

Operation of the National and Federal Reserve Banking Systems

HEARINGS

BEFORE A

SUBCOMMITTEE OF THE COMMITTEE ON BANKING AND CURRENCY UNITED STATES SENATE

SEVENTY-FIRST CONGRESS

THIRD SESSION

PURSUANT TO

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A RESOLUTION TO MAKE A COMPLETE SURVEY OF THE
NATIONAL AND FEDERAL RESERVE
BANKING SYSTEMS

PART 3

FEBRUARY 18, 23, 24, AND 25, 1931

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OPERATION OF THE NATIONAL AND FEDERAL RESERVE BANKING SYSTEMS

WEDNESDAY, FEBRUARY 18, 1931

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

The subcommittee met, pursuant to adjournment, at 10.30 o'clock a. m., Hon. Frederic C. Walcott presiding.

STATEMENT OF ROBERT H. BEAN, EXECUTIVE SECRETARY AMERICAN ACCEPTANCE COUNCIL, NEW YORK CITY, N. Y.

The ACTING CHAIRMAN. Mr. Bean, will you give us your name and official connection with the American Acceptance Council?

Mr. BEAN. Robert H. Bean, executive secretary American Acceptance Council, New York.

The ACTING CHAIRMAN. Mr. Bean, we are trying to make these hearings as constructive and helpful as possible, avoiding every trace of sensationalism or even embarrassing questions, but we naturally want as frank and full answers as you feel like giving, and if there are any parts of your answers you want off the record, please so indicate.

We have prepared a few questions here that I shall run through, and perhaps you would like to make a more or less general statement covering several questions with reference, for instance, to the general situation of the acceptance market.

What are the outstanding problems of the present situation as indicated by your experience? What changes in law relating to acceptances do you think desirable, if any? What changes in administrative rules or practices do you suggest?

Then I, personally, should like to get into the question of a comparison between our methods of acceptances and the English methods of acceptances, if you are familiar with that part of it. If you will just make your own statement with reference to those questions, we shall appreciate it.

Mr. BEAN. May I have the first question again, Senator?

The ACTING CHAIRMAN. Describe, as far as you can, the general situation of the acceptance market of the United States as it stands at present, and what are the outstanding problems of the present situation.

Mr. BEAN. The acceptance business at the present time is almost at the peak of its activities since the system was first put into operation. The volume is not quite as high as it was at the end of 1929,

but that is due partly to commodity prices falling and partly to the reduction in domestic and world trade. As far as the activity of the acceptance business is concerned, it has probably been greater in 1930 and thus far into 1931 than at almost any previous period.

We now have a market demand that is quite evenly divided between the Federal reserve banks, the foreign correspondents of the Federal reserve banks, such as foreign central banks of issue, and the acceptance banks in the United States. By accepting banks, it might be of interest for me to explain what I mean. There are only certain large and important banks that do any accepting at the present time.

The ACTING CHAIRMAN. Suppose you insert at the outset of the hearing a definition of an acceptance, as the bankers know it. There may be some here who are taking notes that do not quite understand it.

Mr. BEAN. A bankers' acceptance, in its simplest definition, is a draft or bill of exchange drawn on a bank by a merchant, importer, or exporter and accepted by that bank as its promise to pay, by writing across the bill of exchange, "Accepted," payable at a given future date, then adding the signature of the authorized officer of the bank. It differs from an ordinary commercial draft in that such a draft is drawn, merchant on merchant, while this is drawn merchant on bank. When it is accepted in that way it becomes a bankers' acceptance. That is the very simplest form. There are several types of bankers' acceptances—that is, there are several uses—such as for imports and exports, for domestic storage, for domestic shipment, and for the purpose of creating dollar exchange. Dollar exchange bills are drawn in countries where dollar exchange is generally scarce or during temporary times when they have to have exchange to pay for commodities they have purchased. That is not a very important part of the acceptance business.

But those five classes and the sixth, which is against goods stored in or shipped between foreign countries, make up the authorized uses to which acceptance credits are put.

For several years the last item did not appear as a very important division, but during the last four years it has increased very extensively. It has grown until now it constitutes about one-third of all the total outstanding volume of acceptances, and at this point it might be well to give the classified volume for reference as we go along.

The total volume, at the end of January, was \$1,520,000,000. That total is divided among the six divisions as follows:

Import credits took \$213,000,000; export credits took \$400,000,000; domestic shipments credits took \$34,000,000; domestic warehouse credits took \$257,000,000; dollar exchange credit took \$65,000,000; and, based on goods stored in or shipped between foreign countries, took \$548,000,000.

Senator NORBECK. How long a period do those figures cover?

Mr. BEAN. The figures cover the outstanding volume as of the end of January, 1931.

Senator NORBECK. For the previous year?

Mr. BEAN. No; just the volume outstanding at that time.

Senator NORBECK. Outstanding at that time?

Mr. BEAN. Yes. Every month we make a national survey and these figures are shown as of the end of each month. They overlap some, of course, but that has to be taken into consideration.

The ACTING CHAIRMAN. That is about a billion and a half?

Mr. BEAN. \$1,520,000,000 outstanding as of January 31 last—two weeks ago.

The ACTING CHAIRMAN. Then, you might just add how these acceptances are handled. They are dated and they are negotiable—discountable, and so forth.

Senator TOWNSEND. And give the usual time.

Mr. BEAN. The creation and general principles are regulated by the Federal Reserve Board, but the average maturity of the outstanding bills, while varying in some years, is somewhere between 55 and 60 days. That is, at one season of the year, such as in the spring, when there may be a clearing up of remaining exports of seasonal commodities the credits will not be necessary for so long a period. In the fall of the year, however, we are apt to get the full limit of maturity, but the average throughout the year I have found to be about 55 or 60 days.

Senator TOWNSEND. If you take goods stored in a storehouse, and the 60 days expire, and he does not remove the goods, you renew that?

Mr. BEAN. Oftentimes they are put into warehouses pending shipment and in that period it is expected that the goods will be shipped out. Now, if there is a bona fide sale of goods within the period—within the warehouse credit period—and the goods do not go out for various reasons—it may be lack of tonnage or other facilities—the credit may have to go over for another period, 30 days more. But there is very little of what might be called hoarding of goods; that is, putting goods into a warehouse, opening an acceptance credit and hoping that some time there will be a market to take them out of storage.

Senator TOWNSEND. That is the point I had in mind.

The ACTING CHAIRMAN. Have you cotton acceptances by themselves?

Mr. BEAN. Not by themselves. Our service has never gone into analyzing the character of goods stored. We have left that to the occasional surveys made by the Federal reserve banks, as they analyze the bills that pass through their hands. It would be quite a task for us to ask the banks to check up and record each month, the particular business they did and the particular commodities they were financing.

Now these bills, once they are accepted by the banks, are then ready for the market. In some periods they are immediately sold. At other times, if the banks are well supplied with funds, they will carry the bills in their own portfolio as they are doing quite substantially at the present time.

At the end of January the accepting banks were carrying \$130,000,000 of their own acceptances that were accepted and ready to go to the market. The reason for that is that at this time the banks have no way of employing those funds, and instead of marketing the bills and taking the proceeds and letting them pile up as unemployed surplus funds, they keep the bills and carry them in

the commercial loan accounts for the time being. When they are again in need of funds, they will sell those bills to the dealers.

As a further evidence of the banks' liquid condition they are now buying other banks' bills very heavily. On the last of January they were holding \$433,000,000 in other banks' bills, the largest volume the accepting banks have held since the business started. That represents an investment in other banks' acceptances.

The ACTING CHAIRMAN. How do you account for their having reached a peak at this time in the volume of acceptances, and do you find there are any large number of acceptances on cotton that are frozen?

Mr. BEAN. I would not say that they are frozen, Senator. There is undoubtedly a large volume of cotton acceptances, but I have always felt, and do feel, that that is a commodity that will move one year rapidly and one year slowly. This happens to be one of the years when it is going out slowly.

I notice that our acceptances are now declining normally, as they do every year. Over the 10 years in which we have studied the acceptance development the total volume of bills is generally at its peak on December 31. After that we generally get a normal decline.

My figures as of January 31, which were released for the papers last week, show a decline of import credits of about \$7,000,000; export credits went off \$15,000,000; domestic warehouse credits went off \$14,000,000; and domestic shipments remained just about where they were.

Credits based on goods stored abroad or shipped between foreign countries went off about \$13,000,000. This change is what we get almost every year. It is a normal seasonal decline, and it will continue right through the spring up to June or July before the season turns again, and our charts will show the regularity of this variation. I believe, gentlemen, you would like to look at the chart [exhibiting] that shows the volume line—

(See Chart III on page 447.)

Mr. WILLIS. May I suggest that you insert them in your evidence?

Mr. BEAN. I should like to do that. That [indicating] shows the line of acceptance volume and the other shows the Federal reserve holdings.

The ACTING CHAIRMAN. There is an enormous variation there, is there not?

Mr. BEAN. This [indicating] is the \$1,732,000,000 record peak. This point [indicating] is higher than the other December 31 total of the Federal holdings for many years. That was the time Doctor Burgess made his announcement through the bank at New York.

Mr. WILLIS. You speak of that as "Doctor Burgess's announcement." Do you mean it was an official announcement by the bank of New York?

Mr. BEAN. Not as an official statement of the bank; that was an address that Doctor Burgess made at—

Mr. WILLIS. Well, but is that an official announcement such that it may be fairly said to be a policy of the bank of New York?

Mr. BEAN. I think it was.

Mr. WILLIS. You have no doubt of it?

Mr. BEAN. No.

The ACTING CHAIRMAN. That peak seems to come along in December.

Mr. BEAN. December 31; yes.

The ACTING CHAIRMAN. At the end of each year?

Mr. BEAN. Yes; and with the exception of that one year it is rather regular.

The ACTING CHAIRMAN. Yes. Now, what was that announcement? That they would no longer carry them?

Mr. BEAN. They were carrying \$489,000,000 at that time and Doctor Burgess made the announcement that the Federals would not be buying any more bills for the present, and almost immediately their volume began to go off—the total outstanding volume also began to go off. The distribution to outside banks and investors speeded up very rapidly after the Federal took that position.

Frankly I should like to say that that was one of the most helpful things that ever happened in the bill market.

The ACTING CHAIRMAN. Do you think that announcement had any relation to that [indicating acceptance total line on chart]?

Mr. BEAN. No, sir; that greater total came at the end of the year 1929 when everything was running to high levels. It will be noticed there, too, that while this peak in 1929 was \$1,732,000,000, the Federal's peak no where near balanced it. It would have come way up there, \$600,000,000 at least [indicating], if the Federal had given the same support to the bill market as in the previous year.

The ACTING CHAIRMAN. How do you feel toward the laws relating to acceptances? Have you any changes you would suggest?

Mr. BEAN. I have no changes that I would make in the regulations governing the use of acceptances. It may be that the time will come when we may not need domestic acceptances. Domestic acceptances have never seemed to be a very important part of our acceptance business, and while we have been through a period of low money rates and easy bank credit, it may be that domestic acceptances will never be called upon extensively even in a tight money period, when banks find it necessary to use every available credit instrument.

So far as our import credits and export credits are concerned, there is nothing in the regulations that I can think of that needs a change. Domestic storage, I am satisfied, is very much cleaner and finer to-day than it has ever been. I say that because of the recent action of the American Warehousemen's Association in cooperating with the Federal reserve banks and member banks and the superintendent of banks, to make certain that there is a clean business, as far as the warehousemen are concerned, and that is bringing out a quality of warehouse acceptances, better by far than they used to be.

As far as the warehouse credit item is concerned, that goes along very naturally every year. Through the fall and winter months it will increase, and in the spring, as goods move out, it goes down, and in the period of 12 years, it has been a very regular and steady movement.

The ACTING CHAIRMAN. Are your warehouses pretty well regulated now?

Mr. BEAN. Very well regulated. We have the American Warehousemen's Association; we have the uniform warehouse receipts

act, and the Department of Agriculture directing the operation of the United States warehouse act and issuing Government licenses for storing agricultural products. I have made quite a study of the warehouse end of our acceptance business, and I believe we are very much better off to-day in the management and control of the warehouse-acceptance business than ever before.

Mr. WILLIS. Mr. Frederick, in an article published in the *Acceptance Bulletin*, in 1930, indicates some very serious features.

Mr. BEAN. As far as the trust receipts are concerned?

Mr. WILLIS. Yes.

Mr. BEAN. Yes; he does; and I am not in a state of mind to defend the trust receipts as it is handled to-day. I think it is one of the weakest links in our banking system.

The ACTING CHAIRMAN. Would you do away with it?

Mr. BEAN. No; but I think we are in need of a uniform trust receipt act and a uniform trust receipt that will put it on the same basis as the warehouse receipt, uniform bill of lading, and other standard commercial documents.

Mr. WILLIS. The warehouse receipt is not altogether satisfactory for somewhat the same reasons, is it?

Mr. BEAN. In the hands of bona fide warehousemen it is all right.

Mr. WILLIS. Many are not altogether legally in such a position that their receipts are good, are they?

Mr. BEAN. That is true, but that comes about very largely because of what are known as subsidiary warehouses. If you get an independent warehouseman—bona fide warehouseman—he is the only one who can issue a proper warehouseman's receipt, and you are secured.

Mr. WILLIS. You have had, in Brooklyn, quite a good deal of duplicate receipt trouble, have you not?

Mr. BEAN. Yes.

Mr. WILLIS. That is likely to occur very often?

Mr. BEAN. Yes; in carelessly managed warehouses.

Mr. WILLIS. So what you say about the soundness of the warehouseman's receipts has a great deal of qualification?

Mr. BEAN. I qualify it only to this extent: If it is business handled by independent warehousemen, in the business of warehousing, and who are represented in the American Warehousemen's Association—

The ACTING CHAIRMAN. But are there not a great many warehouses not in that association?

Mr. BEAN. Yes.

The ACTING CHAIRMAN. But you are not afraid of them? You have not had any duplication recently of the old Detroit blowup?

Mr. BEAN. No; and there are very few instances of that kind or like the Brooklyn case. I think there are fewer and fewer of these cases, and I know that the banks to-day are watching their warehouse receipts as they have never watched them before.

The ACTING CHAIRMAN. You are not afraid, when the acceptances cover, say, canned peas, that the cans contain water?

Mr. BEAN. No.

The ACTING CHAIRMAN. You remember some years ago there were some pretty disastrous things that happened?

Mr. BEAN. Yes.

The ACTING CHAIRMAN. Those were the irresponsible ones? There was no inspection then?

Senator TOWNSEND. Will not the Government inspection help that very materially?

Mr. BEAN. Yes; but if an inspector goes into a warehouse and sees 5,000 cans of so-called salmon, he is in a difficult position to prove that the cans contain salmon. If a warehouseman starts out to be a crook it is a very difficult matter. It is the same with bankers. The reason the banking business is successful is that about 99 per cent of the bankers are honest.

Senator TOWNSEND. Suppose the Government inspects all of the stuff in the warehouse, and that at that warehouse there was a Government inspector; would that cover the point?

Mr. BEAN. No; I do not believe that your safety would be very greatly increased.

The ACTING CHAIRMAN. Of course, the old scandals on canned goods, which were more numerous than in connection with any other type of warehoused goods, arose because the package could not be opened without spoiling it. That is the whole point, is it not?

Mr. BEAN. Yes.

Mr. WILLIS. I think it would be well to insert in the record this article by Mr. Frederick concerning trust receipts, appearing in the Acceptance Bulletin for December, 1930.

The ACTING CHAIRMAN. And we may insert these charts?

Mr. BEAN. Certainly.

(The article and charts referred to are reproduced in full as follows:)

[Acceptance Bulletin, December, 1930]

CONCERNING TRUST RECEIPTS

(Address by Mr. Karl T. Frederick, of Kobbe, Thatcher, Frederick & Hoar, delivered before the Foreign Exchange Club, New York City, on November 25, 1930)

I am honored by being asked to talk to you about this matter of trust receipts.

It is a small corner of the law. It is, frankly, one of the most difficult little corners that I have ever happened upon. There have been many cases in which trust receipts have been the subject of litigation but, unfortunately, there is comparatively little light to be found in the bulk of judicial opinion on the subject.

Trust receipts are a decidedly new type of security—I mean when you compare them with other types of security. They are only about 55 or 60 years old, and I should say the first 45 years of their use was a period when neither lawyers nor bankers knew what they were using nor why they were upheld by the courts.

From a legal standpoint one may begin to examine the origin of trust receipts perhaps 30 years before they were definitely used. That was what you might call a preparatory period. They were an evolution and, as I say, until the last few years very few bankers, lawyers or judges, have had any logical idea of what a trust receipt was or where it could be used or what principles of law underlay it. Consequently, if the subject has been a puzzling one in any way to any of you you needn't feel any surprise because it really is, at least from a lawyer's standpoint, and, so far as I have seen in practice from a banker's standpoint, a difficult proposition to understand.

The trust receipt as a form of security here in the East at least and in some other parts of the country, is now well recognized. Certainly in Massachusetts, Connecticut, New York, Pennsylvania, New Jersey, Maryland, Delaware, Louisiana, Wisconsin, and some other States, it is well known and in common use. It is also used to some extent abroad.

Security in general may be classified under two types—a type which depends upon possession for its validity and a type which depends upon title, quite apart from possession, for its validity. Under the first head, as you know, you have the common type called pledge, where property is placed in the possession of the pledgee. He is entitled to retain possession and under certain circumstances to sell for the satisfaction of his claim.

The other type is that which depends upon title, and there are two common well-recognized forms of that kind of security. The first is called a conditional sale, where a contract is made by which A undertakes to sell something to B but it is agreed that the title shall not vest in B, even though the possession may pass to B, until B has paid for it. That is briefly the type of security known as conditional sale and it is in common use.

The other form is that of mortgage. Of course we are talking here about security in personal property. When you come to talk about security in real estate, mortgage needs some further amplification or discussion, because here in New York at least there has been developed what they call the lien theory. Historically, a mortgage always, whether of real estate or personalty, involved the putting of title into the mortgagor or person to be secured. That is still true in the case of personalty, but here in New York it is not true in the case of realty. In the case of realty a mortgage here in New York does not convey title to the mortgagee; it gives him what the law recognizes and enforces as a lien, title remaining however in the mortgagor. That is rather anomalous, and I think to some extent an unsound legal doctrine, but it is the law here in New York.

We have then these three general types of security—pledge, conditional sale, and mortgage.

Now whenever a question of trust receipts was presented to a lawyer he immediately tried to analyze the type of security and to see what particular classification it fell under. The trust receipt obviously was not a pledge. It didn't seem to be a mortgage, it didn't seem to be a conditional sale, and that to lawyers, was the chief reason why the subject presented serious difficulties.

In some respects it is obviously like a mortgage, but as almost everybody knows a chattel mortgage is not of much value in this country unless it is recorded and as banks and lawyers know, the trust receipt if it is good at all is good without recording. Therefore, it does not exactly resemble a mortgage.

As a matter of fact, the trust receipt is an anomaly in the law. I may call it a by-product. It does not rest upon any statute for its validity. Nevertheless, it is the result of the enactment of statutes, namely the recording acts. If there were no recording acts relating to chattel mortgages there would never have been any occasion or reason for the development of trust receipts. Because there were recording acts which were, in this particular field at least, undesirable, the law through a process of evolution developed this anomalous type of security which we know as trust receipts.

Now I don't suppose it is necessary to describe in any detail the appearance or wording of a trust receipt. Commonly they are used in connection with import transactions. The importer goes to a banker, gets a letter of credit in favor of the shipper on the other side, who is the seller or the seller's agent, and which provides that upon presentation of bills of lading and proper documents the bank will accept and pay the drafts drawn in connection with his contract. Those documents, of course, are taken in the name of the bank and when the goods come forward, the documents, which are documents of title and for all legal purposes are the goods, are turned over to the importer under a trust receipt. You may have the simple form where the documents are turned over against a trust receipt to allow the importer to enter the goods and to warehouse them, and immediately deliver to the bank the warehouse receipts issued in its name. That is a limited form not uncommonly used.

It may be followed by another larger form which will permit the importer to make a sale which he has arranged to a buyer, John Smith. It may name the buyer and also provide that the money shall immediately be paid over to the bank. Or a still wider form of trust receipt may be used which permits the importer to sell as he can or to manufacture or fabricate in one way or another and to sell the goods. These all provide that the title is to remain in the bank.

This is obviously a security transaction, and it is probably worth a moment's time to point out its differences from the other well-recognized forms of

security. It obviously is not a pledge, because the essence of pledge is not title but possession, and if the property were pledged to the bank that pledge, and therefore the security would be lost immediately possession was turned over to the importer.

It, likewise, is not a conditional sale, in spite of the fact that the courts of Connecticut have decided and one or two other courts have talked as if they thought it was a conditional sale.

The reason it isn't a conditional sale is this: In a conditional sale the seller is the man who has goods to sell and he is interested in selling the goods as a seller of goods and interested in getting the purchase price of goods, and the only contract which exists between him and the buyer is a contract for the purchase of goods. Now, in the trust receipt case the seller was the man in China or in Brazil or somewhere else (and I might say in passing that I am simply taking that class of case because it is perhaps a little simpler to follow. There is no reason why a transaction shouldn't be a domestic one just as well as a foreign one). The seller is out of the picture when he turns over the documents to the bank or its correspondent and gets his money on his draft. He is through. That is the only contract of sale that ever has existed. The contract between the bank and the importer is not a contract for the sale of goods and the payment of the purchase price, because the bank has its goods to sell; it isn't in the business of selling goods; it is in the business of lending money. The contract between the bank and the importer is a contract of loan. If it were a conditional sale, the whole contract would be over and the liability of the purchaser would be at an end if the seller retook the goods. But if the bank retakes the goods under the trust receipt the importer is still under the same liability he was under in the first place. His contract with the bank is not to pay the purchase price of goods but to repay a loan or an advance made at his request and for his benefit. The subject matter about which the bank and the importer are dealing at all times is a lending of money and a repayment of money, and not the purchase and sale of goods, because if those goods in the hands of the bank, for example, were destroyed and there was no insurance, the importer would be equally liable to the bank, as he was at the inception of the transaction; whereas if it were a conditional sale and the goods were destroyed while in the hands of the seller, of course the buyer would be under no obligation whatever.

The essential differences between those two classes of transactions must be quite apparent, although as I say in a number of decisions and in two or three States they have caused confusion in the minds of the courts.

Now there remains only one other kind of security, and that is mortgage. The ordinary mortgage—and we are talking of chattel mortgage—consists of a conveyance of the title by the title holder or mortgagor to another as security for an advance or loan made by the other party to or for the benefit of the mortgagor. If the mortgagor, for example, gives a mortgage on an automobile, he may in addition also deliver possession to the mortgagee. The mortgagee is not then a pledgee although he looks like one, but he is a mortgagee in possession. If that is done, of course, there is no necessity for recording the mortgage, because nobody is deceived by the situation. The mortgagee is in possession of his security and therefore the creditors of the mortgagor are not liable to be deceived. But if the mortgagor, the owner of the car, wants to keep the machine and to continue to use it, he may still by a proper instrument convey title to the mortgagee. In such a case practically every State has required that the instrument be recorded so that the world may, theoretically at least, have notice of the fact that the man who previously owned the car, and who now apparently owns it and uses it, is not the real owner, but that some one else is the real owner and has a claim on it as security.

The purpose of those statutes is, of course, to prevent a false credit being given to people on whom the mortgagor might impose through his apparent ownership of the car.

That is, as I say, the classic, normal form of chattel mortgage. It requires recording if possession is to remain in the mortgagor. The trust receipt, however, does not require recording in order to be valid. Nevertheless, possession is not in the hands of the title owner, the bank, but is in the hands of some one else.

The question is, what is the true nature of a trust receipt, and I want to point out that the trust receipt is really a chattel mortgage, but of a peculiar and exceptional kind. There are certain facts in connection with the trust receipt situation which enable us to distinguish it from the normal mortgage

situation and which justify, in the opinion of businessmen, and so far at least in the opinion of legislators, the exclusion of trust receipts from the recording statutes.

As I said, the essence of a mortgage consists of title in the person secured while possession may be in the borrower. Where the borrower has previously owned the property and has conveyed it to the mortgagee, himself retaining possession, you have the ordinary type of chattel mortgage which requires recording. It isn't necessary, however, that title should have been conveyed to the lender by the borrower, and that is the fact which affords a line of cleavage between the trust receipt form of security and the ordinary chattel mortgage form, because in the trust receipt situation we have first a seller in whom the title originates. That person is not seeking credit; he is merely a seller and he is to get cash for his goods. The lender is the bank, the second party. The third party is the importer, who has never up to that time owned the goods, but for whose benefit nevertheless the entire transactions is undertaken.

Now, inasmuch as the importer has never previously owned those goods and has never had them in his possession, no one who has any knowledge of business affairs can be deceived by the fact that he suddenly comes into possession of them.

The transaction, as I have tried to make clear, is, in legal theory, a chattel mortgage, but it has distinguishing marks which differentiate it from the ordinary chattel mortgage in that the title comes to the bank from a third party rather than from the mortgagor, whereas in the ordinary mortgage the title comes from the owner who gets the credit and who retains possession of the goods.

The trust receipt is useful and may properly be employed only in the circumstances that I have described. If it is used in the normal chattel mortgage situation, it is of no more value than an unrecorded chattel mortgage would be. Now, I am not prepared to say that in some circumstances an unrecorded chattel mortgage may not have value, but no one ought to deceive himself into thinking that he is getting more security than he really is getting. If you clearly realize that you are doing an unrecorded chattel mortgage business and if you clearly recognize the limits of the security that you are obtaining, it is all right to go ahead and do it, whether you do it under what is frankly a chattel mortgage or whether you do it under the guise of a trust receipt.

The difficulty is this: That the trust receipt has frequently been used in circumstances when it did not have validity beyond that of an unrecorded chattel mortgage, but where the users have deceived themselves in thinking that they had a good trust receipt. The most important point I want to make in what I have to say is to point out that there is only one set of circumstances in which a trust receipt can properly be used. If it is used in any other case, it is not good as a trust receipt and the doctrines of trust receipt do not apply. Unless you have that 3-cornered transaction of a seller and a lender and a borrower, your trust receipt is not good. If a man comes to the bank and says, "Here are some warehouse receipts for cotton that I own. I want to pledge them to you," you may, by taking the warehouse receipts, get a good security, but if he then comes and says, "Hand me back my warehouse receipts and I will take them under trust receipt," don't deceive yourself into thinking that you have any security left after you have turned the warehouse receipts back to him. You have practically nothing except his unsecured obligation to pay.

The trust receipt can not be properly used under those circumstances and it doesn't do any good to label the document that you use "trust receipt," because the court that is going to examine the transaction isn't going to be guided in reaching its conclusion by the fact that the document may have "trust receipt" written across the top, any more than it is going to be guided by the fact that it may have "chattel mortgage" written across the top, because the court will look at the substance of the transaction and not at any labels.

The difficulty which has arisen in the minds of lawyers and which has also existed in the minds and in the practice of bankers in many, many cases—I think in practically all cases—has been due to a failure to recognize the limits of the proper trust receipt doctrine; has been due to a failure to realize that the trust receipt can be used only in the one class of cases that I have described. It has been due to the fact that the trust receipt has been used

in the other class that I have also described where it hasn't any business to be used. The distinction, if I have succeeded in making it plain, is the backbone, the essence of the trust receipt doctrine.

To go a little further into some of the details of the doctrine, I said that an ordinary chattel mortgage requires recording, whereas a trust receipt is valid without recording. There are at least two States in the country where the recording statutes are so drawn that even a trust receipt is not valid unless it is recorded. Those States are Ohio and Illinois, and, consequently, you should never use a trust receipt in either of those States with the idea that you are safe unless you record it.

It is not necessary or useful here to go into the history of the development of the trust-receipt doctrine. That is primarily of interest to lawyers. It is an interesting history because it is in evolution of new principle for which there was demand because of the recording statutes. I may remark that the classic example of trust receipt that is usually talked about is the import case, such as an importation of coffee or silk or some other foreign commodity. The doctrine of trust receipts, however, did not arise from import transactions. The cases which laid the foundation of this doctrine were all cases relating to domestic transactions. They were in every case letter of credit cases, but they were all domestic transactions.

There have been, during the last 10 or 12 years, a number of litigations, especially affecting automobile financing operations, where the argument has been made that the trust-receipt doctrine applies only to import transactions, and the courts have been urged, indeed they have sometimes been told, that domestic transactions of the same kind did not permit the use of the trust receipt. There is nothing in the argument. In proper cases a trust receipt can be used in domestic transactions just as well as it can in foreign cases.

The doctrine is just as vigorous and is better established than it ever has been. In examining practically all the cases that had been decided on the subject a few years ago, I found an extraordinary consistency in the opinions. They differed in respect to the nomenclature which they used.

Some of them, as I said, called the arrangement "conditional sale." In Pennsylvania they called it a "bailment," and in other places they said, "We will not attempt to define the exact nature of this security." But they all, practically without exception, upheld the principle of the trust receipt and enforced it. Consequently when one came to assemble all of the decisions and from the opinions to evolve a statement of the doctrine of trust receipts, one did not have to do what one has to do in many other branches of the law, either distinguish or explain away the inconsistent rulings, because the decisions of the courts in this field have been extraordinarily consistent.

There are two or three statutes which have a bearing upon this subject to which I want to refer. One is what is known as the factors' act, which is of particular importance here in New York. The factors' act was taken from an English statute which was passed many years ago, but it has only been adopted by New York and Massachusetts. In the absence of the factors' act it is a principle of the common law that an agent to sell—that is, an agent whose power extends to the sale of your goods—can not make a legal or binding pledge, because a pledge would be beyond the scope of his authority. That is, as I say, common law in the absence of statute. But in England, in New York, and in Massachusetts a statute has been passed known as the factors' act, which says in effect that a person who is intrusted with the possession of goods with power to sell can make a valid pledge of those goods. That means in respect to trust receipts that if a bank delivers possession of goods to the importer with power to sell, but without explicit power to pledge, the importer can nevertheless take those goods or the warehouse receipts, or bills of lading to some other bank and make a valid pledge, and if the other bank retains possession of the goods or the documents it will prevail over the first bank which merely holds the trust receipt.

That is a risk which every bank in New York takes when it delivers goods under trust receipt. It is taking a risk that its customer may repledge the goods with some one else for a present advance.

Another act which is one of the uniform acts and which has been widely adopted is the bills of lading act. It accomplishes practically the same result which the factors' act accomplished but it is limited in its effect to bills of lading. However, it goes a little further than the factors' act in that a repledge under the factors' act must be for a present consideration. The bills of

lading act includes within its definition of value an antecedent obligation. In other words, if your importer takes the bill of lading, which he has obtained under trust receipt, to another bank and pledges it as security for a debt which he already owes to that bank, the pledge is good.

Another statute which I want to mention is the warehouse receipts act, and that accomplishes with respect to warehouse receipts practically the same thing which the bills of lading act accomplishes with respect to bills of lading. Its definition of value is the same. In other words, a pledge of a warehouse receipt for a preexisting obligation is good even though the pledgor has secured possession of the warehouse receipt by giving a trust receipt.

The curious result of these two statutes, the bills of lading act and the warehouse receipts act, is this: That the importer or the customer can do with these documents of title which merely represents the goods what he could not do with the goods themselves. If he had a bale of cotton he could not make a valid pledge of that cotton for an antecedent or preexisting obligation, but if he has a bill of lading or warehouse receipt which represents that cotton he can make such a valid pledge. In other words, you are taking a slightly broader risk when you turn over bills of lading or warehouse receipts to your customer than you are when you turn over the goods themselves. As you generally deal with documents of title I want to point that fact out to you.

Not infrequently a bill of lading is turned over to a customer to warehouse the goods or to sell to a particular customer. If there is any likelihood that the customer will place the goods in warehouse you should do one of two things: You should either see to it that he turns over the warehouse receipts to you as soon as he gets them, or you should very carefully stipulate in the document that he can not take a negotiable warehouse receipt to his own order. If he takes a negotiable receipt to his own order and does not immediately turn it over to you, you are running a risk that he may dispose of it somewhere else.

I have outlined rather sketchily the fundamental principles of the law of trust receipts. As a practical proposition you all know that the most difficult problem is often to put your hands on the goods. If you decide that it is time to protect yourself by recapture, or if your customer becomes bankrupt and you have to recover the goods, you are often faced with a problem of identifying them. That is under many circumstances an almost impossible task, and I do not know of any way in which it can be simplified unless you go to the trouble of watching the goods closely and tracing them as they progress on their line through the process of manufacture.

You can with the aid of the court recapture your goods, provided you can identify them. But it is obvious that they may have become mixed with goods of other people; they may have become mixed with goods which are indistinguishable. They may have been changed by the addition of labor; they may have been changed by the addition not only of labor but of other materials, by weaving or any of the other processes of manufacture. They may have been changed in appearance by dyeing and all kinds of things which may happen, and it may be that you will find your goods involved with other goods which have been released to the customer under trust receipts held by two or three other banks.

You can picture the most complicated situations that may result from the fact that the customer has gone on with the preparation of the goods for sale. You can suggest many particular cases which may arise. In some cases it is absolutely impossible to do anything about it. The goods are gone; you can't find them; you can't identify them; and that is the end of it. There are cases where you can trace the goods into their proceeds. If the goods have been sold and the purchase price has not been collected you can collect it. If the purchase price has been collected and can be identified you can get it. If it has been mingled in the general bank account of the customer and has not been drawn out since it was put in, you can generally get it. But it may happen that it has just disappeared.

There are a good many cases which you can picture to yourself where if you asked me, or any other lawyer what your rights are, we would be obliged to say we do not know, because under a good many circumstances the courts have never decided what the rights of the parties are. I have tried to picture a good many such situations, and I must say that in some of them I have no recourse except to figure out what I think the law ought to be without being able to point to what the law is.

I think perhaps I can crystallize what I have had to say better by reading to you, if you will bear with me, certain conclusions that I came to some time

ago in connection with trust receipts, and which really sum up the matter. These were formulated about eight years ago, and so far as I know they are as sound now as they were when they were formulated.

The first one is:

"The only situation in which a trust receipt may properly be used is one in which the title of property by way of security is conveyed to the creditor by an owner who is not the person responsible for the satisfaction of the obligation which the property secures, but where such obligor has a contractual or beneficial interest in the property subject to the satisfaction of such obligation."

In practice, the trust-receipt situation exists only in connection with advances for the purchase of goods by way of the payment of drafts against bill of lading.

"(2) The trust receipt should never be used in connection with the redelivery of property pledged or mortgaged by the person signing the trust receipt.

"(3) In the proper trust receipt situation the creditor—generally a bank or banker—has legal title to the property for the purpose of security. This creditor is a mortgagee and the arrangement is a chattel mortgage, but of a peculiar type, distinguishable from the usual chattel mortgage by reason of the fact that the obligor has not prior to the arrangement had either title to or possession of the property mortgaged.

"(4) Except in Ohio, Illinois, and perhaps South Carolina and Virginia, cases so far decided hold that the trust receipt does not come within the provisions of the recording acts respecting chattel mortgages or conditional sales.

"(5) In New York and Massachusetts, where the factors' act is in force, a bona fide mortgagee or pledgee for present value obtains from the signer of the trust receipt a right superior to the title of the creditor who holds the trust receipt.

"(6) The adoption of the uniform bills of lading act and the warehouse receipts act by various States has given to those instruments in large degree the qualities of negotiable instruments. These laws accomplish the results of the factors' act. In those States which have adopted the definition of 'value' as recommended by the committee on uniform legislation, an antecedent debt constitutes value, and a bona fide purchaser, pledgee, or mortgagee of such a document, regular on its face and from one to whom it has been entrusted by the holder of the trust receipt, obtains a title superior to the rights of the holder of the trust receipt.

"(7) If the goods themselves are entrusted under trust receipt, appropriate language should be used to negative any presumption of right in the signer to take negotiable warehouse receipts to his own order.

"(8) Except as noted in (4), property delivered to the signer of a trust receipt under circumstances suitable for the use of such an instrument may, if identified, be retaken from the signer at any time before the satisfaction of the obligation secured by the property. It may also be retaken from his receiver, assignee, trustee in bankruptcy, or an attaching creditor. Its proceeds may likewise be retaken, provided they can be identified.

"(9) The unpaid purchase price of property delivered to the signer against his trust receipt and by him sold to a bona fide purchaser may be recovered by the holder of the trust receipt directly from such buyer.

"(10) The property delivered in a proper case against trust receipt may be recovered by the holder of the trust receipt, prior to payment of the obligation secured thereby, from any person to whom the signer has delivered the same, unless such right of recovery is cut off by the exercise of a power of sale, express or implied, or statutory provisions which include a bona fide pledge or mortgage within the scope of such power.

"(11) The trust receipt can not assure to the holder thereof any rights beyond those which he would have had as the holder of an unrecorded chattel mortgage, an equitable pledge or mortgage, or a simple contract if it is used in any case other than that which has been defined as a proper trust receipt case.

"(12) The benefit of the trust receipt doctrine is not dependent upon any special virtue in the name or the precise form or appearance of the agreement. If the agreement can in substance be shown to have been clearly made between the parties in a proper case, the legal results will follow, even though resort is had to the original credit agreement for the purpose of establishing the existence of the security arrangement."

CHART III

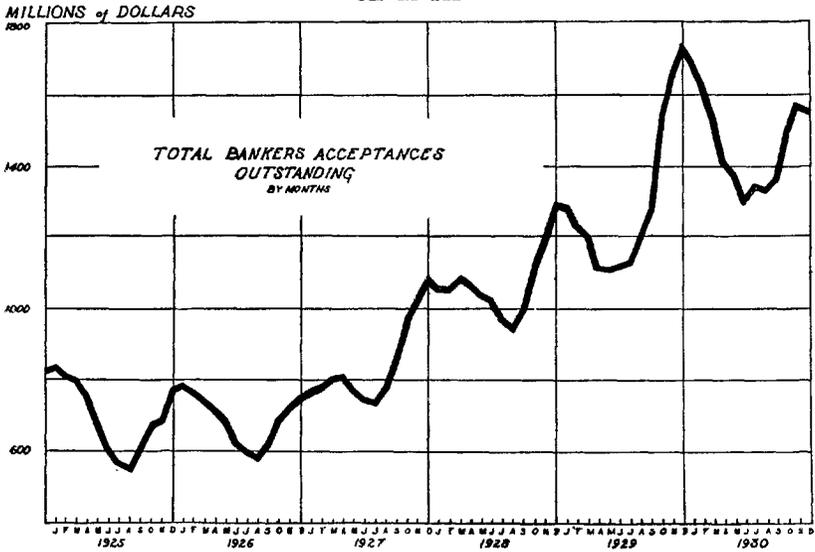


CHART IV

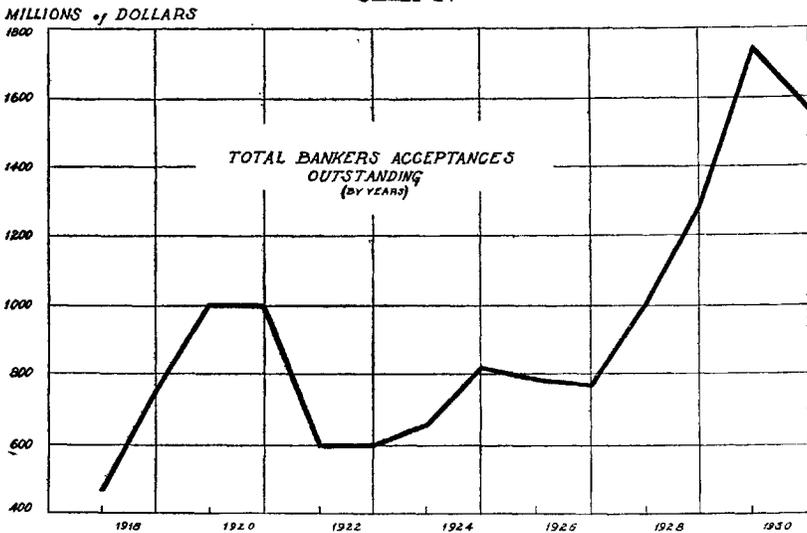
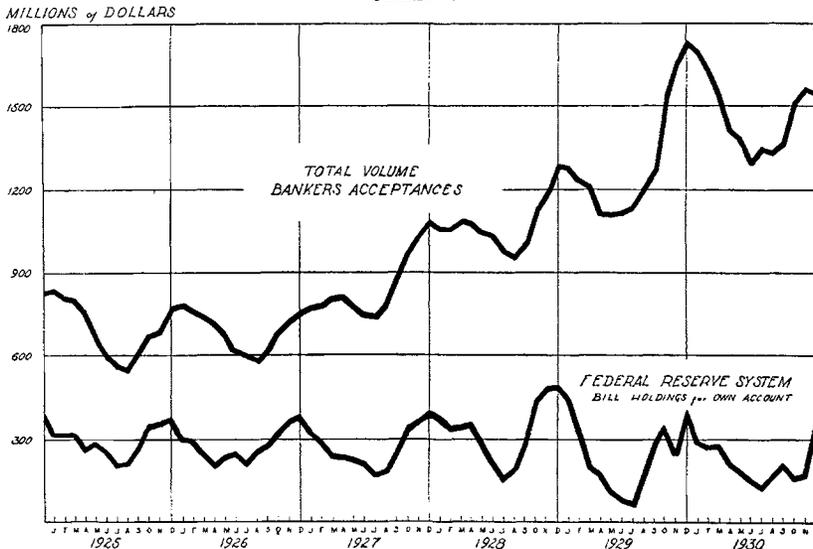


CHART V



Mr. MEYER. May I ask a question at this point?

The ACTING CHAIRMAN. Certainly.

Mr. MEYER. I should like to ask Mr. Bean what importance he attaches to the warehouse department of the Department of Agriculture in their supervision of United States bonded warehouses?

Mr. BEAN. Governor, that is a very excellent cooperative agency, with the established warehouse business of the country. The great difficulty has been that too often it has been made to appear that the license is the main thing. A Government inspection is a very splendid thing, and in cases where a warehouseman has a Government license you do have just that added protection.

Now, in the South there are many Government licensed warehouses, but many of those warehouses, though well managed, are not strictly independent warehouses. For instance, Anderson, Clayton & Co. several years ago stored a lot of their cotton in what were practically their own warehouses, but they had a Government license and were Government controlled and inspected and excellent security and protection was afforded. I have said to the Department of Agriculture's representatives on many occasions that if they would put their service cooperatively with the American Warehousemen's Association and work together they would find, in many sections of the country, much more security than we get now. The license is not the main thing. The warehousemen are training the merchants with whom they do business to put in goods of the right character, and to do their business in a way that will be satisfactory to the banks. The Government inspectors depend too much on the fact it is a licensed warehouse. I am trying to bring out the point that the license is not the main thing. The supervision by the Government inspectors—

Mr. MEYER. Does not the Government bonded-warehouse system, in the first place, in addition to checking on the physical conditions

of the warehouse, building, and so forth, look into the question of management?

Mr. BEAN. Yes; it does.

Mr. MEYER. And continue to check it up?

Mr. BEAN. Yes. It is a very helpful agency, but I have always tried to convince them that the Government agencies should cooperate with the established warehouse agencies rather than try to be independent and show that no warehouses are of any real standing unless they are Government licensed warehouses.

The ACTING CHAIRMAN. Senator Norbeck, have you anything on that that you care to bring out?

Senator NORBECK. Not anything.

The ACTING CHAIRMAN. Have you any statistics showing the amount and character of dealers' portfolios of acceptances? Have you anything on that?

Mr. BEAN. The volume carried by dealers?

The ACTING CHAIRMAN. Volume and character.

Mr. BEAN. Yes, sir; but not so much on the character. The dealers' portfolios for the last three years, 1928, 1929, and 1930, are as follows:

In 1928 the dealers' portfolios averaged \$59,000,000.

In 1929 they averaged \$66,000,000.

In 1930 they averaged \$81,000,000.

At the present time, as to the reasons that affect that volume—and we will take the month of December, 1930, for example, with a billion and a half in acceptances—the dealers carried a portfolio of only \$52,000,000, which hardly paid their overhead. They could well carry, as they did in January, 1930, \$170,000,000, and at times they have gone as high as \$200,000,000. The dealers require a larger portfolio than \$52,000,000, but the demand for bills has been so keen since May of last year that the dealers have been in the process of taking bills in the morning and getting rid of them in the afternoon.

Mr. WILLIS. That keenness has been due to the lowness of the rates in the market?

Mr. BEAN. Yes, sir.

Mr. WILLIS. And before that they were not asking for bills at all—the member banks?

Mr. BEAN. The member banks were never in the market actively until about the beginning of 1929.

Mr. WILLIS. You think they will go out of the market when the low-money period is over, as they did before?

Mr. BEAN. I believe, in the matter of bill buying and holding bills, they will conduct themselves as in other matters of bank management—when it is profitable to be in the market they will be buyers, and when it is not they will not be in the market.

Mr. WILLIS. But in England they are constant buyers?

Mr. BEAN. Yes.

Mr. WILLIS. How can they be made to do that here?

Mr. BEAN. There is one possible way that has been mentioned, and I think it might be well to bring it out here. If the reserve requirements of the banks were changed so that it would be permissible—and I should like to emphasize the word "permissible"—for the 13

per cent reserve banks to carry a portion of their reserves in bankers' acceptances, they would find it to their advantage to be in the market all of the time.

Mr. WILLIS. Carry them in their own portfolios?

Mr. BEAN. Yes. The only difficulty about that plan, as I see it, is that that is an artificial support of the market, and we try to avoid this condition.

Mr. WILLIS. In order to do that you would have to be sure the acceptances are thoroughly liquid?

Mr. BEAN. Yes.

Mr. WILLIS. We have been carrying on an inquiry into this as well as other matters. Questionnaires were sent to different reserve banks, and one of them writes as follows:

With regard to the large increase in the volume of acceptances drawn for foreign storage and shipment between foreign countries, it appears that a substantial amount of this business originates in Germany and other central European countries, and that it results, at least to some extent, from a continued shortage of capital and is not likely to be reduced until long-term loans can be floated in this country or in London or in Paris. If long-term capital were readily available, it is the belief that the amount of this class of bills would be reduced to a considerable extent.

Another reserve bank writes:

It is undoubtedly true that acceptances arising from foreign storage and shipments are to be explained by the curtailment of capital exports to central Europe through 1929.

Assuming these two reserve banks are correct, is it not true that a substantial part of our acceptances are merely a substitute for the issue of bonds to finance central Europe?

Mr. BEAN. I am not of that opinion, Doctor Willis.

Mr. WILLIS. You think these two banks are wrong in their observations?

Mr. BEAN. I think they are not sound in their conclusions.

Mr. WILLIS. But there has been a great accumulation?

Mr. BEAN. There has been a great accumulation, but credit will always seek the cheapest market, and we have been for months and months either at or below the London market.

Mr. WILLIS. You would agree, then, that the reserve system certainly ought not to carry the capital needs of European countries in the form of acceptances?

Mr. BEAN. Yes.

Mr. WILLIS. And, if we are so doing, that would be a suitable matter for consideration in connection with some change in the regulations?

Mr. BEAN. Very generally that is so. Our acceptances must be what they are represented to be.

Mr. WILLIS. Is there much renewal of acceptances now—refunding of acceptances into new acceptances against commodities in storage?

Mr. BEAN. I think there is sometimes a confusion in reference to what are known as revolving credits and renewing credits. In a revolving credit, where there is a general line established and used over and over again, it may sometimes appear that these are renewed credits, but in almost every case it is a new credit. That is, it is a new shipment or a new transaction.

Mr. WILLIS. Did not the Reserve Board at one time issue a general injunction against banks handling revolving acceptances?

Mr. BEAN. Yes.

Mr. WILLIS. Has that injunction been withdrawn?

Mr. BEAN. As far as I know, it has not been.

Mr. WILLIS. It is not being observed, is it?

Mr. BEAN. It is being observed to this extent: That I believe the banks and Federal reserve banks are careful to see, as far as they are able to check it, that in a revolving credit each transaction represents a new shipment or new lot of goods. They are respecting the wishes of the board.

Mr. WILLIS. We had some testimony here from a well-known Southern banker within the last day or two that a great deal of cotton financing had been moved to the Northern States and converted into acceptance financing as the result of the operations of the Farm Board.

Mr. BEAN. Yes.

Mr. WILLIS. Assuming that that board is carrying a large amount of cotton and wheat in the warehouses, and assuming that it will keep them off the market for some time, as I think is unofficially stated to be the case, will not acceptances made against those commodities have to be constantly refunded into new acceptances?

Mr. BEAN. Possibly; yes.

Mr. WILLIS. Of course, these are possibilities that have to be guarded against in legislation. Suppose you had a constantly increasing volume of acceptances being made, as these two reserve banks have stated, against goods in storage in Europe, and particularly in Germany, pending the time their bond issuing power here gets back to normal, and suppose you had a considerable number of acceptances also made for carrying wheat and cotton here at home. Is not that likely to produce a very serious infringement on the liquidity of our acceptances which you have so clearly set forth as essential?

Mr. BEAN. To answer your question specifically yes or no, Doctor, such a situation would probably develop a degree of liquidity that would be unsatisfactory.

Mr. WILLIS. It is not a situation you would like to contemplate?

Mr. BEAN. No; but I do not fear it, Doctor, because of the very character of the acceptance business and the watchfulness of the banks.

Mr. WILLIS. They can not be very watchful or they would not have allowed that situation to grow up. What is the total amount of acceptances carried against goods in storage in Europe?

Mr. BEAN. In storage, I do not know. I have tried repeatedly to get that item divided as between storage and shipment, and I have made inquiry of some of our largest banks but they inform me that a very small part of this total is against goods in storage.

Mr. WILLIS. Evidently these two reserve banks are inclined to think a great deal of it is against goods in storage.

Mr. BEAN. Well, I think sometimes—with all due respect, Governor—some of the Federal reserve banks are not very well informed on that subject. I mean that they may be in a section where they are not closely watching or in touch with the acceptance business. We have, for example, in Kansas City and the St. Louis district, prac-

tically no acceptance business in that territory. Atlanta is very much the same.

Mr. WILLIS. The governor of the Reserve Bank of New York states that that bank acts for the others and informs them of everything that has occurred.

Mr. BEAN. I have great respect for the reserve banks, but I, too, have to answer many questions for some reserve banks concerning their acceptance problems. Furthermore, it is natural that they are not as closely in touch with the situation as the New York bank.

The ACTING CHAIRMAN. They are not particularly interested.

Mr. BEAN. It is perfectly natural; in the Kansas City district, for instance, there are only two banks that ever do any acceptance business.

Mr. WILLIS. Is it the practice at the present time among banks in the interior to make acceptances and market them in New York?

Mr. BEAN. Yes.

Mr. WILLIS. Whereupon their own reserve bank may buy them right back again through the New York bank?

Mr. BEAN. After they have gone through the market.

Mr. WILLIS. Why should they not be directly sold to the reserve bank in their own district?

Mr. BEAN. Just at the present time, for example, there is very little market for acceptances in the Texas district.

Mr. WILLIS. We were assuming that the reserve bank there did actually buy them back.

Mr. BEAN. Yes; when they are in the market for bills.

Mr. WILLIS. Why should they not have bought them from their own member banks in the district?

Mr. BEAN. Well, that market question comes in there again. Governor Talley has advised his banks many times to put their bills out through the market. If the bank in Dallas is taking on acceptances they will indicate to the Federal reserve bank in New York that they will be glad to take acceptances from that section. It does not always follow—

Mr. WILLIS. Does not that mean that the reserve system is not encouraging a market for acceptances anywhere except in New York?

Mr. BEAN. No; I would not say that at all. They have encouraged a market in San Francisco and Chicago and a great many bills from the South are sold in the San Francisco Federal reserve district. Banks in Mobile, for example, make acceptances which are sold in San Francisco.

Mr. WILLIS. The growth of markets has not been encouraged as a feature of the Federal reserve banks except in those places you have spoken of?

Mr. BEAN. There are only three or four Federal reserve sections where a bill market is a natural thing.

Mr. WILLIS. Apparently it is not very natural anywhere—using the term “natural” in connection with “precedent”—because our custom is very different from foreign countries. We are developing our own precedents.

Mr. BEAN. We have had to, just as the French have found out they can not copy our system for France.

The ACTING CHAIRMAN. What relation has that curve [indicating on Chart II, see p. 445] to the possible transfer or growth of the acceptance business here? Has it grown out of exports? Does the elevation of that curve [indicating] indicate there is a corresponding decline of leading—

Mr. BEAN. To a great extent, it does.

The ACTING CHAIRMAN. That indicates that the acceptance business of a character that suits us in our market is coming from England and being absorbed here?

Mr. BEAN. Yes; particularly during the period when our rates are at favorable variance with those in London. If that picture changes, it will go right back.

The ACTING CHAIRMAN. Swing back?

Mr. BEAN. Yes.

The ACTING CHAIRMAN. In other words, it is seeking the cheapest money always?

Mr. BEAN. Yes.

The ACTING CHAIRMAN. I think that was rather an argument for our present rate.

Mr. BEAN. It is. I think the aim of our acceptance business should always be to provide the most stable market at the lowest rate for commercial credits.

The ACTING CHAIRMAN. Of course, there are other considerations that have to be taken into account.

Mr. BEAN. Yes; we are not always exactly in competition with the London market. We are more in cooperation. There are many times lately that the British banks are quite willing to have some business come over here, because they are not in a position to take care of their customers there at their rates, and their volume of acceptances is sometimes a little higher than the condition of their money market would warrant. There is a very fine cooperative movement between the London market and ourselves, and yet we are distinctly different in our operation.

The ACTING CHAIRMAN. I think at this point it might be appropriate to indicate that difference to clarify the record. Suppose you describe the English acceptance business?

Mr. BEAN. I wish I knew more about the details of the London market. Perhaps I can best sum it up by saying that in that market acceptances come first. The adjustment for the day starts with a knowledge of the volume of bills on hand—the bills purchased; the dealers' volume.

In our case it is secondary, or even third, although our market to-day is more nearly independent than in the past, and has been since 1928. We have always had, and probably always will have, without some radical change, competition with the call-money market. We are feeling that pressure less just now. In London they have no call market or day-to-day loans, and for that reason the bills come first. If our banks did not have that competitive influence they would be using bills first, and we have had an illustration of what would happen in the events of these last several months.

Mr. WILLIS. Mr. Bean, do you favor term settlements on the stock exchange?

Mr. BEAN. Not along the line of the English system.

Mr. WILLIS. You would not like to see settlement days applied to the stock-exchange business?

Mr. BEAN. No; not to the exchange business. We are not set up for that. We have a different type of exchange machinery. We have got a vast number of issues. The amount of money that would be required to carry out a term-settlement system would be enormous.

Mr. WILLIS. A vast amount of money as brokerage capital?

Mr. BEAN. Yes.

Mr. WILLIS. You think that could not be supplied?

Mr. BEAN. I doubt it. We may well have some system that is not yet evolved that will be more satisfactory than our present method of day-to-day call loans.

Mr. WILLIS. Is it true that acceptance makers have advocated a term settlement?

Mr. BEAN. Yes; some are in favor of it, but it is not unanimous.

Mr. MEYER. May I ask a question at this point?

The ACTING CHAIRMAN. Yes.

Mr. MEYER. To return to the time when acceptances are created in Texas, it would be in the autumn, would it not, in the harvesting and marketing season?

Mr. BEAN. Yes.

Mr. MEYER. And at that time the Texas banks have their funds pretty well engaged?

Mr. BEAN. Yes.

Mr. MEYER. So, when they are buyers of acceptances, it would be more apt to be after the marketing season is over?

Mr. BEAN. Yes.

Mr. MEYER. That is the thing I had in mind, that probably the Texas banks are using their liquid funds very fully and their buying of acceptances would not be at the same time as the creation of the acceptances in Texas.

Mr. WILLIS. The buying by the reserve banks?

Mr. MEYER. The member banks have a great seasonal demand in the fall and, of course, the Federal reserve bank has its funds to a great extent engaged with the member banks, so that the Federal reserve bank or member banks being in funds to buy acceptances, would not just occur at the time the acceptances are created in Texas.

Mr. WILLIS. That would imply that the Texas reserve bank was not strong enough to meet the reserve requirements or accommodations of its member banks.

Mr. MEYER. Oh, no. The seasonal demand by the member banks on the Federal reserve bank of Texas would be in the autumn when the acceptances are being created. They have then the rediscount demand so that they would not be in the same position where they needed acceptances or could use them.

Mr. WILLIS. But the reserve bank would always be in a position to buy them.

Mr. MEYER. It could if it had to, but right now, toward the end of the year, the lowest ratio in the system is the Texas bank.

Mr. WILLIS. But it has not been in a position in recent years where it could not meet the requirements of the local banks?

Mr. MEYER. No; but if, in addition to making advances under rediscounts, they were to take on all the acceptances created in Texas—

Mr. WILLIS. There are not very many acceptances created in those outlying districts, are there? Did you not say in Kansas City there were only two banks that made acceptances?

Mr. BEAN. Yes.

Mr. WILLIS. How many in the Dallas district?

Mr. BEAN. Fifteen or twenty.

Mr. MEYER. There is some volume of acceptances.

Mr. WILLIS. It would not be impossible for the Dallas bank to absorb them?

Mr. MEYER. No; but the natural flow of acceptances would be to places where there was a greater demand, because there was not the peak in other places as in Texas, for other purposes.

Mr. WILLIS. It would seem to me to be the best thing to allow each market to develop its own paper and finance it there.

Mr. MEYER. Well, what is the difference between the Texas bank buying acceptances and rediscounting with other banks and letting them flow into the other banks without going through the Texas bank?

Mr. WILLIS. It seems to me the difference is the one often insisted upon in the New York acceptance market, namely, building up and keeping a very reliable market for the local banks. When that market is in good order the local bank knows where it can go with its paper. If the machinery is not developed or is allowed to fall into disuse, you would not have any market there. When the Federal reserve system was created it was said that you could not have a market in the outlying districts. Experience shows that you must have it. It is easy to say that in some circumstances a bank can get all the accommodation it needs by going to the New York district; but the question, it seems to me, is whether it is worth while to develop these local markets for this paper. It seems to me that all of the developments have shown that it is desirable.

Mr. BEAN. Texas is one of the districts where there is a steady movement for the development of a local bill market. They have in the Dallas district two very active bill dealers; one in Dallas and one in Fort Worth. Those dealers are not only finding an outside market for many bills of the Texas banks, but they are selling the bills locally when the rate is right and the banks have funds—

Mr. WILLIS. I think that is a most excellent situation and I should think your association, as a promoter of the use of acceptances, would desire to see that in every reserve district.

Mr. BEAN. I am keen to see that. May I illustrate what I mean as to the desirability of that local market?

Take, for example, one of the most important banks in Texas, the First National Bank of Houston. There is a bank that has stood out as one of the best banks in the South, and yet their bills are not as readily taken in the New York market as are the bills of, say, the Philadelphia National Bank, or one of our New York banks. It means that the Southwest knows the First National Bank of Houston, John Scott, and Mr. Law, and know that that

bill is all right and all through the Southwest the dealers can sell that bill at a prime rate when it might not be possible at certain seasons to move that bill at the prime rate in the New York district. So, there is that desirability of a local market. It will not hurt our New York market the slightest to have the country develop its own regional markets.

Mr. WILLIS. I agree with you. Did I understand you to say a moment ago or to indicate that the use of domestic acceptances has been declining?

Mr. BEAN. It has been under a peculiar test. I am not satisfied it will ever become a very important division of our acceptance business. I should like, however, to see the test in times of tight money when the banks require every kind of credit accommodation available. Acceptances would be one of these.

We have had a steady decline in commercial paper, we have had a steady decline in bank loans at times, but the domestic acceptance has never seemed to come into its own as we originally believed it would.

Mr. WILLIS. Can you give any reason for that?

Mr. BEAN. A great many banks very frankly consider domestic acceptances nothing more than commercial loans, and I quite agree with them.

Mr. WILLIS. And it is better to have the commercial loans in some other shape?

Mr. BEAN. Yes; in many cases.

Mr. WILLIS. Would you see any harm in repealing that section of the act?

Mr. BEAN. I would not see any harm in it.

Mr. WILLIS. Now, about dollar acceptances: Is that form being abused to your knowledge?

Mr. BEAN. We have never noticed any indication that would lead us to believe that. It varies slightly. At times it would be a little higher and then go right down.

Mr. WILLIS. Do you not think it would be better to limit the banks that are allowed to make acceptances considerably more than they are?

Mr. BEAN. I did not get that.

Mr. WILLIS. Do you not think some more stringent restrictions on the power to make acceptances would be helpful, so you would not have as wide an acceptance-making power among the banks as now?

Mr. BEAN. I think possibly one of the difficulties is that we have too many regulations now.

Mr. WILLIS. What I mean is that—how many banks are making acceptances now?

Mr. BEAN. About 150.

Mr. WILLIS. Out of a possible total of—

Mr. BEAN. In the system alone we have 7,000.

Mr. WILLIS. Would it not be better to have some more definite requirements as to what banks shall make acceptances?

Mr. BEAN. Indicating the banks that may make acceptances?

Mr. WILLIS. Yes.

Mr. BEAN. I see your point. I would not favor that, Doctor. You have there again that artificial action. Our business has grown very well. Nothing is perfect, but our business has grown so well that we have carried on a business in the neighborhood of \$90,000,000,000 with a marvelously small amount of losses.

Mr. WILLIS. \$90,000,000,000 represents what?

Mr. BEAN. \$90,000,000,000 of business has been financed by bank acceptances in the aggregate.

Mr. WILLIS. Since the beginning?

Mr. BEAN. Yes. It was over \$9,000,000,000 in the year 1930, and I can say, even keeping in mind the instance of the Bank of the United States, that to this day no investor has lost a dollar. With respect to the fear concerning bills drawn for stored goods abroad or for shipment between foreign countries, I am convinced that the European banker has the most wholesome respect not only for his standing with the American banks but a wholesome respect for the regulations of the Federal Reserve Board.

I have talked with a great many of them, not only Americans but others coming from over there, and I believe that many of these European bankers know the regulations of the Federal Reserve Board better than the American bankers. If there is the slightest doubt of the bill being well received, the credits will not be offered here. They will go to London instead, where all they want is a general statement. They have no rules or regulations except such as are known as custom.

Mr. WILLIS. At the present time, under existing regulations—you speak of there possibly being too many—is it not a fact that while we are buying a great many acceptances of the kind you are speaking of we are not inclined to buy a great many of those the English regard as choice or prime, on the theory that the banks that make them there do not file a statement with the reserve banks? Is it not a fact that our banks decline to buy acceptances which are regarded in the English market as prime, and that the reason they give for not buying them is, for example, that those banks have not filed a statement with our reserve system?

Mr. BEAN. To some extent.

Mr. WILLIS. It would seem to be true that while, on one hand we are not buying what are regarded as the best European acceptances, on the other hand we are buying the stored-goods acceptances. It would seem to me we could improve our portfolio a great deal.

Mr. BEAN. You have a very fine screen for bills when they go through our dealers' hands and Federal reserve banks. Many bills are turned down because they do not measure up strictly to the regulations of the board.

Mr. WILLIS. But many others are allowed to go through, as indicated by the line on your own chart relating to the growth of these foreign-storage acceptances and domestic-storage acceptances. I am asking these questions merely because I feel as you do, the immense importance of developing this business. Do you not believe that if this paper is to figure very largely in our banking transactions it must not be allowed to degenerate into accommodation paper? Do you agree with that?

Mr. BEAN. I agree with you.

The ACTING CHAIRMAN. Do you think your views substantially represent the views of your association?

Mr. BEAN. Yes, sir.

The ACTING CHAIRMAN. These charts will be left here for the record?

Mr. BEAN. Yes, sir.

Senator BULKLEY. Will you number them so that we may identify them?

Mr. BEAN. They are legended for each line.

Mr. WILLIS. Have you any statistics reviewing the general developing of the acceptance situation that you would care to file to make your statement complete?

Mr. BEAN. I think it possibly might be well to file this copy of the Acceptance Bulletin, which contains the 1930 annual and previous years, total, rates, and so forth.

The ACTING CHAIRMAN. If you will just extract those pages from the bulletin and file them with the reporter, I think it will be desirable to have them in the hearing, and we are very much obliged to you for your frank and full answers.

(The matter referred to is printed in full, as follows:)

HOW WE STAND IN FOREIGN TRADE

By O. K. Davis, Secretary, National Foreign Trade Council

In common with a general recession in trade the world over the foreign trade of the United States dropped off measurably last year. The figures for 1930, on the most recent estimates, show our exports to be approximately \$3,850,000,000 and our imports about \$3,050,000,000, a drop of 26 per cent and 31 per cent, respectively, from the figures of 1929.

Our foreign trade is still more than 30 per cent greater in quantity, however than before the war. Its recession in volume during the past year was only between 12 and 15 per cent, as both our export and import prices for the year were fully 15 per cent lower.

Import prices dropped more sharply than export prices because raw products and crude materials, which suffered the greatest price declines of all commodities during the year, constitute the greater part of our imports.

This reduction in the prices of our principal imports compensated in many cases for losses in our export trade. For example, although our exports to Brazil were about \$45,000,000 less for 1930 than for 1929, the reduced price of coffee enabled American buyers to save slightly more than that sum on our purchases of Brazil's chief commodity. In fact, the actual quantity of our imports was within slightly more than 90 per cent of our purchases abroad last year, denoting an active buying market in the United States for the materials entering into our manufacturing industry.

In looking forward to 1931 American foreign traders are analyzing their markets carefully and are preparing for the increased volume of business that is sure to develop. The resources of our credit, as shown in the development of American foreign banking branches, on the one hand, and of the systems initiated by credit departments of our large manufacturers, on the other, have been developed to a very high point of efficiency. Our services of transportation and communication are better than ever before. Our export departments are better trained and are more at home in foreign trade. In short, we possess advantages over our position in the corresponding slump in 1921 that are the result of nine years' hard work. American foreign trade has maintained its indispensable position in our general commerce throughout the year and with better prospects for 1931 it is ready to resume the steady advance it has made in all lines since the war.

*Open market purchases of bankers' acceptances by Federal reserve system—
Comparison with total outstanding volume*

[In thousands of dollars]

	Federal reserve			Total out- standing volume of bills end of each month		Federal reserve system's own hold- ing of bills (previous year) ¹
	Federal reserve system's own holding of bills ¹	Bought for foreign cor- re- spond- ents	Total			
1931				1930		
Jan. 28.....	\$120,241	\$442,435	\$562,676		Jan. 29.....	\$258,472
Jan. 21.....	151,625	448,667	600,292		Jan. 22.....	298,389
Jan. 14.....	196,180	448,809	644,989		Jan. 15.....	323,347
Jan. 7.....	265,456	440,326	705,782		Jan. 8.....	319,167
1930				1929		
Dec. 31.....	363,844	439,288	803,132	\$1,555,966,201	Dec. 31.....	392,209
Dec. 24.....	259,837	432,327	692,164		Dec. 24.....	354,943
Dec. 17.....	251,591	434,006	585,597		Dec. 18.....	309,411
Dec. 10.....	243,697	417,422	651,119		Dec. 11.....	321,840
Dec. 3.....	218,937	425,826	644,763		Dec. 4.....	256,518
Nov. 26.....	176,106	428,938	605,044	1,571,417,674	Nov. 27.....	257,315
Nov. 19.....	178,273	428,561	606,834		Nov. 20.....	283,831
Nov. 12.....	207,342	426,541	633,883		Nov. 13.....	299,512
Nov. 5.....	185,602	431,670	617,272		Nov. 6.....	330,374
Oct. 29.....	165,658	433,259	598,917	1,508,243,726	Oct. 30.....	339,885
Oct. 22.....	176,590	437,289	613,879		Oct. 23.....	379,383
Oct. 15.....	185,492	439,103	624,595		Oct. 16.....	360,110
Oct. 8.....	211,023	435,194	646,217		Oct. 9.....	333,151
Oct. 1.....	193,108	431,411	624,519		Oct. 2.....	322,818
Sept. 24.....	197,743	432,624	630,367	1,366,734,157	Sept. 25.....	263,934
Sept. 17.....	208,861	433,843	642,704		Sept. 18.....	241,103
Sept. 10.....	193,120	458,450	651,570		Sept. 11.....	222,229
Sept. 3.....	170,395	459,830	630,220		Sept. 4.....	182,916
Aug. 27.....	163,274	471,522	634,796	1,339,383,765	Aug. 28.....	156,514
Aug. 20.....	158,922	478,315	637,237		Aug. 21.....	132,137
Aug. 13.....	154,328	480,094	634,422		Aug. 14.....	117,885
Aug. 6.....	133,571	483,454	617,025		Aug. 7.....	79,158
July 30.....	130,762	478,027	608,789	1,349,695,306	July 31.....	74,567
July 23.....	150,523	481,315	631,838		July 24.....	68,842
July 16.....	168,667	478,082	646,749		July 17.....	67,638
July 9.....	148,945	477,930	626,875		July 10.....	65,976
July 2.....	157,485	481,269	638,754		July 3.....	73,922
June 25.....	102,313	463,642	565,955	1,304,831,222	June 26.....	82,839
June 18.....	132,776	467,643	600,419		June 19.....	87,032
June 11.....	148,172	459,520	607,692		June 12.....	114,117
June 4.....	189,240	464,439	653,679		June 5.....	112,747
May 28.....	175,560	461,853	637,413	1,382,206,855	May 29.....	117,919
May 21.....	186,884	461,131	648,015		May 22.....	137,986
May 14.....	171,035	471,648	642,683		May 15.....	146,107
May 7.....	175,203	468,574	643,777		May 8.....	157,181
Apr. 30.....	209,564	465,458	675,022		May 1.....	170,421
Apr. 23.....	256,869	459,983	716,852	1,413,717,278	Apr. 24.....	141,175
Apr. 16.....	302,414	459,446	761,860		Apr. 17.....	141,027
Apr. 9.....	267,002	469,571	736,573		Apr. 10.....	157,317
Apr. 2.....	301,297	475,524	776,821		Apr. 3.....	174,703
Mar. 26.....	256,482	496,661	753,143	1,539,285,798	Mar. 27.....	208,427
Mar. 19.....	185,017	503,362	688,379		Mar. 20.....	236,838
Mar. 12.....	256,538	505,599	762,137		Mar. 13.....	283,101
Mar. 5.....	271,202	505,179	776,381		Mar. 6.....	304,644
Feb. 26.....	299,306	513,346	812,652	1,623,899,218	Feb. 27.....	334,075
Feb. 19.....	281,057	518,664	799,721		Feb. 20.....	355,636
Feb. 12.....	276,084	523,891	799,975		Feb. 13.....	391,058
Feb. 5.....	295,791	526,924	822,715		Feb. 6.....	410,742

Including those held under resale agreement.

The first 49 in 1930—Position of banks by months according to outstanding volume

Position in January	Feb.	Mar.	Apr.	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.
1. Guaranty Trust Co., New York	1	1	1	1	2	2	2	2	2	2	2
2. National City Bank, New York	2	2	2	2	3	3	3	3	3	3	3
3. Chase National Bank, New York	4	5	5	5	1	1	1	1	1	1	1
4. Equitable Trust Co., New York	3	3	3	4	(1)						
5. International Acceptance Bank, Inc., New York	5	4	4	3	4	4	4	4	4	4	4
6. Irving Trust Co., New York	6	6	6	6	5	5	5	5	5	5	5
7. Central Hanover Bank & Trust Co., New York	7	8	8	8	7	6	6	6	6	6	6
8. First National Bank of Boston, Boston	8	7	7	7	6	7	7	8	7	7	7
9. Bank of America, N. A., New York	10	9	10	10	10	8	8	7	8	8	8
10. Continental Illinois Bank & Trust Co., Chicago	9	10	11	12	12	9	9	9	9	9	10
11. New York Trust Co., New York	13	14	13	11	9	11	11	14	14	15	13
12. Bankers Trust Co., New York	11	13	16	17	18	14	14	10	13	12	15
13. Kidder Peabody Acceptance Corporation, Boston	12	12	12	14	13	12	12	12	11	10	12
14. J. Henry Schroder Banking Corporation, New York	15	11	9	9	8	10	10	13	12	13	11
15. Chemical Bank & Trust Co., New York	14	15	14	13	11	13	13	11	10	11	9
16. National Shawmut Bank of Boston, Boston	16	16	15	15	14	15	17	17	15	17	17
17. First National Bank of Chicago, Chicago	30	38	24	26	28	26	20	23	26	26	30
18. Bank of Italy National Trust & Saving Association, San Francisco	18	17	17	18	15	16	16	16	17	² 14	14
19. Chatham Phenix National Bank & Trust Co., New York	20	20	20	16	16	18	15	15	16	16	16
20. Brown Brothers & Co., New York	17	18	21	19	17	17	18	18	21	23	22
21. French American Banking Corporation, New York	19	19	19	20	19	19	19	19	18	18	1
22. Goldman Sachs & Co., New York	21	21	18	21	20	21	21	20	20	21	23
23. Royal Bank of Canada, New York	22	25	23	22	22	20	22	21	24	24	26
24. Lee, Higginson & Co.	23	22	22	23	23	24	23	25	22	20	20
25. Philadelphia National Bank, Philadelphia	24	23	25	24	25	25	26	26	23	22	21
26. Equitable Eastern Banking Corp., New York	31	29	31	33	39	39					
27. Huth & Co., New York	29	30	29	30	27	29	33	32	31	31	31
28. Harriman Bros. & Co., New York	28	27	27	27	26	30	28	29	29	29	29
29. Canadian Bank of Commerce, New York	34	37	33	32	31	34	30	28	28	28	27
30. Bank of New York & Trust Co., New York	28	28	32	35	32	35	35	35	34	35	34
31. Union Trust Co., Cleveland	27	26	26	29	34	31	32	33	33	30	28
32. Commercial National Bank & Trust Co., New York	25	24	28	25	24	22	24	24	19	19	18
33. National Bank of the Republic, Chicago	33	34	37	31	29	27	29	30	30	32	36
34. American Trust Co., San Francisco	35	33	35	34	30	32	34	34	39	37	33
35. Manufacturers Trust Co., New York	32	31	30	28	21	23	25	22	25	25	25
36. Interstate Trust Co., New York	36	32	34	36	(3)						
37. Atlantic National Bank, Boston	37	35		40	35	38	39	39			
38. Banca Commerciale Italiana Agency, New York	38	39			38				37	38	
39. Anglo & London Paris National Bank, San Francisco	39	36	38				38	38		39	

¹ Merged with Chase National Bank.

² (New name) Bank of America National Trust & Savings Bank.

³ Merged with Chase National Bank.

The first 49 in 1930—Position of banks by months according to outstanding volume—Continued

Position in January	Feb.	Mar.	Apr.	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.
40. Central United National, Bank, Cleveland			40	39	36	37	37	37	40		
Pacific Trust Co., New York	40	40	39	38	(9)						
Marine Trust Co., Buffalo			36	37	33	33	31	31	32	33	38
Brooklyn Trust Co., Brooklyn					37	36	40		38	34	32
Public National Bank & Trust Co., New York					40	28	27	27	27	27	24
Foreman State National Bank, Chicago						40	36	36	36	40	
First Wisconsin National Bank, Milwaukee								40			
Marine Midland Trust Co., New York									35	36	35
Citizens National Trust & Savings Bank, Los Angeles											37
Guardian Trust Co., Cleveland											39
First National Bank, Detroit											40

* Merged with Manufacturers Trust Co.

BANKERS' ACCEPTANCE SURVEY

Bankers' acceptance totals December, 1930, 1929, 1928, 1927, 1926, 1925

Federal reserve district No.—	Dec. 31, 1930	Dec. 31, 1929	Dec. 31, 1928	Dec. 31, 1927	Dec. 31, 1926	Dec. 31, 1925
1—Boston	\$144,846,528	\$170,670,463	\$145,468,255	\$137,880,347	\$81,630,444	\$82,362,130
2—New York	1,153,879,416	1,276,325,656	964,945,831	790,792,139	562,711,280	581,047,770
3—Philadelphia	24,588,842	25,652,174	17,442,309	16,183,861	8,294,750	11,854,612
4—Cleveland	26,365,913	27,133,550	15,442,210	15,148,388	8,819,059	9,394,246
5—Richmond	10,366,544	18,411,734	11,808,212	12,890,372	10,273,775	15,212,960
6—Atlanta	20,118,316	19,002,106	18,270,381	17,436,226	13,224,426	17,194,519
7—Chicago	88,793,504	100,642,397	50,969,590	37,879,941	28,818,803	22,322,308
8—St. Louis	3,518,351	3,220,319	2,028,589	2,806,560	1,491,469	1,268,839
9—Minneapolis	5,507,103	10,043,903	7,210,712	2,530,132	4,700,768	4,874,885
10—Kansas City		1,544,242	242,832	459,014	124,981	100,000
11—Dallas	6,573,299	11,732,985	10,026,372	9,689,190	8,030,292	4,713,752
12—San Francisco	71,388,385	73,006,859	50,628,487	37,487,595	26,240,234	23,890,271
	1,555,966,201	1,732,436,388	1,284,485,780	1,080,580,565	755,360,281	773,735,592

Classification of bankers' acceptances as of December 31, 1930

Federal reserve district No.—	Imports	Exports	Domestic	Warehouse credits	To create dollar exchange	Based on goods stored in or shipped between foreign countries
1—Boston	\$22,118,428	\$30,785,264	\$5,315,365	\$15,045,326	\$650,000	\$70,932,145
2—New York	164,519,894	359,829,808	19,801,691	163,501,164	47,595,951	398,630,908
3—Philadelphia	10,022,026	1,703,637	1,792,936	2,266,640	1,530,000	7,273,603
4—Cleveland	1,622,537	613,810	46,811	10,987,589	500,000	12,615,166
5—Richmond	1,755,582	1,314,723	550,000	3,668,481	626,000	2,451,758
6—Atlanta	3,000,999	5,960,125	1,859,292	9,297,900		
7—Chicago	5,809,664	3,144,281	4,731,913	34,481,801	550,000	40,075,845
8—St. Louis	326,360			3,191,991		
9—Minneapolis	159,103			5,348,000		
10—Kansas City						
11—Dallas	69,499	2,063,949	801	4,308,250		130,800
12—San Francisco	11,567,498	9,725,378	626,722	19,386,450	750,000	29,332,337
	220,971,590	415,140,975	34,725,531	271,483,592	52,201,961	561,442,562

Comparison of classification totals, 1930, 1929, 1928, 1927, 1926, 1925

	Dec. 31, 1930	Dec. 31, 1929	Dec. 31, 1928	Dec. 31, 1927	Dec. 31, 1926	Dec. 31, 1925
Imports.....	\$220,971,590	\$383,015,399	\$315,614,399	\$312,716,967	\$283,586,610	\$311,443,033
Exports.....	415,140,875	524,128,815	496,652,654	390,929,038	260,713,277	296,951,022
Domestic.....	34,725,531	22,830,035	16,197,909	20,958,730	28,685,811	25,605,866
Warehoused credits.....	271,483,592	284,918,886	173,589,807	196,784,066	115,882,201	103,494,356
Dollar exchange.....	52,201,951	76,285,155	39,152,668	28,316,432	26,179,328	19,248,553
Based on goods stored in or shipped between foreign countries.....	561,442,562	441,258,098	243,278,343	130,875,332	40,313,054	16,992,762
	1,555,966,201	1,732,436,388	1,284,485,780	1,080,580,565	755,360,281	773,735,592

Bankers acceptances in 17 principal cities December, 1930, 1929, 1928, 1927, 1926, 1925

	Dec. 31, 1930	Dec. 31, 1929	Dec. 31, 1928	Dec. 31, 1927	Dec. 31, 1926	Dec. 31, 1925
Boston.....	\$141,632,131	\$167,143,141	\$141,733,046	\$132,422,518	\$79,034,924	\$79,212,097
Providence.....	3,211,669	3,465,827	3,730,209	5,457,829	2,583,520	2,085,658
New York.....	1,143,678,747	1,263,221,317	949,876,192	787,890,818	560,963,687	679,836,022
Philadelphia.....	24,588,842	25,652,174	17,443,309	16,183,361	8,294,750	11,354,612
Baltimore.....	7,205,158	7,832,863	5,694,852	5,229,235		
Cleveland.....	25,085,913	25,715,910	13,500,915	13,919,394	8,451,860	7,181,031
Richmond.....	389,866	452,996	1,237,517	1,253,718	701,500	2,263,661
Mobile.....	2,657,295	1,891,260	1,548,988	757,698	1,210,515	1,122,770
New Orleans.....	16,961,021	16,709,746	16,221,393	15,944,818	11,795,096	14,678,124
Chicago.....	71,368,330	87,082,048	32,549,526	33,375,310	25,697,704	18,833,906
Detroit.....	10,797,683	6,047,695	5,120,912	2,759,287	2,138,551	1,422,135
St. Louis.....	3,346,351	2,994,319	1,812,389	2,054,860	1,319,068	990,589
Minneapolis.....	5,491,827	10,010,707	6,892,612	2,028,532	4,337,313	4,409,385
Dallas.....	4,913,924	8,403,334	6,551,006	5,814,426		
San Francisco.....	56,302,483	54,525,751	37,736,736	27,264,707	19,256,312	16,626,544
Los Angeles.....	12,709,106	16,686,805	10,989,433	8,037,198	4,062,030	4,108,706
Seattle.....	1,909,108	1,125,519	1,311,713	885,628	722,560	434,255

Monthly volume for 1930 by Federal reserve districts

	No. 1, Boston	No. 2, New York	No. 3, Philadelphia	No. 4, Cleveland	No. 5, Richmond	No. 6, Atlanta
Jan. 31.....	\$165,615,615	\$1,241,357,006	\$25,910,044	\$29,490,118	\$12,558,812	\$16,143,843
Feb. 28.....	156,873,732	1,185,500,354	26,309,263	30,001,191	11,257,067	16,781,216
Mar. 31.....	151,069,262	1,121,040,708	23,930,082	29,227,725	10,483,703	17,553,193
Apr. 30.....	144,514,108	1,030,282,719	22,208,331	27,520,618	9,067,078	17,243,408
May 31.....	145,430,227	1,008,189,747	21,209,636	26,312,596	8,531,280	15,450,803
June 30.....	136,119,164	956,295,597	20,291,598	21,501,092	8,411,193	12,221,739
July 31.....	134,411,750	987,550,019	20,687,126	23,770,021	8,069,339	11,721,262
Aug. 30.....	128,741,330	980,887,228	21,811,180	22,834,596	7,052,954	9,682,442
Sept. 30.....	121,944,362	1,003,662,813	23,142,056	22,894,938	6,820,676	16,842,943
Oct. 31.....	137,395,045	1,108,445,904	25,836,334	24,098,970	8,302,026	21,661,842
Nov. 29.....	145,141,142	1,157,656,545	25,417,728	25,649,076	9,479,852	20,733,967
Dec. 31.....	144,846,528	1,153,879,416	24,588,842	26,385,913	10,366,544	20,118,316

	No. 7, Chicago	No. 8, St. Louis	No. 9, Minneapolis	No. 10, Kansas City	No. 11, Dallas	No. 12, San Francisco
Jan. 31.....	\$102,835,033	\$2,818,205	\$9,436,642	\$1,769,663	\$8,369,354	\$76,480,558
Feb. 28.....	102,109,175	2,290,714	8,008,198	1,231,821	7,372,459	76,164,028
Mar. 31.....	95,196,215	2,098,474	7,324,281	1,028,058	4,902,613	75,431,484
Apr. 30.....	84,316,711	1,636,736	5,600,995		3,758,915	67,567,659
May 31.....	82,486,965	1,043,749	2,279,594		2,836,992	68,435,266
June 30.....	76,888,411	988,915	3,537,025		2,410,332	66,166,156
July 31.....	86,373,400	1,802,603	3,082,647	200,000	3,250,244	68,776,895
Aug. 30.....	92,036,009	2,449,907	3,761,941		5,898,518	64,457,610
Sept. 30.....	92,585,937	3,126,930	6,579,535		6,945,779	62,748,188
Oct. 31.....	100,167,902	4,324,452	6,691,896	500,000	6,361,609	64,457,746
Nov. 29.....	97,715,602	3,730,441	6,527,752	500,000	7,230,463	71,635,106
Dec. 31.....	88,793,504	3,518,351	5,507,103		6,573,299	71,388,385

Acceptance total for all districts

	1930	1929	1928	1927	1926	1925
January ¹	\$1,692,793,881	\$1,279,271,163	\$1,057,980,196	\$773,604,424	\$788,253,933	\$834,824,681
February.....	1,623,899,218	1,228,027,796	1,056,389,782	785,487,908	767,127,116	808,359,126
March.....	1,539,285,798	1,204,979,653	1,085,468,742	809,445,721	745,659,632	800,137,196
April.....	1,413,717,278	1,110,841,482	1,070,712,002	810,965,525	720,611,138	757,073,786
May.....	1,382,206,855	1,107,168,852	1,040,735,176	774,719,885	685,333,098	680,345,502
June.....	1,304,831,222	1,113,049,246	1,026,165,295	751,270,173	621,948,949	607,941,566
July.....	1,349,695,306	1,126,698,805	977,863,926	741,258,404	600,486,807	569,386,316
August.....	1,339,383,765	1,200,536,146	952,051,109	782,055,029	582,634,951	555,166,837
September.....	1,366,734,157	1,272,270,545	1,004,166,180	863,823,006	614,151,287	607,255,151
October.....	1,508,243,726	1,540,738,123	1,222,746,889	975,166,824	681,647,409	674,167,813
November.....	1,571,417,674	1,657,899,924	1,200,355,724	1,029,490,434	726,394,811	689,767,871
December.....	1,555,966,201	1,732,436,388	1,284,485,780	1,060,580,565	755,360,281	773,735,592

¹ End of month figures.

Acceptance total by classifications

	Imports	Exports	Domestic	Warehouses credits	To create dollar exchange	Based on goods stored in or shipped between foreign countries
January.....	\$336,213,059	\$509,818,905	\$20,064,014	\$288,994,766	\$67,187,838	\$470,515,309
February.....	334,839,644	474,786,235	25,830,655	256,050,866	62,828,533	469,563,285
March.....	313,674,496	465,533,358	15,037,946	219,496,816	58,206,456	467,336,726
April.....	295,685,571	429,191,029	18,139,204	170,865,700	56,563,495	443,272,279
May.....	294,608,448	406,296,314	20,672,144	157,930,935	60,912,681	441,786,333
June.....	276,086,768	372,815,953	19,114,937	144,929,103	50,120,200	441,764,261
July.....	259,987,262	379,666,187	29,414,788	137,098,167	48,487,014	495,041,888
August.....	254,941,580	357,470,655	26,251,847	145,286,491	53,818,660	501,614,532
September.....	240,916,033	363,584,154	26,536,496	174,045,782	63,106,849	498,544,943
October.....	244,106,885	407,090,647	31,640,578	234,989,437	57,812,207	532,903,972
November.....	242,684,036	421,709,985	33,604,210	273,613,464	66,055,231	543,750,748
December.....	220,971,590	415,140,975	34,725,531	271,483,592	52,201,951	561,442,562

Average bid and asked rate for bankers acceptances for year 1930

	30 days	60 days	90 days	120 days	150 days	180 days
January.....	4.081-3.956	4.081-3.956	4.081-3.956	4.120-3.995	4.245-4.120	4.245-4.120
February.....	3.892-3.767	3.892-3.767	3.892-3.767	3.892-3.767	4.017-3.892	4.017-3.892
March.....	3.204-3.079	3.180-3.055	3.180-3.055	3.208-3.083	3.310-3.185	3.310-3.185
April.....	3.063-2.938	3.063-2.938	3.048-2.923	3.149-3.024	3.274-3.149	3.274-3.149
May.....	2.612-2.487	2.612-2.487	2.607-2.482	2.661-2.536	2.817-2.692	2.817-2.692
June.....	2.211-2.086	2.211-2.086	2.211-2.086	2.336-2.211	2.461-2.336	2.461-2.336
July.....	2.000-1.875	2.000-1.875	2.000-1.875	2.125-2.000	2.347-2.222	2.347-2.222
August.....	2.000-1.875	2.000-1.875	2.000-1.875	2.125-2.000	2.375-2.250	2.375-2.250
September.....	2.000-1.875	2.000-1.875	2.000-1.875	2.125-2.000	2.375-2.250	2.375-2.250
October.....	2.000-1.875	2.000-1.875	2.000-1.875	2.125-2.000	2.370-2.245	2.370-2.245
November.....	2.000-1.875	2.000-1.875	2.000-1.875	2.125-2.000	2.250-2.125	2.250-2.125
December.....	2.000-1.875	2.000-1.875	2.000-1.875	2.125-2.000	2.250-2.125	2.250-2.125
Grand average for year.....	2.589-2.464	2.587-2.462	2.585-2.460	2.676-2.551	2.841-2.716	2.841-2.716

Discount rates of Federal reserve banks in effect January 31, 1931

Federal reserve bank	Commercial, agricultural, and livestock paper, not otherwise specified	Paper maturing—					Date established
		Within 90 days			After 90 days but within 6 months, agricultural and livestock paper	After 6 but within 9 months, agricultural and livestock paper	
		Secured by United States Government obligations	Bankers' acceptances	Trade acceptances			
Boston	2½	2½	2½	2½	2½	2½	Jan. 2, 1931
New York	2	2	2	2	2	2	Dec. 24, 1930
Philadelphia	3½	3½	3½	3½	3½	3½	July 3, 1930
Cleveland	3	3	3	3	3	3	Dec. 29, 1930
Richmond	3½	3½	3½	3½	3½	3½	July 18, 1930
Atlanta	3	3	3	3	3	3	Jan. 10, 1931
Chicago	3	3	3	3	3	3	Do.
St. Louis	3	3	3	3	3	3	Jan. 8, 1931
Minneapolis	3½	3½	3½	3½	3½	3½	Sept. 12, 1930
Kansas City	3½	3½	3½	3½	3½	3½	Aug. 15, 1930
Dallas	3½	3½	3½	3½	3½	3½	Sept. 9, 1930
San Francisco	3	3	3	3	3	3	Jan. 9, 1931

Discount market rates—Prime bankers acceptances, call loans, commercial paper, time money, and Federal reserve bank rate, January 2 to December 29, 1930, by weeks

1930	30 days	60 days	90 days	120 days	150 days	180 days	Call loan renewal rate stock exchange	Prime 90-day commercial paper	90-day time money	Federal reserve
	Per cent	Per cent	Per cent	Per cent						
Jan. 2	4 -37/8	4 -37/8	4 -37/8	4 41/8	4 41/8	4 41/8	6	5 -51/2	4 41/8	4 1/2
6	4 -37/8	4 -37/8	4 -37/8	4 41/8	4 41/8	4 41/8	5	5 -51/2	4 41/8	4 1/2
13	4 1/4	4 1/4	4 1/4	4 41/8	4 41/8	4 41/8	4 1/2	4 41/8	4 41/8	4 1/2
20	4 1/4	4 1/4	4 1/4	4 41/8	4 41/8	4 41/8	4 1/2	4 41/8	4 41/8	4 1/2
27	4 1/4	4 1/4	4 1/4	4 41/8	4 41/8	4 41/8	4 1/2	4 41/8	4 41/8	4 1/2
Feb. 3	4 -37/8	4 -37/8	4 -37/8	4 41/8	4 41/8	4 41/8	4 1/2	4 41/8	4 41/8	4 1/2
10	3 7/8	3 7/8	3 7/8	3 7/8	3 7/8	3 7/8	4 -37/8	4 -37/8	4 41/8	4 1/2
17	3 7/8	3 7/8	3 7/8	3 7/8	3 7/8	3 7/8	4 -37/8	4 -37/8	4 41/8	4 1/2
24	3 7/8	3 7/8	3 7/8	3 7/8	3 7/8	3 7/8	4 -37/8	4 -37/8	4 41/8	4 1/2
Mar 3	3 7/8	3 7/8	3 7/8	3 7/8	3 7/8	3 7/8	4 -37/8	4 -37/8	4 41/8	4 1/2
10	3 1/2	3 1/2	3 1/2	3 1/2	3 1/2	3 1/2	3 3/4	3 3/4	4 -41/8	4 1/2
17	3 1/2	3 1/2	3 1/2	3 1/2	3 1/2	3 1/2	3 3/4	3 3/4	3 3/4	3 1/2
24	2 5/8	2 5/8	2 5/8	2 5/8	2 5/8	2 5/8	2 5/8	2 5/8	3 1/2	3 1/2
31	3 -27/8	2 7/8	2 7/8	2 7/8	3 -27/8	3 -27/8	3 -27/8	3 -27/8	3 1/2	3 1/2
Apr. 7	3 -27/8	3 -27/8	3 -27/8	3 -27/8	3 -27/8	3 -27/8	4	3 1/2	3 1/2	3 1/2
14	3 -27/8	3 -27/8	3 -27/8	3 -27/8	3 -27/8	3 -27/8	4	3 1/2	3 1/2	3 1/2
21	3 1/8	3 1/8	3 1/8	3 1/8	3 1/8	3 1/8	4	3 1/2	3 1/2	3 1/2
28	3 1/8	3 1/8	3 -27/8	3 1/8	3 1/8	3 1/8	4	3 1/2	3 1/2	3 1/2
May 5	2 5/8	2 5/8	2 5/8	2 5/8	2 5/8	2 5/8	3 -27/8	3 1/2	3 -31/8	3
12	2 5/8	2 5/8	2 5/8	2 5/8	2 5/8	2 5/8	3	3 1/2	3 1/2	3
19	2 5/8	2 5/8	2 5/8	2 5/8	2 5/8	2 5/8	3	3 1/2	3 1/2	3
26	2 5/8	2 5/8	2 5/8	2 5/8	2 5/8	2 5/8	3	3 1/2	3 1/2	3
June 2	2 1/2	2 1/2	2 1/2	2 1/2	2 1/2	2 1/2	3	3 1/2	3 -33/8	3
9	2 1/2	2 1/2	2 1/2	2 1/2	2 1/2	2 1/2	3	3 1/2	3 -33/8	3
16	2 1/2	2 1/2	2 1/2	2 1/2	2 1/2	2 1/2	2 1/2	3 1/2	2 1/2	3
23	2 1/2	2 1/2	2 1/2	2 1/2	2 1/2	2 1/2	2 1/2	3 1/2	2 1/2	2 1/2
30	2 -17/8	2 -17/8	2 -17/8	2 -17/8	2 -17/8	2 -17/8	2 1/2	3 1/2	2 1/2	2 1/2
July 7	2 -17/8	2 -17/8	2 -17/8	2 -17/8	2 -17/8	2 -17/8	2 1/2	3 1/2	2 1/2	2 1/2
14	2 -17/8	2 -17/8	2 -17/8	2 -17/8	2 -17/8	2 -17/8	2 1/2	3 -31/8	2 1/2	2 1/2
21	2 -17/8	2 -17/8	2 -17/8	2 -17/8	2 -17/8	2 -17/8	2	3 -31/8	2 1/2	2 1/2
28	2 -17/8	2 -17/8	2 -17/8	2 -17/8	2 -17/8	2 -17/8	2	3 -31/8	2 1/2	2 1/2
Aug. 4	2 -17/8	2 -17/8	2 -17/8	2 -17/8	2 -17/8	2 -17/8	2	3 -31/8	2 1/2	2 1/2
11	2 -17/8	2 -17/8	2 -17/8	2 -17/8	2 -17/8	2 -17/8	2 1/2	3 -31/8	2 1/2	2 1/2
18	2 -17/8	2 -17/8	2 -17/8	2 -17/8	2 -17/8	2 -17/8	2	3 -31/8	2 1/2	2 1/2
25	2 -17/8	2 -17/8	2 -17/8	2 -17/8	2 -17/8	2 -17/8	2	3 -31/8	2 1/2	2 1/2
Sept. 2	2 -17/8	2 -17/8	2 -17/8	2 -17/8	2 -17/8	2 -17/8	2 1/2	3 -31/8	2 1/2	2 1/2
8	2 -17/8	2 -17/8	2 -17/8	2 -17/8	2 -17/8	2 -17/8	2 1/2	3 -31/8	2 1/2	2 1/2
15	2 -17/8	2 -17/8	2 -17/8	2 -17/8	2 -17/8	2 -17/8	2 1/2	3 -31/8	2 1/2	2 1/2
22	2 -17/8	2 -17/8	2 -17/8	2 -17/8	2 -17/8	2 -17/8	2 1/2	3 -31/8	2 1/2	2 1/2
29	2 -17/8	2 -17/8	2 -17/8	2 -17/8	2 -17/8	2 -17/8	1 1/2	3 -31/8	2 -23/8	2 1/2

Discount market rates—Prime bankers acceptances, call loans, commercial paper, time money, and Federal reserve bank rate, January 2 to December 29, 1930, by weeks—Continued

1930	30 days	60 days	90 days	120 days	150 days	180 days	Call loan renewal rate stock exchange	Prime 90-day commercial paper	90-day time money	Federal reserve
	Per cent	Per cent	Per cent	Per cent	Per cent	Per cent				
Oct. 6...	2 -1 ⁷ / ₈	2 -1 ⁷ / ₈	2 -1 ⁷ / ₈	2 ¹ / ₈ -2	2 ³ / ₈ -2 ¹ / ₂	2 ³ / ₈ -2 ¹ / ₄	2	2 ³ / ₄ -3 ¹ / ₄	1 ¹ / ₂ -2 ³ / ₄	2 ¹ / ₂
14...	2 -1 ⁷ / ₈	2 -1 ⁷ / ₈	2 -1 ⁷ / ₈	2 ¹ / ₈ -2	2 ³ / ₈ -2 ¹ / ₄	2 ³ / ₈ -2 ¹ / ₄	2	3 -3 ¹ / ₄	2 -2 ³ / ₄	2 ¹ / ₂
20...	2 -1 ⁷ / ₈	2 -1 ⁷ / ₈	2 -1 ⁷ / ₈	2 ¹ / ₈ -2	2 ³ / ₈ -2 ¹ / ₄	2 ³ / ₈ -2 ¹ / ₄	2	2 ³ / ₄ -3	2 -3	2 ¹ / ₂
27...	2 -1 ⁷ / ₈	2 -1 ⁷ / ₈	2 -1 ⁷ / ₈	2 ¹ / ₈ -2	2 ³ / ₈ -2 ¹ / ₄	2 ³ / ₈ -2 ¹ / ₄	2	2 ³ / ₄ -3	2 -3	2 ¹ / ₂
Nov. 3...	2 -1 ⁷ / ₈	2 -1 ⁷ / ₈	2 -1 ⁷ / ₈	2 ¹ / ₈ -2	2 ¹ / ₄ -2 ¹ / ₈	2 ¹ / ₄ -2 ¹ / ₈	2	2 ³ / ₄ -3	2 -3	2 ¹ / ₂
10...	2 -1 ⁷ / ₈	2 -1 ⁷ / ₈	2 -1 ⁷ / ₈	2 ¹ / ₈ -2	2 ¹ / ₄ -2 ¹ / ₈	2 ¹ / ₄ -2 ¹ / ₈	2	2 ³ / ₄ -3	2 -2 ³ / ₄	2 ¹ / ₂
17...	2 -1 ⁷ / ₈	2 -1 ⁷ / ₈	2 -1 ⁷ / ₈	2 ¹ / ₈ -2	2 ¹ / ₄ -2 ¹ / ₈	2 ¹ / ₄ -2 ¹ / ₈	2	2 ³ / ₄ -3	2 -2 ³ / ₄	2 ¹ / ₂
24...	2 -1 ⁷ / ₈	2 -1 ⁷ / ₈	2 -1 ⁷ / ₈	2 ¹ / ₈ -2	2 ¹ / ₄ -2 ¹ / ₈	2 ¹ / ₄ -2 ¹ / ₈	2	2 ³ / ₄ -3	2 -2 ³ / ₄	2 ¹ / ₂
Dec. 1...	2 -1 ⁷ / ₈	2 -1 ⁷ / ₈	2 -1 ⁷ / ₈	2 ¹ / ₈ -2	2 ¹ / ₄ -2 ¹ / ₈	2 ¹ / ₄ -2 ¹ / ₈	2	2 ³ / ₄ -3	2 -2 ³ / ₄	2 ¹ / ₂
8...	2 -1 ⁷ / ₈	2 -1 ⁷ / ₈	2 -1 ⁷ / ₈	2 ¹ / ₈ -2	2 ¹ / ₄ -2 ¹ / ₈	2 ¹ / ₄ -2 ¹ / ₈	2	2 ³ / ₄ -3	2 -2 ³ / ₄	2 ¹ / ₂
15...	2 -1 ⁷ / ₈	2 -1 ⁷ / ₈	2 -1 ⁷ / ₈	2 ¹ / ₈ -2	2 ¹ / ₄ -2 ¹ / ₈	2 ¹ / ₄ -2 ¹ / ₈	2 ¹ / ₂	2 ³ / ₄ -3	2 ¹ / ₂ -3	2 ¹ / ₂
22...	2 -1 ⁷ / ₈	2 -1 ⁷ / ₈	2 -1 ⁷ / ₈	2 ¹ / ₈ -2	2 ¹ / ₄ -2 ¹ / ₈	2 ¹ / ₄ -2 ¹ / ₈	2	2 ³ / ₄ -3	2 ¹ / ₂ -3	2 ¹ / ₂
29...	2 -1 ⁷ / ₈	2 -1 ⁷ / ₈	2 -1 ⁷ / ₈	2 ¹ / ₈ -2	2 ¹ / ₄ -2 ¹ / ₈	2 ¹ / ₄ -2 ¹ / ₈	2 ¹ / ₂	2 ³ / ₄ -3	2 ¹ / ₂ -3	2

FINANCIAL AND BUSINESS BAROMETER

Discount market rates—Prime bankers acceptances, call loans, commercial paper, time money, and Federal reserve bank rate, January 1, to January 31, 1931

1931	30 days	60 days	90 days	120 days	150 days	180 days	Call loan renewal rate stock exchange	Prime 90-day commercial paper	90-day time money	New York Federal reserve
Jan. 1. Holiday										
2	2-17 ⁸ / ₁₆	2-17 ⁸ / ₁₆	2-17 ⁸ / ₁₆	2 ¹ / ₄ -2	2 ¹ / ₄ -2 ¹ / ₄	2 ¹ / ₄ -2 ¹ / ₄	3	2 ³ / ₄ -3	2 ¹ / ₂ -3	2
2 (1.30 p. m.)	1 ⁷ / ₈ -1 ³ / ₄	1 ⁷ / ₈ -1 ³ / ₄	1 ⁷ / ₈ -1 ³ / ₄	2-1 ⁷ / ₈	2 ¹ / ₄ -2	2 ¹ / ₄ -2		2 ³ / ₄ -3	2 ¹ / ₂ -3	2
3	1 ⁷ / ₈ -1 ³ / ₄	1 ⁷ / ₈ -1 ³ / ₄	1 ⁷ / ₈ -1 ³ / ₄	2-1 ⁷ / ₈	2 ¹ / ₄ -2	2 ¹ / ₄ -2	1 ¹ / ₂	2 ³ / ₄ -3	2 ¹ / ₂ -3	2
5	1 ⁷ / ₈ -1 ³ / ₄	1 ⁷ / ₈ -1 ³ / ₄	1 ⁷ / ₈ -1 ³ / ₄	2-1 ⁷ / ₈	2 ¹ / ₄ -2	2 ¹ / ₄ -2	1 ¹ / ₂	2 ³ / ₄ -3	2 ¹ / ₂ -3	2
6	1 ⁷ / ₈ -1 ³ / ₄	1 ⁷ / ₈ -1 ³ / ₄	1 ⁷ / ₈ -1 ³ / ₄	2-1 ⁷ / ₈	2 ¹ / ₄ -2	2 ¹ / ₄ -2	1 ¹ / ₂	2 ³ / ₄ -3	2 ¹ / ₂ -3	2
7	1 ⁷ / ₈ -1 ³ / ₄	1 ⁷ / ₈ -1 ³ / ₄	1 ⁷ / ₈ -1 ³ / ₄	2-1 ⁷ / ₈	2 ¹ / ₄ -2	2 ¹ / ₄ -2	1 ¹ / ₂	2 ³ / ₄ -3	2 ¹ / ₂ -3	2
8	1 ⁷ / ₈ -1 ³ / ₄	1 ⁷ / ₈ -1 ³ / ₄	1 ⁷ / ₈ -1 ³ / ₄	2-1 ⁷ / ₈	2 ¹ / ₄ -2	2 ¹ / ₄ -2	1 ¹ / ₂	2 ³ / ₄ -3	2-3	2
9	1 ⁷ / ₈ -1 ³ / ₄	1 ⁷ / ₈ -1 ³ / ₄	1 ⁷ / ₈ -1 ³ / ₄	2-1 ⁷ / ₈	2 ¹ / ₄ -2	2 ¹ / ₄ -2	1 ¹ / ₂	2 ³ / ₄ -3	2-3	2
10	1 ⁷ / ₈ -1 ³ / ₄	1 ⁷ / ₈ -1 ³ / ₄	1 ⁷ / ₈ -1 ³ / ₄	2-1 ⁷ / ₈	2 ¹ / ₄ -2	2 ¹ / ₄ -2	1 ¹ / ₂	2 ³ / ₄ -3	2-3	2
12	1 ⁷ / ₈ -1 ³ / ₄	1 ⁷ / ₈ -1 ³ / ₄	1 ⁷ / ₈ -1 ³ / ₄	2-1 ⁷ / ₈	2 ¹ / ₄ -2	2 ¹ / ₄ -2	1 ¹ / ₂	2 ³ / ₄ -3	2-3	2
13	1 ³ / ₄ -1 ⁵ / ₈	1 ³ / ₄ -1 ⁵ / ₈	1 ³ / ₄ -1 ⁵ / ₈	1 ⁷ / ₈ -1 ³ / ₄	2-1 ⁷ / ₈	2-1 ⁷ / ₈	1 ¹ / ₂	2 ³ / ₄ -3	2-3	2
14	1 ³ / ₄ -1 ⁵ / ₈	1 ³ / ₄ -1 ⁵ / ₈	1 ³ / ₄ -1 ⁵ / ₈	1 ⁷ / ₈ -1 ³ / ₄	2-1 ⁷ / ₈	2-1 ⁷ / ₈	1 ¹ / ₂	2 ³ / ₄ -3	2-3	2
15	1 ³ / ₄ -1 ⁵ / ₈	1 ³ / ₄ -1 ⁵ / ₈	1 ³ / ₄ -1 ⁵ / ₈	1 ⁷ / ₈ -1 ³ / ₄	2-1 ⁷ / ₈	2-1 ⁷ / ₈	1 ¹ / ₂	2 ³ / ₄ -3	1 ³ / ₄ -2 ³ / ₄	2
16	1 ³ / ₄ -1 ⁵ / ₈	1 ³ / ₄ -1 ⁵ / ₈	1 ³ / ₄ -1 ⁵ / ₈	1 ⁷ / ₈ -1 ³ / ₄	2-1 ⁷ / ₈	2-1 ⁷ / ₈	1 ¹ / ₂	2 ³ / ₄ -3	1 ³ / ₄ -2 ³ / ₄	2
17	1 ³ / ₄ -1 ⁵ / ₈	1 ³ / ₄ -1 ⁵ / ₈	1 ³ / ₄ -1 ⁵ / ₈	1 ⁷ / ₈ -1 ³ / ₄	2-1 ⁷ / ₈	2-1 ⁷ / ₈	1 ¹ / ₂	2 ³ / ₄ -3	1 ³ / ₄ -2 ³ / ₄	2
19	1 ³ / ₄ -1 ⁵ / ₈	1 ³ / ₄ -1 ⁵ / ₈	1 ³ / ₄ -1 ⁵ / ₈	1 ⁷ / ₈ -1 ³ / ₄	2-1 ⁷ / ₈	2-1 ⁷ / ₈	1 ¹ / ₂	2 ³ / ₄ -3	1 ³ / ₄ -2 ³ / ₄	2
20 (1. p. m.)	1 ⁵ / ₈ -1 ¹ / ₂	1 ⁵ / ₈ -1 ¹ / ₂	1 ⁵ / ₈ -1 ¹ / ₂	1 ³ / ₄ -1 ⁵ / ₈	1 ⁷ / ₈ -1 ³ / ₄	1 ⁷ / ₈ -1 ³ / ₄	1 ¹ / ₂	2 ³ / ₄ -3	1 ¹ / ₂ -2 ³ / ₄	2
21	1 ⁵ / ₈ -1 ¹ / ₂	1 ⁵ / ₈ -1 ¹ / ₂	1 ⁵ / ₈ -1 ¹ / ₂	1 ³ / ₄ -1 ⁵ / ₈	1 ⁷ / ₈ -1 ³ / ₄	1 ⁷ / ₈ -1 ³ / ₄	1 ¹ / ₂	2 ³ / ₄ -3	1 ¹ / ₂ -2 ³ / ₄	2
22	1 ⁵ / ₈ -1 ¹ / ₂	1 ⁵ / ₈ -1 ¹ / ₂	1 ⁵ / ₈ -1 ¹ / ₂	1 ³ / ₄ -1 ⁵ / ₈	1 ⁷ / ₈ -1 ³ / ₄	1 ⁷ / ₈ -1 ³ / ₄	1 ¹ / ₂	2 ³ / ₄ -3	1 ¹ / ₂ -2 ³ / ₄	2
23	1 ¹ / ₂ -1 ⁵ / ₈	1 ¹ / ₂ -1 ⁵ / ₈	1 ¹ / ₂ -1 ⁵ / ₈	1 ³ / ₄ -1 ⁵ / ₈	1 ⁷ / ₈ -1 ³ / ₄	1 ⁷ / ₈ -1 ³ / ₄	1 ¹ / ₂	2 ³ / ₄ -3	1 ¹ / ₂ -2 ³ / ₄	2
24	1 ¹ / ₂ -1 ⁵ / ₈	1 ¹ / ₂ -1 ⁵ / ₈	1 ¹ / ₂ -1 ⁵ / ₈	1 ³ / ₄ -1 ⁵ / ₈	1 ⁷ / ₈ -1 ³ / ₄	1 ⁷ / ₈ -1 ³ / ₄	1 ¹ / ₂	2 ³ / ₄ -3	1 ¹ / ₂ -2 ³ / ₄	2
26	1 ¹ / ₂ -1 ⁵ / ₈	1 ¹ / ₂ -1 ⁵ / ₈	1 ¹ / ₂ -1 ⁵ / ₈	1 ³ / ₄ -1 ⁵ / ₈	1 ⁷ / ₈ -1 ³ / ₄	1 ⁷ / ₈ -1 ³ / ₄	1 ¹ / ₂	2 ³ / ₄ -3	1 ¹ / ₂ -2 ³ / ₄	2
27	1 ¹ / ₂ -1 ⁵ / ₈	1 ¹ / ₂ -1 ⁵ / ₈	1 ¹ / ₂ -1 ⁵ / ₈	1 ³ / ₄ -1 ⁵ / ₈	1 ⁷ / ₈ -1 ³ / ₄	1 ⁷ / ₈ -1 ³ / ₄	1 ¹ / ₂	2 ³ / ₄ -3	1 ¹ / ₂ -2 ³ / ₄	2
28	1 ¹ / ₂ -1 ⁵ / ₈	1 ¹ / ₂ -1 ⁵ / ₈	1 ¹ / ₂ -1 ⁵ / ₈	1 ³ / ₄ -1 ⁵ / ₈	1 ⁷ / ₈ -1 ³ / ₄	1 ⁷ / ₈ -1 ³ / ₄	1 ¹ / ₂	2 ³ / ₄ -3	1 ¹ / ₂ -2 ³ / ₄	2
29	1 ⁵ / ₈ -1 ¹ / ₂	1 ⁵ / ₈ -1 ¹ / ₂	1 ⁵ / ₈ -1 ¹ / ₂	1 ³ / ₄ -1 ⁵ / ₈	1 ⁷ / ₈ -1 ³ / ₄	1 ⁷ / ₈ -1 ³ / ₄	1 ¹ / ₂	2 ³ / ₄ -3	1 ¹ / ₂ -2 ³ / ₄	2
30	1 ⁵ / ₈ -1 ¹ / ₂	1 ⁵ / ₈ -1 ¹ / ₂	1 ⁵ / ₈ -1 ¹ / ₂	1 ³ / ₄ -1 ⁵ / ₈	1 ⁷ / ₈ -1 ³ / ₄	1 ⁷ / ₈ -1 ³ / ₄	1 ¹ / ₂	2 ³ / ₄ -3	1 ¹ / ₂ -2 ³ / ₄	2
31	1 ⁵ / ₈ -1 ¹ / ₂	1 ⁵ / ₈ -1 ¹ / ₂	1 ⁵ / ₈ -1 ¹ / ₂	1 ³ / ₄ -1 ⁵ / ₈	1 ⁷ / ₈ -1 ³ / ₄	1 ⁷ / ₈ -1 ³ / ₄	1 ¹ / ₂	2 ³ / ₄ -3	1 ¹ / ₂ -2 ³ / ₄	2

Average asked rate for prime 90-day bankers' acceptances, January, 3.956; February, 3.767; March, 3.055; April, 2.923; May, 2.482; June, 2.086; July, 1.875; August, 1.875; September, 1.875; October, 1.875; November, 1.875; December, 1.875.

Foreign exchange (cable rates)

	Par	Feb. 27, 1930	Mar. 27, 1930	Apr. 28, 1930	May 27, 1930	June 27, 1930	July 29, 1930	Aug. 25, 1930	Sept. 29, 1930	Oct. 27, 1930	Nov. 24, 1930	Dec. 30, 1930	Jan. 27, 1930	Jan. 21, 1930
England.....	\$4. 866	\$4. 8606	\$4. 8650	\$4. 8621	\$4. 86	\$4. 8609	\$4. 87	\$4. 87	\$4. 8597	\$4. 8584	\$4. 8538	\$4. 8537	\$4. 8562	\$4. 8662
France.....	.039	.0391	.0391	.0392	.0392	.0392	.0393	.0393	.0392	.0392	.0392	.0392	.0391	.0392
Italy.....	.052	.0524	.0524	.0524	.0523	.0523	.0524	.0523	.0523	.0523	.0523	.0523	.0523	.0523
Spain.....	.193	.1225	.1242	.1241	.1220	.1122	.1125	.1091	.1053	.1087	.1121	.1053	.1094	.1323
Netherlands.....	.402	.4008	.4013	.4025	.4022	.4019	.4028	.4029	.4034	.4027	.4024	.4026	.4021	.4018
Denmark.....	.268	.2677	.2680	.2677	.2675	.2676	.2682	.2682	.2677	.2675	.2675	.2674	.2674	.2675
Norway.....	.268	.2674	.2679	.2677	.2676	.2677	.2681	.2681	.2676	.2675	.2674	.2674	.2673	.2672
Sweden.....	.268	.2683	.2690	.2688	.2684	.2686	.2691	.2689	.2686	.2685	.2684	.2680	.2676	.2684
Switzerland.....	.193	.1929	.1936	.1939	.1935	.1938	.1944	.1944	.1940	.1941	.1937	.1539	.1934	.1932
Germany.....	.238	.2386	.2387	.2387	.2386	.2382	.2390	.2388	.2381	.2382	.2384	.2381	.2377	.2380
Austria.....	.140	.1425	.1425	.1425	.1425	.1425	.1425	.1425	.1425	.1425	.1425	.1425	.1425	.1425
Czechoslovakia.....	.029	.0296	.0296	.0296	.0296	.0296	.0297	.0297	.0297	.0297	.0296	.0296	.0296	.0296
Argentina.....	.965	.8553	.8590	.8814	.8683	.8129	.8215	.8234	.8128	.7731	.7770	.7047	.6911	.9129
Canada.....	1.00	1.9946	1.9996	1.9990	1.9995	1.9998	1.0015	1.9993	1.00125	1.0015	1.0015	1.9984	1.9990	1.9886
Hong Kong.....		.3800	.3775	.3737	.3475	.3137	.3200	.3300	.2325	.3200	.3125	.2700	.2437	.4025
Calcutta.....	.365	.3625	.3625	.3618	.3612	.3612	.3612	.3612	.3606	.3606	.3600	.3600	.3600	.3637
Manila.....	.500	.4975	.4975	.4975	.4962	.4962	.4962	.4962	.4962	.4962	.4962	.4962	.4962	.4975

¹ Demand rate.

Security prices

	Feb. 27, 1930	Mar. 27, 1930	Apr. 28, 1930	May 27, 1930	June 27, 1930	July 29, 1930	Aug. 25, 1930	Sept. 29, 1930	Oct. 27, 1930	Nov. 24, 1930	Dec. 30, 1930	Jan. 27, 1930	Jan. 21, 1930
25 industrial stocks.....	\$315. 58	\$344. 44	\$336. 11	\$328. 88	\$266. 54	\$292. 84	\$283. 81	\$256. 21	\$243. 25	\$233. 85	\$207. 36	\$217. 55	\$299. 47
25 railroad stocks.....	130. 83	132. 55	125. 87	124. 48	108. 05	114. 31	109. 70	103. 43	96. 15	91. 89	79. 41	92. 85	127. 53
40 bonds.....	87. 04	89. 24	88. 00	87. 91	86. 44	87. 79	88. 56	88. 78	85. 39	84. 55	82. 12	85. 61	86. 76

United States Government bonds

	Feb. 27, 1930	Mar. 27, 1930	Apr. 28, 1930	May 27, 1930	June 27, 1930	July 29, 1930	Aug. 25, 1930	Sept. 29, 1930	Oct. 27, 1930	Nov. 24, 1930	Dec. 30, 1930	Jan. 27, 1931	Jan. 24, 1930
First 3½s, 1932-1947.....	\$99.18	\$100.8	\$100.2	\$100.9	\$101.1	\$100.29	\$101.00	\$101.7	\$101.5	\$101.22	\$101.26	\$102.5	\$98.30
Fourth 4¼s, 1938.....	101.7	101.27	101.25	102.9	102.26	102.30	102.28	103.13	103.18	103.25	103.18	103.31	101.1

Federal reserve system

[In thousands of dollars]

	Feb. 26, 1930	Mar. 26, 1930	Apr. 30, 1930	May 28, 1930	June 25, 1930	July 30, 1930	Aug. 20, 1930	Sept. 24, 1930	Oct. 22, 1930	Nov. 26, 1930	Dec. 31, 1930	Jan. 28, 1931	Jan. 22, 1930
Total deposits.....	\$2,407,980	\$2,388,467	\$2,433,933	\$2,420,849	\$2,459,384	\$2,468,871	\$2,469,067	\$2,483,544	\$2,489,420	\$2,463,413	\$2,517,133	\$2,484,475	\$2,414,978
Federal reserve notes in circulation.....	1,637,094	1,572,900	1,507,268	1,465,867	1,402,869	1,335,141	1,323,708	1,347,720	1,368,512	1,421,968	1,663,538	1,478,302	1,739,241
Total cash reserves.....	3,186,585	3,242,081	3,251,597	3,220,829	3,231,811	3,178,188	3,107,057	3,140,788	3,168,283	3,163,802	3,081,517	3,278,432	3,171,518
Total bills and securities.....	1,138,522	1,001,090	982,225	958,776	916,038	911,554	964,963	973,483	976,900	1,011,940	1,351,852	945,405	1,222,804
Reserve ratio.....per cent..	78.8	81.8	82.5	82.0	83.7	83.5	81.9	82.0	82.1	81.4	73.7	82.7	76.3

Money market

	Feb. 27, 1930	Mar. 27, 1930	Apr. 28, 1930	May 28, 1930	June 27, 1930	July 25, 1930	Aug. 25, 1930	Sept. 29, 1930	Oct. 27, 1930	Nov. 2, 1930	Dec. 30, 1930	Jan. 30, 1931	Jan. 24, 1930
Call loans—Stock exchange, renewal.....	4½	3½	4	3	2	2	2	2	2	2	3½	1½	4½
New York Reserve Bank rediscount rate.....	4	3½	3½	3	2½	2½	2½	2½	2½	2½	2	2	4½
Time money (90 days).....	4¼-5	3¼-4¼	3¼-4¼	3-4	2½-3¼	2¼-3¼	2¼-3	2-2¾	2-3	2-2¾	2¼-2½	1½-2½	4¼-4¾
Commercial paper (90 days).....	4½-5	3¼-4½	3¼-4½	3½-4	3¼-4	3-3½	3-3½	3-3½	2¼-3	2¾-3	2¾-3	2½-3	4¾-5¼
London discount rate.....	3¼	2¼	2½	2½	2¼	2½	2½	2-2¼	2½-2¾	2¼	2¾	2¾	4½
London call rate.....	3¼	2½	1½	2½	1¼	1½	1¼	1¾	1½	2	1¼	2	3¾
Bank of England rate.....	4½	3½	3½	3	3	3	3	3	3	3	3	3	5

Commodity prices furnished by Guranty Trust Co., New York

	Feb. 15, 1930	Mar. 15, 1930	Apr. 15, 1930	May 15, 1930	June 16, 1930	July 15, 1930	Aug. 15, 1930	Sept. 15, 1930	Oct. 15, 1930	Nov. 1, 1930	Dec. 15, 1930	Jan. 15, 1931	Jan. 15, 1930
Wheat No. 2—Red, N. Y., bu.....	\$1.35	\$1.2525	\$1.25125	\$1.24875	\$1.15125	\$1.03625	\$1.05375	\$0.10875	\$0.98875	\$0.96125	\$1.0125	\$1.00875	\$1.40
Corn No. 2—Yellow, N. Y., bu.....	1.03375	.9263	.99375	.96125	.90125	.9875	1.1825	1.09	1.0125	.73	.90125	.85875	1.06125
Oats No. 2—White, N. Y., bu.....	.5650	.51	.555	.5450	.48	.4850	.52	.49	.475	.45	.3350	.435	.57
Flour, Fancy Minn. Patents, N. Y., bbl.....	8.05	7.35	7.30	7.15	6.85	6.45	6.75	6.35	6.15	5.85	6.15	6.30	8.25
Pork, Mess, N. Y., bbl.....	28.50	30.50	32.00	32.00	32.00	31.50	31.50	32.50	32.50	33.50	30.50	28.50	26.50
Coffee, Rio, No. 7, N. Y., lb.....	.1025	.1025	.0975	.0925	.0950	.0725	.075	.075	.0925	.0775	.07	.0675	.10375
Cottonseed Oil, Immcd., Crude South- east, lb.....	.0750	.0700	.07375	.07375	.0650	.0700	.06625	.065	.06125	.06375	.06	.06125	.07125
Sugar, Gran., N. Y., lb.....	4.851	4.900	.04802	.04802	.0441	.0470	.0441	.04361	.04361	.04655	.04557	.04606	.05096
Iron, No. 2, Foundry, Philadelphia, del., ton.....	20.76	20.76	20.26	19.76	19.76	18.50	18.00	19.26	19.26	18.76	18.26	17.76	21.26
Silver, N. Y., oz.....	.4338	.41875	.42375	.4075	.33625	.3425	.3525	.3625	.36	.3625	.32875	.29125	.4625
Lead, N. Y., lb.....	.0825	.0550	.0550	.0560	.0550	.0520	.055	.055	.051	.051	.051	.0475	.0625
Copper, Electrolytic, early delivery, N. Y., lb.....	.17875	.17875	.13875	.12875	.11875	.11125	.105	.10375	.09875	.11375	.09875	.09875	.17875
Cotton, Md. Spot, N. Y., lb.....	.1590	.1485	.1600	.1635	.1345	.1320	.119	.1095	.104	.111	.0945	.101	.1745
Silk—White, 13-15d, Jap., crack XX, N. Y., lb.....	4.70	4.50	4.50	4.10	3.70	2.95	3.00	2.85	2.35	2.45	2.50	2.95	4.60
Leather, Union, No. 1, Cowbacks, N. Y., lb.....	.48	.47	.47	.45	1.45	.440	.43	.43	.40	.38	.36	.36	.48
Rubber, plantation smoked sheets, ribbed, N. Y., lb.....	.1588	.14875	.1475	.14125	.11750	.11125	.10	.08	.07875	.09	.09	.08375	.1475
Tin, Straits, N. Y., lb.....	.3875	.3585	.3630	.32375	.2950	.2950	.2985	.29875	.2575	.261	.2375	.25625	.38875

¹ Nominal.

Total values of exports and imports of the United States corrected to January 17, 1931

EXPORTS AND IMPORTS OF MERCHANDISE, BY MONTHS

	1930	1929	1928	1927	1926	1925
EXPORTS						
January.....	\$410,849,000	\$488,023,000	\$410,778,000	\$419,402,000	\$396,836,000	\$446,443,000
February.....	348,852,000	441,751,000	371,448,000	372,438,000	352,905,000	370,676,000
March.....	369,549,000	459,851,000	420,617,000	408,973,000	374,406,000	433,653,000
April.....	331,752,000	425,294,000	363,928,000	415,374,000	387,974,000	398,255,000
May.....	320,034,000	385,013,000	422,557,000	393,140,000	356,699,000	370,945,000
June.....	294,639,000	393,186,000	388,661,000	356,966,000	338,033,000	323,348,000
July.....	266,650,000	402,861,000	378,984,000	341,809,000	368,317,000	339,660,000
August.....	297,765,000	380,564,000	379,006,000	374,751,000	384,449,000	379,823,000
September.....	312,207,000	437,163,000	421,607,000	425,267,000	448,071,000	420,368,000
October.....	326,900,000	528,514,000	550,014,000	488,675,000	455,301,000	490,567,000
November.....	289,008,000	442,254,000	544,912,000	460,940,000	480,300,000	447,804,000
December.....	273,000,000	426,551,000	475,843,000	407,641,000	465,369,000	468,306,000
12 months ended December.....	3,841,207,000	5,240,995,000	5,128,356,000	4,865,375,000	4,808,660,000	4,909,848,000
IMPORTS						
January.....	310,968,000	368,897,000	337,916,000	356,841,000	416,752,000	346,165,000
February.....	281,707,000	369,442,000	351,035,000	310,877,000	387,306,000	333,387,000
March.....	300,460,000	383,818,000	380,437,000	378,331,000	442,899,000	385,379,000
April.....	307,824,000	410,666,000	345,314,000	375,733,000	397,912,000	346,091,000
May.....	284,683,000	400,149,000	353,981,000	346,501,000	320,919,000	327,519,000
June.....	250,343,000	353,403,000	317,249,000	354,892,000	336,251,000	325,216,000
July.....	220,558,000	352,980,000	317,848,000	319,298,000	338,959,000	325,648,000
August.....	218,417,000	369,358,000	346,715,000	368,875,000	336,477,000	340,066,000
September.....	226,352,000	351,304,000	319,618,000	342,154,000	343,202,000	349,954,000
October.....	247,339,000	391,063,000	355,358,000	355,738,000	376,868,000	374,074,000
November.....	203,718,000	338,472,000	326,565,000	344,269,000	373,881,000	376,431,000
December.....	209,000,000	309,809,000	339,408,000	331,234,000	359,462,000	396,640,000
12 months ended December.....	3,061,369,000	4,309,361,000	4,091,444,000	4,184,742,000	4,430,888,000	4,226,589,000

EXPORTS AND IMPORTS OF GOLD AND SILVER, BY MONTHS

	Gold				Silver		
	1930	1929	1928	1927	1930	1929	1928
EXPORTS							
January.....	\$8,948,000	\$1,378,000	\$52,086,000	\$14,890,000	\$5,892,000	\$8,264,000	\$6,692,000
February.....	207,000	1,425,000	25,806,000	2,414,000	5,331,000	6,595,000	7,479,000
March.....	290,000	1,635,000	67,536,000	5,625,000	5,818,000	7,814,000	7,405,000
April.....	110,000	1,594,000	96,469,000	2,592,000	4,646,000	5,752,000	6,587,000
May.....	82,000	467,000	83,689,000	2,510,000	4,978,000	7,485,000	6,712,000
June.....	26,000	590,000	99,932,000	1,840,000	3,336,000	5,445,000	7,456,000
July.....	41,529,000	807,000	74,190,000	1,803,000	3,709,000	6,795,000	6,160,000
August.....	39,352,000	881,000	1,698,000	1,524,000	4,544,000	8,522,000	9,246,000
September.....	11,133,000	1,205,000	3,810,000	24,444,000	3,903,000	4,374,000	6,229,000
October.....	9,266,000	3,805,000	992,000	10,698,000	4,424,000	7,314,000	7,252,000
November.....	5,008,000	30,289,000	22,916,000	55,286,000	4,102,000	8,678,000	7,674,000
December.....	36,000	72,547,000	1,636,000	77,849,000	3,472,000	6,359,000	8,489,000
12 months ended December.....	115,967,000	116,583,000	560,760,000	201,455,000	54,155,000	83,398,000	87,382,000

Total values of exports and imports of the United States corrected to January 17, 1931—Continued

	Gold				Silver		
	1930	1929	1928	1927	1930	1929	1928
IMPORTS							
January.....	\$12,908,000	\$48,577,000	\$38,320,000	\$59,355,000	\$4,756,000	\$8,260,000	\$6,305,000
February.....	60,198,000	26,913,000	14,686,000	22,309,000	3,923,000	4,458,000	4,658,000
March.....	55,768,000	26,470,000	2,683,000	16,382,000	4,831,000	6,435,000	5,134,000
April.....	65,835,000	24,687,000	5,319,000	14,503,000	3,570,000	3,957,000	4,888,000
May.....	23,552,000	24,097,000	1,968,000	34,212,000	3,486,000	4,602,000	4,247,000
June.....	13,938,000	30,762,000	20,001,000	14,611,000	2,707,000	5,022,000	6,221,000
July.....	21,889,000	35,524,000	10,331,000	10,738,000	3,953,000	4,723,000	6,544,000
August.....	19,714,000	19,271,000	2,445,000	7,877,000	3,492,000	7,345,000	6,496,000
September.....	13,680,000	18,891,000	4,273,000	12,979,000	3,461,000	4,111,000	5,739,000
October.....	35,635,000	21,321,000	14,331,000	2,056,000	3,270,000	5,403,000	7,319,000
November.....	40,159,000	7,123,000	29,591,000	2,082,000	2,643,000	5,144,000	5,448,000
December.....	32,778,000	8,121,000	24,940,000	10,431,000	2,660,000	4,477,000	5,120,000
12 months ended December.....	396,054,000	291,649,000	168,897,000	207,535,000	42,752,000	63,937,000	68,117,000

STATEMENT OF ROBERT M. COON, ASSISTANT TREASURER, DISCOUNT CORPORATION OF NEW YORK, NEW YORK CITY, N. Y.

The ACTING CHAIRMAN. Mr. Coon, will you please give us your relation to the New York Discount Corporation?

Mr. COON. My name is Robert M. Coon. I am assistant treasurer of the Discount Corporation of New York.

The ACTING CHAIRMAN. Will you describe the functions of the New York Discount Corporation?

Mr. COON. We were formed and are owned by about 10 of the most important banks and bankers of New York, in 1918, and started business in 1919, primarily to develop and aid in the development of a satisfactory discount market in this country. We confine ourselves entirely to the purchase and sale of bank acceptances and United States Government securities.

The ACTING CHAIRMAN. And do nothing else?

Mr. COON. No, sir.

The ACTING CHAIRMAN. It is a discount business entirely?

Mr. COON. The Government-securities business is slightly different.

The ACTING CHAIRMAN. Will you describe your dealings? There are three or four questions that might probably come together. Describe your dealings in acceptances and how far does this business depend upon the reserve system; that is, what proportion of transactions are those which take place between yourselves and the reserve bank?

Mr. COON. Of course, we buy our bills from quite a variety of sources. We might buy them from the accepting banks or merchants who draw the bills, or we might buy them from an exchange bank. The latter are primarily bills that come from the Far East and South America. We might also buy from some one who previously had bought the bills for investment and wished to resell them. We occasionally buy bills from the reserve bank, the latter acting as agent.

The ACTING CHAIRMAN. That is not a large volume?

Mr. COON. No.

Mr. WILLIS. Is there a fixed rate of commission in this business?

Mr. COON. We ordinarily try to make one-eighth of 1 per cent. If we buy at $1\frac{1}{2}$, we sell at $1\frac{3}{8}$. It is a very narrow margin of profit.

Mr. WILLIS. That is one-eighth of a per cent per annum?

Mr. COON. For the life of the bill.

Mr. WILLIS. Have you any graph or statistics showing the volume of your business?

Mr. COON. Last year we purchased about \$1,800,000,000. The previous year was approximately the same amount.

The ACTING CHAIRMAN. That is still very small compared with the English business, is it not?

Mr. COON. I do not know that we have any accurate statistics on the English business.

The ACTING CHAIRMAN. It is more than that in pounds. Of course, Mr. Bean said about \$9,000,000,000 of bills were drawn last year.

Mr. COON. That would make us handle about 20 per cent. We ordinarily average 30 to 40 per cent of the business handled in New York by dealers.

The ACTING CHAIRMAN. What is the capital of the Discount Corporation?

Mr. COON. \$5,000,000 capital and approximately \$5,000,000 more in surplus and undivided profits.

The ACTING CHAIRMAN. What do you think the minimum capital of a discount corporation should be?

Mr. COON. I do not see how one can get along with less than two or three million dollars. It depends on how extensively one wishes to go into it. We stand ready to buy any amount of bills offered to us. If you run a \$100,000,000 portfolio, you have to borrow very heavily from the banks.

The ACTING CHAIRMAN. What expert knowledge have you in the scrutiny of bills? What is your risk there, in other words?

Mr. COON. Well, we have never lost a nickel in the more than 12 years we have been in business.

The ACTING CHAIRMAN. That is, after all, a matter of human equation, is it not, chiefly?

Mr. COON. We plan to know with whom we do business, and we scrutinize each bill that goes through.

The ACTING CHAIRMAN. Do you have or make any scrutiny or inspection of the goods, whether they are warehouse goods, and so forth?

Mr. COON. Nothing except what the bank places on the bill.

The ACTING CHAIRMAN. That is the last word with you?

Mr. COON. Yes.

Mr. WILLIS. It is reported that a bank sometimes decides on the amount of acceptance credit it wants. Say it is \$500,000. The bank breaks it into rough fractions like \$24,920, and so forth, and stamps those bills as eligible, which perhaps they are, eventually, as they represent a large series of transactions, and then puts them through the market. Would you have any way of detecting anything of that kind?

Mr. COON. No; we merely take the bank's word.

Mr. WILLIS. Have you ever noticed that the bills are footed up and total those round amounts?

Mr. COON. We see that, sometimes.

Mr. WILLIS. What does that suggest to you?

Mr. COON. We see it particularly on foreign bills. Such amounts are probable multiples of a foreign currency; that is, 100,000 marks.

Mr. WILLIS. Does it not mean there is no real transaction behind such acceptances or series of acceptances?

Mr. COON. No.

Mr. WILLIS. It does not suggest to you that the acceptances are finance paper?

Mr. COON. I do not think so. As far as bills covering foreign goods in storage are concerned, I think they are a very minor part of the total figure.

Mr. WILLIS. Of what figure?

Mr. COON. This figure covering goods stored in and shipped between foreign countries. I am quite certain they are very much in the minority.

Mr. WILLIS. What do you think of these quotations I read from two of the reserve banks, saying that the growth of that kind of acceptances was due to shortage of long-term credits?

Mr. COON. I would say that those statements were made by small banks not in very close touch with the situation.

Mr. WILLIS. No; they are not small banks. However, you do not agree with them?

Mr. COON. We are very much of the opinion that the increase has been due to our differential in rate as compared with London.

The ACTING CHAIRMAN. Do you believe that the reserve bank should go along supporting the market and practically making the market, as it does at the present time? Is it practically making a market?

Mr. COON. In the recent easy-money period the Federal reserve rates or their attitude toward the market have been comparatively unimportant.

The ACTING CHAIRMAN. Until recently the Federal reserve has been a big factor?

Mr. COON. Yes. It depends entirely on the condition of the money market.

Mr. WILLIS. What do you think would be necessary to make a regular stable market for acceptances entirely independent of the reserve system, such as we have in England?

Mr. COON. I suppose it is mostly a matter of keeping at it and trying to educate the banks into the value of holding bills.

The ACTING CHAIRMAN. Largely a matter of volume and importance?

Mr. COON. We have, all the time we have been in business, been trying to educate the big New York banks to hold a secondary reserve in bills irrespective of the call-money rate.

The ACTING CHAIRMAN. You would like to see a differentiation there established as between the acceptance rate and the call rate? Do you think that is a feasible thing to do?

Mr. COON. I do not believe I understand your point.

The ACTING CHAIRMAN. You spoke of making your own rate. How would you do that? How would you differentiate that as between the normal rate and the money market?

Mr. COON. Well, of course, our recent low rates have been related almost entirely to the price of call money.

The ACTING CHAIRMAN. Yes; but has that any particular relation to the acceptance business?

Mr. COON. Oh, yes. When we can borrow money at 1 per cent, as we have been able to do in the past month, we are quite willing to buy bills at 1 $\frac{3}{8}$.

The ACTING CHAIRMAN. Is there any way of differentiating, as to rates, between the acceptance business and any other business?

Mr. COON. Well, we ordinarily think we should receive a better rate on bills than the stock brokers should receive.

The ACTING CHAIRMAN. That depends on the character of the business?

Mr. COON. Yes. We think our collateral as eligible collateral ought to command a better rate. It frequently happens that we are able to secure about one-half of 1 per cent better rate than the stock broker can get.

The ACTING CHAIRMAN. What can be done to broaden and strengthen the real acceptance market?

Mr. COON. Abroad?

The ACTING CHAIRMAN. Here or abroad.

Mr. COON. Well, it has been going quite satisfactorily of late.

The ACTING CHAIRMAN. It has been growing rapidly enough?

Mr. COON. We are quite satisfied in general.

If possible, I should like to insert the following statement:

We believe that probably the greatest service which the open discount market (composed of recognized dealers) can render the general banking situation is in its ability to serve as a buffer between the member banks and the Federal reserve. In order to command the confidence of the financial world the large New York banks should not be continuous borrowers at the reserve. The rediscount privilege should be used for emergencies only, and ordinary day-to-day needs should be adjusted by resorting to the discount market through the sale of bills or calling of loans. In order to maintain this custom the discount market must, of course, be permitted to resort to the open-market facilities of the reserve banks; this requires an active open-market policy on the part of the reserve banks adjusted reasonably closely to the prevailing open-market rates.

The ACTING CHAIRMAN. Your business pays, does it not, even on a low basis?

Mr. COON. We manage to pay dividends.

Mr. WILLIS. Do you handle trade acceptances at all?

Mr. COON. Only with bank indorsements, and it is only a small proportion of the total. Most of the trade bills we see come from the Far East and cover silk.

Mr. WILLIS. Have they declined in recent years?

Mr. COON. I do not know that there are any statistics. I think our turnover in the last two years has been approximately the same.

Mr. WILLIS. What is the reason the trade acceptance has not flourished—the domestic trade acceptance?

Mr. COON. We have never been willing to purchase domestic trade acceptances in any quantity.

Mr. WILLIS. Why not?

Mr. COON. We are primarily interested in bankers' acceptances. A trade bill, unless it bears a prime indorsement, involves a credit risk.

Mr. WILLIS. Suppose it has a banker's indorsement?

Mr. COON. We would probably buy it.

Mr. WILLIS. There are not very many of them on the market?

Mr. COON. Very few of that class.

Mr. WILLIS. Why has not that phase developed to any great extent? Mr. Bean's association was formerly called the Trade Acceptance Council, was it not?

Mr. BEAN. Originally.

Mr. WILLIS. Why did you cease to call it that?

Mr. BEAN. It was felt that we had better broaden it to make it cover both trade and bankers' acceptances, and as for trade acceptances, if I may answer the question you put to Mr. Coon—and I find my remarks in support of trade acceptances sometimes come back to me. I used to talk a great deal about trade acceptances but I am now of the opinion trade acceptances will never be a great medium in business.

Mr. WILLIS. Why?

Mr. BEAN. Early experiences with the trade acceptance in the years following immediately after the Civil War were successful because of a demand for some form of paper through which merchants could settle their accounts when money was scarce and bank credit limited.

In the most recent campaign an effort was made to have the trade acceptance take the place of the open book account and the cash-discount system which has grown extensively in the past 25 years of keen business competition.

Merchants able to settle accounts promptly prefer to take their discount; and those who need more time prefer to get an extension of their open account to giving a trade acceptance, which they erroneously think is an indication to the business world that they are a slow credit risk.

The trade acceptance remains a fine credit instrument but business men either can not or will not see it.

Mr. WILLIS. Do you agree with that, Mr. Coon?

Mr. COON. I think so.

Mr. WILLIS. Then the trade acceptance has no future?

Mr. BEAN. With the exception, possibly, of the raw silk trade. They use trade acceptances exclusively there, and they have the finest type of trade acceptances.

The ACTING CHAIRMAN. Does the dealer's indorsement help any where the Federal reserve knows the credit data of its member banks?

Mr. BEAN. There are three dealers whose indorsements are recognized.

Mr. WILLIS. With the volume that Mr. Coon speaks of, the dealer's indorsement could not be of any great element of value if there was any mistake whatsoever in judging the risk. If you had many banks like the Bank of the United States, for example, your dealer's indorsement would not last very long.

Mr. COON. No; but we have had not less than \$100,000,000 contingent liability in the last year or more, and we have never lost a nickel.

Mr. WILLIS. Is there much risk in putting your indorsement on a bill?

Mr. COON. If the Federal buys a bill it requires 3-name paper.

Mr. WILLIS. Has not that the effect of narrowing the number of dealers that can deal with the Federal reserve? If they say, as Mr. Harrison said the other day, they do not want anyone indorsing paper who has a capital of less than \$1,000,000, that materially reduces the number of dealers who can get into the acceptance market, and yet from what you said the dealer's indorsement is really just a gesture, since it is really very rarely availed of.

Mr. COON. If a dealer had indorsed the paper of the Bank of United States recently it would have been of some consequence.

Mr. WILLIS. How do you account for the paper of the Bank of United States circulating right up to the last?

Mr. COON. We never did buy their bills.

Mr. WILLIS. There was, probably, then, a faulty credit analysis?

Mr. COON. They (the reserve bank) had the third name, and that made it eligible.

Mr. WILLIS. Ought an indorsement of that kind to relieve them of the necessity of carefully analyzing the names on the back of the bankers' acceptances? Is there not a responsibility to see that only paper is bought that is indorsed by prime indorsers only? Apparently the only one they should have discriminated against was the one they bought.

Mr. COON. Possibly; but they did not lose any money on it.

Mr. WILLIS. Is there not a great responsibility on the Federal reserve bank to maintain a liquid market for acceptances?

Mr. COON. Possibly.

Mr. WILLIS. Do you not think so, Mr. Bean?

Mr. BEAN. Yes, sir.

Mr. WILLIS. Are there any changes in the rules or regulations of the reserve system under which acceptances are bought that you can suggest, or are they satisfactory?

Mr. COON. I think things are satisfactory. I think our bankers are developing a mass of experience which is more valuable than any rules.

The ACTING CHAIRMAN. You want flexibility?

Mr. COON. Yes.

Mr. WILLIS. Is there any favoritism in present methods of dealing with acceptance corporations on the part of the reserve bank, as far as you know?

Mr. COON. I do not know of such.

The ACTING CHAIRMAN. Would there not naturally be, in view of the fact that credit is involved?

Mr. COON. Possibly so in regard to the volume of business handled.

Mr. WILLIS. Has that caused much dissatisfaction at times?

Mr. COON. I do not think so. Each dealer receives business in proportion to his resources.

Mr. WILLIS. Do you deal with all reserve banks more or less, or just the local ones?

Mr. COON. Almost entirely with the New York bank.

The ACTING CHAIRMAN. What would your trade area or region include? You cover the whole country?

Mr. COON. To a greater or less degree.

The ACTING CHAIRMAN. And are you pretty free from competition?

Mr. COON. No; we have active competitors, several of them.

The ACTING CHAIRMAN. How many associations are there like your own?

Mr. BEAN. There are really seven. They are of different types. It might be of interest to put that in the record—the different types of bill houses.

There is the Discount Corporation; that has, as stockholders, several New York banks—6 or 7 New York banks and possibly 8.

Then there is the First National, Old Colony Corporation, and Shawmut Corporation, and the National City Co. Those are affiliates of their respective banks.

Then there is the house of Salomon Bros. & Hutzler. They have a branch of a general bond and security business in which their acceptance business is conducted. Then there is the M. & T. Co. That has taken the place of the C. F. Childs Co. While it is owned by the M. & T. of Buffalo, it is an independent bill house.

Then there is Alexander T. Stephan. He is the only independent bill dealer with his own capital and not tied in with any banks.

Mr. WILLIS. There is only one out of seven not owned by banks?

Mr. BEAN. Yes.

Mr. WILLIS. What other discount areas are there?

Mr. BEAN. San Francisco has one house that is not particularly represented in New York. That is the American Securities Co. They also have offices of the National City Co. and the First National Old Colony. Chicago has offices of the Shawmut and First National Old Colony.

Mr. WILLIS. And the Continental?

Mr. BEAN. The Continental and the First National. In Boston there are offices of the First Old Colony, Shawmut, and National City Co.

Mr. WILLIS. How is the South represented?

Mr. BEAN. There is nothing all down the Atlantic Seaboard away through New Orleans and into Texas. That business is taken care of in New York or on the Pacific coast.

In Fort Worth there is the Fort Worth Co., a subsidiary of the Fort Worth National Bank. They do a very extensive bill business in season.

Mr. WILLIS. And in Houston?

Mr. BEAN. There is nothing in Houston.

Mr. WILLIS. Did you not speak of the First National Bank of Houston as having a subsidiary?

Mr. BEAN. The First National of Dallas. May I say, in regard to trade acceptances again, that that business is not featured by our organization for the reasons that I spoke of. There is a missing law there that makes it possible for anyone to use a trade acceptance for purposes other than is indicated on the face of the bill. When you get into court you can always convict them for fraudulent use of a credit instrument or receiving money under false pretenses or grand larceny, but, regardless of that, you have an instrument that is subject to that abuse, and every time you get a conviction you

lower the opinion of the public, and rightly, on trade acceptances. It is unfortunate, but that is the condition.

Then there is opposition on the part of banks generally to a large volume of trade acceptances in the place of an individual promissory note.

Mr. WILLIS. I should like to ask one more question, and then I have finished: What would be the harm in having business men who obtain acceptances from the banks, deal direct with the Federal reserve banks, and sell their acceptances to them?

Mr. BEAN. I take it you mean in place of the present system of having banks sell bills direct to dealers?

Mr. WILLIS. In other words, what reason is there why, for example, the United States Steel Corporation or the International Harvester Co. should not sell the acceptances of their banks direct to the reserve banks?

Mr. BEAN. Well, there is no reason why they could not do that. Of course, the Federal reserve must have the bank indorsement.

Mr. WILLIS. Must have the bankers' acceptance?

Mr. BEAN. Yes. But so far as the market is concerned, aside from the Federal, it is very largely a matter of facility and convenience. For example, if you have a bank with 100 customers, very fine concerns, and the market is very anxious to get bills, you have now a single seller, which is the accepting bank, and in the other plan you would have 100 telegrams or telephone calls to send to all the principal drawers.

Mr. WILLIS. Do you see any reason, Mr. Coon, why the reliable business house should not sell direct to the reserve bank acceptances which it has obtained from its own bank?

Mr. COON. We believe that the bills should be sold to the reserve banks only when the banks as a whole need reserve credit; in other words, fresh bills should not be dumped into the Federal when the open market has a demand for the bills.

Mr. WILLIS. What is the English practice? There is nothing to prevent the large English merchant from going to the Bank of England with its bankers' acceptances, is there?

Mr. COON. I am not certain.

Mr. BEAN. I believe that is possible.

Mr. WILLIS. Just as it is possible to carry an account with the bank?

Mr. BEAN. I believe the system as a whole is in better control if the Federal is dealing with its member banks or with dealers. The whole trend of the acceptance business in the last few years, particularly, has been toward a more independent, clean-cut position than it formerly was, and the Federal to-day is very much less a factor in the bill market than formerly, coming in only when necessary and letting the bill market develop itself, and without additional legislation I believe that will happen.

The ACTING CHAIRMAN. We are very much obliged to both of you, Mr. Coon and Mr. Bean, and this hearing is adjourned now until next Monday at 10.30. Mr. Stephan, who was expected to be here to-day, was not able to be here.

(Whereupon, at 11.55 o'clock a. m., the committee adjourned until Monday, February 23, 1931, at 10.30 o'clock a. m.)

OPERATION OF THE NATIONAL AND FEDERAL RESERVE BANKING SYSTEMS

MONDAY, FEBRUARY 23, 1931

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

The subcommittee met, pursuant to adjournment, at 10.30 o'clock a. m., Hon. Carter Glass (chairman) presiding.

STATEMENT OF PROF. W. Z. RIPLEY, OF HARVARD UNIVERSITY

The CHAIRMAN. We have a quorum, and the committee will come to order.

Professor, I assume that you know the business we are engaged in here. We are making an inquiry here about the existing banking situation with a view to determining what may be done in the way of modifying the national banking act and/or Federal reserve act to avert a recurrence of the troubles we have had in recent years, and knowing that you are quite familiar with all the details of banking, with, we think, a pretty clear understanding of the philosophy of banking, we desired you to come down and offer us any suggestions you might care to make.

We shall be glad to have a general statement from you and then take the privilege of asking you some questions.

Professor RIPLEY. I am afraid, Senator, that the principal statement I shall have to make will be a disclaimer of information in that particular field. Your letter apparently reached my home after I had left. I have been away several days, so there was no way of knowing just what it is you desire.

The CHAIRMAN. Have you had an opportunity to examine the bill that we had before the Senate, No. 4723?

Professor RIPLEY. I am sorry to say, sir, that I have not. It is all a complete blank to me, owing to the circumstances. I really have no technical knowledge in the field of pure banking.

In the fields which lie so close, namely, movements of securities and investments—railroads particularly—there is possibly more proficiency.

The CHAIRMAN. Yes; I have had the pleasure of reading some of your articles on the railroad situation.

Professor RIPLEY. A suggestion which I should be glad to press upon your attention, if it has any bearing here, is emphasis upon accounting standards and statements rendered public for all corporations like banks and public utilities which are engaged in interstate commerce. The phenomenal rise of public utilities, particu-

larly, which touch the surplus capital or savings of the people is, of course, a matter of record. I feel very strongly that there should be a further intervention of the Federal Government in the direction of publicity of the finances and accounting of these companies.

Mr. WILLIS. Before you go into that, Professor Ripley, may I ask whether you think the investment and trust situation has changed materially from the situation when you wrote "Main Street and Wall Street"?

Professor RIPLEY. No; I think it is accentuated. To my way of thinking, we have had merely a confirmation of what the investment trusts promised five years ago. They undoubtedly played a very large part in the inflation of quotations, I think, culminating in 1929.

Mr. WILLIS. One of the resolutions the Senate intrusted to this committee was the relation of investment trusts and security prices to banking. I think if your remarks could be made to touch upon that at some length it would be well worth while.

Professor RIPLEY. The same observation which was made with reference to public utilities applies to investment trusts. The general situation, as I have watched it through a succession of groups of corporations, has been this: That the larger proportion of companies engaged in any line of business—they might be railroads, public utilities, banking, or investment trusts—mean to be sound and straightforward in their statements, but there is, nevertheless, on the fringe of every group of companies a certain number which is indirect in its aim or motive and which is operated primarily at the expense of the public. That statement is perfectly applicable, to my thinking, to the investment trusts. The idea at the bottom is sound—a safe means of concentrating and applying the savings of large numbers of people who could not expect, either because of information or because of the technical difficulty, to make retail investments for themselves. The investment trust undertakes to do it at wholesale.

The CHAIRMAN. Would you be willing to say that it is a sound policy to have these investment trusts organized as auxiliaries to the commercial banks and national banks?

Professor RIPLEY. I do not like the idea. One of the cardinal weaknesses of the investment-trust plan is that when tied in in any way with banking institutions—bankers or brokers—it offers a very great temptation to use the trusts, so to say, as a wastebasket in which to put the things which can not be successfully placed in the hands of the public. I have seen that happen a number of times.

Senator TOWNSEND. I think Professor Ripley might be permitted to formulate a written statement and forward it to the committee.

The CHAIRMAN. I think that that would be a good idea.

Professor RIPLEY. That is a matter of really writing a book. I have a trunkful of material of one sort or another. My own mind works from concrete facts and not from abstract general principles. I have collected a large mass of material, and when I see a dozen or 15 investment trusts have done so and so, I scent a principle involved, or a temptation or a weakness or something else, and chase it down.

The CHAIRMAN. Evidently you believe in the Baconian theory of induction?

Professor RIPLEY. I do, sir.

The CHAIRMAN. I make this suggestion, that we might send you the proofs of what you say here, and if you care to elaborate any statement, we would be obliged to have you do so.

Professor RIPLEY. Certain general conclusions, perhaps, as far as one is likely to arrive at them without very detailed investigation, I could state to-day.

The CHAIRMAN. Very well, Professor.

Professor RIPLEY. One of the primary difficulties is the point I have made, that the association, common control, of banks, banking houses, brokerage houses, dealers in securities of any kind, and investment trusts, offers a great temptation—almost irresistible in weak hands—to divert some of those investments unduly into that field which is covered by the immediate interests of banking houses or firms.

Another danger is that this concentration of control may be used as a means of breaking into the management of industrials or railroads for the personal advantage of the banking house, rather than for the good of the corporation which is to be administered. Concrete instances of that might be given. Such a line of action is diametrically opposed to the sound principle of the investment trust.

The sound principle of the investment trust is dispersion of risk. Whenever I look over a list of holdings of an investment trust and find a thousand Pennsylvania, a thousand Guaranty Trust, and so forth, and suddenly come upon 300,000 shares of some quite unknown corporation, the query arises first, Are those left-over securities, which could not be sold to the public and which, least of all, belong in the portfolio; or is there a desire on the part of those who promoted that particular enterprise to focus their control and hold their interest dominant in the company whose securities went into the trust portfolio?

Now, those two motives are diametrically opposed. The first calls for dispersion of investment. The second calls for, necessarily, the concentration of it. In a case which came directly to my own personal attention, where such an investment was made, I called these opposing principles to the minds of those handling the investment trust. It was, indeed, openly charged that those two principles were so diametrically opposed that the managers' conduct required explanation.

The later development of investment trusts, particularly the discipline through change in the market, has put the fear of God into some of them in a way which was not evident before October of 1929. But the first thing—and this lesson has already been taken home by the better of the investment trusts—is a complete, adequate, and honest accounting.

Mr. WILLIS. By the investment trusts or by the corporations?

Professor RIPLEY. The investment trusts. I am assuming that the private banking or brokerage house is not under the same compulsion, being privately owned. Reputation, in the long run, depends, of course, upon such accounting to the informed; but the trouble with this whole development for 25 years, but growing increasingly more apparent all the time, is the inclusion of the uninformed and the helpless, those who buy 1, 2, 3, or 4, or even 100 shares, with money that used to go into the savings banks.

It now goes into these channels more or less instead, ever since the Liberty loans.

The paper corporations which have sprung up in the field of public utilities also come within the purview of this statement. When you reach the top holding company in the public utilities that is, in effect, an investment trust. It does not have very much to do with utilities, as such. It is a means for financing by appeal to the public of corporations below which need capital. With such corporations there is the most glaring need of intelligent, adequate, and comparable publicity. It is a greater need than the regulation of utility rates; and as far as it touches the interest of this committee, governmental pressure might well come from such a committee as this, rather than from the Senate Committee on Interstate Commerce. Both committees are, however, concerned with the matter.

The CHAIRMAN. You think there should be a very thorough examination of these security companies and complete publicity of their activities?

Professor RIPLEY. I do, sir, without any reservation.

Mr. WILLIS. You mean only those that are affiliated with banks, or all of them?

Professor RIPLEY. I think it should extend to all of those which make an appeal to the public for purposes of investment. That is the crucial point.

Mr. WILLIS. On what theory could Congress do that in your judgment?

Professor RIPLEY. Only one the ground that, in some way, interstate commerce is affected. That is the problem that I have been studying for three or four years. The House committee which has just reported on holding companies for railroads, of course, deals with the same constitutional point.

Mr. WILLIS. Would you discuss that constitutional point, please?

Professor RIPLEY. I can not discuss it as a lawyer, but only from the economic viewpoint. There has been no decision of the Supreme Court as yet, interpreting the Constitution, which holds that ownership is interstate commerce. The fullest discussion of it was probably in the Northern Securities case; but the Supreme Court in that instance refrained from affirming the point. They distinctly refrained therefrom.

In this report of the House Committee on Interstate Commerce just issued, however, there is a very significant chapter on the constitutional law involved. It touches companies which would be engaged in interstate commerce only if ownership were held to be interstate commerce. The conclusion seems to be indicated that it would be necessary to prove that the ownership in question in some way, more or less directly, affects interstate commerce in order to invoke the Federal jurisdiction.

Mr. WILLIS. Do you mean ownership or sale?

Professor RIPLEY. I mean ownership, and ownership perhaps as evidenced by sale; because sale and purchase are essential to ownership. You have to acquire those things in some way.

Mr. WILLIS. Is it not true that congressional legislation on securities companies or investment trusts not affected by banking is in advance of the constitutional provision you are discussing?

Professor RIPLEY. It may be in advance; but it is in a field in which there is bound to be a substantial advance in the next five years.

Mr. WILLIS. It is your thought, then, that Congress should try to legislate on that subject with the thought of having the matter digested in the courts?

Professor RIPLEY. It has got to come up with reference to four or five different issues. This point is raised: The funds of millions of American investors, and the more helpless—the small investors—are being drawn together through these channels into great reservoirs, and the control of that reservoir is falling into a very limited number of hands. One way in which that occurs, and which I have not yet found described in the books, is through a process which is well recognized in the "Street" and is taken as a matter of course.

It is the custom under which the control of any great institution—it might be a railroad, it might be a bank, it might be an investment trust, or it might be a public utility—is held, in spite of a small proportion of ownership, within the control of a certain group of men. It resembles the process which has been in the past, of course, associated with some of the tactics of Members of Congress. This is known as log rolling—you scratch my back and I will scratch yours. For example, a certain banking house carries a large amount of "street" stock in an enterprise, although not enough probably in itself to give them effective control. But they have placed securities for it. They have sponsored it. They have been interested in the financing of it. By common consent among the knowing that firm is recognized as the banker for that business. Whereupon the custom arises of passing the hat—and I think perhaps Mr. Willis will understand what I mean by that—around the district. And 25 or 30 houses each having "street" stock standing in their names, will contribute the proxies of that "street" stock. This operation thus gives the first-named house enough in the aggregate to dominate the situation.

Now, in return, by courtesy, reciprocity, or whatever you please to call it, quite a number of the larger ones among those other concerns expect that when they have to pass the hat they will receive in return the proxies on the "street" stocks of all the rest. Thus, by mutual support, they uphold one another more and more in Wall Street. The same thing is true of Chicago, of course, to a lesser extent, but I use the term Wall Street not as specifically applying to New York but to the entire system. Thus is the capital of larger and larger numbers of people effectively controlled by groups which do not own in proportion to the power which they exercise.

This is very clearly brought out by this report on holding companies of railroads. I assume that the same principle applies to banks. The observations are made in that report that the percentage of concentrated holding in railroad stocks is surprisingly small; but the report fails to add this other circumstance, which I have described, which enables the pyramiding of that control in the way described. That circumstance in itself more and more enforces the need for complete and intelligent publicity under governmental control. For interstate commerce, of course, things must be under Federal control. A way has got to be found within the next few years,

by the Supreme Court of the United States, to stabilize that condition; otherwise the whole corporate business will become top-heavy.

The CHAIRMAN. It would require a great deal of ingenuity, however, to control that by legislation, would it not?

Professor RIPLEY. I do not think it would require so much to enforce intelligent publicity as it does to insure control.

Mr. WILLIS. Can you specify what you think to be the essential elements of desirable publicity for such companies, and then would you state what you consider the essential elements for desirable control?

Professor RIPLEY. The best thing that I can do, I think, sir, would be to submit to you a memorandum upon uniform accounts and adequate statistical reports in business, which was prepared for me by the president of the American Telephone & Telegraph Co. and which he has authorized me to use as I thought best. It is one of the best statements of the kind that I know. It is based upon the experience of the American Telephone & Telegraph Co. itself, particularly as to the relation between accounting and sound repute—credit, for example. The gist of this report is that the enforcement, since 1912, by the Federal Government of publicity and standardization of telephone and telegraph accounts has been highly beneficial. The telephone industry not only does not object to it, it approves it in detail. It helps them. As they say:

(1) It has greatly increased the public confidence in telephone securities amongst large investors and those who advise small investors, and (2) has prevented "investigations" of Bell system financing by the simple process of providing more facts currently than an investigation would bring out; and this is important for, regardless of what the results of an investigation are, its being carried on at all has something of the result on the reputation of a corporation as an indictment has on an individual.

The CHAIRMAN. Professor, will you let us have that statement?

Professor RIPLEY. I think that is of distinct value as a public document, and I shall be pleased, if you care to have it, to give it to you.

The CHAIRMAN. Yes; we shall be pleased to have it for our record. (The paper referred to is printed in full, as follows:)

UNIFORM ACCOUNTS AND ADEQUATE STATISTICAL REPORTS IN BUSINESS

The art of keeping accounts is an ancient one, but accounting as a science is comparatively new. The establishment of scientific accounting generalizations and rules is intimately connected with the development in recent time, of our great modern industries.

In the business world of to-day the recording of financial facts, formerly the main task of accounting, is but one phase of the work. The classification, analysis, and interpretation of these financial facts now constitute the better half of the contribution which accounting makes to business administration.

Because sound financial structures are vital to business, sound rules of accounting may be considered as highly compelling in their character. They bear directly upon the health and progress of an enterprise in the same way as proper rules of physical conduct bear upon the health and longevity of an individual. Large modern business undertakings organized in corporate fashion, growing with the growth of the country and having prospects of indefinite continuance, are especially in need of scientific accounting rules and systems.

During the past 50 years accounting has become recognized as a business profession. Legal recognition of it has everywhere been extended in order to distinguish those qualified to practice it publicly from those unqualified. Improvement in the status of the well-equipped public and private accountant has directly promoted sound accounting. Coming somewhat later, but even more vigorous in development, has been the application of scientific accounting

by business men as a part of internal business administration. Up to recently the demand for such "administrative accounting" services has been largely supplied by accountants developed within industry who have studied and fitted themselves to meet the varied needs of industry. In the future we may expect that the colleges of business will in greater measure perform a most valuable work by training men as administrative accountants.

Coming still later, and building upon the work of the public accountant and his collaborer, the administrative or corporation accountant, a contribution of no mean importance has been made by governmental regulation and examination of business. Public utilities have been required by Federal enactment to conform to certain accounting rules and practices. The fiscal branch of the Government has examined and quite often has challenged the capital and income accounting of thousands of companies paying taxes. Other governmental agencies such as State regulatory commissions, the courts, the Federal reserve system, and the Federal Power Commission have exerted a further potent influence.

As a result of the work of the several groups mentioned, performed from their very different respective points of view, there has come about a fairly general recognition of the difference between accounting principles and accounting methods; between true accounting classification in the taxonomic sense, and mere segregation or itemization based on internal convenience or upon the prepossessions of interested parties. No methods of accounting, however convenient, however established in commercial tradition, can be good for the long pull if they violate sound principles.

Every highly developed corporation is bound to have its own peculiar accounting problems, successful solution of which calls for continued experience in that corporation or some similar one. Yet it is clear that all corporations should uphold accepted fundamental accounting principles. Further than this, it has now become fairly clear to everyone that the independent elements of each industry have so many business and financial problems in common that some systematic basis of exchange of views and means of comparison of conditions is of great value to all of them. Uniformity of accounting technique is here of great practical advantage.

Within many industries the operating methods and problems of the separate enterprises tend to great uniformity. In the competitive field a large hotel, for example, has much the same organization, equipment, and operating work as another large hotel. Broadly speaking, there ought to be one and only one method of accounting which can be employed to the best advantage in both hotels, due flexibility being, of course, maintained in its application to meet individual needs. This is especially true if, as is likely, the hotel managers desire to interchange certain comparative information concerning their experiences and problems. Important advantages have in fact come from the work of various national trade and commercial associations which with such thoughts as these in mind have fostered good accounting along standardized lines in their respective fields.

In the public utility field it has been found that the operating practices of such carriers as railways or telephone companies, for example, are likely to be very much the same, respectively, regardless of whether the ownership is in one financial interest or another. In these classes of carriers the interchange of business has promoted the standardization of equipment and operating rules.

Business advantage is in many cases (perhaps it is true to say that it is very generally) a force making for standardization of operating practice in the larger undertakings, and since accounting naturally follows the business trend, the same force also makes for uniformity of accounting. In the case of the Bell Telephone system the record shows that persistent efforts have been made since the early eighties to achieve uniformity in current accounting and comparability of financial data. The introduction of a uniform system of telephone accounts prescribed by the Federal Government in 1912 gave further impetus to this movement and occasioned no radical changes. As a result it is probable that uniformity of accounting and reports goes deeper in the Bell system than in any other large group of companies. The uniformity of railroad accounting, effective since 1907, is also very marked. This situation is, however, as much or more the result of the labor of the telephone and railway accounting officers over a long term of years as of the supervisory jurisdiction of the Government. (But this labor might not have been given without Government activity.)

In this way it may seem that upon the basic proposition that accounting fundamentals should be the same for all, must be superposed the further idea that standardization of accounting aids in the effort of the industry as a whole toward efficiency and economy. The logical outcome is the so-called uniform system of accounts applied to-day in many lines of business.

The chief merit of Government action upon the accounting problems of quasi public and supervised corporations is not so much that the systems now legally in effect give the corporations what they should have in the way of sound classifications, although such action exercised, as it generally has been, in the right direction, undoubtedly has expedited progress. The outstanding contribution of the Government has been through radical improvement and extension in the reporting of accounting results.

Public interest in certain classes of corporations requires, almost axiomatically, a system of reports covering their operations which shall be adequate from the standpoint of the public as well as from that of the corporations themselves. The best accounting system in the world will not suffice to those who must approach it through the analysis of reports and summaries if the latter are overbrief, discouragingly technical, or changeable in form. The public interest very sharply distinguishes this case from an ordinary commercial case. Taking for illustration the two hotels previously mentioned, it is possible that one may be owned by an individual responsible to no one but himself, while the other may be owned by a corporation having a large number of stockholders, absentee owners, who have no opportunity to look into the affairs of the hotel for themselves but must rely upon reports based upon the accounting made by the management—an interested party. The exigencies of the competitive situation may impose some limitations upon the publicity of details. The custom is to have a reputable certified public accountant make an examination on behalf of both interests, management and ownership. In the case of a hotel this should suffice at least as a minimum, although the assurance conveyed and taken will doubtless be augmented if the report is based upon a carefully designed standard system of hotel accounting which the stockholder can obtain and study for himself.

But with public utilities empowered to provide a public service and operating under conditions which limit competition there are three instead of two interests to be considered. The interests of the whole public in fair service charges have justified the Government in requiring not merely that the underlying accounting shall be sound and correct as it ought to be in any event, but that the results shall be reported in standard and easily understood form so that any intelligent user of the service may examine and understand all such reports.

The several kinds of forms of annual report specified by the Interstate Commerce Commission for the use of various classes of carriers subject to its jurisdiction, admirably meet the needs of this situation. In addition to requiring a full exposition of results of the ordinary accounting type as expressed in balance sheets, income statements, itemized schedules of revenues and expenses, reports of receivables and of payables, etc., the instructions provide for statements of the ownership of the corporation, and lists of its directors and officers, data concerning voting powers and elections, disclosures of the names of corporations controlled by the reporting carrier, reports of extension of operations, of properties purchased and the consideration given for them, of new securities issued and the amounts received thereon, of leaseholds acquired and surrendered, consolidation, mergers, contracts, etc., effected and many other matters.

The conservative public-service corporations have been supported and the less conservative ones have been steadied in their course of action by the installation of governmental systems of reporting which while meeting all legitimate requirements of publicity from the standpoint of reporting companies, have also acted as a sort of financial dragnet, running impartially under the entire accounting system and bringing to view everything which it presently contains. It is significant that at the present time the typically bad corporate report which only serves to befog significant data or to occlude them in groupings so vague and compendious as to afford no opportunity for analysis and comparison, is confined to realms thus far immune from Government accounting supervision.

Of course, there is nothing in such governmental demands—confined as they are to accomplished facts of past accounting and finance, to which enlightened management or invested interest could object, while the advantages are im-

pressive and manifest. A good corporate report providing for essential facts regularly made public under oath of the highest responsible officers upon forms devised by disinterested governmental accounting authority which has also approved the soundness of the system of accounts underlying the report, is certainly a factor toward efficient practice, corporate integrity, and public confidence.

Very important financial interests are intrusted to the management of our great corporations, and interested investors are entitled to every assurance that reports made to them are on a sound basis. Sworn reports to the Government help to provide such assurance. The history of this country shows that the people will not long submit to corporate exaction and are keen to resent any unfairness on the part of private interests' supplying public needs. In view of this, frank and adequate reports under Government supervision engender confidence and dispel ill-founded apprehensions on the part of all concerned, including the users of the service generally.

It would seem that the matter of the proper reporting of corporate financial results can hardly be taken too seriously, and it is a reasonable expectation that the chief gains, at least in the early future will come, not so much from more elaborate accounting as from more informative reporting based on soundly conceived systems of accounts. Sound accounting is manifestly essential from the outset, but to obtain the most satisfactory final result it is necessary to make the accounting results sit up and talk plain English.

Consider the following list of advantages which by general admission should flow from the use of a uniform system of accounts, and observe how many of them depend for their realization upon adequate means of reporting and exposition:

1. A uniform system of accounts makes the best system available to all. This is so because the experts who prepare the system—representing as they do the best thought regarding the industry—carefully select the most desirable features from all preexisting systems. A uniform system also makes for constant future improvement because the thought of all is directed toward the one system instead of being diffused among different ones.

2. It is a true and comparable record of capital outlay, receipts, expenditures, and results.

3. It permits comparability of data among divisions of a company and among different companies.

4. It permits assembling of data from the industry as a whole with which individual companies can compare their particular data.

5. It facilitates discussions with other companies, preparation of operating contracts and settlements thereunder.

6. It assists in the auditing of accounts and in investigation and studies.

7. It provides the best basis for statistical treatment (and here we have reference, not to the statistician who can find out how many times a wheel goes around between New York and Omaha but to the man who by studying various ascertained facts can bring to light further important, but hitherto unascertained facts).

8. It provides assurance to all interested that the accounting and financial facts regarding the undertaking have been disclosed fairly and as adequately as they rightly should be.

Mere technical sufficiencies in accounting and reporting are not quite the whole story. Something should be said as to the personality of the accounting officer. The scientific progress of accounting and the development of fixed categories has not reduced him to an automaton. The art of accounting is still as long as accounting working time is fleeting. In our great American corporations, frequently having their chains of affiliated corporations, the responsibility resting upon the chief accounting officer has become very great. As general business technique becomes more complex and scientific, the demand for adequate and illuminative accounting correspondingly increases. The management, the investors, creditors, and the Government alike look to the responsible accounting head for faithful, efficient, discriminating work. As has been said by a recognized authority, the late Henry C. Adams, professor of political economy and finance at the University of Michigan, to whom is due in great measure credit for initiating the prescription of uniform accounts for carriers and public utilities under Federal jurisdiction:

"The accountant stands at the center of an organized industry; every transaction passes through his hands; every problem must receive the imprint of his mind, for it is he who supplies, in concrete form, the information upon which

reliance must be placed for deciding administrative policies. No other single officer of a great industry is required by virtue of his official position to know as much of all operations in all departments as the accounting officer. This is the explanation of a very significant fact disclosed by the recent history of great industries—namely, that of the development of the bookkeeper into an executive officer. The modern railway accountant is no longer a clerk whose duty it is to keep records according to instructions received from others. On the contrary, he has become a critic, responsible for detecting unnecessary wastes in operation and for testing the efficiency of current administration. He is responsible also for exposing incompetence, whether of departments or of policies, and for the pointing out of those tendencies in the business world, the recognition of which is essential to the successful administration of a property. It is no accident, therefore, that the railway accountant of to-day is classed among the higher executive officials in the organization of American railways."

In the case of the public utility accounting officer, to these administrative demands are added those of governmental regulation which throw chiefly upon the accounting officer the burden of the responsibility for his corporation in conforming to intricate official rules. The fiducial reliance placed in him by our Government and the public as well as the confidence extended to him by the management and the investors of his corporation, render the position of such an accounting officer one of the greatest honor and responsibility. His reports especially should be from any point of view unassailable.

As illustrating this fact, the following quotation from the opinion of the Interstate Commerce Commission, No. 933, is pertinent:

"The formative period to which we have referred must now be considered as having come to an end so far as all the important principles and requirements of our regulations are concerned, and we shall hereafter expect a more exact observance of the prescribed accounting systems by the carriers and their officials. Accounting officers understand the true functions of accounts and realize their importance in determining the correct economic condition of the transportation properties with which they are affiliated. Their instincts and training are such as naturally to lead them to keep their accounts as they should be kept. They would not have the confidence of their superior officers if this were not the case. But in many instances the accounting officers of carriers have not been left free to follow their natural inclinations in this regard. Irrespective, however, of the influences brought to bear upon an accounting officer to turn him from his true course as an accountant and from his duty, under the law, of keeping the accounts in accordance with the system prescribed by the commission, it is nevertheless his hand, or the hand of some one immediately under his authority, that makes the wrongful record, and it is the first instance for the proper carrying out of its rules and regulations. Under our regulations and prescribed form the oath of the accounting officer must be attached to the annual report of the carrier to the commission, together with that of the executive; and, from the necessities of the case, it is the accounting officer who is immediately responsible and whom the commission will first hold responsible when it becomes necessary to invoke the penalties of law; but we shall not hesitate to call to account with even greater severity anyone above the accounting officer in authority who may share in the responsibility for any violations of the accounting rules and regulations which have been prescribed for the use of the carriers that are subject to the act."

Advocacy of adequate uniform accounting and reporting should not be carried to the point of making these serve as a cure-all. It too frequently happens that valuable curative agencies are extolled as panaceas and credited with divers powers which they do not in fact possess. When this happens, it is probably that the indicated cures have proceeded more from the skill of the practitioner who applied the remedy than from the mere fact of its use. Accounting is something for expert use, and the expert should have a thorough knowledge of his business field as well as of the appropriate accounting. It happens, too, that curative agencies of great benefit are denounced as ineffective because they do not of themselves bring about results which can only be brought about by discrimination in their effective employment. Good accounting can not supply the lack of proper business control.

Take such a situation as the following:

The real cost of production is reported to be unobtainable from the books of Company A because that company buys its product in a partially manufactured state from Company B, whose books, maintained in another State, are

not accessible, and in any event enhance also the costs of product not taken by Company A.

Or the following, which raises a wholly different sort of problem:

Company D is the owner of Companies E and F. It pays a dividend based upon a dividend received by it from Company E, although Company F, whose securities are carried at a conservative valuation on the books of Company D, has contemporaneously lost as much money as Company E has gained and paid to Company D.

Such situations go beyond the scope of accounting, and the remedial prescription, if one is necessary, must be written from a supervisory and not a mere accounting point of view.

Sound accounting, per se, will not prevent a speculative "pyramiding" of control through chains of subsidiary corporations, with the possible accompaniments of overcapitalization, undue profits by intercompany transactions, and the pyramiding of risks no less than of chances of profit, nor will it prevent the issuance of securities to defray the costs of improvident or unwise purchases or expansion of properties.

In conclusion, when companies which for many years have practiced uniform accounting under Federal regulation find it advantageous to them the argument for a uniform practice would seem to be conclusive, for there can hardly be a question of the advantages from a general social standpoint.

Officials of the Bell System see no disadvantage but, on the contrary, some benefit to their companies from uniform, required accounting of a sound and enlightened type. A superior standing attaches to certified published figures developed under such a system, which the telephone people, extremely large users of invested capital, have not failed to realize. For example, the telephone accounts require the statement of all fixed plant and equipment at its cost to the reporting company, which means, since the companies build practically all of their own plant, that the published balance sheets generally exhibit the exact original cost of construction. The great advantage to all concerned of assured figures on this basis may be taken as obvious.

The uniform system of accounting has never been found other than helpful in stating the facts regarding the immense growth of the telephone system during the past 18 years. Indeed, it is considered that the financial position of the Bell companies has been assisted and public confidence has been promoted through careful adherence to an adequate system of mandatory accounting.

Mr. WILLIS. Do I understand that you think that the same system as applied to telephone companies should also be applied by Congress to all companies that may be held to be interstate in character or operation, and that it should then be left for discussion in the courts which ones of them are so?

Professor RIPLEY. I do. I would force a decision on that point. There has never been a more opportune time of pointing out what the evils are of noncompliance with such a program.

Mr. WILLIS. That would imply a rather large bureau here in Washington entrusted with the work of gathering in and codifying those reports.

Professor RIPLEY. I think so.

Mr. WILLIS. Is there any existing bureau which can be intrusted with that duty?

Professor RIPLEY. You are speaking of investment trusts?

Mr. WILLIS. I am speaking of what you suggest; namely, a possible or theoretical congressional control of companies buying or trading in corporation securities.

Professor RIPLEY. I think that has got to develop the agency out of experience. We have had it so long in the case of banks, now—

Mr. WILLIS. What would you think of the idea of prohibiting banks from investing in the securities of any concerns which were not amenable to such requirements for publicity?

Professor RIPLEY. That is one of the first things I should like to see, of course—you have raised the point of constitutionality, but if you could force it—

Mr. WILLIS. You could force that upon national banks or any bank that holds its charter from Congress, could you not?

Professor RIPLEY. Yes.

Mr. WILLIS. By specifying that they could invest only in such securities as are issued by concerns which have complied with the publicity legislation?

The CHAIRMAN. Right there we are confronted with the vice of a dual system of banking. When you prohibit a national bank or a member bank of the Federal reserve system from investing in these securities there is either a provocative or the temptation of a member bank's withdrawing from the system and taking out a State bank charter.

Professor RIPLEY. Yes; there is that danger.

The CHAIRMAN. If the courts were to decide that activities of this description and processes of this sort constitute interstate commerce, that would simplify the matter?

Professor RIPLEY. Well, it is because I feel that the issue of the determination of the legal point is so rapidly coming to the front and has already been brought to a head in the direction of railroads—and that is perhaps where it will arise first—that it is bound to come up with public utilities, and I think it will follow next in investment trusts.

The CHAIRMAN. And we might precipitate it in the banking business by some provision in legislation—

Professor RIPLEY. The fact is—and I am sure Mr. Willis will support me in that—that there is the widest range of practice in this matter of accounting. In general it is becoming better all the time. The bulk of the big companies now have put themselves in fairly good shape. But there is enough of irregularity and inadequacy so that what we need is a situation under which the burden of proof would lie against the company which did not conform to that intelligent publicity. When it begins to arouse a conviction amongst those who advise people professionally that the reports of such and such a company are not understandable, then it will begin to affect the credit of that company—its ability to place its securities.

So you will not only be helping but forcing the issue if your committee acts as you suggested; you would force the issue upon the courts and also you would tend to improve the standing and practice in business with them. You direct attention to this matter as an essential of modern, highly complicated finance. The whole system, more and more, is being built upon the handling of funds and the capital of millions of people by a very few.

The CHAIRMAN. Have you any familiarity with this process of banking popularly known as loans for others in the stock market—loans particularly by corporations?

Professor RIPLEY. Not very much. Of course, I have read what has been said about it during the last disturbance and during the period of inflation.

The CHAIRMAN. To what do you attribute the last disturbance—the collapse?

Professor RIPLEY. I suppose it is a little bit in the nature of things that the wheels whir faster and faster until exhaustion comes. I feel also, to a very much larger degree than has been appreciated, the custom of installment has been influential; and I find other men who, in my judgment, are well informed feel the same way about it.

The CHAIRMAN. Do you think our established banking systems ought to be permitted to contribute to an upheaval of that sort?

Professor RIPLEY. No; I think in every way by which you can compel machinery should be fashioned so as to slow down the spending of money until people have saved it. That is just an individual opinion, but I find it shared by a number of informed men.

Mr. WILLIS. Would you think it desirable or proper to prohibit member banks from financing installment selling and investment in finance companies?

Professor RIPLEY. I should like to see that done. It is the first time I have been brought face to face with it, but there is a widespread opinion that many people have spent far ahead.

Mr. WILLIS. Installment paper has crept into the banks more and more until now it is quite a large proportion of the portfolio of the banks?

Professor RIPLEY. Might it not be well to limit it to a certain small proportion of those investments? I think that would be the answer. You never can tell what you will run up against when you say peremptorily that a certain thing shall not be.

The CHAIRMAN. What you run up against was very briefly and succinctly described before the Money Trust investigation of some years ago, when the attorney, catechizing a very prominent banker, asked him if the banks—or many of them—did not engage in a practice of evading the law. “Why,” he said, “of course. What do you think we hire the best legal talent on earth for? Anybody can obey the law. We hire lawyers to tell us how to evade it.”

Professor RIPLEY. Or to keep just a jump ahead of it.

The CHAIRMAN. Yes.

Professor RIPLEY. A difficulty with absolute prohibition might be that there should come into the hands of a bank, through failure in some way, investments of this kind. If you compelled those things to be disposed of at once, at perhaps great loss, under a flat prohibition, it would be most unfortunate.

The CHAIRMAN. Yes.

Professor RIPLEY. But I think you might say that above a certain proportion decided upon by those well informed in the business, such a ceptances should not go into the portfolio of a bank.

Mr. WILLIS. Have you any criticisms of the present stock-market methods in regard to the listing of shares or the admission of shares to listing?

Professor RIPLEY. I should like to say this: That from a fairly close contact with the committee on stock list, which began during the administration of the late president of the New York exchange, I have been distinctly impressed with its high purpose in seeking to eliminate some of the gross evils which used to be connected with the stock exchange. The close scrutiny to which the accounts are subjected of companies which are so listed mark a great advance. The same objection, Senator, however, applies there that would apply to

putting a prohibition upon national banks. All these corporations which do not wish to conform to the requirements of the New York Stock Exchange list either on the Los Angeles or Reno or even Boston (Mass.) Stock Exchange. It has become rather notorious in Boston that securities there have been listed which could not by any chance be listed on the New York Stock Exchange.

I have in mind at the present time the preparation of a general description of the conditions which should attach to safe investment by the small and uninformed investor. It was brought to my attention the other day by the spectacle at the Bowery Savings Bank, under its new and able president, of the file of people who come in there for safe-keeping with what they have been able to save out of the Bank of the United States failure. Over 50,000 people have opened new accounts with the Bowery Savings Bank, being turned adrift, so to speak, as to the placement of their savings, through this failure. The Bowery Savings Bank is, I think, doing the best it can to advise these little clients, if they wish to go beyond putting it into savings banks and to invest it, as to how those funds might safely be so invested. There are many people concerned.

One of the first requirements for the uninformed person to observe would be that his investment should be listed upon the New York Stock Exchange. The management is now honest and straightforward. It was not always so. But I believe now that the committee on stock list is eminently public spirited in their requirements. If we could have all of the investment trusts at the present time as well as all of these big interstate public utilities listed on the stock exchange the imposed requirements as to accounting would go very far toward stabilizing the situation. But many of those corporations will not list there at the present time so long as people are uninformed. Possibly for the sake of an open market they may go through the formality of listing on the Amsterdam or Los Angeles exchange or some other place where no formalities are required.

Mr. WILLIS. Do I understand you think the securities owned by the investment trusts should all be listed or the investment trusts themselves should have their securities listed on the stock exchange?

Professor RIPLEY. I think both should be done.

Mr. WILLIS. But some of the very worst investment trusts have been listed, have they not?

Professor RIPLEY. I could not answer that question directly. The difficulty of investigation before accepting for list is very great. I doubt if they have formulated their rules yet for investment trusts, but I know they have had it seriously in mind.

Mr. WILLIS. Do you think there should be any connection between banks' investments and listing? In other words, you speak feelingly of the small investor. How about the banks?

Professor RIPLEY. The only trouble there is that while you may believe in the probability of steady improvement of the New York Stock Exchange committee on stock list you have no guaranty to that effect. If they should set up sound requirements and then that committee should degenerate in character, or the administration of the exchange should fail in public spirit, your requirements would amount to nothing.

Mr. WILLIS. Do you think the New York Stock Exchange or, broadly speaking, any exchange, is a proper subject for Federal control?

Professor RIPLEY. I have followed closely Mr. Samuel Untermyer's several contentions as to that. No; I do not believe at the present time, with the public spirit which has been manifested by Mr. Simmons for so many years, by his successor, and by the leading committees, that one need have the apprehension about the New York Stock Exchange, in relation to the interest of the common people, that would have been necessary 30 years ago. It seems that the situation has distinctly improved. I should prefer, on the whole, to let them try and work out their own salvation without exerting governmental compulsion.

Mr. WILLIS. The panic of 1929 has affected a greater number of investors than any other panic in the history of the Nation?

Professor RIPLEY. That is because we are a bigger Nation. A larger proportion of the savings of the people, instead of going into horses and cows and land, has gone, since the World War, into paper evidences of wealth.

Mr. WILLIS. Does that mean you are inclined to exempt all stock exchanges of the country, as such, from this regulation?

Professor RIPLEY. Not the stock exchanges of the country, but I am speaking of this particular institution because of the men at the head of it.

(Discussion off the record.)

Professor RIPLEY. My answer to you, then, as to direct Federal legislation or attempted legislation concerning the stock exchange, is that the need for that action is not as great there, if there is any, the way they are going now, as it is in other directions. But along the lines you have suggested, Mr. Chairman, one might well give serious consideration to the amendment of the law.

The CHAIRMAN. Yes; if you are going to depend entirely upon the personnel and the management, you will find that subject to variation. If you get a bad personnel and indifferent management, why, disaster ensues.

Professor RIPLEY. But this may be said, I think, for the New York Stock Exchange: They aspire to be the great stock exchange of this country or to continue to be as preeminent as they are now; and the intelligence of those who have been so largely associated with it is high enough so that they comprehend that the future of that institution at bottom rests upon its integrity. That is where they differ, I think, from the condition as it was 30 years ago. The so-called big men then—a great many of them—were of a distinctly different type. There is getting to be enough representation of men of large affairs who have to make an appeal to the public for their capital funds to enforce the lesson that they can not hold the confidence of the public and get those funds continuously without maintaining a high degree of integrity. That is one explanation of that memorandum from the American Telephone & Telegraph Co., which is the most acceptable reservoir of investment funds for all the people in the world.

The CHAIRMAN. It has, perhaps, more holders of its securities, numerically, than any other.

Professor RIPLEY. Not more than some of these public utilities.

The CHAIRMAN. It has not?

Professor RIPLEY. No. It is marvelous when you add up the figures of the ownership of stocks and bonds, preferred A and preferred B, and 9 or 10 other kinds of securities that they issue. The total runs into the hundreds of thousands. There is one, I think, with 750,000 security holders; perhaps more. You may set that figure for one company over against the total in the holding company report here of only 840,000 railroad stockholders in the whole United States. The reason they have so many is that they sell to my cook or my chauffeur—to the small property holders—one or more shares apiece. The meter man is a peddler of stock, like a life-insurance agent or a bond salesman. He gets as much of a commission on what he sells, too, as they.

The CHAIRMAN. I have been very much impressed with what you say of the management of the New York Stock Exchange, and yet it was principally upon the New York Stock Exchange that frightful excesses in the sales of stocks not possessed and in the exaggerated advancement of other stocks that the collapse came.

Professor RIPLEY. You are perfectly right, sir; and the query to a thinking person is whether you can have an open market—and the very essential of widespread public investment is preservation somewhere of an open market—how you are going to preserve the open market and yet limit the abuse. I confess I do not know yet. Short-selling business, particularly, is most vexatious and puzzling.

The CHAIRMAN. That is a question of the proper, workable definition of an investment and a pure speculation or gamble.

Professor RIPLEY. Yes; and what is needed more than anything else is a clear separation between those businesses which are speculative and those which are in the nature of an investment. That may be illustrated by citing the case of one of the largest of the public utilities—Cities Service. I have very carefully examined their accounts to determine how much of that is of the nature of an investment, namely, public utilities proper, and how much of it is one of the most speculative businesses in the world—oil promotion. At the present time it is about 50-50. It was five-sixths oil and one-sixth utility about 1920, and yet that stock was sold to you and to me and to the public as an investment. The point is that the accounting should in all cases be such that there may be no mistake about that. And the nature of the public market should be such that it shall minimize resort to that market for pure speculation, emphasizing always its serviceability as an open market for the whole country.

The CHAIRMAN. A person ordinarily does not invest his money for a day or a week or a month. I had a chart presented to me perhaps, now, 12 months ago, which indicated that the average holding time of stock, based on the New York Stock Exchange, had dropped from 67 days 10 years theretofore to 22 days at the time this chart was prepared. Well, not many people really invest their funds for 67 days, and certainly nobody engages in 22-day transactions and calls that an investment, in my view.

Professor RIPLEY. You are perfectly right. But you must remember that that average—and I may assume that it was an average—that that average is made up of widely variant lists of securities. The natural progress of an old-established business is to pass

through the speculative zone over into the investment type. I have watched that with great interest in the case of the United States Steel Corporation. In 1900, when I was in expert service for the old United States Industrial Commission, I heard Mr. Schwab, the first president, come down here and describe the United States Steel Corporation. It was all one great gamble at that time. I suppose 99 per cent of the securities still had to be placed in permanent hands. One may watch year by year how the proportion of so-called Street stock has declined.

Now, any period of promotion—and there was a great deal of such promotion and always is in a period of inflation—is apt to be marked by the advent of these new companies. The new companies are all speculative for a time. Nobody knows just what they are worth. It takes time for them to find their due level. So that if those figures which you cited happened to be taken during such a time of active promotion, that promotion might have accounted for it in part. There might have been an actual improvement among the old-line seasoned investments, and yet a million or 100,000 million people may go wild speculatively as to the new ventures.

The CHAIRMAN. The law itself is very specific, but they do not like the banks?

Professor RIPLEY. Of course.

Mr. WILLIS. Does your analysis, Professor Ripley, suggest to you any recommendations with reference to bank legislation specifically designed to keep the reserve funds of banks and reserve banks, of course, out of such speculative operations as you have described?

Professor RIPLEY. Not, perhaps, other than those observations which have been made by the chairman and by yourself. I should like to see the brakes put on.

The CHAIRMAN. The law itself is very specific, but they do not just obey the law. That is all. We may be able to make it more specific, but I am puzzled to know how.

Professor RIPLEY. You might make it more specific by a more positive definition covering some of these new forms of investment which have come up lately—the question of installment buying, that of investment trusts, and so forth, which do not have adequate reports. Of course, that means that you would have to set up additional machinery for the inspection and enforcement of such laws. It takes a real expert to determine in any given instance whether there is adequate publicity or not.

The CHAIRMAN. There is apparently not adequate examination because we have banks examined one week and reported in good order which fail the next.

Mr. WILLIS. You are, however, perfectly clear in your own mind that banks' reserve funds should be kept out of investments, so called, in securities of the kind you have described?

Professor RIPLEY. I think so; and I think the obligation to do that becomes ever greater with the wider degree of popularization of such investments.

Mr. WILLIS. You have no belief in the statements that are so current—that unless banks are allowed to go freely into the speculative market there will be a lack of capital for the development of new industry?

Professor RIPLEY. I am suspicious all along the line as to banking management in the promotion of industrial enterprises. I have watched them in a great many cases. The great concerns which succeed best are those which keep free from banking affiliations. The attitude of a banker is distinctly different from that of an investor. That was clearly expressed in "Wall Street and Main Street" by the observation of the head of the firm handling the Dodge Motor Co. The leading banker in that case defended his act of withdrawing his capital and yet holding the control upon the ground that a bank's natural function was not to administer an enterprise but to go in and out, withdrawing his capital continually in order to put it somewhere else. What I object to was withdrawing his own capital, however, and putting it somewhere else but still maintaining all the control.

The CHAIRMAN. Professor, we are greatly indebted to you, sir. You have given us a very helpful session.

Professor RIPLEY. I wish it might have been more specific on the banking side.

The CHAIRMAN. We are very much obliged to you.

STATEMENT OF PROF. MARCUS NADLER, OF NEW YORK UNIVERSITY

The CHAIRMAN. Professor, you are associated with New York University?

Professor NADLER. Yes, sir.

The CHAIRMAN. Do you have some connection with the Institute of International Finance?

Professor NADLER. Yes, sir; I am research director of the institute.

The CHAIRMAN. And you were formerly connected with the Federal reserve system?

Professor NADLER. Yes, sir.

The CHAIRMAN. I assume that you understand what we are engaged in here, and we shall be very glad to have you make a statement, if you will.

Professor NADLER. Mr. Chairman, if you will permit me, I have prepared a brief statement covering some of the more important points.

I have divided my analysis into two parts—bank failures and security loans.

Aside from factors mentioned by other witnesses, such as lack of diversification, improvement in transportation facilities, smallness of capital, bank failures are caused by lack of liquidity—resulting partly from too large loans on securities and mortgages and the holding of less liquid investments. This situation is particularly dangerous in times of falling commodity prices, security prices, and a slow real-estate market. Security loans I intend to take up later. The liquidity of small banks and of savings banks would greatly increase if there were a central mortgage bank for urban real estate which could take mortgages held by banks and savings banks, and on the basis of these issue its own bonds. This would create a ready market for urban mortgages and would in times of stress enable the banks, commercial as well as savings,

to convert their mortgages into cash. Such an institution, in order to accommodate savings banks, might also be authorized to discount for the latter prime securities as well as mortgages.

In other words, it seems to me that the establishment of a mortgage bank for urban real estate would help greatly the small banks.

Secondly, I feel, Mr. Chairman, that bank failures are, to a large extent, caused by lack of responsibility of directors and officers. A law which would hold bank directors and officers of a bank a priori responsible for bank failures would, it seems to me, result in more conservative banking.

Another thing, Mr. Chairman, is that the double liability clause attached to bank stocks has in recent years lost a great deal of its effectiveness. At the present a large part of these stocks is held either by affiliates or by holding companies, and when these banks fail the holding company fails or the affiliate companies fail, and the double liability clause becomes practically worthless. A law forcing corporations directly or indirectly interested in the management of the bank or closely affiliated with the bank, holding the stocks of such a bank, to set up a reserve against their double liability would remedy the situation. I am firmly convinced that any holding company or affiliate which holds the stock of its own bank should set up a reserve bank specified by the Comptroller of the Currency against this double liability.

Another remedy would be the segregation of assets. Bank failures are particularly disastrous to savings depositors. Segregation of assets and investments of the savings deposits into securities or assets approved for savings banks would protect savings depositors. Distinction, however, should be made between, first, actual time deposits and, second, savings or thrift accounts such as are evidenced by savings pass books. In my opinion, only the latter should be segregated. To include all kinds of time deposits may injure legitimate bank business.

Branch banking: Under modern conditions of rapid transportation, of chain stores and branch factories, small unit banks have to a considerable extent outlived their purpose. Failure of banks with branches, however, is not unknown in Europe and in the United States. A failure of a bank with a string of branches operating in one district would cause disaster to the entire district. Branch banking also tends to create a monopoly of banking business in certain sections of the country.

Furthermore, business houses are accustomed to have two or more banking accounts. The absorption of one bank by another often results in unnecessarily restricting the line of credit to individual firms. It would seem to me, therefore, advisable that if branch banking is allowed, certain provisions should be made to guard against the creation of a banking monopoly in certain parts of the country; and, secondly, not to restrict unnecessarily legitimate business. Before branch banking is allowed, it seems to me that the powers of the Comptroller of the Currency should be greatly increased.

Powers of the Comptroller of the Currency: No institution is more susceptible to publicity than a bank. To give the Comptroller of the Currency the power to publish his findings if a bank has not remedied its situation within a reasonable time would be one of the strongest weapons in the hands of the Comptroller. I reach this con-

clusion because the superintendent of banks of New York knew about the bad state of affairs of the Bank of the United States, and the Federal Reserve Bank of New York knew about it, and everybody knew about it except the poor small depositors.

Mr. WILLIS. How long before?

Professor NADLER. I read in the newspapers that Mr. Case, chairman of the board of the Federal reserve bank, stated before this committee that for a number of years he had information about the bad condition of the Bank of the United States outfit. The State superintendent of banks apparently knew in 1929 that the Bank of the United States was in very bad shape. If he had been forced by law to publish his findings three months after he had given notice to the bank, the bank either would have had to comply with his request or he would have been under obligation to publish his findings. If he had published it, I think the interests of the depositors would have been served better.

If I am not mistaken, Mr. Chairman, the Comptroller of the Currency has suggested that he be given the power to remove an officer or director of a bank. I do not believe that this will be very effective for the simple reason that the officer or director may be a dummy for some one else directing the destinies of the bank. I think by imposing the obligation upon the Comptroller of the Currency to publish his findings, banks will be forced to live up to the traditions of the law and conservative banking.

The CHAIRMAN. Do you happen to know whether the Federal Reserve Bank of New York lost anything by the failure of the Bank of the United States?

Professor NADLER. It is common knowledge that the Bank of New York held acceptances accepted by the Bank of the United States. Of course there are two other persons liable on the acceptance, or at least one—the drawer. I do not know whether they lost anything or not.

I believe that the statements published by the banks should be amplified. At present the balance sheets of banks reveal very little. At the present time it takes an expert to know the meaning of a bank's statement. I believe the comptroller should be given the power to require banks to amplify their statements to the point where at least an intelligent depositor could understand them.

Speculation—nature of security loans: Security loans with certain exceptions (change from loan accounts to outright purchasers) can not be liquidated to a great extent without incurring other loans. They are frozen. Security loans, looked upon from the point of view of the banking system as a whole, are not liquid and the larger the volume of such loans outstanding the less is the liquidity of the banking system.

Securities, to a very large extent, represent fixed assets or the taxation power of political units. Security loans, therefore, looked upon from the broader angle, are used for the construction of fixed assets and their liquidity as far as the individual bank or borrower is concerned depends upon the security market. If the New York Stock Exchange should be closed as it was, if I am not mistaken, in 1914, all security loans would be illiquid.

Bank credit and speculation: Speculation in securities can not go very far without the aid of bank credit. An expansion of bank

loans in turn increases deposits and hence forces the member banks to increase their reserve balances with the reserve banks. It makes only little difference whether banks make direct loans on securities or they facilitate the selling of securities by corporations, which in turn enables the latter to place funds on the call-money market.

One may, therefore, conclude that speculation can not go too far without the aid of bank credit; the latter can not be overexpanded (short of importation of gold or great reduction of currency in circulation which can easily be offset) without the aid of reserve credit, and hence that the reserve banks have the power to prevent excessive speculation.

Regulation of security loans: The fundamental principle not to be overlooked is that one dollar of reserve credit supports ten to fifteen dollars of member bank credit, and thus only a small amount of reserve credit can support a much larger volume of security loans. To prevent reserve credit from being used for speculative purposes there are a number of possibilities:

First. By imposing on reserve banks the duty to exercise qualitative control and to refuse the rediscounting of eligible paper for banks which carry too large a volume of security loans.

Second. By fixing by law the total amounts of loans which a member bank may make for the purpose of carrying securities. This can be done either by fixing the total amount of such loans in relation to capital and surplus of the individual bank or, secondly, by fixing the total amount outstanding as of the day when the law comes into force; or, thirdly, by taking the maximum amount outstanding during a certain period. Any bank which has exceeded this limit should not have the privilege of rediscounting with a Federal reserve bank. In my opinion, power should be given to the Federal Reserve Board to change these amounts if an emergency should arise.

Repurchase agreements: Any limitation of security loans can be circumvented to a considerable extent by the so-called repurchase agreements. Since the securities obtained under a repurchase agreement in fact are not an investment, but actually a loan, the best way out, therefore, without hurting legitimate business would seem to be to require their classification as a security loan and not as an investment. To prohibit repurchase agreements could be circumvented by instantaneous buying and selling of securities.

In other words, Mr. Chairman, the repurchase agreement at the present time, in certain cases, is used to avoid the provision of the law which limits a bank in lending to one individual to 10 per cent of its capital and surplus, by making a repurchase agreement. A repurchase agreement, however, is not an investment. It is a loan, and if you classify it as such, you make it more difficult to avoid the law. To prohibit repurchase agreements entirely could be easily circumvented by instantaneous buying and selling of securities. A bank, for instance, would actually buy the securities and at the same time sell them at a lower price, the delivery of the securities to take place in three or four months.

The CHAIRMAN. The difference being the amount of the discount?
Professor NADLER. Yes.

Classification of loans: At present loans are classified according to the security in back of them and not according to purpose. Hence

a security loan may be obtained for business purposes, and vice versa, an unsecured loan may be used for purposes of carrying securities.

Now, Mr. Chairman, suppose, for instance, that I have a security loan with my bank and the security has gone down. The bank may call me in and say, "If the superintendent of banks comes in and finds that the value of the securities has gone down, he will make it difficult for me." So, the bank helps itself by reducing the security loan 50 per cent, but making a direct loan to the customer. However, the loan is still used for the purpose of carrying securities.

The largest volume of security loans is not made to brokers or dealers but to individuals or firms, and the largest increase in recent years was in the latter item. As a matter of fact, loans on securities to others are more dangerous to the credit structure of the country than loans to brokers. Before any limitation on security loans is imposed, it would seem advisable to make a careful analysis of these loans and that legislation should be directed primarily against loans obtained for the purpose of carrying securities and not against total loans on securities.

Loans for account of others: Loans for account of others were the most dangerous element in security speculation in 1928-29. The danger arises from the following facts:

First. These loans may expand in volume without affecting the volume of bank loans and bank deposits; hence they are more difficult to control by the reserve banks.

Second. They do not decrease the volume of loans and deposits of the banking system as a whole and hence, no matter how large they are, they do not affect the lending power of the banks; to the contrary, they may increase the lending power of the Wall Street banks if the funds come from outside New York City.

Third. To a large extent loans for account of others represent an increased velocity of bank credits, thereby making speculation on a large scale possible with comparatively little bank credit.

Proposed remedy: Since most of these loans are placed by corporations, the latter are carrying out banking functions. A law prohibiting corporations whose primary function is not banking, from lending money, would seem to be the best remedy. If such a law should be declared unconstitutional, a similar result could be accomplished by the following measures:

Since in case of a rapid withdrawal of funds by "others," banks invariably have to substitute their own credit for that withdrawn, and since they can do so only through an increase of reserve bank credit, it would seem not improper to demand of banks to maintain a reserve against these loans with the reserve banks. Through this, and particularly if the Federal reserve banks are not allowed to lend funds for security purposes, the banks themselves would refuse to handle loans for the account of others.

Mr. WILLIS. Does that complete your statement?

Professor NADLER. Yes, Doctor Willis.

Mr. WILLIS. May I ask you a question or two about the foreign bond situation? Have you made any inquiries or investigations abroad lately on behalf of your institute?

Professor NADLER. Yes, sir.

Mr. WILLIS. What do you expect to be the course of events as regards the issue and purchase of foreign bond issues in this market from now on?

Professor NADLER. From now on I believe the volume of foreign securities issued in the American market will be smaller. Foreign securities, in my opinion, however, are a necessity at the present time, for the simple reason that we have invested between ten and twelve billion dollars abroad, excluding loans made by the United States Government and excluding direct investments. If the debtor countries are to pay principal and interest, they will have to borrow more here. I believe, however, that the American investment bankers, and particularly the sounder ones, have learned a lesson from the experience of 1927.

In 1927 the American investment banks—particularly those which may be classified as second-rate banking houses—went over Europe and South America, asking various States to borrow and suggesting plans how to borrow, with the result that a number of countries have overborrowed. So long as they could secure new loans, they were in a position to pay principal and interest.

The CHAIRMAN. Out of the new loans?

Professor NADLER. Yes, sir; or out of the proceeds of former loans, and the moment the foreign bonds collapsed, because of the speculation in this country, foreign borrowing stopped and at the present time we begin to have defaults along the same line as Great Britain had 50 or 60 years ago.

Mention might be made of the default of Bolivia, which has declared itself unable to pay the principal and interest on its outstanding obligations.

On the whole, Doctor Willis, foreign securities, as a group, are about the same as any other group of securities. You will find among the foreign securities "triple A" bonds, like the bonds of Switzerland or Holland. At the same time you will find foreign bonds which are worthless, like the bonds of Ceara and Santa Catharina. Such loans should not have been made. The difficulty is that the small interior banks are the ones that bought the bonds.

According to the report of the Comptroller of the Currency of June, 1930, the total volume of foreign securities held by member banks amounted to \$689,000,000, of which \$119,000,000 were held by central reserve city banks; \$164,000,000 by reserve city banks, and \$405,000,000 by the country banks.

The CHAIRMAN. Now, that would be a very small proportion of the total.

Professor NADLER. That would be between 5 and 7 per cent.

The CHAIRMAN. Where is the rest of that, in your opinion?

Professor NADLER. Well, the first-class bonds are held by investors and a large number of bonds are floating around.

Mr. WILLIS. They are held by houses that still have them for sale?

Professor NADLER. Held by houses, and quite a number of them are held by investment trusts.

Mr. WILLIS. You feel the figures of the comptroller are not too small? It would seem to me there was a much larger commitment on loans on foreign bonds.

Professor NADLER. I do not know whether they included Canadian bonds, but these are the figures of the Comptroller of the Currency, but only for member banks. I have had occasion to speak with people holding foreign bonds, and I find that country banks have quite a large amount of foreign bonds which are not of the highest grade, and I asked them why they bought them instead of better bonds, and they said because of the yield. The country banks' deposits consist largely of time deposits and they insist on having bonds of high yield. If they bought Peruvian bonds, for instance, they have a yield of 10 to 12 per cent, but the safety is not there.

The CHAIRMAN. Was any considerable amount of these bonds purchased by country banks bought upon the advice of the larger correspondent banks or upon the insistence of the larger correspondent banks?

Professor NADLER. Here, Mr. Chairman, you would have to distinguish among banking houses. There are many who are very scrupulous in advising their customers what to buy. Others, on the other hand, just consider the country banker as a good dumping ground for second or third grade securities.

The CHAIRMAN. Those figures would indicate they dumped all right.

Professor NADLER. Those figures would indicate that two-thirds of the foreign bonds held by member banks on June 30, 1930, were held by country banks.

The CHAIRMAN. What proportion would you think is held by nonmember banks of which there are a great many more?

Professor NADLER. I have no idea, but probably a great number.

Senator TOWNSEND. Your report only includes the member banks?

Professor NADLER. Yes, sir.

Mr. WILLIS. Do you think these foreign bonds held in the country banks, for instance, will have to be redistributed, or do you think they will be continued there and simply marked off from time to time?

Professor NADLER. I believe if the banks were required to write off their paper losses that the banks would be more careful in buying securities. If, for instance, a bank in preparing its statement, instead of putting \$100,000 of bonds at the purchase price would have to put in \$60,000, the market price, the banks will be much more careful in making investments.

Mr. WILLIS. At the present time very little of that marking off has been done in foreign bonds?

Professor NADLER. Very little, so far as I know.

Mr. WILLIS. So the losses are still to be taken as a matter of fact?

Professor NADLER. They are still paper losses.

Mr. WILLIS. Have you looked into the acceptance situation in Europe at all?

(Discussion off the record.)

Professor NADLER. So I think we have learned little from the British experience. In 1927 certain American banking houses threw hundreds of millions of dollars into foreign countries, and in several instances the loans were not warranted. The reason simply was that the bonds could be sold. Of course, there were banking houses which

objected to such practices. They felt that through such dealings foreign securities will be hurt and it will be impossible in the future to issue high-grade foreign securities.

Mr. WILLIS. Was not also that process helped along by reports of so-called American experts who were sent to those countries by bond houses and reported favorably on large issues of bonds?

Professor NADLER. It had an influence, Doctor Willis. A number of Americans would spend eight days in a country and come back and write a glowing report. To a large extent it is the fault of the country banks. I remember a country banker coming in to see me and asking about Algerian securities, when as a matter of fact he had in mind Bulgarian securities. He had no idea of the country, but he was willing to buy its securities.

Mr. WILLIS. And your institution endeavors to give facts which will prevent that?

Professor NADLER. What we undertake to do is report the facts as we find them in official documents.

Mr. WILLIS. It is supported by bankers?

Professor NADLER. We receive an annuity of about \$10,000 from the Investment Bankers Association, but they have no right to interfere with our findings or publications. Many times our reports were not favorable, and the banks took them without protest or change.

Mr. WILLIS. Was the institute created on account of these difficulties with foreign bonds?

Professor NADLER. The institute was created, I would say, by the better houses interested in foreign securities for the purpose of preventing the issuance of poor-grade bonds—bonds which everybody who had studied the situation knew would cause trouble in the future, but, of course, so long as the market was good—and the market was good in 1927—you could have sold any bonds.

Mr. WILLIS. Was that all you desired, Senator, about foreign bonds?

Senator WALCOTT. Yes.

Senator TOWNSEND. What other income have you?

Professor NADLER. From New York University, which pays the salaries of all the men who work for the institute. Then we charge \$15 or \$25 a year to those who receive the bulletins, and the money which we receive from the Investment Bankers Association is used primarily for the purchase of books, pamphlets, magazines, and for printing the bulletins.

Senator TOWNSEND. Are those bulletins issued weekly?

Professor NADLER. No, sir; about once a month.

Mr. WILLIS. Those are bulletins on the credit of a given country?

Professor NADLER. Yes.

Mr. WILLIS. I want to ask what your observation abroad has been about the acceptance situation. First, do you think our rate of increase in outstanding acceptances is more rapid than that of other countries?

Professor NADLER. Yes, Doctor Willis; I believe that the volume of acceptances outstanding in this country has increased too fast at the present time, and for a number of years it has been larger than at any time in Great Britain. I further believe that if the reserve

banks had not taken the position that they have, under all circumstances, to support the acceptance market, we could not have had so many acceptances outstanding.

Mr. WILLIS. It has been a hothouse development?

Professor NADLER. It has been a hothouse development; yes, sir.

Mr. WILLIS. Have our acceptance transactions been subject to any important abuse?

Professor NADLER. Of course, for an outsider it is hard to say whether there has been abuse or not. But I know of a few instances where several acceptances have been issued on the basis of one transaction. For instance, on one parcel of silk, and particularly on one parcel of fur, five or six acceptances might be outstanding. I consider that an abuse.

The CHAIRMAN. When you speak of acceptances, have you reference to exportations and importations of goods or to domestic acceptances?

Professor NADLER. Well, acceptances arising out of exports and imports are, of course, very sound. They are self-liquidating.

The CHAIRMAN. They are the only sort of acceptance you have in European banks?

Professor NADLER. Yes; I personally do not believe in domestic acceptances, and particularly do I not believe in acceptances created because commodities are carried in warehouses. I believe the volume of domestic acceptances in this country is becoming too large.

The CHAIRMAN. If it is at all, it is too large.

Professor NADLER. It is absolutely too large.

The CHAIRMAN. The whole system is wrong and impracticable, in my opinion.

Professor NADLER. You can trace it largely to the Federal reserve banks. There were times when the Federal reserve banks held two-thirds of the acceptances outstanding, either for their own account or the accounts of foreign correspondents. It is a situation which you can not find anywhere else in the world.

The CHAIRMAN. It was predicted by one authority that if we ever embarked on that system it would be ruinous.

Mr. WILLIS. Do you think domestic acceptances have encouraged speculation or not?

Professor NADLER. I think at times they have. The acceptance is with the bank and it can be renewed from time to time, and the owner of the merchandise thus holds out for a better price.

Mr. WILLIS. You have not followed the extent to which the acceptance is used in carrying commodities for the Farm Board, have you?

Professor NADLER. Not very much.

Mr. WILLIS. Do you think the acceptance development in this country has interfered with real credit control or the proper management and control of credit by the reserve banks?

Professor NADLER. Absolutely. Of course it is difficult for me, in the presence of Senator Glass or Mr. Willis, to interpret the reserve act.

The CHAIRMAN. Do not fool yourself as far as Senator Glass is concerned.

Professor NADLER. As I understand the act, the open-market operations of the reserve banks were intended to be incidental powers and not primary. At the present time, and particularly during the last few years, the reserve banks have used the open-market operations as a major instrument of credit control, and the thing which is particularly objectionable is for the reserve banks more or less to tell in advance how many acceptances they will buy in the future. For instance, I remember a bulletin issued by the Federal Reserve Bank of New York in which it was stated that during the next three or four months they will buy so many acceptances. That is a practical invitation to the acceptance dealers to bring their acceptances to the Federal reserve banks.

Mr. WILLIS. So, on the whole, you feel the development of acceptances has improperly interfered with the development of credit?

Professor NADLER. Yes.

The CHAIRMAN. It is simply inviting loans instead of responding to credit demands.

Professor NADLER. When the Federal reserve banks go out in the market and buy acceptances, as they did in 1927, or buy Government securities, it immediately forces the member banks to extend credit; and if there is no demand for credit for commercial purposes the money goes into the speculative market.

Mr. WILLIS. Do you see any relation between the call-money rates and commercial rates?

Professor NADLER. There is a definite relationship. The call-money rate is the dominant rate in New York. All rates go up or down with the call-money rate. The only difference is that the call-money rate is not primarily related to the discount rate, but the acceptance rate and commercial paper rate tend to move along with the discount rate, but the call-money rate almost always influences the acceptance rate.

Mr. WILLIS. Is that through voluntary action or community of action on the part of those who fix the call-money rates or the reserve authorities, or do you think it is through automatic or reflex action?

Professor NADLER. I will say this: That whenever a bank has surplus funds to place in the market, it will almost always choose the market where the rate of interest is higher. If the call-money rate is higher, they will place their money in the call market.

Of course, the rate on acceptances depends largely on the rate of the Federal reserve banks of which they buy the acceptances. However, if the call rate goes up, the acceptance rate tends to go up.

Mr. WILLIS. I have one or two questions more on international banking. Have you followed the development of the international relationships; that is to say, relationships between the Federal reserve banks and other central banks during the past five years? Have you studied that during your inquiries abroad for the institute?

Professor NADLER. Yes; I have. The action of the Federal Reserve Bank in New York or the New York money market has a very strong influence on all other countries for the reason that New York is one of the most important money centers in the world, and New York is, to a large extent, the clearing house for international transactions; hence any increase in the rate of interest in New York finds

an immediate reflection in other countries, and, similarly, any decrease in the interest rates in New York is followed by a decrease in other countries.

Mr. WILLIS. You feel our interest rates here are controlling interest rates for the whole world?

Professor NADLER. To a large extent; yes.

In 1929 neither Great Britain nor other countries wanted to increase their discount rate, and yet they were forced to do so by the higher rates prevailing in New York—the higher rates of interest prevailing in the United States—because the higher rates here attracted a large volume of funds from European countries, resulting in some instances to an inflow of gold, and in order to protect themselves they had to raise their discount rate.

Mr. WILLIS. What responsibility do you think our reserve system has in those premises? How far should it consult with foreign central banks and be influenced by foreign conditions?

Professor NADLER. In my opinion, the Federal reserve's prime responsibility is to the American banking system.

The CHAIRMAN. That is what it was established for.

Professor NADLER. But at the same time neither the reserve banks nor the Reserve Board can not overlook conditions abroad. In the past it has seemed to me that the reserve banks, or the Reserve Board, whichever was the spokesman—

The CHAIRMAN. The Reserve Board, primarily, is the final spokesman in matters of that sort.

Professor NADLER. It seemed to me, in my opinion, the Federal Reserve Board ought to take into consideration conditions abroad.

Now take, for instance, the period of 1927: It is true that funds and gold came into this country, but it was not necessary to lower the rate here artificially. If the European countries, and particularly the Bank of England, had raised its discount rate, the same thing could have been accomplished. It was not necessary to make money artificially low here in order to help Great Britain.

The CHAIRMAN. That is what we did, however.

Professor NADLER. Yes. Another element in the situation is that whenever the Federal reserve banks endeavor to help Europe they do it through the open-market operations in this market, thereby helping Europe, it is true, but at the same time affecting this market adversely. The Federal Reserve Board, if it felt it was advisable and necessary to help Europe, could accomplish the same thing by buying in Europe. By buying acceptances in the London market it would help the London Exchange without in any way affecting the volume of credit in this country. But instead of this they have helped Europe by making money artificially low here, by pouring hundreds of millions of dollars of reserve credit into the open market. Of course interest rates become low here, and there was and outflow of gold to Europe and Europe was helped temporarily. Of course low rates of interest started speculation, and created a very good foreign bond market, with the result that foreign countries borrowed too much, and when speculation went too far the foreign loan market collapsed and various countries found themselves with an increased public debt, increased debt service, but

no increase of national income or national revenues. So, in the long run in my opinion, the reserve banks not only have not helped Europe but have hurt Europe through their operations in 1927.

The CHAIRMAN. And hurt America, too?

Professor NADLER. Of course.

Mr. WILLIS. What do you think should be the relation between the Federal reserve system and the Bank for International Settlements?

Professor NADLER. Of course one has first to agree whether the Bank for International Settlements was necessary and what is its background. But it is here, and it has been established, and in my opinion, I believe it would be better if the Federal Reserve Board had direct contact with the Bank for International Settlements instead of indirectly, because there are contacts. No matter how one looks upon it, Germany pays reparations to the Bank for International Settlements and a large part of it comes directly here. That means a transfer of funds to the extent of \$200,000,000 per year and gradually increasing.

It would be better, in my opinion, if the reserve board knew about the transfers and could arrange these transfers in an appropriate manner without disturbing the European market and without disturbing the American market. The Bank for International Settlements is also extending its activities through the placing of short-term funds in numerous countries. In many cases we have no interest, but in some cases we might be directly interested, and I believe, since the contact exists, it would be better for the Federal Reserve Board to appoint somebody to represent the United States, instead of private interests representing the United States.

Of course the Bank for International Settlements is political in origin and is not yet free from politics.

(Discussion off the record.)

Mr. WILLIS. What do you think of the pending bill, Professor Nadler?

Professor NADLER. As much as appeared in the press, I have read carefully, Doctor Willis.

Mr. WILLIS. Have you any opinion to express about it or any suggested changes?

Professor NADLER. In section 2, if I am not mistaken, of the Glass bill, you would prohibit banks from buying or selling securities with recourse. As I pointed out before, I believe this could easily be circumvented by instantaneous buying and selling.

Then section 5 of the Glass bill provides a maximum rate of interest to be charged—I imagine to apply primarily to brokers' loans.

The CHAIRMAN. It was not intended primarily to cover brokers' loans. What I had in view was the interior banks—member banks. For example, the laws of the different States, you know, vary in the different States as to the rate of interest chargeable. For example, in my State banks are not permitted to charge over 6 per cent interest. When, if ever, the discount rate of the fifth district goes to 6 per cent, why, that is an estoppel of rediscount by member banks. It ought not to be, but it is practically an estoppel because they can not borrow money from the Federal reserve bank at any less rate

than they charge for the discount, and this was intended that when that should happen the bank rate should be such as to insure a safe transaction or desirable transaction to the member bank.

Professor NADLER. That makes it much clearer, Mr. Chairman, but the experience with fixing a rate of interest—the usury laws of New York fixed the maximum rate of 6 per cent—the experience is that it results in bonuses, surcharges, commissions, and so forth—

The CHAIRMAN. We have the same thing in my State.

Professor NADLER. So that if anyone wants to sell a second mortgage he can seldom get it done at less than 12 per cent.

The CHAIRMAN. The real purpose was as I have indicated. For example, a customer will come into a member bank, when the rediscount rate of the Federal reserve bank is high, and seek to renew a loan or contract a new loan, and he is told by the banker that he can not do it because the rate of the Federal reserve bank is so high they can not rediscount, and when the rate goes as high as 6 per cent—it never has in the fifth district, but it has in other districts—it amounts to an estoppel of rediscounting by member banks with the Federal reserve bank, and, of course, when there is no rediscounting it curtails the commercial transactions of the member banks. That was the purpose of that section.

Professor NADLER. Of course, I did not understand that.

The CHAIRMAN. It might apply on the stock market, but if so, I should regret it.

Professor NADLER. Section 11 of the Glass bill would provide that a member bank, when it borrows from the reserve bank on Government securities, should not be allowed, during this period, to increase its security loans. My only question there is: Why restrict it to borrowing alone because member banks may rediscount, too?

Mr. WILLIS. I do not follow you there.

Professor NADLER. As I understand it, it applies only to 15-day advances and does not apply to the rediscount of eligible paper. In my opinion, I would include the rediscount, too.

Mr. WILLIS. You would not allow them to get money, even on eligible paper, if the proceeds of that are used for speculative purposes?

Professor NADLER. Certainly not. If a member bank borrows \$100,000 from the reserve bank, it can expand its loans and deposits by about \$1,000,000. Of this \$100,000 may be for business purposes and \$900,000 for the purpose of carrying securities.

Senator WALCOTT. Would you do everything you could to restrict speculation?

Professor NADLER. Well—

Senator WALCOTT. Do you not consider there are certain advantages in the freedom of movement? Are you not afraid of nagging laws, in other words?

Professor NADLER. No; I personally would say this, that securities should not be carried to a large extent with bank credit.

Take the situation in 1928 and 1929: Securities were issued. There was not enough money in the country to buy all the securities; hence the securities were carried with bank credit, and bank credit was, therefore, used for the purpose of constructing plants. Then when

the banks called their loans the people had, to use an expression of the street, to "milk" their own business in order to repay those loans. There was a great deal of speculation going on with the aid of bank credit, and when the crash came and the banks recalled their loans that meant repayment, and repayment is always followed by depression. Speculation is all right so long as it is not carried out with the aid of too much bank credit.

Senator WALCOTT. You have the greatest flexibility, for instance, in England, but you do not get these periods of terrible inflation such as we do as the result of the pouring in of bank credits; in other words, their bankers are better than ours?

The CHAIRMAN. You do not get these violent variations in the call-money market.

Senator WALCOTT. No; they do not. They can put banking credit behind securities, of course, over there. They have the utmost leeway.

Professor NADLER. There is the greatest difference between American banking and British practice. An American bank may not know me but if I have securities to offer as collateral they will grant me a loan. They have credit files, and if you took them away from the American banks they would be blind. In England they look more at the transaction—whether the transaction is self-liquidating or not—and not so much to the individual. Here if a man has securities there is practically no limit to the amount of credit he can get so long as he deals with a number of banks. In London, however, a man deals only with one bank.

The CHAIRMAN. Yes; and in Canada the same way.

Professor NADLER. In England a man is not entitled to credit primarily because he is responsible. They look at the transaction itself.

Mr. WILLIS. Is that all you have to say on the bill?

Professor NADLER. I did not have a copy of the bill at my disposal to read it over carefully.

Mr. WILLIS. I thought we had sent you one.

Professor NADLER. No, sir. What I saw was in the newspapers.

The CHAIRMAN. We are very much indebted to you, professor.

Mr. Willis offered the following statement, presented by the Superintendent of Banking of Iowa, which is printed in full as follows:

Would like to respectfully submit to your committee that it apparently has not been made plain the relative size of our two banking systems and the great part they each play in the financial life of the country.

As of March 27, 1930, the latest available combined statement, there were 17,298 State banks and 7,316 national banks. State banks had capital funds of \$6,164,000,000, deposits of \$35,800,000,000, and total resources of \$44,690,000,000, as compared with capital funds of \$3,700,000,000, deposits of \$21,600,000,000, and total resources of \$27,300,000,000 in the national banks. In brief, State institutions have 62 per cent more capital funds and 65 per cent larger deposits than national banks. It may also be of interest for your committee to remember that the resources of State banks have increased in the past 10 years from \$29,100,000,000 to \$44,600,000,000, while the resources of national banks have increased from \$22,100,000,000 to \$27,300,000,000. Total resources of all members of the Federal reserve system on March 27, 1930, amounted to \$45,900,000,000, of which the State member banks contributed \$18,500,000,000, or 40.42 per cent of the total.

These figures make very plain the important part which State banking institutions play in our Federal reserve system through their voluntary membership. Both classes of banks perform equally useful and necessary functions, and these comparisons are not made with any purpose of disparagement but to make correct statements which were necessary in their reflections on the comparative size, importance, and growth of our two great banking systems. Attention should also be directed to the need of both in the development of handling of our country's business.

The failure of several thousand small State banks has been caused more by severe economic depression of farm land and the prices of farm products than by mismanagement, errors in supervision, or other banking causes. However, better bank management would have provided for at least part of this depression. Mismanagement has not been entirely in banks in rural sections and in totals of resources the failures in cities of over 200,000 population exceeded the rest of the country combined in 1930.

L. A. ANDREW,
Superintendent of Banking of Iowa,
President National Association of Bank Supervisors.

(Whereupon, at 12.30 o'clock p. m., the committee went into executive session, at the conclusion of which the committee adjourned until Tuesday, February 24, 1931, at 10.30 o'clock a. m.)

OPERATION OF THE NATIONAL AND FEDERAL RESERVE BANKING SYSTEMS

TUESDAY, FEBRUARY 24, 1931

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

The subcommittee met, pursuant to adjournment, at 10.30 o'clock a. m., Hon. Frederic C. Walcott presiding.

STATEMENT OF H. PUSHAE WILLIAMS, CHAIRMAN OF THE EXECUTIVE COMMITTEE OF THE NEW YORK TITLE & MORT- GAGE CO.

The ACTING CHAIRMAN. Mr. Williams, these hearings are rather informal. We are trying to make them as constructive as possible. We are trying to analyze the causes of panics, and trying to see if we can not find some way to keep us on a little more even keel the next time one comes, whenever that may be, and we appreciate frank answers, and we have been getting them. We have been getting some very valuable suggestions. They will be compiled, and I think you will see, when you read them, we have done a fairly good job.

Will you give, for the record, your name and official position?

Mr. WILLIAMS. H. Pushae Williams, chairman of the executive committee of the New York Title & Mortgage Co., 135 Broadway, New York. We are a mortgage and title company operating in the metropolitan area, in so far as mortgage loans are concerned. Our title business covers the entire United States.

Mr. WILLIS. Is that an affiliate of The Manhattan Trust Co.?

Mr. WILLIAMS. We are an affiliate of the Manhattan company.

The ACTING CHAIRMAN. Will you describe the nature of the business?

Mr. WILLIAMS. We are a title company organized under the insurance laws of the State of New York. We have three services to render. The first service is title insurance, and the second is the procuring of first-mortgage loan applications and, third, selling them as guaranteed first mortgages. Those are our full limitations. We did have, as an affiliate, the American Trust Co. That has been taken in merger by the Bank of Manhattan Trust Co. But we are limited to the three activities.

The ACTING CHAIRMAN. Your mortgage business is all guaranteed, is it not?

Mr. WILLIAMS. We sell only guaranteed first mortgages. We do not guarantee mortgages that we would not take ourselves; in other,

words, we take mortgages and guarantee them as to principal and interest.

The ACTING CHAIRMAN. Approximately what is the charge for the guaranty?

Mr. WILLIAMS. One-half of 1 per cent, irrespective of the interest charge; in other words, if it is 6 per cent, it would be $5\frac{1}{2}$ guaranteed. We would rather sell a guaranteed mortgage at 4 per cent, if the mortgage is $4\frac{1}{2}$ per cent, than 5 per cent.

The ACTING CHAIRMAN. Your rate is a flat rate?

Mr. WILLIAMS. Yes.

The ACTING CHAIRMAN. It is a rather customary rate?

Mr. WILLIAMS. It is a fully established rate. I could bring out a couple of points—

The ACTING CHAIRMAN. If you have a prepared statement, we should be glad to hear it.

Mr. WILLIAMS. No.

The ACTING CHAIRMAN. Or a verbal statement—anything you care to say.

Mr. WILLIAMS. Mr. Willis was very liberal in his remarks, and so I, in turn, will have to be rather liberal. I did not know the exact province you wanted me to cover, but I think it is amazing to know that, prior to the war, we will say, there were about two major companies in New York, and I think their gross outstanding guarantys might have been around \$100,000,000. It might have been a little more. We now have about 19 companies, and their outstanding guaranties are about \$3,000,000,000.

The ACTING CHAIRMAN. That is, in 10 years?

Mr. WILLIAMS. Just about 10 years. The last assessment roll, which does not include some of the mortgages that might come in, shows \$22,000,000,000. Of that, \$4,000,000,000 is exempt. That would leave about \$18,000,000,000 net assessment roll. That would be what you might call mortgagable property. Of that \$18,000,000,000 there is about \$4,000,000,000 to exclude immediately, because we do not lend on factories, vacant lands, and in undesirable territory. It cuts it down to about \$14,000,000,000.

The mortgage lien on that property would be about \$8,400,000,000.

The ACTING CHAIRMAN. A little more than half?

Mr. WILLIAMS. Yes. The guaranteed mortgage companies now have about one-third of that mortgage lien in New York as against about \$100,000,000 prior to the war.

The ACTING CHAIRMAN. Were your first figures total? Would that include insurance companies, or just the guaranteed mortgage companies?

Mr. WILLIAMS. I am speaking only of the guaranteed mortgages. The banks in the metropolitan area have on deposit about \$4,000,000,000. They lend about 60 per cent of that, which would be \$2,400,000,000, in mortgages. About 50 per cent of that is guaranteed first mortgages; so another billion and a half would be mortgage burden of the same type as a guaranteed mortgage company carries.

The ACTING CHAIRMAN. That brings it up to nearly \$10,000,000,000.

Mr. WILLIAMS. That brings it up to about \$4,000,000,000 actually mortgaged—

The ACTING CHAIRMAN. But you had \$8,000,000,000—

Mr. WILLIAMS. No; that is the mortgage lien values. You have in addition to that about a billion more held by insurance companies, trust companies, and estates.

Mr. WILLIS. All in New York?

Mr. WILLIAMS. Yes. So I would say what you call conservative mortgages now in the vaults of the companies, and so forth, that you could consider as worth 100 cents on the dollar, about \$5,000,000,000.

Now, the rest may be property without mortgages on it; it may be held by individuals or held as purchase-money mortgages.

The ACTING CHAIRMAN. Those figures relate only to first mortgages?

Mr. WILLIAMS. Yes; first. The type of mortgage we call a good mortgage investment.

The ACTING CHAIRMAN. You have no figures covering the others—the second mortgages?

Mr. WILLIAMS. No; you could not do that very well. Some man could go through these figures and say my figures are wrong, but they are about as near as you can get at them from the ordinary point.

Of those 19 companies I referred to, I have not heard of any of them refusing to pay the mortgage when due, in default of interest, so that a guaranteed mortgage company, regulated by State authorities, is still a safe proposition.

The ACTING CHAIRMAN. And what has been their record in turn? Do you know what percentage of their mortgages are in default?

Mr. WILLIAMS. We have taken a comparison of about the eight largest companies. We do that out of their reports. I should say the gross amount of the largest company would be about 2 per cent, and then it averages down to 1 per cent of the outstanding guaranties.

A little item of foreclosures shows that during the last year, from December 31, 1929, to 1930, units amounting to \$1,200,000 were taken in and resold by one company, and they had left \$140,000. Another company foreclosed \$11,000,000 worth and had left at the end of the time \$3,000,000. That company now has \$10,000,000 under foreclosure, and I think you will find that about the same proportion—

The ACTING CHAIRMAN. On what basis is that? Is that on a 50 per cent basis?

Mr. WILLIAMS. Sixty per cent.

The ACTING CHAIRMAN. All 60?

Mr. WILLIAMS. Yes.

The ACTING CHAIRMAN. Have you the losses that show up in some of those foreclosures?

Mr. WILLIAMS. Well, most of the guaranty companies have a land company for taking in foreclosed property, rehabilitating it, and then selling it. I do not know any of them that had an actual loss yet—of the guaranty companies.

We in our experience in the last 10 years have a \$2,000,000 reserve, and we have not even touched that reserve in any of our present-day foreclosures. We are a long way from the top price when you take a loan at 60 per cent. You can even be a little bit above and be fairly safe. It is this taking of mortgages at 80 per cent that

has caused the damage in real estate. There has not been a single failure of a guaranteed first mortgage company in New York, nor have they defaulted in the payment of interest or principal. In other words, the day the interest is due the check arrives in the mail. I am saying this for all of the companies, because I know if there had been any difficulty that would have gone around like wildfire.

The ACTING CHAIRMAN. You are all under the State laws?

Mr. WILLIAMS. Yes. Against that record you can quickly name the Cleveland Discount, the American Bond & Mortgage, the Commonwealth Bond & Mortgage, Forman & Co., and another company that I think it would not be well to put on the record. These I have named are notorious, because they are in the public eye now.

One very fitting example of the evil of the real-estate bond issues is this: A builder made application to one of the companies now in the hands of receivers for \$4,250,000. He actually received \$5,250,000. The property was well located. In addition to that, the bonds were offered for sale from the blue prints, and the bonds were all sold to the unsuspecting public before a spade went into the ground. Those funds went into a common pool, and the weak sisters were helped from the sale of these bonds.

Now, we had a grand old time selling realty bonds. Anybody could get a bond issue on a building—it did not make any difference; they would buy anything. People who felt that they could get 6 or 7 per cent—why, the question of security was not involved. As you know now, every one of these inflated bond issues must of necessity go to the laundry, be washed out, and start over again.

Mr. WILLIS. Are there many in that position—that must “go to the laundry” in the next few years?

Mr. WILLIAMS. I can not say with authority, but I think there are

Mr. WILLIS. That is not only New York, but everywhere?

Mr. WILLIAMS. I imagine so; yes.

Mr. WILLIS. But you are speaking only of New York?

Mr. WILLIAMS. I am speaking of New York.

Mr. WILLIS. Now, in the questionnaires which this committee has sent out, it has been found that the banks are holders not only of a great quantity of real-estate mortgages, but a great quantity of bonds of the kind you described.

Mr. WILLIAMS. That is unfortunate, because many of these bonds were sold without an idea of the return, without the idea of shrinkage, but on an appraised value in an inflated market and on the return that was then had. Properties that were producing \$30 and \$35 per room are now producing \$18 and \$20 per room; that is, 40 against 20 or 25. It is almost 20 per cent—more than that, 30 per cent. So, you can see where the shrinkage will occur.

But it was common practice for all those bond houses to lend up to 80 per cent and then try to cover it with an enormous amortization. Borrowers would pay the first amortization, but the second would come along and they were helpless.

Mr. WILLIS. You mean the holder who borrowed up to 80 per cent—

Mr. WILLIAMS. Yes; there is no question about it. I know of one bond issue now in default which had 17 points to the issuing company and another at 23 points to the issuing company.

The ACTING CHAIRMAN. And that was on an inflated market, too?

Mr. WILLIAMS. Yes. That was dead before it started. Against that the guaranteed mortgage company charges a maximum of 2 per cent and costs for building loans. For straight loans it is 1 per cent and costs, and in many cases less than that—maybe the title charge. If you could have a loan on the corner of Forty-second Street and Lexington Avenue, that is so desirable, the interest rates and charges would be low.

The only way to make the bond issue carry that load would be to step up the appraisal and then give them a large amortization, and then the men who sold the bonds had a tremendous commision. The Cleveland discount failure—one of the salesmen came to our office and wanted a job. I asked him what his earning capacity was. He said he earned \$15,000 the year before. I said, "How much did you sell?" "\$150,000."

The ACTING CHAIRMAN. Ten per cent?

Mr. WILLIAMS. Yes; 10 per cent.

Now, those are the faults of the present real-estate bond market. But it is unfortunate that a real-estate bond market and a guaranteed mortgage market should be classified in the same category, because they are not in the same category. They are as far apart as day is from night.

Mr. WILLIS. What do you regard, Mr. Williams, as the necessary minimum qualifications to fit a real-estate bond for purchase by banks?

Mr. WILLIAMS. From long experience, I think our laws now—and the experience of savings banks of 50 years—50 per cent of a conservative appraisal.

Mr. WILLIS. Determined by whom?

Mr. WILLIAMS. If you have good committees in the bank—but let me go back a point: If those lending institutions are also banks, and have a well-set-up mortgage department, they can operate on a 60 per cent basis, determined by their own appraisers, who have had experience in the field.

If those banks are the purchasers, they should not be allowed to buy anything but guaranteed first mortgages. That sounds selfish but it is not. I will give you an example.

The Bowery Savings Bank is a very large institution and the Immigrant Savings Bank is a very large institution. They are large enough and buy enough mortgages to be able to carry the burden of their mortgage department, and so in those institutions they have a regular lending department, including appraisers and inspectors, and a regular follower-up for mortgages. The smaller banks that can only purchase from time to time \$10,000 or \$15,000 or \$25,000—they send out one of their officers—maybe a director, who has no experience, who comes back and says it is a good loan, and then it goes to their lawyers and they pass on the legal points, and they put in the loan. They have not the machinery or the set-up for handling mortgages, and unless they have a mortgage department they should not buy anything except guaranteed mortgages.

It might be worth while to hear the working of a mortgage company, so you can see the life and history of a mortgage.

Mr. WILLIS. Before you go to that: I understand you to say that you think a mortgage, to be suitable for bank purchase, should be not over 50 per cent of the appraised value—

Mr. WILLIAMS. No; 60 per cent.

Mr. WILLIS. What amortization should there be?

Mr. WILLIAMS. We, as a practice, use 2 per cent over \$100,000. If it can not stand a 2 per cent amortization and it is a very fine loan, the period should be three years straight; in other words, if you had a loan on the Vanderbilt house at Fifty-second Street and Fifth Avenue, at 60 per cent, you could afford to take that on three years straight and know at the end of the time the mortgage would be more than certain. On the other hand, if you had a loan of \$100,000 or over in the Bronx, a new building territory, it is necessary to amortize that because the law of obsolescence immediately starts, and you must have an amortization of 2 per cent per annum.

Mr. WILLIS. Two per cent per annum is sufficient?

Mr. WILLIAMS. Yes, sir.

Senator BULKLEY. You figure that on the building?

Mr. WILLIAMS. Against the gross loan.

Senator BULKLEY. Including the land?

Mr. WILLIAMS. Yes.

Senator BULKLEY. You assume the land is depreciating?

Mr. WILLIAMS. The land really goes up, but the 2 per cent on the mortgage brings the mortgage down so that you can renew it.

The ACTING CHAIRMAN. You can apply it any way you please?

Mr. WILLIAMS. Yes, sir.

Mr. WILLIS. Am I reasonable in inferring that the bank ought not to make mortgage loans itself direct, but should only buy guaranteed mortgages?

Mr. WILLIAMS. Unless they have the machinery for handling that themselves.

Mr. WILLIS. But the small banks do not have that machinery?

Mr. WILLIAMS. No; and can not have it, because it is too costly.

The ACTING CHAIRMAN. Then they should not deal in anything except guaranteed mortgages?

Mr. WILLIAMS. That is right.

Mr. WILLIS. What is your idea about buying real-estate bonds?

Mr. WILLIAMS. I should say they should take the same hazard, if they are going to do it, as an outsider. It is a hazard when you take a real-estate bond and go after the high interest rate. You know then you are taking a chance, and if they are willing to take that chance, why—

Mr. WILLIS. Of course, every investment of a bank has some element of risk in it. The question is, how far ought a bank, with savings deposits, to incur risks?

Mr. WILLIAMS. None.

Mr. WILLIS. Then, it would never do any business.

Mr. WILLIAMS. I do not know about that. You say they should not take any risk—

Mr. WILLIS. But there is a risk in anything.

Mr. WILLIAMS. Oh, yes; United States Government bonds carry some risk.

Mr. WILLIS. As I understood you, the maximum risk they should take is that represented by the guaranteed mortgages, and you regard, for the small bank, either the direct real-estate loan, however carefully made, by a concern that has not the machinery for it, or the real-estate bond, as unfavorable investments?

Mr. WILLIAMS. The present real-estate bond is undesirable as an investment.

Mr. WILLIS. By a bank?

Mr. WILLIAMS. Yes. Savings banks that are not set up for making such loans should not make those real-estate loans. That seems to me to be a sort of selfish statement on my part.

Senator BULKLEY. I do not see how you could say all real-estate bonds are undesirable. I should think there would be as much difference between them as day and night.

Mr. WILLIS. I think Mr. Williams said they were risky.

Senator BULKLEY. I thought what he said implied, as a class, all real-estate bonds were bad.

Mr. WILLIAMS. Suppose we take those by the companies I have mentioned, and others by bond companies down town, where they have 10 or 15 points for the sale of them: Those are not desirable real-estate bonds.

Senator BULKLEY. I did not think your language meant to condemn all real-estate bonds.

Mr. WILLIS. Perhaps I led Mr. Williams to make too extreme a statement by asking whether the average real-estate bond was too risky for the average bank. I think that perhaps is the meaning of his statement.

Mr. WILLIAMS. I should say the exception would be the rule in that case. It is the exceptional real-estate bond that is a good bank investment, issued, as they have been, in the last five years.

The ACTING CHAIRMAN. I think that is a good qualifying clause. They have gone wild over the thing.

Mr. WILLIAMS. Oh, yes. You take a bond on the Lincoln Building in New York. That was properly set-up. They are good bonds. I would not want to say they were bad bonds. As a matter of fact, the bonds on The Manhattan Co. Building—we do not own the building, although it is named after us; we own the land under it—that is a good set-up. Those two items I remember particularly.

Mr. WILLIS. Take such bonds as those on 61 Broadway, the Waldorf Astoria Hotel, and others of that description.

Mr. WILLIAMS. I do not know the set-up of those bonds, but I think they are all right. 61 Broadway, if that has the proper valuation set-up, ought to be a good bond. It is a good location. But it is not uncommon for any kind of a development to take a bond issue. It could be a hotel in Pinehurst; another one at one of the beaches down in Virginia; two or three in Florida that I might mention, and a couple in Atlanta; I think four or five in Chicago that I think were in the morning paper, if I am not mistaken, and a couple in Washington, too, that I imagine they were able to get some of our representatives to buy that they now wish they had not purchased. It is unfortunate that a real-estate bond, whether it is good or bad, is classified as a real-estate bond. Many of these bonds issued in the last four or five years have no right to be called real-estate bonds. The people did not know, when they were buying them, they were buying an interest in the property. They know it now. They are really a participator in the purchase price and a little bit more.

The ACTING CHAIRMAN. How would a map look of the New York mortgage business? Would it be mostly urban or have a fair scattering of rural property?

Mr. WILLIAMS. I am glad you asked that. Our savings banks can not lend on vacant land, and most of the guaranteed mortgage companies have a by-law against lending on vacant lands. The market for guaranteed mortgages has very definitely marked what you can lend on and what you can not. So we eliminate factories; we eliminate churches and breweries; we are very scarce on theaters—very few theaters or any specialties. They are practically eliminated from the guaranteed mortgage field because—

The ACTING CHAIRMAN. How about residences and farm properties?

Mr. WILLIAMS. Residences, apartment houses, store properties that show a good return, and some good loft buildings.

Senator BULKLEY. That does not mean that there are no apartment-house loans and no theater loans?

Mr. WILLIAMS. There is an old saying that everything is good at a price and sometimes it applies to theater loans. If you borrow on a theater in New York to-day, you borrow on the land value.

The ACTING CHAIRMAN. Your business depends largely on watching the trend of things—the drift?

Mr. WILLIAMS. Yes; but we would not go into the specialties, anyhow.

The ACTING CHAIRMAN. You have learned to avoid them by experience?

Mr. WILLIAMS. It has been the 50 years' experience of savings banks and about 30 years' experience of title companies, and their experiences have taught them there are certain kinds of loans that if you take them they stay on the books and you will have difficulty in selling them before you are through.

The ACTING CHAIRMAN. Are you doing anything to educate the investing public toward sound categories?

Mr. WILLIAMS. Our general guaranteed first mortgages are along that line, and we have always been able to bring those people who want sound investment—

The ACTING CHAIRMAN. I think they need it.

Mr. WILLIAMS. Oh, a large amount of this trouble is the people's fault.

The ACTING CHAIRMAN. Of course it is.

(Discussion off the record.)

Mr. WILLIS. I think you said a while ago it might be well to tell what goes on in a mortgage department. I merely wanted to complete this part of the testimony before you went to that.

Mr. WILLIAMS. Well, an application comes to the title company. There is an inspection department, and there are also the appraisal department, and the estimate department. They all work on that application. In all your branches you have a local committee that passes on that loan, and they are thoroughly familiar with the property in that territory. After the local committee has approved it, it comes to your main committee in the headquarters, and they, in turn, approve it. That is an application that is safe, and, in addition to that, we have also our credit department who check up the credit of the proposed borrower. So we feel, when a loan arrives

at the stage that it is a mortgage, it has had every possible examination that a loan could have.

We look at it from three standpoints—its physical value, its earning value, and its saleability. If it will not pass those three tests, we do not take it. After it has passed those three tests, we then accept the loan and put our guaranty back of it, and we sell it to an institution. We will not take a loan on the books that we would not take ourselves as an investment; so that any time we guarantee a mortgage we figure that some time it is coming back to us and it will be our investment.

There is a great difference between a guaranteed first mortgage and the real-estate bond. The man that issues a real-estate bond is merely the agent of the applicant and the good purchasing public. The minute the public buys those bonds the seller is out. He has no further interest in it, except, if he is a large bond house, he may try to protect them for the benefit of the company. But the ordinary issuing house of that type, without a guarantee, is no longer responsible for the real-estate bond he has sold.

The greatest example of that is going on to-day where all these companies, who are either in the hands of receivers or in questionable state, are building up committees to take care of the properties. They, themselves, are building up the committees so as to control the situation. The moment a mortgage is in default, the guaranty company steps forth, and they say, "Our guaranty is good; we are responsible for that property; we will see it through, and there will be no loss to you." Knowing that ahead of time, all the guaranty companies, large or small, will not foolishly go ahead and take a loan or even guarantee a loan that they know in three or four or five years will come back on the books with the possibility of a loss.

Now, that is a strong governing feature. The human equation we have in that is the difference that makes a guaranteed mortgage and the ordinary real-estate bond.

That can be applied to purchasing savings banks or national banks—

The **ACTING CHAIRMAN**. What is the average return on mortgages to the investor?

Mr. **WILLIAMS**. Five and a half and 5 per cent. There are a number of institutions that have bought mortgages right along that have not had losses, however. The most outstanding of them is possibly the United States Trust Co. in Wall Street. I mention them because they are the essence of conservatism.

Mr. **WILLIS**. They have bought them all over the country, have they not?

Mr. **WILLIAMS**. That is the United States Trust Co. I am speaking of the United States Trust Co. They may have bought some where they have estates in New Jersey and Connecticut.

Mr. **WILLIS**. But you have bought them all over the country?

Mr. **WILLIAMS**. Yes.

The **ACTING CHAIRMAN**. What kind of a certificate does the investor hold?

Mr. **WILLIAMS**. He holds a participation in the mortgage.

The **ACTING CHAIRMAN**. With your name on the paper?

Mr. **WILLIAMS**. He holds two kinds. He holds a participation in a distinct mortgage which, of course, is a trust investment or, in an

ordinary business man's investment, he holds a participation in the pool.

Mr. WILLIS. What is there to prevent the mortgage itself from being disposed of, as has been the case, I understand, in some of the failures here in Washington?

Mr. WILLIAMS. State regulation, I should imagine, in the case of a pool, and the trusteeship in the case of a specific mortgage.

Mr. WILLIS. Have you placed all mortgages in the hands of some other company?

Mr. WILLIAMS. Always placed them in the hands of another company, but not for the direct pool issue.

Mr. WILLIS. That remains in your hands?

Mr. WILLIAMS. We have a State law which permits the title company to issue certificates direct against the deposit of the mortgage.

Mr. WILLIS. But there is an element of danger involved, is there not?

Mr. WILLIAMS. There is no element of danger if the company is regulated or subject to inspection by the State and all those mortgages are in on an appraised value. There is an element of danger in any company if it is not run right. The personal equation comes in. I do not think there is any way of stopping that. You can have specific mortgages which would be bad if there is collusion.

The ACTING CHAIRMAN. Have you any questions, Senator Norbeck, to ask Mr. Williams before we go to another phase?

Senator NORBECK. Yes; I have a few. Your company, Mr. Williams, has been in business how long?

Mr. WILLIAMS. Since 1901.

Senator NORBECK. Some of the companies have been in business much longer?

Mr. WILLIAMS. Two other companies, Title Guarantee & Trust Co. and Lawyers Title & Guaranty Co.

Senator NORBECK. They have been in business how long?

Mr. WILLIAMS. About 47 years. They were the first companies.

Senator NORBECK. What capital have they—about how much?

Mr. WILLIAMS. I will give you the eight principal companies.

The New York Title & Mortgage Co. has \$64,400,000 capital, surplus, and undivided profits.

Senator TOWNSEND. How is that divided?

Mr. WILLIAMS. Capital, \$20,000,000; surplus, \$30,000,000; and undivided profits, \$14,400,000.

Senator NORBECK. Could we not save time if he would put all that information into the record?

Mr. WILLIAMS. Very well.

(The information referred to is printed in full as follows:)

Comparative statement as of December 31, 1930

New York Title & Mortgage Co.:

Capital.....	\$20,000,000.00
Surplus.....	30,000,000.00
Undivided profits.....	14,401,538.84
	64,401,538.84

There are \$9.16 of capital funds for each \$100 of guaranties in addition to the property securing the mortgage.....	702,979,828.40
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Bond & Mortgage Guarantee Co. :

Capital-----	\$10,000,000.00
Surplus-----	10,000,000.00
Undivided profits-----	1,802,202.40
	<u>21,802,202.40</u>

There are \$2.53 of capital funds for each \$100 of guaranties in addition to the property securing the mortgage----- 862,000,000.00

Home Title Insurance Co. :

Capital-----	2,500,000.00
Surplus and undivided profits-----	2,559,348.52
	<u>5,059,348.52</u>

There are \$6.18 of capital funds for each \$100 of guaranties in addition to the property securing the mortgage----- 81,880,495.59

Lawyers Mortgage Co. :

Capital-----	12,000,000.00
Surplus-----	10,000,000.00
Undivided profits-----	270,341.00
	<u>22,270,341.00</u>

There are \$5.30 of capital funds for each \$100 of guaranties in addition to the property securing the mortgage----- 419,892,799.00

Lawyers Title & Guaranty Co. :

Capital-----	10,000,000.00
Surplus-----	15,000,000.00
Undivided profits-----	3,696,864.14
	<u>28,696,864.14</u>

There are \$13.08 of capital funds for each \$100 of guaranties in addition to the property securing the mortgage----- 219,371,955.04

This company has been guaranteeing mortgages only since December, 1913.

Lawyers Westchester Mortgage & Title Co. :

Capital-----	3,000,000.00
Surplus-----	2,000,000.00
Undivided profits-----	616,651.96
	<u>5,616,651.96</u>

There are \$10.78 of capital funds for each \$100 of guaranties in addition to the property securing the mortgage----- 52,095,981.90

Westchester Title & Trust Co. :

Capital-----	2,000,000.00
Surplus-----	2,000,000.00
Undivided profits-----	1,000,851.31
	<u>5,000,851.31</u>

There are \$6.78 of capital funds for each \$100 of guaranties in addition to the property securing the mortgage----- 73,722,199.82

Mr. WILLIAMS. I will give you a couple of high spots on that. The New York Title & Mortgage Co. has \$64,400,000 capital funds, and they have in bank of every \$100 guaranteed, \$9.16.

The Bond & Mortgage Guaranty Co. has \$21,802,000 capital funds and they have \$2.53 of capital funds for each \$100 of guarantees in addition to the property securing the mortgages.

The Lawyers' Mortgage Co. has \$419,000,000 outstanding guarantees and they have against that \$5.30 in capital funds for each \$100 outstanding.

From long experience, both in France and America, a guaranty fund maintaining a ratio of 20 to 1 is perfectly safe.

The ACTING CHAIRMAN. Twenty to one?

Mr. WILLIAMS. Yes. I think one of the French companies runs about 40 to 1, but we only go about 20 to 1.

Senator NORBECK. Then there are only two companies older than yourself?

Mr. WILLIAMS. Yes, sir.

Senator NORBECK. You have a company that takes over land that you foreclose?

Mr. WILLIAMS. Yes, sir.

Senator NORBECK. Do they carry a great deal?

Mr. WILLIAMS. Quite a good deal.

Senator NORBECK. I am not sure I heard you in speaking about the length of the term of loans you generally make?

Mr. WILLIAMS. Three years and five years.

Senator NORBECK. The average-sized loan would run about what?

Mr. WILLIAMS. The smallest loan we make now is about \$5,000, and the largest loan we have made is about \$5,000,000.

Senator NORBECK. Your average loan would run \$100,000 or \$500,000?

Mr. WILLIAMS. No; we have a great many in the small amounts, around \$5,000 or \$6,000. I do not think they would go that high.

Senator NORBECK. You spoke about loft buildings. That is a term I did not understand.

The ACTING CHAIRMAN. How do you get along with such a small capital?

Mr. WILLIAMS. I think we have a very large capital. It is 10 to 1. We can go out and guarantee \$1,400,000,000 on that capital fund.

Mr. WILLIS. Do you have the stockholders' double liability?

Mr. WILLIAMS. No, sir.

Senator NORBECK. You spoke about loft buildings. What are they?

Mr. WILLIAMS. They are buildings with open floors and used for light manufacturing where they happen to be near the retail disposer; in other words, you have a concern like Lord & Taylor, for whose particular needs a loft building is particularly desirable, and if you have a loft building, say, between Fifth and Sixth Avenues, that is valuable property.

Senator NORBECK. What is the proportion between the real estate value and the improvement?

Mr. WILLIAMS. That is very hard to answer.

Senator NORBECK. I mean of the loans you make. Does the ground generally go with the property or is it generally on a lease?

Mr. WILLIAMS. We can only loan on the fee. Leasehold loans we do not like.

Senator NORBECK. Then, the proposition is——

Mr. WILLIAMS. You did not ask me about leasehold bonds. We disapprove of them intensely. We figure a man who buys a leasehold bond buys a participation in bills payable.

The ACTING CHAIRMAN. I think that is a good description of them. Clarence H. Kelsey was the first to engage in this business, was he not?

Mr. WILLIAMS. About Clarence Kelsey: Everybody feels that Clarence Kelsey was not only the dean but a shepherd and leader. He laid down principles in title insurance that have been followed for a great many years.

The ACTING CHAIRMAN. I am glad to hear you say that.

Senator NORBECK. Now, a loan that is made on a piece of property valued at \$1,000,000—

Mr. WILLIAMS. We would lend \$600,000.

Senator NORBECK. What is the comparative value of the real estate and building generally?

Mr. WILLIAMS. Well, now, the land might be worth a million dollars and the building worth a million dollars, but we would only lend a million on it. Another time the property might be worth a million and a half and the building only worth half a million, and we would still lend a million dollars. I have in mind a case where we loaned \$2,100,000 on property worth \$4,800,000, and the buildings will cost about \$2,800,000. We are just lending the value of the land.

Now, when you go to the suburban section, where you get the \$5,000 loans, you will find probably the land is worth \$2,500 or \$3,000, and the house costs \$6,000 or \$7,000, and we lend \$6,000 on that. That would be a 60 per cent loan. Those are good loans. The borrower is a house owner, and he is not interested in the going up or down of real-estate values or the stock market.

Senator NORBECK. Who generally buys your mortgages?

Mr. WILLIAMS. I can give you that. If you ask another question, I will answer that and continue looking this up. In the meantime, I think I will find it.

Senator NORBECK. I wanted to ask you something about the history of real-estate values in the city and the fluctuations.

Mr. WILLIAMS. Well, of course, New York for the last 10 years has just been climbing the ladder in real-estate values. I have not the figures before the war, but I think the last year or so they have stepped up about \$450,000,000.

Senator NORBECK. In per cent that would be what? What would be the per cent of increase in real-estate values in the last 10 years?

Mr. WILLIAMS. Since the war the return from apartment houses is just 100 per cent more than it was in 1913.

Senator NORBECK. That is due to the difference in the replacement value?

Mr. WILLIAMS. These are the land values and all. That would reflect the increase in the value.

Senator NORBECK. Is it not almost 100 per cent? Did not the cost of building go up almost 100 per cent between 1914 and 1924?

Mr. WILLIAMS. It went higher than that, but an apartment that was renting for \$20 in 1913 and 1914 rents for \$40 now.

Senator NORBECK. And it has been higher in the meantime?

Mr. WILLIAMS. Yes. But that would be just about 100 per cent.

Senator NORBECK. Then the real-estate values from 1914 to 1924 increased more than 100 per cent, and they have been going up slightly since?

Mr. WILLIAMS. Yes; and there has been a decrease, decidedly, in the last year. I should say that it has ranged from 15 to 20 per cent in real estate. Although the city has shown a lift in some of them, there has been now—well, I think they reduced the valuation \$400,000,000. There are many cases where the assessed value by the city is higher than the appraised value by the companies. We are not governed, of course, by the assessed value.

Senator NORBECK. But you find the assessed value a guide, as a rule?

Mr. WILLIAMS. Oh, we use everything.

Senator NORBECK. You find it helpful on occasions?

Mr. WILLIAMS. Yes.

Senator NORBECK. What really determines the value of real estate?

Mr. WILLIAMS. Income and location.

Senator NORBECK. Not so much replacement cost as income?

Mr. WILLIAMS. Income determines the value—what can you get for the property. We had a number of ideas—quick enhancement within the near future would give it value, but we have to figure in the near future will there be a suitable—you can take a store that is nothing more than a frameshack, and if it is properly located it would place a value on the land which would absorb and discount the value of the store and still give you a high net value. When a situation like that arises we just discount the building and allow one year's rent.

Senator NORBECK. The fact certain companies have run 25 or 30 years does not throw so much light on the subject as one would wish, because in that period there has been a great increase in values on their properties on which they have carried loans.

Mr. WILLIAMS. There has always been an increase of values in New York, particularly in the last hundred years, you might say.

Senator NORBECK. There is not much chance for loss as long as property is going up.

Mr. WILLIAMS. There is if you lend the wrong amount.

Senator NORBECK. Much less than when you begin to have a shrinking value.

Mr. WILLIAMS. The shrinkage in value of real estate has been far less than the shrinkage in value of stocks and bonds.

Senator TOWNSEND. You are referring to New York alone or the whole country?

Mr. WILLIAMS. I am particularly referring to New York. Of course we had all the stocks in New York, and I am comparing that with our own real estate.

Senator NORBECK. Very well.

Mr. WILLIAMS. We have sold to insurance companies 30.15 per cent; to savings banks, 21.94; commercial banks and trust companies, 16.29; trust funds, 5.38; charitable institutions, 1.88; miscellaneous, 7.56; individuals, 16.80; that makes 100 per cent. Any one of those figures multiplied by \$700,000,000 will show what they have.

The Bond & Mortgage Guarantee Co.: Insurance companies, they have none; savings, 3.79 per cent; trust funds, 43.63; charitable, re-

ligious, and educational institutions, 1.59; corporations, 15.67; individuals, 35.32.

The Lawyers Mortgage Co.—those are the three companies I have prepared, and they are the outstanding companies for distribution, because their relations are more general than other companies—the Lawyers have: Insurance companies, 6.52; savings banks, 13.89; commercial banks and trust companies, 7.38; trust funds, 16.57; charitable institutions, 11.81; individuals, 43.83; that also makes 100 per cent.

The ACTING CHAIRMAN. Would that approximately correspond to the other large cities—the practice in the other large cities in the country?

Mr. WILLIAMS. The other large cities have copied New York in their records of distribution. I would be at a loss to know that, however, because we have tried a little bit of outside mortgages and decided we would confine ourselves to the metropolitan area. We want to be able to ride to any of them within an hour.

The ACTING CHAIRMAN. Then you are entirely confined to the metropolitan area?

Mr. WILLIAMS. Yes.

The ACTING CHAIRMAN. That means you do not loan on farm land?

Mr. WILLIAMS. No. We do not lend on any vacant land. Whether you want to term farm land vacant land or not, I do not know. I think you ought to distinguish between vacant land in a growing city and farm land. A city grows to the suburbs and crowds the farmer out and the no man's land in that area is neither good for farms nor buildings during the interim between that time and the time it is built up.

The ACTING CHAIRMAN. I understand from what you say you do not go out into the country beyond the suburbs and lend on land, although there may be a house on it—so-called farm land?

Mr. WILLIAMS. There are a few exceptions. We would lend on a high-grade suburban residence which has a large land value under it; in certain places where there is a definite value fixed, like Huntington Shores, Bay Shore, and metropolitan New Jersey.

The ACTING CHAIRMAN. Take summer estates where they live in them during the summer—

Mr. WILLIAMS. Where there is an established value, we have loaned outside of the State, but we have stopped that.

You asked about the distribution between mortgages and certificates.

Senator NORBECK. May I ask just one more question on this? I understand there has been a constant increase in real-estate values for several generations in the metropolitan area.

Mr. WILLIAMS. Yes, sir.

Senator NORBECK. But the increase has been faster during the war period than at other times?

Mr. WILLIAMS. I was not around then, but I understand right after the Civil War they had a great increase in value in the metropolitan area.

Senator NORBECK. Did they also have a large increase during the World War?

Mr. WILLIAMS. No; we were stopped from building during the World War.

Senator NORBECK. There was no particular increase in the value of real estate during that period?

Mr. WILLIAMS. No. As a matter of fact it was dead. You had an embargo on building, and then we discovered the population had increased and there was no place for them to go; there was a house shortage.

Senator NORBECK. The only increase in the value of property was the increased cost of replacement?

Mr. WILLIAMS. The increase in population. There is always that.

Senator NORBECK. It was reflected in the increase in the value of the building rather than of the land?

Mr. WILLIAMS. There was no increase during the war. We stood absolutely still from 1917 until—

Senator NORBECK. I think you either misunderstand me now or misunderstood me before. I asked about the enhancement of property from 1914 to 1924. I understood you to say that it was more than 100 per cent.

Mr. WILLIAMS. Then suppose we change that to 1918—from 1918—because from 1913 to 1918 there was little or nothing going on. In 1913, as you remember, we had a psychological panic. I think Mr. Wilson called it that, but we found it was an actual panic in New York which affected real estate. From that time on there was little or no building. We had a decided flat spot in 1913.

Senator NORBECK. When did this great increase in the value of buildings come on?

Mr. WILLIAMS. I should say it started about 1920 and we had another flat spot in 1921 and in 1922 it started again.

Senator NORBECK. But a building of the same size costs twice as much now as before the war—right now?

Mr. WILLIAMS. Yes. There is another little condition you might bring out. There was not so much change in the replacement value as the necessity for housing.

Senator NORBECK. I am speaking of the replacement cost. An old building might change value because of the cost of putting up one like it across the street?

Mr. WILLIAMS. Anything that had a shelter value in 1913 and 1914—we had a great house shortage and we did not have a true value in that time, but since then we have had the building overtake the necessity.

Senator NORBECK. In other words, the value is approximately the replacement cost of the property?

Mr. WILLIAMS. At the present labor cost.

Senator NORBECK. And that is more than twice what it was before the war?

Mr. WILLIAMS. Yes. The straight outstanding guaranteed mortgages of the New York Title & Mortgage Co. are \$525,000,000 as against \$489,000,000 in 1929.

The Bond & Mortgage Guarantee Co., \$561,000,000 as against \$516,000,000 in 1929—the same period.

The Lawyers Mortgage Co., \$270,000,000 as against \$262,000,000 in 1929—the same period.

Then, the guaranteed certificates, which make up the balance of the guaranteed funds—

New York Title & Mortgage Co., \$177,000,000 against \$149,000,000.

Bond & Mortgage Guarantee Co., \$300,000,000 against \$259,000,000.

Lawyers Mortgage Co., \$149,000,000 against \$132,000,000.

Those figures make a gross for the New York Title & Mortgage Co. of \$702,000,000; for the Bond & Mortgage Guarantee Co. of \$862,000,000; and the Lawyers, \$419,000,000.

The ACTING CHAIRMAN. You say the trend is downward at the moment in real-estate values?

Mr. WILLIAMS. Yes.

The ACTING CHAIRMAN. Have you any idea how far this trend may continue or how long it may continue?

Mr. WILLIAMS. It reflects, to a great extent, the unemployment situation and until that changes, I do not know just exactly how far it will go. I will say this, though, that it is far more encouraging than it was a year ago. About this time last year, or about this time three months ago, if you foreclosed a mortgage, you just got the property. Now, the people have a tendency to protect and the junior interests come in and try to protect. They think it is worth having. So, that indicates that the value is there. It may be that the weak sisters were the first to go.

Now we are getting down to what we might call stable properties.

I might say that there are millions and millions of outstanding mortgages. They have not happened in a year. They have been built up in years. Many of those loans have been through the mill twice and they are what you might call seasoned properties. In 1928 and 1929, I think those were both in the high-peak period, and there is where you see the difficulty in the real-estate bonds and even the guaranteed mortgages. But the guaranty companies were always very conservative against bond issues; in other words, having a guarantee, they felt they had to be careful.

The ACTING CHAIRMAN. They recognized the inflation?

Mr. WILLIAMS. Yes.

Mr. WILLIS. I think you said a while ago, Mr. Williams, there had been practically no defaults in guaranteed mortgages. I think the National Association of Real Estate Boards has estimated that there were \$4,000,000,000 out of \$18,000,000,000 in real-estate mortgages in general that have defaulted. Does that seem excessive?

Mr. WILLIAMS. What do they mean by "defaults"? Do they mean the mortgagor defaulted or the company issuing them?

Mr. WILLIS. If the mortgagor defaulted?

Mr. WILLIAMS. That would be excessive in New York.

Mr. WILLIS. An excessive rate?

Mr. WILLIAMS. Yes.

Mr. WILLIS. New York is probably less troubled in that way than other parts of the country?

Mr. WILLIAMS. Just now we are going through this Bank of the United States situation and that is very bad. A lot of those loans were made without any rhyme or reason. Well, there was a reason—

The ACTING CHAIRMAN. But no rhyme.

Mr. WILLIS. Taking the country as a whole, what per cent of the mortgagors in the past year have failed to pay what is due?

Mr. WILLIAMS. That is very hard for me to answer.

The ACTING CHAIRMAN. Mr. Williams, this \$4,000,000,000 out of \$18,000,000,000 strikes you as too high?

Mr. WILLIAMS. That is about one-quarter and that is about what some of your values have reduced. Of course, you must bear in mind there were a lot of foolhardy mortgages made. They were worse than some of the stock issues in New York. They were founded on prospectuses and maps.

If you want to include Florida and Georgia and some of those things that never had any right to be real-estate properties anyhow, I should say that would be a small figure.

Mr. WILLIS. The country banks report, as nearly as we can estimate, about a billion and a quarter of urban real estate mortgage loans held by them at the present time. What do you think of the value of that holding?

Mr. WILLIAMS. I can only give our own experience, and I can say that the least trouble we have is with the small householder—loans under \$10,000. There is a big market in case a man does default, for some one to take up the property. In addition to that, the man calls it his home. It is his home and he will protect it to the last. But we have had less trouble—and I think I can say that of all the house owner mortgages—that with any other kind of mortgages, and we have a great many of them.

Mr. WILLIS. So the criticism of those loans would probably not be in their goodness, but in the degree of their liquidity.

Mr. WILLIAMS. Yes.

Senator TOWNSEND. Are all the companies you have enumerated practically confined to New York?

Mr. WILLIAMS. Yes; and regulated by New York. There are a large number of mortgage companies in Jersey.

The ACTING CHAIRMAN. Which type of building, between the residential apartment houses and office buildings is in worse condition now?

Mr. WILLIAMS. Would you ask me that question again, please.

The ACTING CHAIRMAN. As between these apartment houses—residential apartments—and office buildings and industrial structures, which class is in the poorest position at the present time?

Mr. WILLIAMS. I should say the small house owner is in the best class. Cooperative apartments, while there has been some difficulty, are in the second best class.

I will have to amplify the office-building situation, because south of Fiftieth Street to the Eleventh Street zone they are only 11 per cent vacant; north of Fiftieth Street they are 30 per cent vacant. So a lot depends on the location.

Industrial buildings—

Senator BULKLEY. How are they down town?

Mr. WILLIAMS. Those units completed before May 30 last year are all right. There are two or three units that have come into the field that are, I think, bad.

Senator BULKLEY. What is the percentage of vacancies?

Mr. WILLIAMS. It would be very small.

Senator BULKLEY. You mean the older buildings are all rented up without any vacancies?

Mr. WILLIAMS. Within 10 per cent.

Senator BULKLEY. The Irving Trust is coming along all right?

Mr. WILLIAMS. Yes.

Senator BULKLEY. They would have a smaller percentage of vacancies than the Grand Central?

Mr. WILLIAMS. Yes. There is a building at the water front just finished and full to the roof. Twenty-nine Broadway has no tenants, and 21 West Street very few.

The ACTING CHAIRMAN. And the Empire Building?

Mr. WILLIAMS. I would not be astonished to see that work out well.

The ACTING CHAIRMAN. The Equitable is all filled?

Mr. WILLIAMS. Yes. One hundred and twenty Broadway makes that. The Manhattan, I think, is 80 per cent rented. And the Farmers Loan & Trust will use their new building.

The ACTING CHAIRMAN. The Irving Trust is rented up full?

Mr. WILLIAMS. Well located property is in good shape.

Now, industrial property is a question that—well, you can not answer that. That depends entirely on the industry.

Mr. WILLIS. Has there been any great change in the appraisal methods of recent years giving greater weight to income from property rather than cost?

Mr. WILLIAMS. Very decidedly.

Mr. WILLIS. What is the reason for that?

Mr. WILLIAMS. The awakening. [Laughter.] I do not think there is any other—a sad awakening. People had an idea that you could buy a piece of property and never mind what it brought in, it could be sold for more than that amount in six months, and so those people bought it, but found six months afterwards that they could not sell it. The idea of buying from John and selling higher to Peter had gone on indefinitely, and all of a sudden Peter was out of money and they had to carry it, and they learned they had better buy the property and let it carry itself.

Mr. WILLIS. Now, in a case like the failure of the Bank of the United States—and I merely use that instance because it has failed—in that case the lending on real estate went right on in the way you described by raising the appraised value indefinitely and selling out again—

Mr. WILLIAMS. With the exception they did not sell it.

Mr. WILLIS. Did they not sell it on paper?

Mr. WILLIAMS. Yes. That is a long story, and I think as you get deeper into the story, it will indicate that the men who were handling it did not know their jobs. We had men in different lines of business suddenly become bankers and then suddenly become real-estate men.

The ACTING CHAIRMAN. That is the old, old story.

Mr. WILLIAMS. There are two very fitting examples. There is the San Remo, Central Park West. We analyzed that, and every other large institution analyzed it. They had to get \$1,000 for one room. Anybody paying that much for a room will go to Fifth Avenue or Park Avenue. They will not go to Central Park West. They were in the wrong location. That building will rent at a figure, but they will have to come down to that figure.

The ACTING CHAIRMAN. And burn some of their mortgages?

Mr. WILLIAMS. Yes, sir.

The ACTING CHAIRMAN. That is the trouble with Florida. There is plenty of sunshine there but they will have to burn mortgages.

Mr. WILLIAMS. The trouble with Florida was they were selling real estate by the gallon instead of by the foot.

The ACTING CHAIRMAN. What has been the experience of the mutual savings banks with real-estate mortgages in the past few years?

Mr. WILLIAMS. We have had a little difficulty but not much, and those institutions that had a regular loaning department, set up and well equipped for handling loans, have been able to handle them all right.

The ACTING CHAIRMAN. How have the life insurance companies fared?

Mr. WILLIAMS. In New York fairly well. I do not know about the situation outside of New York.

Mr. WILLIS. Do you mean by that that the life insurance companies located in New York have done fairly well all over the country?

Mr. WILLIAMS. No; in New York.

Mr. WILLIS. You do not know how they have done in other places?

Mr. WILLIAMS. No.

The ACTING CHAIRMAN. They are all getting leary of getting out of town?

Mr. WILLIAMS. Yes.

The ACTING CHAIRMAN. I know they are in Hartford.

Mr. WILLIAMS. At this point, I should like to say a word about the small householder. There has been a lot of criticism, as you have noticed, in some of these developments where they have flimsy construction. I do not approve of flimsy developments entirely, but I do approve of a man going out in the country and owning his own home. That is one way of making a good citizen of him. He immediately becomes interested in his taxes and assessments and once he pays his taxes and assessments he is interested in his Government. You never get that out of the rent payer.

In addition to this, this type of loan on houses in the suburbs has caused little or no trouble. I just want to say a word of kindness for that type of man. I think he is the real future citizen of America and should be looked after.

The ACTING CHAIRMAN. What changes in real-estate financing have been brought about by the evolution of the giant office building and giant apartment dwelling in larger cities?

Mr. WILLIAMS. They caused the issuing of certificates. That is one. They have also caused the issuing of the real-estate bond. It looks as though I am going to turn a double back somersault on my statement about real-estate bonds, but the large office buildings running into amounts as high as twenty or twenty-five million dollars must, of necessity, be handled by a bond issue, because the mortgage companies at the present time would not want to invest such a large amount in one unit and go back of it with a guarantee.

But the fault in the past has been that the bond issues have been careless and ridiculous in the way they have been put out and have not been put out on a strictly mortgage basis. Those that have been put out on a mortgage basis with sufficient return to cover

them have been very satisfactory. Those that have not been—why, they are suffering accordingly.

The large apartment buildings—I just referred to office buildings—the large apartment buildings are still within the province of the title companies and insurance companies, and there has been no hesitation in taking those loans where they are properly located and a proper income is shown.

The ACTING CHAIRMAN. The larger cities of the country report bank mortgage loans of one and a half billion dollars. Do you regard these as sounder than the mortgage loan in the small communities?

Mr. WILLIAMS. I do not think you can compare them. In Garden City, which is out in a small community, Best & Co. have just put up a store on the corner of Franklin and Stewart Avenues. That store is of more value than a store in New York any place except around Fifth and Madison Avenues. The automobile can not park in the city any more and people do not bother to go to New York, and they go to Best & Co. out in Garden City. It has created such a value that the opposite corner sold last week for \$100,000, which I think—oh, back a year or two ago—it would have sold for \$40,000 or \$50,000. That is an outlying community. So I think that every mortgage loan stands on its own footing.

There is another place called Bay Shore, down Long Island—Main Street, Bay Shore. Right near the post office the stores are extremely valuable, and I would rather have a drug store down there right alongside the post office in Bay Shore than I would any place in Brooklyn and New York at a higher price.

The ACTING CHAIRMAN. How about Bronxville?

Mr. WILLIAMS. That has wonderful value. Greenwich also has wonderful value.

The ACTING CHAIRMAN. Getting away from the marginal line that has spread out every year, what is going to happen to that row of box stalls between Sixtieth and Forty-third Streets and spreading over from Madison Avenue to Lexington Avenue?

Mr. WILLIAMS. When they started to build office buildings on Forty-second Street they said Wall Street was gone. That was 10 years ago. Wall Street is stronger than ever. When they built the subways to the suburbs they said that every suburb they built up would take the traffic out of New York. You know what has happened. Queensboro has grown from 150,000 to over 1,000,000 in the last 10 years, and yet there are more people in New York. There are certain people who lived in New York in the past that will never live there again because of the immigration law. That is what built up the east side. That has changed. We now have no element to build up our railroad apartments and flats. They will probably fall of their own weight. That is particularly true on the east side that Al Smith is particularly interested in, and trying to put a new housing program through to take care of. I think there is one place where there are 250 vacant cold-water flat buildings. That means the old law buildings that have not a tenant in them, and yet before the immigration law went into effect that was a seething horde.

That is easily explained. The parents of the present generation lived there, but when the children grew up and married they would not stay there. That is the only section in the city that I know of

that has really suffered a depreciation. All the other sections of the city have gone ahead.

The ACTING CHAIRMAN. So that far as Madison Avenue is concerned, no matter what it is, if they do not like the box stalls they get something else—the values are always there?

Mr. WILLIAMS. Yes; and we are opening up \$600,000,000 worth of subways that all lead into that section.

The ACTING CHAIRMAN. Have you noticed any tendency for commercial banks to become heavily involved in the financing of large structures?

Mr. WILLIAMS. The Bank of the United States was one. I think there was another bank that, by a change, has corrected that. I think I had better not mention the name of that bank.

Mr. WILLIS. Your own bank, the Bank of Manhattan, does not own the building you are in?

Mr. WILLIAMS. We own part of the fee with Iselin & Oswald.

Mr. WILLIS. And the Irving Trust—does that own No. 1 Wall Street?

Mr. WILLIAMS. I do not know.

Mr. WILLIS. There is some danger of banks becoming overloaded with heavy investments in large buildings?

Mr. WILLIAMS. Yes; but many of the banks carry the real estate at such a low figure that it is written off. In our case we carry the real estate at such a low figure it was lately written up.

Mr. WILLIS. That is not true throughout the country? In many places the banks have very large assets in buildings?

Mr. WILLIAMS. I would not want to answer that. I do not think that is true in New York. I think the tendency has been to write it off. We own 135 and 141 Broadway, right back to Church Street. I think that is estimated at \$16,000,000, and we have it on the books at \$4,000,000.

Mr. WILLIS. I should like to ask a question or two about liquidity, Mr. Williams. You have spoken at length of the inclusion of these mortgages. How liquid can real-estate mortgages be made?

Mr. WILLIAMS. They can not be.

Mr. WILLIS. Take your guaranteed mortgages: Suppose I own one and want money very badly, and I bring it to you, what would you do?

Mr. WILLIAMS. In ordinary circumstances we would help you out, but that would just be by courtesy.

(Discussion off the record.)

Mr. WILLIS. You think, then, Mr. Williams, that the real-estate mortgage is always necessarily unliquid?

Mr. WILLIAMS. I think so.

Mr. WILLIS. And from that, is it a fair inference that where the mortgages are held by commercial banks with a savings department, so that these savings deposits are really subject to demand, such a bank ought not to hold real-estate mortgages? Is that a fair conclusion?

Mr. WILLIAMS. Let me put it the other way, that a savings department of a bank should have the same regulations as a savings bank.

Mr. WILLIS. Where you can not have that because of the inability to apply the 30 or 60 day clause, then real-estate loans are not suitable for a bank?

Mr. WILLIAMS. No. If they had some funds as a back-log, they could invest in them.

The ACTING CHAIRMAN. Do you mean that you would departmentalize the bank so that the savings department of the bank would have its own capital and own resources segregated from the rest of the bank, such as they have in California, for instance?

Mr. WILLIAMS. I have not gone into that from the point of the banking game. Of course, from the mortgage salesman's point, it would be a very desirable feature. It seems where the savings department of a bank competes along the same lines as the savings institutions, they should be regulated to the same extent as the savings banks.

The ACTING CHAIRMAN. Would it not help if all national banks dealing in real estate or mortgages, and so forth, should have their assets segregated? Is not segregation valuable in certain circumstances?

Mr. WILLIAMS. Could I ask you a question on that before I answer?

The ACTING CHAIRMAN. Yes.

Mr. WILLIAMS. On the thrift accounts which we have throughout the country, is it necessary that those banks have those accounts or have they reached out to get them to increase their business?

The ACTING CHAIRMAN. I think they have reached out for them.

Mr. WILLIAMS. Then I think when it is not necessary to have the savings-bank accounts they should have savings-bank regulations. Where they have not reached out to get them, and there is no savings institution in the State, that would be different.

The ACTING CHAIRMAN. The broad subdivisions of California are these: The commercial savings and trust departments are limited to the larger banks.

Mr. WILLIAMS. I am talking a little out of my sphere and I do not like to do it on that account, but I understand in New York City, the institutions that have savings accounts feel they should be all in one fund.

The ACTING CHAIRMAN. Yes. That covers it. Is there any rediscounting of mortgages?

Mr. WILLIAMS. Practically none.

The ACTING CHAIRMAN. Do you think it is a good practice?

Mr. WILLIAMS. Well, I think you can borrow in a commercial bank on a mortgage certificate or a man can take a mortgage to a bank. You ask one point as to liquidity and ability to borrow. The ability to borrow on a mortgage is recognized as quickly as borrowing on a savings account.

Mr. WILLIS. That is for the individual. In some European countries they have rediscount institutions so that a bank that wants to get rid of a large number of mortgages can take them to the central mortgage rediscount institution and discount them.

Mr. WILLIAMS. If they had taken those mortgages themselves at a high charge they could afford to rediscount and go out and do the whole thing over again.

Mr. WILLIS. Where it is pretty thoroughly safeguarded, as in the Central Bank of Hungary, and elsewhere, they have been very carefully protected. But as I understand you, you are afraid it would turn out not so well in this country?

Mr. WILLIAMS. Yes.

(Discussion off the record.)

The ACTING CHAIRMAN. Would you put any legal restrictions on the matter of appraisals?

Mr. WILLIAMS. I think I would stop them from investing while they had a participation, if that will help very much, but the central institution you create as a rediscount agency would have to be strong in itself and the securities they take care of would likewise have to be strong. The fact the offering company had made a mistake and was willing to make good its indorsement, should be sufficient.

Mr. WILLIS. What is the situation with respect to building and loan institutions in this country?

Mr. WILLIAMS. I think they reached out and bought on inflated values.

Mr. WILLIS. It is not due to their going into the savings business?

Mr. WILLIAMS. I think all of this trouble is due to bad management. In addition to bad management is that psychological experience we have just gone through in the last three years—the sky is the limit.

Mr. WILLIS. Gambling?

Mr. WILLIAMS. Yes.

Mr. WILLIS. How are you going to get the building and loan associations back into good condition?

Mr. WILLIAMS. I think they will have to go through the laundry the same as everybody else.

Mr. WILLIS. To bring them to a safe basis?

Mr. WILLIAMS. Yes. If the building and loan associations have their money in homes, and so forth, they will be paid eventually; but if they are in things appraised too high, they will eventually lose.

Mr. WILLIS. Do you think they should be prohibited from taking savings?

Mr. WILLIAMS. It depends on how they are set up. If they are set up for savings—

Mr. WILLIS. In that case they should be recognized as savings institutions.

Mr. WILLIAMS. Every institution that has the earmark of a savings institution or a participation in savings should be regulated. The moment you hold something out to the public that is a little different than a commercial commodity and has the atmosphere or earmark of a bank or savings institution or regulated investment, that, in turn, should be regulated by the State.

I feel more than certain that had these big bond issues, and so forth, which have been failures, been regulated by some State regulation, some responsibility of the issuing head, they would never have come out. I think we would have had our development just the same. It would have been healthier, anyway.

The ACTING CHAIRMAN. You think some regulations are possible?

Mr. WILLIAMS. Yes.

The ACTING CHAIRMAN. Have you anything in mind that you could submit later along that line? That is what we are looking for. We are coming to the conclusion that laws do not amount to very much when everybody wants to fly, but if you have anything that will help clear the investing ship, we would appreciate it very much.

Mr. WILLIAMS. I would like to put that up to some of our men back home and get their ideas.

The ACTING CHAIRMAN. Will you do that?

Mr. WILLIAMS. Yes.

Mr. WILLIS. I think it would be well to get their idea as to what, if any, other regulation should be had in connection with real-estate loans made by banks; first, when they are merely commercial fund depositories and lenders; second, when they have also a savings department; and, third, when they have thrift departments.

Mr. WILLIAMS. Let me bring to your attention one thing. The word "savings" in New York is protected by law about as tight as it can be protected, and I think it has been the bulwark of our thrift. Any organization that uses that word "savings" unless it is a savings bank or savings and loan association and under the regulation of the superintendent of banks, violates the law, and, in turn, the man on the street knows that the minute he sees "savings" in the name, that is regulated and his investment is safe.

Now, when we talk about real-estate participations and real-estate bonds it was not over two or three years ago that a real-estate bond was considered on the same basis as a mortgage certificate. One is regulated by the State subject to supervision, subject to the amount of money it will loan and responsibility after it issues it, and the other people have no ties whatever and go along as merrily as they wish, as long as people buy. If those things were regulated, I think we would have a better situation.

The Acting CHAIRMAN. I will read this group of questions on unsecured loans in relation to real estate, Mr. Williams, and you can answer them in bulk.

Do you think any substantial portion of unsecured bank loans is made for real-estate holding and development purposes?

Mr. WILLIAMS. Yes, it has been in the past; and that is through the local developing company on their stock. In certain cases, certain well-balanced companies have been very satisfactory, and particularly in the territory that I speak of as Queens. It has been bank loans on the stock were to substantial real-estate companies, practically the upbuilding of that territory, because all commercial-bank loans on the stock were to substantial real-estate companies, and they were substantial.

I think the other picture is the Bank of the United States where they loaned on the stock of the real-estate companies and they have been very disastrous. One was proper banking and the other bad banking.

Mr. WILLIS. Have you the same feeling as to the present practices as to building loans advanced for construction purposes?

Mr. WILLIAMS. I think the building loans should be made on the same basis as permanent loans. New York had, in the past, what we called corporations for building loans only. They were outside of the regulations of the State and they would make a large building loan. A man was able to build his building and go around and get a loan to cover the costs. I think that will regulate itself, because I think a number of those companies were just in the midst of a great many building loans of large value when this slump came.

Mr. WILLIS. The banks have lost rather heavily on them?

Mr. WILLIAMS. I do not know of any banks doing that except the Bank of the United States and one other bank I will not mention. The other bank is still a going concern. But the banks forgot they were banks and started doing other things.

Mr. WILLIS. Normally you think there is no harm in those loans?

Mr. WILLIAMS. No. There is another thing the banks have done in the past that has been very good business. When a loan has been allowed by the loaning institution the banks have made the in-between payments on an order from the loaning institution. When the building was partly completed, up to a certain percentage a payment would be made at the bank. In a good market, that is good business. At the present time it is not, except where the real-estate company is a very substantial one.

The ACTING CHAIRMAN. Why did the real-estate panic in Florida in 1926 and 1927 result in so many bank failures in spite of and in view of the number of limitations on real-estate transactions?

Mr. WILLIAMS. On account of the deposits. One bank in particular—and I think that is the Bank of Bay Biscayne—had \$66,000,000 in deposits, and when the slump came everybody withdrew their deposits. They were very careful not to go into the real-estate loans and careful not to take real-estate mortgages, but their liquid assets were quickly absorbed by the withdrawal of funds.

Senator TOWNSEND. Was not the fact that they had a great many chain banks down there responsible for the great number of failures?

Mr. WILLIAMS. I do not know whether a chain bank would make any difference. The people were just drawing out their accounts everywhere. If they were separate-unit banks, the accounts would have been withdrawn anyway.

The ACTING CHAIRMAN. Can you suggest any way whereby legal limitation can be placed on the ability of real-estate operators and developers to secure bank credit?

Mr. WILLIAMS. We are doing that voluntarily now.

The ACTING CHAIRMAN. Is it desirable to do it legally?

Mr. WILLIAMS. I do not see how you can. There would be some men worth \$20,000,000 I would not lend a penny to and there are other men worth only \$100,000 that you would lend them \$100,000. It is not the credit of the bank; it is the personal equation.

The ACTING CHAIRMAN. That goes through everything.

Mr. WILLIAMS. Yes.

The ACTING CHAIRMAN. To what extent do you think real-estate operators and owners are securing bank credit for their operations through unsecured loans in New York and Chicago?

Mr. WILLIAMS. Very little in New York.

The ACTING CHAIRMAN. And Chicago?

Mr. WILLIAMS. I do not know about Chicago.

The ACTING CHAIRMAN. Chicago is a great real-estate market.

Mr. WILLIAMS. The reason they are not in New York is that it is not a liquid loan and after 1929 they were very careful to see that all their accounts were kept liquid. I think it is unfair to the banking fraternity of New York to even consider that they have any of the practices of the Bank of the United States, because they do not. After all, a great deal of it depends on the personal equation.

Mr. WILLIS. You would not put bank real-estate loans on the same basis as bank loans on stocks?

Mr. WILLIAMS. No. Several banks have loaned on real-estate transactions, but it has been done under good banking practice, but the Bank of the United States transactions were not good banking.

Senator NORBECK. Was it due to bad banking, or were other elements involved?

Mr. WILLIAMS. When a man is vice president of a bank and in charge of the bank, and likewise head of a real-estate syndicate and is responsible for the success of the syndicate, he occupies a dual capacity and something is going to slip between the chairs.

(Discussion off the record.)

Mr. WILLIAMS. I am quite certain the Manhattan Building is a very great asset to us.

Mr. WILLIS. How was that financed?

Mr. WILLIAMS. That was financed by Starrett Bros., and that was done by mortgage and leasehold bonds. The fee is clear in the owners, both in the Bank of Manhattan and—

The Acting CHAIRMAN. You are a participant in that?

Mr. WILLIAMS. No; only in the case of a fall-down.

Mr. WILLIS. Who owns the bulk of the bonds?

Mr. WILLIAMS. I think they are widely distributed. There is a case where the bond issue was good.

Mr. WILLIS. And they are not held to any great extent by the Bank of Manhattan?

Mr. WILLIAMS. No.

The Acting CHAIRMAN. Is it common for safe deposit subsidiaries of banks to own substantial real estate with the aid of loans advanced by the bank?

Mr. WILLIAMS. There is no reason why they should.

The Acting CHAIRMAN. Are there any substantial number of real-estate owning affiliates of commercial banks; that is, an affiliate set up for the purpose of holding real estate?

Mr. WILLIAMS. I do not know of any in New York.

The Acting CHAIRMAN. Do you favor the principle of limitation of loans by a bank to all affiliates, including safe-deposit and real-estate subsidiaries, as well as security companies, to 10 per cent of the capital and surplus?

Mr. WILLIAMS. That is the regulation we have now.

The Acting CHAIRMAN. It should include all the real-estate and safe-deposit affiliates?

Mr. WILLIAMS. Yes.

Mr. WILLIS. Would you see any harm, from the real-estate standpoint, of having that 10 per cent apply to all affiliates in the aggregate, instead of each one, as now, or would that be too close a limitation?

Mr. WILLIAMS. I would not be able to answer that question.

Mr. WILLIS. In England they have a rather serious real-estate problem growing out of the branch-banking situation, and in Ireland, too, and I think the same on the Continent.

Do you think that branch banking necessarily involves any serious real-estate question through the buying of branch buildings and carrying them along in the portfolio of the parent?

Mr. WILLIAMS. I can not say that as to England, but I would absolutely say it was necessary in New York. You can not get a

location unless you buy. If you get a location by rentals, it is very high and not economical.

Mr. WILLIS. Branch banking involves a large real-estate portfolio on the part of the parent bank, does it not?

Mr. WILLIAMS. Yes. It has been extraordinarily successful with us. I suppose we bought at the right time.

Senator NORBECK. Before the war?

Mr. WILLIAMS. No; right straight along.

Senator NORBECK. Before the rise in values?

Mr. WILLIAMS. No; it has been just right along. We have bought property within the last six months. But the value of the properties has risen and communities have grown around them. When you place a bank, you expect that property to improve and it usually does. If you have rented that spot, you can not gain any benefit from that. If you own it, you get the benefit of the enhancement.

(Discussion off the record.)

The ACTING CHAIRMAN. Mr. Williams, we are very much obliged to you.

The committee will adjourn until to-morrow morning at 10.30, but we will now proceed with a short executive session.

(Whereupon, at 12.30 o'clock p. m., the committee went into executive session, at the conclusion of which the committee adjourned until to-morrow, Wednesday, February 25, 1931, at 10.30 o'clock a. m.)

OPERATION OF THE NATIONAL AND FEDERAL RESERVE BANKING SYSTEMS

WEDNESDAY, FEBRUARY 25, 1931

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

The subcommittee met, pursuant to adjournment, at 10.30 o'clock a. m., Hon. Carter Glass (chairman) presiding.

STATEMENT OF COL. ALLAN M. POPE, EXECUTIVE VICE PRESIDENT OF THE FIRST NATIONAL OLD COLONY CORPORATION

The CHAIRMAN. Colonel Pope, we are glad to have you here. I assume you know the purpose of this inquiry. We are charged with the duty of examining into all phases of the banking business to see if anything is necessary to be done, and if so, what, with the Federal reserve system, and the national banking system, and we will be glad to have any suggestions that you may have in mind.

Colonel POPE. Mr. Chairman, I had prepared, based on the suggestion that Mr. Willis made the other day, a brief statement covering in general the subject matter he said would probably be up for discussion to-day. If you care to have me do so, I shall read that.

The CHAIRMAN. We shall be glad to have you proceed with that and we may have occasion to ask you some questions about it.

Colonel POPE. I understand it is the desire of your committee to question me on the general subject of the relation of banks to investment houses, and the relations between the Investment Bankers Association of America and investment bankers. In referring to this general subject, I wish to make it clear that, although I am a member of the board of governors of the Investment Bankers Association and am an officer of the First National Old Colony Corporation, I understand that my presence before your committee is in the capacity of a private individual. I wish particularly to have it understood that I am not in any sense speaking for the Investment Bankers Association of America.

The increased size of individual security underwritings since the war has emphasized the need of cooperation between underwriters of securities and commercial banks. Such cooperation is to-day essential to the average underwriting investment house which finds it impracticable regularly to employ capital of sufficient size to meet the only occasional demands of security underwritings of large amount. The cooperation by commercial banks in standing ready to loan funds to cover the commitments of investment houses is an

additional assurance that such underwritings are sound, as the banks must pass judgment on the securities to be underwritten as to whether acceptable as collateral for loans by them to the underwriting house. Most investment bankers have more than one commercial bank with whom they consult, and most large issues have several investment houses in the underwriting syndicate. The commercial-banking support is therefore usually widespread. Only by this cooperation are underwritings of new issues of securities, both domestic and foreign, possible, without which American industry and trade would suffer and cease to expand.

In the last 10 years, many of the major banking institutions of the country have developed investment banking affiliates. This has had a tendency to increase the commercial banker's knowledge of the investment market. Most of these affiliates that are underwriters have large sales organizations, and through their nationally and internationally distributed offices are able to keep an intimate contact with the ultimate purchaser. They have thereby so increased their knowledge of marketing conditions that a failure to reasonably successfully distribute a large issue of securities is rare. In some other countries where large issues are floated a failure to distribute large percentages of a new issue is not infrequent.

I do not believe that this country could have developed industrially to the extent that it has since the war without the assistance of bank affiliates, because private capital probably could not have been found in sufficient volume in so short a time as to develop private investment houses to a point where they would have been in a position to handle this enormous increase in underwriting and distribution.

This vast mechanism of underwriting and distributing of both domestic and foreign securities is primarily to the benefit of our industry and trade. Foreign loans place funds in the hands of prospective foreign purchasers of our goods. Public utility, railroad, and industrial securities are issued naturally to benefit those desiring funds for developments or other capital requirements. Even the distribution of securities for organizations, such as investment trusts, indirectly benefits, as the funds acquired in turn support the markets to which trade and industry must turn for new money. In England I understand investment trusts are directly interested in underwritings.

It is obvious that at certain times, when the markets are particularly receptive to new issues, the tendency will always be to supply the demand, and it is obvious that at such times the pressure for supply will lead to a certain amount of unwise financing. The public demand is usually responsible for such conditions. However, at the present time, although money is cheap and although several large issues have been successfully marketed, nevertheless, due to the scientific knowledge of the investment bankers, the flow of new issues has been automatically regulated to such an extent that there is no flooding of the market.

It is impossible by regulations to supply good judgment, but it would appear possible to determine whether good judgment was being exercised by means of proper examination of bank affiliates to the same extent that examinations are required of the parent institutions. If this were done in the case of bank affiliates it would

help to insure the proper conduct of a large proportion of the underwriting houses of the country.

Our own experience leads me to the above conclusion. The First National Corporation was owned by the First National Bank of Boston and as such was subject to examination by the examiners of the Federal Reserve Board. These examinations were admirably conducted, and their thoroughness assured me that the Federal Reserve Board had, through the examiners' report, an accurate knowledge of the business methods and the condition of the First National Corporation.

Approximately at the time of the merger of the First National Corporation with the Old Colony Corporation, because the stock of the merged corporations was no longer owned by the First National Bank of Boston, but beneficially owned by the stockholders of the bank, the examinations by the Federal Reserve Board ceased. We have attempted to have this periodic examination continued because of its thoroughness but without success.

I would recommend that the affiliates of national banks be examined coincidentally with the examination of the parent institutions by the office of the Comptroller of the Currency, and that the affiliates of banks examined by the Federal Reserve Board examiners be also examined. It would also seem advisable that State bank examiners examine the affiliates of State banks.

It is probably needless to remark that the regulations do not permit of loans to bank affiliates by the parent institution to any greater extent than would be loaned to any other similar organization.

The Investment Bankers Association of America is an organization formed by investment bankers and to-day has a membership of approximately 600 main offices and 1,200 registered branches. Practically all representative investment bankers of the United States are members. This organization is governed by the usual officers and by a board of governors selected from the principal financial centers of this country and one from Canada. While this organization obviously has no regulatory powers, the effect of the work of its various committees and the open discussions at its conventions is far reaching in maintaining a high standard of practice among investment banking houses throughout the country.

As long ago as 1927 a study of the money market was begun within this association, which more recently has culminated in the formation of a committee on money and credit, of which I am a member. I bring this to your attention to point out that the investment bankers, some time before 1929, were carefully studying conditions with a view to safeguarding the issuance of new securities, and this committee has recently proposed that frequent confidential reports be made to some central authority, possibly the Federal Reserve banks, by investment bankers of their holdings of various classes of securities, thereby still further clarifying the investment situation. This proposal is receiving consideration at the present time.

In connection with the investment by banks in bonds, it is obvious that many institutions whose officers are far removed from money centers or are unfamiliar with the investment markets will

make mistakes, and many have been made. The improvement, however, in the holdings of banks in the last few years has been noticeable. This is due, at least in part, to the thought given to the subject by investment banking houses. I know of no better way to illustrate this fact than by describing the method adopted by the First National-Old Colony Corporation, which provides, through an investment-supervision department, information to hundreds of banks relative not only to their present holdings but also relative to market conditions in general, and in particular provides information regarding the practices as followed by leading successful institutions in diversification of securities not only by class but also by maturities. In this service selected foreign bonds are included in their proper proportion.

In connection with the purchase of foreign bonds by banks it might be interesting to note that in England a compilation was made in 1911 of the proportion of foreign securities floated from 1882 to that date in the English market, which was then the largest market for this class of securities in the world. Of the securities floated in the English market, only four-tenths of 1 per cent of foreign loans were in default, while the defaults in domestic railroad and industrial developments averaged 1.84 per cent and 2.07 per cent, respectively. Of the approximately \$10,000,000,000 of bonds, debentures, and other interest-bearing securities of foreign governments, municipalities, and corporations issued in this country since the war, I am advised that at present approximately \$30,000,000 are in default, or three-tenths of 1 per cent. I have no available data comparing this with other securities issued in this country, but this record speaks for itself.

In connection with foreign loans, I would say that it seems one of the paramount duties of the underwriters of this country, for the sake of stimulation of trade and industry in America, to supply through the medium of new bond issues the legitimate needs of those foreign countries entitled to credit.

I understand that I am expected to touch upon the subject of so-called lombard loans, or loans by a central bank against securities other than Government bonds, acceptances, and commercial paper as collateral. I am under the impression that this matter might well be carefully considered, particularly as a means by which in this country a Federal reserve bank might, under conditions of stress, make a loan to a bank unable to provide rediscountable paper and then at a rate several per cent above the rediscount rate. It would seem that in normal times there would be no necessity for such loans as, for example, are made under certain conditions by the Bank of England. I believe an examination would show that in recent months some bank failures would have been legitimately averted had it been possible to have recourse to this method. In case lombard loans should be authorized, a provision requiring the Federal Reserve Board to pass on the merits of each case might provide a proper safeguard.

With regard to the bankers' acceptance market, my knowledge comes from the operations of the First National-Old Colony Corporation, which is one of the principal dealers in this country. Although in part due to the ease in money, there has been, however, a constant improvement in the distribution of bankers' acceptances,

although the bulk of the buying is still confined to the principal financial centers, largely those on the east coast. This corporation does not make acceptances and therefore is not in contact directly with the drawers of bills but does, as a matter of business precaution, carefully scrutinize the bills as they are purchased. It has not come to our observation that there is any infringement of the Federal reserve regulations. The present status of the bill market is a healthy one. The American Acceptance Council has been of great service in disseminating useful information to the dealers and to the investing public in bankers' acceptances.

As to the general use of Federal reserve credit for undertakings such as I have described above, being an investment banker my information is derived from observation and not from direct knowledge. I believe, however, that rediscounts can in general be ascribed to unforeseen reductions in deposits and not to meet requirements such as loans to industry or to investment bankers or others. In general, therefore, the bank rediscounting and the Federal reserve bank not only have no control over the purpose for which the original credit is used, but, further they have no control over the purpose for which ten times this amount is used, as it is roughly calculated that a dollar of reserve credit makes available approximately ten times that amount of bank credit.

The CHAIRMAN. Colonel, I gather from your general statement, that you favor the affiliate system but that you would require rigid examination of the affiliates of commercial banks?

Colonel POPE. Yes, sir; I can not see any reason why there should not be.

The CHAIRMAN. Would you add that you favor publicity of statements as well as examination?

Colonel POPE. I would not favor publicity of statements, but I would not say that publicity of statements would necessarily hinder or cripple the activities of the investments by affiliates. I think publication of the holdings of investments by affiliates would be a very serious detriment as it would be a factor periodically in disturbing the investment market.

The CHAIRMAN. Well, you would favor that degree of publicity that would enable investors and the public to understand whether or not the condition of the affiliate is sound or not?

Colonel POPE. Well, the publication of a statement would presumably merely show the amount of securities held or the amount of loans, whatever is normally found in a statement. If that were published, it would not, I think, affect the security market as much as the publication of the holdings of bills, but I do feel that the security market is such a sensitive thing and the fluctuations so frequently the cause of loss of money and hardship, that anything tending to cause those fluctuations is a hindrance, and I think that the examination by proper authorities of the bank affiliates would so safeguard the public that the publication of the statements would not be necessary.

The CHAIRMAN. It has been suggested here, in view of the fact that about the only penalty prescribed under existing law for illicit banking or for the mismanagement of a bank is the revocation of its charter, that the Comptroller of the Currency might be authorized, where a bank persists in irregular practices, to give some measure

of publicity to the fact that this particular bank is engaged in irregular practices.

Would you favor anything of that sort with reference to them?

Colonel POPE. I certainly would not. I think it would be tantamount to closing the doors of the bank immediately.

The CHAIRMAN. Well, should not the doors be closed if the bank persists in disregarding the admonitions and warnings of the Comptroller of the Currency?

Colonel POPE. Well, I think——

The CHAIRMAN. In other words, the extreme penalty, revocation of a charter, seems so harsh that the Comptroller of the Currency (not this comptroller particularly, but all Comptrollers of the Currency) has been very reluctant to apply the penalty, and what we are trying to develop is whether there might not be some intermediate penalty that would compel the bank to correct its mismanagement.

Colonel POPE. I do not feel, Mr. Chairman, that I could properly answer that question without considerable thought. My feeling, at the moment, is that any publicity by virtue of penalties that are open to the public to know about, and the cause for those penalties, is such that the run on the bank and other things affecting the bank adversely would be such that the closing of it would be the only step.

The CHAIRMAN. Well, would it not have been better to have had a run on the United States Bank in New York about five years ago rather than recently?

Colonel POPE. I do not know, sir. It would seem, from all I know, which is only from the newspapers, that between five years ago and now, corrective methods could have been applied which would have prevented the present situation. I may be wrong.

The CHAIRMAN. If a bank management persists in rejecting corrective methods and warnings and admonitions, what are you going to do with it?

Colonel POPE. Well, I should think if that persistence continued after the threat of the charter being withdrawn, that that was all that was left to be done.

The CHAIRMAN. Yes; but we are trying to reach some intermediate penalty that might avert the revocation of the charter and have the bank continue in business. I note from your general statement, Colonel, that you think Federal reserve banks should be authorized, in certain emergencies, to make loans on other securities than that of eligible paper. Would you indicate the purposes for which such loans might be made?

Colonel POPE. Well, I could conceive that a panic situation—and you understand I merely mention this as a possibility in times of real stress—that a bank would be in such a position where, under the present regulations, it would be unable to borrow from the Federal reserve bank, having insufficient rediscountable paper and where other banks that might be willing to come to their assistance would be unable, except over a period of time, to determine whether there was sufficient collateral to lend them. If the Federal Reserve Board were empowered, in such conditions, to step in with their examiners and determine the value of the collateral available, I believe, under such conditions, some banks could be saved by the agency of the Federal Reserve Board's passing on that collateral as sufficient to

warrant a loan. I think it should not be used except with the greatest safeguards and except in times of utmost stress, and, unless so used, it would be of very doubtful value.

The CHAIRMAN. Well, is not the 15-day provision of the Federal reserve act intended for that very purpose?

Colonel POPE. By the 15-day provision you mean what, sir?

The CHAIRMAN. I mean the provision which enables a bank to borrow for a period of 15 days in direct loans from the Federal Reserve Bank with United States bonds as security.

Colonel POPE. I would think it would probably be insufficient time, but if they did not have sufficient rediscountable collateral they are not going to be able to take advantage of the 15-day provision.

The CHAIRMAN. Well, of course, if they have not the commercial paper they might resort to United States securities, of which there is a superabundance. If they had neither, how could they expect to get a loan from the Federal reserve bank?

Colonel POPE. Not under the present conditions.

The CHAIRMAN. Should they get any if they have not proper securities?

Colonel POPE. It is just a question that, if a bank can be saved legitimately, whether it is a function of the Federal reserve bank to assist in the saving, even when the normal course of events can not be followed.

The CHAIRMAN. Should a Federal reserve bank undertake to save an individual bank at its own hazard? I mean at the hazard of the Federal reserve bank?

Colonel POPE. I should not think so, because I do not think the Federal reserve bank, under the lombard loans, should make the loan unless they consider the type of collateral sound for the amount of the loan.

The CHAIRMAN. Are you prepared to say, Colonel, from your knowledge or observation, whether or not this 15-day provision of the Federal reserve act has or has not been badly abused for stock speculative purposes?

Colonel POPE. I can not say from the standpoint of the banks. My only knowledge of it is from the standpoint of the investment banker.

The CHAIRMAN. Colonel, I shall have to ask Senator Walcott to conduct the balance of the examination, as I have an important engagement at 12 o'clock.

(Senator Walcott thereupon assumed the chair.)

Mr. WILLIS. Colonel Pope, there is one matter that I wanted to ask you about which was briefly touched on in your introductory statement, and that is the work of the special committee of the Investment Bankers' Association of America. As I understand it, they are studying the whole relationship of investment banking to the money market?

Colonel POPE. Yes.

Mr. WILLIS. The committee is covering that whole field?

Colonel POPE. Yes, sir.

Mr. WILLIS. What has the committee done up to the present time?

Colonel POPE. At the present time it has largely confined itself to a study of this large subject and has prepared numerous forms

for consideration on which the investment banks will make the report of their holdings to some central bank, and a rather voluminous report has been made on at least two occasions to the board of governors by this subcommittee. It has opened up a great deal of discussion in the board of governors.

They have consulted numerous large underwriting houses as to the methods and have discussed the matter freely with the Federal reserve bank at least in New York, and may be other Federal reserve banks, for advice and suggestions. Being such a radical departure from present practice involving, as it does, the reporting of portfolios and the publication, although names naturally are not disclosed, of such confidential information, it is not easy to progress rapidly in that committee. But progress is being made in constructive lines.

Mr. WILLIS. Are there any results of the work of that committee that you could file with this committee? In other words, has it any concrete results so far? I had understood it had an inventory of unsold bonds on the shelves of investment banking houses which it was getting up from month to month. Has it done that?

Colonel POPE. No, sir.

Mr. WILLIS. There is no such inventory anywhere?

Colonel POPE. No, sir.

Mr. WILLIS. Has the committee put anything yet into concrete form that is available for use?

Colonel POPE. The committee has submitted reports and exhibits in those reports of various proposed forms. I have them with me, but I hesitate to submit them without the authority of the chairman of the committee or the president of the Investment Bankers Association, not because I think there is any hesitancy to offer them, but I have no authority to do so.

Mr. WILLIS. Those are forms only, that have not been filled out?

Colonel POPE. Yes, sir.

Mr. WILLIS. Then I am wrong in thinking that the committee, or the Investment Bankers Association has compiled a monthly summary of the inventories?

Colonel POPE. Yes, sir; you are wrong.

Mr. WILLIS. It has no data of the undigested securities existing in the market in any shape?

Colonel POPE. No, sir.

Mr. WILLIS. Is it possible to get that in any way?

Colonel POPE. Only by asking the houses.

Mr. WILLIS. How laborious a piece of work would that be and how would the houses regard that?

Colonel POPE. I think at the present time merely requesting it, it would be impossible to get it.

Mr. WILLIS. That is, they would not give it?

Colonel POPE. No, sir.

Mr. WILLIS. It is possible for the Investment Bankers Association to obtain and furnish it, without any names, to this committee? The reason for asking is this: It seems to me that the amount of undigested securities in the market and the fact that those securities have been unquestionably overissued from time to time, was one of the main troubles just before the panic. I notice in your statement you seem to think just the reverse of that. I think you remarked

that the care and knowledge of the investment bankers had prevented overissues, but I think you will submit at the time there were a great many undigested ones?

Colonel POPE. I think I said the investment bankers were able to determine when congestion was arriving, but even though congestion might occur, as in 1929, the demand still continued and that demand was filled and I stated then, under such conditions, often by some unwise financing.

Mr. WILLIS. Is it not a fact that for some time before the panic the volume of increase of brokers' loans kept pace fairly well with the increase in new issues?

Colonel POPE. I have forgotten exactly, but I think it did. ¹

Mr. WILLIS. Thus indicating that the new issues that came along then were in excess of the saving power of the community and had to be carried by bank credits?

Colonel POPE. Yes, it would give that indication for all classes of securities, including stocks and other securities bought by individuals which might be old issues.

Mr. WILLIS. No; I am speaking of new issues there—the total of new issues put out, as shown by current bulletins, was about equal to the increase in brokers' loans, which indicated that there was a correspondence between them.

Colonel POPE. I think undoubtedly there was some correspondence between them.

Mr. WILLIS. It has been stated by people who have discussed this matter—and I think one was Mr. F. I. Kent, and another, if I am not mistaken, the former president of the stock exchange—that the great trouble before the panic was the overissuing of securities; in other words, that the investment banking institution was allowed to run wild.

Colonel POPE. I know those statements have been made at various times.

Mr. WILLIS. They have suggested that there should be some control over the securities in order to prevent such cases from taking place. In order to do that, is it not necessary to know the real facts about the question of undigested securities?

Colonel POPE. It would seem to us, who are on this committee on credit and money, that that was the most feasible way of determining that, and I think that the Investment Bankers Association are very alive to the desirability of it.

The question of method is now being discussed by the Investment Bankers Association and, as I say, it takes considerable time to put such a radical thing through in the proper way. I think it will still take some time.

Mr. WILLIS. Is it feasible for you to get the Investment Bankers Association, let us say, by the beginning of next autumn, to collect figures showing, for the past few years—say three or four years, month by month—the amount of new issues and the amount carried on the shelves that was undigested; the loans required to carry them in that way, and any suggestions that they have to make for the adjustment of new issue mechanism and the credit granting mechanism?

Colonel POPE. I would not be sure by next autumn, because the convention of the Investment Bankers Association takes place in

October. But I can only express the opinion that I hope that something along those lines could be done during this year.

The ACTING CHAIRMAN (Senator Walcott in the chair). How would the private banking house look upon such a thing as that?

Colonel POPE. Of course this would be—

Mr. WILLIS. Is it not of importance in any matter of control; to prevent the thing that occurred in 1929? Is it not of an essential character?

Colonel POPE. We, on this committee, think so.

Mr. WILLIS. In order to make any use of it in connection with the work being done here, it is necessary to have that data within a few months.

Colonel POPE. I know, of course, that the Investment Bankers Association would always be very ready to cooperate with the constructive work of your committee. It is not because they would not want to that they would not furnish this; it is merely because they can not get everybody in agreement on such a matter of major change. This matter, as you may know, has been under discussion since 1927.

Mr. WILLIS. That is four years, now.

Colonel POPE. But it has only been within the last year that the committee was formed to come to some concrete idea.

Mr. WILLIS. You do not think that a questionnaire sent out to the investment banking houses and asking for these data would bring the desired result?

Colonel POPE. I think, in many cases, it would not be answered.

Mr. WILLIS. How many people ought to be queried, or how many people would have to join in making such an inventory, in order to make it representative?

Mr. POPE. I should think six or seven hundred houses.

The ACTING CHAIRMAN. But the very factors that you want in there are the factors that would run away from you if there was any danger in sight?

Colonel POPE. Yes, sir.

The ACTING CHAIRMAN. That is the trouble with it. You have the same thing with the dry-goods association. They have tried the same thing. There is a vital interest of all in what the shelf stocks are. In 50 years, to my knowledge, they have never been able to do it. In normal times they can do it easily, but the minute there begins to be a congestion, the man who has a heavy shelf of stuff has to keep it quiet or there is no chance of getting rid of it. I do not think we should fool ourselves. I am perfectly certain every private banking house wants to know that information that Doctor Willis is getting at, but he does not want to give information about his own position, if it is a weak position. Legislation might bring it out. The question is whether we need that legislation. It is very valuable. Even the private banking houses will admit the value of it, but how are you going to get it?

Mr. WILLIS. Can you suggest, in the absence of such data, any kind of mechanism that can be used to prevent overissues occurring?

The ACTING CHAIRMAN. That is what we want to know.

Colonel POPE. I think we can not always judge the mistakes made by referring to 1929 as the only year. When the incentive to bring out new issues is produced by a real demand, so that under-

writers, without any difficulty, can sell their issues and make a profit, it is very difficult to stop them from doing it.

In 1929 unquestionably toward the end—just before the panic—the majority of the ultimate purchasers had to borrow money in order to purchase, and that, of course, is a very bad situation and soon corrected itself. But I do not see how it is possible to legislate against the issuance. The correction comes from the aftermath which, for some time, underwriting houses remember. The new generation may not remember what happened in panics. In normal times, there is no necessity for correction. These are perhaps abnormal times, with a tentative market. Every underwriting house knows almost exactly the result of the marketing of each new security and sets its course according to the results of the previous one.

Mr. WILLIS. You say he does know that? For others?

Colonel POPE. New York is a very small town in one sense.

Mr. WILLIS. Why do most houses give out the statement that an issue is oversubscribed?

Colonel POPE. I do not think it does always. I think in some cases it does, but statements of that kind, in the investment fraternity, are discouraged.

Mr. WILLIS. The association has not taken any position against that?

Colonel POPE. Yes, sir; in one sense. For instance, advertisements appear in the evening papers. This advertisement appears as a matter of record: "Securities have all been sold." That implies to the general public that the ultimate purchaser had bought the whole issue which, normally, was not the case, as part was still in the process of being distributed by a subsyndicate.

The Investment Bankers Association have discussed that phraseology—"All securities have been sold"—and they have gone on record as disapproving of such statements, so that now houses merely state—"this advertisement appears as a matter of record only," without the statement of the amount sold.

Mr. WILLIS. Do they not give out publicly a notice saying it has been sold?

Colonel POPE. I do not say it has not been done by some investment houses, but I think it has been done less and less.

Mr. WILLIS. But the other members of the investment community, I understood you to say, have a substantially accurate idea of what the real facts are?

Colonel POPE. Yes, sir.

The ACTING CHAIRMAN. It is always known how "sticky" foreign loans are, within a few days?

Colonel POPE. Yes, sir.

The ACTING CHAIRMAN. Of course, you must know, Doctor Willis, that such a statement in the main is misleading, because there will be subsyndicates and allotment houses. The larger houses have groups of small country houses—small-town houses, of course—that are practically obliged to take a certain percentage. That is their allotment, just as you get an allotment of Ford cars. Those are called "sold" but some of the smaller fellows may sweat blood before they are actually sold.

Mr. WILLIS. Do you think there is anything that the stock exchange can do to regulate this matter?

Colonel POPE. I know, of course, little of the internal workings of the stock exchange, as my corporation, naturally, is not a member. I think it is fair to say that a large proportion of the underwriting is done by nonmembers of the stock exchange to-day.

Mr. WILLIS. I mean through the listing of securities. Has it not a better control over the listing of securities, to be exerted at times?

Colonel POPE. I would not think, offhand—I have not given this much thought—that the stock exchange would undertake to bar the listing because there are more securities in the market than should be.

Mr. WILLIS. I think it might. I have heard it suggested.

Colonel POPE. I do not think it would, off hand, undertake to do that, or that it would be particularly beneficial, because you immediately shut off the best market in which to sell undigested securities.

Mr. WILLIS. That would not tend to keep them out of the banks?

Colonel POPE. No; it would simply help relieve the banks.

The ACTING CHAIRMAN. Do you think, Colonel, we will ever get around to the English method of issuing securities, where the issuing house has to tell everything about the security—where it all goes; what commissions in cash, and what commissions in securities? They have to tell the whole story so that the public knows, when the first circular goes out, exactly what is happening on the inside; in other words, how are we going stop in this country the issuance of securities that are almost worthless when they are issued—in other words, robbing the public, which is being done every week in the year by some irresponsible house or individual. That hurts the good houses and all the business and unsettles the whole country in times of inflation. What check can be put on that that will stop swindlers?

Colonel POPE. That is a pretty big question.

The ACTING CHAIRMAN. That is a big order. We have been working at it for 50 years.

Colonel POPE. I think that the average person naturally turns to regulation of new issues by State authority after they have examined into them, but it has been the experience of most houses that, whereas the so-called blue-sky laws may have a deterrent effect in some particular instances, yet the effect of the blue-sky laws in many cases has, to my knowledge, resulted in making it impossible for the people in a State to buy good securities, because of the inability in the time allotted, to have them, as they call it, blue-skied in those States. I think that, for the benefit such laws give, the harm is more often greater. I feel that although we will never educate the people in general not to speculate unwisely, the ultimate way to decrease fraudulent or poor securities being sold is to educate the public—which is rapidly being done.

The Acting CHAIRMAN. That is the business of the conservative houses?

Colonel POPE. Yes, sir.

Mr. WILLIS. You say that is rapidly being done?

Colonel POPE. Yes, sir. Thousands of dollars a day, certainly, are being spent by investment houses through their sales organizations, through letters, and other means reaching new customers all the time, and now the tendency is to explain to them how to judge securities, explain the merits of the various securities, analyzing

securities for them that they now hold, explaining why some are not good; and, in the last 10 years, I think the strides in the education of the public in proper investment has been enormous.

Mr. WILLIS. But the total of losses through fraudulent securities continues about as large as ever.

Colonel POPE. Of course, the issue of good securities has been terrifically increased. I do not know the increase, but the proportion, it would not seem to me, would be as great.

Mr. WILLIS. But the aggregate might be?

Colonel POPE. Yes, sir.

Mr. WILLIS. What do you think of the aid extended to investment houses by banks? What do you think is the proper relationship between investment houses and commercial banks?

Colonel POPE. Well, I think that the bank to whom the investment house must turn, in many cases, to insure coverage of their commitments in case of necessity, or perhaps for a period of time until sold, should be very close and, as I stated in my statement, I feel that it is getting increasingly close partly because of the attention paid to the investment market by banks who have bank affiliates in that business.

I think that it is seldom that a bank ever makes loans to investment houses for the purpose of covering clients except where the bank desires to make a loan where its position is such that it can or it thinks the collateral is sufficiently secure. I have, to my knowledge, no record of any institution being brought into the investment market by virtue of making loans to investment houses beyond the business judgment of the banks.

Mr. WILLIS. That is, I infer from that, you think even in recent years—the last two or three years—there has been no lending by banks to investment houses for the purpose of carrying bonds with which they have become overloaded, that was excessive or unreasonable?

Colonel POPE. I think there are probably cases where that is the fact, but it was not general.

Mr. WILLIS. It was not general?

Colonel POPE. No, sir. Of course, the regulations would not permit a bank to lend above 10 per cent to any one name or affiliate?

Mr. WILLIS. That is, on unsecured loans?

Colonel POPE. That would be against the regulations. I would not think that that was a general situation, although I can conceive—although from personal knowledge I do not know that it was loaned to excess—I have seen, in some instances which have recently been before the public, where a bank apparently did that.

Mr. WILLIS. You are referring to the Bank of the United States?

Colonel POPE. Yes, sir.

Mr. WILLIS. Well, of course, what as was done there was done in many other cases which were not so flagrant.

Colonel POPE. That is possible, but I do not know of that situation, and I do know of many cases where banks would not permit the investment bankers—in one case I think it applied in general to a whole Federal reserve district—where they would not permit investment bankers to take any commitments without consulting the banks?

Mr. WILLIS. Without consulting whom?

Colonel POPE. Without consulting the banks first. That was in 1929 and I think it applied, by presumably some mutual agreement, to the actions of practically all the banks in one Federal reserve district.

Mr. WILLIS. At the present time I suppose everyone will admit the banks are overloaded with securities. One of the witnesses we had here, the head of one of the larger banks of New York, the other day stated approximately \$2,000,000,000 worth of securities have to be gotten rid of by the banks. What do you think is the direct avenue through which that undue amount of securities was placed in the hands of the banks? You stated very specifically, it seems to me, they did not get them by helping in the issue of them.

Colonel POPE. I do not think they came, except in isolated cases, from the borrowing of issuing houses. This is only a guess, as I am not a commercial banker and have not seen their portfolios.

Mr. WILLIS. You have the published statement every week of the amount they are holding, and when you compare that with what they were holding three or four years ago, the increase is remarkable.

Colonel POPE. Yes; but on the other hand I know in a few cases of large commercial banks that are buying long-term general market high-grade securities, and have been doing so for the last six months, and our own Government bond department indicates by virtue of the increased Government sales of \$800,000,000 this year over last, that the banks are buying and have been buying heavily, of Government securities, which seems to me in general that although they may have some securities they would prefer not to have, they still have not had enough to keep their funds profitably employed.

Mr. WILLIS. They have had more than enough to destroy their liquidity to a very serious degree.

Colonel POPE. In many smaller institutions; yes, sir.

Mr. WILLIS. That raises the question I am asking: In what way do you think this excess of securities came most largely into their hands? Do you think it came from direct discounts for their individual customers who wanted to carry securities? Do you think it came chiefly from brokers' loans or from the absorbing of so-called loans for others, or in what way did it come? The only one you exclude is loans for issuing houses.

Colonel POPE. I think where the congestion is most obvious has been in the smaller institutions, and I do not think that it is entirely, to the best of my knowledge, investments. It is oftentimes loans with real estate as collateral. But in cases of that nature, with the smaller institutions, I think it is entirely individuals discounting with the banks.

Mr. WILLIS. Discounting direct for the individuals?

Colonel POPE. Yes; and not the underwriting houses which would normally never go to a small bank.

Mr. WILLIS. Do you think that calls for any regulation in the way of determining the proportion of a bank's funds which shall be used in buying or owning investments or making advancements upon investments which speedily become of such a nature that they can not be liquid without breaking the market?

Colonel POPE. I have not given that enough thought, Doctor, to really make my answer worth anything. I will reply, but it would

seem to me that, with the safeguards now in existence in the form of regulations of national banks and state institutions, in the case of the States, further regulations are not going to help. You have got to have men of good judgment run a bank.

Mr. WILLIS. Of course that is said by everyone who comes here, but it is almost a useless thing to say. If I should place an order for 1,000 men of good judgment to run banks, you could not fill it. The banks would have found them if they could. You will always have a free banking system in this country. Even if you had branch banking it would not eliminate the small banks. You will have men engaged in banking who are not experts in it, just as you will have men running automobiles who ought not to run them because they are temperamentally unsuited for it. You can not run the banks on the English plan. It seems to me in this particular case we have clearly demonstrated there is something at fault in our system in the matter of discounts based on commercial paper. It seems to me that it is very urgent that the investment bankers of the country should express an opinion as to how that could be corrected in the interests of keeping their own business steady and at the same time protecting the country.

Colonel POPE. I would think that that, instead of being an investment banking problem, was a commercial banking problem entirely. But I cannot make myself feel that it is possible to legislate for all alike in all sections of the country, in villages as well as in large cities, which will limit, in general, discounts by individuals with collateral, because there are many districts, as, for instance, banks in the suburbs of our large cities, where the more wealthy people live who often use the local bank for borrowing for various things, using stock exchange collateral as collateral for their loans, and I have been a director of a bank in such a situation, and while I was a director I never recall the bank's having lost a cent of money on such loans. Whenever they were called, they were paid, and if the margins were not sufficient and they were not sound, the loans were not made. To limit a bank of that kind in indulging in that legitimate business it would seem to me is unwise; whereas, I think in the case of a bank in a small community with the pressure that there is on the president to make loans, and when he asks for margins to put it off for a while—I do not see how regulations could help a situation like that.

The ACTING CHAIRMAN. State regulations might help, but not Federal regulations.

Colonel POPE. I think State regulations might because I think the local situations would be visible to the State which perhaps would not be to the National Government. It might therefore be possibly better done by State regulation than national regulation, but I am at a loss to give you a very helpful suggestion as to how to correct it. I do think that greater supervision may tend to correct it.

The ACTING CHAIRMAN. The failures, as you know, have been among the State banks almost entirely, partly from insufficient capital and partly from bad banking. It is a question whether there is any way of reaching them. One witness here said that all State banks should be given up gradually and forced into the Federal reserve. What do you think of that?

Colonel POPE. Well, I think it is always wise to have as many banks in the Federal reserve system as possible. I am unable to give you much assistance as to how to force banks to join the Federal reserve system, as I am not familiar enough with that subject.

The ACTING CHAIRMAN. The tendency of your replies seems to be that you are well satisfied with the Federal reserve system and not very well satisfied with the State system of banks. Of course, there is a tremendous competition between the two systems, the State system being a little more lenient and perhaps egging the national system on in connection with loose methods of competition.

Colonel POPE. I have observed, with considerable admiration, the operation of the Federal reserve system, and I think the uniformity which I think is shown to exist in the Federal reserve system is preferable in many cases, certainly to large banking institutions, than a system which differs from State to State. I would not say that I oppose the State banks in any sense. There are many, of course, that are admirably run, and many that are admirably examined.

The ACTING CHAIRMAN. How could we get—to go back to the question of blue-sky laws—how could we get some suggestions from a conservative organization like your own that will offset the clamor at a time like this? Following more or less of a securities panic, there is always a great clamor on the part of reactionaries, or whatever you may call them, for blue-sky laws, as you know. Every period we go through like this there is a great clamor for blue-sky laws and, as you say, blue-sky laws are usually hampering business, provided the banker is a sound man. Why can not your organization study a situation of that sort with the idea of making suggestions that will, to some extent, protect the public without making the issuance of securities too rigid?

It seems to me, in my association with English banking, that the English securities are issued on a much more wholesome, frank, and honest basis than ours, and I think we can learn a lesson from them.

Colonel POPE. I think it is difficult to compare the English system with ours because in England the underwriting is in the hands of a comparatively very few, and they have no sales force and their distribution is done by means of a broker who receives, on an average, a quota of 1 per cent for distributing, and many of those brokers are houses of long standing. The vast number of small and sometimes irresponsible houses in this country is certainly not in existence in England to the same extent it is here, although every so often they have difficulty on account of securities nearly worthless being issued in speculative times.

I can recall in 1929 in talking to a man in London who had recently issued \$15,000,000 worth of common stock of the company which since has been unable to continue in its entirety, saying that if you wanted to bring out a pure speculation, bring it to London for issuance. That was because the people were in the frame of mind there where they wanted to double their money as quickly as possible and naturally took to the wholly speculative issues; so that England, even, is not free of that. I know that the Investment Bankers Associations in various committees have had the subject that you asked me about up before them many times. There have been many studies made. They have consulted with many State legislatures

on the question of laws which they are proposing to enact, and have worked with them and cooperated with them and it is their endeavor to do so at all times. I will say that the thought which you asked me about, as to whether that association could come to some solution in the matter which would be beneficial to all, would be most welcome to them, if it could. I think it is probably the most difficult subject they are confronted with. I do not think they have, by any means solved it, but I think they have done what they could to solve it, and are doing what they can on that.

The ACTING CHAIRMAN. On the question of the money market, have you any suggestions for regulating or checking the increase in loans for the account of others during periods of great speculation or speculative credit expansion?

Colonel POPE. If I understand correctly, you mean by account of others, industrial concerns lending on the call-money market?

The ACTING CHAIRMAN. Yes.

Colonel POPE. I think that is impossible to correct by regulation, although I have not given this long study. But at the time it was much discussed, I did study it somewhat. I think that for the reason that at the time of high call-money rates naturally the surplus funds of industry are taken to that market, and except for the fact it is disturbing to those endeavoring to control the situation in a healthy way there is no particular reason that I can see why they should not use that market as a safe means of investment of temporary funds, and my impression is that if you penalize the industrialists or prohibit from lending call money in the usual way, through his bank, he would go direct to the stock-exchange houses and make the loan direct and would have less control over the situation than you have at the present time. My impression is, therefore, that you can not stop such loans by regulation.

Mr. WILLIS. Did your house place any such loans or did the Old Colony Corporation?

Colonel POPE. The First National Old Colony Corporation makes no loans for anyone.

Mr. WILLIS. You placed none for others?

Colonel POPE. No, sir.

Mr. WILLIS. Have you any idea how many concerns there were that placed such loans—commercial concerns?

Colonel POPE. I have no idea; no, sir. I think that at the time when the newspaper discussions brought out the undesirability of loans by others, that many—I know of one or two cases personally—withdrawed funds from the call money market because of the desire to help the general situation and I think the moral effect exercised by the banks and publicity probably withdrew large sums in the aggregate from the call money market.

The ACTING CHAIRMAN. The commission that is earned in placing those loans is divided with the broker?

Colonel POPE. The placing of the loan in New York, for example, by the clearing house rule—there is a charge of one-half of 1 per cent for placing the loan on call. The broker's fee is paid by the borrower, but the handling of the collateral by the bank carries a fee of one-half of 1 per cent.

Mr. WILLIS. What would be the broker's fee?

Colonel POPE. One-eighth of 1 per cent on demand and one quarter of 1 per cent on time.

Mr. WILLIS. That is a uniform practice?

Colonel POPE. I think so. That is one-eighth per cent per annum.

Mr. WILLIS. I understand.

The ACTING CHAIRMAN. Do you regard the present acceptance situation as sound?

Colonel POPE. From the standpoint of the market for acceptances, which is the only phase of that business with which I am familiar, it is probably as sound as it ever has been.

The ACTING CHAIRMAN. Have you had any experience with domestic acceptances? We have had several witnesses who thought that it might as well be withdrawn.

Colonel POPE. I do not believe I am in a position to answer that. We are not an accepting house and the purpose for which drawn, except as stated on the face of the bill, is difficult to obtain.

The ACTING CHAIRMAN. You handle domestic acceptances the same as foreign?

Colonel POPE. Yes, sir.

The ACTING CHAIRMAN. Do you have any more difficulty in handling them than foreign acceptances?

Colonel POPE. The nature of the transaction does not enter into the marketability.

The ACTING CHAIRMAN. There is no discrimination in the market now on the part of anybody against acceptances made for the movement of commodities from one part of the country to another as distinguished from the movement of commodities from this country, say, to France?

Colonel POPE. No, sir.

The ACTING CHAIRMAN. Do you make or study the credit analysis of the acceptance?

Colonel POPE. We only study the credit of the acceptor.

The ACTING CHAIRMAN. You only study the credit of the acceptor?

Colonel POPE. Yes, sir.

The ACTING CHAIRMAN. But you do study that?

Colonel POPE. Yes, sir.

The ACTING CHAIRMAN. How do you account for the Bank of the United States acceptances being in the market and actually sold and held right up to the last?

Colonel POPE. I do not know. We did not, ourselves, have any. But I can conceive of a house of large size, with a purchasing power of bills in large amounts, very well having to take a small amount of bills that are thrown into a big block which they might sometimes rather not take.

Mr. WILLIS. You do not think it was due to the lack of credit study or indiscriminate purchase of acceptances without credit analysis?

Colonel POPE. No. Did you mean unindorsed bills? I could conceive of indorsed bills of that type being taken quite freely.

Mr. WILLIS. Do I understand you to say that the indorsed bills of the bank would be taken quite freely?

Colonel POPE. Yes, sir.

Mr. WILLIS. The buyer, then, would not care particularly who made them, provided he was safe?

Colonel POPE. Yes, sir.

Mr. WILLIS. That would not hold good in the English market?

Colonel POPE. I do not know.

Mr. WILLIS. The theory there is to discriminate against bills that ought not to be in the market.

Now, several witnesses we have had here have said directly or indirectly just about what you said—if the bill was indorsed so that the buyer of it was not likely to lose, he probably would not care very much who made the bill. It might be a bill of the Bank of the United States or anybody else. Is that generally the case?

Colonel POPE. Of course it is pretty hard for me to say, with any knowledge, as to whether that is true or not, but I think it is generally our experience that it is the name rather than the purpose that carries weight on the part of the purchaser.

The ACTING CHAIRMAN. The name of the bank?

Colonel POPE. The name of the acceptor and indorser.

Mr. WILLIS. There is no definite effort to eliminate the bills of banks that really ought not to be there, as far as you know?

Colonel POPE. I should think that it was not general to discriminate between bills on account of purpose, in this country.

Mr. WILLIS. Nor on account of the acceptor, if sufficiently indorsed?

Colonel POPE. The account of the accepting bank is not examined and scrutinized, because the majority of the bills in the open market are sold with the third name.

Mr. WILLIS. If the third name is there, a weak bank's acceptance will move quite satisfactorily in our market.

Colonel POPE. I would think that that was subject to some modification. But I think I perhaps misled you by my reference to the bank you referred to, by saying that the Bank of the United States' bills would flow freely even though its credit was discussed, if it had an indorsement on it.

Mr. WILLIS. I understood you to say that.

Colonel POPE. I meant to say that I could conceive of bills being bought with the third name on them, for one reason or another, and I think that accounted for most of the bills of the Bank of the United States which were in the market where I would not think that the Bank of the United States, as an accepting bank, would have passed freely in the recent weeks before the closing of the bank. We did not buy, even with the indorsement.

Mr. WILLIS. So I understood. Do you think there are many weak banks' names like that in the market now, or do you think the accepting banks constitute a very high grade satisfactory and reliable body of acceptors almost without exception?

Colonel POPE. I think the names of the accepting banks that appear in the discount market are a very high type of name. There is comparatively very little business done in the smaller institutions who have only occasionally a small amount of bills. If their bills are sold to investors at all, it is practically always locally.

The ACTING CHAIRMAN. Commercial paper has declined measurably?

Colonel POPE. I understand so; yes, sir.

The ACTING CHAIRMAN. In your section of the country as well as others?

Colonel POPE. I understand so; but I only know that from reading. We do not handle commercial paper.

The ACTING CHAIRMAN. The Federal funds market is a big factor in banking. Do you look upon that development as a healthy one?

Colonel POPE. I think it has been a tremendous help in many ways to commercial banks in rapidity of settlement, in the rapidity of distribution of funds throughout the country, and I think it has been a big factor in the speeding up of banking operations.

The ACTING CHAIRMAN. Would you favor settlement days as a possible check on quick turnovers?

Colonel POPE. Such as in London?

The ACTING CHAIRMAN. Perhaps more frequent, but say 15 or 30 days?

Colonel POPE. I think that would be unwise, although I am not enough familiar with that problem to really give you a helpful answer.

The ACTING CHAIRMAN. It has a tendency to hold down the ticker man?

Colonel POPE. It can be said to have some advantages, but in most cases in talking with people recently, they all feel it does not apply to our methods of banking in this country.

Mr. WILLIS. You think, Colonel Pope, that the banks at the present time should carry their investment securities, taken as a whole, at market value rather than at cost, or do you think they should be obliged to mark down the whole lot of them periodically, in accordance with the change of the market value? There is a very unsatisfactory situation about that.

Colonel POPE. I think that is a subject which would require a great deal more thought than I have given it, to give an intelligent answer.

The ACTING CHAIRMAN. You certainly would not mark them up?

Colonel POPE. I certainly would not mark them up; no, sir. But I can see that in times of stress, such as we passed through this last year, where bond values dropped 30, 40, and 50 points, without any real reason other than lack of buyers, where the bonds were undoubtedly going to be paid at maturity and were paying interest—if those were marked down to the market, the capital of many banks would have been impaired and, I think, unjustly, in view of the more recent rise. If you are marking down to the market, the question is always as to what is the market, because there were many bonds that you really could not get a bid for and 20 might as well have been the price at which you actually could have sold them as 50. So, to say to mark them at the market is a matter of judgment as to what the market is.

Mr. WILLIS. In the case of real estate, it appears that a great many real-estate loans held by banks at the present time are wholly unmarketable, so it is difficult to say what the liquidity of such is. Would amortizing the real-estate loans by banks be a desirable thing?

Colonel POPE. I know so little about real-estate loans, which we do not happen to make——

Mr. WILLIS. You do not make them?

Colonel POPE. No, sir. We have sold issues some years ago of one or two selected joint-stock land banks, but I really know too little about real-estate loans to give you a proper answer to that question.

Mr. WILLIS. You are not handling any joint-stock land bank securities now?

Colonel POPE. Yes, sir. Of course there are no new issues at the present time and have not been for some years on account of the general market situation. But we buy and sell for customers' accounts frequently and in some cases if there is a moderately active market in some joint-stock land bank issues, and we have handled some Federal farm loan bonds.

Mr. WILLIS. You get some of their bonds?

Colonel POPE. Yes, sir.

Mr. WILLIS. You deal in them quite actively?

Colonel POPE. Yes, sir.

The ACTING CHAIRMAN. We are very much obliged to you, Colonel Pope, for your full and frank answers, and appreciate very much your coming here.

(Whereupon, at 12.05 o'clock p. m., the subcommittee adjourned until Monday, March 2, 1931, at 10.30 o'clock a. m.)

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