

STOCK EXCHANGE PRACTICES

THURSDAY, JANUARY 25, 1934

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

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

Present: Senators Fletcher (chairman), Adams, Townsend, and Couzens.

Present also: Ferdinand Pecora, counsel to the committee; Julius Silver and David Saperstein, associate counsel to the committee; and Frank J. Meehan, chief statistician to the committee; Thomas G. Long, attorney for witnesses summoned in connection with Detroit Bankers Co.; Clifford B. Longley, attorney for John Ballantyne.

Senator COUZENS (presiding). I desire to make an announcement. Chairman Fletcher is in conference with the members of the House Banking and Currency Committee this morning and requested me to call the meeting to order and go on with the hearings until he can get here.

The subcommittee will now come to order. Mr. Pecora, you may proceed.

Mr. PECORA. Mr. Chairman, I will ask Mr. Verhelle to take the stand. But you may remain where you are, Mr. Ballantyne.

Mr. BALLANTYNE. All right.

TESTIMONY OF JOSEPH F. VERHELLE, GROSSE POINTE, MICH.— Resumed

Mr. PECORA. Mr. Verhelle, at the conclusion of the hearing yesterday afternoon you and Mr. Ballantyne were being questioned with regard to the disposition that was made of the special cash dividend one one and one-half million dollars that was declared by the First National Bank in Detroit on December 23, 1931. Do you recall that, Mr. Verhelle?

Mr. VERHELLE. Yes, sir.

Mr. PECORA. You undertook, when left the stand yesterday afternoon, to acquaint yourself with the details of the disposition of that fund. Have you done so?

Mr. VERHELLE. I tried as well as I could, by a long-distance call. And, incidentally, Mr. Pecora, I should like a little information as

to who will cover the expense in regard to any action taken to secure data upon which to answer such questions.

Mr. PECORA. Suppose you answer the question propounded to you, and we will take up later the other matter. That has nothing to do with this record.

Mr. VERHELLE. Well, I was not able to obtain—

Senator COUZENS (interposing). I did not quite get that request made by the witness. Will you please repeat it?

Mr. VERHELLE. I should like to know how far I can go in obtaining information of that kind, because it is quite difficult to get it, and there are, apparently, many factors involved, and in connection with this particular question I did not quite get the information.

Mr. PECORA. Do I understand that it was necessary for you to telephone to Detroit, and what else?

Mr. VERHELLE. It was necessary for me to do that; yes.

Mr. PECORA. You may proceed with the information you have at hand, and we will decide the other matter later.

Mr. VERHELLE. The only information I have at hand is that at one time, toward the latter part of December, there was specifically a total of $3\frac{1}{2}$ million dollars in the hands of the Detroit Bankers Co., either in the form of certificates of deposit, or certificates of deposit and other instruments, or other instruments; that those $3\frac{1}{2}$ million dollars consisted of a $1\frac{1}{2}$ -million-dollar dividend declared by the First National Bank, a 2-million-dollar liquidating dividend declared by the First Detroit Co.; that the First National Bank dividend was paid prior to the payment of that First Detroit Co. dividend, and that at the very end of the year both had been paid. In other words, both were paid prior to January 1, 1932. Now, that is—

Mr. PECORA (interposing). Well, the special dividend of $1\frac{1}{2}$ million dollars was declared on December 22, 1931, and was paid the following day, December 23. And what you call the special liquidating dividend of \$2,000,000 paid by the First Detroit Co., was paid on December 28, 1931. Incidentally, that special liquidating dividend was not a special liquidating dividend of \$2,000,000, as you undoubtedly know, Mr. Verhelle.

Mr. VERHELLE. No; I do not.

Mr. PECORA. It was the proceeds from a special dividend of 30,000 shares of the capital stock of the First Detroit Co.

Mr. VERHELLE. Well, that is what I meant.

Mr. PECORA. And 20,000 of which shares were a few days thereafter surrendered for cancelation, and that was how the \$2,000,000 was paid to the Detroit Bankers Co. You know that, don't you?

Mr. VERHELLE. Yes; it reduced the invested capital from substantially \$4,000,000 to \$2,000,000.

Mr. PECORA. Well, will you please refer to this matter on the basis of the facts and not as a special liquidating dividend of \$2,000,000, which you know it was not.

Mr. VERHELLE. Well, I am not quite certain what it was, then.

Mr. PECORA. You were the comptroller of the Detroit Bankers Co.. weren't you?

Mr. VERHELLE. Yes, sir.

Mr. PECORA. And as such it was your business to keep track of these various things, wasn't it?

Mr. VERHELLE. Yes, sir.

Mr. PECORA. And you are not certain about that so-called "special dividend" declared by the Detroit Trust Co.?

Mr. VERHELLE. The Detroit Trust Co. did not declare any dividend.

Mr. PECORA. As to the 30,000 shares?

Mr. VERHELLE. I am not certain of that.

Mr. PECORA. What is there about it as to which you are uncertain?

Mr. VERHELLE. The Detroit Trust Co. declared a \$4,000,000 stock dividend.

Mr. PECORA. And that dividend consisted of 30,000 shares of stock.

Mr. VERHELLE. Yes, sir.

Mr. PECORA. There was not a liquidating dividend of \$2,000,000 declared in addition to that, was there?

Mr. VERHELLE. The First Detroit Co. did declare such a dividend; yes, sir.

Mr. PECORA. How and when?

Mr. VERHELLE. I believe on December 28. I am using that date because it was within a few days of that.

Mr. PECORA. Well, wasn't that on the occasion of the surrender of 20,000 shares of the capital stock of the First Detroit Co. by the Detroit Bankers Co.?

Mr. VERHELLE. There were two transactions there, sir. The Detroit Trust Co. declared a dividend consisting of the capital stock of the First Detroit Co.

Mr. PECORA. Yes.

Mr. VERHELLE. That was no. 1. Thereupon the First Detroit Co. stock was set up on the books of the Detroit Bankers Co. and became their property through the declaration of this dividend.

Mr. PECORA. It was set up on the books at what valuation?

Mr. VERHELLE. I do not recall. I presume it was somewhere in the neighborhood of \$4,000,000. Then this company was going to liquidate, and in order to proceed with that program they had to raise a certain amount of cash and liquidate some of their assets, and they turned over to the Detroit Bankers Co. the sum of \$2,000,000, which resulted in a reduction of their invested capital again from, roughly speaking, \$4,000,000 down to approximately half of that sum.

Mr. PECORA. They turned over that \$2,000,000 on the occasion of the surrender of 20,000 shares of the capital stock of the First Detroit Co. by the Detroit Bankers Co., didn't they?

Mr. VERHELLE. I presume so; yes.

Mr. PECORA. Now, it is that \$2,000,000 that you have referred to as a special liquidating dividend?

Mr. VERHELLE. Yes, sir.

Mr. PECORA. That put the Detroit Bankers Co., in the month of December 1931, in possession of \$3,500,000?

Mr. VERHELLE. Yes, sir.

Mr. PECORA. That it got in the form of these dividends we have discussed. Now, what did the Detroit Bankers Co. do after that?

Mr. VERHELLE. They used \$750,000 of that money in connection with the First National Bank of Pontiac. That left \$2,750,000, which

was used entirely in the liquidation of the indebtedness of the First National Co.

Mr. PECORA. And the remaining \$2,750,000 was used for what purpose by the Detroit Bankers Co.?

Mr. VERHELLE. In the liquidation of this indebtedness that we discussed at great length here on yesterday. This \$2,750,000 was—

Mr. PECORA (interposing). You referred to that as a liquidation of the indebtedness of the First National Co.

Mr. VERHELLE. Yes, sir.

Mr. PECORA. How did the Detroit Bankers Co. use it for that purpose? What did the Detroit Bankers Co. actually do with that \$2,750,000?

Mr. VERHELLE. Do you mean the actual procedure?

Mr. PECORA. Yes.

Mr. VERHELLE. They took \$2,000,000 of this money, my recollection is, and applied it on a note at the Guaranty Trust Co., was it?

Mr. PECORA. You mean the Chase National Bank, don't you?

Mr. VERHELLE. I presume I do, then.

Mr. PECORA. It took \$2,000,000 of that \$2,750,000 and turned it over to the Chase National Bank in reduction of a loan which the Chase National Bank had theretofore made, not to the First National Co., but to the Detroit Bankers Co.

Mr. VERHELLE. Who in turn had made a loan to the First National Co.

Mr. PECORA. But that \$2,000,000 was used to liquidate to that amount a loan which the Detroit Bankers Co. had obtained from the Chase National Bank.

Mr. VERHELLE. That is correct.

Mr. PECORA. All right. Now, what was done with the other \$750,000?

Mr. VERHELLE. Well, it was used in a similar way. But as to dates and amounts and the banks, I do not know as to which they were or what the dates were. But it was used in identically the same way as the \$2,000,000.

Mr. PECORA. That is, it was used to reduce an existing indebtedness of the Detroit Bankers Co., wasn't it?

Mr. VERHELLE. Yes; and it was action taken to offset indebtedness created by the First National Co.

Mr. PECORA. And that is what you mean by saying this money was used to liquidate the indebtedness of the First National Co.?

Mr. VERHELLE. Yes, sir.

Mr. PECORA. The fact is that it was used to reduce an indebtedness of the Detroit Bankers Co. directly, wasn't it?

Mr. VERHELLE. And also to reduce an indebtedness of the First National Co.

Mr. PECORA. You say it was used in that way. How was the indebtedness of the First National Co. reduced thereby?

Mr. VERHELLE. Because the First National Co. had originally made this indebtedness. The Detroit Bankers Co. had assumed it in order to reduce the interest rate, and so forth, so that it was in reality the First National Co.'s debt that was originally involved. And the First National Co. still had indebtedness on its books, which, incidentally, was also reduced at the same time that this in-

debtedness was reduced. There was another resolution passed reducing the indebtedness of the First National Co. to the Detroit Bankers Co. at that time.

Mr. PECORA. Mr. Verhelle, are you familiar with the substance of a resolution adopted by the board of directors of the Detroit Bankers Co. at a meeting of that board held on December 18, 1931, referring to the indebtedness of the Detroit Bankers Co. of \$4,000,000 in favor of the Chase National Bank of New York?

Mr. VERHELLE. No, sir.

Mr. PECORA. Well, let me read it to you.

Mr. VERHELLE. Well, I would then probably recall it.

Mr. PECORA. Let me read the resolution as it appears from a photostatic copy which I have of the minutes of that meeting of the board of directors:

Loan authorized: In order to supply funds for the purpose of liquidating an obligation of the company—

And that means the Detroit Bankers Co.

In the amount of \$4,000,000 maturing at the Chase National Bank of New York on December 29, 1931, the two following resolutions were presented and unanimously adopted:

1. *Resolved*, That the president and treasurer of this company be, and they are hereby, authorized to borrow in behalf of this company the sum of \$2,000,000 from the Continental Illinois Bank & Trust Co., for such period and at such rate of interest and upon such terms and conditions as may be agreed upon between the said bank and the above-named officers of this company; and be it further

Resolved, That said officers of this company be, and they are hereby, authorized and directed in order to evidence the amount of such loan, and the terms and conditions thereof, to make, execute, and deliver in behalf of this company and in its corporate name the promissory note or notes of this company;

2. Whereas this corporation is the owner of all the outstanding stock of the First Detroit Co., with the exception of certain shares issued to directors in order to qualify them, and it is considered advisable and for the best interests of this company that a partial liquidation of the affairs of the First Detroit Co. be accomplished.

Now, therefore, it is resolved as follows:

1. That the board of directors of the First Detroit Co. be requested to declare and distribute a liquidating dividend to stockholders of the company in the amount of \$2,000,000, either in cash or securities as may be found desirable at the time of declaration of such dividend; and

2. That the president of this corporation be and he is authorized and directed in behalf of the corporation to execute and deliver to the First Detroit Co. the formal consent of this company as a stockholder to the declaration and distribution of such dividend, in accordance with the provisions of section 23 of act 327 of the Public Acts of Michigan for 1931; and

3. That upon the payment of such liquidating dividend the capital stock of the First Detroit Co. now held by this company, of the value of \$2,000,000, be delivered us for cancellation to the First Detroit Co., and the president of this corporation be and he is given full power and authority to make such delivery and to take any and all further proceedings in connection with the foregoing as may appear necessary or advisable to him.

Now, does the reading of those two resolutions refresh your recollection concerning the process by which the Detroit Bankers Co. paid this indebtedness of \$4,000,000 to the Chase National Bank?

Mr. VERHELLE. Well, sir, that is absolutely the way I have indicated it, that is, that a \$2,000,000 liquidating dividend was received from the First Detroit Co. as indicated in that resolution, and apparently was applied to the First National Bank; and additional borrowings of \$2,000,000 were obtained from other institutions, and

the total result was \$4,000,000, which was then applied to the Chase National Bank loan, resulting in a reduction in that indebtedness to \$2,000,000.

Mr. PECORA. And resulting in the wiping out of the indebtedness of \$4,000,000 owed by the Detroit Bankers Co. to the Chase National Bank, wasn't it?

Mr. VERHELLE. Yes, sir.

Mr. PECORA. In other words, the \$2,000,000 which the Detroit Bankers Co. paid to the Chase National Bank was the \$2,000,000 that it obtained upon the surrender for cancelation of 20,000 shares of the capital stock of the First Detroit Co.?

Mr. VERHELLE. That was a part of the \$3,500,000 which the Detroit Bankers Co. had.

Mr. PECORA. But that was the \$2,000,000 it got in connection with that particular transaction, wasn't it?

Mr. VERHELLE. I don't know that, sir.

Mr. PECORA. Doesn't this resolution make that clear to you?

Mr. VERHELLE. No, sir.

Mr. PECORA. Doesn't this resolution inform you very specifically and definitely that that \$2,000,000 obtained by the Detroit Bankers Co. upon the surrender of those shares of the capital stock of the First Detroit Co. was to be turned over to the Chase National Bank?

Mr. VERHELLE. I would have to read that very carefully. May I borrow it from you for a second?

Mr. PECORA. Yes; and you may read it as carefully as you want to, Mr. Verhelle. I now hand it over to you.

Mr. VERHELLE. That was what I have been trying to figure out for quite a while. [Witness looks over the photostatic copy of minutes for a time, and then hands the same back to Mr. Pecora.] Yes; that does refresh my memory.

Mr. PECORA. To what extent?

Mr. VERHELLE. To the extent that that \$2,000,000 was, according to that resolution, obtained for the purpose of liquidating a part of the \$4,000,000 indebtedness to the Chase National Bank.

Mr. PECORA. Which was owed by the Detroit Bankers Co.?

Mr. VERHELLE. At that time; yes, sir.

Senator COUZENS. So, in fact, this 1½-million-dollar dividend that you got from the First National Bank in Detroit was not used for the purpose stated on yesterday?

Mr. VERHELLE. Oh, no, sir; it was not.

Mr. PECORA. Why, Senator Couzens, the \$2,000,000 the witness spoke of in his last answer was the \$2,000,000 which was obtained through the surrender of 20,000 shares of the capital stock of the First Detroit Co.

Senator COUZENS. I understand that, but I understood on yesterday that this 1½-million-dollar dividend from the First National Bank in Detroit was used for that purpose in part. But it may be I misunderstood the answer, and you may go ahead for I think it is unimportant.

Mr. VERHELLE. It may not be important, but——

Mr. PECORA (interposing). Senator Couzens, we have definitely allocated \$2,000,000 which the Detroit Bankers Co. got in the form of this special dividend. Isn't that so, Mr. Verhelle?

Mr. VERHELLE. Yes, sir.

Mr. PECORA. And that \$2,000,000 was used to pay back a part of the loan that it owed to the Chase National Bank?

Mr. VERHELLE. Yes, sir.

Mr. PECORA. That brings us down to the special cash dividend of 1½ million dollars which the Detroit Bankers Co. obtained from the First National Bank in Detroit on December 23, 1931. Now, Mr. Verhelle, what was done with that 1½ million dollars?

Mr. VERHELLE. There was \$750,000 used—

Senator COUZENS (interposing). No; prior to the use of the \$750,000 for the First National Bank of Pontiac, what was done with it?

Mr. VERHELLE. Certificates of deposit—

Mr. PECORA (interposing). How many?

Mr. VERHELLE. Two.

Mr. PECORA. And for what amounts, respectively?

Mr. VERHELLE. One was for \$1,000,000, and the other was for \$500,000. I believe the \$1,000,000 was the Detroit Trust Co. and the \$500,000 was the First National Bank—certificates of deposit were taken out.

Mr. PECORA. Yes.

Mr. VERHELLE. And the money was left on deposit there.

Senator COUZENS. Was that augmenting the deposits of the two institutions?

Mr. VERHELLE. Yes, sir.

Mr. PECORA. Now, that means that—

Mr. VERHELLE. No, sir; not necessarily. Well, let me see. [Witness appears to be considering the matter for about a minute.] Pardon me, but I would like to think that question over. [After another pause.] Yes; it did.

Senator COUZENS. Well, even a layman understands that.

Mr. VERHELLE. All right.

Mr. PECORA. Those two certificates of deposit were purchased on December 24, 1931, were they not?

Mr. VERHELLE. Well, let me see—

Mr. PECORA (interposing). That was the day after the 1½-million-dollar cash dividend was received by the Detroit Bankers Co. from the First National Bank in Detroit.

Mr. VERHELLE. I would presume it was within a day of that time, anyway.

Mr. PECORA. Now, do you know what use was made of those funds by the Detroit Bankers Co., after the purchase of those two certificates of deposit?

Mr. VERHELLE. I cannot specifically allocate it, except as to \$750,000 of that, but its use was for the same identical purpose as the \$2,000,000. The other \$750,000 went to the bank at Pontiac.

Mr. PECORA. How could the use of the first \$750,000 thereof have been devoted to the same purpose as the \$2,000,000 that you have already spoken about, when that \$2,000,000 which was paid to the Chase National Bank, plus a further sum of \$2,000,000 that the Detroit Bankers Co. that same month borrowed from the Continental Illinois Trust Co. and turned over to the Chase National Bank,

went to liquidate entirely the indebtedness of the Detroit Bankers Co. to the Chase National Bank?

Mr. VERHELLE. Well, there were other banks to which the Detroit Bankers Co. was indebted, and it was for the same indebtedness rather than for the indebtedness that had already been liquidated, of course, or I mean for the same type of indebtedness, or indebtedness of the same character.

Mr. PECORA. Oh, the same type of indebtedness is one thing, and the same indebtedness means quite another thing, doesn't it?

Mr. VERHELLE. Well, of course, we wouldn't pay twice on the same indebtedness.

Mr. PECORA. I should say not. Well, you say it was paid for the same indebtedness, when that indebtedness had been completely liquidated through the payment of \$4,000,000 out of funds obtained in the manner I have indicated, by the Detroit Bankers Co. to the Chase National Bank. Now, you said that \$750,000 of this \$1,500,000 special cash dividend was used to pay off the same type of indebtedness. Whose indebtedness do you refer to that was paid off with that \$750,000, and when was it paid off?

Mr. VERHELLE. I am referring to the indebtedness created by the First National Co. and assumed by the Detroit Bankers Co. for the purpose of reducing the interest rate, and so forth, and which was at that time held by—well, there was the \$2,000,000 we have just seen held by the Continental Bank, and I don't know which bank received the benefit—or banks it might have been—received the benefits of that \$750,000.

Mr. PECORA. Now, on December 23, 1931, the First National Co. owed the First National Bank in Detroit the sum of \$1,564,000. Do you recall that?

Mr. VERHELLE. Not exactly that amount, but approximately that, yes.

Mr. PECORA. Well, it was approximately that?

Mr. VERHELLE. Yes, sir.

Mr. PECORA. That is, it was approximately \$1,500,000?

Mr. VERHELLE. Yes, sir.

Mr. PECORA. Now, that was about 1 week before the First National Bank in Detroit merged with the Peoples Wayne County Bank under the name of First Wayne National Bank, wasn't it?

Mr. VERHELLE. Yes, sir.

Mr. PECORA. Do you recall, Mr. Verhelle, that it was in contemplation of that merger, which became effective on December 31, 1931, that it was desired by the First National Bank and the Peoples Wayne County Bank, that the First National Co. should liquidate its indebtedness of approximately one and a half million dollars which it owed to the First National Bank? Do you recall that?

Mr. VERHELLE (after a pause). Not that specific indebtedness, sir.

Mr. PECORA. Well, what indebtedness? Let me read to you for the purpose of possibly refreshing your recollection, the following resolution adopted by the board of directors of the First National Bank in Detroit, at a meeting which it held on December 22, 1931. I will read not only—well, I will read just the resolution in question, as it appears in the minute book of the meeting of the board of that date, a photostatic copy of which I have before me:

Whereas the net assets to be contributed by this bank on the consolidation thereof with the Peoples Wayne County Bank were fixed at \$12,654,968.61, by first setting up a reserve of \$1,500,000 out of the total net assets of this bank, to assist in the liquidation of the First National Bank in Detroit, Inc., which is affiliated with and largely indebted to this bank:

Resolved, That to carry out the purpose of said reserve and making said \$1,500,000, or substantially all thereof, available for liquidation of the indebtedness of said First National Bank, there is hereby declared payable to all shareholders of record of this bank at the close of business on the date hereof, said shareholders being also beneficial owners in the same proportion of all the capital stock of said First National Co., a dividend in the sum of \$1,500,000, provided said shareholders, or substantially all thereof, agree in advance, or in receipting for said dividend, to apply same, or substantially all thereof, in liquidation of the indebtedness of said First National Co., other than indebtedness thereof to any shareholder or beneficial owner of shares thereof.

Mr. VERHELLE. I recall that; yes.

Mr. PECORA. Does not this resolution inform you that the purpose of declaring this special cash dividend of a million and a half was to enable the First National Co. to liquidate an indebtedness which it then owed of approximately that sum to the First National Bank in Detroit?

Mr. VERHELLE. I do not know just what the purpose of that resolution was.

Mr. PECORA. Was the purpose of that resolution other than that set forth in the terms of the resolution itself?

Mr. VERHELLE. Other than would be indicated by the construction that has been placed on it here—

Mr. PECORA. I have not placed any construction upon it; I have merely read the terms of the resolution to you.

Mr. VERHELLE. With the construction that the money should be used to be applied to this sum of approximately a million and a half dollars' indebtedness to the First National Bank.

Mr. PECORA. Is that construction a strained construction of this resolution?

Mr. VERHELLE. It is not the purpose—

Mr. PECORA. Is it a strained construction of the language of this resolution?

Mr. VERHELLE. Possibly not.

Mr. PECORA. Possibly not. Well, then, if that construction is a fair and reasonable construction of the language of this resolution, do I understand you to mean that this resolution was adopted to effectuate a purpose other than that set forth by the resolution itself?

Mr. VERHELLE. There were other purposes to be served by that resolution.

Mr. PECORA. What were those other purposes?

Mr. VERHELLE. I can explain those other purposes, I believe. However, it is quite a legal question, and if I use the wrong terms I hope I may be pardoned. At that particular time there was outstanding stock of the First National Bank in the hands of others than the Detroit Bankers Co., a purely nominal number of shares. I do not recall how many or how few. The entire purpose of declaring this dividend, the underlying motive, was definitely to reduce the burden of indebtedness that had come to the Detroit Bankers Co. through the First National Co., and in order to do that and in order to permit this consolidation to go through—

Mr. PECORA. You mean, the consolidation with the Peoples Wayne County Bank?

Mr. VERHELLE. And the First National Bank—we were advised by counsel—

Senator COUZENS. What counsel?

Mr. VERHELLE. Monahan, Crowley & Riley and Stevenson, Eamon, Butzel & Long—to declare this dividend in, I think, what they call a restricted manner, so as to be sure that all of the proceeds went toward this obligation which at that time had been incurred through the actions of this \$7,000,000 proposition that was discussed here yesterday, and so none of it would be diffused in other channels.

Mr. PECORA. Mr. Verhelle, do you know who drew up the resolution that I have read to you?

Mr. VERHELLE. I believe Mr. Long and Mr. Monahan did.

Mr. PECORA. Mr. Long is in the room at the present time, is he not?

Mr. VERHELLE. Yes.

Mr. PECORA. Mr. Long, will you be good enough to come forward and be sworn?

TESTIMONY OF THOMAS G. LONG, OF DETROIT, MICH.

Senator COUZENS. Mr. Long, you do solemnly swear that your testimony in this hearing will be the truth, the whole truth, and nothing but the truth, so help you God?

Mr. LONG. I do.

Mr. PECORA. Give your full name and business or profession to the reporter for the record.

Mr. LONG. Thomas G. Long; 1436 Chicago Boulevard, Detroit; lawyer.

Mr. PECORA. Are you a member of any law firm having an office in the city of Detroit, Mich.?

Mr. LONG. I am.

Mr. PECORA. What is the name of that firm?

Mr. LONG. Stevenson, Butzel, Eaman & Long.

Mr. PECORA. How long have you been a member of that firm?

Mr. LONG. Since it was organized.

Mr. PECORA. Was that firm counsel to the First National Bank in Detroit at any time in the past?

Mr. LONG. They were.

Mr. PECORA. Were you counsel for that bank in the year 1931, and particularly during the month of December of that year?

Mr. LONG. We were.

Mr. PECORA. Did you hear the testimony given at the session this morning by the preceding witness, Mr. Verhelle?

Mr. LONG. The testimony that he has just given; yes.

Mr. PECORA. Did you hear his testimony particularly in connection with a resolution that appears to have been adopted by the board of directors of the First National Bank in Detroit at the meeting of said board held on December 22, 1931, which resolution was read to Mr. Verhelle by me?

Mr. LONG. Yes, sir.

Mr. PECORA. Are you familiar with the facts and circumstances regarding the drawing up, presentation and adoption of that resolution by the board of directors of the bank at this meeting?

Mr. LONG. I am.

Mr. PECORA. Will you tell the committee what you know about those facts and circumstances?

Mr. LONG. I drew the resolution. Mr. Peter Monaghan and myself worked on the matter of consolidation of the Peoples Wayne County Bank and the First National Bank. We worked the greater part of the month of December and some of the month of November, and in the course of it this resolution was drafted. I cannot tell what date it was drafted. It was drafted in advance of the meeting at which it was adopted.

Mr. PECORA. What purpose was sought to be effected by the adoption of this resolution?

Mr. LONG. Mr. Verhelle has mentioned a purpose. I cannot recall at this time everything that we then had before us, whether there was any requirement in connection with the consolidation that a resolution of that kind should be adopted. I do have an indistinct recollection of reading over the resolution and talking it over with either Mr. Leyburn or Mr. Hopkins, but just what the conversation was or why I talked to them, I do not know. They were working right there a good part of the time. At that time there were stockholders of the First National Bank that had declined to come into the Detroit Bankers Co.

Mr. PECORA. That is, declined to exchange their shares of the bank's stock for the shares of the Detroit Bankers Co. stock?

Mr. LONG. Yes; and at various times they had threatened to do this, that, or the other thing which would cause trouble and thereby force somebody to pay them a lot of money for their shares. We anticipated such trouble being injected into the consolidation of these two banks, and we were extra careful in drafting all our papers to prevent those people from getting any kind of a technical point that they could find; and in order to avoid any kind of sharpshooting we had that language in the resolution. This I do not know, as I say—I do not recall that I ever saw any statement in writing directly, myself, at any discussion with Mr. Leyburn or Mr. Hopkins or any other representatives of the Comptroller's Office as to what were the essential terms of that consolidation. So I do not know that there was involved in this resolution anything of that sort.

Mr. PECORA. Mr. Long, you have stated that you went over this resolution?

Mr. LONG. Yes, sir.

Mr. PECORA. You drafted it?

Mr. LONG. I did.

Mr. PECORA. Did you attend the meeting of the board of directors at which it was adopted?

Mr. LONG. I did.

Mr. PECORA. I presume that you drafted it after you had some conferences with officers and directors of the bank and discussed with them the situation that it was designed to meet by the adoption of this resolution. Is that a fair assumption?

Mr. LONG. The officers and directors of the bank? I do not think it could have been with any other than Mr. Ballantyne.

Mr. PECORA. As a result of the conferences you had with him or with any other officer or director whom you might have had any such

conferences with, what did you learn or what were you informed was the situation existing at that time to meet which you drafted this resolution for adoption by the board of directors?

Mr. LONG. Now you are asking me what I said before, that I do not have any distinct recollection about it. I was told that in the bringing about of this consolidation there was to be this million and a half dollar dividend; but I say, I do not recall any discussion of the whys or wherefores of it.

Mr. PECORA. Perhaps if you had the text of the resolution before you it might serve to refresh your recollection as to the situation then existing which you intended to have cured or met by means of the adoption of this resolution. So I will let you examine it.

Mr. LONG. I will read it, but it could not refresh my recollection, because I do not think I ever did know the situation.

Mr. PECORA. How could you draw a resolution designed to meet a situation without knowing what the situation was, Mr. Long? In other words, how could you as a doctor prescribe for a patient without knowing what the nature of the illness was? You would not undertake to do that, would you?

Mr. LONG. No; I am not a doctor.

Mr. PECORA. And you would not undertake to suggest a legal remedy for a situation the factors of which you were not familiar with?

Mr. LONG. That question was not before me.

Mr. PECORA. You were asked to write a resolution, were you not?

Mr. LONG. That is right.

Mr. PECORA. Which was to be introduced at a meeting of the board of directors of the bank for the purpose of adoption?

Mr. LONG. That is right.

Mr. PECORA. In order to write such a resolution intelligently you would have to know, I presume, what situation the resolution was intended to meet; is not that fair?

Mr. LONG. I would not necessarily have to know, and I do not recall that I did.

Mr. PECORA. You mean to say you would undertake as a lawyer to draw a resolution for adoption by the board of directors of the bank of which your firm was counsel, without knowing what the situation was that the resolution was designed to meet?

Mr. LONG. In every detail; yes.

Mr. PECORA. You would undertake to draw up such a resolution without knowing anything at all about the situation that the resolution was designed to meet?

Mr. LONG. Oh, no; I knew that the million and a half dollar dividend had to be declared in the course of the consolidation. Why and wherefore I did not know.

Mr. PECORA. You did not know?

Mr. LONG. I have no recollection of knowing.

Mr. PECORA. Did you know by whom it was to be paid?

Mr. LONG. By the First National Bank.

Mr. PECORA. And to whom it was to be paid?

Mr. LONG. It was a dividend that had to be paid to the stockholder.

Mr. PECORA. And that stockholder was the Detroit Bankers Co.?

Mr. LONG. Not entirely.

Mr. PECORA. It was, with the exception of a few shares, the sole stockholder?

Mr. LONG. Yes.

Mr. PECORA. Could you tell us the number of shares then outstanding of the First National Bank in Detroit which were not owned by the Detroit Bankers Co., outside of the directors' qualifying shares?

Mr. LONG. No; but it was very, very few.

Mr. PECORA. As many as a hundred shares?

Mr. LONG. Oh, no; I don't think it was a hundred shares.

Mr. PECORA. So that it was virtually regarded that the sole stockholder of the bank was the Detroit Bankers Co., with the exception of a few shares held by others that aggregated less than a hundred shares?

Mr. LONG. It was not dollars and cents that was bothering us.

Mr. PECORA. What is that?

Mr. LONG. It was not dollars and cents that was bothering us there, as to what they might get, but it was the possibility of technical sharpshooting.

Mr. PECORA. This resolution was not drawn for the purpose of warding off an attack by these so-called "sharpshooters" who held in the aggregate less than a hundred shares of stock of the bank?

Mr. LONG. That was distinctly one of the things in mind and the occasion for the very particular language in it.

Mr. PECORA. How did this resolution operate to protect the bank against those sharpshooters?

Mr. LONG. Because it is not absolutely an unqualified declaration of dividend.

Mr. PECORA. In what respect is the declaration of dividend qualified by the terms of the resolution?

Mr. LONG. Those who were to receive it had to agree, before it became effective, that they would permit its application in a certain way to the indebtedness mentioned.

Mr. PECORA. What was that certain way?

Mr. LONG. To apply the same or substantially all thereof in liquidation of indebtedness of said First National Company other than indebtedness thereof to any shareholder or beneficial holder of shares thereof.

Mr. PECORA. What shareholders were excluded by that clause, the last clause you read?

Mr. LONG. All the shares.

Mr. PECORA. That included the Detroit Bankers Co.?

Mr. LONG. Right.

Mr. PECORA. As a matter of fact, Mr. Long, do you recall that the total number of shares of the capital stock of the First National Bank in Detroit, other than directors' qualifying shares, not owned at that time by the Detroit Bankers Co., consisted of exactly one share?

Mr. LONG. If you say that is correct. There was a time when it was one. I don't know whether at that time it was one. Mr. Monaghan handled the matter of the outstanding stock more than I did. I knew it was one at the time the bank closed, but whether I knew at that time it was one, I don't know. If you say it was one, I knew it at that time.

Mr. PECORA. I am asking you if you recall that it was one.

Mr. LONG. No; I have no recollection on that subject.

Mr. PECORA. You have a recollection that at one time or other the only other stockholder was some individual that owned one share?

Mr. LONG. I do.

Mr. PECORA. And he was the sharpshooter that you had in mind, the owner of that one share?

Mr. LONG. If that is the only one, he was the only sharpshooter.

Mr. PECORA. And this resolution was intended to protect the bank against the attack of that sharpshooter?

Mr. LONG. Yes.

Mr. PECORA. And that attack was warded off, you felt, by the terms of this resolution, because under this resolution there was not an unqualified or unequivocal declaration of a special cash dividend?

Mr. LONG. That is right.

Mr. PECORA. It was a declaration coupled with or based upon a certain condition or limitation, and that limitation or condition involved only the use that was to be made of that special cash dividend by the Detroit Bankers Co. which received it?

Mr. LONG. Right.

Mr. PECORA. That limitation extended to what factor?

Mr. LONG. To what factor?

Mr. PECORA. What factor or situation was covered by that limitation?

Mr. LONG. It was worked by exclusion. It was not to be applied to any indebtedness to any shareholder or holders of beneficial interest in shares.

Mr. PECORA. Then under the terms of this special resolution no part of this special cash dividend was to be used to discharge any indebtedness owed by the First National Co. to the Detroit Bankers Co.; is not that so?

Mr. LONG. Just let me read this again. [After again reading the resolution referred to:] That is the way it reads.

Mr. PECORA. So that when Mr. Verhelle testified, as he did this morning, that a part of this \$1,500,000 special cash dividend was used and intended to be used—although the intention, he said, might not have been expressed in the resolution—to reduce or liquidate an indebtedness owed by the First National Co. which had been assumed, as he put it, by the Detroit Bankers Co., he was entirely mistaken, was he not?

Mr. LONG. Oh, I would not say that; I would not say that.

Mr. PECORA. Was this resolution drawn to effectuate a purpose other than that stated in the resolution itself?

Mr. LONG. The way you ask that question, yes.

Mr. PECORA. Was it drawn for a purpose other than that set forth in the resolution itself?

Mr. LONG. Yes; but whether or not exclusively—

Mr. PECORA. Why was the resolution drawn by you as an attorney for the bank to effectuate a purpose other than the purpose set forth in the resolution that you drew up?

Mr. LONG. We had to deal, or thought we had to deal, with this outstanding stockholder situation, because he was threatening to do

this; so that purpose had to be in mind. So, when you say "a purpose", that is a purpose that was in mind.

Mr. PECORA. How did the purpose set forth in the resolution give any protection to the First National Bank in Detroit or to the Detroit Bankers Co. as the recipient of the cash dividend provided for in the resolution againts any attack by this sharp-shooting stockholder?

Mr. LONG. We were not trying to give the Detroit Bankers Co. any protection; and the resolution was conditioned upon this being applied in that way.

Mr. PECORA. In what way?

Mr. LONG. As it says at the end and as we have agreed it says—"other than indebtedness of the First National Co. to any shareholder or beneficial holder of shares thereof."

Mr. PECORA. In other words, the resolution was carefully drawn to provide for the liquidation of an indebtedness of the First National Co. at that time, other than any indebtedness that it owed to the Detroit Bankers Co. as a stockholder or shareholder of the First National Co.?

Mr. LONG. Surely; that is what it says.

Mr. PECORA. Is that what was done?

Mr. LONG. Afterwards.

Mr. PECORA. Was this cash dividend used in conformity with the purpose set forth in the resolution itself?

Mr. LONG. The only knowledge I have of that is that, when someone asked me within the last 2 or 3 weeks as to how it was divided, and I said I didn't know, and I have asked others since then and gotten substantially the information that Mr. Verhelle has given this morning; and that is all I know about it.

Mr. PECORA. Mr. Verhelle has gone further than that and has said that this resolution was specifically drawn in that form and it was done for a purpose other than that set forth in the resolution itself. Can you confirm his testimony to that extent of your own knowledge?

Mr. LONG. Your question only asks half of what you intend. It did have this purpose, which is not expressed. Now, whether it was also an essential part of the purpose which it does express, as I say, I don't personally have any recollection. I don't know whether I ever did know, other than that I was to get up a million and a half dollar dividend resolution. If someone were to tell me that in the discussion with Mr. Leyburn and Mr. Hopkins this certain thing was to be accomplished, that is all right—

Mr. PECORA. Do you mean to say that in drawing up that resolution you did so after a conference or discussion you had with the national bank examiner in the person of either Mr. Leyburn or Mr. Hopkins?

Mr. LONG. No; I don't know.

Mr. PECORA. You mean, you don't know or you don't recall?

Mr. LONG. I don't recall—if there is any difference. But I do say that if Mr. Leyburn or Mr. Hopkins says I did, I would accept their word.

Mr. PECORA. If they say you did what?

Mr. LONG. Had a discussion with them about it.

Mr. PECORA. They have not said any such thing.

Mr. LONG. I don't know about that.

Mr. PECORA. Do you recall any conference or discussion with either Mr. Leyburn or Mr. Hopkins or any other person who then was a national bank examiner that caused you to draw that resolution in the form in which it appears?

Mr. LONG. That is what I am saying, that I don't recall. When I say I don't recall I am not saying that I did not have such a discussion. I mean exactly that I have no recollection one way or the other.

Mr. PECORA. Let me see if I can refresh your recollection concerning the purposes for which this resolution was drawn and what was done with the money received by the Detroit Bankers Co. in the form of a special dividend declared in pursuance of that resolution; and to refresh your recollection about this whole matter I will read to you a resolution adopted by the board of directors of the Detroit Bankers Co. at a meeting of the board held on January 8, 1932. In the minutes of that meeting the resolution in question appears under the caption "Investment of Funds", and I will read the entry in the minutes relating to this resolution under that caption [reading]:

The following resolution with respect to a temporary investment of the proceeds of a special dividend received from the First National Bank amounting to \$1,500,000 was presented and adopted:

Whereas, incident to the consolidation of the Peoples Wayne County Bank and the First National Bank, the latter institution out of a reserve set aside for that purpose declared a dividend to its stockholders in the amount of \$1,500,000, with the understanding that said amount would be used in assisting in the liquidation of the First National Co. of Detroit, Inc., as will appear by reference to the records of the bank;

And whereas, substantially all of said dividend was received by this company, and pending the application of the amount for the purpose mentioned in the resolution declaring said dividend, the officers of this corporation temporarily deposited the sum of \$1,000,000 in the Detroit Trust Co. and the sum of \$500,000 in the Peoples Wayne County Bank and received therefor certificates of deposit in the usual form: Now therefore be it

Resolved that the action of the officers in making said deposit and receiving said certificates of deposit be and the same is hereby approved.

Does the adoption of that resolution refresh your recollection in any way concerning this special dividend?

Mr. LONG. No; I don't think I knew anything of that resolution except that I saw it within the last 2 or 3 weeks, a copy of it.

Mr. PECORA. Now, according to the minutes of the meeting, you were present at this meeting of the board of directors of the Detroit Bankers Co. at which this resolution was adopted. Not only were you present, but Mr. Peter Monaghan, who I assume is one of the law partners, was also present—

Mr. LONG. No; that is another firm. That was the firm that was counsel for the Detroit Bankers Co.

Mr. PECORA. Among those present, according to the minutes of that meeting, were, in addition to certain named directors, Mark Wilson, vice president, and Thomas E. Long and Peter J. Monahan, attorneys.

At the time of the adoption of this resolution at this meeting of the board of directors of the Detroit Bankers Co. did any discussion precede the adoption of this resolution which I have read to you?

Mr. LONG. I don't have any recollection of being at that meeting or what I was doing there, if I was there.

Mr. PECORA. Mr. Verhelle has testified here this morning—were you going to say something?

Mr. LONG. I was going to say that it might refresh my recollection if I saw all the minutes passed at that meeting.

Mr. PECORA. I will be very glad to let you read the entire minutes of that meeting [handing a document to the witness].

Mr. LONG (after reading same). That refreshes my recollection about the meeting.

Mr. PECORA. You say it does not?

Mr. LONG. It does. I was there for the purpose of the first resolution about the First National Co. and the Detroit Co. I left after that.

Mr. PECORA. Mr. Long, do you recall that in connection with the contemplated consolidation or the proposed consolidation of the First National Bank in Detroit with the Peoples Wayne County Bank, it was desired to have an existing indebtedness which the First National Co. then owed to the First National Bank in Detroit, amounting to approximately a million and a half dollars, liquidated?

Mr. LONG. When I first sat in this chair I told you I had no recollection at all in my mind about the thing other than as the record has shown.

Mr. PECORA. Does not the resolution that you drew up in connection with this special dividend indicate to you distinctly that it was desired at that time, in connection with the prospective consolidation of the two banks, to have the First National Co. liquidate its indebtedness to the First National Bank?

Mr. LONG. That is what the resolution says.

Mr. PECORA. And in order to enable the First National Co. to liquidate that indebtedness it had to get the funds from some source or other, did it not?

Mr. LONG. Certainly.

Mr. PECORA. It had no funds of its own at that time with which to pay off this indebtedness, did it?

Mr. LONG. I do not think so.

Mr. PECORA. Was it not intended to supply the First National Co. with the necessary funds to enable it to liquidate its indebtedness in favor of the First National Bank, to have the First National Bank declare this special cash dividend of a million and a half dollars and pay it over to the Detroit Bankers Co., and then have the Detroit Bankers Co. loan that money or make it otherwise available to the First National Co., so that the First National Co. would pay it back to the First National Bank in liquidation of its indebtedness? Was not that the scheme in mind?

Mr. LONG. All I can testify is what the resolution says. I have no independent recollection of that particular thing.

Mr. PECORA. You have no recollection that the scheme was the one which I described in my last question to you?

Mr. LONG. I have no independent recollection whatever. I drafted that resolution in a certain way, and I assume I had a reason for it.

Mr. PECORA. But you do not recall the reason?

Mr. LONG. I do not. I was drafting a lot of papers at that time.

Mr. PECORA. And the drafting of this resolution and a study of it by you, however patiently you want to study it, would not serve to refresh your recollection any more than you have admitted here?

Mr. LONG. When you say "study"—I think if I could get Mr. Verhelle, Mr. Wilson, Mr. Leyburn, and Mr. Hopkins in the room I might be able to refresh the recollection that I once had.

Mr. PECORA. It would require that?

Mr. LONG. It certainly would.

Mr. PECORA. Did the Detroit Bankers Co., to your knowledge, when it received this cash dividend, agree to the condition expressed in the resolution concerning what was to be done?

Mr. LONG. I have not looked it up, but I think there is a resolution of the Detroit Bankers Co. to that effect.

Senator COUZENS. They could not have got the money otherwise, according to the resolution, could they?

Mr. LONG. I would not have thought so.

Mr. PECORA. Would you say that, under the terms of this resolution which you drafted and which was adopted by the board of the First National Bank in Detroit, the Detroit Bankers Co., as the recipient of the special cash dividend referred to in that resolution, had the right to use any part of that cash dividend for any purpose that included the extinguishment of any liability which the First National Co. owed to the Detroit Bankers Co. at that time?

Mr. LONG. No. The resolution says not.

Mr. PECORA. Is there anything more you can tell this committee about this transaction involving the declaration of this special cash dividend, Mr. Long?

Mr. LONG. No; I think I have told you all that I have in my mind.

Mr. PECORA. You feel that you have exhausted your full present recollection of the transaction and all the circumstances surrounding it?

Mr. LONG. Yes.

Mr. PECORA. Thank you very much.

(Witness excused.)

Mr. PECORA. Now, Mr. Verhelle, will you resume the stand?

TESTIMONY OF JOSEPH F. VERHELLE—Resumed

Mr. PECORA. Mr. Verhelle, in so far as you have indicated the fact by the testimony which you have heretofore given, the \$7,000,000 indebtedness which the Detroit Bankers Co. assumed in February 1930, or a month following its birth, had been reduced by payments to the sum of \$5,000,000 by the end of 1931, had it not?

Mr. VERHELLE. That sounds a little high, to me, sir.

Mr. PECORA. What is high—the \$5,000,000?

Mr. VERHELLE. The \$5,000,000 sounds a little higher than I recall it.

Mr. PECORA. To what amount had it been reduced by the end of that year, according to your recollection?

Mr. VERHELLE. This is purely a guess, but I would say \$3,000,000. It is purely a guess, however.

Mr. PECORA. When did you leave the employ of the Detroit Bankers Co.?

Mr. VERHELLE. November of 1932.

Mr. PECORA. That was about 3 or 4 months before the company went into receivership. Do you know how much of that original \$7,000,000 indebtedness had been paid by the Detroit Bankers Co. up to the time that you left its employ in November 1932?

Mr. VERHELLE. I am afraid I do not, sir.

Mr. PECORA. Do you recall that that original \$7,000,000 indebtedness had been reduced, up to the time the Detroit Bankers Co. went into receivership, to the sum of \$3,800,000?

Mr. VERHELLE. I do not know that, but I presume the records show that.

Senator COUZENS. Where did you go when you left the Detroit Bankers Co.?

Mr. VERHELLE. Not any place in particular, sir. I went in various capacities and assisted various institutions. I had employment with—really, the very first definite position, I would say, would have been the—I will have to look it up. [After examining papers:] H. P. Earhart, Inc., I believe the name was, sir, and simultaneously with that I assisted in connection with a few institutions, more or less as a personal favor to the officers, helping them.

Senator COUZENS. Why did you leave the Detroit Bankers Co.?

Mr. VERHELLE. I resigned from the Detroit Bankers Co., originally gave Mr. Ballantyne my resignation, in line with this consolidation.

Senator COUZENS. I do not hear you.

Mr. VERHELLE. Mr. Ballantyne had my resignation at the time of the consolidation we have been discussing here sometime ago, or this morning—December 31, 1931. At the time Mr. Ballantyne and Mr. Wilson left the Detroit Bankers Co., I was called in by certain directors, Messrs. McMillan, Webber, Mills, and one other I have forgotten, and I was asked to remain and continue in connection with the operations of that company; that it was intended to change the activities of the Detroit Bankers Co. While there was no definite understanding, or no words had been actually passed between us to that effect, it was, I believe, mutually understood that it was a case of allocating these functions or this work to such others as to whom the work would be assigned. The reallocation of this work commenced approximately in May 1932 and continued on until I left.

Senator COUZENS. It was May 1932 that Mr. Ballantyne retired, was it?

Mr. VERHELLE. Yes, sir.

Senator COUZENS. Was that the time you put in your resignation?

Mr. VERHELLE. No, sir. Before there was an opportunity to do that, I had been called in by these directors.

Senator COUZENS. What date was it you put in your resignation?

Mr. VERHELLE. The last time, when I actually left there, sir? I put in another resignation at that time. That was in—

Senator COUZENS. No; but the first time?

Mr. VERHELLE. I would say it was about October of 1931.

Senator COUZENS. Why did you put it in then?

Mr. VERHELLE. To be certain that Mr. Ballantyne had an absolutely free hand in connection with this consolidation, sir.

Senator COUZENS. Had he indicated to you that he wanted a free hand?

Mr. VERHELLE. No, sir.

Senator COUZENS. Then that resignation was not accepted, and you put in another one?

Mr. VERHELLE. Yes, sir.

Senator COUZENS. Was that in May 1932?

Mr. VERHELLE. No, sir.

Senator COUZENS. When was that?

Mr. VERHELLE. I am not quite clear whether it was October or November 1932.

Senator COUZENS. Then, shortly after your resignation——

Mr. VERHELLE. That resignation was accepted. It would be the beginning of November.

Mr. PECORA. When you submitted your resignation, in either October or November of 1932, the time it was accepted, was that an entirely voluntary act on your part?

Mr. VERHELLE. I beg your pardon. I did not mean to leave that out. It was not, sir.

Mr. PECORA. What prompted it?

Mr. VERHELLE. It was requested by Mr. Mills.

Mr. PECORA. Requested by Mr. Mills.

Mr. VERHELLE. Yes, sir.

Mr. PECORA. Is that Mr. Wilson Mills?

Mr. VERHELLE. Wilson W. Mills.

Mr. PECORA. Was he then an executive officer of the Detroit Bankers Co.?

Mr. VERHELLE. I have never been able to decipher his relationship with that company at that time, sir.

Senator COUZENS. Why did he request it? [After a pause.] Now, you must remember that we expect the truth, the whole truth, and nothing but the truth.

Mr. VERHELLE. It is customary for me to tell the truth, Senator.

Senator COUZENS. I did not charge otherwise, but I do not know whether you are telling it all or not. What you are saying may be the truth, but I want you to tell it all.

Mr. VERHELLE. Anything I might say on that point would be a presumption, would it not?

Senator COUZENS. Not necessarily. If you were advised why Mr. Mills wanted your resignation, you would know that as a fact. That would not be a presumption.

Mr. VERHELLE. He stated to me that he did not want it; that he under no circumstances wanted my resignation; that it was the hardest thing he ever did in his life to suggest it.

Senator COUZENS. Who wanted it, then, as long as he requested it?

Mr. VERHELLE. He did not tell me specifically, but he suggested to me that certain of the officers——

Senator COUZENS. What certain officers?

Mr. VERHELLE. He did not state who they were, but his statement was something to the effect that the officers felt it was the thing to do; that he hated to do it; that that was the thing he hated to do most of anything he had ever done in his life, and so forth.

Senator COUZENS. Yet he was under the domination of some officer to do this thing, is that correct?

Mr. VERHELLE. I did not go into that relationship. As I say, I could not quite understand his relationship with the Detroit Bankers Co. at that particular moment.

Senator COUZENS. He was not an officer, then, at that time?

Mr. VERHELLE. I do not recall that he was.

Senator COUZENS. Did you ask any reasons as to why you were asked to resign?

Mr. VERHELLE. I believe I asked whether or not there was anything about my own record that was in any way questionable.

Senator COUZENS. What was the answer?

Mr. VERHELLE. I believe in answer to that he gave me the answer which I suggested here a moment ago.

Senator COUZENS. What was that? What was his answer?

Mr. VERHELLE. That there was absolutely nothing. Otherwise, of course, I could not have turned in that resignation.

Senator COUZENS. Was there no reference made at any time to your criticisms of the conduct of the Bankers Co.?

Mr. VERHELLE. Conduct of the Bankers Co., sir?

Senator COUZENS. I asked you whether there was not some discussion with respect to your criticism of the conduct of the Detroit Bankers Co. that took place at that time?

Mr. VERHELLE. I cannot recall any, sir.

Senator COUZENS. You had written a number of memorandums criticizing the conduct of the Detroit Bankers Co., or some of its actions, had you not?

Mr. VERHELLE. No, sir; not that I can recall.

Senator COUZENS. You do not recall?

Mr. VERHELLE. No, sir.

Senator COUZENS. You never wrote any memorandum criticizing some of the acts of the Detroit Bankers Co. in some of their proceedings?

Mr. VERHELLE. It would not have been at all unlikely, but I do not recall writing any memorandums whatsoever regarding the activities or proceedings of the Detroit Bankers Co., sir.

Senator COUZENS. You say it might have been so?

Mr. VERHELLE. Yes, sir.

Senator COUZENS. So, if it might have been so, there must have been occasions for it. You did have some—

Mr. VERHELLE. I just do not recall the occasions, and I do not recall writing any memorandums on the proceedings.

Senator COUZENS. Whether you wrote any memorandums or not, did you have any criticisms to make of some of the procedures of the Detroit Bankers Co.?

Mr. VERHELLE. Well, to begin with, I doubt, if there had been anything wrong, whether I would have written any memorandums regarding it, because it would have been up to me to correct it, more or less. I was comptroller of the Detroit Bankers Co., and I would have merely corrected what was wrong.

Senator COUZENS. I am not charging anything wrong. There might have been a question of policy and procedure, which you could not have controlled. You would have had to carry out your orders; and I wanted to know whether those policies or orders were of doubtful wisdom or policy with respect to your operations as comptroller.

Mr. VERHELLE. Senator, the Detroit Bankers Co.'s activities, those which had been turned over to them, or those which they were handling, were, in the main, under my definite and direct jurisdiction. I do recall now that there was one activity on which I did not criticize the Detroit Bankers Co. in any sense of the word—that was, not directly so.

Senator COUZENS. What was that activity?

Mr. VERHELLE. The operation in connection with the collection of bad debts or notes that were hard to collect, or slow, or doubtful.

Senator COUZENS. Is it embarrassing to you, Mr. Verhelle, to be sitting to the right of your chief in answering these questions?

Mr. VERHELLE. Not at all.

Mr. BALLANTYNE. I will go out.

Senator COUZENS. You may go out.

Mr. BALLANTYNE. For just a few minutes.

Senator COUZENS. Yes; for 10 minutes.

You have told this committee all the criticisms that you had to make as active comptroller of the Detroit Bankers Co., of the conduct of the company, or its units, have you?

Mr. VERHELLE. I have not, sir. You have not asked that question.

Senator COUZENS. I ask it now.

Mr. VERHELLE. The real technical answer is no; I have not, because the question so far has been criticism regarding the Detroit Bankers Co., and the answers to that is that I cannot recall any criticism regarding the Detroit Bankers Co.

Senator COUZENS. I asked you later whether you had any criticism to make of the operations or the conduct of the Detroit Bankers Co. or any of its units.

Mr. VERHELLE. My particular job was to straighten out and to make criticism of the conduct of the units of the Detroit Bankers Co., to correct those as well as I could by advising these units as to the proper course of action, so that quite naturally—and I believe I generally put it in writing—there was a tremendous amount of what might be termed "criticism", put down in writing in various memorandums, some of which were probably sent, and directed to substantially every unit in the group.

Senator COUZENS. Mr. Mills was the head of one of the units, was he not?

Mr. VERHELLE. Yes, sir.

Senator COUZENS. Did you direct any criticism to the unit of which he was the head?

Mr. VERHELLE. Many, sir.

Senator COUZENS. What was the nature of them?

Mr. VERHELLE. I believe that in my criticisms I have covered the operations of practically every department of the bank. I believe that I have written up recommendations and suggestions regarding substantially every activity of that institution.

Senator COUZENS. Mr. Mills saw those criticisms?

Mr. VERHELLE. They were directed to him, sir, if you choose to call them criticism. I would like to have the word "constructive" added to it, because I believe that in every case I made a specific suggestion.

Mr. PECORA. Mr. Ballantyne, will you resume the stand?

TESTIMONY OF JOHN BALLANTYNE—Resumed

Mr. PECORA. Now, at the time of the issuance of the printed annual report of the Detroit Bankers Co. to its stockholders covering the year 1931, you were the president of the Detroit Bankers Co., were you not?

Mr. BALLANTYNE. Yes.

Mr. PECORA. That report was printed and issued some time in January 1932, was it not?

Mr. BALLANTYNE. Just on the eve of the consolidation; yes.

Mr. PECORA. There has already been received in evidence here, as committee exhibit no. 9 of January 24, 1934, a printed copy of the annual report to the stockholders.

Mr. BALLANTYNE. 1932, you mean?

Mr. PECORA. For the year 1931.

Mr. BALLANTYNE. Yes; 1932.

Mr. PECORA. You identified this report yesterday.

Mr. BALLANTYNE. I have no doubt I did.

Mr. PECORA. The actual report itself is dated January 16, 1932, and was sent out over your signature as the president, was it not?

Mr. BALLANTYNE. Yes, sir.

Mr. PECORA. I observe the following statement contained in this annual report for the year 1931. I will read it to you from the report [reading]:

The net income, after customary reserves, was \$7,475,293.47, equal to \$4.21 a share on the 1,776,205½ shares, (\$20 par) authorized. Earnings for 1930 were equal to \$4.14 a share.

Now, through the medium of this report to the stockholders it was intended to give to the stockholders of the Detroit Bankers Co. a true, correct, and comprehensive statement of the financial condition of the company, was it not?

Mr. BALLANTYNE. Yes.

Mr. PECORA. That was the essential purpose of the report?

Mr. BALLANTYNE. There was no thought of doing anything else.

Mr. PECORA. That was the essential purpose of the report, was it not?

Mr. BALLANTYNE. Yes, sir.

Mr. PECORA. What do you understand by the term "net operating income"?

Mr. BALLANTYNE. Just what it implies.

Mr. PECORA. Tell us what you understand it to be.

Mr. BALLANTYNE. Income that was derived from the operations of the banks for that year.

Mr. PECORA. The operations of the banks?

Mr. BALLANTYNE. Of the banks, for that year.

Mr. PECORA. Or the operations of the company, the Detroit Bankers Co.?

Mr. BALLANTYNE. The Bankers Co. had no operations.

Mr. PECORA. What is that?

Mr. BALLANTYNE. It was not the Detroit Bankers Co. It was the units that made the earnings.

Mr. PECORA. As a matter of fact, this report did not give—

Mr. BALLANTYNE. We describe the fact that it is the result of the units of the Detroit Bankers Co., in another part of that report, in the same paragraph that you are referring to.

Mr. PECORA. How was this figure of \$7,475,293.47, which was stated in this report to be the net operating income after customary reserves, arrived at?

Mr. BALLANTYNE. It was furnished to me in the way it always had been made, by the officers of the bank, with assurances that those figures were correct. Obviously, I could not be chargeable with these figures personally. I had to depend on Mr. Verhelle and others to substantiate the correctness of those figures.

Mr. PECORA. When you said in this report for the year 1931 that the net operating income after customary reserves was \$7,475,293.47, did you mean to inform the stockholders of the Detroit Bankers Co. that that was the operating income of the company, or only of the unit banks?

Mr. BALLANTYNE. The unit banks.

Mr. PECORA. The unit banks?

Mr. BALLANTYNE. Yes, surely.

Mr. PECORA. And when you stated, in this report to the stockholders of the Detroit Bankers Co. that that net operating income was equal to \$4.21 a share on the 1,776,205½ shares, were you referring to the shares of the Detroit Bankers Co.?

Mr. BALLANTYNE. I think, however, Mr. Pecora, you have done so well with Mr. Verhelle, and he had so much more actual contact with the making of that report and the furnishing of the figures to me, that he could answer your questions much more intelligently than I could. I necessarily had to depend on the officers of the bank for the figures. I got them in the usual way that figures are gotten.

Mr. PECORA. I will question Mr. Verhelle subsequently about this, but meanwhile I want to ask you some questions about it, because this report is your report as the president of the Detroit Bankers Co.

Mr. BALLANTYNE. Yes.

Mr. PECORA. When you said in this report that the earnings for 1930 were equal to \$4.14 a share, you meant to give the stockholders of the company a comparative statement of the earnings for 1930 compared with the earnings for 1931, did you not?

Mr. BALLANTYNE. Yes, sir.

Mr. PECORA. And we have already seen that you stated in this report to the stockholders that the earnings for 1931 were equal to \$4.21 a share, as compared with \$4.14 a share for the year 1930; is that not true?

Mr. BALLANTYNE. Yes, sir.

Mr. PECORA. In other words, you wanted to give the stockholders the impression that the earnings of the company for 1931 per share exceeded the earnings of the company for 1930 per share, did you not?

Mr. BALLANTYNE. I wanted to make an honest statement above anything else. There was nothing else in my mind but to make an honest statement in this case. I wanted honest values back of every figure, and that is so there. These facts stated in that letter I believe to be absolutely correct.

Mr. PECORA. Why do you believe them to be absolutely correct?

Mr. BALLANTYNE. I got them from very dependable men.

Mr. PECORA. Who were they?

Mr. BALLANTYNE. Mr. Verhelle, Mr. Wilson——

Mr. PECORA. Mr. Mark Wilson?

Mr. BALLANTYNE. Yes; Mr. Joseph Verhelle, and the other officers of the company. They came through Mr. Verhelle and Mr. Mark Wilson.

Mr. PECORA. When you stated in this annual report for 1931 that the earnings were equal to \$4.21 a share as compared with earnings for 1930 equal to \$4.14 a share, did you mean to convey to the stockholders of the company that the company's business in 1931 was more prosperous and profitable than its business for the year 1930?

Mr. BALLANTYNE. I meant to convey the facts to them.

Mr. PECORA. Did you mean to convey that as the fact?

Mr. BALLANTYNE. Absolutely.

Mr. PECORA. To your knowledge, Mr. Ballantyne, were the actual earnings and profits of the Detroit Bankers Co. for 1931 greater than those for 1930?

Mr. BALLANTYNE. I have only the word of the officers to that effect.

Mr. PECORA. To your knowledge, was the company's business more profitable to it in 1931 than it had been in 1930?

Mr. BALLANTYNE. It was less expensive.

Mr. PECORA. Was it more profitable, to your knowledge, in 1931 than it was in 1930?

Mr. BALLANTYNE. My dear sir, I had only the knowledge that was furnished to me.

Senator COUZENS. You must answer Mr. Pecora's question.

Mr. BALLANTYNE. I had only the knowledge that was furnished to me.

Senator COUZENS. No one is denying that.

Mr. BALLANTYNE. I could not guess at any figures.

Senator COUZENS. Mr. Pecora did not ask you that. Will you please repeat the question, Mr. Pecora asked. The witness will have to answer that question.

(The reporter read the last question by Mr. Pecora.)

Mr. BALLANTYNE. The only knowledge I had was the knowledge obtained from the officers of the company, which I submitted in that report.

Senator COUZENS. That does not answer the question, Mr. Ballantyne. The question is whether or not you believed the profits in 1931 were greater than they were in 1930. That is a simple question.

Mr. BALLANTYNE. I think I am giving you a perfectly fair answer.

Mr. PECORA. What is the answer, yes or no?

Mr. BALLANTYNE. My knowledge was comprised of what I was informed from the officers of the company. I accepted their word on it. I had confidence in them. Obviously they were more, according to these statements.

Mr. PECORA. You mean that obviously, according to these statements embodied in the annual report——

Mr. BALLANTYNE. More money had been earned.

Mr. PECORA. Will you let me finish the question before you answer, Mr. Ballantyne? Do you mean to say that obviously, according to

the statements embodied in your report to the stockholders for the year 1931, the company's business that year was more profitable to it than had been its business for the year 1930?

Mr. BALLANTYNE. I believed that when that report went out.

Mr. PECORA. You believed it?

Mr. BALLANTYNE. Yes.

Mr. PECORA. Was that belief based upon any personal knowledge that you had as president and a director of the Detroit Bankers Co., of its business transactions?

Mr. BALLANTYNE. I do not know that I had any knowledge that other folks did not have, Mr. Pecora.

Mr. PECORA. I am asking you about your own individual knowledge, and not somebody else's knowledge; and in asking you that, I am asking it of you because you were not only a director of the company during all the years of 1930 and 1931, but you were also president of the company from May 1931 to the end of that year and subsequently.

Mr. BALLANTYNE. Yes.

Mr. PECORA. And I assume that as a director and as president you had some personal knowledge other than that given to you by accountants, that indicated to you whether or not the company's business was more profitable in 1931 than it had been in 1930.

Mr. BALLANTYNE. Mr. Pecora, I did not.

Mr. PECORA. What is that?

Mr. BALLANTYNE. I did not.

Mr. PECORA. You did not what?

Mr. BALLANTYNE. Have any knowledge other than was furnished me by the accountants and officers of the bank.

Mr. PECORA. Didn't you have knowledge, necessarily, of the company's business and operations which was acquired at first hand as a director of the company and as its president?

Mr. BALLANTYNE. No; nothing more than was furnished by the officers of the bank.

Mr. PECORA. You were the head officer of the company, were you not, the chief executive officer of the company, from May 1931 until the end of the year?

Mr. BALLANTYNE. Have you read the bylaws, Mr. Pecora?

Mr. PECORA. Will you answer my question, please, Mr. Ballantyne?

Mr. BALLANTYNE. I have answered it to the best of my ability.

Mr. PECORA. You answered it by asking me if I had read the bylaws.

Mr. BALLANTYNE. You said I was the chief officer.

Mr. PECORA. Weren't you?

Mr. BALLANTYNE. I do not know. That is why I asked you if you had read the bylaws.

Mr. PECORA. What were your duties as president of the company when you assumed that office or were elected to it in May 1931? Don't you know?

Mr. BALLANTYNE. President of the company.

Mr. PECORA. What were your duties as president of the company? Were you merely a figurehead?

Mr. BALLANTYNE. To preside at the meetings.

Mr. PECORA. Were you merely a figurehead?

MR. BALLANTYNE. I suppose I was. The Bankers Co., as such, shortly after I—well, immediately following the consolidation—was superseded by another organization called the governing board.

MR. PECORA. What consolidation are you referring to?

MR. BALLANTYNE. The Peoples Wayne and the First National.

MR. PECORA. That took place in December 1931?

MR. BALLANTYNE. Yes.

MR. PECORA. You became president of the Detroit Bankers Co. in May 1931.

MR. BALLANTYNE. Mr. Pecora—

MR. PECORA. So, what in the world—

MR. BALLANTYNE. If you are asking me something I can answer obviously—I will answer this to you. Obviously, I had reasons for recommending the consolidation.

MR. PECORA. I am not asking you about the consolidation that took place on December 31, 1931, between the First National Bank in Detroit and the Peoples Wayne County Bank. I have not asked you about that, have I?

MR. BALLANTYNE. No.

MR. PECORA. Then why, in your answers, do you refer to that consolidation, when my questions in no way relate to that consolidation?

MR. BALLANTYNE. You are trying to get something out of me that I do not know.

MR. PECORA. Don't you know what your duties as president of the Detroit Bankers Co. were?

MR. BALLANTYNE. I do not know that I do—to preside at the meetings of the Detroit Bankers Co.

MR. PECORA. Were you also the executive head of the company?

MR. BALLANTYNE. There were no activities in the Detroit Bankers Co. The Detroit Bankers Co., Mr. Pecora, were just trustees.

MR. PECORA. Of what?

MR. BALLANTYNE. Just trustees.

MR. PECORA. Just trustees of what?

MR. BALLANTYNE. For the stockholders and for the directors of these banks.

MR. PECORA. The Detroit Bankers Co. was a company that owned virtually all of the capital stock of a number of large banks, was it not?

MR. BALLANTYNE. They were only trustees. No; they did not own it.

MR. PECORA. They did not own it?

MR. BALLANTYNE. No. I was trustee, for instance, for Horace Dodge, one of the biggest estates in this country.

MR. PECORA. We are not talking about the Horace Dodge estate.

MR. BALLANTYNE. I did not own his estate. I was a trustee, and that is all these men were.

MR. PECORA. Mr. Ballantyne, did not the Detroit Bankers Co. own outright the capital stock—

MR. BALLANTYNE. No.

MR. PECORA. Wait. Let me finish my questions, won't you, please?

MR. BALLANTYNE. Yes.

MR. PECORA. I will start it again. As a matter of fact, did not the Detroit Bankers Co. own outright the capital stock of the various

banks which it had acquired during the course of its existence, with the exception of directors' qualifying shares of various unit banks?

Mr. BALLANTYNE (after conferring with an associate). I dare say I am confused about it. I was the chief executive officer of the Bankers Co., and we were the owners of this stock. Is that what you are asking?

Mr. PECORA. I thought that was what I was asking.

Mr. BALLANTYNE. I will answer in the affirmative.

Mr. PECORA. You answer that question now in the affirmative?

Mr. BALLANTYNE. Yes, sir.

Mr. PECORA. And as president of the Detroit Bankers Co. you received a fairly substantial salary, didn't you?

Mr. BALLANTYNE. Yes. Well, I received \$50,000 a year.

Mr. PECORA. \$50,000 a year?

Mr. BALLANTYNE. Yes.

Mr. PECORA. You do not suppose that that \$50,000 a year was paid to you for services rendered by a figurehead, do you?

Mr. BALLANTYNE. No.

Mr. PECORA. So that you yourself considered that you were something more than a figurehead when you became president of the Detroit Bankers Co. at a salary of \$50,000 a year, did you not?

Mr. BALLANTYNE. Well, Mr. Pecora, I would like to get this very clear in your record. I had no wish to be president of the Detroit Bankers Co. Fate, of course, sat on me; and when I took hold of that office it was with the definite understanding of everybody that it would be for short tenure. My years and my strength would not permit me to take care of it. As to intimate knowledge of anything pertaining to that bank, the Detroit Bankers Co., you are inferring that I might know something that others did not know.

Mr. PECORA. No; I am not inferring any such thing.

Mr. BALLANTYNE. Perhaps I mistake your question.

Mr. PECORA. The question that I last asked you, Mr. Ballantyne, was a very simple one.

Mr. BALLANTYNE. Whether I knew—

Mr. PECORA. No. The question was, when you were made president of the Detroit Bankers Co. and received as its president a salary of \$50,000 a year, did you consider that you were paid that salary for being something more than a mere figurehead of the company?

Mr. BALLANTYNE. I thought so.

Mr. PECORA. And the duties assigned to you and which devolved upon you as president of the Detroit Bankers Co. were very responsible duties, were they not?

Mr. BALLANTYNE. They proved to be.

Mr. PECORA. You knew that they would be in advance, did you not?

Mr. BALLANTYNE. I do not know that I knew that they would be as responsible as they were.

Mr. PECORA. You knew that your duties would be more than merely nominal as president of the Detroit Bankers Co., did you not?

Mr. BALLANTYNE. Yes.

Mr. PECORA. As president it was your duty to supervise the operation of the business activities of the company, was it not?

Mr. BALLANTYNE. The Detroit Bankers Co., to my knowledge, were not supervising or running the banks, you know.

Mr. PECORA. I didn't ask you anything about that.

Mr. BALLANTYNE. To supervise; yes.

Mr. PECORA. Didn't you understand that you were paid a salary of \$50,000 a year, when you became president of the Detroit Bankers Co., to compensate you for services that you would be expected to discharge as its president?

Mr. BALLANTYNE. Yes.

Mr. PECORA. And among those services was the supervision, as chief executive officer of the company, of its business activities and affairs?

Mr. BALLANTYNE. Yes.

Mr. PECORA. In the discharge of those services did you learn currently during the year 1931, or that portion of it in which you were president of the company, whether or not the business of the company was more prosperous than it had been during the preceding year of 1930?

Mr. BALLANTYNE. All I learned, Mr. Pecora, was what was furnished by the officers, as I said before, and these figures were given to me by the officers through Mr. Verhelle. It would be impossible for any one man to have overlooked all the units of that bank—quite impossible. We had to depend on our officers. Is that a fair answer?

Mr. PECORA. And the principal officer was the president.

Mr. BALLANTYNE. Yes; and he was to receive the reports of those officers. He had to accept them as accurate.

Mr. PECORA. I am not talking about any figures.

Mr. BALLANTYNE. No?

Mr. PECORA. I am talking about the general business of the company during the year 1931, when you were a director of it for the entire year and president of it from May until the end of the year.

Mr. BALLANTYNE. Yes.

Mr. PECORA. Did you, as such director and as such president, acquire knowledge at first hand of the business affairs of the company which enabled you to determine whether or not its business for that year was more prosperous or profitable than it had been for the year 1930?

Mr. BALLANTYNE. As a matter of fact, I do not know that I can. I did not have any suspicion that there was anything different than what was reported here in these reports. I do not know now.

Mr. PECORA. As president—

Mr. BALLANTYNE. The president is not—

Mr. PECORA. As president of the company and its chief executive officer from May until December 31, 1931, couldn't you tell?

Mr. BALLANTYNE. There are a number of things—

Mr. PECORA. Couldn't you tell whether or not the company was operating more profitably than it had been during the preceding year?

Mr. BALLANTYNE. No.

Mr. PECORA. You did not know that?

Mr. BALLANTYNE. No.

Mr. PECORA. You had no means of knowing it?

Mr. BALLANTYNE. Only by the information furnished me.

Mr. PECORA. And only by that information?

Mr. BALLANTYNE. Surely.

Mr. PECORA. And that information merely consisted of accounting statements and figures?

Mr. BALLANTYNE. Yes.

Mr. PECORA. Did you believe, when you got out this annual report to the stockholders of the company for the year 1931, that during the year 1931 the company's business had been more profitable than it had been in the preceding year?

Mr. BALLANTYNE. I believed every word that was in that report.

Mr. PECORA. In this report did you mean to say, in substance or effect, that the business of the company for 1931 had been more profitable than its business for the year 1930?

Mr. BALLANTYNE. I meant exactly what was said there.

Mr. PECORA. Did you mean, in saying what you did say in the report, to convey the impression to the stockholders that, according to your knowledge and belief, the company's business in 1931 had been more profitable than its business in 1930?

Mr. BALLANTYNE. I know that during that year—I think the First National Bank's deposits increased about \$30,000,000.

Mr. PECORA. I am not talking about the First National Bank's deposits, and I am not talking about the deposits of any unit bank. I am talking about the business of the separate entity known as the Detroit Bankers Co., of which you were president.

Mr. BALLANTYNE. I have got to confine my answer to the facts, that the idea I had generally of that statement was that it was correct.

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

Mr. BALLANTYNE. That the results of the operations were equal to \$4.14 a share, and that the net operating revenues for the next year were \$7,450,000, equal to \$4.21 a share.

Mr. PECORA. And that the earnings for 1930 were equal to \$4.14 a share, is that right?

Mr. BALLANTYNE. Yes.

Mr. PECORA. That is what you stated to the stockholders?

Mr. BALLANTYNE. Yes.

Mr. PECORA. In saying that to the stockholders did you mean to convey the belief, opinion, or impression that for the year 1931, the company's business was more profitable than it had been for 1930?

Mr. BALLANTYNE. I will answer that question by saying I was given the facts. What I mean is, that I didn't know, myself. I do not suppose there are two statements made by presidents of banks that convey the same language. I might have been anxious to put my best foot forward, I don't know, because times were so difficult. But I had no question at all at the time this report was made, as to the fact that the bank was in a sound condition.

Mr. PECORA. I am not talking now about that—

Mr. BALLANTYNE (continuing). Well, that the earnings for the year before were just about the same. I had no means of knowing otherwise. Mr. Pecora, I had absolutely no means of knowing otherwise. The mere fact of being president does not make a man a wizard. You have to depend upon figures and facts as furnished to you by the officers of the various banks.

Senator COUZENS. Mr. Ballantyne, you have read very many financial statements, have you not?

Mr. BALLANTYNE. Oh, yes.

Senator COUZENS. For how many years have you read financial statements?

Mr. BALLANTYNE. How many?

Senator COUZENS. Yes.

Mr. BALLANTYNE. Oh, I could not say.

Senator COUZENS. Can't you answer as to that?

Mr. BALLANTYNE. Of course I can't answer that question.

Senator COUZENS. Do you mean to say that you cannot answer that question?

Mr. BALLANTYNE. How many financial statements I have read?

Senator COUZENS. Oh, no. For how many years have you read financial statements, was my question.

Mr. BALLANTYNE. Oh! For upwards of 40 years.

Senator COUZENS. Well, if you were handed this statement as a stockholder of the Detroit Bankers Co., and not as an officer, and you read in the report that in 1930 the company earned \$4.14 a share and in 1931 earned \$4.21 a share, you would know enough to know that that implied at least a better showing in 1931 than in 1930, wouldn't you?

Mr. PECORA. What is the answer to that question, Mr. Ballantyne?

Mr. BALLANTYNE. He ought to know what?

Mr. PECORA. Mr. Ballantyne, if you would only listen to the questions as propounded instead of engaging in conversation with Mr. Verhelle while questions are being put to you, you would know what each question is.

Mr. BALLANTYNE. Mr. Pecora, I have one ear that I cannot hear out of.

Mr. PECORA. Suppose you devote that one ear to the questioner and not to hearing what Mr. Verhelle is whispering to you.

Mr. BALLANTYNE. All right.

Mr. PECORA. Now, will you please answer Senator Couzens' question?

Mr. BALLANTYNE. What was it?

Senator COUZENS. The committee reporter will read the question to you.

(Thereupon the question was read as follows:)

Senator COUZENS. Well, if you were handed this statement as a stockholder of the Detroit Bankers Co. and not as an officer, and you read in the report that in 1930 the company earned \$4.14 a share and in 1931 earned \$4.21 a share, you would know enough to know that that implied at least a better showing in 1931 than in 1930, wouldn't you?

Mr. BALLANTYNE. Oh, yes.

Mr. PECORA. Now, I show you a printed document entitled "Annual Report to Stockholders, 1930, Detroit Bankers Co., Detroit."

Will you please look at it and tell me if you recognize it to be a true and correct copy of the annual report submitted to the stockholders of the Detroit Bankers Co. for the year 1930 by and in behalf of the company?

Mr. BALLANTYNE (after looking at the printed report). Oh, yes; that is undoubtedly it.

Mr. PECORA. Mr. Chairman, I offer it in evidence, but inasmuch as it is quite voluminous it need not be printed in the record.

Senator COUZENS (presiding). The printed annual report will be received and marked by the committee reporter as an exhibit, but not to be entered on the record.

(The annual report to stockholders for the year 1930 of the Detroit Bankers Co. was marked "Committee Exhibit No. 10, Jan. 25, 1934", and will be kept with the records of the subcommittee, but not printed in the hearings.)

Mr. PECORA. The report for 1930, which has been marked in evidence as "Committee Exhibit No. 10" of this date, I now have before me. Mr. Ballantyne, have you before you a duplicate copy of this annual report?

Mr. BALLANTYNE. Yes.

Mr. PECORA. Will you turn to the double page in the middle of it, entitled "Consolidated Statement of Condition of the Units of the Detroit Bankers Co. at the close of business, December 31, 1930"?

Mr. BALLANTYNE. All right.

Mr. PECORA. Now, have you before you a duplicate copy of the printed annual report to the stockholders of the Detroit Bankers Co. for the year 1931, a copy of which has been marked in evidence as "Committee Exhibit No. 9", as of January 24, 1934?

Mr. BALLANTYNE. Yes, sir.

Mr. PECORA. Will you turn in that printed annual report to the pages captioned "Combined statement of condition of banking units at the close of business, December 31, 1931"?

Mr. BALLANTYNE. Yes.

Mr. PECORA. What was the capital stock of the Detroit Bankers Co. as of December 31, 1930, as shown in the consolidated statement of condition included in that report marked "Exhibit No. 10"?

Mr. BALLANTYNE. The capital stock is shown as \$26,960,000.

Mr. PECORA. And what was the surplus of the company as shown by that statement?

Mr. BALLANTYNE. It was \$47,650,000.

Mr. PECORA. And what was the amount of the undivided profits as therein shown?

Mr. BALLANTYNE. It was \$17,218,000.

Mr. PECORA. As a matter of fact, it is shown as \$17,218,579.71, isn't it?

Mr. BALLANTYNE. Yes.

Mr. PECORA. And what is shown therein to be the total capital, surplus, and undivided profits of the units of the Detroit Bankers Co. as of December 31, 1930?

Mr. BALLANTYNE. It is shown as seventeen million, three hundred thousand—

Mr. PECORA (interposing). No. Give me the aggregate capital and surplus.

Mr. BALLANTYNE. It is shown as \$91,828,579.01.

Mr. PECORA. What was the capital stock as shown in the annual report to the stockholders as of December 31, 1931?

Mr. BALLANTYNE. It is shown as \$29,410,000.

Mr. PECORA. And what was the amount of the surplus shown as of that date?

Mr. BALLANTYNE. It is \$29,190,000.

Mr. PECORA. What was the amount of the undivided profits shown therein?

Mr. BALLANTYNE. It is \$9,857,000.

Mr. PECORA. It is \$9,859,000, isn't it?

Mr. BALLANTYNE. Yes; it is \$9,859,912.03.

Mr. PECORA. And the total capital, surplus, and undivided profits as of December 31, 1931, was how much?

Mr. BALLANTYNE. It was \$68,459,912.03.

Mr. PECORA. Now, how much less was the total capital, surplus, and undivided profits as of December 31, 1931, than it was as of December 31, 1930?

Mr. BALLANTYNE. It was \$23,368,660.98.

Mr. PECORA. That figure is \$22,368,666.98, isn't it?

Mr. BALLANTYNE. It is, as I make it, \$23,368,666.98, I think.

Mr. PECORA. You say it is \$23,000,000?

Mr. BALLANTYNE. Yes.

Mr. PECORA. All right. It is \$23,368,666.98, is that right, now?

Mr. BALLANTYNE. Yes.

Mr. PECORA. In other words, as a result of the business transacted by the Detroit Bankers Co. and its various units during the year, 1931, its capital, surplus, and undivided profits on December 31, 1931, were \$23,368,666.98 less than they were on December 31, 1930?

Mr. BALLANTYNE. Yes.

Mr. PECORA. What was that reduction due to?

Mr. BALLANTYNE. Why, it was due to cleaning house under the auspices of the Federal authorities. It was not due to losses made in 1 year by any manner of means. I desired in my report—well, the first report I made was in June of 1931, which, by the way, was made on figures compiled, as I say again, by Mr. Verhelle. I wanted to have honest assets back of the figures that were to be shown there. And we had an examination made of the allied units, the Peoples Wayne Bank, and the First National Bank, under the jurisdiction of Mr. Verhelle and Mr. Hopkins, and they themselves dictated what they thought should be taken out of those banks. But by no means did it represent the year's losses. It was the background of many years, and in addition as a result of depreciation. But these figures, I give you my word for it, Mr. Pecora, were furnished to me, and in the matter of that consolidation which was effected under my advice, it was for only one purpose, yes, Mr. Pecora, for one and only one purpose, in order to make an honest statement.

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

Mr. BALLANTYNE. Of the Peoples Wayne Bank and the First National Bank. That was made just prior to this last statement.

Mr. PECORA. I am not asking you anything about that consolidation now.

Mr. BALLANTYNE. Well, you asked me—

Mr. PECORA (interposing). I cannot understand why you continue to drag that matter into your answer.

Mr. BALLANTYNE. It may be that I misunderstood your question. You asked me the reason for the difference in these figures, and I am giving it to you.

Mr. PECORA. The reason was that during the year 1931 the Detroit Bankers Co. and its units wrote off losses that had been incurred to the extent of the greater part of this \$23,000,000, wasn't it?

Mr. BALLANTYNE. More than that.

Mr. PECORA. And the greater part of those losses were incurred during the year 1931, were they not?

Mr. BALLANTYNE. Oh, no.

Mr. PECORA. Do you know how much of them were incurred during 1931?

Mr. BALLANTYNE. No; I could not attempt to tell you that.

Mr. PECORA. Why do you say, then, that the greater part was not incurred during the year 1931?

Mr. BALLANTYNE. No; it was not.

Mr. PECORA. Why do you say the greater part of those \$23,000,000 depreciation of the capital assets of the Detroit Bankers Co. and its units was not due to losses sustained during the year 1931?

Mr. BALLANTYNE. Because I know they were not.

Mr. PECORA. How much of them were, or what proportion of them even approximately were incurred during the year 1931?

Mr. BALLANTYNE. I am not going to hazard a guess on that.

Mr. PECORA. Aren't you hazarding a guess when you say the greater part of those \$23,000,000, or that approximate figures, was not incurred and did not represent losses during the year 1931?

Mr. BALLANTYNE. No; I am not hazarding a guess there.

Mr. PECORA. You know that?

Mr. BALLANTYNE. Yes, sir.

Mr. PECORA. You have personal knowledge of that?

Mr. BALLANTYNE. I am confident of it.

Mr. PECORA. Now, from whom did you get the figures that caused you to say in your annual report to stockholders of the Detroit Bankers Co. for the year 1931 that the net operating income, after customary reserves, was \$7,475,293.47, equal to \$4.21 a share?

Mr. BALLANTYNE. From the comptroller of the bank, Mr. Verhelle.

Mr. PECORA. You got them from Mr. Verhelle?

Mr. BALLANTYNE. Yes, sir.

Mr. PECORA. Do you know how he arrived at that figure?

Mr. BALLANTYNE. Well, he accepted the statements furnished by the various units, I dare say, from the officers of the various units, as most bank comptrollers do, and measured the earnings, and arrived at that figure.

Mr. PECORA. Now, is that what Mr. Verhelle has told you?

Mr. BALLANTYNE. Oh, that is the only way he could do it.

Mr. PECORA. Is that what he has told you?

Mr. BALLANTYNE. No; he did not tell me that.

Mr. PECORA. You are assuming that that is how he got it?

Mr. BALLANTYNE. Oh; I have known that was how he got it.

Mr. PECORA. You know personally that that is how he got it?

Mr. BALLANTYNE. Yes, sir.

Mr. PECORA. You do not mean that, do you?

Mr. BALLANTYNE. Well, I know as well as I know anything that that was how he got it?

Mr. PECORA. Well, that is a different statement.

Mr. BALLANTYNE. He is here and you can ask him.

Mr. PECORA. I am going to later on. Now, Mr. Ballantyne, did you know that for the purpose of arriving at this figure of \$7,475,293.47 as being the net operating income of the Detroit Bankers Co. for the year 1931, after customary reserves had been arrived at, it

was done substantially in the following manner: By first transferring from the reserves account the sum of \$22,373,880.30 to operating account? Do you know that that was done?

Mr. BALLANTYNE. Well, was that done? Mr. Verhelle, do you know that that was done?

Mr. VERHELLE. No.

Mr. BALLANTYNE. No; I have no knowledge of it.

Mr. PECORA. You don't know how this figure of \$7,485,293.47 was arrived at, do you?

Mr. BALLANTYNE. Well, I know that it was the sum of the earnings reported by the various units.

Mr. PECORA. That it was derived how?

Mr. BALLANTYNE. That it was the sum of the earnings reported by the various units of the bank. There could be no other way.

Mr. PECORA. I think I will examine Mr. Verhelle about this matter from now on.

TESTIMONY OF JOSEPH F. VERHELLE—Resumed

Mr. PECORA. Mr. Verhelle, you have heard the testimony just given by Mr. Ballantyne to the effect that the figures embodied in the annual report to stockholders of the Detroit Bankers Co. for the year 1931 were obtained by him from you as the comptroller of the company?

Mr. VERHELLE. Yes, sir.

Mr. PECORA. That testimony is true, I presume?

Mr. VERHELLE. Yes, sir.

Mr. PECORA. Now, where did you get the figure of \$7,475,293.47, which is stated in this report to stockholders to have been the net operating income of the company after customary reserves? Or how did you arrive at that figure?

Mr. VERHELLE. Of course, in answer to the first question, as to where I got that, it was from the various units, naturally, from the various officers of the various units, who were responsible for the recording of such items as earnings, expenses, and so forth; presumably from the general bookkeepers, together with the men in the different accrual departments, and what not. As to how it was arrived at, I would say that it took into consideration, first of all, gross operating income which each of these units carries on its books, which consists of a multitude of items, such as interest earned, and so forth. I do not suppose you are interested in that detail. Then, in addition to that, profits on investments, profits on real estate, and recoveries on loans. The total of that was substantially, say, within a million dollars of \$35,000,000.

Mr. PECORA. Go ahead.

Mr. VERHELLE. Against that were charged the expenses of the various units. The principal item included in that, of course, was interest expense, general operating expenses, in addition to which there was charged to each such items as depreciation, any furniture and fixtures purchased, inasmuch as none of the units carried any of those items on their books, they being charged off immediately. So those were charged to them. And then—

Senator COUZENS (interposing). Were any losses charged to them?

Mr. VERHELLE. Yes. In the year 1930 we charged against—and when I say “we” I am making a mistake. I should say the units that made up these totals charged against their operating expense and credited to reserve account for the purpose of meeting losses that would be incurred as a result of their own activities for that year the sum of approximately $1\frac{1}{2}$ million dollars. That may be out \$300,000 or \$400,000, and it is probably a little less than $1\frac{1}{2}$ million dollars.

In the year 1931, and that is in your question here, instead of that customary figure those reserves charged to operating expense were materially increased—and again I am saying it within \$300,000 or \$400,000—increased substantially, approximately \$3,000,000. This procedure was in line with the accrual system which was in effect. That is, daily certain specific amounts were set up by these organizations into a reserve for a contingency account, the purpose of which was to provide for losses incurred against the business then conducted.

During the year 1930, as well as during the year 1931, other amounts were charged to the undivided-profits account, as representing losses incurred during the previous years, which in the best judgment of the men conducting the affairs of the business during those years they had failed to realize. After all, they were chasing this thing down the hill.

Now, the result of taking these gross earnings, which I say were approximately \$35,000,000, and deducting what must have been approximately \$28,000,000 expense, was the method of arriving at the \$7,000,000.

There is a very clear explanation of that, by the way, in the June 30, 1931, report, which came out in between those two dates.

Mr. PECORA. Let me have a copy of that very clear explanation.

Mr. VERHELLE. That is, on this particular question you have in mind.

Mr. PECORA. Is that the only copy you have?

Mr. VERHELLE. This is the only copy I have of this report.

Mr. PECORA. The document you have produced, and which you say contains “this very clear explanation”, is a printed document entitled “Semiannual Report to Stockholders, June 30, 1931, of the Detroit Bankers Co.”

Mr. Chairman, I offer it in evidence.

Senator COUZENS. Mr. Verhelle, was that report circulated among the public?

Mr. VERHELLE. It was circulated in exactly the same or identical manner as is done in the case of any bank to the stockholders.

Mr. PECORA. Mr. Chairman, I offer it in evidence, but it need not be spread on the record as it is quite voluminous.

Senator COUZENS. The report will be received in evidence, and appropriately marked as to exhibit number, with the understanding that it is not to be spread in full on the record.

(The semiannual report of Detroit Bankers Co. to stockholders, as of the date June 30, 1931, was marked “Committee Exhibit No. 11, Jan. 25, 1934”, and will be kept in the files of the subcommittee, not to be printed in the hearings.)

Mr. PECORA. Mr. Verhelle, will you refer me in this semiannual report, which has just been received in evidence as committee exhibit no. 11, to this very clear explanation of the question I propounded to you?

Mr. VERHELLE. The question to which this provides an explanation is the question as to what happened to the \$23,000,000 referred to before. This takes into consideration only one half of the year and contains at the beginning of the statement—may I just read it?

Mr. PECORA. I will tell you what I think you better do: Just take a pencil and indicate by marginal notes or lines the portion that constitutes this "very clear explanation", and let me have it.

Mr. VERHELLE. All right. That is now marked so as to show it.

Mr. PECORA. You do not mean the pages in between where you have marked the report, do you?

Mr. VERHELLE. No, sir.

Mr. PECORA. You have marked a page which I will now read into the record:

To the stockholders of the Detroit Bankers Co.:

The report herewith submitted covers our operations during the first half of 1931:

The combined earnings of the banking units for the first 6 months of 1931, after setting aside reserves for every form of expense, including interest, taxes, depreciation, and so forth, were \$5,819,569.18. Out of these earnings there was set aside reserves for contingencies of \$1,918,820.70. Net earnings available for dividends were \$3,908,748.48. Dividends paid were \$3,036,200. The balance that was transferred to undivided profits was \$872,548.48.

And the other page that you have marked in this report reads as follows:

Undivided profits on December 31, 1931, \$17,218,579.01, less amount transferred to surplus, Grosse Pointe Savings Bank of \$15,000, balance \$17,203,579.01; less amounts set aside as reserves to guarantee deposits of other banks, \$1,937,788.50, balance \$15,235,790.51; less amounts transferred to reserves for contingencies, \$6,000,000, balance \$9,235,790.51. Add profits first half of 1931, \$3,908,748.48, gives \$13,144,538.99; less dividends paid first half of 1931, \$3,036,200; undivided profits on June 30, 1931, \$10,108,338.99.

Is that right? These are the two pages in the semiannual report that you marked.

Mr. VERHELLE. Yes.

Mr. PECORA. These two pages constitute the "very clear explanation" that you have referred to.

Mr. VERHELLE. To one of your questions, as to the method by which it was arrived at, being an answer to one of your questions, because that takes into consideration the first half of the year, whereas your question referred to the year 1931.

Mr. PECORA. Well, so far as I can understand these two pages, which constitute this "very clear explanation", they show, among other things, that on December 31, 1930, the undivided profits of the Detroit Bankers Co. and its units amounted to \$17,218,579.01; and at the end of the first half of 1931, namely, on June 30, 1931, or 6 months later, those undivided profits had been reduced to \$10,108,338.99, or a loss in the undivided profits account of over \$7,000,000 for the first 6 months of the year 1931. Isn't that correct?

Mr. VERHELLE. Except for the word "losses." It is a reduction.

Mr. PECORA. Well, we will call it a reduction. Or does it represent losses, or does it represent anything other than losses, what you now call a reduction?

Mr. VERHELLE. It represents a reduction in the undivided profits account, because you asked me—

Mr. PECORA (interposing). Doesn't that reduction represent, in substance and effect, losses?

Mr. VERHELLE. No, sir.

Mr. PECORA. What does it represent?

Mr. VERHELLE. I can myself clearly explain that by taking a specific item to which that would be applied. That is, taking one of the items that make up that group.

Mr. PECORA. Why not just take this page, embodied in the semi-annual report marked in evidence "Committee Exhibit No. 11", which page you have marked as one of two pages furnishing this "very clear explanation"?

Mr. VERHELLE. Well, I cannot explain it your way, sir.

Senator COUZENS (presiding). We will give you until after lunch to explain it. The subcommittee will now recess until 2 o'clock p.m.

Mr. VERHELLE. May I have that semiannual report, Mr. Pecora?

Mr. PECORA. Yes; if you need it.

Mr. VERHELLE. I haven't another copy of it.

Mr. PECORA. All right.

(Thereupon, at 12:50 p.m., Thursday, Jan. 25, 1934, the subcommittee recessed until 2 p.m. the same date, at the same place.)

AFTERNOON SESSION

The hearing was resumed at the expiration of the recess. Senator COUZENS (presiding). The hearing will please come to order.

TESTIMONY OF JOSEPH F. VERHELLE—Resumed

Mr. PECORA. The last question and answer, Mr. Verhelle, are as follows:

Mr. PECORA. Well, so far as I can understand these two pages, which constitute this very clear explanation, they show, among other things, that on December 31, 1930, the undivided profits of the Detroit Bankers Co. and its banking units amounted to \$17,218,579.01, and at the end of the first half of 1931, namely, on June 30, 1931, or 6 months later, those undivided profits had been reduced to \$10,108,333.99, or a loss in the undivided-profit account of over \$7,000,000 for the first 6 months of the year 1931. Is not that correct?

Mr. VERHELLE. Except for the word "loss"; it is a reduction.

Now, what was that reduction in the undivided-profits item of over \$7,000,000 due to, Mr. Verhelle? We are talking now about a reduction established through the first 6 months of the year 1931.

Mr. VERHELLE. The principal item in that statement resulting in the reduction in the undivided-profit account is the transfer to the reserve for contingencies in the amount of \$6,000,000, which figure represents amounts set aside by various units of the group to provide for the writing down of assets contained in their statements in case the amounts at which they are set up are not fully realized upon from liquidation.

Mr. PECORA. You have given us the principal item?

Mr. VERHELLE. The item directly above, of \$1,967,788.50, is a similar item but pertains particularly to banks that were in liquidation, taken over by some of the other Detroit banks or banks in the immediate vicinity of Detroit.

Mr. PECORA. Are you able to give the committee the break-down of the items that produce this net operating income after customary reserves of \$7,475,293.47, set forth in the annual report to the stockholders of the holding company, the Detroit Bankers Co., for the year 1931?

Mr. VERHELLE. I can give those to you approximately.

Mr. PECORA. Well, do it that way, then, please.

Mr. VERHELLE. On the income side there is a gross income of approximately \$34,192,000. There are profits on investments totaling approximately \$1,151,000; profits on real estate totaling approximately \$38,000; recoveries on charge-off items of approximately \$208,000, making a total of \$35,589,000.

From that should be deducted expense of interest totaling \$12,645,000; general expense of \$11,525,000; depreciation of \$385,000; furniture and fixtures, \$117,000; building company, \$340,000. All these figures are approximate. The contingent reserves were credited with \$3,100,000. That makes a grand total of expense to be deducted from the \$35,000,000 of \$28,112,000, which, when deducted, results in net operating income of \$7,477,000.

As I have indicated, these figures are approximate, and I appear to be off a couple of thousand dollars, not having the books of these units here.

Out of that income of \$7,477,000 was paid \$6,051,000 in dividends, resulting in a net earning over dividends of \$1,425,000, approximately. We had an invested capital at the beginning of the year of \$91,828,579.01. We will have to drop the end figures, because I am dealing in thousands. To that was added income over dividends of \$1,425,000, resulting in a new invested capital figure of \$93,253,000.

Through the declaration of the special dividend by the Detroit Trust Co. this figure was reduced by \$4,000,000 and was further reduced by a million and a half in connection with the special dividend of the First National Bank, and there were charged off, as nearly as I can figure, or charge down, assets totaling \$19,292,000. So that we have reductions in the invested capital totaling \$24,792,000 which, when deducted from \$93,253,000, leaves us with \$68,461,000. I was \$2,000 off at the beginning—

Mr. PECORA. As what?

Mr. VERHELLE. Representing an invested capital after these changes were made.

Mr. PECORA. The amount of that invested capital, as you call it, represents capital stock, surplus, and undivided profits, does it not?

Mr. VERHELLE. Yes, sir.

Mr. PECORA. In the annual report for 1931 the aggregate amount of invested capital, as you call it, is given as \$68,459,912.03. That is a fairly accurate figure, is it not?

Mr. VERHELLE. Yes. Pardon me, sir. The figures of course in this report are correct.

Mr. PECORA. Those that you have given us here this afternoon are approximates?

Mr. VERHELLE. Yes, sir.

Mr. PECORA. The amount of the invested capital, as you call it, for the Detroit Bankers Co. and of its units as of December 31, 1930, was \$91,828,579.01, was it not?

Mr. VERHELLE. Yes, sir.

Mr. PECORA. Resulting in a reduction of invested capital or a reduction of the combined capital, surplus, and undivided profits, of over \$23,000,000 between December 31, 1930, and December 31, 1931?

Mr. VERHELLE. Correct.

Mr. PECORA. That reduction was due to the various transactions that you have set forth here this afternoon?

Mr. VERHELLE. Yes, sir.

Mr. PECORA. And the principal item that contributed to that reduction of over \$23,000,000 in the capital assets of the company in 1 year's time was a charge-down of assets amounting to \$19,292,000, approximately?

Mr. VERHELLE. Yes, sir.

Mr. PECORA. As a matter of fact, at the end of 1931 the financial condition of the company and its combined banking units was \$23,000,000 worse off than its condition at the end of the preceding year?

Mr. VERHELLE. No, sir.

Mr. PECORA. Is not that the condition reflected by the capital assets of the company and its units as of the close of business in 1930 as compared with the close of business in 1931?

Mr. VERHELLE. That is the condition as reflected by those particular figures, sir, but it does not reflect the actual condition of the assets behind them.

Mr. PECORA. Well, at the end of 1931 was the Detroit Bankers Co. better off financially than it was at the end of the preceding year?

Mr. VERHELLE. It was not.

Mr. PECORA. Is there anything in the annual report given to the stockholders for the year 1931 that sets that forth?

Mr. VERHELLE. Not in the annual report, sir, but in another letter written to the stockholders concerning this particular matter.

Mr. PECORA. Can you produce such other letter or a copy of it?

Mr. VERHELLE. I meant to bring that. [After referring to files:] I would like to explain that a letter was written during the month of November to the stockholders of these various units—

Mr. PECORA. November of what year?

Mr. VERHELLE. Of 1931—which was written in the offices of the Detroit Bankers Co. after consultation with various individuals.

Mr. PECORA. After consultation with whom?

Mr. VERHELLE. Various officers and directors.

Mr. PECORA. Well, who were they?

Mr. VERHELLE. Among them would be Mr. Mark Wilson, who is an officer of the Detroit Bankers Co.; and I do not specifically recall just at this particular moment—it may come to me in a moment—what directors. This letter was drafted—

Mr. PECORA. Did you have a conference with those gentlemen?

Mr. VERHELLE. Well, I had a number of discussions with them over the type of letter, which letter was sent out to Mr. Ballantyne that evening for his review; and I have here a letter which was sent out to him, together with a letter that was actually sent out to the stockholders containing the changes recommended by him in that particular letter. There was also that day—

Mr. PECORA. Before you go any further, will you produce the letter that you say was sent out to the stockholders?

Senator COUZENS. First, produce the one, if you can, that was sent to Mr. Ballantyne, and then the one that was corrected by him and sent to the stockholders.

Mr. VERHELLE (handing two papers to Mr. Pecora). In addition to those letters there were other methods by which the public was informed, of which I can get you copies.

Mr. PECORA. You have produced here in response to a question a photostatic copy of what purports to be a letter on the letterhead of Detroit Bankers Co. addressed "To our stockholders", dated November 21, 1931; but I see a legend or inscription in the upper right-hand corner of this photostatic copy reading as follows:

"This letter was not sent out."

Was this letter sent out?

Mr. VERHELLE. As I have attempted to explain, that was the first draft of the letter, and the next letter was the actual one.

Mr. PECORA. Suppose we put in evidence the photostatic copy of the letter that the witness has now referred to as the first draft of the letter to the stockholders but which was not sent out to the stockholders.

Senator COUZENS. That may be entered.

(Photostatic copy of draft of letter dated Nov. 21, 1931, addressed, on the letterhead of the Detroit Bankers Co., "To our stockholders", was received in evidence, marked "Committee Exhibit No. 12, Jan. 25, 1934.")

Mr. PECORA. You also have given me, in response to a request that you produce the letter or copy thereof that was sent to the stockholders, what appears to be a mimeograph copy of a letter on the letterhead of the Detroit Bankers Co., dated November 21, 1931, addressed "To our stockholders" and bearing a facsimile of the signature of John Ballantyne, president. I offer that in evidence.

Senator COUZENS. That may be entered.

(Mimeograph copy of letter on letterhead of the Detroit Bankers Co., dated Nov. 21, 1931, addressed "To our stockholders" and bearing facsimile signature of John Ballantyne, president, was received in evidence, marked "Committee Exhibit No. 13, Jan. 25, 1934.")

Mr. PECORA. The letter last offered in evidence, or the copy of the letter last offered in evidence, marked "Exhibit 13" of this date, is a copy, you say, of the letter that was actually sent out to all stockholders of the Detroit Bankers Co.?

Mr. VERHELLE. I would say so; yes, sir.

Mr. PECORA. Do you know who prepared the first letter, that is, the draft which was not sent out and which has been marked as "Exhibit no. 12" of this date?

Mr. VERHELLE. I believe I did, sir.

Mr. PECORA. Who prepared the letter marked "Exhibit no. 13" which was sent out to the stockholders?

Mr. VERHELLE. The letter, no. 13, is substantially a copy of letter no. 12, with the addition of one paragraph.

Mr. PECORA. Who prepared it in the form in which it was sent out and in which it has been received in evidence?

Mr. VERHELLE. The change was made by Mr. Ballantyne, but I do not know who did the actual wording of it, who is responsible for the actual wording of the paragraph itself.

Mr. PECORA. The only change or difference between exhibit 12 and exhibit 13 is the inclusion in exhibit 13, which is a copy of the letter that was sent out, of what appears therein as the second paragraph; is that right?

Mr. VERHELLE. I believe that is correct, sir.

Mr. PECORA. And you believe that in all other respects exhibit 13 is the same as exhibit 12 in form?

Mr. VERHELLE. I could read them back and determine definitely.

Mr. PECORA. I will read Exhibit No. 12, the draft of the letter which was not sent out—

Senator COUZENS. And which was sent to Mr. Ballantyne for revision?

Mr. PECORA. Yes. [Reading:]

"To our Stockholders:

"The board of directors of the Detroit Bankers Company believe that greater progress in attaining the purposes of this company can be made by the consolidation of the Peoples Wayne County Bank and the First National Bank in Detroit, and accordingly have recommended the consolidation of these two institutions under the name of the First Wayne National Bank. To you as stockholders the results will be reflected in increased earnings for your company, and to you as customers in an improved and more convenient type of service. It is contemplated that this consolidation shall be effective on or about December 31, 1931. This will give Detroit, which is the fourth largest city in the United States, a bank commensurate with its importance.

"According to the latest published statements the resultant consolidated institution will be among the first ten in the country in resources and deposits.

"We trust that you will share the management's pride not in the size of the First Wayne National Bank, but in its usefulness to the community. The usual quarterly dividend has been declared to holders of record on December 21, 1931."

The letter marked as "Exhibit no. 13" in evidence reads as follows [reading]:

"To our Stockholders:

"The board of directors of the Detroit Bankers Company believe that greater progress in attaining the purposes of this company can be made by the consolidation of the Peoples Wayne County Bank and the First National Bank in Detroit, and accordingly have recommended the consolidation of these two institutions under the name of the First Wayne National Bank.

"The new bank will have a capital of \$25,000,000, surplus of \$25,000,000, and undivided profits in excess of \$7,000,000. It will have total deposits of approximately \$500,000,000 and total resources of approximately \$600,000,000.

"We have taken this occasion to make the needed charge-offs and to set up ample reserves. To you as stockholders the results will be reflected in economy of operation, and to you as customers in an improved and more convenient type of service.

"It is contemplated that this consolidation shall be effective on or about December 31, 1931. This will give Detroit, which is the fourth largest city in the United States, a bank commensurate with its importance.

"According to the latest published statements the resultant consolidated institution will be among the first ten in the country in resources and deposits.

"We trust that you will share the management's pride, not in the size of the First Wayne National Bank, but in its usefulness to the community.

"The usual quarterly dividend has been declared to holders of record on December 21, 1931."

It is signed "John Ballantyne, president", and dated November 21, 1931.

The only differences that have been noted between these two letters, Mr. Verhelle, is the inclusion as entirely new matter in exhibit no. 13 of the second paragraph thereof, which gives the capital set-up of the new bank, and the following change in the phraseology of the third paragraph of the letter that was sent out, Exhibit No. 13, which corresponds in substance to the second paragraph of the draft of the letter, Exhibit No. 12, which was not sent out. That paragraph in the proposed, or draft letter, reads as follows:

"To you as Stockholders the results will be reflected in increased earnings to your company, and to you as customers in an improved and more convenient type of service."

In exhibit 13, which is the letter sent out, that reads as follows:

To you as sockholders the results will be reflected in economy of operation—instead of increased earnings to your company—

and to you as customers in an improved and more convenient type of service.

Which corresponds to the balance of the paragraph in exhibit 12.

Now, Mr. Verhelle, you produced these two exhibits in answer to my question as to whether or not there was given to the stockholders of the Detroit Bankers Co. any information showing that at the end of the year 1931 the financial condition of the company was not as good as it was at the end of the preceding year. Wherein do you see anything in either of these two exhibits, 12 and 13—or let us confine it to exhibit no. 13, which is the one that was sent to the stockholders, according to your testimony—which gives that information to the stockholders of the Detroit Bankers Co.?

Mr. VERHELLE. I am not quite sure that those letters were given to you in answer to that specific question.

Mr. PECORA. For what purpose, then, or in answer to what question, did you produce these letters?

Mr. VERHELLE. As an indication—at the time I produced them I thought I was producing them as an indication of some specific notice to the stockholders that changes were taking place. As to the actual condition of the Detroit Bankers Co. at the end of 1931 and 1930, it is my very definite opinion at the present time, which, of course, takes into consideration events that have since occurred—but as far as the statement to the effect that the Detroit Bankers Co. was not in as good shape at the end of 1931 as it was at the end of 1930 appearing in a letter sent the stockholders, of course, no such statement appears there and it would have been completely out of order in any statement at that particular time.

Mr. PECORA. Why would it have been out of order if it was the fact?

Mr. VERHELLE. Well, there are a great many and varied reasons.

Mr. PECORA. Give us the reasons that cause you to believe it would have been out of order to have sent out any letter or information to the stockholders which would have informed them that the condition of the company at the end of the year 1931 was not as good as it was at the end of the preceding year.

Mr. VERHELLE. One very good reason was that at that particular time we felt that we were climbing the hill and getting back out with this organization; that this organization was definitely coming out of the woods.

Mr. PECORA. Was the fact that you were coming out of the woods reflected by the reduction of \$23,000,000, approximately, in the capital assets of the company as compared with those capital assets in the preceding year?

Mr. VERHELLE. No, sir; not by that, but by other factors.

Mr. PECORA. Go ahead—what other factors?

Mr. VERHELLE. The first one would be, I presume the most important, the assurances which we had received that we had made a thorough job of housecleaning—

Mr. PECORA. Who gave you those assurances?

Mr. VERHELLE. The comptroller's representatives.

Mr. PECORA. Who?

Mr. VERHELLE. Mr. Leyburn.

Mr. PECORA. Did he give you those assurances?

Mr. VERHELLE. No, sir.

Mr. PECORA. Did you hear him give them to anybody else?

Mr. VERHELLE. No, sir.

Mr. PECORA. Did you ever see those assurances from him in writing addressed to anybody?

Mr. VERHELLE. Not that I can recall, sir.

Mr. PECORA. How do you know about the giving of those assurances?

Mr. VERHELLE. Principally because I was informed of the fact that Mr. Leyburn had stated that—

Mr. PECORA. Who informed you of that?

Mr. VERHELLE. Mr. John Ballantyne.

Mr. PECORA. Anyone else that you can recall?

Mr. VERHELLE. I cannot think of anyone just at this moment.

Mr. PECORA. Didn't you know, as the comptroller of the Detroit Bankers Co. during all of this time, Mr. Verhelle, that special dividends aggregating in amount $5\frac{1}{2}$ million dollars had been declared by certain of the units of the holding company to enable the holding company to meet its obligations during the year 1931?

Mr. VERHELLE. I would like to add to that question—I will answer the question. Yes; I knew that dividends had been declared of $5\frac{1}{2}$ million dollars.

Mr. PECORA. Special dividends?

Mr. VERHELLE. Special dividends, so that the holding company might meet the obligations which it had incurred in connection with this \$7,000,000 that has been the subject of so much discussion here.

Mr. PECORA. So long as you put it in that way, Mr. Verhelle, let me again ask you if it is not the fact, to your personal knowledge, that of those special dividends aggregating $5\frac{1}{2}$ million dollars, $1\frac{1}{2}$ million dollars was declared by the unit which paid it for the specific purpose of enabling the First National Co. to discharge an

obligation of about a million and a half which it owed to the First National Bank in Detroit? Is not that the fact, to your absolute knowledge?

Mr. VERHELLE. No, sir; it is not.

Mr. PECORA. Is not that the fact set forth in the resolution declaring that special dividend that was the subject of the examination of Mr. Long before this committee this morning, in your presence and hearing?

Mr. VERHELLE. Yes, sir.

Mr. PECORA. Why do you say that it would have been out of order to have sent out a report to the stockholders of the Detroit Bankers Co. showing that its condition at the end of the year 1931 was not as good as it was at the end of the year 1930?

Mr. VERHELLE. That question has such a broad answer that—

Mr. PECORA. I do not care how broad the answer is.

Mr. VERHELLE. It would have been disastrous to do a thing of that sort, because in the first place the truth of it would have been questionable. In the second place, to make a statement of that sort would have been certainly contrary to everything that everyone was attempting to do at that time, and that is to hold up the house, the general situation existing throughout the country.

Mr. PECORA. And in the effort to hold up the house do you think it was necessary to keep the stockholders of the Detroit Bankers Co., which is the house, I understand, you were trying to hold up—

Mr. VERHELLE. No, sir; I beg your pardon, sir. I qualified the statement and stated that the house referred to the general situation existing throughout the country.

Mr. PECORA. You said the truth of the statement to the effect that the financial condition of the Detroit Bankers Co. at the end of the year 1931 was worse than it was at the end of the year 1930, could be questioned. You yourself have admitted here this afternoon that it was the truth that at the end of the year 1931 the financial condition of the Detroit Bankers Co. and its units was not as good as it was at the end of the preceding year, so how could the truth of it be questioned?

Mr. VERHELLE. Because my admission was based upon facts now in my possession, since the closing of this bank, whereas I referred to that statement as of the end of that particular year, and the knowledge then in my possession.

Mr. PECORA. You know now that the knowledge in your possession enables you to assert that the financial condition of the company at the end of 1931 was worse than it was at the end of the preceding year; do you not?

Mr. VERHELLE. The knowledge now in my possession; yes, sir.

Mr. PECORA. Did you not have substantially that same knowledge when you gave Mr. Ballantyne the figures that were embodied by him in his annual report to the stockholders for the year 1931?

Mr. VERHELLE. No, sir.

Mr. PECORA. Didn't you have knowledge at that time that the capital assets of the Detroit Bankers Co. had been reduced by over 23 million dollars at the end of 1931, from what they were at the end of 1930?

Mr. VERHELLE. From what they were listed at in the figures that were on the books of these different units.

Mr. PECORA. And didn't that indicate a worse financial condition than existed at the end of the year 1930?

Mr. VERHELLE. Not in itself, sir.

Mr. PECORA. You said it would have been disastrous to have told the stockholders of the group that the financial condition of the company at the end of 1931 was worse than it had been the year before. That would have been disastrous to whom?

Mr. VERHELLE. To the whole country; and furthermore, it would have been a very questionable item, a very questionable statement, because we had the rather very definite feeling that we had there one of the very strongest banks in the country.

Senator COUZENS. Why did you write down your assets about 19 million dollars at that time?

Mr. VERHELLE. In order to state them at conservative values, in order that the assets might in some measure represent the figures which were covered by the statement.

Senator COUZENS. That being the fact, then, that showed the difference between the end of 1930 and the end of 1931, did it not?

Mr. VERHELLE. No, sir.

Mr. PECORA. Were the figures false at the end of 1930, then?

Mr. VERHELLE. No, sir.

Senator COUZENS. Why did you write down 19 million dollars in that period of years if both figures were true?

Mr. VERHELLE. It is purely a question of judgment as to the value at which an asset should be stated in a report.

Senator COUZENS. But your judgment was that the value of the assets at the end of 1931 was some 19 million dollars less than it was in 1930, is that true?

Mr. VERHELLE. Than reflected in the figures—

Senator COUZENS. Is that true, that your judgment was—

Mr. VERHELLE. I did not quite understand your question.

Senator COUZENS. You said these assets were valued as a matter of judgment, and your judgment was that at the end of 1931 the assets were worth some 19 million dollars less than they were at the end of 1930. Is that true?

Mr. VERHELLE. Than various examiners might have thought they were worth at the end of 1930.

Senator COUZENS. You gave these figures to Mr. Ballantyne. What did you think? Did you agree with the examiners?

Mr. VERHELLE. I believe in substance I did, substantially.

Senator COUZENS. Then your answer to my question is yes, that you thought the assets were worth some 19 million dollars less at the end of 1931 than they were at the end of 1930.

Mr. VERHELLE. No, sir; it is not.

Senator COUZENS. You had better read your testimony over, because you are falsifying, and subject to contempt of the Senate.

Mr. VERHELLE. I do not understand your question, sir, then, if that is the case.

Senator COUZENS. You at one time said that you were in substantial agreement with the examiners, and therefore you wrote down the assets at the end of 1931 some 19 million dollars less than they were in 1930, at the end of 1930. I asked you if that was not in substantial

agreement with your judgment, and you said yes. Then I asked whether or not, in your judgment, the assets were not worth some 19 million dollars less at the end of 1931 than they were worth in 1930, and you said no.

Mr. VERHELLE. Your question, as I understood it, was just a trifle different than it is worded now.

Senator COUZENS. Well, take it as I have worded it now, then.

Mr. VERHELLE. Than they were in 1930, on the books of those units.

Senator COUZENS. Yes.

Mr. VERHELLE. The answer is yes, they were.

Senator COUZENS. They were worth less?

Mr. VERHELLE. They were worth substantially less than they were worth according to the figures represented.

Senator COUZENS. Yes; and those figures were in accordance with your judgment.

Mr. VERHELLE. For 1930? No, sir. I had nothing to do with that.

Senator COUZENS. I am talking about 1931.

Mr. VERHELLE. In 1931 I substantially agreed with the figures of the examiners.

Senator COUZENS. So that, in effect, you substantially agree that the assets at the end of December 1931 were worth some 19 million dollars less than they were December 30, 1930?

Mr. VERHELLE. Not than they were worth in 1930.

Senator COUZENS. Than they were valued at.

Mr. VERHELLE. Than they had been carried on the books at in 1930.

Senator COUZENS. Yes.

Mr. VERHELLE. Yes, sir.

Mr. PECORA. Mr. Verhelle, was any estimate made by anybody connected with the Detroit Bankers Co. at any time during the year 1931 of the approximate amount of the losses that had been sustained due to various causes, including depreciation of value of securities?

Mr. VERHELLE. Including what? Will you read the last part of that question?

(The reporter read the pending question.)

Mr. VERHELLE. 1932, you said?

Mr. PECORA. No; I said 1931. The stenographer has it right.

Mr. VERHELLE. I believe I made such an estimate.

Mr. PECORA. What was the amount of the estimate of those losses which you made?

Mr. VERHELLE. I think it was substantially in accordance with the examiner's estimate.

Mr. PECORA. What was the amount?

Mr. VERHELLE. I do not recall the amount, sir.

Senator COUZENS. Can you estimate it? Can you estimate the amount?

Mr. VERHELLE. I would have to base it on the amount which the examiner reported.

Mr. PECORA. What examiner are you referring to?

Mr. VERHELLE. All the examiners, I should say.

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

Mr. VERHELLE. The national banking department examiners and—well, the thing would be very hazy on my part, because it involved a large number of examiners, and these examinations involved a large number of units.

Mr. PECORA. You mean by the examiners, the gentlemen who examined for the Comptroller of the Currency, the national bank units, and the gentlemen who examined for the State Banking Commissioner of Michigan, the State bank units?

Mr. VERHELLE. Yes, plus, probably, some of our own examiners.

Mr. PECORA. See if you can recall approximately the amount of the losses that were estimated in the year 1931 to have been sustained, whether it be your independent estimate or whether it be your estimate in agreement with the estimates of these examiners that you speak of.

Mr. VERHELLE. I am sorry, sir, but I could not do that.

Mr. PECORA. You could not do it. Let us see if I cannot refresh your recollection a bit. You know, do you not, that it was legally required of the Detroit Bankers Co., under the laws of the State of Michigan, to file with the Michigan Securities Commission an annual report?

Mr. VERHELLE. Yes, sir.

Mr. PECORA. And you know that such an annual report was filed for the year 1931?

Mr. VERHELLE. Yes, sir.

Mr. PECORA. In behalf of the Detroit Bankers Co.?

Mr. VERHELLE. Yes, sir.

Mr. PECORA. Did you prepare that report?

Mr. VERHELLE. I did not personally prepare it, sir, but it was prepared in the Detroit Bankers Co. by one of the men there.

Mr. PECORA. Did you have anything to do with the preparation or furnishing of the data embodied in that report?

Mr. VERHELLE. Personally?

Mr. PECORA. Yes.

Mr. VERHELLE. I seriously doubt it, sir.

Mr. PECORA. You seriously doubt whether you did or not?

Mr. VERHELLE. Whether I personally furnished any data in connection with the preparation of that report. I presume it was made out by just going through the books.

Mr. PECORA. By your subordinates?

Mr. VERHELLE. I presume so.

Mr. PECORA. Without any approval by you?

Mr. VERHELLE. I probably looked at it to see if it was substantially correct, although I am not certain of that. It would depend upon what report you are speaking of, which year.

Mr. PECORA. I am speaking of the year 1931, and I have so stated.

Mr. VERHELLE. I think that the 1931 report was prepared by the treasurer of the company, if it is in writing. I can tell—

Senator COUZENS. Were those figures taken from the books of the Bankers Co.?

Mr. VERHELLE. Yes, sir.

Senator COUZENS. You had charge of the books as comptroller, did you not?

Mr. VERHELLE. Yes, sir.

Mr. PECORA. I show you what purports to be photostatic copy of the annual report for the year 1931 filed with the Michigan Securities Commission by or on behalf of the Detroit Bankers Co. Will you look at it and tell me if you recognize it to be a true and corrected copy of such a report? [Handing paper to the witness.]

Mr. VERHELLE. I would say yes, sir.

Mr. PECORA. I offer it in evidence.

Senator COUZENS (presiding). It may be entered without being spread on the record.

(Copy of annual report, 1931, filed with Michigan Securities Commission by Detroit Bankers Co. was received in evidence, marked "Committee Exhibit No. 14, Jan. 25, 1934", and the same is not to be printed here for the reason stated above.)

Mr. PECORA. In this annual report, a copy of which has just been received in evidence as Committee's Exhibit No. 14 of this date, the following item appears [reading]:

Decrease in investments \$22,015,428.74.

Do you notice it? Have you a copy of this report before you?

Mr. VERHELLE. I was trying to see whether I had one.

Mr. PECORA. In the lower left-hand side of the front page, Mr. Verhelle.

Mr. VERHELLE. Yes, sir.

Mr. PECORA. You have every reason to believe that that was a correct item, have you not?

Mr. VERHELLE. I have every reason to believe that this is correct; yes, sir.

Mr. PECORA. Does that indicate to you that it was correctly reported to the Michigan Securities Commission by the Detroit Bankers Co., through the medium of this report, that during the year 1931 the company had suffered a decrease in the value of its investments amounting to \$22,015,428.74?

Mr. VERHELLE. It had taken that decrease. That decrease represents the decrease that we have been discussing, as you know.

Mr. PECORA. Won't you please answer my question? Read the question.

(The reporter read the pending question.)

Mr. VERHELLE. I would not know, sir, without studying this a bit. I am sorry. I did not make up this report, sir.

Mr. PECORA. I did not either. You were the comptroller, not I.

Senator COUZENS. You are an officer of one of the new banks, are you not?

Mr. VERHELLE. I am; yes, sir.

Would you please read that question again?

(The reporter read as follows:)

Mr. PECORA. Does that indicate to you that it was correctly reported to the Michigan Securities Commission by the Detroit Bankers Co., through the medium of this report, that during the year 1931 the company had suffered a decrease in the value of its investments amounting to \$22,015,428.74?

Mr. VERHELLE. No, sir.

Mr. PECORA. What does that item indicate to you?

Mr. VERHELLE. That item would, off-hand, indicate to me that the \$22,000,000 represents a reduction in invested capital of the units

owned by the Detroit Bankers Co., as differentiated from a decrease in the value of those actual securities. Inasmuch as the values of securities are not purely those of book value, these figures representing purely book value, it would not affect the actual value, and certainly did not affect the actual value as indicated by this particular figure here.

Mr. PECORA. Do you notice, Mr. Verhelle, that this item of \$22,015,428.74 is denominated in this annual report filed with the Michigan Securities Commission as "decrease in investments"? You note that, do you not?

Mr. VERHELLE. Yes, sir.

Mr. PECORA. Do you note further that it is one of the items appearing in the statement of profit-and-loss account shown in this report?

Mr. VERHELLE. Yes, sir.

Mr. PECORA. Does not that indicate to you, looking at this report in the form in which it appears, that according to this report the Detroit Bankers Co. sustained a loss of \$22,015,428.74 during the year 1931 through decrease in the value of its investments?

Mr. VERHELLE. It indicates to me that an unfortunate—

Mr. PECORA. Can you answer the question yes or no?

Mr. VERHELLE. No, sir.

Mr. PECORA. Why not?

Mr. VERHELLE. Because the figure represents, I presume, the difference between the invested capital structure as of the beginning of the year, and as of the end of the year, and that figure would not and should not be considered as a loss.

Mr. PECORA. Why is it included in the profit and loss statement if it should not be regarded as a loss?

Mr. VERHELLE. That question will have to be put to Mr. Lewright.

Mr. PECORA. Why to Mr. Lewright and not to you?

Mr. VERHELLE. Because I do not know.

Mr. PECORA. You were the comptroller of the company.

Mr. VERHELLE. Yes; but the comptroller—

Mr. PECORA. And had charge of these records and accounts, didn't you?

Mr. VERHELLE. This particular report was prepared by the treasurer of the company, who had really charge of the preparation of this report.

Mr. PECORA. I thought you said before that the data embodied in this report were furnished by subordinates of yours, and you looked them over.

Mr. VERHELLE. I generally did; yes, sir.

Mr. PECORA. Did you in this instance?

Mr. VERHELLE. I would not be sure, sir.

Mr. PECORA. Let us see if I can refresh your recollection further or by other means as to the amount of loss it was estimated the Detroit Bankers Co. sustained during the year 1931, to your knowledge. Do you recall submitting a memorandum to Mr. Ballantyne sometime in March 1932 that contained a reference to the losses estimated sometime during the preceding year?

Mr. VERHELLE. No, sir.

Mr. PECORA. I show you what purports to be a photostatic reproduction of such memorandum, dated March 7, 1932, and addressed to

Mr. John Ballantyne, signed by the comptroller, having the initials "J.F.V." at the end of the memorandum on the left-hand side. Tell me if you recognize it to be a true and correct copy of a memorandum which you prepared and gave to Mr. Ballantyne on that date.

Senator COUZENS. That appears to be one of the memorandums that was not extracted from the files of the Detroit Bankers Co.

Mr. VERHELLE. I seriously doubt if I sent that memorandum, sir, for the reason that I am in the habit of initialing my copies.

Mr. PECORA. Who prepared that?

Mr. VERHELLE. I dictated this.

Mr. PECORA. I offer it in evidence.

Senator COUZENS (presiding). It may be entered.

(Memorandum Mar. 7, 1932, Verhelle to Ballantyne, was received in evidence and marked "Committee's Exhibit No. 15, Jan. 25, 1934.")

Senator COUZENS. Did you ever have any conferences with any representatives of the Department of Justice about the records of the Detroit Bankers Co.?

Mr. VERHELLE. Yes, sir. They have been over to see me a number of times requesting information as to where they could locate certain information.

Senator COUZENS. What have you told them during those conferences?

Mr. VERHELLE. I have told them that I left the Detroit Bankers Co. before the general smash-up in February, and I have generally pointed out to them where I would go to procure the particular type of information they were looking for, and that the files were left absolutely intact at the time I left there; that all of the information that belonged in those files was there; that is, all the information that should be there, and that belonged to the Detroit Bankers Co., was in those files at the time I left there.

Senator COUZENS. What other would be in the files that did not belong to the Detroit Bankers Co.?

Mr. VERHELLE. What other information would be in the files which did not belong to the Detroit Bankers Co.?

Senator COUZENS. Yes.

Mr. VERHELLE. Oh, I do not know that there would be anything.

Senator COUZENS. You qualified your statement awhile ago that everything was in the files of the Detroit Bankers that should have been there.

Mr. VERHELLE. I did not mean to qualify it with that interpretation at all, Senator.

Senator COUZENS. That is what you said. Now, in discussing this matter with any of the Department of Justice representatives, was there any question raised as to the memorandums of criticism that you sent to the several units?

Mr. VERHELLE. Yes, sir. On numerous occasions they asked for copies of this and copies of that, and I believe that a great many times I did not operate those files—

Senator COUZENS. You did not what?

Mr. VERHELLE. I did not operate the files, of course, but the party who operated them at that time went over there, and I think they found a considerable quantity of the material which they were looking for.

Senator COUZENS. In the discussions with these representatives of the Department of Justice, did you tell them at any time the kind of communications that you had sent to the unit banks belonging to the Detroit Bankers Co.?

Mr. VERHELLE. I may have. I don't specifically recall.

Senator COUZENS. You say you don't specifically recall. Do you recall any instances where you commented to Department of Justice representatives, on the kind of statements that you had sent to the several banking units?

Mr. VERHELLE. Yes; I think I did on numerous occasions. I think I just did it here on yesterday. It seems to me the question came up—and it is indicative particularly of the type of question that has been asked on numerous occasions—they asked me if I had any idea, asked me here yesterday, as to where they might find a certain letter that I spoke to them about, or that they had spoken to me about, regarding the \$750,000 in connection with the Pontiac bank. They said they had a wire from the man out there and wanted to know just where they should look for it.

Senator COUZENS. Did they tell you they could not find it in the files of the Detroit Bankers Co.?

Mr. VERHELLE. I think they did. Of course, there is one thing about the files of the Detroit Bankers Co., as I have indicated before: Approximately at the time I left there, and before that, the duties of persons with the Detroit Bankers Co. were materially changed, and the material, I understand and believe, was in large measure turned over to the particular individuals to whom those duties were assigned. There is a very considerable, or a large amount of that, of course.

Senator COUZENS. Do you mean that the memorandum which you had prepared, or the memoranda which you had prepared for the several units, copies of which you kept and placed in the files of the Detroit Bankers Co., were taken out of the files and delivered to someone else who had charge of the work? Is that what I am to understand from you?

Mr. VERHELLE. Well, I presume they would have removed them and taken them over to the particular places where they were working. But I could not tell you that. I would not know that, because I left there, severed my connection, and whatever happened to those files was not my affair.

Senator COUZENS. You have no record anywhere of these memoranda that you addressed to the several units?

Mr. VERHELLE. Well, there were literally hundreds of them, and, of course, I have no record of them. I just dictated one after another.

Senator COUZENS. In other words, there were hundreds of criticisms sent to those several units, and you filed them as you wrote them; is that true?

Mr. VERHELLE. Well, the term "criticisms" is not entirely in order.

Senator COUZENS. Well, what were they, if they were not criticisms?

Mr. VERHELLE. Well, criticisms and suggestions, or suggestions for changes, or things of that sort. You might term them recommendations of various kinds.

Senator COUZENS. Have you any of those in your possession?

Mr. VERHELLE. I have some; yes, sir.

Senator COUZENS. Where are they?

Mr. VERHELLE. I have some right here.

Senator COUZENS. Is that the only place where you have them, right here?

Mr. VERHELLE. I believe it is; yes, sir.

Senator COUZENS. And you have none anywhere else?

(Witness shakes his head.)

Senator COUZENS. Is your answer no?

Mr. VERHELLE. Yes, sir.

Senator COUZENS. Will you submit to us those that you have here?

(The witness turns to his package of papers, looks at them, and then turns toward the attorney, Mr. Longley.)

Senator COUZENS. Do you have to get legal advice as to whether or not you will submit those papers?

Mr. VERHELLE. Well, I should like to ask a question, sir.

Senator COUZENS. Well, we desire them now, and if a subpoena is necessary we will issue one.

Mr. PECORA. Mr. Chairman, Mr. Verhelle is on the stand, and no subpoena is necessary.

Senator COUZENS (presiding). Then please submit them to the committee.

Mr. VERHELLE. These are copies, of course. [Handing to Mr. Pecora two files of papers].

Senator COUZENS. In other words, these are copies that you took out of the files of the Detroit Bankers Co., are they?

Mr. VERHELLE. No, sir.

Senator COUZENS. Then where did you get these copies?

Mr. VERHELLE. They were copies I made for myself, more or less. They were extra copies, I know that.

Senator COUZENS. When you made these extra copies what did you do with them?

Mr. VERHELLE. I stuck them in one corner of my desk, I believe.

Senator COUZENS. And then when you left the Detroit Bankers Co. you took them with you, is that correct?

(The witness turns to look through some other papers.)

Mr. PECORA. Mr. Verhelle, there is a question pending that has been addressed to you. Did you hear it?

Mr. VERHELLE. Well, I am trying to recall, sir. I wouldn't say that I took them with me at that time, sir.

Senator COUZENS. Then when did you take them?

Mr. VERHELLE. Well, some of them at one time and some at another time.

Senator COUZENS. After you left the service of the Detroit Bankers Co.?

Mr. VERHELLE. No; before I left the service.

Senator COUZENS. Is that all that you have in your possession?

Mr. VERHELLE. I have another file here.

Senator COUZENS. Will you submit that to Mr. Pecora?

Mr. VERHELLE. Here it is. [Handing to Mr. Pecora what seemed to be a bound volume.]

Mr. PECORA. Mr. Chairman, I ask that the committee reporter mark for identification each and every paper or document that has been produced by the witness.

Senator COUZENS. That will be done after the examination of the witness for the day has been concluded. And the committee reporter will see that they are kept intact, and mark them in order in which they are now submitted.

(The papers and documents turned over to the committee by the witness, Mr. Verhelle, were marked "Committee Exhibits for Identification, No. 16 to No. 96", both inclusive, and forwarded to Mr. Pecora at the Mayflower Hotel during the evening with the day's transcript of proceedings.)

Mr. PECORA. Now, Mr. Verhelle, to get back to the memorandum addressed to Mr. Ballantyne under date of March 7, 1932, which you have said you dictated, and which has been received in evidence as Committee Exhibit No. 15. I want to call to your attention the opening statement in this memorandum, reading as follows:

Mr. JOHN BALLENTYNE,
President Detroit Bankers Co.:

During October 1931 we estimated total losses at \$48,793,000—

Who estimated those total losses at that figure?

Mr. VERHELLE. Well, I seriously question that letter, sir, because—well, I would like to refresh my memory on it. I could not particularly recall it when I read it here. It was rather strange to me.

Mr. PECORA. Why, after you read it you said, while you were under oath here, that you dictated it.

Mr. VERHELLE. I did, sir.

Mr. PECORA. All right. Now, when you dictated it what had you in mind as the thing to which you referred when you stated in this memorandum:

During October 1931 we estimated total losses at \$48,793,000.

Mr. VERHELLE. I presume that what I had in mind when I dictated that was that that was an estimate of the total amount that might be considered as losses.

Mr. PECORA. Sustained by the Detroit Bankers Co. and its various units?

Mr. VERHELLE. And all the units; yes, sir.

Mr. PECORA. Do you know why no mention whatsoever was made of those losses in the annual report sent to the stockholders of the Detroit Bankers Co. for the year 1931?

Mr. VERHELLE. Well, those losses were corrected, sir.

Mr. PECORA. What was that answer?

Mr. VERHELLE. Those losses were corrected.

Mr. PECORA. When were they corrected?

Mr. VERHELLE. By the adjustment of the invested capital, earnings, and so forth, of those units.

Mr. PECORA. When were they corrected?

Mr. VERHELLE. During the course of—well, during the last week, I suppose, in December that would have been.

Mr. PECORA. During the last week of December 1931?

Mr. VERHELLE. I presume so; yes, sir.

Mr. PECORA. Are you sure of that?

Mr. VERHELLE. No; I am not sure that it would be during that week; but at least over a period of time about then.

Mr. PECORA. Are you sure that those losses were corrected?

Mr. VERHELLE. Not particularly these losses, because the question of losses is entirely a matter of judgment.

Mr. PECORA. Who made this estimate that you referred to in this memorandum?

Mr. VERHELLE. I presume I made it, sir.

Mr. PECORA. You made it?

Mr. VERHELLE. Yes, sir; I presume so.

Mr. PECORA. Then some time in October of 1931 you made an estimate which showed that the total losses of the Detroit Bankers Co. and its unit aggregated over \$48,000,000?

Mr. VERHELLE. I would presume that I did.

Mr. PECORA. What was the occasion for your reminding Mr. Ballantyne of that in March of 1932?

Mr. VERHELLE. I should like to read the whole memorandum and make myself clear on the whole occasion.

Mr. PECORA. Haven't you read the whole memorandum?

Mr. VERHELLE. No, sir; I did not. I just glanced through it. May I read it now, please?

Mr. PECORA. All right. Here it is.

(After reading it, the witness returned the paper to Mr. Pecora.)

Mr. PECORA. Now, Mr. Verhelle, can you answer the question after having read Committee Exhibit No. 15?

Mr. VERHELLE. Well, I have just this recollection of that particular memorandum, that I think there are subsequent memoranda to that; and the two memoranda mentioned in there I recall specifically, and—

Mr. PECORA (interposing). What is that?

Mr. VERHELLE. There are two memoranda mentioned in this particular memorandum, which I recall specifically, and which are recommendations in there. It is my recollection that that particular memorandum was, in my mind, rather incomplete at the time and that I wanted to make an analysis of my own, and an inspection, or examination rather, of my own before making any commitment as to what those losses definitely were, because I felt I was too far away from what others definitely believed and presumed to be the situation.

Mr. PECORA. Now, Mr. Verhelle, I want you to look very carefully at this memorandum marked "Committee Exhibit No. 15", and point out to me therein anything that is set forth in it which indicates what you have just said [handing the memorandum back to the witness].

Mr. VERHELLE. Well, one statement, for instance: "Losses on mortgages on land contracts, \$5,000,000." That would require a little substantiation.

Mr. PECORA. Just read into the record anything in that memorandum that is the basis for the answer you have made.

Mr. VERHELLE. The figures in "Additional losses on loans, 8½ million dollars", are entirely too general a statement. So are the figures in "Mortgages on land contracts." And so is the statement "Our requirements at this time are approximately \$40,000,000."

Mr. PECORA. Now, what did you mean by that statement in that memorandum, which is dated March 7, 1932:

Our requirements at this time are approximately \$40,000,000.

Mr. VERHELLE (looking over the paper again). I do not recall, sir. I think that is probably one of the reasons—

Mr. PECORA (interposing). You do not recall what you meant by something you wrote?

Mr. VERHELLE. But did not send.

Mr. PECORA. Do you mean to say that you never sent it?

Mr. VERHELLE. It does not look like it.

Mr. PECORA. Do you mean to say you never sent that to Mr. Ballantyne?

Mr. VERHELLE. I seriously question it. I don't know.

Mr. PECORA. I wish you would carefully search your mind, Mr. Verhelle, and make an effort to tell us about that.

Senator COUZENS. You are not trying to protect Mr. Ballantyne because he is your superior officer, are you?

Mr. VERHELLE. Senator Couzens, I have never done anything but state the truth on any question.

Senator COUZENS. Well, you may sometimes state the truth and yet not all the truth.

Mr. VERHELLE. What was that?

Senator COUZENS. I say, you may sometimes say the truth and yet not state all the truth. I am just recalling to you that when you took the oath here you said that you would tell all of the truth and not only a part of it.

Mr. VERHELLE. Well, that makes no difference to me, sir.

Mr. PECORA. Do you mean that the taking of the oath would make no difference to you?

Mr. VERHELLE. Oh, no. That I always tell the truth so far as the telling of the truth is concerned.

Mr. PECORA. All right. Now, did you tell the truth when you dictated that memorandum and stated, regardless of whether or not you sent it to Mr. Ballantyne, that in October of 1931 you estimated the losses of the company at over \$48,000,000?

Mr. VERHELLE. As to this memorandum, I question whether I used it or not.

Mr. PECORA. I did not ask you whether you used it or not. I asked you if it was the truth when you dictated that memorandum and stated in October of 1931 that the losses of the Detroit Bankers Co. and its units had been estimated at over 48 million dollars.

Mr. VERHELLE. As to a memorandum of this kind, when dictated and unless signed and used, it does not necessarily mean that it contains the true story, or anything of that sort, and there might be typographical errors in it, or any one of a thousand things.

Mr. PECORA. When you dictated that memorandum what did you dictate it for? What did you intend to do with it after it was transcribed?

Mr. VERHELLE. Well, at that particular moment when I dictated it I probably set down on paper my first thoughts, or something of that sort; or this might have been my second or third thoughts on it, and with the definite purpose in mind of accomplishing certain things.

Mr. PECORA. When you dictated that memorandum you started out by saying, in substance, in October of 1931 we estimated losses at 48 million dollars plus. Now, were you drawing upon your imagination when you dictated that statement on March 7, 1932?

Mr. VERHELLE. No, sir. I doubt very much if I was.

Mr. PECORA. Well, that was dictated by you as a statement of fact, wasn't it?

Mr. VERHELLE. Yes, sir.

Mr. PECORA. Now, let me have that memorandum again, please.

Mr. VERHELLE. All right. [Handing the memorandum back to Mr. Pecora.]

Mr. PECORA. Now, when in this same statement or memorandum you dictated the following:

Our requirements at this time are approximately \$40,000,000.

What did you mean by it?

Mr. VERHELLE. I cannot recall that, sir.

Mr. PECORA. Well, you have been recalling a lot of things not so important as this.

Mr. VERHELLE. I know I have been recalling a lot of things, but—

Mr. PECORA (interposing). Why is it that you cannot recall this?

Mr. VERHELLE. I think I have done pretty well at recalling things.

Mr. PECORA. That is your opinion, anyway, isn't it?

Mr. VERHELLE. Yes, sir. Because I think I would recall a memorandum of that kind, and I just don't recall it.

Mr. PECORA. Well, you have recalled it. You testified here that you dictated it.

Mr. VERHELLE. Yes; because of the fact that this photostatic copy of memorandum with what is on it there at least now indicates that I dictated it. But that was not from memory but by the very fact of the memorandum itself. That was the basis for my statement to you.

Mr. PECORA. Don't you recognize your language in it?

Mr. VERHELLE. Yes, sir. That was another factor that caused me to say that.

Mr. PECORA. There isn't a shadow of a doubt in your mind, then, at this moment, that you dictated this memorandum, is there?

Mr. VERHELLE. There isn't a shadow of doubt about that, but whether I dictated it exactly that way, or whether there are any typographical errors in there, I wouldn't know.

Mr. PECORA. With that exception, there isn't a shadow of doubt in your mind that you dictated substantially what appears in this memorandum, is there?

Mr. VERHELLE. No, sir.

Mr. PECORA. Now, can't you search your memory and tell us what you meant by the statement in this memorandum [reading]:

Our requirements at this time are approximately \$40,000,000.

Mr. VERHELLE. Yes, sir; I think I could sit down and think it out.

Mr. PECORA. Please do so.

Mr. VERHELLE (taking up a writing pad as if to write on it and then stopping to think). What is that date, Mr. Pecora?

Mr. PECORA. March 7, 1932.

Mr. VERHELLE. Will you let me have that memorandum again?

Mr. PECORA. All right. Here it is.

Mr. VERHELLE (after some figuring and looking at the memorandum). I cannot reconcile the figures on this thing itself. They do not tie in or together there at all.

Mr. PECORA. What did you say?

Mr. VERHELLE. The figures on that memorandum do not tie in at all. I cannot reconcile them, one with another.

Mr. PECORA. You cannot reconcile the figures embodied in a memorandum which you prepared?

Mr. VERHELLE. I cannot reconcile them with themselves. They do not tie in.

Mr. PECORA. Well, that is because of the way you dictated it and prepared it, isn't it?

Mr. VERHELLE. Well, of course, it wasn't a finished article, or at least that would be my recollection of it.

Mr. PECORA. What was the finished article?

Mr. VERHELLE. Well, I would say it would have been much more full and complete than that.

Mr. PECORA. Can you produce the finished article, or any copy of it?

Mr. VERHELLE. No; I cannot, sir.

Mr. PECORA. Are you willing to swear that this memorandum was not the finished article?

Mr. VERHELLE. I could not swear that it was either, sir. In the first place, the figures do not reconcile with one another as they appear right on the statement itself. You really cannot make heads or tails out of it by analyzing it, and they do not tie together. In the second place, I am in the habit of putting my initials on copies of everything, and generally on all copies when I sign the original. That is the general way I have.

Mr. PECORA. That is the general way you have?

Mr. VERHELLE. Yes, sir.

Mr. PECORA. Let us take a look at some of the copies of memoranda you have produced here this afternoon.

Mr. VERHELLE. Those necessarily would not be file copies.

Mr. PECORA. Would not necessarily be what?

Mr. VERHELLE. File copies.

Mr. PECORA. Didn't you say that these were extra copies made, and that they were in the files in your desk?

Mr. VERHELLE. Not file copies, sir.

Mr. PECORA. What do you mean by "file copies" as distinguished from these copies?

Mr. VERHELLE. Well, a record of every piece of correspondence and communication, one copy goes in the files, and that copy—

Mr. PECORA (interposing). Where the copy bears your signature or your initials, does that mean that it is a file copy?

Mr. VERHELLE. No, sir. It means that it is an accurate copy of one I did sign.

Mr. PECORA. Well, why did you say that the file copies would show your signature or initials?

Mr. VERHELLE. If that original had been signed, when I signed the original I would have simultaneously signed at least one more copy.

Mr. PECORA. And would the signed copy have been the one for the files of the company?

Mr. VERHELLE. No; the signed copy would be the original, that is, with the full signature on it, and then I might either write my last name or the initials on the remaining copy or copies.

Mr. PECORA. Where a copy bears your signature—I am speaking of copy, not the original—does that mean that that copy was the filed copy as distinguished from the original?

Mr. VERHELLE. No, sir; not necessarily.

Mr. PECORA. What does it mean?

Mr. VERHELLE. It means that it was one of a number of copies that were made. It simply means that the original of that particular one was actually signed by me.

Mr. PECORA. And if the copy is unsigned that meant that the original also was unsigned?

Mr. VERHELLE. Generally speaking, I try not to make any exception to it. Occasionally I might sign a memorandum or a letter without having the copies right there to initial, but I, generally speaking, have for many years initialed the copies that were placed with the original document.

Mr. PECORA. I am going to ask you the same question again: Where a copy of a memorandum or communication prepared by you is unsigned does that indicate that the original also was unsigned by you?

Mr. VERHELLE. Not definitely, sir.

Mr. PECORA. What does it indicate?

Mr. VERHELLE. It does not indicate anything.

Mr. PECORA. It might indicate that either the original was signed or that the original was unsigned? Is that what you mean to say?

Mr. VERHELLE. It might indicate definitely that the original was not signed. That is one indication.

Mr. PECORA. What is another indication?

Mr. VERHELLE. Another indication might be that it was one of a large number of copies and at the time I had them I thought I had initialed enough of them or something of that sort.

Mr. PECORA. Then an unsigned copy might also be a copy of an original which was signed?

Mr. VERHELLE. It might.

Mr. PECORA. This copy that I have produced here today and which has been received in evidence as exhibit no. 15 is an unsigned copy, isn't it?

Mr. VERHELLE. Yes, sir.

Mr. PECORA. That does not necessarily indicate, if I have correctly understood the testimony you have given in answer to the last few questions, that the original of this memorandum was also unsigned, does it?

Mr. VERHELLE. It does not prove it; no, sir.

Mr. PECORA. This might just as well be an unsigned copy of a signed original?

Mr. VERHELLE. Oh, it might be as far as that phase of it is concerned; yes.

Mr. PECORA. Do you know, Mr. Verhelle, who prepared the text of the report that was printed and sent to the stockholders of the Detroit Bankers Co. for the year 1931?

Mr. VERHELLE. The one we have been discussing, sir?

Mr. PECORA. The one that is in evidence here; yes.

Mr. VERHELLE. The text was probably prepared by me, but with the collaboration of Mr. Mark Wilson, and was submitted to the directors of the Detroit Bankers Co.—I would like to look at it and be sure that is it—(after examining document) and was submitted to the directors of the Detroit Bankers Co. and with certain suggestions approved by them.

Mr. PECORA. The text of the annual report for the year 1931 comprises 6½ printed pages in the annual report for that year, which is marked in evidence here as “Committee’s Exhibit No. 9”, does it not?

Mr. VERHELLE. Yes.

Mr. PECORA. And those 6½ printed pages are not closely written or printed, are they?

Mr. VERHELLE. No, sir.

Mr. PECORA. So that the text is very brief and concise, isn’t it?

Mr. VERHELLE. Yes, sir.

Mr. PECORA. And your recollection is you prepared the text of this report?

Mr. VERHELLE. It is my recollection that I made the draft of it.

Mr. PECORA. Is it your recollection that that draft underwent revision at anybody else’s hands before it was signed by Mr. Ballantyne and printed and sent to the stockholders?

Mr. VERHELLE. Yes, sir.

Mr. PECORA. Who revised it?

Mr. VERHELLE. Well, I know that the names included therein were added to the original draft, for instance.

Mr. PECORA. The names of a certain committee, members of a certain committee?

Mr. VERHELLE. Yes, sir. I am not sure but that that was done by the governing committee, rather than by the board of directors of the Detroit Bankers Co.

Mr. PECORA. In any other sense was the text of the report as drafted by you changed or revised by anyone before it was printed and sent to the stockholders?

Mr. VERHELLE. I have an idea that it was, sir, but I cannot point it out.

Mr. PECORA. You cannot point out the change even?

Mr. VERHELLE. No.

Mr. PECORA. If any was made?

Mr. VERHELLE. No.

Mr. PECORA. Do you recognize any change in your language?

Mr. VERHELLE. I recognize that particular one. I recall that one specifically.

Mr. PECORA. That change, as you have already indicated, merely consisted of the inclusion of the names of the members of a so-called “governing committee” which had been appointed during the year 1931, did it not?

Mr. VERHELLE. Yes, sir. Well, in the preparation of one of these reports you get a very large number of suggestions, and you get them from various officers and directors. They all make some comment and make some suggestion, and those after all enter into it, and it is the combined suggestions of a very large number of people that are represented.

Mr. PECORA. Then is it correct to say that the text of this report was prepared by you with the exception of the inclusion of the names of that committee that appears in it, but that it represents and embodies suggestions made to you by other persons with respect to the substance or content of the report?

Mr. VERHELLE. I would say yes, sir.

Mr. PECORA. That is correct?

Mr. VERHELLE. Yes, sir.

Mr. PECORA. What other persons suggested to you or made any suggestions to you concerning the report that should be prepared and sent to the stockholders for the year 1931, which suggestions were adopted by you in the actual wording of the report?

Mr. VERHELLE. I could not say, sir, because I could not say who made the suggestions and I could not say whether they were adopted or not, and it is a difficult thing. The stockholders' report starts out in the beginning or middle of December, and I discuss it on and off and make mention of the fact that in our next report we might say this, that, or something else, and then the thing is forgotten and maybe thrown in the waste—maybe I threw 2 or 3 drafts of this in the wastebasket, revised it, and changed it.

Mr. PECORA. You have already testified that certain losses incurred during the year 1931, amounting to millions of dollars, were not set forth in this report; is that right?

Mr. VERHELLE. No, sir.

Mr. PECORA. You have not testified to that?

Mr. VERHELLE. To the best of my knowledge, I did not testify to that.

Mr. PECORA. In this report it is made to appear that the net operating income for the year 1931 was seven-odd million dollars, equal to \$4.21 a share on the outstanding shares of the capital stock; is that right?

Mr. VERHELLE. Yes, sir.

Mr. PECORA. The earnings for 1930 are stated in this report for 1931 to have been equal to \$4.14 a share; is that right?

Mr. VERHELLE. Yes, sir.

Mr. PECORA. It has been testified to here, I believe by Mr. Ballantyne, today that one reading this report would infer that the business of the company during the year 1931, as well as of its units, was more profitable than it had been during the year 1930. Do you recall such testimony?

Mr. VERHELLE. Well, not specifically those words, but I would say in substance.

Mr. PECORA. Not in those words, but in substance to that effect?

Mr. VERHELLE. I would say in substance that the operating income per share was greater in 1931 than in 1930.

Mr. PECORA. And that would cause the average reader of this report to conclude or infer that the business of the company was more profitable in 1931 than it has been in 1930, as well as the business of its business associates?

Mr. VERHELLE. I would be unable to determine what the average reader would contemplate or guess by reading that.

Mr. PECORA. What occasion was there for telling the stockholders in the report for 1931 what the earnings per share were for 1930?

Mr. VERHELLE. I don't recall.

Mr. PECORA. Whether you recall or not, can't you tell what the reason was, as you sit there with a copy of the 1931 report prepared by you before you?

Mr. VERHELLE. Well, I know what it does to the statement. It places a comparable figure against it.

Mr. PECORA. And shows higher earnings per share in 1931 than in 1930?

Mr. VERHELLE. Yes, sir.

Mr. PECORA. Yes. And wasn't that done for the express purpose of conveying the impression to the stockholders reading this report for 1931 that the company and its units in 1931 had done business more profitably than they had in 1930?

Mr. VERHELLE. My own recollection of it—and I have tried to recall—as to the purpose of the inclusion of that paragraph—

Mr. PECORA (interposing). It is not a paragraph; it is a sentence.

Mr. VERHELLE. I mean that whole sentence, and I would like to refer when I say this to not only that one sentence but the sentence preceding it, because the two must necessarily go together when speaking of comparison.

Mr. PECORA. Yes.

Mr. VERHELLE. That just preceding the circulation of this report headlines had appeared in the newspapers and in magazines to the effect that losses of 26 million dollars had been taken by the Detroit Bankers Co. A considerable amount of publicity was had in connection with the write-offs that took place, and in many cases the figures quoted were in excess of the actual amount, I believe.

In any event, we had two propositions to deal with: One was the assets and their value, and the other was the earnings. And, while it was true that we had taken large write-offs—

Mr. PECORA (interposing). Amounting to how much during the year?

Mr. VERHELLE. Oh, my offhand recollection is 23 to 26 million dollars, something like that.

Mr. PECORA. Twenty-three to twenty-six million dollars?

Mr. VERHELLE. Something like that.

Mr. PECORA. So that newspaper headlines were not at variance with the fact, were they?

Mr. VERHELLE. I remember seeing in one magazine a figure that was completely off.

Mr. PECORA. To what extent?

Mr. VERHELLE. Oh, 20 million dollars.

Mr. PECORA. What magazine was that?

Mr. VERHELLE. I don't recall that, because I have often tried to get it since.

Mr. PECORA. You haven't a copy of it now?

Mr. VERHELLE. No, I have not.

Mr. PECORA. And you don't recall the name of the magazine?

Mr. VERHELLE. No, sir.

Mr. PECORA. Do you recall the author of the article contained in the magazine?

Mr. VERHELLE. No, I do not. I just recall seeing the headline and seeing the magazine lying on someone's desk and seeing the First National write-off.

Senator COUZENS. Where did they get these figures from that they published?

Mr. VERHELLE. Well, I suppose they get some of them from brokers' offices. The majority of them were correct—the majority of them. The principal trouble was that some of them published figures prior to the time that this merger was actually announced, I think.

Senator COUZENS. So these figures showing the increased earnings in 1931 over 1930 were given for the purpose of offsetting that publicity; is that so?

Mr. VERHELLE. Not exactly; no, sir. It is anyone's guess as to what should go in an annual report.

Mr. PECORA. No, it is not a guess; it is somebody's judgment.

Mr. VERHELLE. It is somebody's judgment, different peoples' judgment, and they are all different.

Mr. PECORA. What was your judgment when you prepared this report?

Mr. VERHELLE. That this report was accurate and honest.

Mr. PECORA. And gave the stockholder who read it a true, accurate, and honest picture of the actual facts, did it?

Mr. VERHELLE. Yes.

Mr. PECORA. You are sure of that?

Mr. VERHELLE. Yes.

Mr. PECORA. And you wrote it for the purpose of giving only a true and accurate picture to the stockholder who read this report?

Mr. VERHELLE. Wrote it because an annual report had to be made, and bearing definitely in mind the depositors themselves, who were above all the first consideration.

Mr. PECORA. That does not answer my question.

Mr. VERHELLE. Then the answer to the question is no.

Mr. PECORA. Oh, then you did not intend that this report should represent a true and accurate picture?

Mr. VERHELLE. Oh, yes; absolutely.

Mr. PECORA. You just said the answer was no.

Mr. VERHELLE. I did not understand that to be your question.

Mr. PECORA. When you wrote this report did you phrase it in a manner calculated and intended to give the stockholders of the Detroit Bankers Co. a true and accurate picture?

Mr. VERHELLE. Yes, sir.

Mr. PECORA. In giving them that true and accurate picture you intended also that the picture should be complete in order to be true and accurate, didn't you?

Mr. VERHELLE. As to its completeness, I intended to make it as complete and full as practical, because to make a complete report would involve many more pages than this, and when you get all through with that type of a complete report you generally have nothing at all, because figures themselves do not mean very much.

Mr. PECORA. So that a complete report means nothing at all, but an incomplete report means everything—is that your logic?

Mr. VERHELLE. No. I say that it would be impossible almost. It would for me, anyway.

Mr. PECORA. But was it your intention, in preparing this annual report for the stockholders of the Detroit Bankers Co. for the year

1931, to give those stockholders not only a true and accurate report but a completely true and accurate report?

Mr. VERHELLE. I believe it was.

Mr. PECORA. In other words, did you intend that the stockholders should know the truth and the whole truth about the condition of the company at the end of the year 1931?

Mr. VERHELLE. I believe it was; yes, sir.

Mr. PECORA. Now, you have said that there had been write-offs made during the year amounting to approximately 26 million dollars, have you not?

Mr. VERHELLE. Twenty-three to twenty-six.

Mr. PECORA. Twenty-three to twenty-six. I will take the lower figure, 23 million dollars. I will give the 3 million dollars edge. Wasn't it important in your opinion for the stockholders in the company to know that?

Mr. VERHELLE. We had already indicated it.

Mr. PECORA. In what?

Mr. VERHELLE. By quoting to them in this stockholders' letter of which I gave you a copy, that by giving the new invested capital of the bank, and also by indicating in there that substantial charge-offs were being made during the current year, and furthermore no stockholder can possibly analyze any kind of a statement without making a comparison. A statement is not complete unless it consists of three separate things, and unless they are all there, why—

Mr. PECORA. Show me in this letter marked "Exhibit No. 13", which is the letter you refer to in the answer you have just made, anything at all which tells the stockholders a single word concerning the write-off of 23 million dollars during the year 1931.

Mr. VERHELLE. Not about the 23 million, sir. I cannot do that.

Mr. PECORA. Why did you say, in answer to my question, that the reason the statement concerning that 23 million dollar write-off was not embodied in the annual report was because it had already been given in that letter?

Mr. VERHELLE. Well, I should have said in the newspapers, I presume.

Mr. PECORA. Oh, you should have said in the newspapers. Were you depending on the newspapers to make the annual report to your stockholders?

Mr. VERHELLE. I took it into consideration, sir.

Mr. PECORA. What?

Mr. VERHELLE. What the newspapers had already written up.

Mr. PECORA. You told us a few minutes ago that you were desirous of avoiding implications that arose from the newspaper headlines and from these magazine articles.

Mr. VERHELLE. The newspapers were able to figure out the exact amount after that letter went out.

Mr. PECORA. Were they?

Mr. VERHELLE. Yes, sir.

Mr. PECORA. After this letter, exhibit 13, went out?

Mr. VERHELLE. Yes, sir.

Mr. PECORA. The newspapers were able to figure out the amount of write-offs of at least 23 million dollars?

Mr. VERHELLE. Well, I don't recall the amount which they figured out at that particular time, because I don't believe that—

Mr. PECORA (interposing). You are an accountant, are you not?

Mr. VERHELLE. No, sir.

Mr. PECORA. You understand accountancy?

Mr. VERHELLE. Yes, sir.

Mr. PECORA. You have had technical education in accountancy?

Mr. VERHELLE. Yes, sir.

Mr. PECORA. All right. Will you take that letter and tell me from any statement contained in it the amount of write-offs you could deduce had been made by the Detroit Bankers Co. and its units?

Mr. VERHELLE. The first thing I would do would be to say here the new bank will have a capital of 25 million, a surplus of 25 million, and undivided profits in excess of 7 million, and would immediately proceed to obtain a statement of these two institutions prior to this consolidation.

Mr. PECORA. Oh, you would get something other than what is shown in that letter?

Mr. VERHELLE. Yes, sir.

Mr. PECORA. What do you intend that your stockholders should do when they get your annual report; send for a lot of other data and make a study and comparison of the annual report with some other data? Is that what you intended the stockholders should do in order to acquaint themselves with the full and complete situation?

Mr. VERHELLE. No, sir. I expected the stockholders to go to their files and pick out the last report and compare this one with the last one.

Mr. PECORA. That is what you expected the stockholders to do?

Mr. VERHELLE. That is what the stockholder normally does, I believe.

Mr. PECORA. Suppose a stockholder did not have a copy of the annual report for the preceding year because he had not been a stockholder during the preceding year; what was that stockholder to do?

Mr. VERHELLE. He could get a copy, sir.

Mr. PECORA. Well, were these reports prepared with that in mind?

Mr. VERHELLE. I believe that all stockholders—

Mr. PECORA (interposing). Were your reports prepared with that in mind?

Mr. VERHELLE. Oh, yes. We took that into consideration.

Mr. PECORA. In other words, that report would not give the stockholder a complete and full picture of the condition of the company for the year in which the report was made in and by itself?

Mr. VERHELLE. No, sir; not with that in mind, not having in mind that it would not give a complete statement, but knowing that no stockholders' statement, unless it contained comparative statement of condition over a period of time, together with profit-and-loss statements, together with a reconciliation of the invested capital structure, gives a complete statement of condition. On top of that there is needed and necessary, in order to analyze the statements themselves, complete data regarding the particular assets.

Mr. PECORA. There is needed what?

Mr. VERHELLE. There is needed knowledge or information regarding the assets themselves behind the actual figures. I mean all of

those things have to be known in order to be able to determine indefinitely what the entire situation is.

Mr. PECORA. Then for a stockholder to get the knowledge of the whole picture from these annual reports he would have to be an accountant or understand accountancy, would he not?

Mr. VERHELLE. To get the—

Mr. PECORA. To get the whole picture.

Mr. VERHELLE. Well, "the whole picture" is an indefinite article.

Mr. PECORA. To get the whole picture concerning the condition of his company as the picture was represented to him by the annual report?

Mr. VERHELLE. I doubt if even a certified public accountant could take the average stockholders' report or group of reports and arrive at any definite conclusion as to the true picture or the whole picture of any corporation, because I think it would be rather difficult to set up such a report.

Mr. PECORA. It was the known fact, that is, known to you, that during the year 1931 the Detroit Bankers Co. and its units had written off at least 23 million dollars?

Mr. VERHELLE. Yes, sir.

Mr. PECORA. Why could not a simple sentence stating that be included in the annual report to the stockholders? Is there any physical reason why it could not be included in there?

Mr. VERHELLE. No physical reasons.

Mr. PECORA. Why wasn't it included then?

Mr. VERHELLE. There are quite a number of reasons why it would not have been advisable to include it. In fact, I doubt if—

Mr. PECORA (interposing). Let us take the reasons in order. You say there are quite a number. Let us number them. Reason 1 is what?

Mr. VERHELLE. Reason no. 1 is that indication had already been given that there were reductions in the—

Mr. PECORA (interposing). Are you now referring to indications in this letter marked "Exhibit No. 13"?

Mr. VERHELLE. That is no. 1, sir.

Mr. PECORA. Show me what write-off is indicated by that letter.

Mr. VERHELLE. I have to have the other report in order to do it.

Mr. PECORA. Show me the write-off indicated by that letter, can you?

Mr. VERHELLE. It indicates that there is a write-off.

Mr. PECORA. Show me the amount of the write-off, if there is one, indicated by that letter.

Mr. VERHELLE. I cannot by just that letter.

Mr. PECORA. All right; now give reason No. 2.

Mr. VERHELLE. I probably do not understand the question. May I have the question?

Mr. PECORA. You answered it before.

Mr. VERHELLE. Well, that is not the reason.

Mr. PECORA. You said there are a number of reasons why the simple statement was not inserted or included in the report to the stockholders for the year 1931 to the effect that during that year the company and its units had made write-offs of \$23,000,000.

Mr. VERHELLE. And that was my reason No. 1.

Mr. PECORA. That was reason No. 1. Reason No. 1 is this letter marked "Exhibit No. 13." Now, what is reason No. 2?

Mr. VERHELLE. Reason No. 2 was newspaper articles that appeared indicating not only the fact that the write-off had taken place but, furthermore, the amount of the write-off. Reason No. 3—

Mr. PECORA (interposing). Wait; let us not leave that reason No. 2 so quickly. Did those newspaper articles appear before or after the issuance of the annual report to the stockholders for the year 1931?

Mr. VERHELLE. Before, sir.

Mr. PECORA. Before?

Mr. VERHELLE. Yes, sir.

Mr. PECORA. Could you produce any of those newspaper articles?

Mr. VERHELLE. I can get some here quickly.

Mr. PECORA. I wish you would.

Mr. VERHELLE. I will do that. I will have them here tomorrow, I think.

Mr. PECORA. Thank you. I am going to assume that those newspaper articles were published prior to the sending out of this annual report marked "Exhibit No. 9."

Mr. VERHELLE. Yes, sir.

Mr. PECORA. You want the committee to understand that that was one of the reasons why you did not include any mention of the write-off of twenty-three-million-odd dollars in the annual report of 1931?

Mr. VERHELLE. That is one of the reasons.

Mr. PECORA. One of the reasons was that the newspapers had already given that information?

Mr. VERHELLE. Yes, sir.

Mr. PECORA. And you were willing to have the stockholders informed by newspaper articles rather than by the report of the company about that?

Mr. VERHELLE. It was perfectly satisfactory as long as they had already done it. There was no particular reason why it should be included again. There was nothing to be gained by it for depositors.

Mr. PECORA. Nothing to be gained other than the certainty that the knowledge would be acquired by the stockholder, isn't that so, and that the stockholder got it under the authority of the executive officer of his company?

Mr. VERHELLE. Oh, he has it under the authority through the fact that he has and can get two separate statements that indicate that particular reduction. He can get it on the authority of the company itself very easily.

Mr. PECORA. He can?

Mr. VERHELLE. By just getting those two statements. They are available to him and he can obtain them.

Senator COUZENS. What two statements?

Mr. VERHELLE. The preceding and last statement, a comparison of the invested capital in the two statements indicating the amount of the reduction.

Mr. PECORA. And you think every stockholder knows that?

Mr. VERHELLE. Well, every stockholder can get a copy of the report.

Mr. PECORA. You think every stockholder knows that, do you?

Mr. VERHELLE. Well, I would not venture to say as to what stockholders know.

Mr. PECORA. Now give reason No. 3.

Mr. VERHELLE. Reason No. 3 was that Governor Meyer, of the Federal Reserve Board, at Washington had indicated to one of our officers that this drastic thing which we were doing, this—

Mr. PECORA (interposing). Be more specific. What drastic thing?

Mr. VERHELLE. The making of this large write-off—

Mr. PECORA. Yes.

Mr. VERHELLE. Should be handled with the greatest of care. It should be borne in mind, of course, that up to that time none of the large institutions anywhere in the country had made such comparatively large write-offs, and this particular one was leading the way to a number of others throughout the country, and it indicated that it could be done without causing serious trouble.

Mr. PECORA. Do you mean by that that Governor Meyer—you mean Eugene Meyer?

Mr. VERHELLE. Yes, sir.

Mr. PECORA. Then of the Federal Reserve Board—had indicated to one of the officers of your company that he knew of this what you call a "drastic" thing, consisting of this write-off of approximately \$23,000,000 or more?

Mr. VERHELLE. Oh, he was consulted, sir.

Mr. PECORA. He was consulted—by whom?

Mr. VERHELLE. By Mr. Mark Wilson.

Mr. PECORA. And is that the officer to whom he indicated his ideas in the matter?

Mr. VERHELLE. Yes, sir.

Mr. PECORA. Do you want the committee to understand that Governor Meyer had indicated to Mr. Mark Wilson that the Detroit Bankers Co., in preparing and issuing to its stockholders its annual report for the year 1931, should use care to conceal from them by any statement contained in the report itself or the absence of any statement in the report the fact that this drastic write-off had been made?

Mr. VERHELLE. Not at all, sir.

Mr. PECORA. What do you mean to indicate when you advance that as your third reason?

Mr. VERHELLE. I mean to indicate that at the time this write-off took place the pace was being set for various institutions throughout the country, in that practically none of them had done anything of the sort, and that we felt a bit worried as to how the public would take to such a large write-off. Since then, of course, a number of them have been made, but at that time we had no experience to rely upon, and therefore we consulted numerous individuals, I presume, who may have shed some light on the subject.

Mr. PECORA. Who were those individuals that you consulted?

Mr. VERHELLE. I said "we", sir. And I mentioned Governor Meyer, and I am trying now to explain what Governor Meyer said, that he did not say that we should publish a false report or anything of that sort, but he indicated in this conference that he would recommend going ahead and writing down these assets, providing that caution was used in the connection with the publicity in connection with it.

Mr. PECORA. Was that construed by you as meaning that no publicity should be given to the fact of such write-off to the stockholders of the company?

Mr. VERHELLE. Oh, there was publicity.

Mr. PECORA. Was that construed by you as meaning that no publicity in the annual report to the stockholders should be given to the fact of this write-off?

Mr. VERHELLE. I indicated that as one of the reasons that would come to my mind now—there are probably others—as to the factors that would have entered into a consideration of whether or not that figure should have been quoted in the stockholders' report.

Senator COUZENS. And yet you said when that report was issued it had all been published in the press about these large write-offs?

Mr. VERHELLE. Yes.

Mr. PECORA. What was there to worry about if it had already been published?

Mr. VERHELLE. Why continuously dwell upon it?

Senator COUZENS. The committee will adjourn until 10 o'clock tomorrow morning.

Mr. PECORA. You return then, Mr. Verhelle, and Mr. Ballantyne too, and the other witnesses under subpoena report.

(Whereupon, at 4:25 p.m., the committee adjourned until 10 a.m. of the following day.)

