p. 11)

1. In his opinion the company was grossly overcapitalized and the set-up would not have been accepted or approved by his firm
2. No figures as to earnings were obtainable from the company's officers
3. Future earnings were very speculative

The Union Trust Co., through its estates trust department was also quite active in the distribution of these shares, for in the period from the corporation's organization to the end of 1932, a total of 18,902 shares of preferred stock were placed in individual trust estates as follows:

	Shares		Shares
January 1926.....	3, 990	November 1926.....	430
February 1926.....	2, 640	December 1926.....	50
March 1926.....	140	Year 1927.....	2, 948
April 1926.....	654	Year 1928.....	2, 340
May 1926.....	431	Year 1929.....	3, 062
June 1926.....	422	Year 1930.....	250
July 1926.....	446	Year 1931.....	619
August 1926.....	175	Year 1932.....	305
September 1926.....			
October 1926.....		Total.....	18, 902

And as Mitchell has pointed out in his report:

(U-13-1, p 7)

At May 5, 1933, the following preferred stock, representing shares in the reorganized company, was still in the estates trust department. Shares 10,094; carrying value, \$782,487 11; market value May 5, 1933, \$181,692

Of this total, 1,760 shares belonged to the Nutt family trusts, leaving a balance of 8,334 shares in the names of holders outside that family

Bank officials interested: Of the officers and directors of the bank who appear as principals in the transactions under review are the following: J. R. Nutt, president;¹ C. W. Carlson, assistant vice president;¹ Otto Miller, director¹

Mr. Nutt originally subscribed to 25,000 units consisting of 1 share preferred and 1 common at \$100 per unit, and records of the corporation show a receipt of \$2,500,000 in cash. These shares were then sold by Mr. Nutt to officers and employees of the bank, "insiders", business associates, and the estates trust department of the bank. Apparently, Mr. Nutt derived no profit from these transactions.

(U-13-15a, 16b, 16c)

From Mr. Nutt's personal ledger we found that the total investment made by Mr. Nutt personally was \$204,000 in United Milk

Products stock, which he disposed of at various times during the 2 years following its acquisition, at an indicated profit of \$23,679 60. All of this profit was earned early in 1928 through the sale of 520 shares of common stock, the preferred having previously been sold out at the cost price. Although the above is the only profit Mr. Nutt's books show, we learn from his 1928 income tax return that he reported a total profit from the sale of United Milk stock in that year of \$85,613 80.

(U-13-1, p 14)

Mr C W. Carlson, vice president of the bank, had in his name at one time in 1926, 12,972 shares of preferred and 10,190 shares of common of United Milk stock Mr Carlson, upon receipt of the dividends on the preferred stock, usually purchased official checks from the bank and disbursed these dividends to the actual owners of the stock Apparently, he was acting only as a nominee for others, amongst whom Mr Nutt appears to be the owner of some shares. From the distribution of dividends, it appears that Mr Carlson had in his name 3,020 shares from which Mr Nutt derived the income, so it follows that he (Nutt) was the actual owner

Market price of stock.—The market prices of the stock of United Milk Products Corporation showed wide fluctuations, particularly in the common, as evidenced by the following tabulation obtained from Standard Corporation records:

(U-13-21)

Year	Preferred		Common		Year	Preferred		Common	
	High	Low	High	Low		High	Low	High	Low
1927-----	94	86	80	36	1930-----	65	44	6	$\frac{3}{4}$
1928-----	91	76	42 $\frac{3}{4}$	14	1931-----	37	15	2 $\frac{3}{4}$	$\frac{5}{8}$
1929-----	80	50	21	2 $\frac{1}{2}$	1932-----	12	10	1	$\frac{1}{2}$

Figures for 1926, the first year of the company's existence, are not available from public sources. However, from the liquidator's confidential file we obtained the following:

(U-13-1, p. 16)

Sales were made in January 1926 at prices ranging from 110 to 115

Other information pertaining to the market values of this stock from the liquidator's file is presented herewith:

(U-13-1, p 16)

With reference to market prices for United Milk stock, another set of circumstances is noted, which may possibly be of interest in connection with the holdings of the bank's officers One H E Collin, connected with the brokerage firm of Collin, Norton & Co of Toledo, Ohio, was a trustee for the stockholders of the National Dairy Co, with a plant at Morenci, Mich, one of the properties acquired by United Milk at organization The consideration therefor was 10,000 shares each of preferred and common stock of the United Milk Co, which was duly issued to Collin and his cotrustees, of which 7,000 shares of each class of stock were at once transferred to Campbell, Starring & Co., a New York brokerage firm, and 3,000 each to R L Corby

In addition to the stock above issued, Collin was given an option to purchase an additional 20,000 shares of common stock at prices ranging from \$45 to \$90 per share. This he exercised to the extent of 9,000 shares, paying therefor \$485,000 in cash

(U-13-1, p 16)

An immediate market was created for United Milk common stock, resulting in a price range from 110 to 115 during the month of January 1926 at the same time the preferred was being offered at 91. The officers of the company disclaim any responsibility for the high price for the common, stating that they were not interested in the market and did not profit thereby. They do state, however, that they believe Collin was responsible for creating this market in order to dispose of his common holdings at a profit. This is based partly upon the fact that letters have come to their attention dated about the time of organization, circulating various rumors calculated to enhance the value of the common stock, and also the fact that Collin at that time was attempting to sell units of 1 share preferred and 1 common at \$150, in the face of the company's subscription price of \$100 for the same unit.

Financial position of company.—We shall quote Mr. Mitchell's comments regarding the financial history of the company, in full:

(U-13-1, p. 9B)

Financial position of company—As previously stated, the company furnished no statements and did not make public any record of its earnings prior to those for the year 1928. During this year the files of the credit department seem to indicate that stockholders were becoming uneasy as to the affairs of the company probably due in large part to the low market price of the stock, resulting in numerous letters of inquiry to the bank. Replies thereto, usually by Mr J P. HARRIS, stated that the bank was using pressure to secure the issuances of public statements. Whatever the cause, a statement, certified by Messrs Arthur Young & Co., was issued for the year ending December 31, 1928.

(U-13-1, p 9B)

The credit files contain an analysis of the company's operations for the years 1926, 1927, and 1928. The source of the figures for the first 2 years is not indicated and they may not be reliable, but are set forth below, together with the certified figures for the following years

(U-13-1, p. 9B)

Year	Net operating income or loss	Dividends paid	Net operating credit or charge to surplus
1926.....	\$1,285,543 55	\$925,204 00	\$360,339 55
1927.....	653,626 04	718,744 25	1 65,118 21
1928.....	604,492 84	571,655 00	32,837 84
1929.....	526,554 98	521,095 75	5,459 23
1930.....	1 134,733 15	510,170 50	1 644,903 65
1931.....	1 107,336 68	-----	1 107,336 68
1932.....	57,328 45	-----	57,328 45
Total.....	2,885,476 03	3,246,869 50	1 361,393 47

1 Loss

1 Charge

In addition to the above operating income, the company created a "profit" through the repurchase of its preferred stock at a discount, and obtained certain other nonoperating income set forth below

Profit on repurchase of preferred stock.

1927.....	\$439,336 00
1928.....	148,444 12
1929.....	63,278 00
1930.....	173,128 58
1931.....	24,835 00

1932.....

\$849,021 70

(U-13-1, p. 10)

Profit on sale of plants, sale of Liberty bonds, setting up cash surrender value of life-insurance policies and other nonoperating income

1927.....	\$84, 743. 96
1928.....	8, 029 18
1929.....	
1930.....	33, 122 07
1931.....	
1932.....	
Total.....	<u>145, 895. 21</u>
	<u>994, 916 91</u>

An analysis of surplus for the above period indicates the following

“Profit” on repurchase of—	
Company’s preferred stock.....	\$849, 021. 70
Other nonoperating income.....	<u>145, 895 21</u>
	994, 916 91

(U-13-1, p. 10)

Less (excess of dividends paid over operating income).....	<u>361, 393 47</u>
Surplus, Dec 31, 1932.....	633, 523 44

It thus appears that a large part of the dividends paid were derived from the discount on stock repurchased—in reality a return of capital

With reference to the company’s balance sheet, a certain item deserves consideration in relation to the transactions with the bank. To illustrate this point, the balance sheet at December 31, 1932, is set forth in brief form below

(U-13-1, p 11)

Assets	
Current.....	\$1, 996, 993. 20
“Milk supply”.....	4, 364, 662. 08
Deferred.....	79, 275. 70
Permanent, less reserves.....	1, 929, 996. 88
Brands and trade marks.....	10. 00
Total assets.....	<u>8, 370, 937. 86</u>
Liabilities	
Current.....	259, 446. 05
Capital stock (preferred) outstanding.....	6, 940, 500. 00
Capital surplus, represented by 209,394 shares no-par common stock outstanding.....	537, 468 37
Earned surplus.....	<u>633, 523 44</u>
Total liabilities.....	8, 370, 937. 86

It will be noted that among the above assets of the corporation is an item of “milk supply” in the amount of over \$4,000,000. We are convinced that anyone, accountant or not, studying the balance sheet of the company would be led to believe that this particular item, carried on the statement of a corporation engaged in the canned milk business, was one of inventory. Actually this item is nothing but—goodwill. However, no indication of this fact is disclosed. Mitchell made an analysis of this account from the books of the United Milk Products Corporation and in his report states:

(U-13-1, p 18, 19)

* * * the account represents only the difference between the consideration paid for the various companies acquired at organization and the appraised value of their respective physical assets. The greater portion of the account is concerned with the Western Reserve properties due primarily to the exchange of shares on a 2½ for 1 basis. A brief summary of the account follows:
Set up in connection with valuation of assets of—

(U-13-1, p 19)

Western Reserve Condensed Milk Co, Jan 1, 1926.....	\$2, 098, 436. 01
National Dairy Co, Feb 26, 1926.....	300, 000. 00
All plants, Dec 31, 1926.....	1, 716, 401. 07
	<hr/>
	4, 114, 837. 08
Less (value of milk supply applicable to Standish plant sold during 1927).....	175 00
	<hr/>
	4, 114, 662. 08
Milk supply account set up on books of subsidiary, United Milk Products Corporation of California, representing difference between value of physical properties and cash paid Libby, McNeil & Libby for Loleta plant.....	250, 000 00
Milk supply account per consolidated balance sheet, Dec. 31, 1932.....	4, 364, 662 08

In connection with the above valuations, Mr P L Haymes, of the company, advises that as a general rule, appraisals of physical assets were placed at as low a figure as possible in order to reduce the burdens of local taxes upon their numerous plants. This would naturally result in a correspondingly higher figure for intangibles.

(U-13-18, 17a, 19)

J. B. Nutt loan—On June 2, 1926, Mr. Nutt borrowed \$500,000 from the United Milk Products Corporation. He had also borrowed on April 15, 1926, the sum of \$25,000 from the same source. We do not know what use was made of the \$25,000 but we do know that Nutt used the \$500,000 he borrowed on June 2 to purchase Southern Baking Co., 5,000 shares 8 percent preferred stock; 1,250 shares no-par common stock.

(U-13-20a)

On the same day Mr. Nutt sold one fifth of this purchase, or 1,000 shares preferred and 250 shares common to C. L. Bartshe, president of United Milk Products Corporation, at cost, or \$100,000. During the year 1927 Mr. Nutt disposed of the remainder of this stock at a loss of \$8,636.20.

Corporation management.—Concerning the character of the management, which the Union Trust Co officials thought was of the highest type, no concrete evidence is at hand which would permit a definite opinion.

However, the filing of suits charging fraud on the part of the management of United Milk Products Corporation creates, at least, a doubt in one's mind of the integrity and character of its officials.

Certain of the officers, principally C. L. Bartshe, chairman, and P. L. Haymes, vice president, have been sued at various times by stockholders because of their acts. A stockholders' protective committee was formed and made an investigation of the corporations' affairs, after which the committee wrote

(U-13-22, 23)

As a result of the investigation of the accountants thus made available, it is disclosed that the corporation received no money or property for all of its 250,000 shares of common stock, although at the time when the stock was issued the shares were selling and were purchased by many stockholders in the open market in New York at prices in excess of \$100 per share. It appears quite clear that certain persons then in control of the corporation profited improperly at the expense of the corporation and its stockholders.

A suit was discharged in court because the statute of limitations prevented any redress.

The following is an excerpt from the Cleveland News of September 22, 1932:

An injunction suit seeking to block the officers and directors of the United Milk Products Corporation from carrying out a proposed reorganization plan was filed in common pleas court late today by F. W. Lovell, of 2945 Eaton Road, Shaker Heights. Lovell, who says he owns 100 shares of preferred stock, charged that the proposed reorganization would be detrimental to the preferred stockholders and beneficial to the owners of common stock. He declared the officers and directors own 51,890 shares of common stock and 1,425 preferred.

The disposition of this suit is described in an item in the Cleveland Plain Dealer of February 24, 1934, which in part is as follows:

Five directors and officers of the United Milk Products Corporation yesterday were held to have committed fraud against preferred stockholders of the company in having proposed and obtained a reorganization with a view to enriching the value of the company's common stock.

Federal Judge Samuel H. West handed down an opinion holding that each petitioning holder of the company's preferred stock was entitled to \$49.66 in damages for each share held.

The judgment involved 925 shares, or about \$46,000 plus interest from January 1, 1933. It was awarded against G. E. Bartshe, president; C. P. Lindhal, secretary; W. L. Fox, treasurer; Philip L. Haymes, former director and vice president; and James L. Harris, director and vice president, all of whom were found to have participated in the fraud, and Sam W. Emerson, director, and W. A. Bartshe, vice president, who, the court held, were responsible because of their breach of trust as directors.

Any management that is required to spend the amount of time and money necessary to defend itself against the charges above described, cannot be above suspicion, and it would seem that a properly conducted business would not be compelled to defend its actions to the extent that this company has experienced.

The company went through reorganization in 1932, which probably was due partially to the economic crisis, but basically the result of the heavy burden of preferred dividends placed on its earning power.

WALTER H. SEYMOUR,
Senior Examiner.

Mr. SAPERSTEIN. Mr. Meehan, the next report on my list, No. 19, Loans from the R.F.C. Will you tell the committee about that?

Mr. MEEHAN. The report in regard to loans from the Reconstruction Finance Corporation was sent to the Government Printing Office to facilitate printing. There being only one copy of that report we were unable to bring one here this morning. I ask, however, that that report be considered as offered in evidence at this time, the same as was done in regard to the report entitled "Union Trust's Directorate in Other Concerns."

Mr. SAPERSTEIN. Mr. Chairman, I should like to offer the report referred to by Mr. Meehan, together with the exhibits which are also in the possession of the Government Printing Office in order to facilitate printing.

The CHAIRMAN. The report and exhibits will be considered as in evidence, and will be appropriately identified by the committee reporter.

(The report entitled "Reconstruction Finance Corporation Loans", together with the exhibits mentioned in said report, which exhibits are now at the Government Printing Office, were received in evidence and marked "Committee Exhibit No. 19, May 4, 1934", and are as follows:)

COMMITTEE EXHIBIT No. 19, MAY 4, 1934

RECONSTRUCTION FINANCE CORPORATION LOANS

(U-19-1a)

Shortly after the formation of the Reconstruction Finance Corporation, and at a time when the Union Trust Co had borrowed extensively from the Federal Reserve Bank, New York City banks, and National Credit Association No. 1, an application was filed on March 10, 1932, with the loan agency of Reconstruction Finance at Cleveland, Ohio, by the Union Trust Co. after being duly authorized by the board of directors on March 8, 1932, for a loan not to exceed in the aggregate \$12,000,000 to mature in 6 months, or on September 10, 1932

The extent of the borrowings of the Union Trust Co. can be appreciated if one refers to the comparative statement of condition as of February 29, 1932, which reflects total borrowings of \$31,587,000.

The files of the Union Trust Co are not complete concerning the loans obtained from the Reconstruction Finance Corporation, so that complete information pertaining to the collateral offered for the loan is not available

(U-19-2a, 3)

The application of March 10, 1932, in amount of \$12,000,000 was amended and redated April 15, 1932, and the amount increased to \$14,000,000. The latter application was approved on April 27, 1932, and cash received amounting to \$13,947,106 on April 29, 1932

For some reason not disclosed by the files, the application of April 15, 1932, offered as collateral for the loan of \$14,000,000, \$27,843,-928 53 of real-estate mortgages. No information is available as to the location or type of property loaned upon, nor the status of the individual loans. The application of March 8, 1932, offered as collateral, bonds and other securities, secured and unsecured notes and real-estate mortgages, the latter being the smallest item in amount of the group. This collateral totaled in value \$19,233,188.01. Just why the collateral was changed from investments and short-term loans to real-estate mortgages is not readily determined, unless it was that the better type of collateral could always be borrowed upon, whereas the loans with real-estate mortgages as collateral would have to be obtained from the Reconstruction Finance Corporation.

(U-19-2a)

The purpose of the loan as stated in the application was "to pay 'other bills payable' which have been outstanding, for some time"

Examination of the loans payable ledger discloses that the following payments were made on April 29, 1932, the day the cash actually was received from the Reconstruction Finance Corporation:

Irving Trust Co.....	\$4, 156, 275
National City Bank.....	3, 786, 000
Bankers Trust Co.....	650, 000
Chase National Bank.....	700, 000
First National Bank.....	800, 000
Federal Reserve Bank.....	4, 000, 000

14, 092, 275

so that the proceeds of the loan were used to liquidate obligations to other financial institutions

As of June 20, 1933, the balance owed the Reconstruction Finance Corporation on this loan amounted to \$11,253,195 81 The files indicate that this loan originally matured on October 15, 1932, and was renewed to mature April 15, 1933 No further extension is found in the files; however, some arrangement was undoubtedly made for future payment.

(U-19-4a, 5)

In addition to the above loan, an application dated June 30, 1932, in amount \$1,500,000, was also filed The files of the Union Trust Co show that this application was approved, and \$1,475,297 21 in cash was advanced on August 2, 1932

The purpose of this loan was also for "paying loans payable", which at the date of the application amounted to \$24,115,560 88, including the loan of approximately \$14,000,000 from the Reconstruction Finance Corporation, previously described.

The security for this loan is real-estate mortgages in amount \$3,002,-140.09 No detail was available to determine whether these mortgages were on business or residential properties, nor the condition of the loans

The original maturity date was December 30, 1932, which was extended to June 30, 1933 No further extension is found in the files

(U-19-7-a)

The balance unpaid on this loan as of June 2, 1933, amounted to \$1,397,477 62

(U-19-6)

An application was also filed on July 16, 1932, for a loan of \$2,000,000 from the Reconstruction Finance Corporation. This was approved and cash received, in amount \$1,967,461 76, on August 12, 1932

The purpose of this loan also was "paying bills payable."

Collateral for this loan was \$4,002,574 30 in real-estate mortgages, but no detail is available to ascertain what type of property was involved nor the intrinsic value of the loans

The original maturity date of this loan was January 16, 1933, which was renewed so as to mature July 17, 1933. No further extension is

noted This, however, was undoubtedly obtained as the unpaid balance on June 2, 1933, was \$1,831,565.43

The following is a recapitulation of the loans obtained from the Reconstruction Finance Corporation during the year 1932 directly by the Union Trust Co :

Loan no	Date	Amount cash received	Value of collateral	June 1933 unpaid
W-114.....	Apr 15, 1932	\$13,947,106 00	\$27,843,928 53	\$11,253,195 81
W-504.....	June 30, 1932	1,475,297 21	3,002,140 09	1,397,477 82
W-548.....	July 16, 1932	1,967,461 76	4,002,574 80	1,831,565 43
Total.....		17,391,864 97	34,848,642 92	14,482,238 86

(U-19-12, 13, 14, 15, 16)

Mr. Kraus, vice chairman of the board of directors of the Union Trust Co., was apparently quite influential in matters pertaining to the Reconstruction Finance Corporation. His assistance was asked in an effort to obtain loans for "patrons" of the Union Trust Co.

Information concerning the effectiveness and results of his efforts is not available.

WESTERN RESERVE MORTGAGE CO.

In February of 1933 the Cleveland banks comprising the Cleveland Clearing House Association caused the formation of a corporation known as "the Western Reserve Mortgage Co." This corporation was incorporated in Ohio for the "purpose of handling and dealing in and with mortgages, mortgage notes, and all forms of securities", however, the true purpose of its formation appears to be to aid the Cleveland banks in obtaining loans indirectly from the Reconstruction Finance Corporation without the general public being informed.

The Western Reserve Mortgage Co. issued a total of 32,336 shares of stock, par value \$100 per share, or a total capital of \$3,233,600, of which the Union Cleveland Corporation purchased 18,541 shares, or an investment of \$1,854,100. To consummate this purchase the Union Cleveland Corporation borrowed from the Union Trust Co. \$1,854,100, secured by the capital stock of the Western Reserve Mortgage Co. The proceeds of this subscription, to the extent of \$1,844,642.47, was invested by the Western Reserve Mortgage Co. in mortgages purchased from the Union Trust Co. Following this, the Western Reserve Mortgage Co. purchased from the Union Trust \$46,330,410.76 of real-estate loans. In payment of these loans the Western Reserve Mortgage Co gave its notes to the Union Trust Co. for the same amount, which notes were secured by a pledge of the mortgages so purchased.

The mortgage company then borrowed from the Reconstruction Finance Corporation \$21,162,626 and pledged mortgages so purchased as collateral for the loan, the Union Trust Co waiving its lien on said mortgages in favor of the Reconstruction Finance Corporation. The proceeds of this loan were then applied by the Western Reserve Mortgage Co. as a reduction of the respective notes given to the Union Trust Co.

From the above it can be seen that the real-estate loans with mortgages as collateral had been replaced with an asset which was collateralized with the same security, but subject now to the prior lien of the Reconstruction Finance Corporation. The proceeds of the loan were used to liquidate bills payable to the Federal Reserve bank and other banks

These transactions were made just 3 days prior to the restricted withdrawal status of the bank, which was in force beginning the morning of February 27, 1933. No substantial withdrawal of cash is noticed during the period in which the loans were made, nor immediately following the receipt of the cash. While this transaction improved the financial condition of the bank, in that it reduced the bills payable liability, no benefits are apparent which appear favorable to the depositor.

LOANS OBTAINED BY THE UNION TRUST CO. FROM NATIONAL CREDIT ASSOCIATION NO 1

The National Credit Association No. 1 was organized by the clearing-house banks of Cleveland on November 2, 1931.

This association was one of a group organized by member banks of the fourth Federal Reserve district for the purpose of borrowing from the National Credit Corporation, a Delaware corporation, which was a governmental-financed institution and the forerunner of the Reconstruction Finance Corporation.

(U-19-8)

The Union Trust Co. subscribed for \$3,500,000 of gold notes of the National Credit Corporation on December 17, 1931, of which \$1,050,000 was paid in cash during January 1932. This was refunded to the extent of 95 percent, or \$997,500, leaving an investment of \$52,500 on the books of the Union Trust Co.

(U-19-8)

On January 18, 1932, the bank borrowed from this association \$3,000,000 with collateral of certificate of participation in loan to the Cleveland Cliffs Iron Co. in amount \$3,387,500.

(U-19-10)

This association reported that all loans were paid in full as of December 13, 1932.

The Union Trust Co's loan was paid September 20, 1932

WALTER H. SEYMOUR,
Senior Examiner.

This report based upon preliminary report and complete investigation by Committee Examiner.

J. J. SINNOTT.

Mr. SAPERSTEIN. Mr. Meehan, I show you a report entitled "The Union Cleveland Corporation", and ask you whether or not that report was prepared by the investigators on the staff of the committee under your immediate supervision.

Mr. MEEHAN. It was.

Mr. SAPERSTEIN. Mr. Chairman, I now wish to offer the report in evidence, together with the exhibits referred to therein, which exhibits were sent to the Government Printing Office in order to facilitate printing.

The CHAIRMAN. The report and exhibits will be received in evidence and appropriately identified by the committee reporter.

(The report entitled "The Union Cleveland Corporation", together with the exhibits referred to therein, were received in evidence, marked "Committee Exhibit No. 20, May 4, 1934", and are as follows:)

COMMITTEE EXHIBIT No. 20, MAY 4, 1934

THE UNION-CLEVELAND CORPORATION

The Union-Cleveland Corporation, although not a bank subsidiary, was a component part of the Union Trust Co's operations. It was created primarily "for the organization and operation of a securities and investment company", and to relieve the Union Trust Co of some of its investments which it (the Union Trust Co) could not legally hold.

It was incorporated in the State of Ohio on July 20, 1929, and began operations with \$2,285,000 in cash contributed by the stockholders of the Union Trust Co. Its capital structure consisted of 228,500 shares of common stock without par value allocated as follows: \$2,000,000 capital stock, \$285,000 paid-in surplus.

(U-16-1)

Its first transaction occurred on August 20, 1929, and consisted of the purchase from the securities and investment department of the Union Trust Co of a group of securities aggregating \$407,202.51, the list being composed principally of real-estate mortgage bonds, railroad and industrial corporation bonds, and foreign government bonds, with coupon yields of 4½ percent to 7 percent.

The functions of this corporation were:

(a) Participating in the underwriting and distribution of security issues.

(b) Purchases and sales of securities for the convenience of bank customers.

(c) Also commitments were made for securities to be held by the corporation for investment and income.

The first mentioned above was its chief function, and involved the merchandising of first mortgage bonds to a large degree, and preferred and common stocks to a somewhat slighter degree.

The corporation's record of net earnings from its inception to October 31, 1933, is as follows:

(U-16-2, 3, 4, 5)

Loss (4 months ended Dec 31, 1929)	\$87, 477. 70
Profit (year ended Dec 31, 1930)	311, 687. 80
Loss (year ended Dec. 31, 1931)	25, 390. 25
Loss (year ended Dec. 31, 1932)	168, 784. 99
Loss (year ended Oct 31, 1933)	72, 241. 37

(U-16-12)

The principal source of income during the years 1929, 1930, and 1931 was in the underwriting and wholesale distribution of securities; however, losses were sustained from inventory depreciation resulting from write-downs from book value to market value, and sales of securities at prices less than cost or ledger value. These losses have created a deficit of \$1,960,999 14 at October 31, 1933, which have completely wiped out "paid in surplus account" and impaired the capital of the corporation to the extent that the stockholders' equity in the corporation is, at October 31, 1933, only \$35,793 90, with the likelihood that further write-offs will be necessary.

(U-16-6)

During the years of its existence the Union-Cleveland Corporation depended entirely upon the Union Trust Co for its financing. This was in the form of both unsecured and collateral loans which were payable on demand and were at the rates of 5 and 6 percent per annum, with the exception of one (no. 12985) made on May 1, 1930, in the amount of \$650,000, which was at 3 percent per annum, and was made to facilitate purchases of the capital stock of the Chagrin Falls Banking Co

The loans outstanding at October 31 in the years 1929, 1930, 1931, and 1932 were as follows (these dates have been chosen because they more clearly reflect the extent of the borrowing than the last day of the year, as in 1929, and 1930, loans were liquidated for tax evasion purposes (See special report)

(U-16-7, 8, 7-9, 10-11)

	Collateral	Unsecured
Oct 31, 1929.....	\$2,050,000 00	None
Oct 31, 1930.....	None	\$3,500,000 00
Oct 31, 1931.....	2,575,750 00	840,000 00
Oct 31, 1932.....	2,395,023 48	883,426 64

On October 31, 1933, the corporation's financial statements reflect the debts to the Union Trust Co as notes payable:

(U-16-12)

Secured.....	\$3,580,767. 11
Unsecured.....	984,361 36
Total.....	4,565,128. 47

From the above figures it can readily be seen that the depositors' funds of the Union Trust Co were used to finance the security affiliate's operations, and the loans now owed contributed to the situation now existing.

(U-16-13)

Also, the superintendent of banks in his report of January 20, 1933, questions the value of the collateral securing the notes, and is doubtful if the securities posted as collateral would ever be sold at prices equivalent to the extent upon which they have been borrowed. Some of the

securities posted as collateral are in default and the issuing corporations in receivership. Notable among those in this position are the Construction Materials Co. and the Sensibar Transportation Corporation. Also among securities owned and posted as collateral is the capital of the Chagrin Falls Banking Co., now in the process of liquidation, which is without value and has attached to it a double liability contingency.

These loans were apparently granted almost automatically upon application, and with little or no consideration give as to the ability to repay or to the sufficiency of the collateral.

The amount borrowed from and owed to the Union Trust Co. frequently exceeded the capital and surplus of the security affiliate by more than 100 percent. This arrangement can be severely condemned, especially if one considers that the funds of the depositors were being loaned almost promiscuously to finance transactions of a speculative nature, wherein the benefits derived would inure to the stockholders of the corporation, who were identical to those of the bank, and with little or no risks assumed by those destined to profit from the transactions. Certainly the corporation, were it not for its affiliation with the bank, could not have obtained financing with such ease as it enjoyed.

ACQUISITION OF CHAGRIN FALLS BANKING CO

(U-16-23)

On September 26, 1929, the Union-Cleveland Corporation began acquiring the capital stock of the Chagrin Falls Banking Co. at \$650 per share, plus accrued dividends. Since the files and records concerning this deal are practically sans any evidence which would tend to indicate the purpose of the acquisition, the greater portion of this report is assumption.

This much is certain: The Union-Cleveland Corporation was merely an instrument through which the Union Trust Co. could acquire control of the Chagrin Falls Bank without violation of the State law which prohibited a State bank from owning a similar institution.

(U-16-23, 24)

Though we were unable to locate any form of agreement concerning the price of \$650 per share, it is fairly certain that such an agreement was made, as the Union-Cleveland Corporation not only paid that price in September of 1929 but continued to do so until as late as November 1931 some 2 years after the market "crash." Certainly that price would have never been maintained unless the corporation was obligated to fulfill a contract at that price.

Among the larger stockholders of the Chagrin Falls Banking Co., prior to the purchase by the Union-Cleveland Corporation, were the following:

	<i>Shares</i>		<i>Shares</i>
Mary J. Frazer.....	170	S P Harris.....	60
Austin H. Church.....	70	A C Brewster.....	50
M F Brewster.....	60	John A Church.....	50
John W Stoneman.....	60		

These individuals were apparently all local persons of the community in which the bank was located, and appear to have no connection of any importance with the Union-Cleveland Corporation or the Union Trust Co. However, the Chagrin Bank did use the Union Trust Co as its principal depository, and during the years subsequent to its purchase borrowed frequently from the Union Trust Co.

(U-16-23, 24)

The funds necessary for the acquisition of Chagrin Falls Banking Co. were, as stated above, obtained by the Union-Cleveland Corporation from the Union Trust Co., and the fact that this \$650,000 loan was made at the rate of 3 percent per annum tends to prove that the acquisition was at the suggestion of the Union Trust Co. At the time of the purchase the Chagrin Falls Banking Co. was paying a dividend at the rate of \$18 per share per year. This amounted to a return of 2 77 percent on the \$650 per share investment of the Union-Cleveland Corporation, and probably accounts for the interest rate of the loan from the Union Trust Co (3 percent).

From conversation with Mr O C Morton, a former Union Trust Co. employee, and at present a member of the liquidator's staff, we were led to believe that the purpose of the acquisition was the first step of the creation of a State-wide banking chain, and at the time of purchase agitation was prevalent to change the State laws so as to permit State-wide branch banking.

(U-16-25)

It is, however, interesting to note that in 1931, Mr. B. L. Jenks, a Van Sweringen associate was indebted to the Chagrin Falls Banking Co. to the extent of \$269,914.83, which appears to be a large loan for an institution of \$100,000 capital. No information is available to judge just how good this loan was or if it is existent today and contributed to the failure of the Chagrin Falls institution to obtain a license to reopen after the national banking holiday. Whether or not this is the only loan which Mr. B L. Jenks had at this bank is also unknown.

(U-16-26)

The price of \$650 per share seems to be exceedingly generous even for the prosperous days of 1929. The indicated book value as ascertained from the only financial statements available was \$365 92 per share as of September 23, 1929. The indicated earnings per share were in 1928 and 1929 \$60.09 and \$69.50 respectively. The last figure is an estimate based on the first 6 months' earnings.

(U-16-26)

The deposits of the institution totaled \$3,335,222.18 at the original date of purchase, of this amount \$1,200,000 are shown as "public funds" which should be secured 100 percent by Government or surety bonds. However, the balance sheet as of September 23, 1929, showed only \$978,289.31 as total investments, which included corporation and foreign bonds in the amount of \$492,704 24.

(Minutes of meeting of executive committee, p 1138; Union Trust Co ,
U-16-27)

In December of 1932 the Union-Cleveland Corporation borrowed \$100,000 from the Union Trust and contributed it as additional capital to the Chagrin Falls institution. This was necessary as a result of the write-downs on the book value of certain properties of the banking company which the superintendent of banks had ordered. To prevent this depletion of surplus being reflected on the books and statements of the Chagrin Falls institution, this contribution was made with the instruction that it should be shown on the books and statements as surplus

(U-16-29, 30, 31)

Soon after the capital stock had been acquired by the Union-Cleveland Corporation, it sold five shares each at \$650 per share to seven gentlemen, chosen to be directors. These individuals borrowed \$3,250 each from the Chagrin Falls Banking Co to pay for their directors' qualifying shares. For some reason not disclosed by the files, but probably due to criticism from the bank examiner, these notes were sold to the Union-Cleveland Corporation on September 20, 1932, and are now carried as accounts receivable on that corporation's books and statements. In conversation with Union-Cleveland Corporation's employees, information was obtained to the effect that suits have been filed to force payment of the notes. It is quite obvious that these directors never intended to pay for these shares, but were merely acting as agents for the bank in aiding it to comply with the law pertaining to stockholders and directors. Mr Allard Smith, when billed for interest on his note on May 3, 1933, wrote across the face of the invoice: "This is for Chagrin Falls Bank stock and I do not owe any interest." What he was endeavoring to convey, evidently, was that he had no personal interest in that bank, consequently, was not going to pay any interest on a loan which he directly had little or nothing to gain from by its creation. Other evidence that the directors were only figureheads is present in the option that each director gave to the Union-Cleveland Corporation offering to sell to the corporation at \$650 per share at any time up to and including 30 days after his resignation as director.

The Chagrin Falls institution is now in the hands of the conservator, and information concerning its progress is not available. In conclusion, this acquisition appears to have been handled verbally so that it is impossible to report specifically as to its merits or demerits as an investment financed by the Union Trust Co's depositors.

OTHER ACTIVITIES OF UNION-CLEVELAND CORPORATION

(U-16-18, 19)

The directors and officers of the Union-Cleveland Corporation were either former officers or directors of the Union Trust Co., as a result of which the policies of the corporation were dictated and prearranged by the bank officials, and the officials of the Union-Cleveland Corporation acted in more or less of a perfunctory capacity. At least in one instance the minutes of the directors' meeting were drafted in advance and ratified without discussion or comment.

Principal issues involving large sums in which the corporation was the house of issue or took a substantial position in the flotation, are as follows:

(U-16-14, 15, 16, 17)

Date of issue	Name of issue	Total issue	Union-Cleveland Corporation participation
Mar 15, 1933	Construction materials, 2 year 6 percent.....	\$1,500,000	\$625,000
Feb 1, 1930	Dow Chemical Co, 10-year 6 percent notes.....	3,500,000	1,400,000
Mar 30, 1931	Sensibar Transportation Co 6-percent bonds.....	1,650,000	660,000
Jan 1, 1930	Newton Steel Corporation, 2-year 6-percent notes.....	3,000,000	1,200,000

The corporation also participated in the flotation of numerous other issues which were sponsored or originated by New York or Chicago houses wherein its profits were relatively nominal. Among the houses with which it joined in marketing securities were: J. P. Morgan & Co., Kuhn-Loeb & Co, Halsey Stuart & Co., Harris, Forbes & Co, Guaranty Co. of New York.

The Union-Cleveland Corporation also purchased in the open market common stocks of some of the national and well-regarded industrial corporations. Among the issues so traded were: American Telephone & Telegraph, General Electric, United States Steel, New York Central, Electric Auto Late.

A commitment of \$500,000 was made in 1930 for this type of securities. Mr Hayden, a director of both the bank and security affiliate, criticized the practice of trading on the board and stated

(U-16-20-c)

* * * while it was inevitable that the corporation at times suffer inventory losses in the course of merchandising and underwriting, he thought that the shareholders of the Trust Co, who of course were identical with the shareholders of the corporation, would be unhappily affected if it appeared that the corporation as a matter of customary policy were buying and selling on the board merely as a client of brokers. It would be his inclination to advise against trading of this sort as a part of the regular business of the corporation. He would not say that such operations should never be engaged in. In fact, in the immediate case, as an example, he would find it difficult to oppose buying some of the sound shares for which orders had been placed. Nevertheless he thought that all must recognize the seriousness of the risk; that if there were a rule generally forbidding trading on the board as a recognized policy, and exceptions to that rule were allowed, it would not be too much to say that the rule would almost certainly be drowned by the exceptions.

(U-16-20)

Mr. Baldwin, a director and officer of both companies, while opposed to trading on the board as a customary policy, was of the opinion that after considering the present investment and material loss, it would be advantageous to make this commitment in the hope of obtaining a profit from the market appreciation in this list of securities. The thought, as expressed by Mr Baldwin, was that at this time, there was prevailing a low price level for sound stocks, and this trading would offer a solution to financial situations confronting the directors

(U-16-20-c)

To which Mr. Hayden remarked:

* * * to smack a little of the quality of the classic prayer of the sinner: "O, Lord, let me sin just this once more"

The funds necessary to finance this speculative venture were, of course, obtained from the Union Trust Co., and the losses sustained merely increased the total liability of the corporation to the bank, while it became a frozen loan with insufficient collateral from the standpoint of the depositor. It would seem that this practice, while not continued (possibly due to the continued decline of the market) can be severely criticized for its use of the bank's funds for general market transactions which more properly are the functions of a professional trader

The Union-Cleveland corporation, while still in existence, is now in the process of liquidation, and is primarily engaged in the disposal of its security portfolio, the proceeds to be paid on the loans at the Union Trust Co. It appears to be a matter of conjecture whether or not the corporation will ever be able to completely liquidate its loans at the Trust Co. Some improvement in their financial condition has been noticed, resulting from an enhancement of the value of their investment inventory.

(U-16-21, 22)

On December 31, 1933, the book value of the securities inventory amounted to \$4,603,185 63, and the notes payable due the Union Trust Co. as of that same date were \$4,552,844.31. The Union-Cleveland Corporation security inventory as of December 31, 1933, includes a column captioned, "Market value," which adds to a total of \$3,896,169.71. This figure (\$3,896,169.71), however, includes \$727,286 48 representing the cost of the stock of the Chagrin Falls Banking Co. which is of virtually no value, and also \$1,854,100 of Western Reserve Mortgage Co. stock of which the value is entirely dependent on the mortgages now up as collateral for loans from the Reconstruction Finance Corporation. In addition to these items, \$98,061.25 of Construction Materials Corporation's 6 percent notes due March 15, 1933, are carried at cost in the "Market value" column. This latter company is in default as to principal and interest as to this issue. Eliminating the above-mentioned items from consideration and the "Market value" figure, there remains \$1,216,721.98 market value of securities as of December 31, 1933, which if sold at the prices prevailing that day could be used to liquidate the loans for which they are collateral

WALTER H. SEYMOUR,
Senior Examiner.

This report based upon preliminary report and complete investigation by committee examiner J. J. Sinnott.

Mr. SAPERSTEIN. Mr. Meehan, I show you a report entitled "Union Cleveland Corporation—Market Activities in Trust Company Stock", and ask you if that is a report prepared by the investigating staff of the committee under your immediate supervision.

Mr. MEEHAN. It is.

Mr. SAFERSTEIN. Mr. Chairman, I wish to offer the report in evidence, together with the exhibits referred to therein and which exhibits have been sent to the Government Printing Office in order to facilitate printing.

The CHAIRMAN. The report and exhibits will be received in evidence and appropriately identified by the committee reporter.

(The report entitled "Union Cleveland Corporation—Market Activities in Trust Company Stock", together with the exhibits referred to therein, were received in evidence and marked "Committee Exhibit No. 21, May 4, 1934," and are as follows:)

COMMITTEE EXHIBIT No. 21, MAY 4, 1934

MARKET ACTIVITIES IN TRUST COMPANY STOCK

The Union-Cleveland Corporation, security affiliate of the Union Trust Co., did not actively trade through any pool participation in the stock of the bank. From the time of its formation in August 1929 to December 1932 the Union-Cleveland Corporation purchased and sold Union Trust Co. stock as follows:

1,416 shares purchased direct and sold to employees
 1,363 shares purchased in the market and sold to employees
 9,320 shares purchased and 3,590 shares sold in the market, leaving a balance of 5,730 shares still owned.

(U-18-1a, 1b)

When the Union-Cleveland Corporation was formed in August 1929 it purchased direct from the Union Trust Co., 1,416 shares of the Trust Co.'s stock at a par of \$100 per share. Between August 1929 and August 1931 this full block of 1,416 shares was sold to the employees of the Union Trust Co. at the cost price of \$100 per share.

(U-18-2, 4)

During 1931 the stock of the Union Trust Co. had dropped to approximately \$60 a share and the Union-Cleveland Corporation purchased in the open market from May 20, 1931, to July 1, 1933, 1,363 shares which were sold to the employees of the Union Trust Co. on the installment plan at \$60 per share. In his letter to the employees, offering the stock, Mr. Allard Smith, executive vice president, stated:

It is our wish that you continue to hold the stock as an investment and not purchase with the idea of selling it again in the immediate future.

Practically all of the stock was taken up by the employees, as on October 31, 1933, the balance sheet of the Union-Cleveland Corporation reflects only \$475 06 as accounts receivable employees stocks subscription

As stated above, in addition to the stock purchased and sold to employees, the Union-Cleveland Corporation purchased from August 1929 (with no purchases being reflected in 1931) through 1932, 9,320 shares and sold 3,590 shares. These purchases range in price from \$107 in August 1929 down to \$75.50 in October 1930, and \$27.26 a share in June 1932. It is not known whether or not these purchases were made in any effort to maintain the market of the stock, but it is

felt they were not, as there were only 9,320 shares traded in out of a total outstanding of 914,000 shares of Union Trust Co. stock.

WALTER H. SEYMOUR,
Senior Examiner.

This report based upon preliminary report and complete investigation by Committee Examiner J J. Sinnott

Mr SAPERSTEIN Mr Meehan, the last report which we have to offer today is one entitled "Union Cleveland Corporation—Tax Evasion" Will you please state whether or not that report was prepared by members of the investigating staff of the committee under your immediate supervision?

Mr MEEHAN It was

Mr SAPERSTEIN Mr Chairman, I now offer the report in evidence, together with the exhibits referred to therein, which exhibits have been sent to the Government Printing Office in order to facilitate printing.

The CHAIRMAN The report and exhibits will be received in evidence and appropriately identified by the committee reporter

(The report entitled "Union Cleveland Corporation—Tax Evasion", together with the exhibits referred to therein, was received in evidence, marked "Committee Exhibit No 22, May 4, 1934" and are as follows:)

COMMITTEE EXHIBIT No. 22, MAY 4, 1934

TAX EVASION

(U-14-1)

The Union-Cleveland Corporation was subject to a personal property tax in the years 1930 and 1931. This tax was imposed under sections 5369, 5404, 5404-1, 5405, 5406, 5387-1, of the general code of Ohio. This tax was in effect only in these 2 years, 1930 and 1931, a different form of taxation being substituted for the year 1932 Taxable under these sections were various classes of assets, such as Cash, accounts receivable, merchandise inventories, and investments (bonds and corporate stocks) The provision of the law provided that accounts payable could be used to reduce accounts receivable, but in no other way could liabilities be used to reduce assets.

(U-14-2)

The Union-Cleveland Corporation, in accordance with the law, filed its return for the year 1930 on February 27, 1930, and for the year 1931, on February 19, 1931. A tax of \$27.69 was paid on the return for the year 1930, but no tax was paid on the return for the year 1931 In the year 1931 the tax law was revised, and there apparently was little effort made to collect taxes due for that year in small amounts The Union-Cleveland tax, if it had been paid upon the basis of its return, would have been approximately \$21 06.

(U-14-2a-3a)

The Union-Cleveland Corporation was organized to take over the security business of the Union Trust Co. The nature of its business

required a substantial investment in securities. The return for the year 1930 shows it owned securities in the amount of \$2,198,769.80, and that these securities were listed as preferred and common stocks of corporations domesticated in the State of Ohio, \$1,978,784.14, and United States Government bonds and Treasury notes totaled \$19,985.66. Similarly, in 1931, it owned \$3,147,284.91, distributed as preferred and common stocks of Ohio corporations—\$2,989,869, and Liberty bonds—\$157,415 91 Under the provisions of the code of the State of Ohio, referred to above, securities domesticated in the State of Ohio, and United States securities were exempt from this personal property tax. The corporation on the face of its return was, therefore, practically exempt from tax on its personal property.

(U-14-16a, 16h; U-14-5, 6, 9, 10)

The above picture does not represent the true situation. In order for the Union-Cleveland Corporation to place itself in the position wherein it paid no tax or a very nominal tax, it was necessary to arrange with the Union Trust Co to purchase from it on the last day of the years involved, all of its taxable securities. This transaction was brought about by the Union-Cleveland Corporation's billing the Union Trust Co. on December 30, 1929, a varied assortment of stocks and bonds of corporations domesticated without the State of Ohio, in the amount of \$1,762,118.82 and \$236,762 93 These totals, decreased by a sale on the same date, made the total purchases by the Union Trust Co. of taxable securities in the amount of \$1,997,972.37.

(U-14-7, 8)

This transaction relieved the Union-Cleveland Corporation of all its taxable securities, and placed them in possession of the Union Trust Co. The Union Trust Co. was not involved in any tax situation similar to the Union-Cleveland Corporation, hence this transaction had no effect from the tax standpoint upon them. The delivery of a check to the Union-Cleveland Corporation in payment of these securities would presumably place them in a position where they would have cash on their balance sheet instead of securities. This is not the case, however, because of the fact that the Union-Cleveland Corporation was a large borrower of the Union Trust Co, and immediately upon receipt of this check paid to the Union Trust Co. the amount of \$1,600,000 on December 30, 1929, and \$150,000 on December 31, 1929. It will be seen that the above transaction reduced the asset of securities and decreased loans payable as a liability. The transaction in no way affected profit and loss or net worth.

The Union Trust Co. reflected the transaction by increasing its investments and decreasing its loans receivable in the amounts stated above. The transaction also carried no element of profit and loss to the Union Trust Co. and in no way affected its net worth.

The Union-Cleveland Corporation on December 31, 1929, was, therefore, in a position to file a balance sheet as part of its personal-property tax return, showing that it owned no taxable securities and was only taxable for the small amount of cash on hand at that time.

(U-14-11)

The transaction having served its purpose, insofar as the tax situation was concerned, the Union Trust Co on January 2, 1930 sold back to the Union-Cleveland Corporation the same securities that it bought on December 29 and December 31, 1929. A check of \$1,997,972 37 was given to the Union Trust Co in payment. On this same date the Union Trust Co loaned the Union-Cleveland Corporation \$1,900,000. After this transaction the Union Trust Co and the Union-Cleveland Corporation were in exactly the same position they were prior to December 29, 1929. If this transaction had never been carried out the Union-Cleveland Corporation would have been taxable in addition to the cash shown to have been on hand December 31, 1929, on an amount of \$1,997,972 37, which at the tax rate of 27 1/2% a \$100 would have amounted to \$54,244 94. This transaction was purely a measure to evade taxation.

(U-14-13a, 13f, U-14-12, 14)

A similar transaction occurred at the end of 1930. On December 31, 1930, the Union-Cleveland Corporation billed the Union Trust Co securities consisting of bonds and stocks of corporations, in the amount of \$2,782,130 90, and was taken up on the books of the Union Trust Co at the same figure. The check of the Union-Cleveland Corporation was deposited by the Union Trust Co on December 31, 1930, in the amount of \$2,782,130 90. The Union-Cleveland Corporation on receipt of this cash paid the Union Trust Co as a reduction on its loan account the amount of \$2,720,600.

Again this transaction relieved the Union-Cleveland Corporation of its taxable securities and disposed of the cash received in payment therefor, by a reduction in its loan, and placed its balance sheet in such a position that the only taxable items appearing thereon were a small amount of cash on hand at that time.

(U-14-15)

January 2, 1931, the entire transaction was reversed; the Union-Cleveland Corporation purchased from the Union Trust Co the same securities and paid therefor an amount of \$2,782,246 86. On this same date the Union-Cleveland Corporation borrowed from the Union Trust Co in the amount of \$2,740,000. Both the Union-Cleveland Corporation and the Union Trust Co, after this transaction, were placed in exactly the same position as they were prior to December 31, 1930.

If this transaction had not been consummated, the Union-Cleveland Corporation would have been liable for taxes on an additional amount of \$2,782,130 90, which at the rate of tax in effect at that time would have amounted to \$76,786 82 in taxes. This transaction was purely a method to evade taxation.

In addition to the tax features mentioned above, other features present themselves in connection with this transaction which places the Union Trust Co. in a position of buying not only illegal securities but also of purchasing these securities from the Union-Cleveland Corporation at a value in excess of the current market value at the time of the purchase.

The "Section 710-111-Investments", which is a part of the laws of the State of Ohio relating to banks and trust companies, does not permit a bank to purchase stocks of corporations. The section of the laws stated above does not specifically state that stocks cannot be purchased, but it does state the class of securities that the bank can purchase.

It will be noted from the invoices furnished the bank by the Union-Cleveland Corporation that there are substantial amounts of stocks of corporations appearing on this list.

To show that the bank paid the Union-Cleveland Corporation more than the market value of the securities on the date of purchase, the following tabulation is submitted:

	Shares	Purchase price per share from Union-Cleveland Corporation ¹	Market price per share Dec 30, 1929 ²
American Cyanamid.....	1, 815	\$30 00	{High \$28 625 Low *25 375
Baltimore & Ohio R R.....	500	125 25	{High 115 375 Low 114 00
Chesapeake & Ohio R R.....	1, 000	214 175	{High 200 75 Low 200 00
Electric Storage Battery.....	1, 000	81 045	{High 69 25 Low 68 00
Lehman Corporation.....	500	104 00	{High 78 00 Low *67 00
Manhattan Dea born.....	2, 000	51 00	{High 37 00 Low *32 00
New York Central R R.....	1, 000	186 851	{High 167 25 Low 166 25
Penroad Corporation.....	6, 000	16 50	{High 13 625 Low *13 00

¹ These prices included in Union-Cleveland Corporation's invoice dated Dec 30, 1929 versus the Union Trust Co., amount \$1,095,241 32

² These prices obtained from Commercial and Financial Chronicle, vol 130, pt 1 Those marked with an asterisk are the weekly range for the week Dec 28, 1929, to Jan 3, 1930 Those unmarked are prices as of that day, Dec 30, 1929

While the Union Trust Co apparently received no benefits from this transaction and acted its part only to save taxes for the Union-Cleveland Corporation, it did indirectly receive a benefit in the nature of securing a better class of asset at December 31 of each year in question, than the asset which it would have had, provided the transaction never had occurred. Otherwise, its advances to an affiliated company in the nature of loans was changed to an asset of investments of high-grade securities.

This would come under the classification of "window dressing." Whether it was intended as such by the Union Trust Co. has not been established, but there is no question but what it materially assisted in building up a more presentable balance sheet at the end of the years 1929 and 1930

WALTER H SEYMOUR,
Senior Examiner.

This report based upon preliminary report and complete investigation by Committee Examiner Frank H. Ensign.

Mr. SAPERSTEIN. Mr. Chairman, I believe that is all that we have to offer this morning.

The CHAIRMAN. And I believe that concludes the Cleveland investigation. Are there any questions?

Senator ADAMS. I have no questions.

The CHAIRMAN. Is there anything further this morning, Mr. Saperstein?

Mr. SAPERSTEIN. Nothing further, Mr. Chairman. That concludes the presentation of data with regard to the Cleveland bank situation.

The CHAIRMAN. Very well. That is all, Mr. Meehan. The subcommittee will stand adjourned subject to the call of the chairman.

(Thereupon, at 10:50 a.m., Friday, May 4, 1934, the subcommittee adjourned subject to the call of the chairman.)