

FEDERAL RESERVE BANK OF CHICAGO
CHICAGO 90

February 3, 1949

*Obtained from
Leland Ross, 7/11/1949*

Mr. E. R. Millard, Director
Division of Examinations
Board of Governors of the Federal Reserve System
Washington 25, D. C.

Dear Mr. Millard:

In response to a telephone call from Mr.
W. R. Diercks, we are enclosing -

Excerpt from report of examination
as of September 19, 1932

Excerpt from report of examination
as of October 30, 1933

Copy of a letter dated November 6, 1933
addressed to Federal Reserve Board,
Washington, D. C. by Chairman
(Initials EMS HH)

which pertain to Walter L. Dunham, formerly President
of the Detroit Savings Bank, Detroit, Michigan.

Very truly yours,



Leland Ross
Review Examiner

November 6, 1933

Federal Reserve Board

Washington, D. C.

Gentlemen:

At the request of Mr. McLucas, President of the National Bank of Detroit, and Mr. Stoddard, the representative of the R. F. C. in Washington, now engaged in handling the preferred stock situation in Michigan, I spent last Friday in that city.

Mr. Dunham, President of the Detroit Savings Bank, had resigned the first of the week and under the public psychology existing in that city regarding the banking situation, there was some undercurrent of suspicion and doubt as to what his resignation meant and some withdrawals, particularly of commercial accounts, were going over to the two new banks, all of which was disturbing to the bankers above referred to.

Aside from the two new banks in Detroit, there are three other principal banks, the Detroit Savings, the United Savings, which are members of the Federal Reserve System, and the Commonwealth bank, which is not a member. A recent examination of the latter had come to the attention of Mr. Stoddard and it disclosed a serious situation, where apparently not only all the capital was gone, but a substantial inroad on the deposits. Mr. Stoddard assures me that his opinion is that the R. F. C., on account of the situation in Detroit and by reason of its large stake there, would be forced to reconstruct the capital structure in all these three banks where necessary. An examination on our part, together with the State Banking Department, of the Detroit Savings Bank was in progress when Mr. Dunham resigned and nothing thus far has been revealed to cast suspicion on him. Our confidential information is that his resignation was caused only by reason of his own personal financial position, which was considerably under water, and his demand that the directors of his bank take up his personal loans and carry them for him, at the same time restoring his previous salary under which he could gradually liquidate the loans. This some of the directors refused to do and his resignation followed.

The Detroit Savings Bank, according to our last figures, which will probably be substantiated by the figures which we will have this week from the new examination, will still have some capital left even after full charge-offs. However, the bank has had an increase in the last year in its deposits from \$22,000,000 to \$55,000,000, and aside from write-offs, its present capital is entirely inadequate to cover its deposits. I have previously called in

Federal Reserve Board

November 6, 1933

Mr. Dunham and discussed this question with him fully and the necessity of substantially increasing his capital to take care of charge-offs as well as to make it adequate for deposits, and the matter was awaiting the examination now in process.

Mr. McLucas and Mr. Stoddard were much disturbed by reports that the Detroit Savings Bank had let it be known that they were not going to consider any R. F. C. stock, and, under the circumstances, Mr. Stoddard felt that the door was closed for him to go in there. What was desired of me was to arrange it that he might be called in to participate in a discussion as to their necessities, and I was able to get a definite statement from one of the leading directors in the bank, who is concerned in this matter, that this would be done, and Mr. Stoddard and Mr. McLucas were satisfied that the door had been opened as desired. Unless something interferes, therefore, it would appear that the matter is now up to negotiation with the R. F. C., although, of course, no definite application for stock may be made until the figures are determined, probably this week, at which time my representative in Detroit and Mr. Stoddard are to have a conference with a few directors of the bank.

The President of the United Savings Bank has assured me that he would welcome such a conference in his bank and is ready to take whatever preferred stock may be necessary or advisable. I trust therefore that under the assurances of Mr. Stoddard that they expect to take care of these situations to make them clean and, now, the concurrence on the part of these two banks that they will give consideration to it and call in Mr. Stoddard for tentative conversations thereon, that this matter may be adjusted so that these three banks will be cleaned up free from suspicion.

I will advise you further as to what developments may occur.

Very truly yours,

C h a i r m a n

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Excerpt from: CREDIT INVESTIGATION - BILLS RECEIVABLE
 DETROIT SAVINGS BANK, DETROIT, MICHIGAN
 September 19, 1932 - John H. Martin, Examiner

GENERAL SUMMARY OF LOANS AND DISCOUNTS (p. 8)

Amt. of Loan	Name of Borrower & Comments	Slow	Doubtful	Loss
\$ 27,450.00	<u>Walter L. Dunham - President</u> Priceable collateral has a Mkt. Val. of approximately \$16,000. Maker is known to have other debts in excess of \$65,000 in 2 other banks under collateraled. Salary from subject bank is \$25,000 per year. Owns 2,095 shs. of this bank's stock, of which 1,365 shs. are in the name of Walter L. Dunham, Trustee, 730 shs. are in his own name, of which 450 are pledged elsewhere. Line should be on a regular reduction program.		\$11,450.00	
250,216.37	<u>Walter L. Dunham, Trustee</u> Line represents purchase of 1,365 shs. of subject bank stock from 3 colleges with the idea of placing said stock with local parties which would apparently be of more benefit to the bank. This deal was consummated 3 or 4 years ago and line of credit was originally granted to Mr. Dunham personally. The purchases were made on the basis of approximately \$900 per sh. when the P/V of stock was \$100. Since that time P/V has been reduced to \$20. Recent sales of subject bank stock reported to have been in the neighborhood of \$40 per sh. However, on a block of this size \$30 is thought to be a fair valuation and at that figure this stock would have a Mkt. Val. of approximately \$41,000. The State Dept. claims this to be an illegal loan and have been demanding its removal from the bank's assets for the past several months. Bank holds a Gty. dated 10-15-31 for \$250,000, signed by 16 directors, each guaranteeing 1/16 of the above loan. This is not a joint and several guaranty and approximately 1/2 of the signers are not in a position at this time to make good on this guaranty. The loan is not a desirable asset and should be removed and the classification is made on that basis after giving credit to what is thought to be a fair Mkt. Val. of the stock involved.		100,000.00	109,216.37

Excerpt from EXAMINER'S REPORT OF THE CONDITION OF
DETROIT SAVINGS BANK, DETROIT, MICHIGAN as of October 30, 1933
JOHN H. MARTIN, Examiner

CONFIDENTIAL INFORMATION (p. 17)

"* * *. From a financial standpoint, the weakest Directors
on the Board appear to be Messrs. Dunham, whose resignation
is to take effect January 1, 1934, * * *"

Letter dated November 6, 1933 to the Federal Reserve Board

At the request of Mr. McLucas, president of the National Bank of Detroit and Mr. Stoddard, the representatives of the R.F.C. in Washington now engaged in handling preferred stock situations in Richmond, I spent last Friday in that city.

Mr. Dunham, president of the Detroit Savings Bank had resigned the first of the week and under the public psychology existing in that city regarding the banking action, there was some undercurrent as to what his resignation meant, and some withdrawal particularly of commercial accounts were going over to the two new banks all of which was disturbing to the bankers above referred to.

* * * * *

An examination on our part together with the State Banking Department of the Detroit Savings Bank was in progress when Mr. Dunham resigned, and nothing thus far has been revealed.

Our confidential information is that his resignation was caused only by reason of his personal financial position which was considerably under-grade, and his demand that the directors of his bank pick up his personal loan and carry them for him at the same time paying his previous salary under which he could gradually liquidate the loan. This some of the directors refused to do and his resignation followed.

The Detroit Savings Bank, according to our last figures, which are probably being substantiated by the figures which we will have this week from the new examination, will still have some capital left even after full charge-offs. However, the bank has had an increase in the last year in its deposits from \$22,000,000 to \$55,000,000, and aside from light charge-offs, the present capital is entirely inadequate to cover its deposits. I have

previously called in Mr. Dunham and discussed this question with him fully and the necessity of substantially increasing his capital to take care of charge-offs as well as to make the adequate deposits, and the matter was awaiting the examination now in progress.

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(Signed) E. M. Stevens,
Chairman of the Board

Page 8 -- General Summary of Loans and Discounts

Amount of loan -- \$27,450, Walter L. Dunham, president.

Doubtful -- \$11,450. Priceable collateral, has a market value of approximately \$16,000. Maker is known to have other debts in excess of \$65,000 in two other banks under collateral. Salary from subject bank is \$25,000 per year. Owned 2,095 of this bank stock, of which 1,365 shares was in the name of W. L. Dunham, Trustee. 730 shares are not in his name. 1,450 are pledged elsewhere. The line should be on a regular reduction program.

* * * * *

Amount of loan -- \$250,216.37, Walter L. Dunham, trustee.

Doubtful -- \$100,000.

Loss -- \$109,216.37. Line represents purchase of 1,365 shares of subject bank stock from three colleges with the idea of placing said stock with local parties which would apparently be of more benefit to the bank. This sale was contemplated three or four years ago, and line of credit was originally granted to Mr. Dunham personally. The purchases were made on the basis of approximately \$900 per share when the par value was 100,000. At that time, par value had been reduced to \$20.

Sales of subject bank stock reported to have been in the neighborhood of \$40,000 per share. On the $\frac{1}{2}$ stock of this size, \$30 is said to be fair values, and at that figure, this stock would have a market value of approximately \$11,000. The State Department claims this to be an illegal law and has been demanding its removal from the bank's assets for the past several months. Bank holds a guarantee dated October 15, 1931 for \$250,000 signed by 16 directors, each guaranting $\frac{1}{16}$ of the above law. ~~This is~~

This loan is not a desirable asset and should be removed, and the classification is made on that basis after given credit to what is thought to be of far more value of the stock and bond.

Examiner's report of Detroit Savings Bank, Detroit, Michigan as of October 30, 1933--John H. Martin, from confidential information.

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From a financial standpoint, the weakest director on the Board appears to be Messrs. Dunham, whose resignation is to take effect in January 1934.

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