STOCK EXCHANGE PRACTICES

HEARINGS

BEFORE THE

COMMITTEE ON BANKING AND CURRENCY
UNITED STATES SENATE

SEVENTY-THIRD CONGRESS

SECOND SESSION

ON

S.Res. 84

(72d CONGRESS)

A RESOLUTION TO INVESTIGATE PRACTICES OF STOCK EXCHANGES WITH RESPECT TO THE BUYING AND SELLING AND THE BORROWING AND LENDING OF LISTED SECURITIES

AND

S.Res. 56 and S.Res. 97

(73d CONGRESS)

RESOLUTIONS TO INVESTIGATE THE MATTER OF BANKING OPERATIONS AND PRACTICES, TRANSACTIONS RELATING TO ANY SALE, EXCHANGE, PURCHASE, ACQUISITION, BORROWING, LENDING, FINANCING, ISSUING, DISTRIBUTING, OR OTHER DISPOSITION OF, OR DEALING IN, SECURITIES OR CREDIT BY ANY PERSON OR FIRM, PARTNERSHIP, COMPANY, ASSOCIATION, CORPORATION, OR OTHER ENTITY, WITH A VIEW TO RECOMMENDING NECESSARY LEGISLATION, UNDER THE TAXING POWER OR OTHER FEDERAL POWERS

PART 12

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FEBRUARY 2 TO FEBRUARY 9, 1934

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STOCK EXCHANGE PRACTICES

FRIDAY, FEBRUARY 2, 1934

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

The subcommittee met at 10:30 a.m., pursuant to adjournment on yesterday, in room no. 301 of the Senate Office Building, Senator Duncan U. Fletcher presiding.

Present: Senators Fletcher (chairman), 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.

Senator COUZENS (presiding). The chairman, Senator Fletcher, is attending a meeting of the Home Loan Bank Board this morning, and has asked me to preside until he gets through with the other meeting.

TESTIMONY OF JAMES O. MURFIN—Resumed

Mr. PECORA. Judge Murfin, will you resume the stand? For the purpose of refreshing my recollection, Judge Murfin, will you be good enough to tell me when you first became a director of the First National Bank in Detroit?

Mr. MURFIN. When it merged with the Peoples' Wayne County Bank.

Mr. PECORA. That was on December 31, 1931, wasn't it?

Mr. MURFIN. Yes.

Mr. PECORA. Prior to that time had you had any connection with the First National Bank in Detroit?

Mr. MURFIN. None.

Mr. PECORA. Were you, after you became a member of the board of directors of that bank, a member of any special committees of the board?

Mr. MURFIN. I served several times as a member of the executive committee. And I was on a special claims committee, that met every Tuesday afternoon to consider past-due accounts.

Mr. PECORA. How was the executive committee of the board constituted?

Mr. MURFIN. The executive officers and a chosen list of directors that were appointed by Mr. Mills, the chairman of the board; and they more or less rotated. But they did not rotate with any degree of accuracy. The board was very large, consisting, I think, of nearly 90 members, and the chairman chose such members of the

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whole board as he wished to serve on the executive committee. I think there were either 7 or 9 directors that served on the executive committee, and the executive officers of the bank.

Mr. PECORA. And in this rotating process of service, how long did a director appointed to the executive committee serve on the executive committee?

Mr. MURFIN. Mr. Pecora, that was changed several times. I think last year, if my memory is correct, they served for 2 or 3 months at a clip. Prior to that time they served a month at a time.

Mr. PECORA. Was there a governing committee of the board?

Mr. MURFIN. There was.

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

Mr. MURFIN. I was not. The governing committee was a permanent committee.

Mr. PECORA. That was a standing committee?

Mr. MURFIN. That was a standing committee; yes.

Mr. PECORA. And its members were appointed by the chairman, or were they elected by the board?

Mr. MURFIN. Well, sir, I don't recall. I think—well, I just don't recall.

Mr. PECORA. What were the essential functions of the governing committee of the board?

Mr. MURFIN. They ran the bank.

Mr. PECORA. They ran the bank?

Mr. MURFIN. Yes.

Mr. PECORA. Was the chairman of the board the chairman of the governing committee as well, either ex officio or by virtue of any provision of the bylaws?

Mr. MURFIN. At one time I know he was not, but whether he did so serve when Mr. Mills became chairman of the board I am not sure. I was never on that committee, never on that board, I mean, and I am not certain enough to answer that question.

Mr. PECORA. Did any of the members of the governing committee receive salaries for serving as such?

Mr. MURFIN. No. They received directors' fees, as I understand, at each meeting.

Mr. PECORA. Do you know how frequently the members of the governing committee met officially?

Mr. MURFIN. No; I do not. Mr. Mills can tell you all those things. I don't know. The executive committee met every other day.

Mr. PECORA. Was the governing committee the managing power of the bank from the time when you first became a member of the board of directors?

Mr. MURFIN. It was.

Mr. PECORA. And it continued to serve in that way?

Mr. MURFIN. It did.

Mr. PECORA. Do you know whether any amendment of the bylaws of the bank corporation was specially made in order to equip the governing committee with the power to run the bank, which you say it had?

Mr. MURFIN. I so understood, but I have no detailed knowledge of it. I know that that was the plan, that the governing committee was to have primary charge of questions of policy, and it ran the bank.

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Mr. PECORA. Did that plan become effective before you became a member of the board of the bank or afterward?

Mr. MURFIN. I think it was part of the original set-up, Mr. Pecora, when the two banks merged.

Mr. PECORA. That would, then, be coincidental with your becoming director of the consolidated bank?

Mr. MURFIN. Yes.

Mr. PECORA. Do you recall what change was made in the bylaws at that time which was designed to give the governing committee the power of management which you say it had?

Mr. MURFIN. I do not. Mr. Long is in the room, and he drew what changes there were in the bylaws, and he could tell you all about that. I know almost nothing about it.

Mr. PECORA. Well, was the change in the bylaws made by the board of directors?

Mr. MURFIN. I think—well, now, I am quite certain, that this governing committee was set up as a part of the original organization when those two banks came together.

Mr. PECORA. How frequently did the board of directors of the bank meet after you became a member?

Mr. MURFIN. Every month.

Mr. PECORA. That is, once a month?

Mr. MURFIN. Once a month.

Mr. PECORA. And were those monthly meetings held continuously throughout the year 1932 and up to the time that the receiver was appointed for the bank?

Mr. MURFIN. They were.

Mr. PECORA. Do you know how frequently the governing committee met?

Mr. MURFIN. No; I do not.

Mr. PECORA. Was it the routine procedure for the governing committee to make written reports to the board at the monthly meetings of the board?

Mr. MURFIN. Correct. Before each director there was placed this typewritten—well, very substantial portfolio it was, in which was disclosed what the governing committee had done, and the action of the executive committee.

Mr. PECORA. Those statements or reports were left in the board room by the directors, I presume?

Mr. MURFIN. That is true.

Mr. PECORA. They did not take them away with them?

Mr. MURFIN. We were requested not to take them away with us.

Mr. PECORA. Now, you gave some testimony with respect to the bank, its condition, and other things relating to the bank, before the so-called "one-man grand jury" in Detroit last summer, didn't you, Judge Murfin?

Mr. MURFIN. I was a witness; yes, sir.

Mr. PECORA. You testified at that time, I presume, of your own volition?

Mr. MURFIN. The prosecuting attorney sent for me. I did not wait to be escorted over by the sheriff, but a young man in the prosecutor's office came and asked me to come and testify. And it came like that (snapping thumb and forefinger), and he did not give me 5 minutes, and I just went over there.

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Mr. PECORA. Hadn't you expected to be called as a witness up to the time you were requested to appear?

Mr. MURFIN. I had not.

Mr. PECORA. Had you indicated your desire to testify prior to the time when you were called?

Mr. MURFIN. Quite the contrary. I did not know why I was called there, or why I was called here. The contrary was that many officers and executives knew a hundred times as much about it as I did.

Senator COUZENS. Judge Murfin, I can tell you why you were called here. It was because at the time you were called here we did not have the committee's report on the examination of Mr. Verhelle's private and confidential report.

Mr. MURFIN. That is what Mr. Pecora told me on yesterday.

Mr. PECORA. Judge Murfin, were you during the year 1931, or, rather, during the year 1932 and up to the time that the receiver for the bank was appointed—which, I believe, was in March 1933, wasn't it?

Mr. MURFIN. The receiver was appointed in May. The conservator went in in March.

Mr. PECORA. Had you kept yourself currently posted as to the condition of the affairs of the bank?

Mr. MURFIN. I did, except for the year 1932, when I had this attack of phlebitis, which laid me up the last week in May and I did not get down but 1 hour until January.

Mr. PECORA. Until the following January, in 1933?

Mr. MURFIN. Yes.

Mr. PECORA. Do you recall the general substance of the testimony you gave in that so-called "one-man grand jury" proceeding last year?

Mr. MURFIN. Oh, I recall it in general. I was mad, and lost my temper, as one often does in such a case, and was sorry that I did.

Mr. PECORA. Well, there was no one there bully-ragging you to cause you to lose your temper, was there?

Mr. MURFIN. No. I was not bully-ragged at all. I did the bully-ragging on my own account.

Mr. PECORA. I have had the pleasure of reading the testimony you gave before that one-man grand jury within the last 24 hours, and I could not see anything in the line of questioning to which you were subjected that would ordinarily cause a witness to lose his temper.

Mr. MURFIN. Well——

Mr. PECORA (continuing). Was your loss of temper due to any instance that you can recall?

Mr. MURFIN. I do not know that this is a proper inquiry for this committee, is it?

Mr. PECORA. Well——

Mr. MURFIN (resuming). I might say——

Mr. PECORA (continuing). If you do not want to answer the question, I will not press it.

Mr. MURFIN. During this period of the one-man grand jury the city of Detroit was agog with talk and gossip and recriminations and calling of names, and there was a spirit of controversy wherever one went. You could go to your club and you heard nothing else than

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something of this kind: Why did he say that? Why didn't he say the other? The town was seething. I do not believe it would be profitable to stir up things that should not be stirred up.

Mr. PECORA. Well, do you think the subject matter of the testimony which you gave in that one-man grand jury proceeding is something wholly unrelated to the purpose of this inquiry?

Mr. MURFIN. I would think so. This inquiry is only justified on the ground that you are eliciting information in aid of framing legislation. And what a poor bank director said last July would not aid you in framing any legislation.

Mr. PECORA. Well, in order that anybody may properly and appropriately frame legislation, it would be advisable to have a factual basis, wouldn't it?

Mr. MURFIN. Correct.

Mr. PECORA. And this committee, as you undoubtedly know, is charged with the mission of inquiring into banking customs and practices generally. You know that, don't you, Judge Murfin?

Mr. MURFIN. I suppose so.

Mr. PECORA. Now, the one-man grand jury proceeding to which reference has been made was a proceeding that had to do with banking conditions in the city of Detroit, and throughout the State of Michigan generally, in recent times.

Mr. MURFIN. The 1-man grand jury in Detroit was supposed to inquire into the causes for the closing of the Detroit banks and why they could not get them reopened.

Mr. PECORA. Who initiated that proceeding?

Mr. MURFIN. Oh! There was more or less quite a clamor about it, and some of the newspapers took it up, and finally, after some considerable newspaper agitation, the attorney general of the State came in and asked for a grand jury. Then there was a colloquy as to whether it would be a secret grand jury or an open grand jury, or as to whether they could have an open grand jury; and they monkeyed around about it and decided to have this 1-man grand jury; and about this time the prosecuting attorney stepped into the picture, and I think the general feeling in Detroit, if I may use a colloquialism, was that he stole the show from the attorney general. It was quite a circus. It gaves the newspapers copy and it kept the town stirred and kept the people irritated, and what was said and done there would not help here.

Mr. PECORA. Do you know what prompted the attorney general to initiate the proceeding? Was it, for instance, by reason of any request made of him to do so by the bank or by any of the officers or directors of the bank?

Mr. MURFIN. I am quite sure it did not come from the bank or any of the officers or directors of the bank. I am quite sure it was because of the public clamor, superinduced by the newspapers fanning the flames. I am quite certain it was not brought about by any request of any bank or the officers of any banks.

Mr. PECORA. Do you recall having given expression to opinions about different matters you were questioned about in that one-man grand jury proceeding?

Mr. MURFIN. I do not recall what you mean as I have not read a lot of the testimony. I don't think I even had a copy of it. I may

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have a copy of it at home, I don't know, but I haven't seen it since. If you had read it within the last 24 hours you know more about what I said than I do.

Mr. PECORA. I simply asked you if you recalled having expressed any opinions that were stated by you in the course of your examination.

Mr. MURFIN. Oh, yes. I expressed several opinions.

Mr. PECORA. And do you adhere to those opinions today, or have you had any occasion to revise them in any way?

Mr. MURFIN. If you will ask me about the particular opinion you want to know about I will answer.

Mr. PECORA. Can't you tell me generally whether or not the opinions you entertained when you testified before that one-man grand jury proceeding, are the opinions that you have today on those subjects?

Mr. MURFIN. Insofar as my testimony went affecting the solvency of the bank on the 14th of February 1933, I am still firmly of the opinion that the bank was thoroughly solvent and should have been allowed to go on in business. I haven't changed my mind on that question one particle.

Mr. PECORA. Have you made a study of the condition of the bank upon which you based that opinion?

Mr. MURFIN. I thought at the time I knew something about it. Since that time we have had no access whatever to a single document, not one.

Mr. PECORA. Well, haven't you——

Mr. MURFIN (continuing). In fact, the Comptroller of the Currency refused to let Mr. Leyburn even talk to me.

Mr. PECORA. Had you made prior to the time when you testified in that 1-man grand-jury proceeding a study of the bank's condition and situation of affairs upon which you based the opinion that you then testified to and which you have repeated here?

Mr. MURFIN. If you mean going through with an auditor or accountant, no. But I thought I knew the condition of the bank. I thought my service on the executive committee gave me a general idea as to its situation. I had these reports from time to time at committee meetings, from the various officers, which reports I believed. I had been shown in the early part of January, and I have forgotten whether it was by Mr. Sweeny or by Mr. Mills, a statement showing that the bank had earned over $6,000,000 the preceding year.

Mr. PECORA. That is, in the year 1932?

Mr. MURFIN. Yes, sir.

Mr. PECORA. Yes. Go ahead.

Mr. MURFIN. I knew of the very large charge-offs that had been made. I had been informed, but I was not present at the meeting, that the Comptroller asked for a charge-off of $6,000,000, I think in December, and that it was immediately made. I knew that very large charge-offs had been made. I knew that the past dues had ceased to accumulate. They accumulated, irrespective, for a while, but I knew they had ceased to accumulate. I thought we were getting it licked, I mean the past-due paper. I knew of the economies in operation that had been made; and I knew that——

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Mr. PECORA (interposing). Well—but go ahead. I beg your pardon.

Mr. MURFIN (continuing). And I knew of the situation in that general way. That is what I predicated my opinion on.

Mr. PECORA. All economies in operation would be reflected in the earnings.

Mr. MURFIN. Yes, sir.

Mr. PECORA. You said you had been told in January of 1933 by Mr. Mills——

Mr. MURFIN (interposing). Or by Mr. Sweeny, and I am not sure which.

Mr. PECORA (continuing). Or by Mr. Sweeny, who were then, respectively, chairman of the board and president of the bank.

Mr. MURFIN. Right.

Mr. PECORA. Of the bank having had earnings in excess of $6,000,000 during the preceding year.

Mr. MURFIN. Right.

Mr. PECORA. Were you told what the charge-offs were that were made in that year?

Mr. MURFIN. I knew at the time; yes.

Mr. PECORA. What were they?

Mr. MURFIN. Oh! I don't remember now, Mr. Pecora. And I will say that I have the poorest memory for figures and details you can imagine. I just hate details.

Mr. PECORA. Well, you seem to recall at least the figures relating to earnings that were reported to you for the year.

Mr. MURFIN. That is true.

Mr. PECORA. Well, now, I wonder why you do not recall the amount of the charge-offs that were reported to you as having been made during the year.

Mr. MURFIN. The psychology of the question probably is that the earnings pleased me more than the charge-offs, and that is the reason why I remember them better. I do not know, but that is just a guess.

Mr. PECORA. What is your best guess about that?

Mr. MURFIN. The charge-offs were very, very large.

Mr. PECORA. What is your best guess as to the amount of them?

Mr. MURFIN. Oh! I don't remember. I think it was—Oh! It seems to me it was 20-odd million dollars, but that is a guess. You have asked me to guess and I have guessed.

Mr. PECORA. Was it your opinion that the bank was in better condition at the end of the year 1932 than it was at the end of the year 1931?

Mr. MURFIN. Correct. And that was the opinion of our executive officers. And that opinion was frequently expressed as they were winding up the business. You see, I had been out of touch with everything for many months, and I went down and spent one afternoon, and I asked a lot of questions, and that was the general opinion around the bank, that she was going along in better shape.

Senator COUZENS. That was in January of 1933?

Mr. MURFIN. Yes.

Mr. PECORA. Did you know, then, or do you know now, what was the aggregate capital, surplus, and undivided profits of the bank at

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the time of the consolidation on December 31, 1931, and what those figures were at the end of the year 1932?

Mr. MURFIN. No. The capital was $25,000,000, and I know that the surplus and undivided profits had been cut into frightfully. Yes, they had been cut into frightfully.

Mr. PECORA. In the year 1932?

Mr. MURFIN. Yes, sir.

Mr. PECORA. And the surplus had been greatly reduced.

Mr. MURFIN. That is correct.

Mr. PECORA. Does that indicate a better condition?

Mr. MURFIN. Why, it indicates that you are cleaning house; yes.

Mr. PECORA. Does it indicate that the bank was in better position financially at the end of the year 1932 than it was the year before that?

Mr. MURFIN. I think so; yes, sir. Do you want me to tell you why?

Mr. PECORA. I haven't any objection to your telling us why.

Mr. MURFIN. Well, if you want my opinion, a lot of those bad loans that have been criticized were old weather-beaten loans——

Mr. PECORA (interposing). Now, which loans do you refer to?

Mr. MURFIN. Oh, the loans you have been criticizing here, a number of them.

Mr. PECORA. What loans have I been criticizing here?

Mr. MURFIN. Officers' loans, for example.

Mr. PECORA. What loans have I been criticizing?

Mr. MURFIN. Officers' loans, I have heard you criticize.

Mr. PECORA. I haven't criticized anything. I have merely put into the record criticisms which were criticisms that were made, for instance, by bank examiners.

Mr. MURFIN. Well, perhaps the form of your questions made me think you were critical of them.

Mr. PECORA. I am merely attempting to elicit the facts, Judge Murfin.

Mr. MURFIN. Well, I am trying to help you.

Mr. PECORA. All right.

Mr. MURFIN. But I wish you wouldn't ask me to guess so much.

Mr. PECORA. Well, unfortunately, I have to ask you to guess where you cannot give us anything better than a guess. I wish you to give us exact knowledge if you possess it.

Mr. MURFIN. Well, there are so many men better qualified to give you those facts than I am.

Mr. PECORA. Who, for instance, would you recommend as better qualified than you?

Mr. MURFIN. Mr. Mills, Mr. Bodde, Mr. Chittenden, Mr. Sweeny, Mr. McGonegal, Mr. Pipper. And Mr. Mark Wilson, sitting over there, knows more about it than almost anybody.

Mr. PECORA. Mr. Mark Wilson is going to testify. He has been subpenaed here for that purpose.

Mr. MURFIN. He will tell you the truth, and he is a marvelous man, being a master of details, while I hate details, and he was an expert on that matter and was charged with that duty. He can tell you as much about it as anybody I know.

Mr. PECORA. Would you depend on Mr. Wilson's testimony as to the facts?

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Mr. MURFIN. I would believe anything that Mr. Wilson said; and I think anybody who knows him would do likewise. He stands very high.

Mr. PECORA. Mr. Mark Wilson is going to be put on the stand. And so will Mr. Mills, and so would Mr. Sweeny if he were able to be here. And if Mr. Bodde wants to come here the stand will be open to him.

Mr. MURFIN. I do not think, Mr. Pecora, that anybody wants to come here. [Laughter.] Have the newspaper boys told you the description of this hearing in Detroit?

Mr. PECORA. What is that?

Mr. MURFIN. In Detroit there is going about the expression, in connection with this committee's hearings, that all of the Detroit bankers have angina Pecora. [Laughter.] That indicates that they do not want to come here.

Mr. PECORA. Why, Judge Murfin, there are some people who have been collecting royalties on that wisecrack for about 8 months.

Mr. MURFIN. Well, it only reached Detroit when you got there.

Mr. PECORA. Did you ever, either as a member of the board of directors of the bank or in any other capacity, discuss with any of the other directors, or with any of the officers of the bank, reports of examinations of the bank made during the years 1931 and 1932 by national bank examiners?

Mr. MURFIN. I discussed with several directors, and with Mr. Sweeney and Mr. Mills, the report that Mr. Leyburn made in December of 1932 of the examination that he started in November of that same year.

Mr. PECORA. Do you recall that I read into the record, during the process of examining Mr. Stair on yesterday, many remarks, comments, and criticisms embodied in that particular report?

Mr. MURFIN. You told Mr. Stair you were reading from the yellow sheets. We never saw those. Those reports that came to Washington we haven't seen yet.

Mr. PECORA. I am referring to the report that was a part of the report mentioned.

Mr. MURFIN. Well, the situation is that there were two reports, one report that the bank got, and one report that we never saw, and haven't seen yet.

Mr. PECORA. You know that the examiners make reports to the Comptroller of the Currency after making examinations of banks, and that all these reports have included so-called "confidential criticisms" that are designed for the information and guidance of the Comptroller.

Mr. MURFIN. There was not a person connected with the First National Bank who ever heard of that practice until Senator Couzens testified on the subject before the Detroit grand jury, and then it came to Mr. Sweeny, Mr. Mills, and all of us as a distinct shock that the examiner should give the Comptroller one report and give the bank another report. I am shocked at that yet.

Mr. PECORA. Why, Judge Murfin, do not you know that the report given to the Comptroller of the Currency includes the report given to the directors of the bank, plus this so-called "confidential criticism or comment"?

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Mr. MURFIN. All that I know about the report given to the Comptroller is what was brought out by Senator Couzens' testimony before the Keidan grand jury, and what you read to Mr. Stair here yesterday. Now, that is all that I know about it.

Mr. PECORA. Have you been under the impression all these years that the report made to the Comptroller of the Currency by national bank examiners consisted merely of what you have referred to as these yellow sheets?

Mr. MURFIN. I assumed that the report of the examination of the bank, which was given to the directors for their information and action, was the same as is given to the Comptroller.

Senator COUZENS. It is the same so far as figures are concerned, and so far as loans are concerned. The only difference is the comments which the examiners make to the Comptroller of the Currency, which the examiner does not put in writing to the directors, although the reports themselves frequently state that they have discussed these matters with the executive board or committee without putting them into the written report.

Mr. MURFIN. Well, that is all news to me. I never knew that before. Of course, what the Comptroller of the Currency has I know nothing about.

Senator COUZENS. The Comptroller of the Currency has only the same figures that you have, so far as figures are concerned. He has no different set of figures.

Mr. PECORA. In other words, Judge Murfin, every report of examination given to a bank by the bank examiner is also given to the Comptroller of the Currency, plus the so-called "confidential criticisms or comments."

Mr. MURFIN. The "plus" part is all news to me, Mr. Pecora. I never knew there was any plus about it. And I might say that I went to these expert bankers—and I am not a banker, you understand—I went to Sweeny, I went to Bodde, I went to Livingstone, and asked nearly all of them about it, and they had never heard of such a thing.

Mr. PECORA. I do not quite understand their ignorance as to the practice. It has been well known for years in New York anyway. I do not know about Detroit.

Mr. MURFIN. I am just telling you what little I know.

Mr. PECORA. Let me read to you, Judge, the following from the general remarks——

Mr. MURFIN. Is this from the report to the directors or the report to the Comptroller?

Mr. PECORA. The report to the Comptroller of the Currency by the national-bank examiner of his examination of your bank, made as of the 18th day of November 1932, which, as I understand, it was the last examination made prior to the closing of the bank in February 1933.

Mr. MURFIN. That is my understanding.

Mr. PECORA. The remarks in this report are as follows [reading]:

To comment on the assets of this bank, one must dwell almost wholly in the past, as practically no recent loans are being made which are subject to criticism. The present picture portrays an effort to collect loans representing speculation in the nth degree at a time of evanescent security and no market——

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Mr. MURFIN. Of what?

Senator COUZENS. Evanescent security.

Mr. PECORA. Evanescent security.

Mr. MURFIN. What kind of security is that? What kind of security do you mean by that? I know what "evanescent" means. I never heard of an evanescent security.

Mr. PECORA. A security which, I suppose, vanishes gradually until it almost disappears.

Mr. MURFIN. I am familiar with that.

Mr. PECORA. The ordinary meaning of the term "evanescent", I take it, applied to security here means what I indicated.

Mr. MURFIN. I get you.

Mr. PECORA. I do not pose as a lexicographer. [Continuing reading:]

What the ultimate outcome would be I do not think is ascertainable at this time, but under present conditions I most seriously question the bank's solvency. I feel that the management is doing almost everything possible to improve their condition, except as noted on page 11, and that commendable progress has been made along the lines of reduction in operating expenses; but I question that, if the truth were actually known, whether or not they are breaking even, and feel that their earnings are more mythical than actual. I do not see how they will be able to absorb their losses from earnings. Neither do I believe it would do any material good to use the surplus of a bank of this size under present conditions, and it might do considerable and far-reaching harm. Until such time as the Detroit Bankers Co. gets its outside bank loans paid, it would appear advisable to allow subject bank to pay dividends, as they are so closely interwoven that suit against the company would react too strongly on the bank. But under no circumstances do I feel that dividends should be disbursed outside.

The governing board in part appeared to question this attitude, and for sentimental reasons appeared to want to continue to pay dividends on the Detroit Bankers Co. stock. They have not been assured that your office will even countenance the payment of dividends as above; and if not out of order, examiner suggests that they be advised in your letter to the bank that any dividends paid by the bank must be used to retire the debts of the company only, and no distributive dividends are to be made without first obtaining the comptroller's approval.

As set out in the previous report, they have still too many involved offices, and officers who have been trained as fair-weather bankers, and unable to anticipate trouble in a loan. They have need for some conservative, hard-hearted bankers, not only in the capacity of loan officers, but executive officers.

The chairman of the board, Mr. Mills, is not unmindful of the bank's condition, and is very frank in committing himself to an examiner. However, one or more persons cannot do the impossible, and although he has had only 2 years' experience as an actual banker, I think he is doing as good a job as could be expected with what he has to work with.

In contrast with last examination, examiner placed no collateral value on Detroit Bankers stock, and such loans will be found listed in the doubtful column, which previously were set up slow. A review of the general remarks in last examiner's report will bring out in detail some of the things mentioned in a cursory manner in this report, and I believe will help to give anyone reading this report a little clearer picture of this enigma. Loans on which the comment "probable loss" or "probable loss in part" appears where originally set up as such, and the governing board advised of examiner's opinion, but, as previously set out, the size of this bank appeared to all concerned too large to risk the destruction of public confidence, and the classifications were moderated.

Mr. MURFIN. That is a very long question you are asking.

Mr. PECORA. I have not asked you the question yet. I am reading that to you. Now, I have finished the reading of that particular portion or extract from this report. Have you any knowledge of

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facts that would prompt you to say that the comments or observations or statements which I have just read to you from this examiner's report of the bank as of November 1932 were exaggerated or unwarranted or were not based on fact?

Mr. MURFIN. Will you explain to me how an examiner can say the bank is probably insolvent and then instruct them to go ahead and pay a dividend to the Detroit Bankers Co., the stockholder that owns the company? That is the biggest piece of nonsense I ever heard coming from an official document. In one sentence he says the bank is insolvent. In the next sentence he says, "Let them pay a dividend to the Detroit Bankers."

Mr. PECORA. He did not say the bank was insolvent.

Mr. MURFIN. He pretty nearly said it in that first statement.

Mr. PECORA. He said [reading]:

> What the ultimate outcome will be I do not think is ascertainable at this time.

Mr. MURFIN. Earlier than that.

Mr. PECORA (continuing reading):

> But under present conditions I most seriously question the bank's solvency.

Mr. MURFIN. Yes.

Mr. PECORA. In other words, he was himself uncertain about it at that time. He does not say definitely or unqualifiedly that it is solvent or that it is insolvent, as I construe this language. Do you place any other meaning upon it?

Mr. MURFIN. If I had such serious doubt about the bank's solvency, I would not seriously discuss paying a dividend, would you?

Mr. PECORA. Just consider all that he said on the subject of dividends. Let us go back to it. Here is what he said [reading]:

> I do not see how they will be able to absorb their losses from earnings. Neither do I believe it would do any material good to use the surplus of a bank of this size under present conditions, and it might do considerable and far-reaching harm. Until such time as the Detroit Bankers Co. gets its outside bank loans paid, it would appear advisable to allow subject bank to pay dividends, as they are so closely interwoven that suit against the company would react too strongly on the bank. But under no circumstances do I feel dividends should be disbursed outside.

Mr. MURFIN. I think that was sound advice.

Mr. PECORA. What?

Mr. MURFIN. I think that was sound advice.

Mr. PECORA. That is the recommendation or the comment of the examiner.

Mr. MURFIN. I think that was sound.

Mr. PECORA. You agree with the soundness of it up to that point?

Mr. MURFIN. I think at that time that was very sound advice.

Mr. PECORA. Let us see what further he says from that point on [continuing reading]:

> The governing board in part appeared to question this attitude, and for sentimental reasons appeared to want to continue to pay dividends on the Detroit Bankers Co. stock.

So, according to the report made by the examiner, certain of the members of the governing board do not share the feeling that you have just expressed—that this was sound advice on the part of the examiner.

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Mr. MURFIN. Mr. Pecora, out of the 90 directors in that bank——

Mr. PECORA. No; the governing board. I am confining this to the governing board.

Mr. MURFIN. I think there were 20 different ideas on every subject brought up. Men's opinions vary.

Mr. PECORA. I am merely calling attention, Judge, to the fact that members of the governing board, apparently, some of them, at least, did not share the feeling that you have just given expression to, that this was sound advice on the part of the examiner.

He goes on further, from the point at which I left off [continuing reading]:

> They have not been assured that your office will even countenance the payment of dividends as above, and if not out of order, examiner suggests that they be advised in your letter to the bank that any dividends paid by the bank must be used to retire the debts of the company only, and no distributive dividends are to be made without first obtaining the Comptroller's approval.

Mr. MURFIN. It seems to me that is good advice.

Mr. PECORA. And the substance of that advice is that because of the interwoven character of the Detroit Bankers Co., which had outside debts at the time in other banks, it might be all right for the bank to pay a dividend to the Detroit Bankers Co., but that that dividend, when received by the Detroit Bankers Co., should not be distributed to its stockholders, but should be used to retire its own indebtedness.

Mr. MURFIN. I think that is sound advice. I understand it that way, just as you do.

Senator COUZENS. Therefore, do you think it is at all inconsistent for the examiner to doubt the solvency, and still make that recommendation?

Mr. MURFIN. Yes, Senator; because if he doubts the solvency of what he calls the member bank—if he doubts the solvency of the First National Bank, he ought not to allow it to pay a dividend, even if the dividend does go to retire the debts of the Detroit Bankers. He should not allow money to go out of that bank by way of a dividend if the solvency of the bank is questioned.

Senator COUZENS. I understand the position you take all right, but, as Mr. Pecora has pointed out, the close relationship of the two suggested to the examiner that if you discontinued dividends on the Detroit Bankers Co. stock it might react against the bank.

Mr. MURFIN. I appreciate that.

Senator COUZENS. Therefore, is it inconceivable that an examiner might suggest that to avoid a reaction against the bank?

Mr. MURFIN. It is inconceivable to me that a bank examiner should permit a dividend to be paid from a bank whose solvency he questions, no matter what happens.

Senator COUZENS. Even though the reaction closed the First National?

Mr. MURFIN. That is not the way the First National was closed.

Senator COUZENS. I am not talking about the way the First National was closed. I am talking about what happened when he wrote that report.

Mr. MURFIN. I think that is just a difference of opinion. I would not have done it that way. I doubt if you would have done it that way if you had been an examiner.

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Senator COUZENS. I am asking if it is wholly unreasonable to issue a warning to his chief. He was not acting for himself.

Mr. MURFIN. I appreciate that.

Senator COUZENS. He was issuing a warning or suggestion to his chief that it might be desirable to permit the bank to pay the dividend to its owners so as to prevent a general public reaction against the bank.

Mr. MURFIN. I thoroughly appreciate that. It is just a mere question of opinion. One man's opinion is that this is the best way to handle it. Another man's opinion might be something else.

Senator COUZENS. I only raised the question because you seemed to take the dogmatic position that the examiner was wholly inconsistent in his questioning the solvency of the bank and at the same time permitting a dividend to its owner.

Mr. MURFIN. I think it is most inconsistent. I am not dogmatic. I think it is most inconsistent.

Senator COUZENS. Even in spite of the fact of the close relationship between the two?

Mr. MURFIN. Exactly.

Mr. PECORA. In other words, in spite of the fact that the dividend so paid by the bank would have gone to the bank's parent and owner, namely, the Detroit Bankers Co.?

Mr. MURFIN. Yes.

Mr. PECORA. Would it not react favorably to the bank if the Detroit Bankers Co., which owned its capital stock, had been able to retire its outstanding indebtedness?

Mr. MURFIN. Oh, certainly. There is no doubt about that.

Mr. PECORA. Is not that the thing that the examiner, in this report, is virtually suggesting?

Mr. MURFIN. I think that is so. I think that is just what he is suggesting, Mr. Pecora.

Mr. PECORA. Do you not think it is apparent, through all this comment by the examiner that I have read to you, that there was in the examiner's mind a strong desire to be as helpful as possible to the bank's situation at that time?

Mr. MURFIN. I think that is a fair statement.

Mr. PECORA. Now, I will ask you the question I asked before. Have you any knowledge of any facts which would cause you to feel that the comment or criticism—whichever you might choose to call it—which the examiner made to the Comptroller in this report from which I have read to you, was unwarranted, or was exaggerated, or was not based upon fact?

Mr. MURFIN. In my opinion his even questioning the solvency of the bank was a serious error. I think the bank was thoroughly solvent.

Mr. PECORA. What facts can you present here to substantiate that? You are giving us an opinion. I want facts.

Mr. MURFIN. I can only give you my opinion. My opinion is predicated upon what I thought I knew, and what I still think I knew about that condition.

Mr. PECORA. Can you present any facts here to us to support that opinion?

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Mr. MURFIN. All the supporting data in the world are in the hands of the Federal Government, and none of us has been able to have access to any of it.

Mr. PECORA. Have you knowledge, as you sit there now—have you knowledge or recollection of any knowledge of facts that supports the opinion that you have so vigorously expressed?

Mr. MURFIN. That would involve my analyzing all the mortgages. It would involve my analyzing all the loans. It would involve my analyzing the past-due paper. It would involve my guessing as to whether Mr. Pecora could pay up his or Mr. Murfin could pay up his.

Mr. PECORA. I do not owe the bank anything.

Mr. MURFIN. Neither do I. I am just using this as an illustration. It is impossible to analyze, Mr. Pecora.

Mr. PECORA. Why impossible, Judge?

Mr. MURFIN. It is impossible for me, anyway.

Mr. PECORA. This bank, after the consolidation of December 31, 1931, was known as the "First Wayne National Bank" for a while, was it not?

Mr. MURFIN. That is right.

Mr. PECORA. I have here what purports to be a comparative statement of income and expenses of the First Wayne National Bank. This is produced from the files and records of the bank itself, Judge, and I am going to show it to you and ask you to look at it and tell me if you know anything at all about the conditions, facts, and so forth, set forth in that comparative statement.

Mr. MURFIN (after examining paper). I have never seen this. At least I do not think I ever have. I have never seen this, or anything like it. I do not know anything about this, Mr. Pecora.

Mr. PECORA. Do you see what that indicates?

Mr. MURFIN. Oh, yes.

Mr. PECORA. What?

Mr. MURFIN. It indicates the bank is losing money.

Mr. PECORA. The bank lost approximately $5,700,000 in the year 1932.

Mr. MURFIN. The figures are right there; yes. I have never seen that, or anything like it. I know nothing about it.

Senator COUZENS. What date did you change it from the First Wayne National Bank to the First National Bank?

Mr. MURFIN. Senator, I cannot answer that question. I know this. There was a good deal of argument as to what the name of the merged bank should be, and some wanted to keep the name "Peoples" in it, and some wanted to keep the name "Wayne" because of the old Wayne County, and when they hit upon "First Wayne" nobody liked it, and they finally changed it to the First National Bank, Detroit.

Mr. PECORA. As a stockholder of the Detroit Bankers Co., Judge, did you attempt to keep yourself posted as to the financial condition of that company during its history?

Mr. MURFIN. Not of the Detroit Bankers, sir. I probably was remiss in that. I did try to keep in very close touch with the First National, but I knew none of the details of the Detroit Bankers.

Mr. PECORA. So, you feel it would be futile to ask you any ques-

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tions about your knowledge of the condition of the Detroit Bankers Co.?

Mr. MURFIN. That is true.

Mr. PECORA. Because you did not keep yourself posted as to that?

Mr. MURFIN. I know nothing about it at all. I explained yesterday the brief period I happened to be a director of the group—one meeting to organize and one meeting to dissolve. I knew nothing about it.

Mr. PECORA. You got copies of the annual reports that were sent to the stockholders of the Detroit Bankers Co.?

Mr. MURFIN. I did.

Mr. PECORA. What impression did you get from the reading of those reports, assuming that you read them, as to the progress of the Detroit Bankers Co. and as to its financial condition from time to time?

Mr. MURFIN. I think, or I thought, in view of all the circumstances, that we were doing pretty well. That is the impression I had.

Mr. PECORA. Did you get the impression from the annual reports of the Detroit Bankers Co. that you read, that the company was improving its position, too?

Mr. MURFIN. No; my impression was that we were about holding our own the last year. That was the reaction I had.

Mr. PECORA. By holding your own, do you mean breaking even?

Mr. MURFIN. I mean we were not going back. We had been going back. I had the impression the backward progress had stopped. That is just an impression.

Mr. PECORA. According to evidence introduced here, during the year 1932—and these figures are shown in the annual report filed with the Michigan Securities Commission by the Detroit Bankers Co. for that year——

Mr. MURFIN. I never saw that report.

Mr. PECORA. Did you ever hear of the facts and statements embodied in this annual report to the Michigan Securities Commission?

Mr. MURFIN. I never saw the reports filed with the securities commission. I know nothing about what is in them.

Mr. PECORA. It showed that that company, during the year 1932, instead of holding its own, was around $9,000,000 worse off at the end of the year than it was at the beginning.

Mr. MURFIN. I heard you say that yesterday.

Mr. PECORA. You heard that for the first time yesterday?

Mr. MURFIN. Yes. I think that is the first time I heard it. I think that is true.

Mr. PECORA. Assuming those facts to be true, do they surprise you now?

Mr. MURFIN. Yes; I am surprised.

Mr. PECORA. Would knowledge of those facts coming to you now cause you in any way to revise any opinion you heretofore have had concerning the condition of the Detroit Bankers Co.?

Mr. MURFIN. I have not expressed an opinion concerning the condition of the Detroit Bankers' Co. I expressed an opinion concerning the condition of the First National Bank.

Mr. PECORA. You have just said that you thought, from reading the annual reports of the Detroit Bankers Co., that it was holding its own during the year 1932.

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Mr. MURFIN. That is true. I did.

Mr. PECORA. Do you believe that still?

Mr. MURFIN. I would have to sit down and check all these reports from year to year to do that. I cannot do that now.

Mr. PECORA. You would not think it was holding its own if it lost over $9,000,000 during that year, would you?

Mr. MURFIN. If it lost $9,000,000, one year, and had lost $15,000,000 the year before, I would say it was improving. I do not know any more about it.

Mr. PECORA. That is a rather negative form of improvement, Judge.

Mr. MURFIN. Yes; that is true.

Mr. PECORA. The disease continues, but the amount of wastage caused by the disease is just slightly lessened?

Mr. MURFIN. That is all true. This may be a digression, but I read the other day a report from one of the steel companies, I think. They thought they were improving, because the loss for the last quarter of last year was a great deal less than the loss for the last quarter of the year before. I think that is an improvement, if you do not lose as much money, don't you?

Mr. PECORA. I do not know what you mean by "improvement."

Do you recall testifying, Judge, in the one-man grand jury proceeding last summer, with respect to a plan which, apparently, at that time was being considered for the reopening of the bank?

Mr. MURFIN. If my memory is correct—now, remember, this was a good while ago, and I have not seen the testimony.

Mr. PECORA. I think it was last July, was it not?

Mr. MURFIN. Yes. I think I asked the court not to ask me questions on that subject, for fear that the progress of the plan might be jeopardized. Does not the record show that?

Mr. PECORA. Yes.

Mr. MURFIN. That is my memory about it.

Mr. PECORA. You did not describe the plan in your testimony there, for the reason that you have just assigned.

Mr. MURFIN. That is correct. That is my memory.

Mr. PECORA. Is that plan still under consideration?

Mr. MURFIN. Oh, no. That was abandoned—oh, quite a long time ago. I cannot give you the date, but up until fall we thought we had a chance, but after September and October the group with whom I was working abandoned all thoughts of any reorganization.

Mr. PECORA. Would it serve any useful purpose, do you think, Judge, if you were to disclose now what that plan was?

Mr. MURFIN. I shall be very glad to give you the general features of it if you want.

Mr. PECORA. Go ahead.

Mr. MURFIN. We wanted to compromise the stockholders' suit by arranging for the stockholders to pay 75 percent or 50 percent. These figures are nebulous. I am just giving you the general outline of the plan—as a result of which enough money would be raised—and give them class B stock, so that they would have something for their money—and then induce some additional capital to come in, and get some money from the R.F.C., the figures of which I do not carry in my mind, so as to pay 100 cents on the dollar to

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all the depositors under $500. Surprisingly enough, there are over 600,000 depositors in that bank whose deposits are under $500, and it would have taken at that time, in view of the dividends that had then been paid—I have forgotten what it was—it would have taken, I think, 17 million or 19 million dollars to have paid them out. The plan was, in general, to pay out 100 cents on the dollar for deposits of $500 and less to 600,000 depositors.

Mr. PECORA. That is, to the depositors whose deposit accounts were $500 or less?

Mr. MURFIN. Yes.

Mr. PECORA. That would take about 19 million dollars?

Mr. MURFIN. About $19,000,000. Then we would ask the larger depositors—and a great many of them were cooperative in this particular—to subscribe a certain percent of their deposits, and then freeze the balance of their deposits until we could work this out. That would involve help from the R.F.C.

Mr. PECORA. To what extent?

Mr. MURFIN. I cannot give you the figures, Mr. Pecora.

Mr. PECORA. Can you tell us approximately?

Mr. MURFIN. No.

Senator COUZENS. Was it not the same amount, about $19,000,000?

Mr. MURFIN. I will tell you what I can do. I think I have this thing all in typewritten form. I will mail it down to you if you want me to, when I get home.

Mr. PECORA. I recall that in the testimony you gave in that one-man grand-jury proceeding you referred to the plan as one that covered 25 typewritten pages.

Mr. MURFIN. Senator Couzens, did not Colonel Alger and Mr. Clark give you a copy of that?

Senator COUZENS. I do not remember whether they did or not. I think they discussed it with me one day at luncheon; but I do not recall that I ever had the figures.

Mr. MURFIN. I may be entirely out of order, but I am quite certain of this from my memory, that either Fred or Emory Clark wanted to discuss it with you, and you asked him to have the plan, to study it before it came out, and they gave you the plan, and then they came out, and you did not think much of the plan.

Senator COUZENS. Was that the plan that was drafted by Mr. McDonald?

Mr. MURFIN. Yes; Mr. McDonald and Henry Shelden. The two of them worked together. Yes; that is the plan.

Senator COUZENS. That did not incorporate that plan that you have just described, because the plan you have just described must have been in your mind some considerable time earlier than they talked to me about it.

Mr. MURFIN. It is true, Senator, that as we would meet obstacles we would revise the plan. We would have one plan, and find it would not work, and try another plan, but the basic features of all the plans that Emory Clark, Colonel Alger, and a few others of us were working on, were to eliminate the stockholders' suit by giving the stockholders class B stock giving them something for their money, and take care of the smaller depositors immediately. Those were the basic things about which we were revolving.

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Mr. PECORA. Was it the objective of this plan to pay immediately those depositors who had balances of $500 or less?

Mr. MURFIN. Yes, sir; that was the primary object.

Mr. PECORA. That was what the plan involved?

Mr. MURFIN. Yes, sir.

Senator COUZENS. That was not included in the plan—at least the typewritten memorandum that Mr. McDonald gave me.

Mr. MURFIN. I have a typewritten set-up of one of these plans, and I will be very happy, when I get home, to mail it to you, Mr. Pecora, if you want it.

Mr. PECORA. I will be very glad to get it. It was not the plan to pay off all the depositors in full, but those whose balances were $500 or less?

Mr. MURFIN. The larger depositors were to use some of their money to take stock, and the rest would be paid off through the R.F.C. as fast as possible, and some would be frozen.

Mr. PECORA. Here is the way you testified about that plan——

Mr. MURFIN. That was a mistake. I did not say all depositors. That was a mistake in the transcript, and that was immediately corrected in Detroit. I know just what you are getting at.

Mr. PECORA. What currency was given in newspaper publications to the correction?

Mr. MURFIN. I think there was plenty of currency given to it.

Mr. PECORA. Here is the plan as you testified to it, or, rather, here is the testimony you gave——

Mr. MURFIN. They quoted me as saying they would pay all depositors in full.

Mr. PECORA. I will read you the words as they appear in this transcript of the testimony. I am reading from page 1063 of the transcript of testimony in that 1-man grand jury proceeding last summer. This is your answer [reading]:

> Q. Now, Judge Murfin, are you interested at the present time in a plan to reopen the First National Bank?—A. Yes; I am. Will you allow me to make a statement, Mr. Toy?
>
> Q. Yes.—A. A small group of people, largely headed up by Mr. Emery W. Clark and Colonel Alger, with accountants and legal assistance, have been working on a plan for nearly 6 weeks. I think it is a very wonderful plan. I think a premature publication or a premature expose of its details might be fatal. One day we are much encouraged. The next day we are discouraged. The day before yesterday I was quite encouraged that we are making substantial progress. One feature of that plan, which is the prize feature of it, is this: That if it goes through every depositor will immediately get 100 cents on the dollar and the bank or banks will be opened by Detroiters and not by outsiders.

Mr. MURFIN. The Detroiter feature was not featured.

Mr. PECORA. What is that?

Mr. MURFIN. The fact that the bank would be run by Detroiters was not featured.

Mr. PECORA. The prize feature here, according to the testimony as it appears in the transcript, is, as you state [reading]:

> One feature of that plan, which is the prize feature of it, is this, that if it goes through every depositor will immediately get 100 cents on the dollar, and the bank or the banks will be opened by Detroiters and not by outsiders.

Mr. MURFIN. I have corrected that.

Mr. PECORA. What correction did you make?

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Mr. MURFIN. That the depositors under $500 were the ones that were to get their money. The plan involved the larger depositors putting up some of their money for stock.

Mr. PECORA. In what form, and through what medium, was that correction made in your testimony?

Mr. MURFIN. To the reporters, when I saw it in the paper next day.

Mr. PECORA. To the reporters?

Mr. MURFIN. When I saw it in the paper the next day.

Mr. PECORA. It was not corrected on the record in the proceedings?

Mr. MURFIN. When I got through with that hearing I did not go back.

Mr. PECORA. I think you did go back, in September.

Mr. MURFIN. I was there twice, I think.

Mr. PECORA. You went back in September.

Mr. MURFIN. I have forgotten the date. I was there twice.

Senator COUZENS. What date was that you just read from?

Mr. PECORA. This was testimony given on June 30, 1933, according to the transcript of the minutes which I have before me.

Senator COUZENS. Of course, I was not in this country at that time.

Mr. MURFIN. That is correct.

Senator COUZENS. So I could not have seen that particular draft you referred to.

Mr. MURFIN. You are entirely right about that.

Senator COUZENS. Because I did not come back until August.

Mr. MURFIN. You are entirely right about that.

Senator COUZENS. Am I diverting you, Mr. Pecora?

Mr. PECORA. No; go ahead. I am looking up another bit of testimony.

Senator COUZENS. Yesterday, as I understand, you testified, as I recall it, that 92 percent of the depositors were stockholders, or something to that effect.

Mr. MURFIN. The transcript says 92. I said ninety-odd percent, and I corrected it with Mr. Pecora. I meant ninety-odd percent of the stockholders and companies with which they are affiliated, represent the deposits in that bank. That is an estimate.

Mr. PECORA. Did you make that estimate on figures which you examined?

Mr. MURFIN. The first figures submitted to me, if you are interested in this——

Senator COUZENS. I am interested in your correction, because I heard you make a correction off the record yesterday, and I would like the correction made on the record.

Mr. MURFIN. Thank you. It should have been made on the record. I appreciate that very much.

The first figures were submitted by Mr. Taylor. He was commenting on the effect of the stockholders' suit upon the people of Detroit, and especially that it was doing some damage or harm to the depositors, and he got out these figures of how much of the total bank deposits, were represented by stockholders and corporations with which they were affiliated. Then he went over those figures

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with Mr. Sweeny. Then I went over those figures with Mr. Taylor and Colonel Alger. They are just estimates, the best estimates that could be made, but a very large amount of the deposits in that bank are represented by stockholders' money, or the money of concerns with which stockholders are connected. The point is that the thought that the assessment suit was going to damage the depositors is not an accurate way of putting it. It was going to help the depositors.

Senator COUZENS. Do you mean in percentages of the amount of deposits?

Mr. MURFIN. Yes.

Senator COUZENS. But by no means the percentage of depositors?

Mr. MURFIN. Oh, no. The best estimate we could get was that if the Government succeeded in this suit on the twenty-five million assessment they might collect $4,000,000. That would be 1 percent additional to those depositors, and it would ruin a great many more Detroit families if they had to pay it. The average deposit under $500 is $65, and those little depositors, for whom so much sympathy is being given, would average 65 cents more, at the expense of the complete ruination of a great many Detroit people.

Senator COUZENS. I want to make it clear, so long as you referred to my consideration of some of these plans, that in my discussion with Mr. Shelden and Mr. Clark, and I think Mr. McDonald, some time in the late summer or early fall the discussion was to the effect that I had no objections to that, but I had to be controlled by the decisions of the Comptroller of the Currency. I made that very plain.

Mr. MURFIN. There was some time, Senator—I do not know the date—when the Comptroller told Mr. Shelden—and I think Mr. McDonald was with him—that the time had passed to consider anything further. That is when it stopped.

The CHAIRMAN. The number of depositors to the amount of $500 or less would be comparatively a small number, would it not?

Mr. MURFIN. Over 600,000 depositors.

The CHAIRMAN. Below $500?

Mr. MURFIN. Yes.

The CHAIRMAN. Six hundred thousand?

Mr. MURFIN. Yes.

The CHAIRMAN. How do you figure that 90 percent of those were stockholders in the Detroit Co.?

Mr. MURFIN. I am talking about 90 percent in volume, not in number.

The CHAIRMAN. Ninety percent of the deposits, but not in number?

Mr. MURFIN. Ninety percent in dollars, but not in number.

The CHAIRMAN. I was speaking about the number. You mean 90 percent of the deposits in the bank were by people whose accounts were $500 or less?

Mr. MURFIN. No, sir. The total depositary liability in the bank was approximately $400,000,000.

The CHAIRMAN. Yes.

Mr. MURFIN. Now, it is estimated that $360,000,000 of that is the money of stockholders or concerns with which they are affiliated.

Mr. PECORA. What proportion of percentage of the depositors of the bank were stockholders of the Detroit Bankers Co.?

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Mr. MURFIN. There were about 9,000 stockholders in the Detroit Bankers Co. Again I am guessing, Mr. Pecora. The majority of them were depositors in the bank.

Mr. PECORA. That is, of the 9,000 stockholders?

Mr. MURFIN. Yes.

Mr. PECORA. How many of the more than 600,000 depositors of the bank do you think were stockholders of the company?

Mr. MURFIN. How many of what?

Mr. PECORA. How many of the more than 600,000 depositors which the bank had do you think were stockholders of the company?

Mr. MURFIN. I have not the remotest idea. There were only 9,000 stockholders.

Mr. PECORA. Yes.

Mr. MURFIN. And there were nearly 800,000 depositors. I am talking in volume, you understand, not in numbers.

Mr. PECORA. I got the impression that perhaps you were talking about percentage of depositors.

Mr. MURFIN. No; percentage of deposits.

Mr. PECORA. Who are also stockholders of the Detroit Bankers Co.?

Mr. MURFIN. I am talking about the percentage of deposits, not depositors.

Mr. PECORA. You do not suppose, do you, that there were very many, if any, stockholders among the 600,000 or more depositors whose balances in the bank were $500 or less?

Mr. MURFIN. I think there were quite a few. I would not say how many. There are some.

Senator COUZENS. There could not have been very many.

Mr. MURFIN. That is true. Those are largely in the savings, you understand, Senator.

Mr. PECORA. After you finished that answer which I have read to you, which you gave in the one-man grand jury proceeding, Judge Keidan asked you this question [reading]:

Q. Would you reopen the First National Bank?

Your answer was [reading]:

A. Well, I would rather not say, if you will pardon me, Judge Keidan. If I give the details, I may get into trouble. I would be glad to tell you and Mr. Toy in private all about it.

The COURT. No.

A. Because any plan that has so many ramifications and so many details—it is a mass of detail. I think it is fair to say that an overwhelming majority of the directors of these two institutions are not in touch with the details of this plan. Now, that is through no desire to be unkind or unfair, but the more people you get in a room to discuss a plan that is 25 pages long the more fly-specs there is, and it is our thought that the Government will finally put the stamp of their approval on this. Then we have got something, and that is the reason we have been trying to work as sort of a closed corporation.

Then the court asked you [reading]:

Q. And the depositors would get 100 cents on the dollar?
A. They would.

By Mr. TOY:

Q. How soon?
A. At once.

Mr. MURFIN. I do not understand that.

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Mr. PECORA. What is that?

Mr. MURFIN. I do not understand how they did that. That was corrected the next day to the reporters. I never saw a plan that would involve 100 cents on the dollar the next morning.

Mr. PECORA. Judge, why didn't you correct that testimony on the record?

Mr. MURFIN. It never occurred to me, just as it did not occur to me until this morning to correct my testimony here, until Senator Couzens kindly reminded me of it.

I might say, by way of interpolation—I am very happy to say I found myself in accord yesterday with Senator Couzens on another question, when he talked about the merger of these banks. If they had not all merged, they might have been better off. The bank got too big.

Senator COUZENS. That is one of the faults of our whole industrial system. Every unit is getting too big.

Mr. MURFIN. Right on that subject, you mentioned the old Wayne County Home Bank. That is where I used to be a director, before all these mergers. Every man in that bank knew every customer. He knew every loan, and knew all about it. When you get as big as the First National, after all these mergers, it is impossible for any one man to be in touch and know the credit and know the ratings. I think the Senator's comment on that yesterday was very sound.

Senator COUZENS. Do you think it was sound to appoint 12 trustees to run that great combination of banks for a 5-year period?

Mr. MURFIN. That was done deliberately.

Senator COUZENS. Yes; I understand. I suppose it was. I do not suppose you were insane, so I suppose you must have done it deliberately, but do you think it was a wise policy to put $815,000,000 in the possession of 12 men for a 5-year period?

Mr. MURFIN. We thought so at the time. The argument used for that, Senator, was that it would make for continuity of operation, and that there would not be any substantial changes.

Senator COUZENS. The continuity of operation all depended upon the form of operation. You might have a continuity of bad operation as well as a continuity of good operation, if you got it through that process.

Mr. MURFIN. That is right. Continuity of management was the object.

Mr. PECORA. In order that there may be no wrong impression or opinion flowing from the statement you made yesterday to the effect that 92 percent of the depositors——

Mr. MURFIN. Ninety-odd percent.

Mr. PECORA (continuing). That ninety-odd percent would be more benefited if there were no assessment, the fact now is, as I understand the testimony you have given this morning, that there are about eight or nine thousand stockholders of the Detroit Bankers Co. Is that right?

Mr. MURFIN. That is right.

Mr. PECORA. And there were over 800,000 depositors of the bank?

Mr. MURFIN. That is right.

Mr. PECORA. And that something like 600,000 of those depositors had balances of $500 or less in the bank.

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Mr. MURFIN. That is correct.

Mr. PECORA. Then, is it not a fact that, assuming the total number of depositors to be 800,000 and the total number of stockholders of the company to be 9,000, that approximately 791,000 depositors would be benefited by the assessment?

Mr. MURFIN. In numbers; yes. But what good does it do, Mr. Pecora, to give 600,000 people 65 cents at the expense of ruining 9,000 other people?

The CHAIRMAN. Have you any right to assume that they would be ruined by that?

Mr. MURFIN. The theory of double liability of stockholders, when the proportion between the depositary liability and the capitalization of the bank is so far off, I think, is more or less observed. The depositary liability of that bank at one time was $450,000,000. The capital stock was $25,000,000. A double liability on that, in case of insolvency, is just a white chip.

Mr. PECORA. You are not overlooking the fact that the stockholders of the company were the ones who profited from the declaration and payment of dividends by the bank?

Mr. MURFIN. Correct.

Mr. PECORA. So that when there were benefits to be conferred by being stockholders, they got the benefits.

Mr. MURFIN. That is true.

Mr. PECORA. But when there are burdens to be imposed by being stockholders, you do not think the burdens ought to be imposed upon them.

Mr. MURFIN. I do not think the burden should be imposed upon them for a condition for which they were in no way whatever responsible.

Mr. PECORA. That is true of every stockholder of a bank.

Mr. MURFIN. That is my notion of it, anyway.

Mr. PECORA. But that is not the law.

Mr. MURFIN. We will see, after February 15, whether or not that is the law. This case of ours is a very novel case. It is a case of first impression. We are going to make some new law.

Mr. PECORA. You are apparently confident of the outcome.

Mr. MURFIN. I am a chronic optimist, anyway, Mr. Pecora.

If you are interested in the precise number of depositors, Mr. Pecora, I have a record of it here.

Mr. PECORA. I think we have a fair approximation, have we not?

Mr. MURFIN. Yes; you have a fair approximation.

Mr. PECORA. I have before me copies of the annual reports to the stockholders of the Detroit Bankers Co. for the years 1930, 1931, and 1932, respectively, and I assume that as a stockholder of the company you too received copies of these reports when they were sent out to the stockholders.

Mr. MURFIN. Correct.

Mr. PECORA. Did you ever make that study and comparison of these reports which indicated to you that at the end of the first year——

Mr. MURFIN. I never compared them at all, Mr. Pecora. After I had read and examined a report I threw it in the wastebasket. I did not even keep it.

Mr. PECORA. At the end of the first year the surplus and undivided profits of the company——

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Mr. MURFIN. This is the Detroit Bankers Co.?

Mr. PECORA. The Detroit Bankers Co. At the end of the first year the surplus and undivided profits aggregated $64,868,000; that at the end of the second year, namely, at the end of 1931, the surplus and undivided profits had shrunk to $39,049,000; and at the end of 1932 the surplus and undivided profits had been further reduced to $32,469,000?

Mr. MURFIN. I never made any such comparison. I accept your figures, of course. I never made that comparison.

Mr. PECORA. Not having made that comparison, I assume you had no knowledge of the facts which such comparison would have covered.

Mr. MURFIN. That precise knowledge I did not have; no.

Mr. PECORA. Are you learning those things for the first time now?

Mr. MURFIN. No; I have been learning a good deal since last February, Mr. Pecora.

Mr. PECORA. But I mean, are you learning these particular items for the first time?

Mr. MURFIN. I have never before heard those figures read that you just read.

Mr. PECORA. Did you ever attend a meeting of the board of directors of the bank, Judge Murfin, at which a national-bank examiner was present and discussed with the board the matters developed by his examination of the bank?

Mr. MURFIN. I was present at one meeting when he was there, and I heard of another meeting when he was there.

Mr. PECORA. Do you recall when those meetings were held—about when—and what reports were discussed then?

Mr. MURFIN. I cannot give you the dates; no.

Mr. PECORA. It has appeared here that there were two examinations of the bank made by national-bank examiners in the year 1932, the first one in May and the second one in November. Now do you recall, Judge, having attended a meeting of the board, which was also attended by a national-bank examiner, and at which there was discussed a report of either one of those two examinations?

Mr. MURFIN. I have attended more than one meeting where the examiner has reported. My memory is, Mr. Pecora, that he reported to the executive committee rather than to the full board. I do not remember his ever being before the full board, but I cannot fix the dates.

Mr. PECORA. Do you recall attending such a meeting of the executive committee at which there was discussed, in the presence of and with a national-bank examiner, a report of an examination made?

Mr. MURFIN. Yes; I have been at such a meeting.

Mr. PECORA. Do you recall when that meeting was, and to which examination the discussion alluded?

Mr. MURFIN. No; I do not.

Mr. PECORA. Do you recall whether it was the meeting following the making of the examination of May 1932?

Senator COUZENS. It must have been that particular time, because you were not there the balance of 1932.

Mr. MURFIN. That is true. I do not think I was there at the May examination. I did not get around until the last of December or the first of January.

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Mr. PECORA. Have you any recollection that you would rely upon now, as to what was discussed with the examiner at the meeting that you have in mind?

Mr. MURFIN. I was present one time—I do not remember when—when he told us that we had one of the best banks in the Seventh Federal Reserve District, but I cannot recall what date he told us that, or when that was.

Mr. PECORA. Who was the examiner who told you that?

Mr. MURFIN. There were two of them there. I do not remember their names.

Mr. PECORA. Was Mr. Leyburn one of them?

Mr. MURFIN. I would not know Mr. Leyburn if I should see him. I have talked with him on the long-distance phone.

Mr. PECORA. There is Mr. Leyburn, the gentleman sitting over there [indicating].

Mr. MURFIN. I have talked to him on the telephone [after turning and looking at Mr. Leyburn]. I have seen him. He was one of them.

Mr. PECORA. Do you recall distinctly that he was?

Mr. MURFIN. I think now that he was; yes. I have been looking at him here and wondering where I had seen him. I think he was.

Mr. LEYBURN. I think you are in error.

Mr. MURFIN. Maybe so.

Mr. PECORA. Was there more than one examiner at that meeting or conference you attended?

Mr. MURFIN. My memory is that there was another man with him.

Mr. PECORA. Do you recall the name of that other man?

Mr. MURFIN. No; I do not. I think there was another man with him, but I am not certain.

Mr. PECORA. Judge, is there anything else you want to call to the attention of this committee by way of any knowledge of facts that you have with regard to the Detroit Bankers Co. or any of its unit banks?

Mr. MURFIN. Why, no, Mr. Pecora. I would only suggest that you get people on the stand who know more than an ordinary director. I might say the more questions you ask me the more ordinary I feel, as a director.

The CHAIRMAN. What people would you suggest might give more information?

Mr. MURFIN. I beg your pardon?

The CHAIRMAN. What people would you suggest might give more information?

Mr. MURFIN. Mr. Mills, who is here, can give you a great deal of information. Mr. Wilson, who is here, can give you a great deal of information. A man who could give you as much as any other one man is Mr. Sweeny. He cannot be here. He is sick. There are other executive officers of the bank who could give you a great deal of information. Mr. McGonegal could give you a great deal of information. Senator Fletcher, my only thought is that the ordinary bank director does not know one tenth about the workings of the bank as the executive officers who are operating it. We all know that. I am just a common garden variety director.

Mr. PECORA. The only reason I have questioned you to this extent about these things, Judge, is because of the testimony you gave at

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the one-man grand jury proceeding which, upon a cursory reading of it, rather impressed me with the thought that you felt you had considerable knowledge of the bank.

Mr. MURFIN. I did so feel, Mr. Pecora. I did think I had considerable knowledge. I think so yet. But on details I am lost, when you get into details. I do not know details and I do not like details.

Mr. PECORA. I have not asked you solely for details.

Mr. MURFIN. I am not complaining at all, sir. You have been very nice.

Mr. PECORA. Do you know that an examination of the bank was made as of the close of business on February 11, 1933?

Mr. MURFIN. I was told that on St. Valentine's Day they came in and started the new examination. That is the day the bank closed. That is only hearsay. I was told they came right in and started in their examination.

Mr. PECORA. For your information, then, Judge, let me read from the original report of that examination made to the Comptroller of the Currency, the following general remarks or comments——

Mr. MURFIN. Of course, that examination never came to our board.

Mr. PECORA. That is why I am saying, let me read it now for your information. Let me read these general remarks of the examiner in his report to the Comptroller [reading]:

A complete examination of this bank was impossible, due to the limited amount of time, and only a skeleton crew with which to work. Consequently there are numerous schedules which are not complete or omitted entirely. A comparatively recent report was made as of the close of business November 17, 1932.

In accordance with instructions from Chief Examiner Leyburn, no attempt was made to list slow loans, for probably over 90 percent of all loans not classified as doubtful or loss would be classified as slow under prevailing conditions.

I made no examination of the real-estate loans or contracts, but judging from the previous report of examination the bank will continue to acquire a substantial amount of real estate, and consequently a substantial amount of losses will be sustained.

In reviewing this bank's loans, appraisals of the paper were made on the assumption that some sort of a reorganization would be affected and that assets would be liquidated in an orderly manner under some sort of a composition of deposits and freezing of a substantial portion of the released portion of the balance of the deposits.

After the bank's loans had been completely reviewed it was learned that an immediate reorganization was impracticable, and a conservator had been appointed. In other words, under a conservator it is presumed that liquidation will be forced, and under forced liquidation it is highly probable that substantially more losses will be sustained than then estimated in this report.

In conclusion I have no hesitancy in making the statement that I believe this bank to be hopelessly insolvent.

Mr. MURFIN. What is the date of that, sir?

Mr. PECORA. This is as of February 11, 1933.

Mr. MURFIN. What is the date of that letter?

Mr. PECORA. This report is dated—the examination was closed on March 17, 1933.

Mr. MURFIN. I ask that question because the conservator came into the bank March 14, and before he had been there a month he sold one quarter of all we had.

The CHAIRMAN. Sold one quarter of what—securities?

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Mr. MURFIN. He sold one quarter of all our assets.

The CHAIRMAN. What did they consist of—securities?

Mr. MURFIN. The new bank that was organized in Detroit bought one quarter of the assets of the First National Bank through the conservator, and he bought just such assets as he wanted. I have assumed he bought the choicest lot, but he bought one quarter of them, and I was wondering if this report was made after the conservator's sale or before.

Mr. PECORA. This report was the report of examination as of the condition of the bank at the close of business on February 11, 1933. The examination itself, according to the report, was concluded on March 17, 1933.

Mr. MURFIN. That was 3 days after the conservator came in.

Mr. PECORA. And this report appears to have been filed with the Comptroller on April 10, 1933. That answers your question, does it not?

Mr. MURFIN. Yes, sir. Thank you.

Mr. PECORA. I think that is all.

The CHAIRMAN. You may be excused, Judge.

Mr. MURFIN. Thank you.

Mr. PECORA. Judge, I will be glad to get that typewritten copy of the plan that has been discussed in the course of your testimony.

Mr. MURFIN. I will look it up and mail it to you, in care of this room in the Senate Office Building?

Mr. PECORA. Or at the Mayflower Hotel. It does not make any difference.

The CHAIRMAN. Who is the next witness?

Mr. PECORA. I think I will call Mr. Mills.

TESTIMONY OF WILSON W. MILLS, GROSSE POINTE FARMS, DETROIT, MICH.

The CHAIRMAN. Mr. Mills, you solemnly swear that you will tell the truth, the whole truth, and nothing but the truth, regarding the matters now under investigation by the committee. So help you God.

Mr. MILLS. I do.

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

Mr. MILLS. Wilson W. Mills; 19 Cloverly Road, Grosse Pointe Farms, Detroit, Mich. I am an attorney.

The CHAIRMAN. What is your present occupation, Mr. Mills?

Mr. MILLS. I am an attorney. I am not actively practicing.

Mr. Chairman, I have prepared a short statement as to the reasons for the closing of the First National Bank, Detroit. I ask permission to read it, or have it read, whatever is the custom of this committee, because I think it would be helpful to this committee in developing such facts as they may be desirous of developing. I think also it might possibly save some time of the committee. I am, of course, happy to answer all questions of any member of the committee, or its counsel.

The CHAIRMAN. Mr. Mills, please state what your connection or relation was with the bank.

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Mr. MILLS. I was chairman of the board of directors of the First National Bank, in Detroit.

The CHAIRMAN. For how long?

Mr. MILLS. I had been in that office for 1 year, or a little over, perhaps. During the first 5 or 6 months I was the second officer of the bank, under Mr. John Ballantyne. At the time of his resignation I became the first officer of the bank.

The CHAIRMAN. What were your duties?

Mr. MILLS. I was with the First National Bank at the time of its organization on January 1, 1932, as chairman of the board. That was second officer of the bank. That position I continued in until some time in July, when I was elected chairman of the governing committee, succeeding Mr. Ballantyne. As chairman of the governing committee I retained the other title, chairman of the board, and later the office of chairman of the governing committee was abolished, and I continued as chairman of the board until the Michigan bank holiday, until conservators were appointed.

The CHAIRMAN. All right. Mr. Pecora may proceed.

Mr. MILLS. In addition to this statement, I have also—and possibly I have gone out of my way, but I do not wish to be presumptuous—prepared to make three or four possible suggestions for legislation, due to my experience in banking matters in Michigan. I presume you would prefer to have this other read later.

The CHAIRMAN. Yes; that might be given later.

Mr. MILLS I have here the prepared statement which I spoke of.

Mr. PECORA. What statement is that? I was out of the room for a moment.

Mr. MILLS. I said that I had a fairly short statement as to the reasons for the closing of the First National Bank. I was prompted to prepare that in the hope of being of some assistance to this committee in developing the facts I thought the committee were desirous of developing. Of course, I am anxious to answer any questions of counsel, the committee, or any member of the committee. But I thought this statement might be helpful in giving a clear idea of the whole matter.

Mr. PECORA. Have you a copy of that prepared statement for my use?

Mr. MILLS. Oh, yes.

Mr. PECORA. May I have it, please?

Mr. MILLS. Yes; I will give you the original.

Mr. PECORA. As I understand, you want to read this into the record?

Mr. MILLS. I should like to have it read, or to read it myself.

Mr. PECORA. I will ask you a few preliminary questions about it, and then you may read it into the record. When was this statement prepared?

Mr. MILLS. It was prepared by me during the course of the last 3 or 4 weeks, or 2 or 3 weeks.

Mr. PECORA. Was it just prepared by you without the assistance of any one else?

Mr. MILLS. That is correct. I read it to 3 or 4 people afterward, and occasionally adopted a suggestion.

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Mr. PECORA. Mr. Chairman, I suggest that the witness read his prepared statement into the record; or, if you wish me to do it, I will read it.

Mr. MILLS. Whichever you prefer.

Mr. PECORA. You just go ahead and read it.

Mr. MILLS. Amongst other purposes this committee is sitting to consider possible legislation under which such a situation as arose in Michigan, and later spread throughout the Nation, will not again occur. Everyone must be in favor of such objectives.

I have been a bank officer 2 years from March 1, 1931, becoming then chairman of the Peoples Wayne County Bank, of Detroit. After its consolidation with the First National Bank, January 1, 1932, I became second officer of that institution for about 6 months and was first officer of it for about the same period prior to the State banking holiday in Michigan. During this 2-year period I was a director of the Detroit Bankers Co.—never was I an officer of that corporation. I entered the banking business very reluctantly, at a substantial pecuniary sacrifice, and only upon the importunities of the late Julius Haass, then president of the Detroit Bankers Co., which had been formed over a year before, and of various large stockholders.

After I undertook this service I found in the situation many problems, all of which were the outgrowth of transactions made prior to my becoming an officer. For instance:

A. The bank had made many loans predicated upon a tremendous number of shares of stock of the Detroit Bankers Co. (these coming into the bank by virtue of the exchange of unit banks for stock of the Detroit Bankers Co.).

B. The Detroit Bankers Co. had obligated itself to pay some 7 million dollars of debts of a subsidiary and had directly borrowed funds in the neighborhood of an additional million dollars to acquire complete ownership of seven small banks in Wayne County.

C. A subsidiary of the Detroit Bankers Co. had acquired partial ownership of some 10 banks throughout the State of Michigan.

D. The Detroit banks of the Detroit Bankers Co. having just merged, and still consisting for many practical purposes of the five or six constituent units presented tremendous problems of organization and personnel—it was very much the same type of problem which would be encountered upon suddenly consolidating the United States Steel Corporation and the Bethlehem Steel Corporation.

E. At the time of the organization of the Detroit Bankers Co. there were somewhat over 200 branches, all in the city of Detroit, which presented serious problems.

F. The banks were not as liquid as conditions developing at the time required, and they had in excess of 150 million dollars of mortgages and had otherwise attempted to take care of the demands of the community. Detroit had experienced probably the most rapid, phenomenal, and mushroom growth of industry of any community in the United States. Due to the automotive industry centralizing in Detroit, literally trainloads of people had been arriving daily to make their residence there. Schools had to be erected, churches established, and homes built for this influx of people, and the old

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banks were the only ones to do it. They became a part of the warp and woof of the fabric of the community.

G. The bank had outstanding large amounts of loans predicated upon the slowest type of security, but to individuals who were considered good financial risks. Also some of the constituent banks had encouraged employee-ownership of stock, and upon a declining market many officers and employees, as well as others, became involved.

H. Within 2 weeks after I became an officer of the Peoples Wayne County Bank, the Detroit Clearing House and Trust Cos. voted to take over the expiring American State Bank, with assets of about $50,000,000, and its liquidation was entrusted by the Detroit Clearing House and Trust Cos. to the Peoples Wayne County Bank.

It is easy to criticize these conditions from the vantage of the viewpoint of 1934, but such hindsight gives us an altogether distorted conception of what occurred 4 or 5 years ago, and the condition in Detroit due to the growth of the automobile industry probably made many of these actions seem advisable. Things must be viewed in the light of what was then happening in order to see them in their proper perspective.

To meet this legacy of grief which I inherited upon coming into the bank, policies were instituted to cut down all the loans predicated upon Detroit Bankers Co. stock—if I might interpolate a word here: Why, the record will show more Detroit Bankers Co. stock at the end than at this time, was because practically all of that came in by way of relief or additional collateral to loans already in existence—to liquidate the net indebtedness above mentioned of the Detroit Bankers Co., and to reduce its operation and expenses (which latter could not be accomplished until Mr. E. D. Stair consented to serve as president upon the understanding this would be done), to solve the problems arising by virtue of partial ownership in the 10 banks throughout the State, to increase the liquidity of the bank, and to increase its strength and to liquidate its loans, and finally to organize its personnel and to coordinate its staff.

How well this task was in progress may probably best be pointed out by the statement that in the last 1½ calendar years of the existence of the bank—and you will understand by the word "bank" I mean the two constituent banks, the Peoples Wayne County Bank and the First National Bank—i.e., June 30, 1931, to December 31, 1932, it lost about $143,000,000 of deposits. In the last calendar year alone, it lost $60,000,000 of deposits, paid over $27,000,000 of bills payable that existed on the 1st day of January 1932, charged off $15,000,000 of bad or doubtful loans, or a total liquidation in the last calendar year of over $102,000,000 and maintained not far from the same percentage of liquidity at the end of the year which it had at the beginning. We desired a higher degree of liquidity but were unable to attain it owing to the heavy withdrawals of the last 18 months. In the last 18 months over $30,000,000 was charged off on account of loans, and so forth previously made. I firmly believe no bank of comparable size in the United States—with assets such as these banks had—could have done as much. You have the case of a bank successfully handling a shrinkage of deposits of

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$143,000,000 in 18 months, without borrowing a cent from the R.F.C. It had done a good job.

During this period, the depression was on in full force throughout the country, although I believe that Detroit was feeling the depression worse than any other part of the United States due to its highly specialized type of industry, and people were now leaving Detroit by carloads and the housing and church problems which had been so acute up to 1930, were found almost overnight to have become greatly extended. In 1932 Detroit was in the very depths of the depression. Of course, all this was felt by everyone in the community, including the bank by falling values and deposit withdrawals.

During the time I was principal officer of the First National Bank, i.e., after July 1932, there was one bank examination of the institution. At that time every cent which the examiner requested be charged off was charged off and the examiner complimented the bank upon the aggressive steps which it was taking to meet the difficult situations above set forth. The examiner also had suggestions and criticisms, which we were glad to have and which we attempted to put into execution where practicable. At no time during my connection as principal officer of the bank was any dividend paid by the bank or by the Detroit Bankers Co., which had not received the full and prior approval of the chief national bank examiner for the district. We recognized we had problems, but we were well on our way to solve them. Expenses of the bank had been, during the year 1932, greatly reduced, that for 1932 being $2,753,000 less than in 1931. Operating expenses had been reduced about $1,200,000—in spite of the fact that many of these economies had only been in effect a few months of the year. We employed every method to increase our gross income and lessen expenses. The bank, in late 1932, had become a well organized, homogeneous institution, ready to face any reasonable situation.

In 1931 the National Credit Corporation was formed for the express purpose of saving banks by making loans to banks upon slow collateral. The Peoples' Wayne County Bank joined the corporation and loaned its credit—approximately one third of the total credit of this association in Michigan—to all banks in Michigan seeking aid, and it has been reliably estimated by members of the Michigan National Credit Board that over 50 banks were saved by this action. The Peoples' Wayne County Bank, or the First National Bank, never made application to borrow 1 cent from the National Credit Corporation. The bank was still following its established policy of trying to be helpful to the community, to the State and Nation by lending our credit.

The R.F.C. was formed early in 1932, but at no time did the First National Bank seek or request a loan from it until the Lincoln Birthday week-end, immediately prior to the Michigan bank holiday, when the First National Bank was for the first time informed of the imminent and critical condition of the Union Guardian Trust Co. it requested a loan from the R.F.C., but was able to obtain no commitment from it whatsoever, so that the holiday in Michigan might have been avoided. After the receivership loans were made to the receiver by the R.F.C. to the extent of, I should imagine, $70,000,000,

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upon collateral which was available for such loan before the Michigan holiday. Such a loan then would have avoided the holiday—but it was not forthcoming.

It is probably unnecessary to again set forth here the events leading up to the Lincoln Birthday week-end holiday in Michigan. Although the chief national-bank examiner for the district was fully aware since at least the end of January of the pressing needs of the Union Guardian Trust Co., neither he nor any Government official, nor anyone connected with the Union Guardian Group, informed the First National Bank thereof (rather, however, several days before a high officer of the Union Guardian Group stated they were experiencing no difficulty), although the examiner states in his testimony that he had long recognized the seriousness of the condition of the Union Guardian Trust Co., describing it as a cancer, and in the event of its failure the serious effect upon other institutions in the State. Two days before the declaration of the holiday was all the time given the First National Bank to meet such a devastating emergency (one of these days was a Sunday and the other a holiday). In spite of the shortness of time and the difficulties, the officers of the First National Bank did everything they could to put their institution in shape to meet such a tremendous earthquake. We were arranging loans from our New York correspondents; we were attempting to arrange loans from the Federal Reserve Bank of Chicago; and requested aid from the R.F.C., which for some inexplicable reason was not forthcoming. We had close to $60,000,000 of cash or its equivalent which was free.

Mr. PECORA. What did you say there?

Mr. MILLS. I added the words "which was free."

Mr. PECORA. And that does not appear on your prepared statement.

Mr. MILLS. No.

Mr. PECORA. All right. Go ahead with your prepared statement.

Mr. MILLS. The First National Bank would have opened on Tuesday after Lincoln's Birthday and conducted its business, had it not been for the attitude of the Ford Motor Co., which then stated that if the Guardian were not permitted to open the Ford Motor Co. would withdraw its own and its controlled deposits, amounting to approximately $20,000,000, from the First National Bank "the first thing Tuesday morning."

For some reason, as has been testified by Mr. Edsel Ford, the Ford Motor interests reached the conclusion that, unless the Guardian were permitted to open, they would withdraw their deposits from the First National Bank. These institutions were in no way related. Why Mr. Ford should state he withdraw an enormous deposit from the First National Bank unless another and entirely separate and competing institution were saved, is to me unknown. In spite of these things the First National Bank would have reopened a few days after the holiday—and I wish to interpolate, possibly on a restricted basis.

Mr. PECORA. Where do you say you wish to interpolate that?

Mr. MILLS. After the word "holiday."

Mr. PECORA. And you say, "possibly on a restricted basis"?

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Mr. MILLS. Yes, Mr. Pecora.

Mr. PECORA. Go ahead.

Mr. MILLS. If it had received aid from the R.F.C. and if the chief national bank examiner of the district had not stated on the first day of the Michigan holiday to some of the depositors of the bank that the First National Bank had so many undesirable assets—he listed for the first time, that is, to our knowledge, approximately $200,000,000 of assets as being undesirable, even going so far as to so list every mortgage owned by the institution (it had over 50,000 mortgages, the average mortgage being only about $2,800 and practically all upon homes in Detroit), and he did not even allow the bank any banking premises, and some $8,000,000 or $10,000,000 of Catholic Church loans guaranteed by the Detroit diocese, amounting to at least $30,000,000 or $40,000,000, was likewise classified as undesirable, as were $7,000,000 of notes of the city of Detroit.

This, of course, planted seeds of suspicion of insolvency of the bank in the minds of certain of the large depositors and made any general reopening doubly difficult. At the time the Michigan holiday proclamation was about to be signed, the same examiner stated in the presence of many witnesses that the holiday would be of but short duration—to give the banks time to secure aid.

Nearly three quarters of a million different accounts were in the First National Bank and these people are, I believe, entitled to know why the then chief national bank examiner of the district, to the bank's directors, should both verbally and in writing on two occasions signal the green light "full speed ahead", and then have the train run into a closed switch.

On December 30, 1932, 6 weeks before the Michigan bank holiday, the then chief examiner of the district stated orally to the following directors of the bank: W. T. Barbour, J. P. Bowen, E. W. Clark, J. B. Ford, Jr., James S. Holden, J. T. McMillan, T. H. Newberry, Leo Butzel, and myself, and James M. Dodge, a vice president, that the bank might continue to pay dividends upon its stock, and in his written report, dated in January 1933, in effect the same statement was made. It is also true that this report listed some $83,000,000 of doubtful assets, and large amounts of slow loans, but the bank never claimed to have a high degree of liquidity. I have heard no charge of any material changes of assets and liabilities after the examination, except liquidation of assets to meet deposit withdrawals.

Now the permission for the payment of dividends is the very negation of insolvency. Nothing could speak more strongly. Note how much further the examiner went in his oral and written reports than merely stating the bank was solvent—he went so much further as to say, in effect, "not only is the bank solvent but it is so solvent that no harm can come from the payment by the bank of dividends." The examiner must have believed in the full solvency of the bank or he would not have permitted the bank in the future to pay dividends. He did state that the Detroit Bankers Co. was not to pay any dividend in 1933 without first securing the permission of the comptroller.

During my 6 months as principal officer of the First National Bank no dividend was paid by it, or by the Detroit Bankers Co.,

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which did not have the full and prior approval of the chief national bank examiner of the district. The last dividend was only 6 weeks before the Michigan holiday. The permission to pay dividends far transcends the question of solvency.

Again, on March 10, 1933, 3 days before a conservator was appointed and while the national banking holiday was in full swing, the same examiner stated to Messrs. Ralph Gilchrest, F. M. Alger, E. W. Clark, J. B. Ford, Jr., Leo Butzel, J. M. Dodge, D. N. Sweeny, Thomas Long, and myself, all—except myself—being prominent citizens of Michigan, that the bank was solvent and further stated that the above gentlemen should "not use or even think of the word 'insolvency.'"

During the holiday when we could receive no definite commitments from the R.F.C., the reasons for which have been set forth in this proceeding in the testimony of Mr. J. K. McKee, we then concentrated our efforts upon securing State legislation which would have permitted the First National Bank to open on a partial basis, freezing a percentage of its deposits, but conserving its tremendous earnings for the benefit of depositors.

The earnings of the First National Bank, I am informed, were larger per dollar of deposits than that of probably any bank in the United States. Criticism may always be pointed to any method of determining in dollars and cents the earnings of any institution, but I think there can be no question but that the earnings of the First National Bank for the year 1933 would certainly have amounted to over $7,500,000. This means in 4 years the tremendous amount of $30,000,000, every penny of which would have been available to depositors of the bank. Instead, the bank was closed, and the best of earnings assets were sold to another institution, giving the benefit of these earnings to the stockholders of the other institution instead of to the depositors of the old institution, to whom such earnings rightfully belonged.

The question, of course, remains: Why was the First National Bank closed? Certainly, in my judgment, it was not insolvent. If the examiner had a doubt of solvency he might have permitted the bank to remain open, but it passes the bounds of one's imagination to conceive of his permitting the bank to pay dividends right up to the holiday which was expressly approved by him. Personally, I have no doubt whatsoever as to the solvency of the First National Bank at the time of the holiday, and this is best attested to by the fact that my own personal deposits, those of members of my family, and of corporations of which I was a director, were probably at their very peak, as were those, incidentally, of practically every other director in the bank and of their affiliated corporations. I believe that the First National Bank situation had become so inextricably tied up in the public and financial mind, and the official mind, with the Guardian Group situation that its own situations, its inherent ultimate soundness, and its ability to carry on in the service of the community and in the interest of its depositors, was entirely lost sight of. I believe, too, that if the Government agencies which were dealing with the banking situation in Detroit had it to do over again the First National Bank would today be one of the large banks of the country still serving its community. I thank you.

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The CHAIRMAN. Mr. Mills, what was your salary as an officer of the bank, I mean the first officer of the bank?

Mr. MILLS. In 1931 it was $50,000 a year. In 1932 it was $40,000 a year until March 1, 1933, and it was restored to $50,000 a year. I had a contract when I came to the bank. And on March 1, 1933, I reduced it to $25,000 a year.

Mr. PECORA. Mr. Chairman, the hour for recess has arrived, and I suggest that we take a recess until 2 o'clock. In the meantime I can look over this statement.

The CHAIRMAN. All right.

Mr. PECORA. Mr. Mills, will you give me a copy of that prepared statement that you have just read into the record, so that it may be marked in evidence?

Mr. MILLS. I have handed a copy to the committee reporter.

Mr. PECORA. Well, that may be marked as an exhibit. Of course it has already gone into the record, as you read it.

(Thereupon the statement prepared and read by the witness was marked "Committee Exhibit No. 132, February 2, 1934", and is shown immediately above where read by the witness, and, in addition, the matter the witness interpolated while reading the prepared statement.)

The CHAIRMAN. The subcommittee will now stand in recess until 2 p.m.

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

AFTERNOON SESSION

The hearing was resumed at the expiration of the recess.

The CHAIRMAN. The committee will come to order.

TESTIMONY OF WILSON W. MILLS, DETROIT, MICH.—Resumed

Mr. PECORA. Mr. Mills, in the prepared statement which was read into the record this morning by you, a copy of which was marked in evidence, you state that you had been a bank officer 2 years from March 1, 1931, at which time you became chairman of the Peoples Wayne County Bank of Detroit. Prior to March 1, 1931, had you been a member of the board of directors of any banking institution in Detroit or elsewhere?

Mr. MILLS. I became a director, was elected a director of the Dime Savings Bank, I think it was in 1926. That is the best of my recollection. That bank later became the Bank of Michigan by a merger, and I continued as a director of that bank; and in 1930, I believe it was, that bank was merged with the Peoples Wayne County Bank, and I continued as a director for 6 or 7 months with the Peoples Wayne County Bank.

Mr. PECORA. Your first banking experience, then, as a director of any banking institution commenced in 1926?

Mr. MILLS. I think it was 1926; yes, sir; approximately.

Mr. PECORA. Did you become a stockholder of the Detroit Bankers Co. at the time of the organization of that company?

Mr. MILLS. I exchanged my stock in the Bank of Michigan for Detroit Bankers Co. stock.

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Mr. PECORA. And at the time you became chairman of the Peoples Wayne County Bank of Detroit on March 1, 1931, did you receive a salary as such chairman?

Mr. MILLS. I did, sir.

Mr. PECORA. That was the bank that was consolidated with the First National Bank in Detroit at the end of 1931?

Mr. MILLS. Yes. As a matter of fact, so there will be no misunderstanding, I was elected chairman in January 1931 with the understanding that I would not assume duties or take any compensation until March.

Mr. PECORA. And you became chairman of the board of the consolidated bank immediately upon that consolidation becoming effective?

Mr. MILLS. I did. I was the second officer of the bank.

Mr. PECORA. By the second officer of the bank, do you mean that you were the senior executive next to the president?

Mr. MILLS. No; the chairman of the governing committee was the senior executive of the First Wayne National Bank, under the bylaws.

Mr. PECORA. Who was that officer?

Mr. MILLS. Mr. Ballantyne.

Mr. PECORA. When did you become chairman of the governing board?

Mr. MILLS. I was elected to that position in July or August—I think it was July of 1932.

Mr. PECORA. And continued to serve in that capacity until a receiver for the bank was appointed?

Mr. MILLS. Not quite. The office was later abolished in an effort to cut down bylaws, and so forth. The office was abolished and I was given the office of chairman of the board, and that became the highest ranking office.

Mr. PECORA. The highest executive officer?

Mr. MILLS. With the same powers as the chairman of the governing committee had had before.

Mr. PECORA. Are you familiar with the testimony which Mr. Ballantyne gave here during the past week in which, in substance, he stated that as chairman of the board of the First National Bank he felt that he did not have the power under the bylaws, and had been so advised, that he thought should attach to the position which he held?

Mr. MILLS. I read that statement, substantially as you have made it, in the press; yes, sir.

Mr. PECORA. Was that the condition of affairs?

Mr. MILLS. Might I introduce the bylaws in evidence?

Mr. PECORA. It is unnecessary. You are an attorney, and perhaps you can simplify it.

Mr. MILLS. I think they would be the better evidence. I would state that in my judgment under the bylaws there was ample power given to the chief executive officer of the bank. Like all matters, certain things are subject to veto power by the board, or, in this case, by the governing committee.

Mr. PECORA. When were the bylaws you have in your hand now adopted in the form in which they appear in that copy?

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Mr. MILLS. This is the final amended form. There was a change in an effort——

Mr. PECORA. What year?

Mr. MILLS. 1932. It is substantially the same as to the power of the governing board.

Mr. PECORA. You say "substantially the same", from which I am inferring that there was some change made in that provision.

Mr. MILLS. The only change that I recall that was made in that provision was to give to the chairman of the board the power that had previously been enjoyed by the chairman of the governing committee.

Mr. PECORA. Can you produce here a copy of the bylaws of the bank that were in effect just prior to the resignation of Mr. Ballantyne.

Mr. MILLS. I have not them. It may be that Mr. Long, who is present, has them in his files.

(Addressing Mr. Long:) Have you the original bylaws?

Mr. LONG. I have my copy.

Mr. MILLS. Will you give it to me, please?

Mr. Long has handed me what he states is a copy of the bylaws as they existed at the time of the organization of the bank and which were in force during Mr. Ballantyne's administration.

Mr. PECORA. Do I understand that those were the bylaws, to which you now refer, which were in force just prior to Mr. Ballantyne's resignation in 1932?

Mr. MILLS. So I am informed by Mr. Long, and they would seem so to me.

Mr. PECORA. I ask that they be marked for identification; not in evidence, but just marked for identification.

Mr. LONG. That is my private file, Mr. Pecora. Will I have to leave it here?

The CHAIRMAN. You will not have to leave it.

(Bylaws produced by Mr. Long, entitled "Bylaws of First Wayne National Bank, of Detroit, as recommended Dec. 18, 1931, and adopted Dec. 31, 1931", were marked for identification "Committee Exhibit No. 133, Feb. 2, 1934.")

Mr. PECORA. The bylaws that have been marked for identification as the Committee's Exhibit No. 133 for identification are entitled "Bylaws of First Wayne National Bank, of Detroit, as recommended December 18, 1931; and adopted December 31, 1931." Let me ask you this, Mr. Mills: Do you know that the form in which the bylaws here in this copy thereof which has been marked for identification was retained up to the time of Mr. Ballantyne's resignation, or had there been any changes or amendments prior to that time?

Mr. MILLS. I am almost certain that there were no changes or amendments until after Mr. Ballantyne's resignation. I am almost certain of that.

Mr. PECORA. Have you a copy of the bylaws as then changed or amended?

Mr. MILLS. I have a copy of the bylaws as they were on February 11.

Mr. PECORA. Of what year?

Mr. MILLS. 1933.

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Mr. PECORA. Do they contain the amendments which have been referred to?

Mr. MILLS. They are a complete copy of the bylaws as they then were.

Mr. PECORA. How many times had they been amended between the time of the resignation of Mr. Ballantyne and the date in February 1933?

Mr. MILLS. To the best of my recollection, only once. There were several amendments to simplify matters. There may have been two, but to the best of my recollection there was one.

Mr. PECORA. Will you produce the bylaws that you now have, Mr. Mills?

Mr. MILLS. Yes, sir [producing a document and handing it to Mr. Pecora].

Mr. PECORA. I ask that this be marked for identification.

Mr. MILLS. They were amended and adopted December 6, 1932. There may have been a minor change in the meantime, but if so I do not recall it.

(Document produced by the witness containing bylaws in effect on February 11, 1933, was marked for identification "Committee Exhibit No. 134, Feb. 2, 1934.")

Mr. PECORA. Will you point out by reference to the section of the bylaws the change that was made with respect to the powers, duties, and authority of the executive head of the bank, the chairman of the governing body?

Mr. MILLS. All I recall, Mr. Pecora, was this: You would have to compare the two, but the sum and substance of it, according to my recollection, was that the title of chairman of the governing committee was abolished and his functions were assumed by the chairman of the board; and in the redraft where the former had said that the chairman of the governing committee shall do so and so, it now said that the chairman of the board shall do so and so.

Have I made that clear?

Mr. PECORA. I think so.

Mr. MILLS. Article IV seems to be the section in question. I have marked part of it. Section VI seems to be the section—I think it is the same in the original. They can readily be compared.

Mr. PECORA. Section 6, subdivision A, article IV of the bylaws marked for indentification as "Exhibit No. 134", reads as follows [reading]:

> The chairman of the board of directors shall be the chief executive officer of the bank and subject to the actual affirmative exercise of the powers by law pertaining to and vested in the board of directors, whether so exercised by the board itself or by the governing committee or the executive committee within the scope of the jurisdiction and function of these bylaws vested in each of said committees, respectively. The chairman of the board of directors shall have general executive control over the conduct of all the business and affairs of the bank and over the functions and activities of all officers and agencies of the bank.

Mr. PECORA. Who was the chairman of the governing committee just prior to Mr. Ballantyne's resignation from the bank?

Mr. MILLS. He was the chairman of the governing committee, and there was none before. As far as I know, the old First National Bank before the consolidation had none. I was not a director of the old First National Bank.

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Mr. PECORA. Who was the chairman of the board of directors while Mr. Ballantyne was chairman of the governing committee of the board?

Mr. MILLS. I was. In general, Mr. Pecora, the ranking of the officers under the bylaws could be summarized, until they were amended by the exhibit which you hold in your hand, as follows: The principal officer was the chairman of the governing committee. The second officer was chairman of the board. The third officer was the vice chairman of the board. The fourth officer was chairman of the executive committee. The next one was vice chairman of the executive committee. And then came the president. There was an awful raft of titles which we tried to simplify. That was one purpose for the amendments in the copy which you have.

Mr. PECORA. The president of the bank was really the fifth or sixth ranking officer?

Mr. MILLS. Yes. Under the bylaws he had certain duties assigned him.

Mr. PECORA. I wonder if that was the situation that called forth the suggestion, comment, or criticism of Mr. Verhelle in his confidential memorandum to you of May 18, 1932, which is in evidence here, and in which, as I recall it, he alluded to the fact that many of the senior officers of the bank had no special duty or functions or responsibilities.

Mr. MILLS. Up to a certain point that was true; but in June or July specific, definite duties and responsibilities attaching were assigned to every officer in the bank.

Mr. PECORA. June or July of 1932?

Mr. MILLS. Yes.

Mr. PECORA. That was a month or two following the making of that criticism by Mr. Verhelle?

Mr. MILLS. Yes, sir. We were working on it at the time.

Mr. PECORA. In your prepared statement you said, among other things, as follows [reading]:

> The bank had made many loans predicated upon a tremendous number of shares of stock of the Detroit Bankers Co. (this coming into the bank by virtue of the exchange of stock of unit banks for stock of the Detroit Bankers Co.).

Do you know how many loans, Mr. Mills, had been made by the bank of that category?

Mr. MILLS. I can only answer in this way: That when I went into the bank there were loans in there which were predicated on Bankers Co. stock, which in turn had been predicated on individual bank stocks. If I might illustrate this way: Someone in the Dime Savings Banks bought stock of the Dime Savings Bank, and to pay for it he went, we will say, to the Peoples Bank or the Merchants Bank or the Peninsular bank and borrowed on it and put up his stock as collateral. When the Detroit Bankers Co. was formed that stock was exchanged into Detroit Bankers Co. stock, and eventually these banks that I have named were merged in the Peoples Wayne County Bank or the First National Bank, so they ended up with both the collateral and the loan.

Mr. PECORA. When you became the senior officer of the bank, how many such loans were in the bank?

Mr. MILLS. There were a large number of loans.

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Mr. PECORA. Which were collaterized by stock of the bank?

Mr. MILLS. I could not state the number exactly. There was a very substantial amount of them. That amount was later increased by relief collateral. The officers of the bank were instructed, when the collateral back of a loan became low, to go out and get more collateral, and a substantial additional amount of relief collateral was brought in in that way, of the Detroit Bankers Co.

Mr. PECORA. After the formation of the Detroit Bankers Co. and the acquisition by it of the capital stock of these five original unit banks, which included that bank, was not this process of loaning money on the stock of the Detroit Bankers Co. tantamount in substance to the bank loaning upon its own stock?

Mr. MILLS. No, Mr. Pecora; I would not agree with that at all.

Mr. PECORA. Why not?

Mr. MILLS. The Detroit Bankers Co. had other very substantial investments. They owned stock, all the stock—or substantially all—of the Detroit Trust Co. They had the First Detroit Co. There was a very substantial amount of other assets that the Detroit Bankers Co. owned outside of the bank.

Mr. PECORA. But the Detroit Bankers Co.'s principal assets consisted of the capital stock of the banking units?

Mr. MILLS. Its principal stock, yes; but not the only assets.

Mr. PECORA. What proportion of its assets consisted of stock of other companies or units?

Mr. MILLS. If you include the Detroit Trust Co. as a bank——

Mr. PECORA. I am. It did a banking business, did it not?

Mr. MILLS. That may be a legal question. I presume it did; but it is a legal question. I do not know.

Mr. PECORA. Lest there be any doubt about it, in the annual reports of the Detroit Bankers Co., which contain a combined statement or balance sheets of all the banking units, so called, was there not included the balance sheet of the Detroit Trust Co.?

Mr. MILLS. Oh, yes.

Mr. PECORA. So that the Detroit Bankers Co. regarded the Detroit Trust Co. as one of its banking units?

Mr. MILLS. Obviously I would think that would follow.

Mr. PECORA. That being the fact, namely, that the principal assets by far of the Detroit Bankers Co. being the capital stock that it owned of its unit banks, when these unit banks made loans on stock of the Detroit Bankers Co. they were in substance, if not in form, making loans virtually upon the security of their own stock, were they not?

Mr. MILLS. I will say no, for two reasons, Mr. Pecora. In the first place, there were very few loans made. In fact, I only know of one or two loans that were made in my day on Detroit Bankers Co. stock. Most of the loans, as I have tried to explain, were made on stocks of the constituent banks, which were later exchanged for Detroit Bankers Co. stock, and at the time of the consolidation it was approved by the comptrollers' office. Secondly, I have always understood that there was an opinion from the Attorney General of Michigan—I have never seen it—who stated they were very different things.

Mr. PECORA. I am asking you to ignore form and consider substance in this questioning, Mr. Mills. I appreciate the differences in

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form and substance, but I will ask you if it is not the fact that in substance these unit banks of the Detroit Bankers Co. that had loans collateralized by stock of the Detroit Bankers Co. were in effect, although not in form, having those loans collateralized by their own capital stock.

Mr. MILLS. They were not originally made that way.

Mr. PECORA. Whether they were made that way originally or not, the fact is that when those loans found their way into the unit banks of the group, in effect that is what they were—loans collateralized by the stock of the bank?

Mr. MILLS. I am afraid that I am too much of a lawyer to disregard form entirely.

Mr. PECORA. That is one of the weaknesses of lawyers.

Mr. MILLS. It is.

Mr. PECORA. They place more stress on form than they do on substance.

Mr. MILLS. Very frequently.

Mr. PECORA. It is a happy thing to notice that the United States Supreme Court only very recently saw fit to cut through form and consider substance.

Mr. MILLS. I was delighted to see that decision.

Mr. PECORA. I hope the legal profession will follow in the wake of that decision.

When you became the executive head of the bank in 1932, the fact that the bank found itself with this heavy concentration of Detroit Bankers Co. stock presented a problem to you, did it not?

Mr. MILLS. It did, sir.

Mr. PECORA. What were the essential features of that problem as you recognized it to be a problem?

Mr. MILLS. I recognized the problem that there was too much of a concentration of loans in the bank predicated upon Detroit Bankers Co. stock to be, in my view, good banking practice. Please understand that I do not wish to blame any predecessor or anybody connected with the old banks. That is not the purpose of my statement. But I recognized that due to these consolidations, in my judgment there was too much concentration of Detroit Bankers Co. stock. We also had too much concentration of various stocks of various other corporations; and the officers were instructed to do what they could to lessen those concentrations.

Mr. PECORA. That is what I was coming to. What was done by you as the chief executive officer of the bank to solve the problem when you found yourself confronted with that particular problem.

Mr. MILLS. First, I recommended to the board or to the governing comimttee that we make practically no more loans upon Detroit Bankers Co. stock.

Mr. PECORA. That did not solve the problem itself. You still found the problem there, did you not? You simply resorted to methods which prevented the aggravation of that problem?

Mr. MILLS. That is only one of the things I did. I do not wish to have the problem aggravated. It was already a severe problem. Secondly, the officers were instructed to do everything they could to have the Detroit Bankers Co. stock substituted by other collateral.

Mr. PECORA. Was that done? Was anything done along those lines?

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Mr. MILLS. Reports were made to me from time to time. Unfortunately, I do not think that a tremendous amount of progress was made, because a large part of the wealth of Detroit was represented by bank stocks.

Mr. PECORA. Was any progress at all made along that line?

Mr. MILLS. Oh, yes.

Mr. PECORA. Was there a reduction of that concentration of collateral from that time on?

Mr. MILLS. Please do not misunderstand me. I stated or interpolated in my statement this morning that the amount of collateral held by the banks in the Detroit Bankers Co. stock actually increased. That increase came about where loans became dangerously low or "under water" or where we could not get out of these loans, when the debtors could not pay and we insisted on more collateral, and all they had was Detroit Bankers Co. stock, and we took it in to sweeten the loan.

Mr. PECORA. To that extent the solution of one problem of under-collateralized loans was practically checked by an aggravation of another form, namely, that of increasing this concentration of Detroit Bankers Co. stock?

Mr. MILLS. Oh, no, Mr. Pecora; because if a man had nothing else, certainly it did not harm our position to take in more Detroit Bankers Co. stock.

Mr. PECORA. Taking more of the Detroit Bankers Co. stock did not relieve the problem that was existent because of the presence of that heavy concentration of Detroit Bankers' Co. stock?

Mr. MILLS. No. We had two problems—more than two; but two of them were that some of these loans became under-collateralized. Other securities became under-collateralized, and it was to sweeten them that the Detroit Bankers Co. stock was taken as relief collateral.

Mr. PECORA. Let us pass on to the next paragraph in your prepared statement, which reads as follows, referring to another problem [reading]:

> The Detroit Bankers Co. had obligated itself to pay some $7,000,000 of debts of subsidiaries and had directly borrowed funds in the neighborhood of an additional million dollars to acquire compete ownership of seven small banks in one country.

The obligation of the Detroit Bankers Co. referred to therein was this obligation that was incurred or had been incurred by the First Detroit Co.?

Mr. MILLS. The First National Co., I believe.

Mr. PECORA. That is the indebtedness of $7,200,000 that has already been referred to in the evidence here?

Mr. MILLS. That is the item that I first referred to, of some 7 millions of dollars. My recollection is that the Detroit Bankers Co. had directly borrowed $1,000,000 mentioned in the second portion.

Mr. PECORA. The third problem specified by you in your prepared statement is referred to as follows [reading]:

> A subsidiary of the Detroit Bankers Co. had acquired partial ownership of some 10 banks throughout the State of Michigan.

Which subsidiary was that?

Mr. MILLS. I was informed, the First National Co.

Mr. PECORA. Which were the 10 banks alluded to in that statement?

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Mr. MILLS. I saw your chart this morning, on the wall, and I presume it is correct. I do not know the names of them all. There was a bank at Alpena, a bank at Bay City, one at Saginaw, at Lansing, and various places.

Mr. PECORA. Another one of the problems referred to by you in your prepared statement is set forth as follows [reading]:

> The bank had outstanding large amounts of loans predicated upon the slowest types of security but, to individuals who were considered good financial risks. Also some of the constituent banks had incurred employee ownership of stock, and upon a declining market many officers and employees as well as others became involved.

Now, with reference to the first portion of that statement, the fact that the bank had outstanding large amounts of loans predicated upon the slowest types of security, what were the loans you referred to therein, and what were the slow types of security that you allude to?

Mr. MILLS. A loan may have been made that was collateralized by a mortgage, which is an exceedingly slow type of security, but if it is a good risk it should be a good loan.

Mr. PECORA. Do you know what was the aggregate amount at the time you became the chief executive officer of the banks of those loans?

Mr. MILLS. The mortgage account direct was in the neighborhood of $150,000,000. They had other loans on real estate of—well, it would be a substantial amount. I don't know.

Mr. PECORA. These mortgage loans at their best are a slow type of security, are they not?

Mr. MILLS. Slow, but the best in the United States, Mr. Pecora, in my judgment.

Mr. PECORA. I was just merely discussing for the moment the fact that mortgage loans are at their best a slow type of security.

Mr. MILLS. Yes, sir.

Mr. PECORA. In 1932, when you became the chief executive officer of this bank, would you say that that security represented the best in the United States?

Mr. MILLS. Ultimately I think by and large; yes. Mr. Pecora, we had in that bank over 50,000 different mortgages. They had been made to Tom, Dick, and Harry. By that I do not mean using the term loosely, but made to employees or people to build homes. The average mortgage was only $2,800. A man will hang onto his home longer than he will hang onto a security. He will hang onto it longer than he will hang onto stocks or automobiles or anything, in my judgment. That is why I believe those mortgages were so darned good.

Mr. PECORA. But in 1932 did you consider that those loans secured by those mortgages represented loans secured by the highest type of security in the United States?

Mr. MILLS. Outside of Government bonds, yes; or obligations collateraled by Government bond, yes; because I do. They are the backbone of the country.

Mr. PECORA. To what extent had real-estate values in Detroit and its environs depreciated since 1930?

Mr. MILLS. It depends on the location.

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Mr. PECORA. Well, generally speaking, referring to real-estate values generally?

Mr. MILLS. Possibly 30 or 40 percent. That is for an immediate sale. These mortgages, you understand, were made with savings funds which did not contemplate immediate throwing on the market.

Mr. PECORA. Which does not make the security any better, does it?

Mr. MILLS. I don't understand you.

Mr. PECORA. I mean, it did not protect those loans against the depreciated values of the real estate when that depreciation occurred?

Mr. MILLS. I am sorry—I am awfully sorry.

Senator COUZENS. Read him the question again.

The SHORTHAND REPORTER. Which does not make the security any better, does it? I mean it did not protect those loans against the depreciated values of the real estate when that depreciation occurred?

Mr. MILLS. My only answer to that is that I think a man's home—not only these but practically all of them—not all of them, but practically all—he will hang onto it and pay his principal, pay his interest anyway and his principal when he can.

Mr. PECORA. If he can?

Mr. MILLS. And when he can.

Mr. PECORA. But the fact that they were made originally to encourage home building, if you please—and I take it that is the thought you want to leave here?

Mr. MILLS. To provide homes, not to encourage it. To take care of this problem that had been brought to Detroit.

Mr. PECORA. Yes—did not protect thost loans against the ravaging effects of the depreciation in real estate which you say had taken place in the amount of 30 or 40 percent since the beginning of 1930?

Mr. MILLS. There is this additional thing which, so far as my knowledge goes, was rather peculiar of Detroit and the old banks of Detroit. The old banks in Detroit had put in a rule, clearing-house banks had put in a rule, I believe it was in the neighborhood of 1926, but that is my impression only, requiring amortization of mortgages, requiring 10 percent a year, or 2½ percent on principal be paid quarterly on the mortgages, and I know of countless mortgages in that institution that had been reduced from the original amount to practically nothing. I know some had been reduced to as low as $5 and kept there.

So when you compare the decline in market values of real estate, also bear in mind that many of these—it should be borne in mind that many of these—mortgages had been exceedingly well amortized and had been paid down from the initial amount of the mortgages.

Mr. PECORA. To what extent had that operated to reduce the original mortgage indebtedness secured by these?

Mr. MILLS. I never saw any figures on the total, but I kept after the mortgage officers and mortgage end of the bank. One of the jobs I had was to continue to insist with them that they must weigh those amortization payments upon the principal of only in as few cases as they could; that we desired to keep the mortgages being paid down.

Mr. PECORA. With the experience that has come to you as the executive head of this bank would you say as a banker that these mortgages are a good security for commercial banks to carry against loans?

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Mr. MILLS. For a commercial bank, no; but they were made, by and large, mostly by savings banks. Most of these banks went into this merger—not all of them, but the biggest one, the Peoples Wayne, that went in, was primarily a savings bank, and, Mr. Pecora, irrespective of what the First National Bank may be called, two thirds of its deposits, very roughly, were time deposits. It was more of a savings bank than a commercial bank.

Mr. PECORA. Were they entered as time deposits?

Mr. MILLS. Well, as far as I know they were. I know they told me they kept reserves as time deposits, and so on. I think they showed that way in the statement.

Mr. PECORA. Further along in your prepared statement you say as follows:

> To meet this legacy of grief which I inherited upon coming into the bank, policies were instituted to cut down all the loans predicated upon Detroit Bankers Co. stock, liquidating the net indebtedness above mentioned of the Detroit Bankers Co., and to reduce its operation and expenses, to solve the problems arising by virtue of partial ownership in the 10 banks throughout the State, to increase the liquidity of the bank, and to increase its strength and liquidate its loans, and, finally, to organize its personnel and to coordinate its staff.

I think you probably were very discriminating in the use of the language you employed in referring to these things as a "legacy of grief", and I assume that you employed that language advisedly.

Mr. MILLS. I happened to use it, as I do quite frequently. That was all. It was my own expression.

Mr. PECORA. It is a pet phrase of yours, you mean?

Mr. MILLS. No; I just happened to have used it, and when I dictated this thing, why, the words came to my lips and I used it. That was all.

Mr. PECORA. Does this represent a fair characterization of the nature of these problems?

Mr. MILLS. Oh, yes. The statement, to the best of my knowledge and belief, is absolutely correct. Yes, sir.

Mr. PECORA. Further along in this statement of yours you say as follows:

> How well this task was in progress may probably be best pointed out by the statement that in the last 1½ calendar years of the existence of the bank—that is, June 30, 1931, to December 31, 1932—it lost about $143,000,000 of deposits. In the last calendar year alone it lost $60,000,000 of deposits, paid over $27,000,000 of bills payable that existed on the 1st day of January 1932, charged off $15,000,000 of bad or doubtful loans, or a total liquidation in the last calendar year of over $102,000,000, and maintained not far from the same percentage of liquidity at the end of the year which it had at the beginning.

Is it fair to infer from that recital of facts that there had been what could be called a "dry run" on the bank in the middle of 1931 down to the end of 1932?

Mr. MILLS. I don't know as you would call it a dry or a salient run. We never recognized it as such. It was seepage of deposits. We ascribed it largely to people leaving Detroit, to people placing their funds in banks that were more liquid. It may have been as you described it. We never recognized it as such.

Mr. PECORA. You were conscious of the fact of these withdrawals within this year and a half period of time, weren't you?

Mr. MILLS. Oh, yes.

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Mr. PECORA. You were conscious of it currently?

Mr. MILLS. Yes.

Mr. PECORA. Did that suggest to you as one of the officers of the bank, as its second officer and later on as its chief officer, the advisability of a conservation of its resources to the fullest possible extent?

Mr. MILLS. We always tried to conserve our resources, whether we were losing deposits or otherwise. At least while I was there.

Mr. PECORA. Now, during all that year 1931 what dividends were paid by the bank?

Mr. MILLS. I do not know what the First National Bank paid, because I was not a director.

Mr. PECORA. How about the Peoples Wayne County Bank?

Mr. MILLS. I have those figures here some place. If you will bear with me a few moments I think I can dig them out for you.

Mr. PECORA. Yes.

(Mr. Mills at this point referred to his papers.)

Mr. PECORA. Now, will you proceed with your answer?

Mr. MILLS. I am informed that in 1931—I was informed this by the bank—the Peoples Wayne County Bank paid $3,780,000 in dividends.

Mr. PECORA. Three million——

Mr. MILLS. Seven hundred and eighty thousand. That is the figure that I have been informed. That is the Peoples Wayne.

Mr. PECORA. Yes.

Mr. MILLS. That is the only one I knew anything about.

Mr. PECORA. Yes. The figure as we have it, and as it has been referred to heretofore in the record, is $3,877,845.

Mr. MILLS. Well, there is not a great difference. I don't know where the difference comes, but it is not a tremendous difference. The figure as given to me in Detroit by the bank was $3,785,000. It is not a great difference.

Mr. PECORA. Now, referring to that statement in which you said that in the last calendar year alone—that is, the year 1932—the bank lost $60,000,000 of deposits, paid over $27,000,000 of bills payable that existed on the 1st day of January, 1932, and so forth, what were those bills payable to which you allude?

Mr. MILLS. At the time of the institution of the First Wayne National Bank, which later became the First National, published statement published in the press showed bills payable of $27,960,000. That was at the time of the consolidation.

Mr. PECORA. Do you know how those bills payable were paid off?

Mr. MILLS. Paid off by liquidation of assets, using of spare funds of the bank, by liquidation of assets.

Mr. PECORA. Are you familiar with the fact that on June 29, 1932, the First National Bank, Detroit, reflected on its statement of condition a total of borrowed money amounting to $19,000,000?

Mr. MILLS. June 29, 1932?

Mr. PECORA. Yes, sir.

Mr. MILLS. I do not recall the figure; no, sir. I should be very much surprised at that, Mr. Pecora, because in general those bills payable, according to my recollection, had been going down.

Senator COUZENS. That does show them going down from 29 million January 1, 1932, to 19 million in June 1932, doesn't it?

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Mr. MILLS. Yes, they do; but I thought they went more than that, Senator.

Mr. PECORA. Now, Mr. Mills, let me show you what purports to be a photostatic reproduction of the daily statement of condition of the First Wayne National Bank of Detroit under date of June 29, 1932. Doesn't it show total borrowed money $19,000,000 on that date [handing document to Mr. Mills]?

Mr. MILLS. Yes, sir; and the day before it shows $10,000,000 of borrowed money. It shows this—may I read the whole line, Mr. Pecora?

Mr. PECORA. Yes.

Mr. MILLS. It showed borrowed money January 15, 1932, $26,850,000.

Mr. PECORA. Yes; is that January 1?

Mr. MILLS. January 15, 1932.

Mr. PECORA. Yes.

Mr. MILLS. June 28, 1932, $10,000,000. June 29, 1932, $19,000,000, an increase of $9,000,000.

Mr. PECORA. Well, now, I show you what purports to be a photostatic reproduction of the statement of condition as of June 30, 1932, of the First Wayne National Bank of Detroit. Will you look at it and tell me what it shows with regard to borrowings and borrowed moneys on June 30, 1932, the day after the 19 million dollars borrowed money as shown by the statement from which you just read?

Mr. MILLS. Shows no borrowed money on that day. It shows the nineteen is the day before.

Mr. PECORA. What is that?

Mr. MILLS. It shows the nineteen is the day before.

Mr. PECORA. Shows nineteen the day before, but no borrowed money at all on June 30?

Mr. MILLS. Correct.

Mr. PECORA. How was that taken care of?

Mr. MILLS. By using funds on deposit with banks and bankers. I say that is the only way that I know that it could have been done. It may have been done by liquidation, I don't know.

Mr. PECORA. You were the——

Mr. MILLS (interposing). I was the head of the bank.

Mr. PECORA. You were executive head of the bank?

Mr. MILLS. Oh, yes.

Mr. PECORA. And you don't know how it was done, how an item of 19 million dollars of bills payable was taken care of?

Mr. MILLS. I say it was done by either of two ways, either by sale of securities or by using funds on deposit.

Mr. PECORA. Well, there is quite a difference between the two things.

Mr. MILLS. I think it may have been done by the use of funds on deposit. It may have been done by other ways, but I think it was done by using funds on deposit.

Mr. PECORA. Now I show you a daily statement of condition as of July 1, 1932, at the same bank. What was the total borrowed money shown to be due and owing by the bank on July 1, 1932?

Mr. MILLS. $20,650,000.

Mr. PECORA. Here is what occurs to me as perhaps a singular situation. I may be wrong, so I am going to ask you to enlighten

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us about it. According to these photostatic reproductions of these daily statements of condition of the bank on June 29, 1932, the bank had bills payable of $19,000,000.

Mr. MILLS. Yes.

Mr. PECORA. On June 30, 1932, the following day, it showed that it had no bills payable at all.

Mr. MILLS. Yes.

Mr. PECORA. And on July 1, 1932, the following day after that, it showed bills payable of $20,650,000.

Mr. MILLS. Yes.

Mr. PECORA. What were the transactions that the bank effected which enabled it to make those showings on those three dates, respectively?

Mr. MILLS. I think unquestionably what happened was this: The bank borrowed on the 29th day of June, borrowed more than its actual needs. It borrowed some—whatever the sum is shown there.

Mr. PECORA. Borrowed some 20 million dollars?

Mr. MILLS. It borrowed $20,000,000. How much of it it needed, I don't know, but it borrowed $20,000,000. It used $20,000,000 the following day. It used that $20,000,000 and other funds on deposit, possibly—say there was some small amount of securities, although I think that would be very incidental—to pay its bills payable.

Mr. PECORA. And then bills payable in the sum of $20,650,000 appear on its daily statement on the following day, namely, July 1.

Mr. MILLS. Yes. They borrowed it the following day; yes, sir.

Senator COUZENS. In the meantime a public statement had been made as of June 30, 1932?

Mr. MILLS. In the meantime I would apprehend that there was a call on that date. But I would also like to call your attention to this Senator: That our totals—I have heard a great deal about totals in the newspapers recently—were off $20,000,00 on each side. So we were not padding any statements. They were off $20,000,000.

Mr. PECORA. No; but, as Senator Couzens has pointed out, on June 30, 1932, the bank published a statement of its condition.

Mr. MILLS. Surely.

Mr. PECORA. And that published statement showed no bills payable at all.

Mr. MILLS. Correct, which was the fact.

Mr. PECORA. Which was the fact. The day before it had bills payable of $19,000,000.

Mr. MILLS. Yes.

Mr. PECORA. And the day after the publication of that statement of condition it had bills payable of $20,650,000.

Mr. MILLS. That is correct, and we used our own money to pay the bills payable, and our totals were down that much.

Mr. PECORA. Now, you said you borrowed the moneys from other banks.

Mr. MILLS. At that time I think we were borrowing in New York. We did not use the Federal Reserve bank. The rate was cheaper in New York.

Mr. PECORA. You borrowed those moneys in order to take care of the bills payable of $19,000,000, which otherwise would have been

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shown on its published statement of condition as of June 30, 1932—isn't that so?

Mr. MILLS. I don't see by borrowing the money that it would not have shown. We borrowed——

Mr. PECORA. Well, the fact is that in the published statement of condition as of June 30, 1932, you did not show any bills payable whatsoever.

Mr. MILLS. Correct.

Mr. PECORA. If you had published a statement of the condition of the bank of the day before, a correct statement would have shown bills payable amounting to $19,000,000?

Mr. MILLS. If the Comptroller had called on that date it would have been so shown; yes, sir.

Mr. PECORA. Yes. And if you had published a statement of the condition on July 1, 1932, it would have shown bills payable of $20,650,000?

Mr. MILLS. If the Comptroller had called for it on that day it would have; yes, sir.

Mr. PECORA. But the Comptroller had called it for June 30?

Mr. MILLS. He did. He had not then. He did later.

Mr. PECORA. It was anticipated then that he would?

Mr. MILLS. Well, it was probably thought that he would; yes.

Mr. PECORA. That is one of the dates usually fixed for a call for a statement?

Mr. MILLS. Yes.

Mr. PECORA. And that was known to you, wasn't it?

Mr. MILLS. I knew that there was frequently a call on that date. Everyone knew that there was frequently a call on that date. I want to call your attention to the fact that we used our own moneys on deposit with depositaries for that purpose.

Senator COUZENS. Why did you have to borrow the money the next day then if you used your own money?

Mr. MILLS. Probably to meet some demands of withdrawals. I don't know, Senator. Probably to meet some withdrawal demands.

Senator COUZENS. You don't want this committee to really believe, Mr. Mills, that it was just an element of luck?

Mr. MILLS. Oh, no, Senator. I am not trying to.

Senator COUZENS. That on June 30 you showed no bills payable?

Mr. MILLS. No; I am not trying to do that at all.

Senator COUZENS. That is what I thought you were trying to do.

Mr. MILLS. I am glad that you told me that. I would like to make myself perfectly clear. We anticipated a call——

Mr. PECORA. For June 30?

Mr. MILLS. For June 30. We did not know it. We used our own money to pay our bills payable with.

Senator COUZENS. And yet you do not tell us how you came to borrow more than you paid out the day before.

Mr. MILLS. I said we probably needed it in our business.

Senator COUZENS. Well, you say "probably." What did you need it for?

Mr. MILLS. We needed it in our business to carry on the business.

Senator COUZENS. Why didn't you use it on the 30th of June, then?

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Mr. MILLS. I suppose because we did not wish to show any bills payable.

Senator COUZENS. That is what we wanted to get you to state.

Mr. MILLS. We did not want to show any bills payable, and we used our own money for that purpose.

Mr. PECORA. Do you recognize that as a species of window-dressing, to use a rather popular term?

Mr. MILLS. I would not; because we did not receive any assistance from any affiliates. We did not ask for any special deposits over that period. We used our own funds.

Mr. PECORA. Are you sure you used your own funds?

Mr. MILLS. As far as I know, we did; yes. As far as I know, we used our own funds; every reason to believe it.

Senator COUZENS. You had no special deposits on June 30, 1932?

Mr. MILLS. It was against our policy, and I so instructed the men in the bank that we did not wish to get special deposits.

Senator COUZENS. And you did not get any special deposits prior to June 30, 1932?

Mr. MILLS. So far as my knowledge goes; no.

Mr. PECORA. Did you create a deficiency in the legal reserve of the bank with the Federal Reserve bank?

Mr. MILLS. No, sir.

Mr. PECORA. Are you sure you did not?

Mr. MILLS. I asked that question—oh, in reading about this testimony in the newspapers—and they tell me that under the rules of the Federal Reserve no deficiency was in the reserves. They are computed not on daily balances.

Mr. PECORA. When did you ask that question of anyone?

Mr. MILLS. I asked that question when I was reading about the Guardian investigation here.

Mr. PECORA. What prompted you to ask that question in regard to these transactions of June 29, June 30, and July 1, 1932, in view of the fact that there had not been a word of evidence introduced before this committee up to the present time with regard to these transactions?

Mr. MILLS. I wanted to fortify myself for any answers that I could conceive of that I might be asked.

Mr. PECORA. Then, you had some consciousness a short time after reading the testimony before this committee with regard to window-dressing practices in connection with the Guardian Detroit Union Group?

Mr. MILLS. Oh, I expected I would be asked about window-dressing; yes.

Mr. PECORA. And, conscious of that, or anticipating that, you thought of these particular transactions?

Mr. MILLS. No; I did not.

Mr. PECORA. Of June 29, June 30, and July 1, 1932?

Mr. MILLS. No; I didn't know of that, Mr. Pecora. I didn't know of that. I was trying to fortify myself about reserves; trying to fortify myself as to whether there were any other deposits that went to the bank. I didn't know that this condition—I didn't recall the condition existed in June.

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Senator COUZENS. Why did you ask what the condition of your balance was in the Federal Reserve as of June 30, 1932?

Mr. MILLS. I didn't ask as of that date. I asked what the general requirements were, Senator.

Senator COUZENS. And you found that on June 30, 1932, there was no deficiency in your Federal Reserve account?

Mr. MILLS. I didn't know that until a few minutes ago. And I still don't believe there was a deficiency in the account.

Mr. PECORA. Now, Mr. Mills, I want to show you what purport to be photostatis reproductions of certain statements of records of the bank.

Mr. MILLS. Yes, sir.

Mr. PECORA. Will you look at them and tell us if they do not refresh your recollection as to whether or not a deficiency was created in the legal reserve of your bank at the Federal Reserve bank on June 30, 1932, in the sum of $11,581,000?

Mr. MILLS. I have never seen these statements before.

Mr. PECORA. Well, look at them now.

Mr. MILLS. I probably would not understand them. I will certainly look at them. [After looking at document.] This shows that this is dated July 1, apparently shows—may I speak to persons who know——

Mr. PECORA (interposing). We found them among the records of the bank, Mr. Mills. I don't know who prepared it.

Mr. MILLS. I don't recognize the document. It shows—it is self-explanatory—almost $21,000,000 representing, apparently, reserves of July 1.

Mr. PECORA. The required reserves. Take the first sheet there of that photographic reproduction that you have. What does it show?

Mr. MILLS. It shows date, demand deposits, apparently in thousands, and time deposits. Then comes the word "required."

Mr. PECORA. Well, give the figures under each caption.

Mr. MILLS. All right.

Mr. PECORA. For each of the three dates.

Mr. MILLS. Date July 29, demand——

Mr. PECORA. June 29, isn't it?

Mr. MILLS. June 29—beg your pardon. Demand, 118,439. I presume that is millions.

Mr. PECORA. That is millions; yes.

Mr. MILLS. Time, 289,741. Required, 20,536.

Mr. PECORA. That is the required reserve, 20,536,000?

Mr. MILLS. Yes. "In Fed. 27,365. Over 6,289." That would be an overreserve.

Mr. PECORA. That is, on June 29, 1932, the bank was required to maintain a reserve with the Federal Reserve bank of twenty-odd million dollars, the figure that you gave, and it actually had some $27,000,000 in reserves?

Mr. MILLS. No. According to my information, reserves are not figured on a daily basis, so it was not required to have that. It was figured, I was informed, on a semiweekly basis. If it had been figured on a daily basis, this would be correct.

Senator COUZENS. You told us awhile ago that it was not figured on an average. That is what your testimony shows.

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Mr. MILLS. If I did, Senator, I will state this, or I have been informed, that reserves are figured on average balances, on semi-weekly averages, that that is the requirement by the Federal Reserve bank. I have been so informed. Do you wish me to continue reading that?

Mr. PECORA. Yes.

Mr. MILLS (reading):

On June 30: Demand, 117,517; time, 289,176; required, 20,427; in Fed. 8,846; over, blank; short, 11,581.

Mr. PECORA. That means that on that date, June 30, 1932, there was a shortage or deficiency in the reserve of 11 million-odd.

Mr. MILLS. As you phrase your question, and dropping the word "required", I agree with you; yes, sir.

Mr. PECORA. The word "required" is on that statement, is it not?

Mr. MILLS. It says "required"; yes. It says so.

Mr. PECORA. Yes. That is not our exhibit. That is from the bank's records.

Mr. MILLS. But I am informed the law is otherwise, and the regulations of the Federal Reserve bank. [Continuing reading:]

Date, July 1; demand, 132,399; time, 288,560; required, 21,897; in Fed., 26,661; over, 4,769.

Senator COUZENS. So, in effect, on the 29th you had an excess in your reserve account in the Feedral Reserve bank of some 6 million.

Mr. MILLS. Close to 7 million; yes.

Senator COUZENS. And on the 30th, the day you showed no bills payable, you were overdrawn in your reserve to the extent of 11 millions. You were under your reserve to the extent of 11 millions.

Mr. PECORA. They had a deficiency.

Mr. MILLS. We had a deficiency if they were figured on that day's basis.

Mr. PECORA. If they were not figured on the daily basis, how in the world was that sort of a statement in the records of the bank? Was it just an idle specimen of penmanship?

Mr. MILLS. No. It is perfectly obvious that they keep their records in the bank—Mr. Russ—on a day-to-day basis.

Mr. PECORA. Do you recognize the handwriting?

Mr. MILLS. No; I do not. But he was in charge of reserves.

Senator COUZENS. The record shows, regardless of the figures and who wrote them, that for the purpose of the June 30 statement you drew this money out of the Federal Reserve bank.

Mr. MILLS. Yes.

Senator COUZENS. To pay up your bills payable, so as to show no bills payable; and by so doing you were under your reserve some $11,000,000.

Mr. MILLS. Not under our required reserves.

Senator COUZENS. The bank statement shows you were short that much.

Mr. MILLS. Well, that is——

Senator COUZENS. We will call it short for the purpose of harmonizing our statements.

Mr. PECORA. Does it now seem to you that on June 30, 1932, the bank wanted to show no bills payable as of that date, and in order

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to do so, in the statement which it made in response to the Comptroller's call and in the statement which it published as of that date, created a deficiency in its legal reserve at the Federal Reserve bank amounting to over $11,000,000?

Mr. MILLS. Not in its legal reserve; no, sir. Not in its legal reserves. One thing I always cautioned Mr. Russ was never to drop below his legal reserves. I know Mr. Russ well enough to be confident that he never did.

Mr. PECORA. What do you suppose, then, this memorandum or record refers to?

Mr. MILLS. I did not make it. I do not know. That shows on the daily basis.

Mr. PECORA. Yes.

Mr. MILLS. The law and the Federal Reserve regulations, I have been informed, do not require it on the daily basis. They are figured semiweekly.

Senator COUZENS. Then, on July——

Mr. MILLS. May I finish?

Senator COUZENS. Certainly.

Mr. MILLS. We were using our power and our ability and the funds we had to pay bills payable. We had the power to do it and we used it, and our totals were down by some $20,000,000. If we had not done it we might have been accused of padding, showing some $20,000,000 more assets and 20 million more liabilities.

Mr. PECORA. Are you familiar with the provisions of the Federal Reserve Act?

Mr. MILLS. On reserves?

Mr. PECORA. With regard to member banks maintaining reserves there?

Mr. MILLS. No; I am not.

Senator COUZENS. You are one of the largest members of the Federal Reserve System, and you are not familiar with that?

Mr. MILLS. I know the general terms, Senator; yes.

Mr. PECORA. Did you ever read the regulation or provision of law itself relating to the maintenance of these reserves?

Mr. MILLS. Oh, yes. I have read the Federal Reserve Act time and again.

Mr. PECORA. How about the regulations?

Mr. MILLS. I do not believe I ever read the regulations. I have read the law time and again.

Mr. PECORA. Your bank declared and paid a dividend on June 30, 1932, did it not?

Mr. MILLS. The First National Bank declared a dividend.

Mr. PECORA. Of $500,000?

Mr. MILLS. Prior to that date.

Mr. PECORA. And paid it as of June 30, 1932?

Mr. MILLS. I believe that was the date.

Mr. PECORA. The amount of that dividend was $500,000, was it not?

Mr. MILLS. I think it was $2 a share.

Mr. PECORA. That made $500,000?

Mr. MILLS. Correct.

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Mr. PECORA. Are you familiar with this provision of the National Banking Act, known as "section 410, title XII", which reads as follows [reading]:

The required balance carried by a member bank with the Federal Reserve bank may, under the regulations and subject to such penalties as may be prescribed by the Federal Reserve Board, be checked against and withdrawn by such member bank for the purpose of meeting existing liabilities, provided, however, that no bank shall at any time make new loans or shall pay any dividends, unless and until the total balance required by law is fully restored.

Mr. MILLS. I recall having read some such provision. Any dividend was declared long before that date. It would have been declared in June—early in June, probably.

Mr. PECORA. The reference in the statement here is not to the declaration of dividends but to the payment of dividends. This dividend of $500,000 was paid on June 30, 1932, in pursuance of a declaration made earlier that month, was it not?

Mr. MILLS. I presume the date was June 30. I would have to take your word for it.

Mr. PECORA. I do not want you to take my word for it. You were the chief executive officer of the bank at that time. I should think you would know the date of the payment of dividends of the bank.

Mr. MILLS. Dividends were paid quarterly. They were paid either the last day of the year or the 1st day of January.

Mr. PECORA. Don't you know which day it was?

Mr. MILLS. No; I do not.

Mr. PECORA. If it were declared quarterly, that would make it payable on either the 30th of June or the 1st of July.

Mr. MILLS. Yes.

Mr. PECORA. Which of the dates was used?

Mr. MILLS. I do not know. I am inclined—yes; I do know—payable on the 1st day of January. I will tell you how I know that, because my income tax—they have checked my income tax—they threw that into the—now, I am not so sure. I do not know. I do not know which date it was, whether it was the last day or the first of the month.

Mr. PECORA. I will tell you what I would like to have you do, Mr. Mills.

Mr. MILLS. Yes, sir.

Mr. PECORA. Not only as the chief executive officer of the bank, but as an attorney, will you refer me—if you cannot do it now, do it at any subsequent time—to any statutory provision or to any provision found in any regulation or rule of the Federal Reserve bank which did not require the maintenance of reserves against daily balances?

Mr. MILLS. I will ask the people who told me about this, and bring you what they tell me; bring you the reference.

Mr. PECORA. While you are on the stand, and at this time, I will ask you to look at the National Banking Act, a copy of which I have before me, and to read section 408 thereof, entitled "Balance Which Member Banks Must Keep in Reserve Banks", and see if that enlightens you.

Mr. MILLS. Do you wish me to read that aloud?

Mr. PECORA. No; just read it to yourself.

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Mr. MILLS (examining document). This reads, as to our particular situation, being in a reserve city, that the bank shall hold and maintain with the Federal Reserve bank of its district an actual net balance equal to not less than 10 percent of the aggregate amount of its demand deposits and 3 percent of its time deposits. That is the portion as it refers to us.

Mr. PECORA. That does not say on a semiweekly average, does it?

Mr. MILLS. I was informed by Mr. Sweeny and Mr. Russ that that was found in the regulations of the Federal Reserve Board as to reserves, or in some such similar document.

Mr. PECORA. I would like to have you call our attention to any such provision.

Mr. MILLS. I will attempt to secure it for you.

Mr. PECORA. You know, from your experiences as a bank officer, as well, probably, as an attorney, that banks are subjected to penalties by way of fines by the Federal Reserve bank for creating deficiencies in their reserve funds at the Federal Reserve bank.

Mr. MILLS. Yes.

Mr. PECORA. Was your bank ever fined for any such deficiency?

Mr. MILLS. Not to my knowledge.

Mr. PECORA. Would you know if it were the fact that it had been fined?

Mr. MILLS. If the fine amounted to anything of real consequence, I would have known of it while I was the head of the bank. If it was a small fine, I would not have.

Mr. PECORA. You might check that up, too, between now and your next appearance on the stand.

Mr. MILLS. I do not know how I could find that, because I have no access to the records from the receiver.

Mr. PECORA. Perhaps some of your former associates in the bank who would know of that would be able to tell you. Perhaps Mr. Sweeny can tell you.

Mr. MILLS. It is pretty hard to see him.

Senator COUZENS. Perhaps the Federal Reserve in Detroit can tell you.

Mr. MILLS. Could not the receiver tell me?

Mr. PECORA. If he is willing to, I have no objection to his doing it. I do not care where you get your information from, if it is authentic.

Mr. MILLS. It would be easier to find out from him. He has the record.

Mr. PECORA. And at the same time you might assure yourself of the date of payment of this dividend for the second quarter of 1932.

Mr. MILLS. All right.

Mr. PECORA. Mr. Mills, while I am having certain records looked up, I want to ask you about this statement, taken from your prepared statement read into the record this morning. You will find it at page 6 thereof. [Reading:]

The First National Bank would have opened on Tuesday after Lincoln's birthday (that refers to the year 1933) and conducted its business had it not been for the attitude of the Ford Motor Co., which then stated that if the Guardian were not permitted to open the Ford Motor Co. would withdraw its own and its controlled deposits, amounting to approximately 20 million dollars, from the First National Bank the first thing Tuesday morning. For some reason, as has been testified by Mr. Edsel Ford, the Ford Motor interests

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reached the conclusion that unless the Guardian were permitted to open they would withdraw their deposits from the First National Bank. These institutions were in no way related. Why Mr. Ford should state he would withdraw an enormous deposit from the First National Bank unless another and entirely separate and competing institution were saved, is to me unknown.

Now, did it ever occur to you to ask anyone connected with the Ford Motor Co. what reason they had for announcing that they would withdraw their deposit of approximately 20 million from your bank if the Guardian bank closed?

Mr. MILLS. Yes; it did.

Mr. PECORA. Did you ask them? Whom did you ask about it?

Mr. MILLS. I talked to Mr. Henry Ford.

Mr. PECORA. Did he give you his reason for that attitude?

Mr. MILLS. Mr Ford made substantially this statement to me.

Mr. PECORA. What statement?

Mr. MILLS. Ford stated to me—this was on the Michigan holiday, on Monday evening of the Michigan holiday. That would be on the——

Senator COUZENS. The 13th.

Mr. MILLS. The 13th day of February—that unless the Guardian were permitted to open the following day he would come down and take his money, every cent of his funds, from us and from any other Detroit bank that was open.

The CHAIRMAN. And what?

Mr. MILLS. And any other Detroit bank that was open.

Mr. PECORA. Did he give you his reason for so doing?

Mr. MILLS. I said, "Why is that, Mr. Ford?" He said, "I think it is up to the Government to save these institutions by making them loans. They saved the Dawes bank."

Mr. PECORA. Is that the reason he gave?

Mr. MILLS. That is substantially the reason. That was substantially the whole conversation.

Mr. PECORA. Then you did know the reason, when you prepared this statement which you read into the record, and said:

Why Mr. Ford should state he would withdraw an enormous deposit from the First National Bank unless another and entirely separate and competing institution were saved is to me unknown.

Mr. MILLS. Mr. Ford may have had other reasons in addition which he did not express to me.

Mr. PECORA. You are assuming, now, that he had other reasons.

Mr. MILLS. Assuming he may have had them.

Mr. PECORA. But you did specifically go to him to find out what his reason for such withdrawal was, and he gave you the reason you have repeated just now.

Mr. MILLS. I asked him if he would play ball, told him what the situation was, told him we were applying for a loan from the R.F.C. for the first time and we hoped to secure one. Mr. Ford made the remark that I have testified to.

Mr. PECORA. Mr. Mills, I show you what purports to be a photostatic reproduction of a letter addressed by you under date of November 14, 1931, to Mr. Henry M. Robinson, care of Carlton Hotel, Washington, D.C. Will you look at it and tell me if you recognize it to be a true and correct copy of such a letter addressed by you

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to Mr. Robinson on or about that date? [Handing a paper to Mr. Mills.]

Senator COUZENS. Who is Mr. Robinson?

Mr. MILLS. Mr. Robinson is a banker of California. [After examining paper.] Yes; I wrote—I believe I wrote the original of that letter, without any question.

Mr. PECORA. I offer it in evidence.

(Copy of letter, Nov. 14, 1931, Mills to Henry M. Robinson, was received in evidence, marked "Committee Exhibit No. 135, Feb. 2, 1934", and the same was subsequently read into the record by Mr. Pecora.)

Mr. PECORA. The letter received in evidence as Committee's Exhibit No. 135 of this date reads as follows [reading]:

NOVEMBER 14, 1931.

MR. HENRY M. ROBINSON,
Care of Carlton Hotel, Washington, D.C.

DEAR MR. ROBINSON: I cannot begin to tell you how cheered I felt upon our telephone talk yesterday afternoon. I have spoken to the head of every bank and trust company of significance in Detroit and they have agreed to give the heartiest public approval to the President's plan. Many other of our local prominent citizens are likewise doing so.

The attitude of all of our newspapers has been perfectly splendid. The Detroit Free Press carried the announcement with a headline completely across the first page, and I happen to know that they will follow it up with favorable editorial comment. The other papers have given it prominent publicity on the front pages, and at least one of them has indicated to me that they will follow it up editorially.

At first I was somewhat disappointed that dispatches from Washington were not received until so late last evening, but I think it is better now than had they come in earlier, because I am told that our papers expect to carry special articles tomorrow (Sunday) upon the plan. So there will be, in effect, a double dose of news publicity.

The other organizations here are also planning to get behind the plan and do what they can with their Representatives and Senators toward an early enactment of the plan into law. Frankly I shudder when I consider our senior Senator. I have not the remotest idea—possibly he has not—what his reaction will be. I wish he was a more normal and not such an erratic individual.

I telephoned your message to Emory Clark. He was delighted to hear it and asked me, if I happened to see or write you, to give you his very best remembrances.

I cannot close this letter without telling you how very much I enjoyed our meeting, and that I feel the country, in addition to having the President to thank for this present constructive move, should also have you to thank. If you are ever in this neighborhood, I will not forgive you if you do not let me know, and when, as and if, as a lawyer would say, I happen to be in Washington, I am going to at least inflict myself upon you for a few moments.

With heartiest congratulations and the very best of good wishes, I remain,

Yours Faithfully,

——— ———.

Senator COUZENS. What was the plan you were talking about in that letter? I am curious to know the plan that was to be announced.

Mr. MILLS. As I recall it, Senator, Mr. Hoover had already announced, or was about to announce, a plan for the Federal Home Loan Bank, which he advocated.

Senator COUZENS. This was after the R.F.C. had been organized, was it?

Mr. MILLS. No.

Mr. PECORA. This was dated in November 1931.

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Mr. MILLS. Several months before the R.F.C. He stated that in his message to Congress, when Congress convened in December—Mr. Hoover made the public statement that when Congress convened in December he would recommend to the Congress the enactment of a Federal Home Loan bank bill. Mr. Robinson had informed me of that.

The CHAIRMAN. That was put in operation about a year and a half afterwards. It started about a year and a half afterwards.

Mr. PECORA. No; this letter was dated November 14, 1931.

Senator COUZENS. The Federal Home Loan bank.

The CHAIRMAN. The Federal Home Loan bank was started about a year and a half afterwards.

The committee will now adjourn until 10 o'clock Tuesday morning.

(Whereupon, at 4 p.m., Friday, Feb. 2, 1934, an adjournment was taken until Tuesday, Feb. 6, 1934, at 10 a.m.)

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STOCK EXCHANGE PRACTICES

TUESDAY, FEBRUARY 6, 1934

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

The subcommittee met at 10:30 a.m., pursuant to adjournment on Friday, February 2, 1934, in room no. 301 of the Senate Office Building, Senator Duncan U. Fletcher presiding.

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

Present also: Ferdinand Pecora, counsel to the committee; Julius Silver and David Saperstein, associate counsel to the committee; and Frank J. Meehan, chief statistician to the committee.

The CHAIRMAN. The subcommittee will come to order. You may proceed, Mr. Pecora.

Mr. PECORA. Mr. Mills.

TESTIMONY OF WILSON W. MILLS, GROSSE POINTE FARMS, DETROIT, MICH.—Resumed

Mr. MILLS. Mr. Chairman, at the last session of the committee I was asked how frequently the First Wayne National Bank, subsequently the First National Bank in Detroit, had had a shortage of reserves during the year 1932; or, to put it mildly, I think the intimation was made that there was a shortage of reserves with the Federal Reserve bank in June of 1932. Immediately upon my return to Detroit I took the matter up with the Federal Reserve Bank of Chicago, Detroit branch, and with your permission I should like to read a letter from the managing director:

DETROIT BRANCH, FEDERAL RESERVE BANK OF CHICAGO,
Detroit, Mich., February 3, 1934.

Mr. WILSON W. MILLS,
Grosse Pointe, Mich.

DEAR MR. MILLS: In accordance with your today's telephone request the following information is submitted from our records in connection with the reserves of the First Wayne National Bank, Detroit, and the First National Bank, Detroit, for the year 1932.

On January 31, 1932, a charge was made to the First Wayne National Bank, Detroit, of $67.76 for a reserve deficiency of $149,912. Our records further indicate there was a deficiency of $504 for the period ending February 19, 1932, on which no penalty was assessed because of the small amount. For all other periods during the year 1932 the First Wayne National Bank, which in October 1932 was named the First National Bank, carried excess reserves.

You will find attached to this letter a copy of the Federal Reserve Board's regulation D, which has to do with reserves of member banks and which gives authority for computing reserves on the average daily net deposit balances covering semiweekly periods.

Yours very truly, WM. R. CATION, *Managing Director.*

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Also another letter from Mr. Cation, bearing the same date, as follows:

With further reference to my today's letter in connection wtih the reserves of the First Wayne National Bank, Detroit, and the First National Bank, Detroit, for the year 1932, you have inquired with respect to the reserves of the First National Bank for the year 1933.

Our records indicate that during the year 1933 the First National Bank, Detroit, carried excess reserves for all periods up to the date the bank was taken over by the receiver.

Very truly yours,

WM. R. CATION, *Managing Director.*

The CHAIRMAN. They may go into the record, and you have already read them.

Mr. MILLS. May I make one more short statement: When Judge Murfin was on the stand last week—and he has been excused as I understand it—it was stated, or at least I understood the statement to be made, that if Mr. Sweeny would authenticate any statement that he desired to make with reference to the charges that had been made against him, the committee would be glad to receive same here. I have two authenticated statements by Mr. Sweeny, one rather long and in detail, composed of some 12 pages, and the other in very much briefer form, composed of some three pages, both of which, at his request, I should now like to offer to this committee. And I am further authorized to state that Mr. Sweeny's health is somewhat better, and his doctor feels that a deposition might readily be taken, in bed, as he is still in bed, at any time so long as he is not given more than an hour period daily.

Senator COUZENS. Mr. Chairman, I move that the two authenticated statements be received.

The CHAIRMAN. Have those statements been sworn to by Mr. Sweeny before a notary public?

Mr. MILLS. They are sworn to before a notary public, with seal; yes, Mr. Chairman.

Senator COUZENS. Mr. Chairman, I move that they be received for the consideration of the committee.

The CHAIRMAN. They may be received and marked for identification, and the committee will later determine about offering them in evidence.

(The 12-page statement, dated Jan. 27, 1934, was marked "Committee Exhibit No. 136 for identification, Feb. 6, 1934", and will be held by the subcommittee for further determination.)

(The 3-page statement, dated Feb. 3, 1934, was marked "Committee Exhibit No. 137 for identification, Feb. 6, 1934", and will be held by the subcommittee for further determination.)

Mr. PECORA. Mr. Mills, do you want the committee to understand, on the basis of the advices that you have read into the record as having been received by you from the Federal Reserve Bank of Chicago, Detroit branch, that the First Wayne National Bank of Detroit did not have a deficiency in its reserves with the Federal Reserve bank on the 30th day of June 1932?

Mr. MILLS. The statements are self-explanatory. In accordance with the regulations of the Federal Reserve Board there was no deficiency.

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Senator COUZENS. Mr. Mills, that does not answer the question, because the records of your own bank show that it was deficient in a sum of over $11,000,000 as of that date.

Mr. MILLS. I have no knowledge who made such record. They have not been produced. I do not know who made the record because it has not been brought here. All that I know is that under the regulations of the Federal Reserve Board there was no deficiency.

Mr. PECORA. The managing director says there was no deficiency on 3-day periods.

Mr. MILLS. And that is how they are computed under the law and the regulations.

Mr. PECORA. I have asked you if it is a fact that on June 30, 1932, the bank had created a deficiency in its reserve with the Federal Reserve bank on that date.

Mr. MILLS. Not under the law and regulations.

Mr. PECORA. What do you mean by "not under the law"?

Mr. MILLS. And the regulations.

Mr. PECORA. The regulations you have reference to are regulations for assessing penalties for the establishment of a deficiency during 3-day periods, aren't they?

Mr. MILLS. They are also regulations for the maintenance of reserves.

Mr. PECORA. Aren't they regulations of a character that require daily reserves, or reserves on the daily balances?

Mr. MILLS. The regulations provide for a semiweekly average of balances.

Mr. PECORA. Will you read that letter again that you read into the record?

Mr. MILLS. Yes, sir.

Mr. PECORA. Or let me have it and I will get right to the point I have in mind.

Mr. MILLS. All right. Here they are [handing to Mr. Pecora the two letters he had already read into the record].

Senator ADAMS. Mr. Mills, while Mr. Pecora is looking over the letters let me ask you: The statutes require certain mathematical reserves on certain types of deposits, don't they?

Mr. MILLS. Yes, sir.

Senator ADAMS. They must have a certain percentage of reserves for deposits of different kinds?

Mr. MILLS. Yes.

Senator ADAMS. As I gather, your theory is that the Federal Reserve Board, or the Federal Reserve Bank of Chicago, has seen fit to interpret those reserve requirements in terms of averages and that it does not require that they shall maintain those reserves on each day.

Mr. MILLS. That is correct. And the statute, I am informed, gives that authority to the Federal Reserve Board—to make those regulations.

Senator ADAMS. Your understanding of the statute is that it authorizes such action?

Mr. MILLS. Yes, sir.

Senator ADAMS. Have you the statute here?

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Mr. MILLS. And the regulations themselves say that under the authority vested in it by section 19 of the Federal Reserve Act they may make regulations; and these are the regulations [holding up a printed pamphlet], and it is in section (d) of the Federal Reserve Board.

The CHAIRMAN. What is that regulation, section (d)?

Mr. MILLS. It says:

Federal Reserve Board. Reserves from banks. Regulation (d).

This regulation as printed herewith is in the form as amended October 2, 1930.

The CHAIRMAN. What part of it covers this point?

Mr. MILLS. It is section 4. Would you like me to read it?

The CHAIRMAN. Yes.

Mr. MILLS. It reads:

SEC. 4. Penalties for deficiencies in reserves.—Inasmuch as it is essential that the law with respect to the maintenance by member banks of the required minimum reserve balances be strictly complied with, the Federal Reserve Board, under section 19 of the Federal Reserve Act, hereby prescribes the following rules governing the interpretation of reserves under the basic penalty:

(1) Deficiency in reserve balances of member banks in cities where Federal Reserve banks or branches thereof are located——

And there is a branch in Detroit—

and in such other reserve cities as the Federal Reserve Board may designate from time to time, will be computed on the basis of average daily net deposit balances covering semiweekly periods.

Senator ADAMS. Well now, then, your understanding is that if on Monday, say, a bank had no reserves in the Federal Reserve bank, but on Tuesday it had double the required amount, they would have complied with the law, is that it?

Mr. MILLS. Under the law and regulations, certainly.

Mr. PECORA. That is, that no penalty could attach for causing the reserve to fall below the requirement?

Mr. MILLS. But I called to your attention, and we are in a legal discussion here, that section 4 has penalties for deficiencies in reserves, and if there is no deficiency, why, it necessarily follows that the necessary reserves are present.

Mr. PECORA. I asked you if there was a deficiency on a particular date, that particular date being June 30, 1932.

Mr. MILLS. My answer is——

Mr. PECORA (continuing). On that date did the bank have its required reserves at the Federal Reserve bank?

Mr. MILLS. To answer that question I must say that it had its legal reserves, in my judgment; yes, sir; it had its legal reserves.

Mr. PECORA. What was the legal reserve it was required to maintain on that date?

Mr. MILLS. The only way that question can be answered is: As computed on a 3-day average, on a semiweekly average. That is the only way it can be done. The form attached to the managing director's letter shows the form that they use, and the only way we can report to the Federal Reserve bank.

Senator ADAMS. If you can refer to the statute that authorizes that type of regulation, I should like to see it.

Mr. PECORA. There is nothing in the statute so far as we can find about that.

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Mr. MILLS. Mr. Long is here, and probably he could——

Mr. PECORA (interposing). These 3-day periods and weekly periods seem to have been established for the purpose of determining the penalty, and that alone. And it does not relieve banks from the duty of maintaining daily its legal reserve.

Senator COUZENS. There is quite a distinction between the method of assessing a penalty and the keeping of the required reserve.

Senator ADAMS. I can readily understand, Mr. Pecora, that they might avoid the fixing of a penalty because for a particular date, by reason of excessive withdrawal, they might be below the required reserve temporarily and say: "If it is maintained on the average, we will not penalize you." But I do not see they can escape the interpretation that they were below the required reserves on that day.

Mr. PECORA. That is the point at issue between the witness and myself.

Senator COUZENS. It is perfectly apparent, Senator Adams, that on June 30, 1932, the record showed that this bank was 11½ million dollars below its required reserves. And, obviously, if it had not increased its balance on July 1, which it did, it would have been assessed a penalty. But that does not obviate the fact that on June 30, 1932, they were below their required reserves by about 11½ million dollars.

Mr. PECORA. I think the regulation which is known as "section 4" was simply adopted by the Federal Reserve Board as a matter of convenience in determining the imposition of penalties for deficiencies.

Senator COUZENS. There is nothing in what Mr. Mills read to indicate that the required reserve was waived on any specified date. All that it states is that it was computed on a 3-day average in the matter of assessing penalties.

Mr. MILLS. It says "required reserve", I believe, Senator Couzens.

Mr. PECORA. Mr. Mills, you have referred this committee to a certain provision of section 4, being subsection (d) of the regulations of the Federal Reserve Board. Section 5 of the same regulations, which is entitled "Loans and dividends while reserves are deficient", provides as follows:

> It is unlawful for any member bank, the reserves of which are at any time deficient, to make any new loans or to pay any dividends, unless and until the total reserves required by law are fully restored, and the payment of penalties for deficiencies in reserve does not exempt member banks from this prohibition of law.

Mr. MILLS We did not pay any penalty. We were within the law.

Mr. PECORA. Even if you had paid a penalty would it exempt you from this prohibition of not making new loans, or of not paying any dividends at any time when you had fallen below the required reserves?

Mr. MILLS. No. But if we had been low we would have paid a penalty, but we were not low and we paid no penalty.

Mr. PECORA. You were not low on the basis of the period for which a penalty might be imposed. This section 5 (d) further provides:

> As provided above, penalties for deficiencies in reserves are computed on the basis of the average reserve balances for semiweekly, weekly, or semimonthly periods. But this prohibition applies whenever the reserves are deficient for

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1 day or more, regardless of whether or not the average reserve balances for the semiweekly, weekly, or semimonthly periods are deficient.

Mr. MILLS. But there were no penalties assessed.

Mr. PECORA. I am not talking about penalties now. It appears that penalties are computed on a 3-day average. But this is a prohibition against the making of any new loans and the payment of any dividends while there are deficiencies in reserves and seems to apply to any time that the bank's reserves are deficient.

Mr. MILLS. It does not seem so to me. It is a difference of legal opinion.

Senator ADAMS. There does not seem to me much occasion for avoiding these facts. As a matter of fact, the reserves are for the purpose of being used in an emergency. It is not any crime or offense to use reserves. That is what we maintain them in Federal Reserve banks for, so that if a bank should have excessive withdrawals you naturally call upon those reserves. They would be perfectly useless if they could not be withdrawn when needed. The requirement is that you must replace them immediately and maintain them. But I do not see any necessity of avoiding the facts here.

Mr. MILLS. I am not trying to avoid any facts, Senator Adams. I am trying to state—and I cannot state too strongly—that under the law and the regulations, to the best of my belief, the First National Bank on that date when there was only a deficiency of about $500 had resources of something like $22,000,000. From that date on there was no deficiency in the legal reserves of the First National Bank.

Senator ADAMS. If you were discussing this matter on one of those days with the directors or officers of the bank, wouldn't you say to your bank officials: Our reserves are below the required amount today, but we will make them up tomorrow? Wouldn't that at least be in your mind?

Mr. MILLS. That might be in my mind, just as a matter of speaking. But it was on an average 3-day basis and they were up to the requirements.

Senator COUZENS. Senator Adams was not here on last Friday when this issue was raised. This bank believed that on June 30th they would get a call from the Comptroller of the Currency. On June 29 they had bills payable of 19½ million dollars. On June 30, the day of the call, they had no bills payable. On July 1 they had 20½ million dollars bills payable, and in order to accomplish that purpose they withdrew their reserves on June 30 in the Federal Reserve bank to the extent of 11½ million dollars in order to wipe out a showing of bills payable. So it was not any sudden or unexpected withdrawal that brought about that situatiton, but it was done for the purpose of window dressing, in order to show on June 30 a statement of no bills payable.

Senator ADAMS. I was wondering, as a matter of fact, in regard to window dressing, if by reading the statement I would rather see an absence of reserves than a presence of bills payable.

Mr. MILLS. I stated, Senator Adams, if I may interrupt for a moment, at that time that the effect of this was also to reduce our total assests and to reduce our cash by the amount of something like 20 million dollars, I think that was the figure used: our resources or assets were 20 million dollars less, and our cash was 20 million dollars less. There was no deception whatever.

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Mr. PECORA. That would not be as significant as a statement showing no bills payable.

Mr. MILLS. I do not agree with that at all.

Mr. PECORA. Well, it depends upon where you put the emphasis, where you have a total of resources of over 400 million dollars it is a question of which would be the more significant, a reduction of those resources by 18 or 20 million dollars, or the presence of an item showing bills payable amounting to 19 million dollars. Apparently your people believed it better for the bank to put itself in the position on June 30, 1932, where it would not show any bills payable at all, although the day before it had bills payable of over 19 million dollars, and the day following it had bills payable of $20,650,000.

Mr. MILLS. Although our total resources and total cash position would show to the public our being off $20,000,000.

Senator ADAMS. Well, had you guessed right? Was a statement called for on that date?

Mr. MILLS. It was called for June 30.

Senator COUZENS. Which shows incompetency on the part of the Office of the Comptroller of the Currency in fixing the calls so that bankers would know when calls were coming.

Senator ADAMS. It might be competency on the part of the bank. [Laughter.]

Senator COUZENS. Well, it showed that they were good guessers.

The CHAIRMAN. Let us proceed with the examination.

Mr. PECORA. Now, Mr. Mills, you stated last Friday that there were 4 or 5 officers of the bank whose positions were superior to that of the president.

Mr. MILLS. Yes; I did. I think I said that.

Mr. PECORA. Four or five officers who outranked the president?

Mr. MILLS. Yes.

Mr. PECORA. What were the respective duties of those 4 or 5 officers who outranked the president?

Mr. MILLS. At what period? They were changed at various times.

Mr. PECORA. Well, were they changes in the bylaws that were made at various times?

Mr. MILLS. No. You asked what their duties were, and I say their duties changed from time to time.

Mr. PECORA. Well, say, just before Mr. Ballantyne resigned as chairman of the governing committee.

Mr. MILLS. Just before Mr. Ballantyne resigned I was more or less in charge of what was known as the old Peoples Wayne office of the First National Bank. Mr. Bodde was there, and Mr. Sweeny was there. Mr. Livingstone was also in that office. Mr. Chittenden was in the main office. The First National Bank was more or less under Mr. Ballantyne, who was in charge of that office. Mr. Bodde and Mr. Chittenden, and Mr. Livingstone functioned in the management, as it were, of the old Peoples Wayne Bank and its branches. That was in general their duties. It was subsequently changed.

Mr. PECORA. Was the change made after Mr. Ballantyne resigned as chairman of the governing board?

Mr. MILLS. Yes; that is, the change in the duties they were performing.

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Mr. PECORA. Now, Mr. Mills, in your prepared statement, which you read into the record last week, on page 2 thereof, paragraph 8, it reads as follows:

> Within 2 weeks after I became an officer of the Peoples Wayne County Bank the Detroit Clearing House and Trust Cos. voted to take over the expiring American State Bank, with assets of about $50,000,000, and its liquidation was entrusted to the Peoples Wayne County Bank.

Can you give this committee the details of that transaction?

Mr. MILLS. I can give the general matter without the details. The American State Bank was a bank organized under the laws of Michigan, and had been in existence for many years. And as I recall it its total assets were in the neighborhood of $50,000,000. The depreciation was on in pretty good force in Detroit about March of 1931, and there was at least a silent run on the American State Bank; to say the least, it was a silent run. Everyone in banking circles knew that there was trouble in the American State Bank. When I started active duties in the bank March 1 I learned then that there was a very serious situation at the American State Bank, both by way not only of frozen loans but by way of bad loans, and its solvency was very greatly questioned. I was told that certain institutions had purchased mortgages from them in order to put them into possession of cash. At that time there was no organization like the National Credit or the Reconstruction Finance Corporation to which the American State Bank could go. The president of the American State Bank resigned, and some bankers, in an effort to sustain the bank, suggested that the State banking commissioner accept the presidency of it, which he very reluctantly did. It was too late, however, and deposits were just flowing out of the American State Bank. So a clearing-house meeting was called, and an examination was made, which of necessity had to be pretty hasty, because the time did not permit of the kind of examniation that everyone would have desired. I believe, although I am not certain, that there were some 2, or possibly 3, days given to the examination, although it might have been less time than that; and a report was made as being the opinion of the examiners as to the assets of the American State Bank.

Whereupon—and I do not recall whether there were individual meetings of the banks or a meeting of the clearing house which was first held; at any rate, there were both meetings of individual banks and meetings of the clearing house, because it was generally in the air that the American State Bank must be either saved by the other banks or else let go. The matter was put up to the board of the Peoples Wayne Bank, and they voted, on the figures that we had upon the examination, to join with the other banks and trust companies, if they so voted and the clearing house so desired, to support the American State Bank; that is, to take it over and, in effect, guarantee the deposit liabilities. I was informed—and this is hearsay—that other banks and trust companies had meetings. Either before or after that time there was a meeting of the clearing house and trust companies, for the trust companies were also present, at which time they unanimously voted to take over the institution. The State bank examiner requested that that action be taken. And it seemed to be the proper and desirable thing to do.

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Mr. PECORA. Did your bank lose as a result of that eventually?

Mr. MILLS. Every bank lost as a result of it, in dollars and cents; yes.

Mr. PECORA. How much of that loss fell on your bank?

Mr. MILLS. We had the larger portion of it, Mr. Pecora, because we were the larger bank. I cannot tell you the figures. I do not know. The loss has not been determined as yet. But it will be a substantial loss. It was very similar, I understand, to the Harriman situation in New York.

The CHAIRMAN. The American State Bank never reopened, did it?

Mr. MILLS. No. It took the legal form of consolidation with the Peoples Wayne County Bank. Counsel advised that that was the better legal form to take, so it took the form of a consolidation, and an assessment was made against the shareholders of the American State Bank, on their stock, and a part of that, a small part, has been collected, and the balance of it I believe is still in litigation. We are attempting to collect on it. Any of that collected will go to cut down the losses of the guaranteeing institutions.

Mr. PECORA. Now, on page 7 of your prepared statement, read into the record last week, you have this to say:

> Nearly three quarters of a million different accounts were in the First National Bank, and those people are, I believe, entitled to know why the then chief national bank examiner of the district gave to the bank's directors, both verbally and in writing, on two occasions, the signal green light "Full speed ahead", and then have the train run into a closed switch.

What were the writings that you had in mind in that statement, Mr. Mills?

Mr. MILLS. In the two reports, first in the written report as of the November examination of 1932 that came into the bank dated late in January, and in that report it was stated, as I recall it, in effect that the Detroit Bankers Co. might not—or that there were no public dividends to be paid—that was the wording; which, taken in view of what the examiner had stated in his meeting with the directors on December 30, in which he said that the bank might pay dividends but that the Bankers Co. should not pay dividends except with the approval of the Comptroller, could only mean what I have stated.

Mr. PECORA. That is, you construed that to mean that the chief national-bank examiner for that district saw there was nothing wrong and signaled the green light full speed ahead? I am employing your language now.

Mr. MILLS. He signaled the green light full speed ahead as to payment of dividends; and, as I have stated, the payment of dividends, in my judgment, is utterly incomprehensible, to my mind, with insolvency.

Mr. PECORA. Did you understand his statements, both the oral statements and the written statements, to mean that the bank would go ahead freely, follow its usual dividend-paying policy, or did you understand that in his declarations, both oral and written, the chief national-bank examiner for that district made certain suggestions with regard to payment of dividends at a reduced rate, provided there was no distribution of those dividends by the Detroit Bankers Co. to its stockholders; those dividends were to be used by the Detroit Bankers Co. to liquidate its indebtedness?

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Mr. MILLS. I do not wish to appear captious, but I want to have this absolutely correct, Mr. Chairman and Mr. Pecora. You said, "At a reduced rate." You see, the rate was reduced; the rate that the bank paid was reduced in June, and from then on there was no talk on the examiner's part of a further reduction in the rate. That rate was then fixed as to Bankers Co. at 25 cents per share. That was in June. The June dividend, the bank's share of that was approximately $2.10—average $2.10 per share quarterly. That came in June.

From then on there was never any suggestion, so far as I know, in writing or orally, from the chief national bank examiner of a further reduction. The chief national bank examiner did say that he did not desire, did not wish, the Detroit Bankers Co., the recipient of those dividends, to use them to pay out dividends to the public except upon the prior approval of the Comptroller.

Have I answered your question? I have tried to.

Mr. PECORA. Well, in your prepared statement you apparently interpreted or want the committee to believe that whatever advices or suggestions or comments were made by the chief national bank examiner, orally and in writing, to the bank's officers were capable of being interpreted as the right to go full speed ahead. I presume you meant——

Mr. MILLS. Paying dividends.

Mr. PECORA. With regard to the payment of dividends?

Mr. MILLS. Yes, sir. Provided they were not increased. I am not saying he told us to increase them, but he gave us—said "Go ahead."

Mr. PECORA. Is that all he said, just "go ahead"?

Mr. MILLS. "Go ahead. You may continue to pay dividends at the same rate."

Mr. PECORA. Didn't he further indicate that the dividend which would be payable practically entirely to the Detroit Bankers Co. should not be used by the Detroit Bankers Co. to pay a dividend on its stock?

Mr. MILLS. Oh, yes. I stated that.

Mr. PECORA. You did not state that in your prepared statement, did you?

Mr. MILLS. Yes.

Mr. PECORA. Where?

Mr. MILLS. That is in effect there—I will show that to you, sir. One moment. On page 7, toward the bottom:

He did state that the Detroit Bankers Co. was not to pay any dividend in 1933 without first securing the permission of the Comptroller.

Mr. PECORA. You are referring to the statement which reads:

During my 6 months as principal officer of the First National Bank no dividend was paid by it or by the Detroit Bankers Co. which did not have the full——

Mr. MILLS. No; just before that, Mr. Pecora, just the sentence before that.

Mr. PECORA. Well, read it, so there will be no mistaking what you have reference to.

Mr. MILLS. I will go back two lines further then:

The examiner must have believed in the full solvency of the bank or he would not have permitted the bank in the future to pay dividends. He did

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state that the Detroit Bankers Co. was not to pay any dividend in 1933 without first securing the permission of the Comptroller.

Mr. PECORA. Well, now, in the report of the examiner of his examination of May 6, 1932, as has already been shown in this record here, the examiner said:

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

Mr. MILLS. I take it you are reading from a yellow sheet which was not given to the bank?

Mr. PECORA. Did the examiner orally or in any other way indicate to the officers of the bank anything contrary to what I have read from his report of May 6, 1932?

Mr. MILLS. In the examiner's session with the governing committee of the bank upon his May report there was some question in the minds of certain members of the board as to whether it would not be better to entirely discontinue dividends. Some of us felt that way on the board. Others felt differently; that the dividend should be not at the old rate but at a lesser rate, but that the dividend should be paid as a matter of business judgment.

Mr. Leyburn took the position in that meeting with the members of the governing committee that it would be better to pay some dividend, and a dividend was then declared by the bank covering the June quarter of—I don't recall the amount here. I have it here some place if you are interested in it.

Mr. PECORA. It was at the old rate, wasn't it, the rate of 16 percent per annum?

Mr. MILLS. No; I think not. We will check that in a moment. Mr. Leyburn took that position, and finally I believe that action was unanimous. Some of the directors felt that it might be better to conserve all assets.

Senator COUZENS. Is there anything inconsistent with what you have just said and what the examiner reported in this so-called "yellow sheet"?

Mr. MILLS. Well, it is a construction of his wording, I think, Senator. I am stating what he told us, and I do not know anything about the yellow sheet except what I have heard read here and in Detroit, I mean the grand jury.

Senator COUZENS. If I interpret properly that statement you have just made, it seems wholly consistent with what the examiner reported to his chief, the Comptroller of the Currency.

Mr. MILLS. I told you precisely what happened in the June meeting, the May or June meeting. I know that the last three dividends of the bank were——

Mr. PECORA. When were they declared?

Mr. MILLS. They would be declared roughly in June, covering that quarter, and in December as well as in September. Those dividends were at the average rate, according to my recollection, of, I think, $2.10; each dividend averaged that. The first dividend was $2.

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Here is what happened: He agreed to a rate from then on by the bank, as I recall it, of $2.10 quarterly. In June for that June period dividend the directors of the bank were a little more conservative than he had suggested, and instead of declaring the dividend of $2.10 my recollection is that a dividend of $2 was declared.

September rolled around and the matter of the dividend was up again, and Mr. Sweeney, president of the bank, either telephoned or wrote Mr. Leyburn and reported, told him, asked him if he would have any objection if the directors desired to declare a dividend of $2.20, so as to bring the average up to what had been agreed upon, which Mr. Leyburn said was perfectly O.K., and $2.20 I believe was declared at that time.

Then in December the dividend of $2.10 was declared. So the average of the last three dividends was $2.10, which had been agreed to by Mr. Leyburn.

Mr. PECORA. What was the percentage of the dividend on the par value of the stock?

Mr. MILLS. Par I believe was a hundred dollars, and that would be at the total rate of——

Senator COUZENS. $8.40.

Mr. MILLS. $8.40. I have those figures some place here [referring to data]. Here are the figures. The dividend which was payable in the first quarter——

Senator COUZENS. Give us the date of declaration and the date they were payable.

Mr. MILLS. I haven't them, Senator. I regret I haven't that. The dividend which was paid on either the last day of March or the 1st day of April by the bank was $4.20. That was before the May examination. The dividend which was payable at the end of June or the 1st of July was $2. The dividend which was payable at the end of September or 1st of August was $2.20, and the final dividend was $2.10.

Mr. PECORA. Did not Mr. Leyburn at the conference you say was had with him by the officers of the bank or members of the governing board of the bank, say to those officers and governors of the bank that the dividend policy that the bank should pursue at that time should be to cut its dividend rate to about half what had previously been paid, and that that dividend when paid to the Detroit Bankers Co. should not be disbursed by the Detroit Bankers Co. in the form of dividends to its stockholders but should be used to pay indebtedness of the Detroit Bankers Co.?

Mr. MILLS. You do not state, Mr. Pecora, to which meeting you refer.

Mr. PECORA. Whatever meeting was held at which there was discussed the report of the examination made as May 6, 1932.

Mr. MILLS. The May meeting. At the May meeting he stated that the last quarterly dividend, as I have stated, $4.20, should be cut, and very likely he said it should be cut in half. I have no quarrel with anyone on that. I think very likely he said it should be cut in half, and it was cut in half for the balance of the year. But in May he most certainly did not state that the Detroit Bankers Co. should not pay dividends. In fact, he argued that the Detroit Bankers Co. should pay dividends. Every member of the governing board is

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available except the one that has died who has heard that statement, and they are all available and will so testify.

Mr. PECORA. Did Mr. Leyburn at that time indicate why he approved of the payment of any dividend whatsoever by the bank?

Mr. MILLS. Mr. Leyburn said he thought it was good policy to pay dividends. He thought that confidence might be better; there might be more confidence generally if the Bankers Co. should continue to pay dividends.

Mr. PECORA. Did he point out the substance of what he reported to the Comptroller in the portion of his report that I have read to you, namely—

First-quarter dividends were paid on the basis of 16 percent annually. This is entirely too high, and while the examiner feels that it should be eliminated entirely, the effect of doing so would probably cause them much trouble. To eliminate dividends altogether would mean that the Detroit Bankers Co. in turn could not pay dividends, and this would demoralize the market and perhaps cause a run on the bank.

Mr. MILLS. No; he did not state that way. He never told us that he felt that the dividend should be eliminated entirely. He most certainly never said that. In fact, when the suggestion was raised by one of the directors that it might be better not to pay any dividends Mr. Leyburn took very strong issue with him.

Mr. PECORA. He took issue with him because of the matter of policy?

Mr. MILLS. I don't know what was in his mind.

Mr. PECORA. As he indicates in his confidential remarks to the Comptroller?

Mr. MILLS. I don't know what was in his mind, Mr. Pecora. I do not know what was in his mind. I do remember his saying that he thought it would be better for the bank if the Detroit Bankers Co. paid dividends. I recall that statement being made.

Mr. PECORA. You had a conference with him, you and other officers of the bank, following the examination that was made as of November 1932, did you not?

Mr. MILLS. The governing committee and certain officers of the bank met with him on December 30; yes, sir.

Mr. PECORA. And what took place at that conference?

Mr. MILLS. He gave a large number of suggestions and criticisms. We were glad to have all of them. Some of them we already started work on. Some of them we thought impracticable. Some of them were new to us and we were considering putting them into effect. We already had started to put some of them into effect.

Respecting the matter of dividends, he stated in effect in this meeting—this is what he said generally in the meeting—that he did not want the Detroit Bankers Co. to pay any more dividends without the prior approval of the comptroller, but that the bank could continue to pay the $2 dividend quarterly to the Bankers Co. if they wanted to do so.

Mr. PECORA. Now let me read to you what he said in his report to the Comptroller.

Mr. MILLS. In the yellow sheet? Is this the yellow sheet? We did not know about it.

Mr. PECORA. I have photostatic copy here which does not show the color, but I assume it was the yellow sheet.

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Mr. MILLS. Then it was not known to us. That is all I mean.

Mr. PECORA. A confidential memorandum.

Mr. MILLS. A confidential memorandum. I just wanted to make it clear.

Mr. PECORA. This is the report based on the examination as of November 18, 1932:

> Dividends paid by subject bank are paid into the Detroit Bankers Co., who in turn have been paying dividends to its stockholders.

That was true, wasn't it?

Mr. MILLS. That was true; yes, sir.

Mr. PECORA. Then he goes on further to say:

> With the potential losses which subject bank faces, it appears entirely unwarranted to be paying dividends to the public.

Now was that true, in your opinion?

Mr. MILLS. I think that it was true that he did not wish to pay dividends to the public. I do not recall his saying much about these potential losses. You see, there was a strange thing—I don't wish to bring in another matter, but there was a strange thing happened at that meeting which has never been explained to me. The items that Mr. Leyburn and his assistants gave to the governing committee did not check up at all with the items that came in in his report to us in January.

Mr. PECORA. January of what year?

Mr. MILLS. Of 1933. That was the report of the same examination. There was a difference there of some 30 millions of dollars which we have yet never been able to—at least never had an opportunity, I have not had an opportunity—to explain. Because in the meeting with the directors, with the governing committee and certain of the officers of the bank on December 30, that is, covering the November examination, Mr. Leyburn listed some $52,000,000 of items as being doubtful, and when the written report came in to us in January it showed some $83,000,000. Now, I don't know where that—some other witness very likely can explain where that difference came.

But there is no question that every member of the governing committee—I talked to them all—recalls distinctly, and it appears in the minutes of the meeting of the bank board sometime during the holiday when the summary of Mr. Leyburn's report was read to the board, that there was this difference of some 30 million dollars in items that he had either changed his mind about or some mistake was made. Forgive me for interpolating that, but I am anxious to give you all the information I can. Every member of the governing committee that is still alive—and they all are except two—will testify to that.

Mr. PECORA. Well, now, I will read further from his confidential criticism on the matter of dividends based upon the November 1932 examination.

Mr. MILLS. Yes, sir.

Mr. PECORA (reading):

> In view of the fact that the Detroit Bankers Co. have other bank loans as their principal source of income aside from subject bank, no effort was made by examiner to discontinue dividends of subject bank at this time, but it is

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distinctly understood and agreed that no further dividends will be paid to the holders of the Detroit Bankers Co. stock without first obtaining the permission of the Comptroller of the Currency.

That was true, wasn't it?

Mr. MILLS. Yes; that was substantially true. That is, he stated that. I do not agree with all of that, but he stated that.

Mr. PECORA. You did not agree with his suggestion or recommendation that there be no distribution by the Detroit Bankers Co. in the form of dividends or its capital stock of the moneys it received from the bank?

Mr. MILLS. No; I agreed with that, but I did not fully agree that the bank should continue even paying the dividends to the Bankers Co.

Mr. PECORA. Did you advocate discontinuance of the payment of dividends by the bank at that time?

Mr. MILLS. There was some talk of it; yes.

Mr. PECORA. What was the result or the action taken by the board?

Mr. MILLS. The board voted unanimously for the dividend.

Mr. PECORA. At the reduced rate?

Mr. MILLS. At the reduced rate; yes, sir.

Mr. PECORA. Now, I want to read the balance of his confidential criticism on the subject of dividends:

Examiner refers you to comparative earnings and dividend report showing dividends and losses less recoveries of subject bank over 5½-year period ending June 30, 1932, exceed the earnings by $14,951,459.

Do you challenge that statement?

Mr. MILLS. I am in no position to do so. I never heard it before. I may have heard that read the other day to one of the witnesses, Judge Murfin or Mr. Stair. I never heard it before then. That was the first time.

Mr. PECORA. I read it to Judge Murfin.

Mr. MILLS. Judge Murfin. But it certainly was not stated by the examiner; and I in turn would like to know whether the examiner meant the subject bank, the First National Bank, without including these other banks that had come into it and had formed a part of it. I don't know. In other words, a great mass of the old First National Bank was not the old First National Bank but consisted of the Peoples Wayne County Bank, the Dime Savings Bank, the Peninsular State Bank, and the Merchants National Bank.

So I don't know whether that report refers to all of the bank or just to the old First National. If it refers to the old First National Bank, which was a small portion of the final First National Bank, I would not be surprised. I do not know to which it refers.

Mr. PECORA. In your prepared statement on page 7 you stated:

On December 30, 1932, 6 weeks before the Michigan bank holiday, the then chief examiner of the district stated orally to the following directors of the bank: W. T. Barbour, J. P. Bowen, E. W. Clark, J. B. Ford, Jr., James S. Holden, J. T. McMillan, T. H. Newberry, Leo Butzel and myself, and James M. Dodge, a vice president, that the bank might continue to pay dividends upon its stock, and in his written report dated in January 1933, in effect the same statement was made.

Can you produce that written report that was sent to the bank?

Mr. MILLS. No; I haven't any documents from the bank whatsoever, except some personal memorandums of mine.

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Mr. PECORA. Was the examiner's statement that the bank might continue to pay dividends upon its stock an unqualified statement to that effect, Mr. Mills?

Mr. MILLS. To the best of my recollection, it was, coupled with the fact that there were to be no public dividends paid by the Bankers Co.

Mr. PECORA. It was qualified to that extent?

Mr. MILLS. To that extent; yes.

Mr. PECORA. And what reason did he give for that suggestion?

Mr. MILLS. I don't recall—conserving assets.

Mr. PECORA. Didn't he give as his reason the fact of the close relationship between the Detroit Bankers Co. and the bank itself?

Mr. MILLS. I don't believe that is a good reason to pay dividends on account of close relationship. I don't believe he gave that. That would not be a good reason.

Mr. PECORA. What reason did he give for no public payment of that dividend by the Detroit Bankers Co.?

Mr. MILLS. Conservation of assets.

Mr. PECORA. By the Detroit Bankers Co.?

Mr. MILLS. By the Detroit Bankers Co.

Mr. PECORA. Well, that would affect the bank because of the close relationship between the bank and the Detroit Bankers Co., would it not?

Mr. MILLS. The Bankers Co. owned the bank.

Mr. PECORA. Yes. And that led to the suggestion that the Detroit Bankers Co. should not disburse the dividend it received but should use that dividend or that cash to liquidate its loans?

Mr. MILLS. He made that suggestion. I did not altogether agree with that. He made that suggestion.

The CHAIRMAN. I don't quite see, if no dividend went to the public, how the payment of dividends to the bank bolstered up public confidence in the bank?

Mr. MILLS. Simply this, Senator: You see, the stock of the Detroit Bankers Co. was listed on the Detroit Stock Exchange, and it was printed with other stocks in black type every day. The Guardian stock, that was the only other one. And every time that stock dropped in common with every other bank stock in the United States rumors immediately started about the bank, and that went on for well, oh, during all the time the stock was dropping for 2 years.

Mr. PECORA. And it was because he wanted to preserve public confidence in the bank at that time that he made these suggestions about dividend paying, wasn't it?

Mr. MILLS. I don't know what was in his mind, Mr. Pecora.

Mr. PECORA. Couldn't you tell what was in his mind by the discussions that you had with him—you in common with other officers of the bank?

Mr. MILLS. You see, it was not necessary for the bank to pay the Detroit Bankers Co. dividends in order for the Detroit Bankers Co. to keep functioning, as has been testified here. You asked. That was not necessary.

Mr. PECORA. It was necessary to have the bank pay those dividends to the Detroit Bankers Co., in order that the Detroit Bankers Co. might have funds, was it not?

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Mr. MILLS. Oh, no; not a bit.

Mr. PECORA. What sources of income did the Detroit Bankers Co. have that exceeded or even compared in amount with the dividends it got from the bank?

Mr. MILLS. They had other means of raising funds to liquidate the debt, to pay interest on it.

Mr. PECORA. What other funds are you referring to?

Mr. MILLS. They owned the First Detroit Co. The First Detroit Co. could have been liquidated. We were considering liquidating it.

Mr. PECORA. Do you know what happened to the First Detroit Co.'s assets?

Mr. MILLS. It has been liquidated. It is being liquidated.

Mr. PECORA. And is the First Detroit Co. solvent?

Mr. MILLS. Oh, yes; the First Detroit Co., no question about it being solvent.

Mr. PECORA. I had in mind the First National Co.

Senator COUZENS. The First National Co. was not solvent?

Mr. MILLS. That is something else. But the First Detroit Co. was the word that has been used here very frequently, the investment affiliate of the Detroit Bankers Co., and on December the 31st it took an inventory of its securities on hand, its bonds and other securities on hand. It showed an inventory depreciation of $465,000. It set up on the liability side a reserve of—I am giving these in even figures—a reserve acconut of $466,000 against it.

It had in addition to that a capital of $800,000, a paid-in or at least a surplus of $200,000, and undivided profits of $116,000, or it had a net worth of $1,116,000. That company could have been liquidated, and all this stuff, if I may use the word, about preserving these outside debts of the Detroit Bankers Co. could have been liquidated right out of that without having the bank pay any dividends.

That is way I say I do not think it is any reason on the examiner's or anybody's part to say that it was necessary for the First National Bank to pay dividends in order to put the Detroit Bankers Co. in funds so it could meet its outside obligations to the bank, because it was not necessary.

Mr. PECORA. I asked you what income the Detroit Bankers Co. had that exceeded in amount the cash dividends it got from your bank.

Mr. MILLS. It had none on that basis.

Mr. PECORA. And the only way the Detroit Bankers Co., then, could have raised funds would have been by liquidation of assets?

Mr. MILLS. Liquidation of the First Detroit Co., which——

Mr. PECORA (interposing). Which was owned——

Mr. MILLS. Which was wholly owned and being considered in it, and it could have been done, and if it had been done these dividends that were paid that were authorized to the Bankers Co. need not have been authorized.

Now, in my opinion, the bank examiner must have known that, but instead of that he preferred to pay dividends as late as December 1933.

Senator COUZENS. Do you know if the stock of the First Detroit Co. was hypothecated anywhere?

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Mr. MILLS. Not at the time of the examiner's report in December. It became hypothecated in January, but it was not hypothecated then.

Senator COUZENS. You mean it became hypothecated in January 1933?

Mr. MILLS. Yes, sir.

Senator COUZENS. Was that the first time the First Detroit Co. stock was hypothecated?

Mr. MILLS. To the best of my knowledge and belief; yes, sir.

Senator COUZENS. When Mr. Pecora started to question you you got switched off from the First National Co. to the First Detroit Co.

Mr. MILLS. Yes, sir.

Senator COUZENS. Through an error. Was the condition of the First National Co. such that it could have been liquidated in the interest of revenue for the Detroit Bankers Co.?

Mr. MILLS. I don't believe so. I was a director of the First National Co. for just about 1 year. I resigned as a director of the First National Co. in October of 1932, having been a director for about 1 year, and I am quite certain that the First National Co. could not pay all its debts.

Senator COUZENS. A while ago you said that the assets of the First Detroit Co. were such that they could have been liquidated. Could they have been liquidated without a substantial loss?

Mr. MILLS. Well, I question, Senator what you mean by loss, whether you mean over cost or over book value.

Senator COUZENS. Over the the book, of course, because you say they had set up reserves.

Mr. MILLS. They had these reserves they had set up. I have every reason to believe the First Detroit Co. assets could have been liquidated for over a million dollars.

Senator COUZENS. And what was the book?

Mr. MILLS. Well, it showed a capital of $800,000, surplus of $200,000, undivided profits of $116,000, and reserves to meet the shrinkage in inventory of $466,000.

Senator COUZENS. What I was trying to get at was, what was the inventory?

Mr. MILLS. In dollars, total?

Senator COUZENS. Yes.

Mr. MILLS. I don't know. I can secure it.

Senator COUZENS. Of course, that is about all that could be liquidated, because undoubtedly the stock could not have been liquidated, because the stock in itself did not have any particular value.

Mr. MILLS. I know, but they could have liquidated its inventory.

Senator COUZENS. Yes; that is what I was trying to get at. What was the extent of the inventory and in what fashion could it have been liquidated under that market?

Mr. MILLS. It could have been liquidated quite promptly, in my judgment, and would have netted over a million dollars.

Senator COUZENS. That in itself, of course, would create a substantial loss, wouldn't it?

Mr. MILLS. To the First National Co.?

Senator COUZENS. Well, the Detroit Bankers Co., which was the parent of the First Detroit Co.

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Mr. MILLS. No; I think not, because the capital of the First Detroit Co. and the surplus, which I was informed—I did not know anything about it originally—I have been informed when it was paid in it was only a million dollars. So I do not believe there would have been any loss. I do not know what it cost the Detroit bankers originally. I was not part of that party.

Mr. PECORA. Mr. Mills, do you recall that eventually the Detroit Bankers Co. entirely wrote off or reduced to the nominal sum of $1 the note which it held of the First National Co. for $7,000,000?

Mr. MILLS. I don't recall that it was written off entirely, Mr. Pecora. In fact, my memory is that it was written down to the amount of—I beg your pardon; are you speaking of the Bankers Co. or the bank?

Mr. PECORA. The Detroit Bankers Co.

Mr. MILLS. I believe it was written down to a dollar. I was thinking of the bank; I beg your pardon. I believe it was. I am not certain. I believe it was.

Mr. PECORA. That is our recollection.

Mr. MILLS. You will forgive me for talking about the bank.

Mr. PECORA. All right. Mr. Mills, I show you what purport to be photostatic reproductions of some handwriting on five sheets of paper. Will you look at them and tell me if the handwriting there shown is your handwriting?

Mr. MILLS (after examining document). Yes, this is my handwriting.

Mr. PECORA. I offer it in evidence.

The CHAIRMAN. Let it be admitted.

(Photostat of five sheets of handwriting were thereupon designated as one exhibit "Committee Exhibit No. 138, Feb. 6, 1934", and appear in the record immediately following where read from by Mr. Pecora.)

Mr. PECORA. Do you recall as of what time you wrote what purport to be memoranda on these five sheets which have been received in evidence as committee's exhibit no. 138? See if there is anything there that suggests the date to you, because I fail to find any date on it.

Mr. MILLS. This, I believe from the looks of it, is notes made by me at the time that the examiner was discussing with the governing board his May examination.

Mr. PECORA. May 1932 examination?

Mr. MILLS. Yes. That is my belief.

Mr. PECORA. And those were notes that you jotted down with reference to the subject matter of the discussion?

Mr. MILLS. The subject matter of the discussion or items that had occurred to me to write down to look into or to have something done.

Mr. PECORA. To follow up?

Mr. MILLS. To follow up. There may have been some of my thoughts as well as the examiner's, some of his.

Mr. PECORA. At the top appear in one section of this exhibit no. 138 the name "J. L. White", under that the initials "D.M.S.", and under that the name "Wise Chrome." Do you recall to what that related?

Mr. MILLS. Why——

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Mr. PECORA. First let me ask——

Mr. MILLS. Yes.

Mr. PECORA. To whom do the initials "D.M.S." refer?

Mr. MILLS. "D.N.S.", I believe.

Mr. PECORA. Well, "D.N.S."

Mr. MILLS. I don't blame you for not reading my handwriting. "D.N.S." referred to Mr. Sweeny.

Mr. PECORA. Donald N. Sweeny?

Mr. MILLS. Yes, sir.

Mr. PECORA. Do you know the occasion for jotting down this memorandum?

Mr. MILLS. Yes; I think I know that.

Mr. PECORA. What was it?

Mr. MILLS. The examiner stated that he had heard that there were some—how shall I state it?—unethical or wrongful practices—I will put it that way—in the bank, particularly affecting Wise Chrome Steel. Senator Newberry and I were both present at the meeting, and the Senator stated to the examiner that we were fully aware of that, that a special committee had been appointed, that the matter had been thoroughly gone into and a complete exoneration given. We explained to him that the Wise Chrome note had been initialed by Mr. Sweeny, had previously apparently been authorized by the board of directors upon a credit statement, and that Mr. Sweeny had not been a director when certain of those notes were originally made.

Senator COUZENS. Was not a director of what?

Mr. MILLS. Of the bank at the time of the original inception of those notes. That is covered in his affidavit also. The examiner said, "Well, all right. I am glad to have taken care of that matter." I believe that is to what it refers.

Mr. PECORA. Who is the J. L. White referred to in that portion of the memorandum?

Mr. MILLS. I am not sure whether we had a man working for the bank by that name or not. I am not sure. We may have had an employee working for the bank by that name. I am not certain, Mr. Pecora. It brings nothing to my mind at any rate.

Mr. PECORA. Now, the next note appearing on this exhibit, no. 138, in your handwriting, as I read it, is "New officers." What does that refer to?

Mr. MILLS. At that time the bank in my judgment—and for once I fully agreed with the examiner—needed to be organized. As I say, before that time there had been different offices in connection with the main office. They had not been coordinated, and the examiner suggested that it would be well to have some new blood in the institution and possibly the elimination of certain gossip there. That is to what that refers.

Mr. PECORA. Then follows a memorandum which, as I read it, says "40–50 million dollars losses."

Mr. MILLS. May I see it?

Mr. PECORA. Is that a correct rendition of that note?

Mr. MILLS. It says "40–50 million losses." My recollection of that is that he said, "You have on your books here items which I classify as doubtful. They may develop into losses. They may not. We do not know what will develop with those items."

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Mr. PECORA. Who made that statement?

Mr. MILLS. The examiner.

Mr. PECORA. Who was it? Was it Mr. Leyburn or was it the field examiner?

Mr. MILLS. I think Mr. Leyburn did—Mr. Leyburn did most of the talking, not all of it, but he did most of it.

Mr. PECORA. The next notation reads, as far as I can decipher it, first, "Brokers and banks"—is that?—"212,000."

Mr. MILLS. Might I stand here and look at it?

Mr. PECORA. Yes.

(Mr. Mills looked at the exhibit with Mr. Pecora.)

Mr. PECORA. "Brokers and banks, 212,000."

Mr. MILLS. "Brokers and" either "banks" or "bankers loans 212,000; officers and employees loans, $1,971,000; commercial, $8,750,000."

Mr. PECORA. 570.

Mr. MILLS. 570. The next item means "Wayne Home." That was one of the offices, a branch office, "$925,000." "Fisher"—I presume that would mean the Fisher office—"637."

Mr. PECORA. Thousand?

Mr. MILLS. Thousand. "Peoples Wayne County claims, 329,000. First National, 2,838,000. Peoples Wayne County brokers and banks or bankers, 155,000. Claims, 4,474."

Mr. PECORA. What did this memorandum mean?

Mr. MILLS. I presume—it is difficult to remember; some of that I can remember—he said, "You have loans in this bank and under those classifications, and there are loans"—either he said "doubtful", or "that require some special looking after." Something of that sort.

Mr. PECORA. They were notes made by you during the discussion, based upon the examination of May 6, 1932, with the examiner, were they not?

Mr. MILLS. Yes.

Mr. PECORA. These notes were based upon what the examiner said?

Mr. MILLS. And remarks or thoughts that I had at the time, and would interpolate anything that came along.

Mr. PECORA. This last notation, reading "Claims, $4,474,000", does not of itself explain itself. Will you explain it and tell us what kind of claims were referred to there?

Mr. MILLS. We had a department of the bank known as "special loans or claims." It was called either way. It may be that at that time we had two; for a long time we had two of those departments. It may refer to one or it may refer to both of them. There were more than those items.

Mr. PECORA. Loans in ordinary routine that were unpaid were sent to the claims department for action, were they not?

Mr. MILLS. Some went there before.

Mr. PECORA. As a rule, did not that action precede the writing off of the loans?

Mr. MILLS. Frequently, very frequently; but, on the other hand, I know of many cases that I can tell you of where items have come back, after they have gone to claims. I mean, the note has been made good or liquidation has been had.

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Mr. PECORA. But the much larger proportion that went into claims were eventually written off, were they not?

Mr. MILLS. No; I would not say that, because a large amount of items would go to claims that were undercollateralized and where we were fearful, or else the maker had stopped paying interest. I remember one time making some rough figures listing the readily marketable collateral covering half the stuff that was in claims. But those loans were in some type of difficulty. Either we had to make some reduction in interest—the maker could not pay the interest—or else we were fearful that one of those things would happen.

Mr. PECORA. The second sheet of these five sheets of notes in your handwriting contains the notation at the top, as follows:

Bonds defaulted, $1,066,000.
Stocks, $257,000.
Loss, claims, first—

I assume that refers to the First National Bank—

$2,838,000. One half P. B.—

Peoples Bank—

$2,200,000.

Then, alongside of those figures, a bracket and then the statement or the inscription, "Pick out."

Will you explain that memorandum?

Mr. MILLS. I could not explain that except for the margin, and I think that gives me a key. He stated that he desired charged off, as appears here—you see a line, and it shows $8,600,000, which, as I recall it, he said he wished charged off, and he wished it charged off before June 30. He was asked which items he wished charged off, and he said, "You pick out from your loans and discounts those that you consider the worst and advise me before Tuesday", either that the charge-off had been made or as to what the items were. I am inclined to think it was that the charge-off had been made. He knew the items, because it took some time to pick out the items.

Mr. PECORA. That charge-off was made, was it?

Mr. MILLS. Oh, yes. It was made within the time he stated that it should be made.

Mr. PECORA. The next item appearing on these memoranda reads as follows:

Four million dollars reserves special. Take out and unfreeze—

I cannot make out the next word—

Make specific reserve, total $8,500,000.

Can you explain that?

Mr. MILLS (reading):

And not make specific reserve.

My recollection is that at the time of the consolidation of the First National Bank and the Peoples Wayne County Bank into the First Wayne National Bank certain specific reserves were set up against specific items, and I believe at this time that this memorandum would indicate that it was suggested, I believe, by the examiner that apparently $4,000,000 of those specific reserves were to be taken out and carried into our general reserve account and a

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total charge-off of 8½ million dollars was to be made. In other words, he no longer desired a reserve kept against particular items, but desired them carried in a general reserve account.

Mr. PECORA. Then the third sheet of your memoranda seems to read as follows [reading]:

Real estate, $1,580,000.
American State—

It is abbreviated "Am. St."—

$7,805,000.
Redford P.S., $680,000.
Redford State, $527,000.
Other real estate—

I am giving effect now to abbreviations—

$2,605,000.
P.W.—

Peoples Wayne—

Commercial, $13,936,000.
Highland Park, $534,000. Bonds, $1,066,000. Stocks, $267,000.

I cannot decipher the rest of that.

Mr. MILLS. I believe you made one error. I do not think that is "Highland Park."

Mr. PECORA. Is there a "Highland Place"?

Mr. MILLS. Highland Park is a separate entity. We have no branch at Highland Park.

Mr. PECORA. What is it then? It is your handwriting.

Mr. MILLS. It looks like Highland Park. There may be some branch up there. I may have written Highland Park.

Mr. PECORA. Will you explain that item? First, read whatever portion I have not been able to decipher.

Mr. MILLS. Where it says "P. S." after "Redford", it means the old People's State Bank of Redford and "Redford State" means the Redford State Bank. I presume, although it is only my recollection, that these items are referring to the items that were passed as doubtful by the examiner in that examination as to locations in bank.

The CHAIRMAN. Real estate?

Mr. MILLS. There is an item here that says, "Other real estate", meaning other real estate of apparently $2,605,000.

Mr. PECORA. The loss that in the examiner's opinion the bank might have to take?

Mr. MILLS. No. I think he classed it as doubtful. The only loss at that time was approximately $1,500,000, and that was charged off. I am quite certain that this was pointed out to the examiner. He has here "American State" as a doubtful item of $7,805,000. I am almost certain that the examiner did not take into consideration the fact that we had under the contract in which we took over the American State Bank a contribution from the other bank and trust company. I believe this was gross. From the examiner's viewpoint that may have been our own liability, but we had, in turn, a claim against all the other Detroit banks and trust companies for their proportionate share of the American State bank take-over [reading]:

Employees' loans. Take up, and take up some R.E.

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I suppose that is real estate. There was a considerable discussion about these employees' loans. When I went into the bank it was not a happy situation, nor did it ever become a happy situation.

Mr. PECORA. In this category of employees' loans did you include the loans to officers and directors, or are they classified as loans to other than employees?

Mr. MILLS. The directors' loans were classified separately, but I cannot tell you on this basis or even on the bank's books whether the officers were grouped with employees. I do not know. But there was not a great deal of difference in the situation of either the employees or the officers.

As I stated in my prepared memorandum, some of these old constituent banks had encouraged employee ownership of their stock, and an employee of the Peoples State Bank may have taken his stock to the Dime Savings Bank, or the First National Bank, or any other bank, and obtained a loan on it. Unfortunately, in those days they were not as strict about capital loans as later events proved they should have been; and as the market went down, then the consolidation came and the loans all ended up in the First National Bank. Many of the officers and employees were sunk upon loans which were originally perfectly good. We appointed a committee in the bank consisting of Mr. Webber, Mr. Barbour, and Mr. Sweeney to go into these employees' and officers' loans, and there was not an officer from the top down whose affairs were not gone into by that committee so that he could make such payments as his income permitted to be made upon indebtedness, where he was sunk, if I may use the expression. We did everything that we could. The condition right from the day I went into the bank, on employees' and officers' loans, was not a happy situation. We did everything we could to correct it. As the report introduced here by Judge Murfin the other day, the Verhelle report, so called, indicated one gentleman was paying even more than he was getting in salary. A man would be called in, if he had three children and a wife and possibly owning two automobiles, and he would be told that he was not properly economizing to meet his debts.

Mr. PECORA. You did not tell him to get rid of his automobiles and his wife, too, did you?

Mr. MILLS. Not his wife also. But I want to say that the boys took it in great shape, this thing of cutting down to meet their debts. I was proud of it.

Mr. PECORA. There is a memorandum on the third sheet of exhibit no. 138 reading:

See other groups.

What does that refer to? That is the last memorandum on that sheet.

Mr. MILLS. I presume it refers to—I would be guessing, Mr. Pecora. I will guess if you wish, but I do not know, I have no recollection what it means.

Mr. PECORA. Might it have referred to a desire on your part to ascertain the condition of other bank holding interests or groups, so called, for the purpose of enabling you to make a comparison?

Mr. MILLS. I think that is correct. We got a list, my recollection is—now, please understand that this is just recollection.

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Mr. PECORA. We understand that you are giving us your best recollection, which may be faulty.

Mr. MILLS. Yes; which may be faulty; but it is certainly my best recollection that the examiner said, "If I were you I would see what other institutions are doing with employees' loans." He said, "Some banks have officers and employees who are quite badly sunk." And we did follow that up. I think we took it up with the Marine Midland and various other banks to see what we could get in the way of enlightenment upon the officers' and employees' situation.

Mr. PECORA. On the fourth sheet of your memoranda the first item seems to read as follows:

Loaning officers weak. Morale weak. Some salary too high.

Mr. MILLS. That speaks for itself. That is what the examiner stated in those three instances.

Senator COUZENS. Did you agree?

Mr. MILLS. Yes; I do—I did, rather.

Mr. PECORA. The next notation on the fourth sheet——

Mr. MILLS. That says "some loaning officers weak", does it not?

Mr. PECORA. No; not as I read it. It says "Loaning officers weak."

Mr. MILLS. I would like to change my remark, Senator. I understood it to be "some." I agree that some loaning officers were weak, but certainly not all of them.

Mr. PECORA. The next item reads as follows:

One hundred and sixty-six real-estate loans, 9 in foreclosure, 8 other real estate.

Do those figures relate to millions?

Mr. MILLS. I believe, to the best of my recollection, that those figures are as follows; that the bank had $166,000,000 of real-estate loans—that is, either mortgages or loans predicated upon mortgages would be my belief; that approximately $9,000,000 were in foreclosure; and we had $8,000,000 of other real estate. Other real estate came into this bank not only by foreclosures but also by our policy of eliminating branches. As we cut down branches, and one certain branch was discontinued as a branch, it became other real estate. It had value, of course.

Mr. PECORA. The next notation on this memorandum seems to read as follows—and I am again giving effect to what appear to be abbreviations:

American State assessment not properly handled.

Have I correctly read that [handing the document to the witness]?

Mr. MILLS. You have, sir. I do not recall anything being said about that. It may be that he was criticizing the action of counsel in not pressing the suit. The suit was pressed. I do not know what it could mean. The suit was pressed and got its regular place on the docket. This does not give me any present recollection of it. He was probably criticizing something about the assessment suit.

Mr. PECORA. The next memorandum appears to read as follows:

Officers and employees.

What does that refer to; do you know?

Mr. MILLS. Officers and employees—that is all I know.

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Mr. PECORA. For what purpose did you jot down that memorandum?

Mr. MILLS. It gives me no further recollection.

Mr. PECORA. The next item seems to read:

"6"—will you read it, please? I cannot decipher it.

Mr. MILLS. I will if I can. It says:

Six depreciation bonds.

I don't know what it means.

Mr. PECORA. What does the "6" mean? Does that mean six million?

Mr. MILLS. I have no idea what it means. I presume so, but I don't know. The item doesn't refresh my recollection at all.

Mr. PECORA. The next item reads:

4. Loan Detroit bankers.

Does that refer to a $4,000,000 loan to the Detroit Bankers Co.?

Mr. MILLS. Yes; it refers to that.

Mr. PECORA. That was held by the bank?

Mr. MILLS. Yes; substantially that figure.

Mr. PECORA. It was a little under that figure, was it not?

Mr. MILLS. I think it was a little under that.

Mr. PECORA. Then there is a notation reading:

Surety bonds too small.

What was the purpose of making that notation?

Mr. MILLS. I think the examiner stated that the surety bonds carried by the bank on the employees were too small, and it was a matter that he recommended should be increased and that we would look into it and go into it carefully. We went into it later. That was one of his suggestions, or criticisms, if you prefer to call it that.

Mr. PECORA. On the last sheet of these memoranda appear to be written certain names, such as O'Brien——

Mr. MILLS. May I translate it for you?

Mr. PECORA. Yes. Suppose you read it.

Mr. MILLS. On the last page there are the following names: Buckly, Obindorfer, Jacobs, followed by the word in parentheses "live." May I explain this as I go along?

Mr. PECORA. Yes.

Mr. MILLS. I have a recollection of this. We asked him as to what loaning officers he considered weak and which ones he considered good. We thought that this field examiner, if that is what he is called, who had been in there for several weeks, would state and we would like to check up his judgment with our own. We did not take his judgment as being infallible by a long ways, nor our own. We wanted his judgment, and my recollection is that he stated he preferred not to name the weak ones, that we would probably know who they were. But after some urging on our part he said Mr. Buckly, Mr. Obindorfer, Mr. Jacobs, Mr. O'Brien, Mr. Truettner, Mr. Romer, Mr. Gaines, Mr. Robert Locke, Mr. Livingston, Mr. Chittenden, Mr. Bodde—they were good loaning officers.

That is the way my recollection is refreshed from the memorandum before me. Those are the names that I have read, and in most cases I know very distinctly that he praised them.

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Senator COUZENS. There is nothing on the list about the bad ones?

Mr. MILLS. He preferred not to go into any names. I think you know them probably as well as I do. I do not believe he mentioned the name of a loaning officer that he considered bad, although I asked him to. That is the best of my recollection.

Then follows two more lines—

Controller of loans.

He suggested that we establish an officer called the controller of loans, which we did very shortly thereafter. The next one is "See Utt."

Mr. PECORA. He was the field examiner that made this examination?

Mr. MILLS. Yes; I think so. It may be that that was a memorandum that occurred to my mind to have him talk with Utt to see who he thought were the better men in the bank. I don't know whether that was it or not, but it is to the best of my recollection.

Mr. PECORA. Reference has been made in the course of your testimony and Judge Murfin's testimony to a Mr. Joseph M. Dodge?

Mr. MILLS. Yes, sir.

Mr. PECORA. He was one of the vice presidents of the bank, was he not?

Mr. MILLS. He was, sir.

Mr. PECORA. I show you what purports to be a photostatic reproduction of a memorandum addressed to you, signed with the initials "J. M. D.", and dated February 3, 1933. Will you look at it and tell me if you recognize it to be a true and correct copy of a memorandum which you received from Mr. Dodge on or about the date which it bears?

Mr. MILLS. I do not recall the memorandum, but I do not doubt at all that I had it. I remember there being some talk on that subject matter which I vetoed and put up to the governing committee and it vetoed.

Mr. PECORA. I offer it in evidence.

The CHAIRMAN. Let it be admitted.

(Photostatic copy of memorandum dated Feb. 3, 1933, addressed to Wilson W. Mills and signed "J. M. D.", was received in evidence and marked "Committee Exhibit No. 139, Feb. 6, 1934.")

Mr. PECORA. The memorandum just received in evidence as exhibit 139 reads as follows [reading]:

COMMITTEE EXHIBIT NO. 139

To: Wilson W. Mills
From: Joseph M. Dodge
Date: February 3, 1933

Mr. Pletsch suggests it would be advisable, and a good political move, if we, as an Institution, would make some kind of a donation to the Democratic State Administration that will be used to help defray the expenses of some of the members of the Legislature who are now residing in the Roosevelt Hotel at Lansing at the expense of various members of the Administration who are trying to hold them in line and keep them out of the hands of lobbyists and others for whom they would be easy prey because of their personal financial difficulties.

He suggests that anything of this kind should be given to Mr. O'Hara, and recites the facts, first—because Mr. O'Hara has contributed very liberally for

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the above purpose, and second—he has shown an unquestionable disposition to be cooperative.

Mr. Pletsch calls attention to the fact that the following five matters have been broached to him, on which #1 and #4 have been adjusted to our satisfaction:

1. Ohlander
2. State Banking Commissioner
3. Insurance on County Funds
4. State Highway Department
5. U.S. Government Bonds—State Treasurer.

It is suggested that $500.00 would be a suitable amount.

J. M. D.

JMD: IMcH

Mr. MILLS. You see, Senator, we invited suggestions and criticisms from every officer of the bank. That was one that undoubtedly Mr. Pletsch made to Mr. Dodge and he passed on to me.

Senator COUZENS. Mr. Dodge must have thought well of it when he passed it on to you.

Mr. MILLS. He may have passed it on to me with a sense of humor. I do not think Mr. Dodge for a moment thought any such thing as that would be done.

Mr. PECORA. Would he indicate in this formal fashion matters that were dictated by a sense of humor?

Mr. MILLS. He might.

Mr. PECORA. Do you think he did that in this instance because he was actuated by a sense of humor?

Mr. MILLS. I do not know what was in his mind.

Mr. PECORA. Did you discuss this memorandum with Mr. Dodge after you received it?

Mr. MILLS. I do not recall receiving it. I know we gave nothing to it.

Senator COUZENS. You said you discussed it with the board of directors.

Mr. MILLS. Then I must have received it.

Senator COUZENS. Then you must have thought pretty well of it?

Mr. MILLS. Oh, no, Senator. I recall showing this to the governing committee, that it had been suggested, but of course it could not be done, and the matter brought forth laughter.

Senator COUZENS. Mr. Dodge must have at least impressed you sufficiently to take the matter up with the governing board?

Mr. MILLS. Oh, no. He is the secretary of the governing board. He may have read it as a joke. I think it is a joke.

Mr. PECORA. Was it a joke when he said?—

Mr. Pletsch calls attention to the fact that the following five matters have been broached to him, on which no. 1 and no. 4 have been adjusted to our satisfaction.

No. 1 is Ohlander and no. 4 is State highway department. It apparently relates to something that had taken place.

Mr. MILLS. I will say this, that I do not believe Mr. Pletsch was actuated by a sense of humor in this memorandum. I will say that. I do not think he was actuated by a sense of humor at all.

Mr. PECORA. Who is the Mr. O'Hara referred to in this memorandum of Dodge?

Mr. MILLS. I presume he is county clerk, but I am not certain.

Mr. PECORA. County clerk, where?

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Mr. MILLS. Wayne County. I believe that is his name, but I am not certain.

Mr. PECORA. What was the suggestion that led to Mr. O'Hara having given a donation to be used for the purposes indicated in this memorandum?

Mr. MILLS. I know nothing more than what the memorandum says, except that not a nickel was given.

Mr. PECORA. Let me remind you again of this portion of this memorandum which says:

Mr. Pletsch calls attention to the fact that the following five matters have been broached to him, on which No. 1 and No. 4 have been adjusted to our satisfaction.

The second one of those five matters enumerated in the memorandum has reference to State banking commissioner. What does that mean?

Mr. MILLS. I have not the slightest idea.

Mr. PECORA. What did you understand it to mean?

Mr. MILLS. Just as I stated, I am not certain—yes; I heard the memorandum read; I must have heard it read, but it gives me no recollection at all.

Mr. PECORA. Was there any joke being discussed relating to the State banking commissioner?

Mr. MILLS. I do not recall any joke. I do not recall the matter at all. We were not interested in the matter of the State banking commissioner. We were a national bank.

Senator COUZENS. The Detroit Bankers Co. did have some State bank affiliates, did it not?

Mr. MILLS. We owned the Peoples Wayne County Bank in Wayne County. It may have had some reference to that. I do not know what the reference was.

Mr. PECORA. In what respect, to your knowledge, had Mr. O'Hara shown—to read from this memorandum—"an unquestionable disposition to be cooperative"?

Mr. MILLS. I know nothing about it except that I remember Mr. Pletsch introducing Mr. O'Hara to me after the election. That is all I know. He was a friend of Mr. O'Hara's. He introduced me to him.

Senator COUZENS. Where is Mr. Pletsch now?

Mr. MILLS. In Detroit.

Senator COUZENS. Do you know what he is doing?

Mr. MILLS. I do not, Senator.

Senator COUZENS. How long since he left that bank?

Mr. MILLS. He was there at the end, Senator.

Senator COUZENS. At the time of the receivership and the closing up?

Mr. MILLS. Yes. He may still be with the receiver; I do not know.

Mr. PECORA. This memorandum is dated February 3, 1933, which was just 8 or 9 days prior to the declaration of the banking holiday by the Governor. Does that date suggest a reason for reference to the State banking commissioner in this memorandum?

Mr. MILLS. No. The only thing that it might suggest—I should not say this, because I do not know, but it may be that his term was out. I don't know whether it was or not.

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Mr. PECORA. If it was out, what was the occasion for any reference to it in this memorandum which is addressed to you?

Mr. MILLS. He may have been a friend of Pletsch's or an enemy of Pletsch's; I don't know.

Mr. PECORA. Is it customary for Pletsch to have communicated to you through Mr. Dodge statements about his friends or enemies? What interest did you have in Pletsch's friends or enemies?

Mr. MILLS. Not the slightest, any more than I had interest in that whole memorandum.

Mr. PECORA. What was the reference to United States Government bonds—State treasurer? There was nothing frivolous about that, was there?

Mr. MILLS. No; I think I know something about what must have been in their minds there. There was a bill pending at Lansing before the State legislature, which finally passed, I was informed—I am not certain of it—which provided that State funds might, instead of being deposited in banks—and as I recall the State law, they had to be segregated—might be invested in United States Government bonds. I know there was such a bill pending. What happened to it I am not certain.

Mr. PECORA. Well, Mr. Mills, was there any bill pending with reference to anyone named Ohlander?

Mr. MILLS. Ohlander was the—well, I don't know who he is, upon my soul, at the moment. I cannot say whether he was the highway commissioner or something of that sort; but I can find out in one moment who he was.

Mr. PECORA. All right.

Mr. MILLS (after inquiring of Mr. Long). Ohlander was chief of the State police. I should have known him.

Mr. PECORA. Chief of the State police?

Mr. MILLS. Yes, sir.

Mr. PECORA. What was the occasion for Mr. Dodge making reference to Ohlander to you?

Mr. MILLS. Because Mr. Pletsch mentioned Ohlander.

Mr. PECORA. Well, if Pletsch mentioned Ohlander he must have mentioned him in a manner which warranted Mr. Dodge passing along Pletsch's mention of him to you in some way or other.

Mr. MILLS. I don't remember what the reference was to Ohlander. You observed that I did not know just now who he was.

Mr. PECORA. But I am asking what was the reason, if you know.

Mr. MILLS. I don't know.

Mr. PECORA. For the mention of Ohlander by Pletsch to Dodge and by Dodge to you.

Mr. MILLS. I don't know. I haven't the slightest idea.

Senator COUZENS. Didn't the condition of those legislators, as enumerated by Mr. Dodge, put a shudder into you?

Mr. MILLS. Yes, Senator Couzens; I think it put a shudder into me. [Laughter.]

The CHAIRMAN. You were, apparently, willing to leave them helpless in that hotel.

Mr. MILLS. So far as the bankers were concerned, or so far as I was concerned, they were left helpless. And I continued to shudder. [Laughter.]

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Senator COUZENS. Did you ask Mr. Mills, Mr. Pecora, what Mr. Pletsch's position was in the bank?

Mr. MILLS. He was a vice president over in the mortgage department.

Senator COUZENS. Then he was one of the vice presidents of the bank?

Mr. MILLS. Yes, sir; he was one of Julius Haass' right-hand men. No, he wasn't in the mortgage department; he was in charge of buildings, I believe.

Mr. PECORA. After you received this memorandum from Mr. Dodge, what action did you take with respect to it?

Mr. MILLS. Well, it may be—I know that nothing was done. We certainly did not give a nickel to any such fund or to any such individual, that I can state. It may be that Mr. Dodge read it to the governing committee, or he may have handed it to me. I don't know. But I know that nothing was done about it.

Senator COUZENS. Was any reference made to it in the minutes of the board of directors, that you know of?

Mr. MILLS. I do not believe so, Senator Couzens. I think it is, obviously, a joke. I may be mistaken, but I do not believe any reference was made to it.

Mr. PECORA. From the fact that Mr. Dodge in this memorandum to you says that:

> Pletsch calls attention to the fact that the following five matters have been broached to him, of which numbers 1 and 4 have been adjusted to our satisfaction.

It seems to me that Mr. Dodge was referring to something in which the bank had an interest, or in which you as the executive officer of the bank had an interest.

Mr. MILLS. What were one and four?

Mr. PECORA. One was as to Ohlander, who, you say, was the chief of the State police; and no. 4 was as to the State highway department.

Mr. MILLS. I haven't the slightest idea what either of those references was.

Mr. PECORA. When you got this memorandum, did you discuss it with Dodge and ask him what he meant?

Mr. MILLS. No. I told you—and I am not certain, and do not recall the memorandum at all—but I believe it was read probably by Mr. Dodge at a meeting of the governing committee as a joke. That is my recollection only. I don't recall ever having seen the thing at all myself.

Senator COUZENS. Mr. Dodge is a serious-minded banker, isn't he?

Mr. MILLS. He is; and he has a great sense of humor, too.

Senator COUZENS. It seems to me he has been recognized as a pretty serious-minded banker over the years, has he not?

Mr. MILLS. Mr. Dodge, I think, is an excellent banker; excellent. I think exceedingly high of Mr. Dodge.

Mr. PECORA. Mr. Mills, do you seriously advance the thought here that this memorandum was addressed to you by Mr. Dodge as a joke?

Mr. MILLS. I say it may have been. I do not know anything about it. I have no recollection of the thing whatsoever. It might

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have been. I cannot conceive of Mr. Dodge, knowing him as I do, seriously making any such memorandum.

Mr. PECORA. Well, apparently, part of the memorandum refers to matters in which the bank had some interest, because he calls attention to the fact that of the 5 subjects broached to him by Mr. Pletsch, 2 of them had been adjusted to the satisfaction—or, he says "to our satisfaction", and I presume he meant to the bank's satisfaction.

Mr. MILLS. I haven't the remotest idea we would have any interest in Mr. Ohlander of the State police. It is beyond me. This must be, and this is just a guess, Mr. Pecora, and Mr. Pletsch, as I recall it, was in charge of buildings, something about the maintenance of buildings, and it may be that he wanted a State policeman as a guard, or something of that kind. That suggests itself as a possibility. As to the highway department, I haven't the remotest idea what that could be. I cannot guess.

Mr. PECORA. As to the State banking commissioner, what could that be?

Mr. MILLS. I do not see why the First National Bank would care at all who was the State banking commissioner. I do not know whether his term had expired then or was expiring. I do not even know whether Mr. Pletsch would be for or opposed to the then State banking commissioner.

Mr. PECORA. How about the subject of insurance on county funds?

Mr. MILLS. That means nothing to me. Insurance on county funds means nothing to me.

Mr. PECORA. Doesn't it mean that where county funds were on deposit it would be necessary for the bank to insure their repayment, in the form of a surety bond?

Mr. MILLS. There was a law at that time, I believe, that required some bond; but I do not know what that would have reference to in a memorandum such as this—a political memorandum. I should like to know very much myself what some of these are.

Mr. PECORA. Why didn't you ask Mr. Dodge about them when you got this memorandum from him?

Mr. MILLS. Because, as I told you, I believed the whole matter was a joke.

Mr. PECORA. And the joke was continued in the meetings of the governing board of the bank referred to there, by means of the memorandum being read there?

Mr. MILLS. Not necessarily continued, but possibly started there by having it read. Mr. Dodge is too good a banker to make a serious matter out of these things.

Mr. PECORA. Well, do you see anything in this entire memorandum, in the phraseology of it, that indicates that Dodge did anything but call the subject matter of it to your attention in a serious mood?

Mr. MILLS. No. But many jokes may be told in a serious manner.

Mr. PECORA. Did you think this was that kind of joke that Dodge was relaying to you?

Mr. MILLS. I do not know. I have told you that I have no other recollection of it whatsoever.

Mr. PECORA. Well, now, I have what purports to be a photostatic reproduction of another memorandum addressed to you by Mr. Dodge under date of March 7, 1933.

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Mr. MILLS. March, what date?

Mr. PECORA. March 7, 1933. And the typewritten portion of it reads as follows:

> Mr. Prevost called from the Free Press and said that the Times is building a swell bonfire in Lansing on this bank investigation, predicated on the Grosse Pointe bank note transactions and the published letters. He suggests that you consider making a statement to the effect that you will welcome any kind of investigation.

And it is signed in typewriting "J. M. Dodge." Do you recall that?

Mr. MILLS. Not the memorandum. I recall the incident.

Mr. PECORA. You recall the incident to which it refers?

Mr. MILLS. Yes.

Mr. PECORA. What was that?

Mr. MILLS. I can best—well, when that incident came up I asked Mr. Livingstone to prepare a memorandum for me as to what had been done with reference thereto. I have that memorandum here.

Senator COUZENS. In reference to what?

Mr. MILLS. The matter mentioned there. Will you read it, please, Mr. Pecora, the latter part of it, or all of it?

Mr. PECORA. I will read the whole thing.

Mr. MILLS. Well, it was as to the Grosse Pointe notes.

Senator COUZENS. What investigation was he talking about in March of 1933?

Mr. MILLS. That is the matter I am going to take up and read.

Senator COUZENS. All right.

Mr. MILLS. I say, when that memorandum was given to me, I took the matter up with the bank and found that it was a matter Mr. Livingstone was handling, and he made a report of it, and I have it in some place among my papers here.

Senator COUZENS. Are you going to tell us what examination was going to be made in January of 1933? That is what I am unable to understand.

Mr. MILLS. I think there was. I think the prosecutor's office, or the attorney general or the prosecutor—both—came into the bank, and we told them they were perfectly welcome to come in. The bank holiday was on, and this was one of the matters that they came in to talk about. Mr. Livingstone had the matter in hand, and I have his memorandum here.

Senator COUZENS. Had there been and discussion in March of 1933 that there was going to be an investigation of the bank?

Mr. MILLS. That is covered in the memorandum. Not this kind of an investigation, or a one-man grand-jury investigation, or anything of that sort. It was about the sale of some notes.

Senator COUZENS. It was not known to the public, was it?

Mr. MILLS. Oh, yes; because that was what caused the trouble. It was known generally from the papers.

Senator COUZENS. Was it published in the press that there was going to be an examination on March 7, 1933, or about that time?

Mr. MILLS. About that time there was a lot in the papers about the subject matter.

Mr. PECORA. And the suggestion——

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Mr. MILLS (continuing). And Mr. Livingstone's statement was finally given to all of the papers, and it was published by some of them I know, and that ended the matter.

Mr. PECORA. Now, on this memorandum that I have just read to you there appears in handwriting the following inscription:

The officers on the floor report that the public say another 5 percent is the bunk; that the banks might as well keep it if they cannot issue more scrip than 5 percent.

Will you tell me if you recognize the handwriting in which that memorandum is made?

Mr. MILLS (after looking at the paper). No; I do not know the handwriting.

Mr. PECORA. It is written on the memorandum that you received from Mr. Dodge.

Mr. MILLS. That is true.

Mr. PECORA. It is not your handwriting?

Mr. MILLS. No.

Mr. PECORA. Is it Mr. Dodge's handwriting?

Mr. MILLS. I don't know Mr. Dodge's handwriting, because his communications to me were always typewritten. I wouldn't know his signature—oh, yes; I would know his signature, but I would not know his handwriting.

Mr. PECORA. Was the handwritten portion of this memorandum on there when you received it from Dodge?

Mr. MILLS. I don't know whether it was or not. I wouldn't say that it was or that it was not. I don't know.

Mr. PECORA. Does the subject of the handwritten portion of the memorandum appeal to you as a subject in which you were interested at that time?

Mr. MILLS. Oh, yes. Do you mean now the superscription?

Mr. PECORA. Yes; the handwritten portion of the memorandum.

Mr. MILLS. Yes.

Mr. PECORA. What did that refer to?

Mr. MILLS. Well, you see the bank holiday in Michigan came very suddenly. People were left absolutely strapped. The first week of the holiday, in order to give some relief to stricken Detroiters, I will say, the clearing house met and determined that all the banks, and the trust companies also met, that all of the banks, or such as could, would pay out on a certain date 5 percent; permit the public to take 5 percent of their deposits.

The CHAIRMAN. In cash or in scrip?

Mr. MILLS. Oh, in cash. We had at the closing over $60,000,000 of cash or its equivalent. So 5 percent was set aside in a special fund, as I recall it, for the depositors. Well, the holiday and one thing and another went on, continued. You see the holiday started on the 13th I think it was, or the 14th——

The CHAIRMAN (interposing). Of February?

Mr. MILLS. Yes. And cash was at quite a premium in Detroit. So they wanted more cash. There was quite a difference of opinion as to whether the banks should make another 5 percent distribution, and there was talk in the press, as I recall it—I mean in cash. And we had plenty of funds to make it. And it was later made in cash. And the talk was as to whether it would be advisable to issue clear-

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ing house scrip for more than 5 percent, and it was to that matter that the superscription on that memorandum evidently refers.

The CHAIRMAN. What did they do about that?

Mr. MILLS. All the banks finally issued cash, paid another 5 percent in cash. There was a great deal of talk and agitation about clearing-house script, however.

The CHAIRMAN. That was not resorted to at all, was it?

Mr. MILLS. It was not resorted to at all, Senator Fletcher.

Mr. PECORA. Mr. Mills, I have before me what purports to be a printed pamphlet or advertisement issued by the Peoples Wayne County Bank, dated January 1931, upon the front page of which is the reproduction of a painting entitled "The Buccaneers." Will you look at it and tell me if it is one piece of literature or advertising matter that the bank distributed to the public?

Mr. MILLS. It was before my time.

Mr. PECORA. Will you just look at it and tell me if you recognize it?

Mr. MILLS (after looking at the printed folder). No. I see what it purports to be, but it was before my time. Of course, it purports to be advertising matter.

Senator COUZENS. Put out by the Peoples Wayne County Bank?

Mr. MILLS. Obviously.

Mr. PECORA. Mr. Chairman, I wish to offer it in evidence.

The CHAIRMAN. Of course we cannot reproduce the painting.

Mr. PECORA. It is not very extensive as to the printed part of it, and it might be marked for identification only, and then I will read the printed part of it.

(A printed folder, on the front of which was a reproduction of the painting "The Buccaneers", was marked "Committee Exhibit No. 140 for identifcation, Feb. 6, 1934", and will be held among the papers of the subcommittee, but Mr. Pecora read the printed portion of the printed pamphlet.)

Senator COUZENS. Mr. Mills, do you like the title "The Buccaneers"?

Mr. MILLS. I think there is more to it than the title. There is more to it than meets the eye by looking at the reproduction of the painting. That is the name of a painting, isn't it, Mr. Pecora?

Mr. PECORA. I will presume so, but not being an art critic I will not attempt to answer more definitely.

Mr. MILLS. Well, it so indicates.

Mr. PECORA. The printed matter in this exhibit no. 140 for identification, reads as follows:

Years ago pirates were called "Buccaneers." They went about in ships, and only people near the sea were robbed. [Laughter.]

Today pirates are called "crooks." They go about in automobiles. They get more money with their tongues than pirates of olden days got with their swords. Why?

It is not *their cleverness* does it—it is *yours*.

You are clever in your own field of work, and that deceived you into thinking, "I know a good thing when I see it."

No crook can sell a worthless saw to a carpenter. But he can sell it to a grocer or lawyer—because it is not their business to know saws.

No crook can sell poor land to a farmer. But he can sell it to a doctor or a mechanic.

A crook cannot sell worthless "investments" to a reliable bank or bond-house—because they know investments, just as a carpenter knows saws.

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A dollar in your savings account is better than two dollars in somebody's promise.

Keep your money making money where pirates cannot get it—in your savings account here.

Peoples Wayne County Bank
Detroit, Michigan
Total Resources Over 400 Million
3% Interest Paid on Savings Deposits, Compounded
Semi-Annually
Branches Throughout Detroit
Member Federal Reserve Bank

Mr. Mills, according to the semiannual report to the stockholders of the Detroit Bankers Co. as of June 30, 1931, you are listed as chairman of the board and chairman of the executive committee of the People's Wayne County Bank.

Mr. MILLS. That is for June 1931?

Mr. PECORA. June 30, 1931.

Mr. MILLS. I was at that time.

Mr. PECORA. When did you first become connected with the bank in any capacity, either as officer or director?

Mr. MILLS. I testified that when the Bank of Michigan was merged, and I was a director of the Bank of Michigan, and when that was consolidated with the People's Wayne County Bank, I was one of those carried over as a director.

Mr. PECORA. Was that prior to January 1, 1931?

Mr. MILLS. Oh, yes.

Mr. PECORA. Then you were connected with this bank in January of 1931 when this pamphlet was issued.

Mr. MILLS. I was a director, but not an officer.

Mr. PECORA. Now, is this pamphlet typical of the kind of advertising pamphlets issued by the People's Wayne County Bank? The one I gave you was issued as bearing date in January of 1931.

Mr. MILLS. They had advertised for a long time, and a few months after I went in we changed the general advertising.

Mr. PECORA. Will you please look at the printed pamphlet I now hand you, and tell me what about it, being dated June 1931?

Mr. MILLS. This is one bearing a reproduction of the painting The Pioneer Woman, and was the type of advertising being done then, and it was later stopped.

Senator COUZENS. Why was it stopped?

Mr. MILLS. Because it was too expensive. I am not referring to it as a work of art, but for actual results it was considered too expensive, and we did not think it was good for that reason.

Mr. PECORA. Did the First Wayne National Bank ever adopt the radio as an advertising medium?

Mr. MILLS. The First Wayne National Bank?

Mr. PECORA. Yes.

Mr. MILLS. I don't know whether they adopted the radio or not. I know that after the Michigan bank holiday they went on the air.

Mr. PECORA. Well, before the Michigan bank holiday, say, during the year 1932.

Mr. MILLS. Oh, there was talk of doing it. Whether it was actually adopted or not, I don't know. I do not believe it was. I know there was talk of doing it, and there was a demonstration there one day of the possibilities of it.

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Mr. PECORA. Reference was made in his testimony last week by Mr. Stair to a radio priest. I presume reference was made to Father Coughlin, wasn't it?

Mr. MILLS. You better ask Mr. Stair.

Mr. PECORA. Didn't you hear it?

Mr. MILLS. Yes; I heard it.

Mr. PECORA. As a matter of fact, didn't the bank have considerable concern before the Michigan bank holiday was declared by the Governor of Michigan I mean, with regard to the effect it was thought Father Coughlin's radio broadcasts were producing on the bank's depositors?

Mr. MILLS. It did.

Mr. PECORA. In connection with that did you receive this memorandum from Mr. Donald N. Sweeny, a photostatic copy of which I now show you?

Mr. MILLS (after reading the memorandum). Yes; I think I received the original of that from Mr. Sweeny, or that he spoke to me about it. I do not doubt that I received it.

Mr. PECORA. Mr. Chairman, I offer it in evidence.

The CHAIRMAN. Let it be admitted.

(A memorandum dated Jan. 31, 1933, to Wilson W. Mills, from Donald N. Sweeny, was marked "Committee Exhibit No. 141, Feb. 6, 1934", and will be found immediately following where read by Mr. Pecora.)

Mr. PECORA. This memorandum which has been received in evidence as committee exhibit no. 141, is written on a printed memorandum heading of the First National Bank in Detroit, and is as follows:

To Mr. Wilson W. Mills
From Donald N. Sweeny,
Date Jan. 31, 1933
Subject:

Accompanying this memorandum is a printed copy of "Eight Discourses" by Father Coughlin. If you were to read this consecutively you would note a growing tendency to radicalism as he progresses and develops his theme. This compilation extends only up to the first sermon delivered in 1933.

While in their context and on the printed booklet attached, it is difficult to find fault with many of the statements of Father Coughlin, three fundamental facts must not be overlooked:

1. He is talking to an audience, most of whom are incapable of drawing nice differentiations or follow carefully worded arguments. For example, in his discourse on page 45, "Rubber Credit Money", he intends to differentiate between international banks and commercial banks, and yet throughout the entire address he uses one term, "bankers", for both.

2. Only those who have heard him over the radio, can realize the intense dramatics which he imparts to these speeches. The term "Bloody Bonds" seems rather innocuous when printed in cold type, but to hear him enunciate it is sufficient to incite a bank run.

3. The entire trend of his argument is for the revaluation of the gold ounce, and by this inference a suggestion that people defer payment of their debts in order that they may be able to pay them later at less actual cost to themselves.

I have marked many of the paragraphs in this booklet, and refer you particularly to the following:

Page 48, last line, wherein he imputes dishonest methods to Detroit bankers. Incidentally this refutes Bishop Gallagher's statement that Father Coughlin will not mention Detroit banks.

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Page 64, three (3) paragraphs marked, in which he sets up his notion that the Government should establish branches of the Federal Reserve Bank to accept private deposits in an attempt to drive out competing privately owned national banks.

Page 70, in which he cites the Union Guardian Trust Company of Detroit, and other banks which have received loans from the R.F.C.

DONALD N. SWEENY.

Did this memorandum confirm the subject of any discussion or action taken by the bank, or its board or officials?

Mr. MILLS. I do not know whether that memorandum did or not.

Mr. PECORA. Well, was there any action taken by the bank with respect to the general subject matter of the memorandum?

Mr. MILLS. Yes. We considered using the radio. I think every banker, and many others in Detroit, felt very much as Mr. Sweeny felt there, that Father Coughlin was not being constructive in his criticisms of banks. I, for instance, had a talk with Father Coughlin myself one evening, at a dinner at Fred Fisher's, and he told me at that time that in using the word "banker" he was referring to international bankers.

Mr. PECORA. In Mr. Sweeny's memorandum I note that he says, referring to Father Coughlin's eight discussions, a printed copy of which accompanied this memorandum:

While in their text and on the printed booklet attached, it is difficult to find fault with many of the statements of Father Coughlin, yet the fundamental facts must not be overlooked.

One of the very fundamental facts of the booklet is the dramatics which he imparts to those subjects, is it?

Mr. MILLS. He is most dramatic.

Mr. PECORA. The principal fault that Mr. Sweeny was finding was not to the contents or substance of his subject, but more particularly to his diction?

Mr. MILLS. No, sir.

Mr. PECORA. To his meaning or expression?

Mr. MILLS. He was finding fault with that, and also with certain views expressed by Father Coughlin. I think Mr. Sweeny, for instance, would not agree with Father Coughlin's view as mentioned there in regard to the revaluation of the dollar.

Senator COUZENS. Of the gold dollar?

Mr. PECORA. He merely says on that:

The entire trend of his arguments is revaluation of the gold ounce.

Mr. MILLS. I happen to know that Mr. Sweeny did not agree with that doctrine.

Senator COUZENS. What part of Father Coughlin's speech didn't he find fault with? He says a large part of what he said you could not find fault with. Do you know what that was?

Mr. MILLS. No. I have listened to Father Coughlin, I think, twice in my life. In one of his talks probably half of it, I had nothing to find fault with, nothing that I disagreed with. The other half of that particular one I disagreed with strongly. The other address I did not agree with at all.

The CHAIRMAN. The subcommittee will now take a recess until 2 o'clock.

(Thereupon, at 1 p.m., Tuesday, Feb. 6, 1934, the subcommittee recessed to meet again at 2 o'clock the same day, at the same place.)

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AFTERNOON SESSION

(Upon the expiration of the noon recess the hearing was resumed at 2 p.m.)

The CHAIRMAN. The committee will come to order. Mr. Mills, you may resume the witness stand.

TESTIMONY OF WILSON W. MILLS, GROSSE POINTE FARMS, MICH.—Resumed

Mr. PECORA. Mr. Mills, were there occasions when to your knowledge the bank used moneys for the purchase of Detroit Bankers stock for its portfolio account?

Mr. MILLS. Never during my connection with the bank, so far as my knowledge extends.

Mr. PECORA. Do you recall a transaction whereby in January 1931, at which time I believe you were a director of the bank——

Mr. MILLS. I was a director.

Mr. PECORA. The bank sold to a man named George M. Frischkom for the sum of $212,000——

Mr. MILLS (interposing). May I interrupt you a moment? I happen to know in this case what you are talking about, and that was the First National Bank, and I was not a director of the First National Bank. That was before the consolidation. At least I believe I am correct; am I not? I was trying to shorten it up, Mr. Pecora. In January 1931 I was a director of the Peoples Wayne County Bank.

Mr. PECORA. Do you know the transaction I am referring to?

Mr. MILLS. I have heard gossip, only gossip, nothing further, and I have only heard that within the last 2 or 3 weeks.

Mr. PECORA. From whom did you hear it?

Mr. MILLS. Oh, it is common talk around Detroit.

Mr. PECORA. Well, that does not identify the persons that you heard this gossip from in the last 2 or 3 weeks.

Mr. MILLS. Well, I heard it from Mr. J. T. McMillan. He mentioned it. I heard it from—let me see—two or three other sources.

Senator COUZENS. Did you hear it from Mr. Ballantyne?

Mr. MILLS. Did I hear it from him?

Senator COUZENS. Yes.

Mr. MILLS. No, sir; I haven't heard it from him. That was the old First National Bank, I believe, and I had no connection with it at that time at all.

Mr. PECORA. Well, now, in February 1932 you were connected with the Consolidated Bank?

Mr. MILLS. Yes, sir.

Mr. PECORA. Do you recall at that time action having been taken by the board of the bank, of which you were a member, with respect to writing off the sum of about $86,000 on account of this transaction that you have heard some gossip about?

Mr. MILLS. I don't recall it. My understanding was on any write-offs before that time. I may be in error. I don't recall.

Mr. PECORA. The write-off, according to the examination of the record, was on February 29, 1932.

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Mr. MILLS. I don't recall the write-off.

I also heard from Mr. Blessed about the transaction. He was an officer of the old First National Bank. I heard some comment from him on that.

Senator COUZENS. Is he in Detroit yet?

Mr. MILLS. Yes, sir.

Senator COUZENS. What is he doing now?

Mr. MILLS. I do not know, sir.

Mr. PECORA. Yes, the charge-off was made on February 29, 1932, in the sum of $86,000, according to photostatic copy of a report entitled "Items charged off February 29, 1932, First National office."

Mr. MILLS. Well, it may have been. As I say, I was at that time second in charge of the bank. It was in the other office. As I explained this morning, I knew very little of transactions in the other office. It may have been charged off. You have the records. It undoubtedly was.

Mr. PECORA. The charge-off would be by action of the board of directors, wouldn't it?

Mr. MILLS. I don't know whether that was the case at that time or not. Presumably, but I don't know whether it was at that time or not. Later that was the rule.

Mr. PECORA. What did you hear about this transaction, whether it be by way of gossip or anything else?

Mr. MILLS. Oh, I heard that your representatives in Detroit had called various gentlemen over and talked to them about the transaction.

Mr. PECORA. Is that your complete knowledge of the transaction?

Mr. MILLS. I know more gossip, but certainly it is not proper for a witness such as I am who has no knowledge except on hearsay to go into it. I do not wish to presume to tell this committee how to conduct their investigation, but I think it would be improper. That is all I know.

Mr. PECORA. I agree that we should not have hearsay evidence here, but the reason I am questioning you about it is because, from the records of the bank, the charge-off was made at a time when you were a member of the board of directors of the bank, and the individual transaction is a rather large sum.

Mr. MILLS. Well, we charged off 15 million dollars that year, and I don't recall anything of the charge-off. Now, I did speak to Mr. Blessed, he spoke to me about it in Detroit, and Mr. McMillan mentioned it to me, but that is all I can tell you about it. That is all I know. And that is nothing.

Mr. PECORA. Who was Mr. Blessed?

Mr. MILLS. Mr. Blessed was previously an officer of the bank.

Mr. PECORA. And who is Mr. H. O. Lightner?

Mr. MILLS. He was an officer of the First National Bank.

Mr. PECORA. Do you know anything about the indebtedness with respect to which this charge-off of $86,000 was made?

Mr. MILLS. Only what I have heard through hearsay. Nothing at all except that. You see, it was in the old First National before I had any connection with it.

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Mr. PECORA. I know the origination of the loan was in the old First National before you became a director.

Mr. MILLS. Yes.

Mr. PECORA. But the charge-off was made after you became a director?

Mr. MILLS. Yes; that is true. I stated that.

Mr. PECORA. The loan was carried in the names of Blessed and Lightner, who were officers connected with the bank.

Mr. MILLS. I don't know how the loan is carried. I know that Mr. Blessed and Mr. Lightner were officers of the bank; yes, sir.

Mr. PECORA. And you as a director did not know about the charge-off?

Mr. MILLS. I didn't say that. I said I didn't recall it. When we charged off some fifteen millions of dollars, some sixty or eighty thousand dollars, I think I could hardly be expected to remember.

Mr. PECORA. Were the fifteen or sixteen million dollars that you referred to charge-offs of loans carried in the names of officers of the bank?

Mr. MILLS. Oh, no.

Mr. PECORA. No. Weren't there discussions among the members of the board of directors with regard to charge-offs of loans in the name of officers?

Mr. MILLS. There was some discussion as to loans of officers in the board meetings; yes, sir.

Mr. PECORA. Do you recall any discussion about a charge-off of a loan of $212,000?

Mr. MILLS. No.

Mr. PECORA. Carried by Blessed and Lightner?

Mr. MILLS. No; I don't recall any such discussion.

Mr. PECORA. Well, perhaps I can refresh your recollection by suggesting to you that this loan was carried in the name of Blessed and Lightner as trustees.

Mr. MILLS. I have heard that from gossip, but I have had no knowledge of the charge-off. I have no recollection of the charge-off.

Mr. PECORA. And that they were acting as trustees for the bank with regard to this loan. Does that further refresh your recollection?

Mr. MILLS. It does not. I have thought of this a great deal. The individuals, Mr. Blessed, Mr. Lightner, I think Mr. Hart knew something about it, and a large number of them, 5 or 6 of them, that knew the whole story of it in the old First National Bank.

Mr. PECORA. At the present time you don't know the story?

Mr. MILLS. No; I do not. I have heard gossip and nothing further.

Mr. Pecora, might I take this opportunity to make what I am told is a legal correction in my testimony. I said this morning that the American State Bank, Mr. Chairman, and the Peoples Wayne County Bank were consolidated. Counsel informs me, Mr. Long who handled the matter, that it was not a consolidation. It was an agreement under which the deposits were taken over in consideration of—what was the consideration?

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(Mr. Long came forward and conferred with Mr. Mills.)

Took over the assets for liquidation and guaranteed the deposits.

The CHAIRMAN. Of the Wayne Bank?

Mr. MILLS. The Peoples Wayne, in connection with the American State. It was not a technical consolidation, as I testified this morning.

Mr. PECORA. Mr. F. Howard Russ, Jr., was a vice president of the First Wayne National Bank in January 1932, was he not?

Mr. MILLS. He was, sir.

Mr. PECORA. And that was when you were the second in command of the bank?

Mr. MILLS. Yes, sir.

Mr. PECORA. I show you what purports to be a copy of a memorandum addressed to you by F. Howard Russ, Jr., under date of January 6, 1932. I ask if you recall receiving the original of that.

Mr. MILLS (after perusing document). I don't recall having received it. I would be the last to testify that I did not. That is all. A large number of memorandums were made, and I don't recall. I may have had it.

Mr. PECORA. Do you recall the subject matter of the letter or any of the subject matters referred to in that memorandum?

Mr. MILLS. No; I cannot say that I do. I know that in year ends it was not unusual for substantial differences to occur in balances of various deposits.

Mr. PECORA. Due to what circumstances?

Mr. MILLS. As I understand it, by reading the press here, apparently I have been misinformed, but I understood it was for tax purposes; but according to the testimony I have read in newspapers here it was not for that purpose. I have always understood it was for tax purposes.

Mr. PECORA. Would you say that you did not receive the original of this letter?

Mr. MILLS. Oh, no; I said I did not recall. I said I had no recollection. I may have.

Mr. PECORA. Let's see if reference to the subject matter of it might refresh your recollection a little bit more.

I ask that this copy be marked for identification. [After a pause.] I think it could be spread on the record, Mr. Chairman.

The CHAIRMAN. Let it be admitted.

(Letter from F. Howard Russ, Jr., to Wilson W. Mills, dated Jan. 6, 1932, was thereupon designated "Committee Exhibit No. 142, February 6, 1934," and appears in the record immediately following, where read by Mr. Pecora.)

Mr. PECORA. The memorandum received in evidence as Committee's Exhibit No. 142 reads as follows; addressed to Mr. Wilson W. Mills from F. Howard Russ, Jr., date, January 6, 1932 [reading]:

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The following accounts were responsible for considerable fluctuation in balances over the end of the year:

	Dec. 24	Dec. 31	Jan. 4
Booth Newspapers	84M	9M	95M
Buhl Sons Co	237	64	245
Chrysler Corp	2,890	3,110	2,987
Detroit Edison Co		5,000	
Detroit Trust Co	7,040	6,336	8,053
Detroit-Windsor Ferry Co	685	1	678
Evening News Assn	286	72	120
Ford Motor Co	14,266	20,174	14,384
General Motors Corp	6,926	9,433	8,439
Gilchrist & Co	682	5	374
S. S. Kresge Co	5,177	3,765	3,836
Muller Bakeries C/D	250		
D. & C. Navigation Co C/D	575		

Booth Newspapers. This was transferred for tax purposes.

Chrysler Corp. This corporation very generously increased their balance by a half million dollars, due to the unusual conditions which they know exist at this particular time.

Detroit Edison Co. This company's account showed a balance of $5,000,000 in excess of its usual balance, due to the fact that they were carrying this amount with us to take care of maturing bonds on January 3. The $5,000,000 was transferred to the Bankers Trust Co. for that purpose on the morning of January 3.

D. & C. Navigation Co. This money was transferred for tax purposes, and up to date has not been returned.

Detroit-Windsor Ferry Co. This was transferred for tax purposes.

Evening News Assn. This was transferred for tax purposes.

Ford Motor Co. Balances as of December 31 is an accumulation of their funds in our various branches and the Detroit Trust Co. and is accumulated for the purchase of Governments over the end of the year. Their balance on January 4 merely reflects a condition of money being transferred back to the same units, but did increase their bank balance on December 31 by approximately $3,000,000 due to the transfer of that amount from the Trust Company. This money is carried in a Special Savings Account and is shown in our savings deposits, and not in our commercial deposits. This balance, however, will be stepped up approximately $2,500,000 by the transferring of this amount from a savings' account to their regular account, and book savings will be decreased by a similar amount.

General Motors Corp. With the knowledge that this corporation has of the fluctuating balances in banks at the end of the year, they very kindly volunteered to increase their account $3,000,000 and it is presumed that this $3,000,000 will be taken out gradually over the next week or two.

Gilchrist & Co. This money was transferred for tax purposes.

S. S. Kresge Co. This account has had considerable fluctuation over the end of the year, due to the payment of $1,800,000 in dividends and several transfers of $2,000,000 and $3,000,000. The balance as of December 31 this year was in excess of about $400,000 over last year."

Now, do you recall the purpose of the transmission of any such memorandum as this to you?

Mr. MILLS. If it was transmitted, it would simply be to tell me the story that you have read.

Mr. PECORA. I notice particularly in that portion of the story set forth in this memorandum relating to Ford Motor Co. and to that mentioned in the item relating to the Ford Motor Co. in this memorandum, which reads as follows:

This balance, however, will be stepped up approximately $2,500,000 by the transferring of this amount from a savings account to their regular account, and book savings will be decreased by a similar amount.

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Now, do you know anything about that?

Mr. MILLS. All I can tell you about the Ford transaction is that they were, as my statement probably shows, the largest depositor of the bank. Whatever the Ford Motor Co. wished to do we did so long as it was within the law.

Mr. PECORA. Do you recall that the Ford Motor Co. by arrangement with the bank stepped up, to use the expression here, its balances as of December 31, 1931, by $2,500,000 through the issuance of certificates of deposit?

Mr. MILLS. Didn't it also say that the savings were reduced by a corresponding amount?

Mr. PECORA. Yes.

Mr. MILLS. I don't recall it; no. It may have been so. I don't recall it.

Mr. PECORA. Are you familiar with that portion of the evidence taken before this committee last week in which certificates of deposit were put in evidence?

Mr. MILLS. I am not. I was not here. I did not even see a newspaper account of it. I was on the train coming here. That is why I missed a newspaper.

I do know that the Ford Motor Co. accounts at the end of the year, and at all other times, were handled as Mr. Craig, treasurer or comptroller of that company, desired them handled. We had to handle them in accordance with his good wishes. They were good customers, and, after all, it was their money.

Mr. PECORA. What interest would the Ford Motor Co. have which the bank would not have had in stepping up, to use Mr. Russ's expression, its deposits in the First National at the end of the year 1931 by $2,500,000?

Mr. MILLS. They evidently took it out of their savings and put it in their commercial.

Mr. PECORA. Well, the evidence here shows it was taken out of the Detroit Trust Co. account and put in here and then transferred back on January 3 into the Ford Motor Co.

Mr. MILLS. I do not know why the Ford Motor Co. desired to do it. I have never known why the Ford Motor made these year-end transactions.

Mr. PECORA. What was the reason for Mr. Russ calling your attention, as the second ranking officer in the bank, to the various items set forth in this memorandum?

Mr. MILLS. To give me information about them, because Mr. Russ had been with the old First National Bank. I was with the Peoples. I had not known him intimately. Many of these notes, not all of them, many of them, were in the old First National Bank. Obviously, he was giving me information about them.

Mr. PECORA. Let us see about the item referred to in this memorandum under the caption, "General Motors Corporation", which reads as follows:

With the knowledge that this corporation has of the fluctuating balances in banks at the end of the year, they very kindly volunteered to increase their account $3,000,000, and it is presumed that this $3,000,000 will be taken out gradually over the next week or two.

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What does that indicate to you, Mr. Mills?

Mr. MILLS. Just what it says. General Motors Corporation volunteered to do that and increased their balances.

Mr. PECORA. In order to enable the bank to make a better showing as of the end of the year?

Mr. MILLS. I do not know whether that was General Motors' idea or not.

Mr. PECORA. Was that the bank's idea in having the General Motors Co. increase its balances as of the end of the year?

Mr. MILLS. I want to state right now, as I stated the other day, when I became head of this institution I told everybody that I was not in favor of getting deposits over the year end.

Mr. PECORA. Doesn't this look like getting a deposit over the year-end, a substantial deposit of $3,000,000?

Mr. MILLS. It does not look at all like it from the wording of that document, which says that General Motors offered it.

Mr. PECORA. Doesn't it look like an increasing of deposits in order to enable the bank to make a better showing as of the end of the year, in view of the fact that Mr. Russ specifically says in this memorandum to you that it is presumed that this $3,000,000 will be taken out gradually over the next week or two?

Mr. MILLS. General Motors—I object to any imputation that the First National Bank solicited that increase in deposit in the First National Bank. It appears on its face that the General Motors Co. came in and made that offer. That is all I know about it.

Mr. PECORA. Was that true also of the Chrysler Corporation?

Mr. MILLS. All I know is what you have read. Will you read it?

Mr. PECORA. With regard to the Chrysler Corporation this is what Mr. Russ reported to you, according to this memorandum:

> This corporation very generously increased their balance by a half million dollars due to the unusual conditions which they know exist at this particular time.

Does that indicate a generally generous attitude on the part of the Chrysler Corporation?

Mr. MILLS. It would to me, knowing them as I do; yes. There are many decreases, as I recall it, in that memorandum.

Mr. PECORA. I beg pardon?

Mr. MILLS. There are many decreases, I believe, in that memorandum too.

Mr. PECORA. There were. I have put the entire memorandum in evidence. What were, do you suppose, the unusual conditions known to the Chrysler Corporation and to the General Motors Corporation referred to in this memorandum?

Mr. MILLS. I can only think of two things. One was that possible tax matters; second, deposits in the First National Bank that my written statement here has shown had gone off $143,000,000 in 18 months.

Mr. PECORA. Where reference is made in this memorandum to money having been transferred by different depositors named here for tax purposes, what does that refer to? I mean what tax purpose could be derived by such a transfer?

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Mr. MILLS. I have read in the newspapers account of this portion of the testimony and Mr. Edsel Ford's testimony, and after reading that I am mystified as to the purposes.

Mr. PECORA. Well, here your vice president in a memorandum to you says these transfers were made for tax purposes. Were you mystified on January 6, 1932, when you got such a memorandum from Russ?

Mr. MILLS. I thought at the time that these transactions, or many of them, were for—not an evasion, but for an avoidance of certain taxes.

Mr. PECORA. How could that operate to produce such an effect?

Mr. MILLS. Many of those corporations paid a privilege tax.

Mr. PECORA. You mean a tax imposed by the taxing laws, general taxing statutes of the State of Michigan, upon foreign corporations doing business within the State, having authority within the State?

Mr. MILLS. Yes.

Mr. PECORA. That is what is known under your laws as a privilege tax?

Mr. MILLS. A privilege or an annual corporation tax. That tax is also imposed upon domestic corporations, but with different legal consequences, as you understand.

Mr. PECORA. But in the case of foreign corporations doing business in the State of Michigan it is called "a privilege tax"?

Mr. MILLS. It is called that in that State.

Mr. PECORA. We call it in New York a franchise tax.

Mr. MILLS. I presume it is the same tax in both cases.

The CHAIRMAN. Is it based at all on earnings of the company?

Mr. MILLS. No; it is based on assets, Mr. Chairman. It is based on assets; and in the case of foreign assets, on the proportion, as I recall it, of assets within and without the State.

Mr. PECORA. Mr. Mills, let me ask you, when did you reach the realization that banking conditions generally in Detroit were becoming quite serious?

Mr. MILLS. Shortly after I went into the banking business.

Mr. PECORA. That was when?

Mr. MILLS. March 1931. Within a week this American State Bank—or within 2 weeks this American State Bank—incident came up, and I realized it then.

Mr. PECORA. Did you have any correspondence with anyone in Washington in 1931 with regard to the banking situation?

Mr. MILLS. Oh, I think I had a lot of correspondence in 1931 with various people in Washington.

Mr. PECORA. With whom?

Mr. MILLS. The senior Senator, the junior Senator from Michigan, and I probably wrote the Comptroller.

Mr. PECORA. Who?

Mr. MILLS. The Comptroller. I think I wrote the Comptroller. I undoubtedly wrote various of our Representatives.

Senator COUZENS. That was in 1931?

Mr. MILLS. Oh, yes; I am sure I wrote to you in 1931. The letter was produced the other day.

Senator COUZENS. That was not my letter?

Mr. MILLS. No; he asked me if I had had correspondence.

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Senator COUZENS. But I understood you stated that you had correspondence with the senior Senator from Michigan in 1931.

Mr. MILLS. I meant by that I had written to the senior Senator from Michigan in 1931.

Senator COUZENS. And did my reply give you a shudder?

Mr. MILLS. I don't remember your reply at the moment, Senator.

Senator COUZENS. I am inclined to visualize what I said in 1931 would make you shudder. I don't recall any correspondence in 1931.

Mr. MILLS. Why, you probably may recall, Senator, we had a good deal of correspondence about the home loan bank bill in 1931, and it may possibly have carried over into 1932. We did not agree about the home loan bank bill.

Mr. PECORA. I show you what purports to be a photostatic reproduction of a letter dated October 14, 1931. Will you look at it and tell me if you recall having dictated, signed, and sent the original of that letter?

Mr. MILLS [after perusing document]. I presume I wrote it. Senator Vandenberg would have the original. I presume I wrote it. I have no present recollection of it. I had a large correspondence. I presume I wrote it.

Mr. PECORA. I offer it in evidence.

The CHAIRMAN. Let it be admitted.

(Photostat of letter dated Oct. 14, 1931, from Wilson W. Mills to Hon. Arthur H. Vandenberg was thereupon designated "Committee Exhibit No. 143, February 6, 1934", and appears in the record in full immediately following, where read by Mr. Pecora.)

Mr. PECORA. The letter received in evidence as committee's exhibit no. 143, reads as follows [reading]:

OCTOBER 14, 1931.

Honorable ARTHUR H. VANDENBERG,
Grand Rapids, Michigan.

DEAR SENATOR: The enclosed is self-explanatory. If there is anything further that you want me to do or that I can do, do not hesitate to let me know. You are busy—there is no need of acknowledging receipt.

Yours very sincerely,

I presume you signed it over the word "Chairman"?

Mr. MILLS. I presume I did.

Mr. PECORA (continuing reading):

P.S. You know the President. If you believe a five-minute interview with me might help to impress the gloomy picture on his mind, I am willing, but not anxious, to go to Washington for that purpose. If you believe this suggestion worth a darn, merely by way of suggestion, you might wire Washington that I have sent you a copy of my letter. I really believe the national situation is approaching that of being desperate.

That is the way you felt about it, didn't you, at the time?

Mr. MILLS. Yes.

Mr. PECORA. And that was October 1931?

Senator COUZENS. May I ask, Mr. Pecora, if you found any correspondence with me in Mr. Mills' file?

Mr. PECORA. We have not, sir.

Did you receive a reply to this letter just read in evidence of which this purports to be a photostatic copy is a copy?

Mr. MILLS (after perusing document). Yes; I received that letter from Senator Vandenberg. That is the original of that letter.

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Mr. PECORA. I offer it in evidence.

The CHAIRMAN. Let it be admitted.

(Letter dated Grand Rapids, Mich., Oct. 15, 1931, from A. H. Vandenberg to Wilson W. Mills was thereupon designated "Committee Exhibit No. 144, Feb. 6, 1934", and appears in the record immediately following, where read by Mr. Pecora.)

Mr. PECORA. The letter received as Committee's Exhibit No. 144 in evidence is as follows (reading):

GRAND RAPIDS, MICHIGAN, *October 15th, 1931.*

MR. WILSON W. MILLS,
Chairman Peoples Wayne County Bank,
Detroit, Mich.

MY DEAR MR. MILLS: Thanks for your letter of October 14, with its splendid inclosure. Your letter to the President is a bulls-eye. I wrote him again yesterday myself following our conversation on the telephone. I also wrote another urgent letter to Governor Meyer.

Let me digress a moment. That refers to Eugene Meyer, then Governor of the Federal Reserve?

Mr. MILLS. Unquestionably.

Mr. PECORA. Resuming the reading of the letter:

I do not believe they fully sense the extent of our banking jeopardy in the Middle West. Their liaison is almost exclusively with New York, and it continues to be my observation that the New York problem frequently is substantially different from our own.

The voluntary credit pool is good scenery. The psychological effect over here has been excellent. As a matter of fact, yesterday was almost a normal day so far as withdrawals are concerned. But of course this picture can change in the twinkling of an eye. If it does, I am afraid the credit pool will prove to be a horrible anti-climax unless its organization structure is rather swiftly changed. I have drawn the attention of Governor Meyer and the President to the fact that our State Banking Department seriously questions the legal right of our banks to accept an unlimited contingent liability for the prospective loans of all the banks in regional association. I have called their attention to the fact that the National Bank Examiner in this area declined in September to allow the Grand Rapids Clearing House banks to accept a similar contingent liability in connection with the guarantee of the Million Dollar mortgage purchase by the Blodgett group from the Old Home State Bank. I have also called their attention to the fact that when the use of the new pool is confined exclusively to those who create the pool, the situation scarcely encourages those which may be most in need of help because such a bank dare not intensify its own hazard by releasing the cash necessary if a contribution to the pool be made.

At best this is only a stop-gap. The real assistance comes only when the Federal Reserve credit base is broadened and when the War Finance Corporation is reinstituted. I cannot sympathize for a single moment with any delay in bringing this result to pass. I have earnestly supplicated the President precisely in line with the contents of your splendid letter of October 14th to him. But up to date he is adamant against the suggestion. I certainly wish you could talk with him personally. I am going to take the liberty of suggesting to him that if he is consulting bankers any further in connection with this situation that he ask you to be among those summoned. I am also telling him today that I have seen a copy of your letter of October 14th to him and that I endorse every word in it.

I expect to be in Detroit next week Friday and Saturday and I shall try to see you. I cannot begin to tell you how much it has meant to me to be in direct and sympathetic contact with you in this desperate adventure.

With warm personal regards and best wishes,

Cordially and faithfully,

(Signed) A. H. VANDENBERG.

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Upon receipt of that letter did you dictate a letter to Senator Vandenberg, of which this photostatic reproduction is a copy?

Mr. MILLS (after perusing the document). Yes; I believe that is a copy of my reply. It looks like it.

Mr. PECORA. I offer it in evidence.

The CHAIRMAN. Let it be admitted.

(Letter dated Oct. 16, 1931, from Wilson W. Mills to Hon. Arthur H. Vandenberg, was thereupon designated "Committee Exhibit No. 145, Feb. 6, 1934", and appears in the record immediately following where read by Mr. Pecora.)

Mr. PECORA. The letter received in evidence as committee exhibit no. 145 reads as follows, dated October 16, 1931 [reading]:

Hon. ARTHUR H. VANDENBERG,
Grand Rapids, Mich.

DEAR SENATOR: Thanks for your letter of the 15th. You know my views regarding the imperative necessity of immediate legislation, and I hope you know that anything I can do in any way to assist you I shall be most happy to do. You have stated the situation **perfectly—it is desperate.**

And those three words are underscored.

There must be some way to make the President understand the real situation. I think he probably is taking practically all his financial advice from New York, and they naturally are most concerned about their foreign credits. There is another thing, however, all the bankers in the country are complaining of the public hoarding. I am not certain that the bankers themselves did not start it and I do believe that at the present at least they are equally guilty with the public in hoarding, i.e., by the insistence of the maintenance of a tremendous cash and Government position. I know one large institution in New York has almost 75 percent of its deposits in cash and Governments; and while I haven't tried it, I am willing to wager that I couldn't make a sizable loan in the institution upon any collateral that was not subject to rediscount at the Federal Reserve—why? It impairs the bank's liquidity. Of course, this thing is the old vicious circle again—the banks are afraid of the public and the public are afraid of the banks, so they are in effect each compelled to hoard.

I dictated the foregoing letter this morning before the receipt of your wire. While I think the papers of the National Credit Corporation could have been more definitely drawn, I do not think that the clause you quoted from page 3 will create any liability other than is stated in the succeeding sentence which limits the liability of other members of the association to a several proportionate amount. I talked to Mr. Buckner's office in New York about it after receipt of your telegram and they stated that the actual articles of agreement which will be mailed tomorrow and which will be the agreement itself as distinguished from the plan which has been received will not contain this ambiguity. Mr. Reichart agrees that it is all right to go ahead on that basis. While, of course, every bank that possibly can must and should follow up with the President's plan, I am sure there is going to be quite a reaction when the public understands that it is not going to assist failed banks or failing banks. It is for that reason also that I most heartily concur in your views as to the desirability of a special session.

I am sorry to make this such a long letter, but at noon the president of the Detroit Real Estate Board telephoned me and asked if I wouldn't urge you to accept their invitation to be their guest and speak at their annual meeting in December. Of course, I hope you can; but I know how busy you will be in December and if you find it impossible to come I know they will understand why. Of course, I personally hope you will be able to be here.

I am delighted to know that you will be in Detroit on Friday or Saturday of next week and am holding you to your promise to see me. Will you not save one of the days to have luncheon or dinner with me and if you have no other plans, I would be happy indeed to have you as my house guest.

With kindest personal regards,

Yours very sincerely,

CHAIRMAN.

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Did you send a letter to Mr. Eugene Meyer, the Governor of the Federal Reserve Board, in Washington, of which this document which purports to be a photostatic reproduction is a copy?

Mr. MILLS (after perusing document). I don't recall it, but I have no doubt that it is a copy.

Mr. PECORA. I offer it in evidence.

The CHAIRMAN. Let it be admitted.

(Letter dated Oct. 17, 1931 from Wilson W. Mills to Eugene Meyer, Governor Federal Reserve Board, was thereupon designated "Committee Exhibit No. 146, Feb. 6, 1934," and appears in the record immediately following, where read by Mr. Pecora.)

Senator COUZENS. Did you ever let Mr. Meyer know that you were alarmed about this in 1931?

Mr. MILLS. Yes; and about the national situation. And so were all of them. Everyone was. The testimony has been that the Guardian Detroit were fighting a war in Detroit. Everybody almost felt the same way I did. I talked to many of them from New York and all parts of the country.

Mr. PECORA. The letter just received in evidence and marked "Exhibit No. 146" reads as follows [reading]:

OCTOBER 17, 1931.

MR. EUGENE MEYER,
Governor Federal Reserve Board, Washington, D.C.

DEAR MR. MEYER: I am enclosing copy of a letter that I wrote to the President under date of October 14. In this part of the country, at least, I believe the situation is very serious indeed, and I fear for any long delay. The banks all complain of people hoarding—I am wondering as to whether the reverse is not also true—that the banks are hoarding. When an institution has 75 percent and upwards of its deposits in cash and Governments and is a very unwilling lender, I would say that it is hoarding just about as much as the public—somewhat the case of the pot calling the kettle black. Conditions make hoarding—if it may be called so—justifiable, but the cause that may necessitate it should be removed. I am not referring to any individual case, but as illustrative of the general situation. The confidence in our banking institutions is so rapidly waning that I fear the time element as much as anything else and believe delay will very materially lengthen the task of reestablishing that confidence.

I trust you will pardon my writing you but I could not resist the temptation.

Yours very sincerely,

CHAIRMAN.

Now, Mr. Mills, in your letter to Mr. Meyer, as well as to Senator Vandenberg, you referred to the fact that you had sent a letter to President Hoover under date of October 14, 1931, and it has been reported to me that no copy of the letter was found among the files of the bank in custody of the receiver? Have you a copy of that letter?

Mr. MILLS. No; I have not. I haven't any copy.

Mr. PECORA. Do you recall the general substance of the letter?

Mr. MILLS. While this was being read I have been wondering just what it was. It was either, in my judgment, one of three things—either the Home Loan Bank bill or some provision to establish some type of agency under which mortgage paper might be rediscounted, like a general-mortgage bank, a central-mortgage bank, or else it may have been to broaden the rediscount base of the Federal Reserve bank with the privilege of rediscount, or it may have been something along the line of what later turned out to be the R.F.C. I do not recall exactly which it was, but I believe it was one of the three.

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Mr. PECORA. After you dispatched that letter to the President did you receive an acknowledgment from him in the form of the photostatic reproduction which I now show you?

Mr. MILLS Yes; I received this letter from the President. This refreshes my recollection slightly, that I had up to this time thought that a special session was advisable for the purpose of one of those three things.

Mr. PECORA. I offer it in evidence.

The CHAIRMAN. Let it be admitted.

(Photostatic copy of letter dated Oct. 21, 1931, from the President of the United States to Wilson W. Mills was received in evidence and marked "Committee Exhibit No. 147, Feb. 6, 1934.")

Mr. PECORA. The photostatic copy of letter received in evidence as Committee Exhibit No. 147 reads as follows (reading):

COMMITTEE EXHIBIT No. 147

THE WHITE HOUSE,
Washington, October 21, 1931.

Mr. WILSON W. MILLS,
Peoples Wayne County Bank, Detroit, Mich.

MY DEAR MR. MILLS: I have your kind letter of October 14th and would be glad if you could come to see me at your convenience to discuss the questions you have in mind.

My own feeling is that confidence is returning throughout the country, of which there are many evidences, and that we should give opportunity for its growth without injecting all the uncertainties that might arise from the action you suggest. Nevertheless, I should like an opportunity for discussion with you personally and when you come east again would value your advice.

Yours faithfully,

(Signed) HERBERT HOOVER,

Does this letter, Mr. Mills, refresh your recollection more clearly as to the action that you suggested the President might take in your letter to him of October 14, 1931?

Mr. MILLS. As I stated, Mr. Pecora, I think I was urging a special session of the Congress to enact legislation along one of the three lines that I have mentioned.

Mr. PECORA. Did you urge all three plans upon the President and suggest the adoption of any one of them, or did you confine your letter to one of the three plans?

Mr. MILLS. I do not recall.

Senator COUZENS. You know, of course, that in 1932, following that correspondence, Congress did enact the R.F.C. Act and also the Home Loan Act?

Mr. MILLS. Yes, sir.

Mr. PECORA. After the receipt of that letter from President Hoover, a copy of which was just offered in evidence, did you write a reply to it, of which this document is a photostatic reproduction [handing a paper to the witness]?

Mr. MILLS. Yes, sir; that is a copy of the letter.

Mr. PECORA. I offer it in evidence.

The CHAIRMAN. Let it be admitted.

(Photostatic copy of letter dated Oct. 27, 1931, to the President of the United States from Wilson W. Mills, was received in evidence and marked "Committee Exhibit No. 148, Feb. 6, 1934.")

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Mr. PECORA. The letter just received as Committee Exhibit No. 148 reads as follows [reading]:

COMMITTEE EXHIBIT No. 148

OCTOBER 27, 1931.

Honorable HERBERT HOOVER,
President of the United States, Washington, D.C.

MY DEAR MR. PRESIDENT: Your very generous and kind letter of October 21st has been received. In this matter, or any other I am of course, entirely at your disposal for any conference and should be most happy to go to Washington at any time which you may indicate will suit your convenience. I should greatly value a short discussion of the matter with you.

I feel sure you will be interested in knowing that Michigan Association of the National Credit Corporation got away to a good start yesterday. All banks in the State were invited to Detroit to organize and I believe there were between three and four hundred representatives present. There was a great deal of enthusiasm and helpfulness expressed for your plan.

May I state, Mr. President, with what sympathy I have followed your endeavors in these anxious times. No president since Lincoln has had so many burdens nor in my opinion met them with such conscientiousness, courage and ability.

Yours very respectfully,

——— ———.

Now, Mr. Mills, when you were on the stand last Friday your attention was called to a letter or a copy of a letter received in evidence as Committee Exhibit 135, which you stated you had addressed to one Henry M. Robertson, then at the Metropolitan Hotel, Washington, D.C. That was a letter in which you gave some expression to a convulsion or shudder sometimes.

Mr. MILLS. I recall it.

Mr. PECORA. Will you tell us more definitely what prompted the writing of that letter particularly to Mr. Robinson?

Mr. MILLS. Mr. Robinson had telephoned me a day or so previously—he knew I was interested; I had had some correspondence with him—he knew that I was interested and had hopes of the home loan bank bill. I was urging that it be in the form of a mortgage bank to rediscount mortgage paper, and he telephoned me, and that is what prompted the letter.

Senator COUZENS. Did your bank, after the enactment of the R.F.C. Act or the Home Loan Act, take advantage of those acts?

Mr. MILLS. We tried to at the end, just before the Michigan bank holiday was declared. That was the first time we ever applied. We never applied for a loan from the National Credit Corporation, and on February 12 and 13, 1933, was the first time we ever applied to the R.F.C. for a loan.

Senator COUZENS. But in 1931 you were very much alarmed, and your directors were, and you were urging upon the President to call a special session of Congress for the enactment of the R.F.C. or the War Finance Corporation Act, or something along that line, and you were also urging the enactment of the Home Loan Bank Act, and then shortly after that, within a few months, those acts were passed and they were organized and went on for nearly a year, and you did not avail yourselves of either of those laws after urging their enactment. I am curious to know why.

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Mr. MILLS. In the first place, the home loan bill, as it passed, did not offer us the help and the avenue that we thought, or at least that I thought, it should. It was not in a form we had hoped it would be.

Senator COUZENS. I protested the form in which it went through.

Mr. MILLS. I think you protested the entire act, as I recall, Sentor.

Senator COUZENS. I proposed to set up a home-loan division in the R.F.C. for a billion dollars of those mortgages, but the Congress, although the Senate at one time had voted for the setting up of a bureau in the R.F.C. to relieve half a billion, reversed themselves and set up a bank which I understand did not do anybody any particular good out there.

Mr. MILLS. But as to your question about the R.F.C., there were several reasons that we did not apply to the R.F.C. board. In the first place, we were running along, with our liquidity going off a trifle, but very little. I think the R.F.C. rate at that time was 5 percent. We did not wish to burden our depositors or our institution with that interest charge until we needed to. We had thought that if we ever needed help from the R.F.C. we could get a reasonable amount from them, and I was more interested in having them as reservoirs if we needed help—just like a fire hydrant in front of the house.

Senator COUZENS. Of course, any time along in 1932 or January 1933, you could have borrowed up to 90 or 100 million dollars of those very mortgages that you had some $153,000,000 of, as I recall?

Mr. MILLS. We could have asked for a loan. I do not know whether we could have had it or not. When we asked for it we did not get it.

Senator COUZENS. You asked for it after the crisis began.

Mr. MILLS. Yes. We knew nothing of the crisis before.

Senator COUZENS. Yes; I understand that. But with respect to the so-called "Dawes Bank", you remember that it was in June 1932 that Dawes got his loan, secured by what everyone at that time thought and many now think was adequate security. You could have gotten the same amount in 1932 or up until January 1933 with adequate security. There was no limitation beyond a hundred millions.

Mr. MILLS. But the Dawes trouble had arisen. He had a fire in his house right then and there. We did not. Our fire did not come until the 11th day of February, so far as I knew anything about the fire; and, besides, this burden of interest on a substantial loan would have been terrific to have placed on our depositors for the institution to absorb; and there was also this matter of publicity, which did not help, in my judgment, any institution.

Senator COUZENS. Of course, there was no publicity when Dawes got his loan.

Mr. MILLS. Yes; but the Dawes house was on fire at the time.

Senator COUZENS. But there was no publicity when the Union Guardian Trust Co. got their first loan, was there?

Mr. MILLS. It was in the report filed by the R.F.C.; the monthly report filed by the R.F.C.

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Senator COUZENS. It was not until after June 1932, when Congress, by special enactment, made those loans public?

Mr. MILLS. That is correct.

Mr. PECORA. As bearing on the banking situation that existed toward the latter part of 1931 and to which reference is made in the various letters that have just been offered in evidence, I show you what purports to be a photostatic reproduction of a letter addressed to you by Senator Vandenberg. Will you look at it and tell me if you recognize it to be a true and correct copy of a letter received by you on or about the date that it bears?

Mr. MILLS. Yes; that is a letter apparently that I received from Senator Vandenberg.

Mr. PECORA. I offer it in evidence.

The CHAIRMAN. Let it be admitted.

(Photostatic copy of letter dated Dec. 7, 1931, addressed to Mr. Wilson W. Mills from Senator Vandenberg, was received in evidence and marked "Committee Exhibit No. 149, Feb. 6, 1934.")

Mr. PECORA. Did you, following the receipt of that letter, address a letter——

Mr. MILLS. May that letter be read?

Mr. PECORA. I am going to read them both.

Mr. MILLS. I beg your pardon.

Mr. PECORA. Did you address a letter to Senator Vandenberg by way of reply, and of which I show you what purports to be a photostatic reproduction?

Mr. MILLS. I believe that is without question a letter I addressed to Senator Vandenberg.

Mr. PECORA. I offer it in evidence.

The CHAIRMAN. Let it be admitted.

(Photostatic copy of letter dated Dec. 10, 1931, addressed to Hon. Arthur H. Vandenberg from Wilson W. Mills, was received in evidence and marked "Committee Exhibit No. 150, Feb. 6, 1934.")

Mr. PECORA. I will read both letters, which have been marked, respectively, as Committee Exhibit No. 149 and Committee Exhibit No. 150.

Exhibit No. 149 reads as follows [reading]:

COMMITTEE EXHIBIT No. 149.

UNITED STATES SENATE,
COMMITTEE ON FOREIGN RELATIONS,
DECEMBER 7TH, 1931.

Mr. WILSON W. MILLS,
Detroit, Mich.

MY DEAR MR. MILLS: I am anxious to know just what has happened in connection with the Bay City banks. When the first of these banks closed in September, I was under the impression that the others were in fair condition. But now two more of these Bay City banks have closed within the week.

I am wondering to what extent the Federal Reserve Bank functioned in this emergency. I am also wondering whether the National Credit Corporation was called upon for aid. The latter phase seems to be particularly important as a matter of psychology. We cannot expect Michigan depositors to maintain their new confidence—born of the creation of the National Credit Corporation—if there are major closings subsequent to its organization. Do not let this inquiry be any burden upon you. But if you have any information I shall appreciate hearing from you.

I have a meeting this afternoon with the Comptroller on the general proposition that he has numerous examiners who are needlessly willing to have banks

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close; and that he has numerous receivers who are needlessly unwilling to have them reopen. It seems to me that there is a prime necessity in putting every possible impulse at work to reopen these banks that have closed. But I fail to find any constructive contribution which the Government is making to this end. On the contrary, it is my observation that some of these receivers are more interested in prolonging their jobs than they are in rescuing the banking function. Incidentally, I strenuously object to the policy of the Comptroller in bringing in professional receivers from outside the state. It strikes me as being a new species of "carpetbagging".

With warm personal regards and best wishes,

Cordially and faithfully,

(Signed) A. H. VANDENBERG.

The reply letter, marked "Committee Exhibit 150", reads as follows [reading]:

COMMITTEE EXHIBIT No. 150.

Honorable ARTHUR H. VANDENBERG, DECEMBER 10, 1931.
United States Senate, Washington, D.C.

MY DEAR SENATOR:

I have your letter of the 7th. I happen to know a little about the Bay City situation. As you undoubtedly know, the two banks that were closed in Bay City, one the First National Bank and the other the Bay County Savings Bank, were both owned by Mr. William L. Clements and his associates. Those banks were both in the same building and as I understand it were identically owned. When the situation arose in Michigan of surety companies ceasing to write bonds covering deposit of public funds, some $600,000 of public funds deposited in the institutions were guaranteed by responsible directors of those institutions and when the final show-down came these individuals felt they could not put up any additional funds to tide the bank over on account of their previously having guaranteed these public funds. The Bay County Savings Bank had borrowed a fair amount from their Detroit correspondent which was properly collateralled. The First National Bank of Bay City likewise borrowed from its correspondent and had borrowed from the Federal Reserve Bank (the savings bank was not a member of the "Fed.") the sum of $185,000 on governments and $46,000 on commercial paper.

I am told they had approximately $150,000 of other commercial paper upon which they could have borrowed from the "Fed". They had practically exhausted their borrowings on government securities as the remainder of the government securities owned were posted to secure circulation, Philippine deposits and the like. I believe what finally brought the roof down was that the national bank examiner told the First National Bank that they would have to write off some $350,000 of assets and while the First National Bank could have borrowed some additional funds from the Fed on their eligible paper this request of the National bank examiner amounted to the handwriting on the wall—particularly as the stockholders could do nothing of consequence after previously guaranteeing the public funds. A meeting was held in Detroit between Mr. Clements and his associates and Mr. Davidson of the remaining bank in Bay City at which Mr. Davidson offered to help provided help were forthcoming from the principal stockholders of Mr. Clements' banks, who for the reasons I have stated decided they could not go along any further. As a result the banks failed to open. The two closed Bay City banks had sometime ago joined with the other bank in Bay City in a public announcement to the effect that they had adopted a resolution to join the National Credit Corporation, but neither closed bank had actually joined or signed and subscription, nor did either of the closed banks make any application for assistance to the National Credit Corporation. I do not know what good it did by having the Federal examiner make this demand for a write-off except to stop some preferential payments but I would say that some preferential payments might better have been made than to have, as I was informed today, approximately 50 or 60 percent of Bay City people tied up in the closed banks. The situation in Bay City today as a result of the closing is pretty bad. Many people only have a very few dollars—and I don't know what can be done. You will be interested to know that Mr. Davidson's bank, the Peoples Commercial, and only remaining bank in Bay City stood the shock in splendid fashion. They had a run but it has now subsided and yesterday showed a slight increase in deposits.

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I regret to tell you that the general situation here in Michigan has in the last two weeks taken a very decided turn for the worse. I was very fearful that the trouble in Bay City would spread to Saginaw. It has not done so yet but there is a good deal of alarm felt in Saginaw. If it should go there, I wouldn't be a bit surprised to see it go to Flint. Lansing is not a happy place either. I am watching them with apprehension. Really something must be done either by way of mortgage rediscount banks or a revival of the War Finance Corporation (I see by the paper the President in his message proposes to revive it under the name of Reconstruction Corporation) and to make it operate at least partially for the benefit of the banks. The situation is really pathetic.

In setting in at the meetings of the Loan Committee of the National Credit Corporation, we see applications coming in for loans from banks whose entire capital and surplus has been wiped out by depreciation in their bond account but who have excellent mortgages and whose mortgages, except for the National Credit Corporation, are not doing them a darned bit of good. Take the case that came up yesterday. A certain bank wanted a loan of $25,000. It offered mortgages as collateral where the present amount due on the mortgages was approximately $50,000, where those mortgages have been reduced from $62,000, where the present appraisal on the property is $120,000 and the original appraisal was $160,000. Where is there a better security in the world than those mortgages and yet but for the National Credit Corporation the bank is helpless to secure aid on its very best assets. In a time of stress such as this is that bank should have some place where it can go and get some money on its good mortgages and get it promptly. The National Credit Corporation is doing what it can but it is still rumbling along pretty slowly. A new document came in from New York yesterday. This small country bank that I speak of was darned lucky that it did not have much of a bond account and equally fortunate that it had most of its investment in mortgages because unless everything is going to pot, which I for one don't think will be the case, then those mortgages are just as good as anything can be and yet they are absolutely not available for collateral except in limited degrees with the National Credit Corporation.

I hope you will forgive this rather lugubrious letter but I feel better when I write you and I cannot too strongly state that the situation is rapidly out in the state becoming very acute again and relief must be had and had pretty promptly. If I can do anything, you know I am at your service.

With warmest personal regards and best wishes,

Yours very sincerely,

P. S. What you say about receivers hanging on is unquestionably true—not only do they want to hang on to their jobs but they also like to hang on to their deposits and don't like to declare any dividends. You may be interested in a case in the Supreme Court of this state that I saw was decided yesterday to the effect that public moneys deposited in a bank without bond constituted a trust fund and were to be paid by the receiver as a priority claim over general depositors. This is a two-edged sword as you will observe.

Now I show you what purports to be a photostatic reproduction of a letter addressed by you to Senator Vandenberg under date of December 15, 1931. Will you look at it and tell me if you recognize it as a true and correct copy of such a letter?

Mr. MILLS. I presume that is a copy of it.

Mr. PECORA. I offer it in evidence.

The CHAIRMAN. Let it be admitted.

Mr. MILLS. I presume we could always get the best evidence the other way.

Mr. PECORA. I assume that you recognize that as a copy of the letter?

Mr. MILLS. Well, I do not, but I do not have any doubt of it. That goes for the rest of them.

(Photostatic copy of letter dated Dec. 15, 1931, to Senator Vandenberg from Wilson W. Mills was received in evidence and marked "Committee Exhibit No. 151, Feb. 6, 1934.")

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Mr. PECORA. The letter just received in evidence as Committee Exhibit No. 151 reads as follows [reading]:

COMMITTEE EXHIBIT No. 151

(Confidential.) DECEMBER 15, 1931.

Hon. ARTHUR H. VANDENBERG,
United States Senate, Washington, D.C.

MY DEAR SENATOR: The banking situation in Detroit—and as a necessary corollary—throughout Michigan on account of the holding companies is becoming serious. I think I wrote you sometime ago that the former seepage in savings had stopped. It has now recommenced and looks as if it might turn into a rivulet. The unfortunate hoarding which seemed to have been cured by the President's announcement of the National Credit Corporation early in October has apparently recommenced. Unless something is done or the psychology changes, Michigan is heading into trouble. I think the prompt enactment of the home loan discount bill—I haven't seen the bill itself, although I think I know its sum and substance—would be a powerful help, but something of that type of outlet must come shortly if trouble is to be averted.

Forgive my bothering you so often, but, as I wrote you in one of my other letters, if I can blow off a little steam in my letters to you, somehow it seems to make me feel better.

With warmest personal regards and best wishes,
Yours very sincerely.

Now let me ask you, Mr. Mills——

Mr. MILLS. The date of that letter was what?

Mr. PECORA. December 15, 1931. Let me ask you this: Which were the holding companies that you referred to in that portion of the letter where you say that the banking situation in Detroit and, as a necessary corollary, throughout Michigan, on account of the holding companies, is becoming serious?

Mr. MILLS. The two banking ones in Detroit.

Mr. PECORA. Meaning the Guardian and the Bankers—the Guardian Detroit Union Group and the Detroit Bankers Co.?

Mr. MILLS. Yes. The reason was this: The preceding letter that you read showed that there had been a great deal of trouble in Bay City. The fact that through a subsidiary the Detroit Bankers Co. in previous years had acquired a small interest in the Bank of Bay City created the impression, at least in Bay City, that the Detroit Bankers Co. owned that bank and were going to stand back of it because they owned it. As a matter of fact, they did not own that bank. They owned not over 20 percent of it.

The same thing was true in Lansing. A very few days after that letter was written a bank in Lansing in which the Detroit Bankers Co., through its subsidiary, the First National Co., had an interest, failed. It did not open. The public had, for one reason or another, gotten the idea, or many of the public got the idea—they confused the Guardian with the Detroit Bankers, in that the Guardian ownership was 100 percent ownership of their banks. The Bankers Co. ownership, through a subsidiary of the Detroit Bankers Co., in no case, as I was informed, exceeded 20 percent. There was a very substantial difference. There was a difference in the organization. They did not issue stock. There was no promotion in the way that the Detroit Bankers did it. I do not know that there was in the other case, but the idea got around that a bank in Bay City or a bank in Flint or a bank in Lansing, if it failed the whole structure might come down; just as Mr. Leyburn testified here, according to the press, that it was recognized that if the Union Guardian Trust

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Co. went down it would take down the rest of them. That was the situation we were facing at that time in this out-State trouble.

Senator COUZENS. Do I understand from that statement, then, that you thought the holding-company proposal was a bad arrangement?

Mr. MILLS. Senator, I think the holding-company arrangement at the time it was formed—I can say this, that I was one of the lawyers in it, but I had no part of the direction of it. It was probably the proper thing at the time it was done. I can see no necessity at the present time, on account of the change in legislation, for any new holding companies. As I stated to the chairman, I have some suggestions about legislation, and one of them is along those general lines, prompted by this experience.

Mr. PECORA. I presume you will defer a discussion of that until your general recommendations are prepared for the benefit of this committee and are put into the record?

Mr. MILLS. Oh, certainly; anytime.

Mr. PECORA. In the examination of Mr. Stair last week, as I recall it, reference was made to a letter addressed by Truman H. Newberry to Mr. Joseph M. Dodge, vice president, First National Bank of Detroit, Mich., under date of January 17, 1933. I show you what purports to be a photostatic reproduction of that letter, and I show it to you particularly because there appears on it in handwriting an inscription reading "Filed, Mr. Mills." Will you look at it and tell me if you ever saw the original letter of which that purports to be a photostatic copy?

Mr. MILLS. No; I never saw it, to the best of my recollection. The signature I recognize as being that of Senator Newberry. The stenographer simply meant to put it in Mr. Mills' file. Why I do not know; but this is his signature.

Mr. PECORA. I offer it in evidence and will ask Mr. Mills a question or two about it.

(Photostatic copy of letter dated January 17, 1933, to J. M. Dodge from T. H. Newberry, was received in evidence and marked "Committee Exhibit No. 152, February 6, 1934.")

Mr. PECORA. The letter which has just been marked in evidence as "Committee Exhibit No. 152" reads as follows [reading]:

COMMITTEE EXHIBIT No. 152

THE OAKS,
Bellfair Heights, Florida, January 17, 1933.

DEAR MR. DODGE: Please accept my thanks for the trouble you have taken to write about the Anual Meetings and to send me an advance copy of the Annual Report.

I wish you would say to Mr. Mills and to those who assisted you in making the report that I think it admirable in every respect. It gives plenty of information to the shareholders of the Bankers Company, and I am glad that it includes the startling fact of the amount of charge-offs and reserves that have been set up. It was probably wise to omit any reference to the First National Company or its successor (the Assets and Realization Company).

I have written Mr. Connely about his report which I assume is not for general circulation.

Please accept my thanks also for the copy of the Whaley-Eaton Service of January 7th. I shall be glad to have others when they become available.

Yours sincerely,

(Signed) TRUMAN H. NEWBERRY.

Mr. JOSEPH M. DODGE,
First Vice President First National Bank, Detroit, Mich.

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Did Mr. Dodge, following the receipt of this letter by him, have a conversation with you about this letter?

Mr. MILLS. I do not recall. I think that he very likely said to me, "I have a letter from Senator Newberry and he likes the report"—or didn't like it, whichever the letter says. I have no recollection one way or the other about it.

Mr. PECORA. The annual report referred to here in this letter is unquestionably the annual report issued to the stockholders of the Detroit Bankers Co. for the year 1932, is it not?

Mr. MILLS. I think, without question.

Mr. PECORA. In view of the request of Senator Newberry in this letter to Mr. Dodge that he say something to you in connection with the report, let me ask you if you considered it wise to omit any reference or to have omitted from this annual report any reference to the First National Co., or its successors?

Mr. MILLS. I do not think it made the slightest difference.

Mr. PECORA. Why was no mention of it made?

Mr. MILLS. Because I do not think it would have added anything to the report. This is hearsay, but I was informed—I think we agreed this morning that it was carried on the books at $1. It had no value. I do not think it would have added anything.

Mr. PECORA. I am assuming, from that reference in Senator Newberry's letter to Mr. Dodge, that the omission of any reference to the First National Co. or its successor in this annual report was done advisedly. Do you know anything about that?

Mr. MILLS. No; I do not. I do not believe it was ever covered in any report. I just looked at them all within the last couple of weeks, and I have not found it mentioned in any of the annual reports. For that reason I would say, at least in the latest one, it is not done advisedly, any more than following precedent.

Mr. PECORA. The First National Co. was one of the nonbanking units of the Detroit Bankers Co., was it not?

Mr. MILLS. The First National Co.; yes.

Mr. PECORA. I notice in the annual report of the Detroit Bankers Co. to the stockholders for the year 1932 that there is mention made of nonbanking units of the Detroit Bankers Co., such as the First National Bank Building and garage, the First Detroit Co., and the Detroit Bankers Safe Deposit Co.

Mr. MILLS. They were operating and the other one was not.

Mr. PECORA. Was that the reason why no mention was made of it in the report?

Mr. MILLS. So far as I know, Mr. Pecora, that, plus the precedent, because it was not in any of the other reports; it was a nonoperating company.

Mr. PECORA. Apparently this annual report was first discussed before it was adopted and directed to be sent to the stockholders by the board of directors of the Detroit Bankers Co., was it not?

Mr. MILLS. I do not know whether it was or not. I do not recall.

Mr. PECORA. Was it the practice for the Detroit Bankers Co. to do that? That is to say, was it the practice to have some officer or officers prepare the annual report, present it to the board of directors or any division of the board of directors of the company for consideration and discussion, and then, after adopting it in some form or other, authorize it to be sent to the stockholders?

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Mr. MILLS. I think that the form was this—I am quite sure; I am almost certain I will have to qualify it slightly because of my recollection of it—the form was this—the first one I know nothing about; I did not go to the meeting. My recollection of the other two annual reports, the so-called "Ballantyne report" and the so-called "Stair report", is that they were first read at the annual meeting of the stockholders. The directors were then elected and the report was adopted. I think it was adopted at the shareholders' meeting. It was read at the shareholders' meeting. I know the last one was. I remember being at the meeting and hearing the report read.

Senator COUZENS. The so-called "Stair report"?

Mr. MILLS. Yes, sir.

Senator COUZENS. You sent me a copy of it?

Mr. MILLS. Yes, sir; I sent you a copy of it. I also recall the Ballantyne report—not in full but in substance—was read at the meeting early in 1932, the stockholders' meeting.

Mr. PECORA. That stockholders' meeting was not attended by very many of the stockholders in person, was it?

Mr. MILLS. They were all notified.

Mr. PECORA. I know that.

Mr. MILLS. I am doing a lot of guessing. I would say there might have been 70 or 80 or 100, something like that; maybe more or maybe less.

Mr. PECORA. Out of nearly 9,000?

Mr. MILLS. I think there were something like 8,000. We will not argue that—at least I will not. Of course, they were represented by proxies.

The CHAIRMAN. A majority of the stock, I suppose, was represented?

Mr. MILLS. All at the meeting were represented, either in person or as proxies.

Mr. PECORA. The question was, Was a majority of the stock represented, either in person or by proxy?

Mr. MILLS. Oh, I presume so. Although it might be necessary to have both there, because a few of the stockholders had very substantial holdings, and their personal presence might have been necessary in order to have a quorum, I don't know; but a large number of stockholders, including those having substantial holdings, generally showed up.

Mr. PECORA. Are you familiar with the annual report for the year 1932 that was filed with the Michigan Securities Commission in behalf of the Detroit Bankers Co.?

Mr. MILLS. I never heard of it until the other day when I was sitting here.

Mr. PECORA. Did you ever hear of any annual reports being filed by the Detroit Bankers Co. with the Michigan Securities Commission during any year of its existence?

Mr. MILLS. No, sir; not to my recollection. I was a director of the Detroit Bankers Co., and not an officer, and probably would not hear of it. I have no recollection of hearing of any, anyhow.

Senator COUZENS. Were you never an officer of the Detroit Bankers Co.?

Mr. MILLS. I was a director, that was all, Senator Couzens, at one time. I was with them just 2 years.

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Mr. PECORA. Is it a fact that when the Detroit Bankers Co. was formed you, as an attorney, attended to any of the legal formalities in connection with its organization?

Mr. MILLS. I was one of 5 or 6 lawyers that were called in by Mr. Haass and the other bankers, and we were given our general instructions as to what they desired accomplished, and we sought to accomplish it.

Mr. PECORA. According to the annual report filed with the Michigan Securities Commission for 1932, a copy of which is in evidence before this committee, during that year there had a reduction or depreciation of something like $9,000,000 in the surplus funds of the company. Were you familiar with that?

Mr. MILLS. No; I am not. I was just now comparing the figures in this annual report with what you had. I knew nothing about it.

Mr. PECORA. Well, now, you have before you, haven't you, a copy of the annual report to stockholders of the Detroit Bankers Co. for the year 1932?

Mr. MILLS. Yes, sir.

Mr. PECORA. I am going to show you a copy of the annual report filed with the Michigan Securities Commission in behalf of the Detroit Bankers Co. for the same year. Will you look at it and tell us if the facts and figures set forth in the annual report to stockholders correspond to those set forth in the copy of the report filed with the Michigan Securities Commission?

Mr. MILLS (after glancing at the photostatic copy of report filed with Michigan Securities Commission). Why, I don't know, Mr. Pecora. I have no way of checking it.

Mr. PECORA. Just glance at it, please. I have to go out of the room to attend to a matter for a moment or two. Will you look at it while I am gone?

Mr. MILLS. All right. [After Mr. Pecora's return.] Mr. Pecora, one is the annual report, apparently, to the Michigan Securities Commission in the form prescribed by them. It is a statement of assets and liabilities, and a statement of income and expense, and a list of directors. The other is more a comparative statement. I mean, the annual statement, the Stair report, so-called, is a comparative statement. As appears on its face, it does not give a statement of income and liabilities, and it gives a comparison with the year before, is all that I can see.

Mr. PECORA. It does not give figures corresponding to those embodied in the report filed with the Michigan Securities Commission, does it?

Mr. MILLS. They are different things. That is why they are different figures. I did not prepare them, but Mr. Lewright can give you those figures entirely.

Mr. PECORA. The purpose of the statute requiring the making and filing of this annual report with the Michigan Securities Commission is to obtain from companies subject to the operation of that law a statement showing the condition at the end of the year, isn't it?

Mr. MILLS. In certain cases; yes.

Mr. PECORA. Yes. And do you know of any reason why the information required to be given to the Michigan Securities Commission in the form of these annual reports should not be given to the stockholders of companies that filed such reports?

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Mr. MILLS. There is no reason to the contrary. It might have been given. I might also add that the Stair report, so-called, might have been attached to the annual report submitted to the Michigan Securities Commission. But they are about different things. I do not mean different companies. One is on a prescribed form. The statute prescribes a form, such as your exhibit K–2; and in the case of the stockholders' report of any holding company, the form was not prescribed by statute but was in the hands of the officers of the company to put in such information as they thought proper or would be interesting or, what have you, to the stockholders of the corporation.

Mr. PECORA. Well, do you know any reason why the directors of the Detroit Bankers Co. did not in their annual reports to stockholders set forth the financial condition of the company in substantially as that condition is required to be set forth in reports filed with the Michigan Securities Commission?

Mr. MILLS. If they had done so I think they would not have been giving stockholders nearly the information that they gave them in the report. For instance—

Mr. PECORA (interposing). Well, do they in the report give them as complete and definite information concerning the financial condition of the company as a whole, as that which was contained in the reports filed with the Michigan Securities Commission?

Mr. MILLS. They did not give them the same information, but I think they really gave them more information.

Mr. PECORA. Can you find in the annual report for 1932, addressed to stockholders of the Detroit Bankers Co., anything which gives them the information as to the financial condition of the company at the end of the year, that is in any way comparable to that which the law requires shall be given to the Michigan Securities Commission?

Mr. MILLS. Yes. I think, in the first place, there is a reconcilement of the capital account on the first page.

Mr. PECORA. Yes. Go ahead.

Mr. MILLS. I think that is very substantial information. I think that the second and third paragraphs give a tremendous amount of information; that provision is made for reduction in asset values by transfer to reserves of nearly 10 million dollars, in addition to nearly 3 million dollars already provided for out of current earnings. And it says that the banking units during their past 3 years' existence have endeavored to meet the present economic conditions by setting up reserves for losses and contingencies in excess of 37 million dollars. And I think the comparative statement of income, showing a drop of slightly less than 14 percent is very informative to stockholders. I think the control of expense that he speaks of is exceedingly informative. But you must remember that this is an operating statement.

Mr. PECORA. Now, in the statement contained in the annual report to stockholders, entitled "Combined statement of condition of banking units at the close of business December 31, 1932", is in no way comparable to the information shown in the annual report filed with the Michigan Securities Commission, is it?

Mr. MILLS. It covers different things.

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Mr. PECORA. Now, the report filed with the Michigan Securities Commission shows a charge-off of subsidiary investments of $6,977,-707.11 and a charge-off of notes receivable of $3,100,000. That amounts to an item of over $10,000,000. Is there any reference to that in the annual report to the stockholders?

Mr. MILLS. It seems so to me, but I am not an accountant.

Mr. PECORA. Where is it?

Mr. MILLS. It says here that provision is made for reduction in asset values by transfers to reserves of nearly $10,000,000.

Mr. PECORA. Does it indicate what those transfers were, and what they were due to?

Mr. MILLS. I think in the case of any bank statement or banking unit or holding company of banks the conclusion is perfectly obvious, that it is a charge-off.

Mr. PECORA. Well, now, you say in the annual report to stockholders——

Mr. MILLS (interposing). No; I don't say so.

Mr. PECORA. Well, I am referring to the company, and you were one of the directors of the company.

Mr. MILLS. I was one of the directors of it; yes.

Mr. PECORA. And I presume you helped to issue it..

Mr. MILLS. I was at the annual meeting of stockholders when this was read.

Mr. PECORA. In the annual report to stockholders, you say:

> Provision was made for reduction in asset values by transfers to reserves of nearly $10,000,000.

And in the report to the Michigan Securities Commission reference is made to charge-offs, mentioning two items, one of $6,977,000 and the other of $3,100,000. You don't think those two statements mean practically the same thing, do you?

Mr. MILLS. Yes; I do, and more particularly when read in connection with the next paragraph, where they say they have charged off $37,000,000 by setting up provision for losses and contingencies, in excess of $37,000,000.

Mr. PECORA. But they do not say that they have charged off $37,000,000.

Mr. MILLS. They say they have set up provision for losses and contingencies in excess of $37,000,000. I think that is a pretty frank statement.

Mr. PECORA. But that is not equivalent to a statement of charging off $37,000,000, is it?

Mr. MILLS. Well, many of those items that were charged off have come back. A charge-off, if I may say it on the record, does not mean that the debtor is forgiven.

Mr. PECORA. No; I know that, Mr. Mills.

Mr. MILLS. Well, if you know it, I am saying it for the record then.

Mr. PECORA. Well, you say that the information given to stockholders was comparable to that given to the Michigan Securities Commission, if I correctly understood your testimony.

Mr. MILLS. I think I did not. I said I thought more real information was given in the Stair report; more real information is given in that report than would be given by a mere statement in any

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balance sheet and so on, as was given to the Michigan Securities Commission, and I believe that.

Mr. PECORA. In the so-called "balance-sheet statement", as you call it, or the annual report to the Michigan Securities Commission, the statement is specifically made that there was a charge-off of subsidiary investments amounting to $6,977,000, and a charge-off of notes receivable of $3,100,000. Now, you think the information is virtually embodied in the annual report to stockholders in the statement reading:

Provision was made for reductions in asset values by transfers to reserves of nearly $10,000,000.

But a transfer to reserves isn't the same as a charge-off, is it?

Mr. MILLS. The first part of the operation is identical.

Mr. PECORA. Well, take the two statements, each as a whole, and a statement of a transfer to reserves of nearly $10,000,000 is not the equivalent of a charge-off of $10,000,000, is it?

Mr. MILLS. I do not know whether in accounting practice it is or not.

Senator COUZENS. I want to say to Mr. Pecora, that he argued to Mr. Mills about using form instead of substance, and he, very properly, pointed out that lawyers are too prone to consider form instead of substance. I think now Mr. Pecora is considering form instead of substance.

Mr. PECORA. Well, there is nothing in the statement to show whether a transfer to reserves should be considered the same as a charge-off.

Senator COUZENS. In accounting practice that can be the same thing. The general understanding in accounting practice is that a transfer to reserves is a very doubtful asset, and that a transfer to losses may be a definitely learned loss, or may be a loss which is contemplated.

Mr. PECORA. Well, that is the difference I have in mind.

Senator COUZENS. But it is quite reasonable to bunch both of them.

Mr. PECORA. Well, I yield to your superior knowledge of accountancy, Senator Couzens.

Senator COUZENS. I have no prejudice in this matter at all, but I think we are now talking about form rather than substance.

Mr. PECORA. Now, Mr. Mills, I want to ask you a few questions about this confidential memorandum of Mr. Verhelle, which was received in evidence here as committee exhibit no. 95. It has been testified to here, in substance, that a copy of this confidential memorandum was submitted by Mr. Verhelle to you, among others. Does that conform to your recollection of the fact?

Mr. MILLS. May I tell you the story?

Mr. PECORA. Yes.

Mr. MILLS. In April, I believe it was—and what is the date of that report?

Mr. PECORA. May 18, 1932, and the letter of transmittal is dated May 19, 1932.

Mr. MILLS. In April of 1932 Mr. Ballantyne saw me and stated that Mr. Verhelle had discovered something he, Mr. Verhelle, thought was wrong; that certain transactions of many officers of the bank

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he thought were wrong. Mr. Ballantyne asked me if I would take it up and investigate it, and if I would take charge of the matter. I said I would.

It was stated to the governing committee that certain officers were under suspicion. I saw Mr. Verhelle, and told him that this matter had been referred to me, and that those men were entitled to one of two things—well, first, he told me in a general way who they were, and I told him they were entitled to one of two things, either to be convicted, if I might use that word, or to be acquitted; that their reputation, name, and everything else were at stake, and that they were entitled to it, and it must be the one or the other, and that promptly.

I then said to him: "Now, in order that there may be no mistake about it I want you to be good enough to put everything that you have, everything that you know about these matters, in written form. And I want it as promptly as it may be secured."

About 2 weeks thereafter I asked Mr. Verhelle where the written report was. I told him I would want five or six copies of—well, we will call them, charges. About 2 weeks thereafter I asked him where those charges were, and he said he was still working on them, and did not have them. Well, I asked him to please hasten it. He said it was a big job. I told him to hurry, for those men, in the minds of the members of the governing committee, were under suspicion, and if again I might refer to that word, that they were entitled either to be convicted or acquitted.

A couple of weeks later I again pressed Mr. Verhelle for his report. He said he would have it in about 2 weeks longer, at which time he gave it to me.

In the meantime, at a meeting of the governing committee—and at that time I was not a member of the committee, but I occasionally attended their meetings—I either stated that I had appointed or asked them to confirm the appointment of a committee to examine the charges, the committee to consist of Judge Murfin, Senator Newberry, Lawrence K. Butler, and myself. Mr. Pipper, who is the auditor, and who in the organization of the bank was responsible only to the board of directors—that is, no one had any control over Mr. Pipper except the board of directors—he was also named, as I recall it, on the recommendation or suggestion of Judge Murfin. Whether he was a full member of the committee or not—and I mean now Mr. Pipper—I don't know.

Examinations of these gentlemen were either approved or notice was sent, and a copy of the charges was given to each member of the committee, including Mr. Pipper, the auditor.

I saw Mr. Pipper and told him I wanted him, as the auditor of the bank, to take all these transactions that were mentioned and to get the records covering all of the transactions together, and that we would have what would amount to a trial of these gentlemen.

Mr. Pipper proceeded to get a very voluminous bunch of records together, and one day this committte met and, without any warning, we telephoned Mr. Sweeny and asked him to come.

I might say right here that the committee had considered the advisability of having Mr. Verhelle present, but reached the conclusion that it would be best not to have him present, but——

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Senator COUZENS. Why did you reach that conclusion?

Mr. MILLS. Senator Couzens, I was just about to say that. The committee reached the conclusion not to have Mr. Verhelle present, because we decided we would not tell any of those men by whom any of the charges were made, for if they did know, and any of them should prove—as most of them did prove—to be absolutely innocent in our minds, that because of their not knowing who had made the charges they would continue to work side by side with the man. And it was perfectly obvious to me, or at least I thought it was, if they knew that Mr. Verhelle had made the report, had made those charges about some of these men, and they later should be acquitted—and I do not like to use that word, so I will say exonerated—that it would be difficult for the morale of the institution.

Besides we thought by having Mr. Pipper, who had assisted Mr. Verhelle—and Mr. Pipper had stated this—in securing some of the information, and he having all those records, and that being a part of his business, that he would be ample to check any statement that was made.

One day, without any warning whatsoever, this examining committee met and telephoned Mr. Sweeny and asked him to come over. When Mr. Sweeny came I said: "This is an embarrassing situation. Certain charges have been made against you by an unnamed person, and you are going to be either completely exonerated or you are going to be found guilty of these charges. Either way it goes, we are going to clear this thing up right now." And that same thing was said to every other person as he appeared.

Mr. Sweeny was the first. He was asked questions. He asked time to bring in some additional records, deeds, and so forth, of his side of it; and my recollection is that the following day he brought in the other records.

And then the day after that the proceeding was reenacted with Mr. John Bodde, who is the vice chairman of the board, I believe, as the party then present.

Thereafter we were unanimous in the report, Mr. Pecora, that you have before you, except as to Mr. Pipper, on the question of the motive of Mr. Verhelle.

In regard to the Sweeny transactions, of course, a long time has passed, well, 2 years almost, and I don't remember all of the details, and I was then a very busy man, but I remember, for instance, a part of them were as to the Wise Chrome matter that has been talked about here, and the inference from the report was that he had initialed the note—and by initialing a note in a bank, that means giving authority to discount it or advance the cash on it; that he was a stockholder of the Wise Chrome Products Co., and that there was something wrong about it. Now, at least as to some of those loans of the Wise Chrome Products Co., as I recall the testimony, which Mr. Pipper checked, they were in the bank long before Mr. Sweeny was a director of the bank; and the bank had a rule that no loan of over $15,000, or a total of over $15,000, should be made by any officer on a general line of credit unless it first went to the executive committee and had their approval.

The balance of the $25,000 of loans to the Wise Chrome Products Co. was—according to my recollection, it was proved at that time

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that Mr. Sweeny was not on the board when those loans were originally made; that they were approved by the executive committee on statements filed by the Wise Chrome Products Co.

Senator COUZENS. Mr. Mills, have you any record of the executive committee when they passed that loan?

Mr. MILLS. The receiver has that.

Senator COUZENS. Do you know if there is a record made in the executive committee meetings of the authorization of the loans?

Mr. MILLS. Oh, it certainly should be available.

Senator COUZENS. Do you think it good practice to let large stockholders, or a stockholder in a corporation, initial loans to the corporation itself?

Mr. MILLS. I do not think it makes the slightest difference under the control that we had, or which we were putting into effect in the bank at the time, and for this reason: A loan to the Wise Chrome Products Co. could not be made by any officer of the bank except on prior approval of four men, unless the board completely overruled them; and the four men in charge of loans commencing with the letter W were the ones in charge. They also had in charge a number of other letters, say, from S to W.

Senator COUZENS. Were those loans approved by those four men and by the executive committee?

Mr. MILLS. The institution of those loans was made before this system had been put into effect; yes, sir; but, again, as I recall it—and we were perfectly satisfied—the loan had been authorized by the executive committee upon a proper credit statement before the advance was made.

Senator COUZENS. Of course, when you had this examination of Mr. Bodde and Mr. Sweeny you had access to the minutes of the executive committee made at the time, I take it?

Mr. MILLS. Oh, yes. Mr. Pipper had all those records. In fact, he had information on this thing about Mr. Sweeny, and I had told him he would be there, or that he was to get some information, and that he was to be there almost as prosecutor, being the auditor of the bank.

And this kind of error crept into the Verhelle report: Mr. Sweeny was charged in the report with having overdrawn an account of his as trustee in a branch of the bank, and on a certain date had immediately telephoned funds to that bank to cover, telephoning from the main office. And then the report went on to say: Just prior to the national bank examination or State bank examination, and I know it says just prior to an examination, and that certainly gve the committee the idea, and we started on the assumption that there had been an overdraft in the bank in the account of Donald N. Sweeny, trustee.

But what were the facts as we developed them? The facts which we developed in this inquiry were that Donald N. Sweeny, trustee, kept two accounts in the banks, one in the main office and one in a branch bank. That he drew a check one day, and his stenographer happened to draw on the Delray branch, which was a part of the bank, and it did create an overdraft in that particular account; but that the account in the bank as a whole contained no overdraft whatsoever. As soon as the error was discovered, as soon as it was dis-

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covered that his stenographer had used the wrong check, he went out into the main office and said: "Please transfer from my account in the main office to my account in this particular branch"—of this same bank, mind you—"of a sufficient sum to cover." So there was no actual overdraft in the account itself. The committee was satisfied that it was inadvertent, that he had used the wrong check by reason of what I have mentioned, and that in the bank itself there was no overdraft.

We were equally satisfied that——

Mr. PECORA (interposing). There was an overdraft as a result of using your own check in the particular account against which the check was drawn, was there not?

Mr. MILLS. Well, it was not an overdraft at all in the bank. There were ample funds in the account of Donald N. Sweeny in the First National or Peoples Wayne County Bank, whichever it was at the time, to make that check good.

Mr. PECORA. Yes; but the overdraft was on the account specially kept at the Delray branch?

Mr. MILLS. It was in that branch; yes.

Mr. PECORA. Considering that account by itself, there was an overdraft which you say, according to Mr. Sweeny's explanation, was due to the fact that the wrong check inadvertently was used?

Mr. MILLS. Due to Mr. Sweeny's and to his stenographer's—we also talked to her—but the account in the bank was not overdrawn.

Senator COUZENS. Were they both trustee accounts?

Mr. MILLS. No. One was Donald N. Sweeny, trustee, and the other was Donald N. Sweeny, trustee, and he was trustee for the same person in each case.

The statement was made in this report that just prior to the national bank examiner coming in this account in the Delray branch was covered. We were perfectly satisfied that that happened to be a coincidence; that he did not know that the national bank examiners were coming in. I didn't know when they were coming in. There could have been no reason that I can see for covering an account down in that branch just a minute before someone happened to come in and at the same day. I think, and the committee all thought, he did the right thing in having the funds transferred from the main office to that branch.

Mr. PECORA. The fact then reported by Mr. Verhelle you found to be the fact, but you ascribed an innocent motive to what was done? Isn't that it?

Mr. MILLS. Well, you cannot read the whole report without getting very improper—at least I could not read, I will put it that way, the report without getting very improper—motives as respects Mr. Sweeny.

Now, there was this type thing that went on: This question of mortgages, which is most bothersome. In Michigan—well, you can have three kinds of—I hate to get into a legal lecture, but I probably will have to do so. There is quite a difference between mortgaging your property. That would be example number one. You may become liable for that debt, but if you sell that property to me you then become in the position of a surety under the law of Michigan. And a bank who has a mortgage on that property in the first in-

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stance looks to me, and there is nothing that you, Mr. Pecora, as the original mortgagor, can do about that in the meantime except to buy the mortgage from the bank. If you pay it, why you are probably just out of luck. You cannot control the property. You cannot control the income from the property.

Then there is a type of mortgage in which John Jones makes a mortgage, and it is purchased by, we will say, myself, subject to the mortgage. Now that does not mean, and the law of Michigan does not imply, any convenant on my part to pay that mortgage.

The CHAIRMAN. Unless it is expressed in the deed?

Mr. MILLS. Unless it is expressly set forth in the deed. And that is the third type, where the deed itself expresses that provision.

Mr. PECORA. Where the grantee assumes?

Mr. MILLS. Not only assumes but agrees to pay it. You have to have both the assumption and the agreement to pay.

Now, I will be the last to say that the Verhelle report did not in the end accomplish some good in the institution. As I said in my prepared statement, it was not the one bank alone, but these banks had come together and it was a very difficult situation. You had in there at least four men who had been presidents of their own banks. Each had their own systems that they thought were the best systems. And we had to put those systems in, and I will say that the Verhelle report was helpful to that extent in some cases. But it did, with the publicity that has been given to it, in my judgment, irreparable damage to some of these men.

The CHAIRMAN. He held the position of comptroller of the bank?

Mr. MILLS. No; he was comptroller of the Detroit Bankers Co.

The CHAIRMAN. Was he continued in that position afterward?

Mr. MILLS. I am glad you asked that question, Senator. At the time of the Verhelle report and the hearings of the examination were held, Mr. Ballantyne had resigned from the Detroit Bankers Co. He was president. Mr. Mark Wilson, who was vice president, had resigned. Mr. Dwight Douglas, who was vice president, had resigned. Those resignations in general were caused by the fact that it had been then determined that the Detroit Bankers Co. thereafter would be practically a nominal holding company without any extraneous activities.

And when that policy was determined by the board, these gentlemen resigned. Mr. Verhelle was the only officer remaining in the Bankers Co. of any consequence that had any knowledge of what had gone on of the various activities of the Bankers Co.

Now, Mr. Browning was a vice president of the Bankers Co., but he was one of these nonactive vice presidents. So far as I know, Mr. Browning was not active. He was more or less of an honarary vice president of the Detorit Bankers Co.

The committee—this first report, this first exoneration——

Mr. PECORA (interposing). You mean the one marked "Exhibit No. 126", dated May 25, 1932?

Mr. MILLS. The short one; yes—was presented to a governing committee and read. The governing committee asked various questions about it, and it was then ordered filed, and the governing committee approved that report, and immediately someone said, "Why, we believe that Mr. Verhelle's services should be dispensed with."

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I don't like to say this, it is not pleasant, but I think, I am positive, that Mr. Verhelle's services would have been dispensed with at that time if it had not been deemed advisable to continue Mr. Verhelle for a few months in order to have some one pick up the information and assemble the data and so on that he alone had in the Detroit Bankers Co.

That explains, Senator Fletcher, why he was continued for several months.

Mr. PECORA. Well now, Mr. Mills, in Mr. Verhelle's confidential memorandum he specifically says with regard to the loan account of the Wise Chrome Products Co., as follows:

A Dun report dated October 9, 1931, states that Dale W. Bower, whose relationship with the bank has not been looked into, stated: "That John R. Bodde and Donald N. Sweeny retained their interests, but were not official directors of the company."

Did you find that that was a misstatement on Mr. Verhelle's part?

Mr. MILLS. Why, Mr. Pecora, I cannot recall. I will refer you to Mr. Sweeny's affidavit. I cannot recall whether that was a misstatement or a wrong inference drawn. It was 2 years ago, and we have had tremendous jobs and a tremendous lot of work being done.

Mr. PECORA. He also said in his report: "On February 13, 1931, the auditors reported as follows"—and by "the auditors" I assume he means the auditors that were employed by the Detroit Bankers Co.

Mr. MILLS. That would be under Mr. Cooper's supervision.

Mr. PECORA. Yes. Those are the auditors referred to, are they not?

Mr. MILLS. I presume so, without question.

Mr. PECORA. Then Mr. Verhelle in his confidential report quotes those auditors under date of February 13, 1931, as follows:

The accounts of the Wise Chrome Products have shown chronic ovedrafts since the latter part of last December. The amounts range from about $2,000 to $7,800 daily. The manager reports that the overdrafts are authorized by loaning officials at the main office. He was unable to say whether or not interest would be collected on them. All overdrafts were covered on February 14 during this examination.

Did you find that that was a misstatement of the fact by Mr. Verhelle?

Mr. MILLS. We found as to the overdrafts that Mr. Sweeny had on some occasions permitted overdrafts of the Wise Chrome Products Co. where he was satisfied that the overdraft would be lifted and taken care of within a few hours or the next day.

Now, besides that, we found this condition, that eventually they were trying to put through a number of overdrafts, and we got in the manager of a branch, a fellow named Clayton Porter, who was manager of a branch. Mr. Sweeny had testified that he, Mr. Sweeny, had told Porter that under no condition was Porter to let any more overdrafts go through with the Wise Chrome Products Co.

Mr. PECORA. When?

Mr. MILLS. Toward the end of the overdraft period of the Wise Chrome.

Mr. PECORA. Well, the end of the overdraft period with the Wise Chrome appears to have been some time after March or April 1932, and it appears to have commenced in December 1930.

Mr. MILLS. All right. That is just what I am saying.

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Mr. PECORA. So, for a period of about a year and a quarter, these overdrafts were of very frequent occurrence?

Mr. MILLS. There were a number of overdrafts. I won't say very. There were a number of overdrafts. But our investigation convinced us that the overdrafts had always been covered within a day or so. And later we found that Mr. Sweeny himself had given instructions that—at that time he was executive vice president or vice president—had given instructions that there were to be no more overdrafts on that account, and a branch manager had gone ahead and allowed some himself on his own responsibility against his direct instructions. I had to bawl him out for it.

Mr. PECORA. If you have a copy of Verhelle's confidential report before you, I should like to have you refer to it as I question you about it.

Mr. MILLS. Yes, sir.

Mr. PECORA. Doesn't it appear at pages 8 and 9 of that confidential report——

Mr. MILLS (interposing). My report is not paged, Mr. Pecora, and it may not be the same as yours.

Mr. PECORA. Have you a section of it captioned "Wise Chrome Products Company"?

Mr. MILLS. Yes.

Mr. PECORA. On the first and second pages of that section doesn't it appear in substance that these overdrafts were found not by Verhelle but by the auditors of the Detroit Bankers Co. to have developed from December 1930 and to have continued up until some time in March 1932?

Mr. MILLS. Well, it speaks for itself. I don't know who found it. It speaks for itself.

Mr. PECORA. Well, you see Verhelle citing, quoting, from the reports of the Bankers Co. auditors.

Mr. MILLS. Oh, there were overdrafts. There were overdrafts, no question about it, but they were covered.

Mr. PECORA. And the overdrafts were of a very frequent occurrence for a period of time commencing in December 1930 and extending up to and including March 1932?

Mr. MILLS. They were all covered, and it is not unusual to have an overdraft in any institution where you are satisfied that it is due to an unusual occurrence.

Mr. PECORA. Was it a fact in your opinion as one of the members of this investigating committee that acted on Mr. Verhelle's report, that Mr. Verhelle in calling these overdrafts to your attention through his confidential memorandum called to your attention anything but the facts?

Mr. MILLS. Not all the facts. That was all.

Mr. PECORA. Well, what were the facts that your committee found that were additional to the facts reported by Mr. Verhelle with regard to these overdrafts?

Mr. MILLS. I have not read this, but my recollection is—I will take time now, if you wish me to—my recollection is—I may be mistaken in this—that this report does not state that these overdrafts were all taken care of. It may. I don't know. I have not read it, as I stated to you. I have not recently read it at all.

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Secondly, there is no showing in this report that Mr. Sweeny, toward the end of the time, expressly instructed the branch manager where this account was carried that he was not to permit any further overdrafts.

Mr. PECORA. Were those instructions to be found among the records of the bank or were they instructions that Mr. Sweeny had orally given and which could not be found among the records of the bank?

Mr. MILLS. They were instructions that he had orally given that manager, admitted by him when we called him before the committee.

Mr. PECORA. Well, how would you expect that Mr. Verhelle would know what instructions had been orally given by Mr. Sweeny if, as I assume the circumstances were, this was a confidential investigation being made by Mr. Verhelle for the benefit, information, and guidance of the executive officers of the bank?

Mr. MILLS. I would certainly have expected Mr. Verhelle before making such a report to have talked to the manager of the branch with which the account was carried and asked him the circumstances of it.

Mr. PECORA. Where Mr. Verhelle found among the records of the bank reports by the auditors of the Detroit Bankers Co., which owned the bank, calling attention frequently, first, under date of February 13, 1931; then under date of March 6, 1931; then under date of January 4, 1932; and under date of April 14, 1932, that these overdrafts were chronic, in the language of the auditors, and that they had been authorized by Mr. Sweeny (at least some of them had been) didn't you think that was sufficient basis for Mr. Verhelle to make mention of those overdrafts in the confidential report he made to the executive officers of the bank?

Mr. MILLS. If the report had said that and nothing else, I would have had no complaint about it. But where I criticize his report is that there were so many additional things that just a little information, a little inquiry, would have brought to light that many of these charges would not have been made and the man's reputation would not have been so damaged. That is all.

Senator COUZENS. Is Mr. Sweeny a law partner of yours?

Mr. MILLS. No, sir; no, he has another firm. I did not know Mr. Sweeny hardly when I went in the bank.

Senator COUZENS. The reason I asked that was because you find Judge Keidan called up Mr. Sweeny when he wanted to see you, and I understood him to say it was the same law firm.

Mr. MILLS. No; the reason for that, Senator, was I was in the northern part of Michigan and I had left word with Mr. Sweeny and Mr. Gilchrist and 5 or 6 other people where they could reach me.

Senator COUZENS. You remember Mr. Verhelle's testimony as to why he was asked to resign, do you not?

Mr. MILLS. I read it in the newspaper. I do not entirely agree with that.

Senator COUZENS. Did you regret to let him go?

Mr. MILLS. No; I did not; and that is not what I stated to Mr. Verhelle. I think his recollection is a little bit faulty. The question was asked, I think by you, Senator, as to why I, with my authority as only a director of the bank, came to suggest to Mr. Ver-

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helle that he resign. There was a meeting of either the board of directors or the executive committee of the Detroit Bankers Co. It was then determined that we had picked up all the information from the Bankers Co. that we needed, and pursuant to the policy of cutting down expenses of the Bankers Co., and that policy having been adopted at the time, we thought Mr. Verhelle's services could be dispensed with. I sent for Mr. Verhelle.

It was never a pleasant task to suggest to a man that he resign. I asked Mr. Dodge if he would be good enough to come in there. Mr. Dodge was with me at the time, and I said to Mr. Verhelle, I said, "Joe, it is never a pleasant task that I have before me. You know the policy that has been adopted by the Detroit Bankers Co. to cut down on the expenses of the Detroit Bankers Co. and on its activities. We do not see any future, and it has been suggested by the board or the executive committee that it would be better if you resign." Then I said to him, "This cannot be any surprise to you", and the matter was dropped. Mr. Dodge was present throughout our conference.

Senator COUZENS. So you did not regret to have to let Mr. Verhelle go?

Mr. MILLS. No; frankly, Senator, I did not.

I want to say this for the report, and I am trying to give you gentlemen all the information I have: For instance, regarding a man named Beasley. This I recall quite well. This may illustrate the vice that the committee felt ran through the report. It was stated that Beasley—I would like to go over that part of it, because I remember that and I think it was a small item that illustrates what the committee felt about a large part of it. But you notice some of them, one or two of the officers, we administered a reprimand to. So there was a basis for some of the junior officers in the institution. One of them we did not examine at all because he had previously resigned for entirely different reasons.

And when I say not at all, I went into it with him, we went into it with him, to see if there had been in our judgment at least, no criminal liability, and dropped it when we were satisfied there was not.

Now, here is this thing about Mr. Beasley: You understand I am testifying from my very best recollection. I have no definite record before me. Beasley had a lot of loans which were under water, and he was for the moment sunk—and some mortgages.

Now, it says this: "His account in the month of April indicates payments to Watling, Merchant & Co.", who, by the way, are brokers, "in the following amounts: April 4, $123; April 5, $62; April 21, $48.25, and also indicates small speculations in Canadian exchange during the month of April 1932."

I leave it to any reasonable man what the inference would be from that. We at least thought that he was running a margin account.

Now, it did not say margin account, but in reading it that was the impression that the committee had.

It also said that "indicated"—the word used was "indicated"—did not say he had speculated, but it indicated speculation in Canadian exchange.

Now, the facts seem to be that Mr. Beasley had purchased outright I think it was 10 shares of Detroit Bankers Co. stock, got it from a

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broker; it is a listed stock. Mr. Beasley, in my judgment—and I told him so and I think the committee told him so—because he was sunk on his loans, that money should have been applied on that loan and not to purchase stock. But I think the worst you can say for it was that it was not good judgment.

Then he says, "indicates small speculations in Canadian exchange." Now, we in the bank know that we cannot speculate in any kind of exchange. It developed that this was what happened: Mr. Beasley was about to take a vacation. He was going to Canada. He bought a Canadian draft, a hundred dollars, or some small amount. Later, on account of his financial condition, he decided he could not leave Detroit, he would stay there, and he turned the draft back again and there was a loss or a gain of a few cents. Now, that, to our mind, was not speculating in Canadian exchange.

I am telling you that just as an illustration. But I also want to say that as a result of this we did put in certain rules in the bank to remove any further criticism of—what shall we say?—what might look like unethical practice.

Mr. PECORA. Did you find, for instance, that this was an exaggerated or unjustified statement by Mr. Verhelle in his confidential report, referring again to the Wise Chrome Products Co.:

On December 30, 1931, audit of the Wise Chrome Products Co. in the printed volume indicated quick assets of $160 against current liabilities of $111,000. The company, it is understood, had previously experienced financial difficulties?

Mr. MILLS. I believe that was there. I believe that that was a fact that was verified.

Mr. PECORA. Did you look into the incident referred to in Verhelle's confidential report? I won't stop to find it.

Mr. MILLS. About the dead man?

Mr. PECORA. About the note discounted by the bank which was dated 3 weeks after the date of the death of the maker.

Mr. MILLS. Yes, sir. I looked into that, because that item was an item that was under Mr. Arnott H. Moody.

Mr. PECORA. Yes.

Mr. MILLS. Mr. Moody had previously resigned from the bank; and when I read about the dead man borrowing money from a bank, I wanted to know how it was done. That was one of the things I wanted to be sure was perfectly all right.

So we sent for Mr. Moody. He came in, and my recollection of that is quite distinct, that he said that at the time this note was made it was understood that was to be a renewal, and the matter of the note, I think it was Burman was going away, and he left a renewal, and when the first note came due in pursuance of the arrangement the second note was put through, and in the meantime Burman had died.

Now, that is my recollection of that most peculiar transaction.

Now, I want to say this: We then, I think, instructed the officers that they were not to take any type of renewal notes ahead of time like that. Even if there was an agreement, it was not good practice to do it.

Mr. PECORA. Mr. Mills, you took part in conferences and negotiations and discussions some time last year in efforts to obtain a loan from the R.F.C., did you not?

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Mr. MILLS. Of the First National Bank?

Mr. PECORA. Yes.

Mr. MILLS. Yes, sir.

Mr. PECORA. I want to question you about that in the morning.

Mr. MILLS. Yes, sir.

Mr. PECORA. So if you have any memoranda or data that will serve to refresh your recollection, you may bring it with you.

Mr. MILLS. Well, I have right here what little I have, and I will have that here.

The CHAIRMAN. We will be glad to have any suggestions you have to offer with reference to any changes or modifications or improvements in the banking laws.

Mr. MILLS. Well, I have 4 or 5 that I am very anxious to present if I may, Mr. Chairman.

The CHAIRMAN. Yes; we would like to have them.

Mr. PECORA. I suggest, Mr. Chairman, that Mr. Mills have them here tomorrow so that they may be put in the record at the conclusion of his examination.

Mr. MILLS. I will be glad to do that.

The CHAIRMAN. The committee will now take a recess until 10:15 tomorrow morning.

(Accordingly, at 4:45 p.m., the committee adjourned until 10:15 o'clock on the following morning.)

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STOCK EXCHANGE PRACTICES

WEDNESDAY, FEBRUARY 7, 1934

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

The subcommittee met at 10:15 a.m., pursuant to adjournment on yesterday, in room 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.

The CHAIRMAN. The subcommittee will come to order. I will state for the benefit of those present, as well as for the record, that Mr. Pecora is giving his attention today to the preparation of the bill regarding stock exchange practices and so forth, which will probably be introduced in the Senate on Friday. There has been a great deal of work done in connection with it, and the bill is practically finished, but I feel that Mr. Pecora ought to go over it, and he will go over it, and try to get it in shape today. Therefore, Mr. Pecora will be absent this morning, and Mr. Saperstein will take his place in examining the witness this morning.

You may proceed, Mr. Saperstein.

TESTIMONY OF WILSON W. MILLS, GROSSE POINTE FARMS, DETROIT, MICH.—Resumed

Mr. SAPERSTEIN. Mr. Mills, prior to the consolidation of the Peoples Wayne and the First National Banks you were the chairman of the board of the Peoples Wayne County Bank for a period of time, were you not?

Mr. MILLS. Yes.

Mr. SAPERSTEIN. When did you become the chairman of the board?

Mr. MILLS. Of the Peoples Wayne County Bank?

Mr. SAPERSTEIN. Yes.

Mr. MILLS. I was elected in January of 1931, with the understanding that I was not to take office or assume any duties or receive any compensation until the 1st of March 1931.

Mr. SAPERSTEIN. And on the 1st of March 1931 did you assume the duties of that office?

Mr. MILLS. Yes.

Mr. SAPERSTEIN. You then became the chief executive officer of the Peoples Wayne Bank, did you not?

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Mr. MILLS. Yes.

Mr. SAPERSTEIN. Now, during your incumbency of the office of chairman of the board of the Peoples Wayne County Bank, did that bank acquire control of the stock of the Citizens Savings Bank of Mount Clemens, Mich.?

Mr. MILLS. Control of the stock was deposited with it. But I have a statement on that subject which completely tells the story, if you would like the story.

Mr. SAPERSTEIN. Is that a statement prepared by yourself?

Mr. MILLS. No; but I know that the facts are true. It was prepared by an officer of the bank.

Mr. SAPERSTEIN. What officer of the bank?

Mr. MILLS. Mr. Robert B. Locke.

Mr. SAPERSTEIN. What was his office in the bank?

Mr. MILLS. He was vice president of the bank.

Mr. SAPERSTEIN. Are you prepared to say that the statements contained in that prepared statement are true?

Mr. MILLS. So far as I will read them; yes. I will only read matter of which I had knowledge.

Mr. SAPERSTEIN. Can you state first those matters which are within your knowledge?

Mr. MILLS. That is what I only intended to tell.

Mr. SAPERSTEIN. Will you please do that.

Mr. MILLS. The American State Bank, as I have testified before, was taken over by the Peoples Wayne County Bank under the basis of guaranteeing deposits. The Peoples Wayne County Bank was chosen by the clearing-house banks to undertake the liquidation of the American State Bank. The Peoples Wayne County Bank's interest in the matter was proportionate, as were the proportionate liability of all the other Detroit banks and trust companies.

Mr. SAPERSTEIN. What was the interest of the Peoples Wayne County Bank?

Mr. MILLS. Well, that was the largest interest. I do not recall the percentage, but it was the largest individual interest, as it was the largest bank.

Mr. SAPERSTEIN. How many other banks were involved?

Mr. MILLS. Oh, outside of the Peoples Wayne County Bank there was the First National Bank, the Guardian Bank of Detroit, the National Bank of Commerce as it was then, the Union Guardian Trust Co., the Detroit Trust Co., the Fidelity Trust Co., and I think the Equitable and the Central Trust Cos. That is my recollection of the group. There may have been one or more banks in addition. Oh, yes; the Commonwealth Commercial Bank and the Detroit Savings Bank. All of the Detroit banks and trust companies undertook this guarantee of deposits. It was done through the clearing house, and the liquidation was entrusted to the Peoples Wayne County Bank.

Mr. SAPERSTEIN. When was that?

Mr. MILLS. That was in March of 1931.

Mr. SAPERSTEIN. Now, Mr. Mills, will you go on with your story?

Mr. MILLS. Well, among the assets that we found in the American State Bank was a note of the American Detroit Co. for $981,000. I am giving you only the round figures and that note was secured by

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various collateral, including 8,220 shares of the stock of the Citizens Savings Bank of Mount Clemens. This stock was in the name of the American State Bankers Co. Among the assets of the American State Bank was also a note of three gentlement named McGill, Dalby, and Rogers, as trustees, for $141,000, which, in turn, was secured by 2,184 shares of stock of the same Citizens Savings Bank of Mount Clemens. This stock stood in their name as trustees. Eliminating the other collateral of the American Detroit Co. loan, the American State Bank had an investment in the Citizens Savings Bank stock of approximately $800,000. It was thought, because there was no other work back of the American Detroit Bankers Co., and the guaranteeing banks and trust companies soon recognized that we had nothing to look to except the collateral; and we were naturally, and it was our duty, to be desirous of saving the work of the collateral, the value of the collateral, for the depositors of our bank and for the stockholders of the American State Bank; for it might conceivably have reduced their stockholders' assessment if we could have realized anything upon that stock which we held. So we——

Mr. SAPERSTEIN (interposing). Did the collateral consist principally of the stock in the Citizens Savings Bank that you refer to?

Mr. MILLS. Yes.

Mr. SAPERSTEIN. The 8,220 shares of stock?

Mr. MILLS. The 8,220 shares were the stock held as security for the American Bankers Co. loan, and 2,184 shares on this trustee note of the three gentlemen, who we were satisfied had no other financial responsibility; and those were loans that had been made by the American State Bank entirely outside of our province. So we determined it was our duty to save that investment that the American State Bank had, in effect, in this Citizens Savings Bank of Mount Clemens. The Citizens Savings Bank of Mount Clemens was, like every other bank in Michigan, experiencing substantial withdrawals of deposits; and in May of 1931 a committee of their directors came down to Detroit and said they would have to have financial assistance. We held a meeting of the guaranteeing banks and trust companies.

Now, they were not all at the meeting, because the American State bank's liquidation was handled by a committee that had been appointed by all of them, and the committee consisted of someone from the Detroit Savings Bank, and from the Fidelity Trust Co., and from the First National Bank, and from the Guardian National Bank, and from the Peoples Wayne County Bank. They were called the liquidating committee, and they were given full power on any questions of policy in the matter of the American State Bank liquidation.

Well, we had a meeting with them, and it was determined at that meeting that the management of the Mount Clemens Bank had not been very strong and that we might consider, at a later time, to change that management. We did not know whether we would or not, and by "we" I am speaking of the representatives of the guarantors. And we——

Senator COUZENS (interposing). At that time did you have control of the stock of the bank?

Mr. MILLS. No, sir.

Senator COUZENS. What was the amount of the shares outstanding of the Mount Clemens Bank at that time?

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Mr. MILLS. I will come to that in a moment, Senator Couzens.

Senator COUZENS. All right; go ahead.

Mr. SAPERSTEIN. Could you give us the date of this meeting you are now talking about?

Mr. MILLS. It was sometime in May is all that I can now say.

Mr. SAPERSTEIN. In May of 1931?

Mr. MILLS. Yes, sir.

Mr. SAPERSTEIN. All right. You may proceed with your statement.

Mr. MILLS. So a group of those directors came down and met with this committee of guarantors, and they said they must have financial assistance or they would have to close up shop. We told them that we would be willing, and by "we" I mean all the guaranteeing banks and trust companies, would be willing to advance to them up to $750,000 upon what collateral—and, in the meantime, I might say that we had made a hasty check of what collateral they had out there, and we were satisfied it would go at least to the extent of $750,000—that we would advance to them up to $750,000, on their collateral, provided they would put up sufficient additional shares of stock, under an agreement, so to speak, of the Detroit banks and trust companies controlling the bank if they ever desired to exercise it.

The agreement, however, provided that that stock, which they then put up, would be surrendered to the bank at any time upon payment of the advances which the clearing-house banks were talking about making to the American State Bank, and upon the payment of this American Detroit Bankers Co. loan, at any time that those loans were paid, with the rate of interest carried on the face of the notes that not only would the stock which we originally held as collateral be surrendered, but also this additional stock which they were talking about putting up, and which was put up.

Furthermore, the agreement provided—and I haven't the agreement here—but the receiver must have it, that agreement provided that at any time after 5 years we would resell all this stock that we then had by way of collateral or otherwise, at varying prices, for a total of which would pay the loan of the American Detroit Bankers Co. In other words, they had 5 years to pay off those loans.

Then the agreement went on to provide further that if they did not pay it within 5 years, and later we wished to sell it, they would have the first option to purchase that stock at any price that we later determined to sell it for.

The CHAIRMAN. There was no general market for that stock at all, was there?

Mr. MILLS. Oh, Senator Fletcher, there was no market for it at all. The stock was——

The CHAIRMAN (interposing). You would have had to go out and hunt purchasers for it, I take it?

Mr. MILLS. We would have had to go out and hunt purchasers for it, and we almost let the thing go at the time, but we had this large investment in it through the American State Bank, and we recognized that probably times might change and it might be well worth the effort to try to save the investment that the American State Bank had in it.

Mr. SAPERSTEIN. That agreement which you have just referred to was made between the Citizens Savings Bank and the Peoples Wayne County Bank, was it not?

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Mr. MILLS. That is my recollection.

Mr. SAPERSTEIN. These other banks which you have referred to as being guaranteeing banks, were not parties to that agreement, were they?

Mr. MILLS. They were not legal parties, but they authorized our going into the agreement.

Mr. SAPERSTEIN. Did they give you that authorization in writing?

Mr. MILLS. Whether they kept minutes, I don't know, but I think they authorized it in writing.

Mr. SAPERSTEIN. Mr. Mills, I show you a paper, dated May 25, 1931, which purports to be an agreement between the Citizens Savings Bank of Mount Clemens, Mich., as party of the first part, and the Peoples Wayne County Bank, of Detroit, Mich., as party of the second part, and ask you whether that is a photostatic copy of the agreement to which you refer.

Mr. MILL: (after looking at the paper). I have no doubt that it is.

Mr. SAPERSTEIN. Mr. Chairman, I ask that that may be made a part of the record.

The CHAIRMAN. Let it be admitted.

(An agreement dated May 25, 1931, between the Citizens Savings Bank of Mount Clemens, Mich., and the Peoples Wayne County Bank was marked "Committee Exhibit No. 153, Feb. 7, 1934", and will be found immediately following where read by Mr. Saperstein.)

Mr. SAPERSTEIN. The agreement, which has been marked in evidence as "Committee Exhibit No. 153", reads as follows:

MEMORANDUM OF AGREEMENT made and entered into this 25th day of May, A.D. 1931, between CITIZENS SAVINGS BANK OF MOUNT CLEMENS, MICHIGAN, a banking corporation organized and existing under the laws of the State of Michigan, of the first part, and PEOPLES WAYNE COUNTY BANK, of Detroit, Michigan, a banking corporation organized and existing under the laws of the State of Michigan, of the second part, WITNESSETH:

WHEREAS, second party now controls through loans upon certain shares of the capital stock of the first party a total of 10,384 of such shares; and

WHEREAS, second party desires to control in addition to the said stock so controlled by it an additional 2216 shares of such capital stock so it will control 12,600 shares of such capital stock, and first party has undertaken to deliver to second party or its nominee such 2216 shares,

NOW THEREFORE, in consideration of the premises, first party hereby agrees to deliver to second party or to its nominee with all convenient speed and within a period of ten (10) days from and after the date hereof, such additional shares of capital stock consisting of 2216 shares endorsed in blank and second party in consideration thereof agrees that it will at any time within five years from and after the date hereof cause to be sold and assigned to first party said 10,384 shares of such capital stock at the following prices: $80 per share for 8,200 shares and $63 per share for 2,184 shares, (in each case with interest thereon at the rate of 5 per cent per annum from the date of this agreement, crediting upon such interest any dividends which may have been since the date of this agreement declared and paid upon said 12,600 shares), and in case first party exercises such option and purchases such stock as herein provided, second party will also without further consideration cause to be assigned to first party said 2216 shares of capital stock so to be delivered by first party to second party or its nominee.

IT IS FURTHER AGREED that in case first party does not exercise the option to purchase such stock within five years from and after the date hereof, and second party concludes to sell said stock at a lesser price than provided in said option, then, and in that case, second party agrees before selling said stock to other parties to give to first party the privilege of purchasing said stock at such price as it may be offered by third parties.

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AND IN CASE SAID OPTION is not exercised within the time, and pursuant to the terms herein provided, second party or its nominee may retain said 2216 shares absolutely and first party will be foreclosed of all right, title or interest therein. Time is hereby made of the essence of this agreement.

IT IS FURTHER AGREED that, pending exercise of said option by the party of the first part, the party of the second part will extend to the party of the first part a line of credit up to $750,000 by making loans to first party from time to time provided said first party deposits collateral security for such loans of a value satisfactory to the second party, consisting of notes, mortgages, or other property owned by the first party.

IN WITNESS WHEREOF, the parties hereto have hereunto set their hands and seals the day and year first above written.

CITIZENS SAVINGS BANK OF MOUNT CLEMENS,
By (Signed) H. J. McGILL, *President*, and
(Signed) CHARLES S. NIEMETTA, *Chairman*.
PEOPLES WAYNE COUNTY BANK,
By (Signed) DONALD N. SWEENY, *Executive President*, and
(Signed) A. T. WILSON, *Cashier*.

Mr. SAPERSTEIN. Do you know the name of the cashier at that time? I have trouble deciphering the name here.

Mr. MILLS. Probably it was A. T. Wilson.

Mr. SAPERSTEIN. Yes; it seems to be A. T. Wilson, cashier.

Mr. MILLS. All right.

Mr. SAPERSTEIN. This agreement is dated May 25, 1931. Now, were the additional shares of stock referred to in this agreement, namely, 2,216 shares, delivered to the Peoples Wayne County Bank?

Mr. MILLS. Yes. I was informed that they were delivered, that the agreement was carried out.

Mr. SAPERSTEIN. These shares, together with the ten-thousand-odd shares you had previously held, were sufficient to give you control of that bank, were they not?

Mr. MILLS. They gave control; yes.

Mr. SAPERSTEIN. In other words, they gave you 51 percent of the stock.

Mr. MILLS. Yes; or over 50 percent, anyway.

Mr. SAPERSTEIN. Now, did the Peoples Wayne County Bank make loans to the Citizens Savings Bank?

Mr. MILLS. They did.

Mr. SAPERSTEIN (continuing). Pursuant to the terms of this agreement which I have read?

Mr. MILLS. They did. The first loan they made was on June 1, of $300,000. That loan was increased at various times until it got up to $750,000. But I want to call attention to the fact that collateral for that loan consisted of notes, and some bonds, and it also consisted of mortgages, which at that time it was almost impossible to obtain loans upon. We did make loans to them upon various of their mortgages. Finally we went over the $750,000 by way of loans, in an attempt to save that bank, and gave them the maximum loan in November of 1931, when they owed slightly over $1,000,000, which was collateraled.

Mr. SAPERSTEIN. What were the conditions which induced the Peoples Wayne County Bank to increase the amount of the loan beyond the commitment set forth in this agreement?

Mr. MILLS. We wanted to save the investment that the Detroit banks had in this Citizens Savings Bank through the American State Bank.

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Mr. SAPERSTEIN. Didn't you find the advance of $750,000 sufficient to remedy the difficulties out there at Mount Clemens?

Mr. MILLS. Deposit withdrawals kept on.

Mr. SAPERSTEIN. And matters continued to grow worse, did they?

Mr. MILLS. Yes; matters continued to grow worse.

Mr. SAPERSTEIN. What was the maximum amount attained by this loan?

Mr. MILLS. The figures I have, which were given to me by Mr. Locke, show $1,032,000, which included interest.

Mr. SAPERSTEIN. Have you the date when the loan reached that figure?

Mr. MILLS. He tells me that was on November 12; that that was the maximum or total loan.

Mr. SAPERSTEIN. November 12 of what year?

Mr. MILLS. November 12 of 1931.

Mr. SAPERSTEIN. And after the maximum amount loaned by the Peoples Wayne County Bank to this Mount Clemens Bank had been advanced, was the situation better or worse?

Mr. MILLS. Well, you see what was happening. The directors of this Mount Clemens Bank were constantly coming down to Detroit and saying:

> We have had tough luck up to this time. We know that we have the situation locked up; and if we can have a few more dollars, we know that we have the situation in hand and that our deposit withdrawals will cease.

And going by this statement, we went over the $750,000 provided in the agreement.

Senator COUZENS. What were the maximum of deposits? Have you any record of them there?

Mr. MILLS. I have something on that, Senator Couzens. Yes; I think I have those figures. Let me look here. [After looking through his papers.] On March 12, 1931, the statement of the bank showed commercial deposits of $1,252,000 and savings deposits of $4,273,000, or a total of $5,525,000. Now, you understand that one difficulty up there in Mount Clemens was—and, Mr. Chairman, Mount Clemens is only 20 or 25 miles from Detroit, and this bank was regarded as a subsidiary of the American State Bank, and the American State Bank got into difficulty, and so you can readily see what the effect would be in a community so close to Detroit.

Senator COUZENS. To what point had those deposits fallen at the time you made the last loan?

Mr. MILLS. And I think I have that here, too, Senator Couzens. [Witness begins looking through his papers again.]

The CHAIRMAN. You had loaned them enough to take care of their commercial deposits, but the savings deposits were considerably more?

Mr. MILLS (continuing to look through his papers). I know I have that here some place. [After further glancing through his papers.] I do not seem to have that, Senator Couzens. I am sorry. I thought I had it, but I do not seem to have it.

Senator COUZENS. Do you know how much collateral you took out of the bank to take care of those loans, the face value?

Mr. MILLS. The face value? That may be here in this memorandum. I do not know the face value of the collateral, because it

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would exceed the total amount of the loan by a substantial amount, because, as pointed out, a large part consisted of mortgages, and mortgages are not a liquid form of collateral. I do not seem to have that record; I thought I did.

Mr. SAPERSTEIN. The original agreement dated May 25, 1931, which has been marked "Committee's Exhibit 153" of this date, provides that "pending exercise of said option by the party of the first part the party of the second part will extend to the party of the first part a line of credit up to $750,000 by making loans to first party from time to time, provided said first party deposits collateral security for such loans of a value satisfactory to the second party, consisting of notes, mortgages, or other property owned by the first party."

Mr. MILLS. That is just what was done.

Mr. SAPERSTEIN. That was done?

Mr. MILLS. Surely.

Mr. SAPERSTEIN. And as the loan was increased over and above the figure of $750,000 you got additional collateral?

Mr. MILLS. We had to get some more collateral.

Mr. SAPERSTEIN. Have you any idea what the ratio of collateral was to the amount of the loan?

Mr. MILLS. The face value I do not know. I hate to guess, Mr. Saperstein, because it is only a guess; but I would not be a bit surprised that for this $1,032,000 they would probably put up face value of one and a half million of mortgages and notes and various other things. It may have been more or it may have been less. That would be my best guess.

Mr. SAPERSTEIN. Are you familiar with the examination that was made by the State banking department of the Citizens Bank of Mount Clemens in July 1931?

Mr. MILLS. No. I know they made one; that is all.

Mr. SAPERSTEIN. Do you know the amount of the charge-offs ordered by the State banking commissioner as a result of that examination?

Mr. MILLS. No; I do not.

Mr. SAPERSTEIN. You know that there were large charge-offs ordered, do you not?

Mr. MILLS. I do not know anything about it. I know that he did not close the bank—the State did not close the bank—until, as I recall it, in 1932. There were large charge-offs in practically all Michigan banks, and I am willing to assume that there were substantial charge-offs. But the Michigan Banking Department did not close the Citizens Bank—here is a record here [indicating]. It was after October 14, 1932, before the State closed it.

Mr. SAPERSTEIN. My information is that it was November 23, 1932.

Mr. MILLS. I would have no argument on that.

Mr. SAPERSTEIN. Did you not know that one of the contributing factors to the increasing difficulties in which this bank found itself was the fact that the State banking department required it to charge off over $100,000 of bad assets, after this examination in July 1931?

Mr. MILLS. I did not know that. I would not be a bit surprised; I would not be at all surprised.

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Mr. SAPERSTEIN. Was the loan that was made by the Peoples Wayne Bank to the Citizens Bank subsequently liquidated?

Mr. MILLS. Yes; but to explain that I must say something else in the meantime that leads up to that. In October the National Credit Corporation started——

Senator COUZENS. That is, October of 1931?

Mr. MILLS. Yes, sir; and my statement here the other day pointed out that the Peoples Wayne County Bank were guaranteeing in effect about one third of the loans made by the National Credit in volume of dollars, of the loans made in Michigan. So we were very careful also about the loans that the National Credit Corporation made, because we did not want to be stuck on our own guarantee. It would not have been a proper thing for the bank to do that. So the Citizens made application to the National Credit Corporation for a loan, and on January 11, 1932, the National Credit Corporation authorized a loan to them, on mortgages again, of $150,000. Every member of the association were in effect on the back of that note.

Senator COUZENS. Did they get that money?

Mr. MILLS. They got the money; yes, sir.

Mr. SAPERSTEIN. Do you know what they did with it?

Mr. MILLS. They used it to pay their depositors. That is all they used any of their money for—to meet deposit withdrawals.

Mr. SAPERSTEIN. Was any part of that money used for the purpose of reducing the outstanding loans to the Peoples Wayne Bank?

Mr. MILLS. It may have been, but I do not believe that it was. You ask as to the payment of these loans. I am now reading from Mr. Locke's memorandum. I know the facts, except for the dates, are correct. He states that on February 16, 1932, the R.F.C. was started, and in May the R.F.C. approved a loan to the Citizens Bank of $1,200,000. The collateral to this loan was to be the collateral held by the Peoples Wayne County Bank and by the National Credit Corporation, and the R.F.C. insisted upon having the collateral supplemented by other collateral, which would indicate that the collateral on our own loan and the National Credit loan was not considered by the R.F.C. to be sufficient. So the proceeds of this loan were put out to pay off the Peoples Wayne County Bank and the National Credit Corporation and to leave some additional funds for the Citizens Savings Bank. On May 19 $924,000 of the loan from the R.F.C. was applied upon the loan of the Peoples Wayne County Bank, and the collateral was surrendered.

Senator COUZENS. Was that all that was owed by the Mount Clemens Bank at that time—$924,000?

Mr. MILLS. I think not, Senator. I think it was not quite all. On May 20 the balance of a loan of $7,000 was paid. It was substantially all paid except $7,000. Between that date and November 23, 1932, when the bank closed, the Peoples Wayne County Bank advanced to the Citizens Savings Bank a total of $70,000 which was in anticipation of moneys to be received by the Citizens Bank from the R.F.C. The last of these advances was paid on November 12.

The CHAIRMAN. You got back all that money?

Mr. MILLS. We got back all that money, and the National Credit got back their money, and the loans and collateral, plus additional

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collateral, were taken over by the R.F.C. The R.F.C. insisted upon having additional collateral over and above what we and what the National Credit Corporation held.

Senator COUZENS. Who passed upon the security for the R.F.C.?

Mr. MILLS. The course of those applications was this, Senator: There was a local committee in Detroit consisting of—I happened to be chairman of it—Mr. Lord; Mr. Chittenden; William Alden Smith; John C. Hicks; Mr. Sherwood, of Grand Haven; Mr. Davidson, of Bay City. The matter came up at a meeting, and everybody at the meeting representing a clearing house bank refused to have anything to do with it. Then the next step was—that was at the local meeting—that the R.F.C. furnished a blank form of recommendation of approvals for loans which had to be signed by two members of the committee. Who signed them I do not know. I know that I did not sign, but who actually signed I do not know. That recommendation was submitted to the R.F.C. in Washington and the loan was then authorized by the Board. Who insisted on the additional collateral, whether in Detroit or in Washington, I do not know.

When the Peoples Wayne County loan was made on those mortgages we had enough collateral. We thought it was a good loan—not liquid, but we thought it was a secured loan when we made it. I am pretty much sold on mortgages, as I have expressed before; not for liquidity, but for security.

Mr. SAPERSTEIN. When did you become chairman of the Detroit advisory council of the R.F.C.?

Mr. MILLS. As soon as one was formed out there, right after the enactment of the R.F.C. law.

Mr. SAPERSTEIN. That would be in January 1932?

Mr. MILLS. January or February.

Mr. SAPERSTEIN. How many members were there on this advisory committee?

Mr. MILLS. I stated; Mr. Lord, Mr. Chittenden, Mr. Davidson, Mr. Reynolds—I forgot him, before—Mr. Sherwood, Mr. Hicks, Senator William Alden Smith, and myself. I think there were about seven of us.

Mr. SAPERSTEIN. And of those seven how many members were connected with Detroit Clearing House banks?

Mr. MILLS. Mr. Lord was; I was; Chittenden was. I don't know whether Mr. Reynolds considered himself as connected with them or not. He was in Jackson and he was in the Guardian Bank of Jackson. I don't know whether he would consider himself connected or not. Mr. Davidson was at Bay City. Mr. Sherwood was in the western part of the State and had no connection at all. Senator Smith did not have any connection in Grand Rapids, nor did Mr. Hicks.

Mr. SAPERSTEIN. What was Mr. Davidson's connection?

Mr. MILLS. He did not have any connection. The First National Co. had a 15- or 20-percent interest in his bank. That shows on your chart. He had no interest in the matter.

Mr. SAPERSTEIN. I show you what purports to be an application for a loan, or a copy of an application for a loan, made by the

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he probably thought there was some connection through that. Mr. Citizens Savings Bank to the R.F.C. on March 8, 1932, and I ask you whether you can identify it.

Mr. MILLS. I never saw any application from this bank. I took no part in the local R. F. C. matter at all.

Mr. SAPERSTEIN. Did you take part in the meeting at which the advisory committee discussed this loan?

Mr. MILLS. I took no part; I did not open my mouth on the matter. Naturally I had an interest in it, but I took no part in it whatsoever.

Mr. SAPERSTEIN. You were present at the meeting, were you not?

Mr. MILLS. I do not recall whether I left the room or not. I may have, or I may not; I don't recall.

Mr. SAPERSTEIN. Oridnarily you presided at those meetings, did you not?

Mr. MILLS. Oh, yes; I was chairman and I presided at the meetings.

Mr. SAPERSTEIN. Don't you recall whether you presided at this meeting?

Mr. MILLS. If I was at the meeting at all I presided until this matter came up, and then someone else presided. We were constantly having loans coming up there in which, we will say, Mr. Sherwood or Mr. Hicks might be interested—somebody owed some money, and they would not take any part. Constantly those things were coming up. This one was no different in that respect than probably a majority of the loans.

Mr. SAPERSTEIN. Were you aware, prior to the time when the application was presented, that it was going to be presented?

Mr. MILLS. Oh, yes; I knew they were going to make an application for a loan.

Mr. SAPERSTEIN. What was the source of your information with regard to that?

Mr. MILLS. I do not know; I just knew it. Mr. Locke told me, that is what the R.F.C. was after, to take care of frozen loans.

Mr. SAPERSTEIN. Were you aware, at the time this application was presented at the meeting, that it was proposed by the Citizens Savings Bank to borrow $1,250,000 and that the proceeds of that loan would be devoted to paying the First National Bank the amount of the indebtedness?

Mr. MILLS. I do not doubt I knew it, because we had the collateral; the collateral was held by us and they could not get it unless the loan was paid. So I think I knew it.

Mr. SAPERSTEIN. The application for the loan which was presented by the Citizens Savings Bank, Mr. Mills, states on its face that the loan—

> Herein applied for is desired for the purpose of paying the loan to the National Credit Corporation and First Wayne National Bank of Detroit, the balance to build up reserves.

Mr. MILLS. Yes.

Mr. SAPERSTEIN. And the amount of the loan applied for was $1,250,000?

Mr. MILLS. Yes, sir.

Mr. SAPERSTEIN. According to the letter of transmittal and recom-

Mr. MILLS. He was manager of the loan agency.

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Mr. SAPERSTEIN (continuing). To the Reconstruction Finance Corporation, the loan of $1,250,000 was applied for upon the following conditions: "That out of the proceeds of this loan the 1929 taxes to be paid on properties covered by mortgages offered as collateral." Do you know, Mr. Mills, whether, after those taxes and other incidental expenses were paid, any amount remained for the purpose of building up the reserves of the Citizens Savings Bank?

Mr. MILLS. I would be unable to state that in detail; I do not know.

Mr. SAPERSTEIN. The recommendation of the advisory committee was signed by Mr. Sherwood and Mr. Hicks?

Mr. MILLS. Yes.

Mr. SAPERSTEIN. They were the two members whom you referred to before as not connected with the clearing house banks at all?

Mr. MILLS. No; they were not connected with the clearing house banks at all. One is from St. Johns, Mich.—a little bank out there, an independent bank—and the other was from Grand Haven. He had an independent bank of his own there.

Mr. SAPERSTEIN. Let me read the recommendation of the advisory committee as it appears on this copy of the application to the R.F.C. [reading]:

The above-mentioned application and recommendation were considered by the following members of the advisory committee of the loan agency at Detroit, Mich.

It gives the names of Messrs. Hicks, Sherwood, and William Alden Smith who voted to recommend this loan. Then there are two asterisks, and the footnote reads [reading]:

Messrs. Wilson W. Mills, Herbert W. Chittenden, James E. Davidson, Robert O. Lord, and Herbert S. Reynolds were present but did not vote because of the affiliation of this bank with the Detroit Clearing House banks.

And then the recommendation continues [reading]:

The undersigned approve a loan in the amount of $1,250,000 and recommend that the loan be made upon the obligation and security tendered which in their opinion is full and adequate security for the repayment of such loan. Each of the undersigned certifies that to the best of his knowledge and belief he has no personal interest either directly or indirectly or through any corporation, partnership, or association in which he is directly or indirectly interested, in this application or in connection with this application.

Does that recommendation, taken in conjunction with the footnote specifying which of the members of this committee did not vote, indicate that those five men—Mills, Chittenden, Davidson, Lord, and Reynolds—who did not vote, had some personal interest, either directly or indirectly, or through a corporation, in the application?

Mr. MILLS. I think it speaks for itself. I know that my bank and Mr. Lord's bank and Mr. Chittenden's bank—by the way, it by this time had become the First National Bank, you understand—we had an interest in it directly, right through the clearing house. I am not a mind reader, but Mr. Reynolds undoubtedly thought that it would be at least more becoming for him not to take any part, because he was president of the Guardian Bank over in Jackson;

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Davidson—I say, I am not a mind reader—also thought it would be more becoming for him not to take any part in the discussion of the matter, as the First National Co. owned a small interest in his bank at Bay City. I assume that is why those two gentlemen did not take any part in the discussion. The first three had an interest, and we did not take any part in it.

Mr. SAPERSTEIN. After those 5 men had disqualified themselves from voting, there remained only 3, which was less than a majority of the committee?

Mr. MILLS. If you are getting at that point, under the rules of the R.F.C. only two members of the advisory board have to sign recommendations and that is all. That is what the form says right on its face.

Mr. SAPERSTEIN. Yes. Do you know whether or not there is any provision for the minimum number of members who shall be present when a recommendation is made?

Mr. MILLS. No. I know that Mr. Fisher told me time and again that it was not even necessary to have meetings; all we had to do was to have two members of the advisory board, who were not interested, sign the recommendation to the R.F.C.

Mr. SAPERSTEIN. The footnote that accompanies this recommendation reads as follows——

Mr. MILLS. Yes; that is only part of the R.F.C. form. That is put on there by Mr. Fisher.

Mr. SAPERSTEIN. I am about to read the printed portion. It provides that the recommendation should bear the signature of a majority of the members of the committee who consider the application, and in no case less than two signatures.

Mr. MILLS. I would say that was the case there. Apparently two members considered it and two of them signed it. Senator William Alden Smith, Mr. Hicks, and Mr. Sherwood considered it and two of them signed it.

Mr. SAPERSTEIN. Had there been any discussion regarding this loan between you and the other members of the committee who considered the application prior to the time when it was actually considered at the meeting?

Mr. MILLS. I do not recall any. This loan was just like hundreds of others that came in to the R.F.C. In almost every loan someone was disqualified because of some type of interest. They were very meticulous about that.

Senator Couzens, I have found, I think, the answer to your question about these figures of deposits. On November 12, when the Citizen's Savings Bank owed us the maximum, their deposits had shrunk, in commercial deposits, to $771,000, or a shrinkage of $481,000. Their savings had shrunk to $5,595,000, or a shrinkage of $1,678,000, or a total shrink of $2,159,000. To meet that shrink the Mount Clemens Bank had borrowed $1,032,000 from us and had raised other funds by other ways, presumably by liquidation of assets.

Mr. SAPERSTEIN. Mr. Mills, prior to the time when this application, which is dated as of March 8, 1932, was made for $1,250,000, an application had been presented to the committee for $1,225,000; do you recall that?

Mr. MILLS. No; I do not. As I say, I took no part in these Mount Clemens loans before the R.F.C.

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Mr. SAPERSTEIN. You were present at the meeting, were you not?

Mr. MILLS. I was present at most of them, not at all of them.

Mr. SAPERSTEIN. I have before me what purports to be a true and exact copy of the minutes of the Detroit loan agency purporting to be signed by the assistant manager. Will you look at the signature and see whether you can identify it?

Mr. MILLS. I cannot identify signatures—this one at least. I don't even know him.

Mr. SAPERSTEIN. Can you read the signature?

Mr. MILLS. Charles H. Hewett.

Mr. SAPERSTEIN. Was he the assistant manager of the local loan agency?

Mr. MILLS. I don't know whether he was or not. This is in 1934. I don't know. I don't think he was. I resigned in 1933, and I do not believe that Mr. Hewett was assistant manager. He may be now, and undoubtedly is. I have no quarrel with that.

Mr. SAPERSTEIN. I offer the document in evidence.

The CHAIRMAN. Let it be admitted.

(Copy of minutes of the Detroit loan agency, signed by the assistant manager, dated Mar. 30, 1932, was received in evidence, marked "Committee's Exhibit No. 154, February 7, 1934.")

The CHAIRMAN. Mr. Mills, the affidavits which you submitted yesterday from Mr. Sweeney, Mr. Pecora has examined and the committee concludes to admit the statement dated January 27, 1934. The other statement is somewhat of a summary or duplicate.

Mr. MILLS. Yes.

Mr. PECORA. The statement which the chairman has reference to was marked yesterday for identification as "Committee Exhibit No. 136."

(Statement submitted by the witness, dated Jan. 27, 1934, heretofore marked for identification, was received in evidence as committee exhibit no. 136, and will be found printed in full at the end of today's record.)

Mr. PECORA. They both relate to the same subject, and one is a summary of the other. We are taking the one that is more elaborate in detail.

Mr. SAPERSTEIN. The exhibit which has just been marked in evidence as "Committee's Exhibit 154" of this date, Mr. Chairman, purports to be signed by the assistant manager of the Detroit Advisory Committee of the Reconstruction Finance Corporation and is a true and exact copy of the minutes of the Detroit Loan Agency. It is dated March 30, 1932, and reads as follows (reading):

COMMITTEE EXHIBIT NO. 154

March 30, 1932.—Due to lack of necessary information, the loan application of the Citizens Savings Bank, Mt. Clemens, Michigan, was tabled until the following meeting.

April 6, 1932.—The application of the Citizens Savings Bank, Mt. Clemens, Michigan, in the amount of $1,250,000 was held over for further consideration, and it was suggested that the bank offer additional collateral.

April 13, 1932.—Upon motion, duly seconded, a loan in the amount of $1,225,000 was recommended to the Corporation for the Citizens Savings Bank, Mt. Clemens, Michigan, to be secured by collateral, a list of which is in the application. (Messrs. Wilson W. Mills, Herbert L. Chittenden, Jas. E. Davidson, Robert O. Lord and H. S. Reynolds present but not voting.)

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Apparently that loan was not approved.

Mr. MILLS. I do not know anything except what it says there.

Mr. SAPERSTEIN. It does not say definitely whether the loan was approved or not; it simply says that upon motion duly seconded a loan in the amount of $90,000 was recommended to the corporation, to be secured by collateral, and so forth——

Mr. MILLS. I do not know anything about it.

Mr. PECORA. Mr. Mills, I want to interrupt Mr. Saperstein just for a moment. Yesterday afternoon, while you were on the stand, there was put in evidence certain correspondence that you had with Senator Vandenberg and other persons. I want to show you what purports to be a photostatic reproduction of a letter addressed to you by Senator Vandenberg, under date of December 12, 1931, in reply to your letter to him of December 10, which went into the record yesterday. Will you look at this copy and tell me if it is a true and correct copy of such a letter?

Mr. MILLS. I believe that that is without question a letter from Senator Vandenberg to me.

Mr. PECORA. I offer it in evidence.

The CHAIRMAN. Let it be admitted.

(Copy of letter dated Dec. 12, 1931, addressed to Mr. Wilson W. Mills and signed by A. H. Vandenberg, was received in evidence, marked "Committee Exhibit No. 155, Feb. 7, 1934.")

Mr. PECORA. The letter that has been marked in evidence as "Committee Exhibit 155" in this case is as follows (reading):

COMMITTEE EXHIBIT NO. 155

UNITED STATES SENATE COMMITTEE ON FOREIGN RELATIONS,
December 12, 1931.

Personal and confidential.

Mr. WILSON W. MILLS,
Chairman Peoples Wayne County Bank,
Detroit, Michigan

MY DEAR MR. MILLS: Thank you very much for your letter of December 10th with its intimate information respecting the Bay City situation in particular and the Michigan situation in general. I have been afraid that the repercussion from the Bay City closing would affect the balance of the State. You are of course dead right that Congress should speed up in its banking and credit relief program. It is utterly discouraging to fight the inertia which always pervades this place. Respecting my own bills (with which you are familiar) we are making a spotted progress. On the one hand Senator Glass seems to become more critical day by day and to almost resent my presumption in talking out loud about the inability of the "sacred" Federal Reserve System to function adequately. I say this with the greatest respect, however, for Senator Glass and his right to be considered the major Congressional authority on the Federal Reserve Act. On the other hand I was greatly encouraged this morning by the receipt of a brief note from Under-Secretary of the Treasury Mills which I quote to you confidentially as follows: "My first reaction to the proposal fathered by you and Governor Young is very favorable. I hope to be able to give a definite opinion sometime next week."

If Mills takes a sturdy position it will be a source of tremendous strength and advantage. If this also should mean that Governor Meyer will take a similar position it would be a very formidable support. It seems to me that the President rather backed away from his initial position respecting a broadened rediscount privilege when he wrote his message earlier in the week. But perhaps he merely was trying to put all his emphasis upon the new factors which he has injected into his credit program. The inscrutable thing to me is that I find no one in either branch of Congress who is proposing *anything* by

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way of Federal Reserve liberalization except myself. I confess it is an up-hill battle when you are just one among 96 Senators and 435 Representatives.

In the annual shuffle of Senate Committees I understand that Senator Couzens will go on the Committee on Banking and Currency. These appointments are made on the basis of seniority of service and I am still too much of a sophomore to enjoy any of these priority privileges. I have had a number of very earnest talks with Senator Couzens and I think he is coming to have a more friendly understanding of the thing I am trying to do, and the other things in which you are particularly interested. But he is far from convinced respecting either the necessity or the advisability not only of my amendments but of the other proposed instrumentalities. I know, however, that he wants all available information and facts and I am hopeful that he will find some utility in these proposed remedies. I know he has every possible zeal to protect depositors, and the integrity of our fiscal structure.

These comments are all personal to you and confidential. You always give me the unblushing facts from the Michigan end and I want you to have the same facts from this end. I think I should add that I have had two very satisfactory conferences with the Comptroller of the Currency respecting his examiners and his receivers. I am convinced that Mr. Pole wants to do the right thing and so far as possible the helpful things in each individual instance. Whenever a Michigan situation arises which would seem to challenge this rule I feel that I am in a position to contact the Comptroller for a fair and prompt review.

I pray that it may not be long before the skies commence to clear. The National Credit Corporation *must* function to the maximum of its possibilities: and if you find any disposition to the contrary in its high management at New York, I wish you would let me know. Thanks again for your long and illuminating letter.

Good luck!

With warm personal regards and best wishes, I am,

Cordially and faithfully,

A. H. VANDENBERG.

Mr. MILLS. My attention was just called to the fact that I had overlooked that Mr. Davidson was also disqualified from sitting on these loans, and I think unquestionably he did it from a sense of delicacy. But further than that, he was a director of the First National Bank.

Mr. SAPERSTEIN. All of those five men who did not vote at the time this loan application was presented were disqualified by virtue of the fact that they had connections with institutions which were either directly or indirectly affiliated with the Detroit Clearing House?

Mr. MILLS. There may be a question about Mr. Reynolds, but anyway he did not vote. So the record says.

Mr. SAPERSTEIN. Returning to Exhibit No. 154—because we have been away from it for several moments—I want to reread this notation which appears under date of April 13, 1932 [reading]:

Upon motion duly seconded a loan in the amount of $1,225,000 was recommended to the Corporation for the Citizens Savings Bank, Mount Clemens, Michigan, to be secured by collateral, a list of which is in the application.

And then, under date of April 20, 1932 [reading]:

Upon motion duly seconded a loan application for the Citizens Savings Bank of Mount Clemens, Michigan, which had been recommended at previous meetings in the amount of $1,225,000, was recommended in the amount of $1,250,000.

It appears that you were present at both those meetings but were not voting. Do those notations refresh your recollection as to the reason why this loan was increased by $25,000 during that week?

Mr. MILLS. No; except this: Practically every bank put in an application for more than they could hope to get. I must say that

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many of them put it in for more than they thought they would get. It was a case where they could go down but could not go up. The committee would recommend a certain amount and the next day or the next week they would all be down there in force, trying to get it raised upon some basis.

Mr. SAPERSTEIN. Mr. Mills, if this loan had gone through on the basis of $1,225,000, the loan which was then outstanding from the Citizens Savings Bank to the First Wayne——

Mr. MILLS. And the National Credit.

Mr. SAPERSTEIN (continuing). And the National Credit could not have been paid off in full?

Mr. MILLS. I do not know whether it could or not. I took no part in it. I do not know whether it could or not.

Mr. SAPERSTEIN. You have been referring, during the course of your examination, to the statement of Mr. R. B. Locke?

Mr. MILLS. Yes.

Mr. SAPERSTEIN. Let me refer you to the bottom of page 7 of that statement and the top of the eighth page.

Mr. MILLS. The one that starts "October 14, 1932"?

Mr. SAPERSTEIN. No; the paragraph that begins "The First National Bank needed to maintain its own liquidity."

Mr. MILLS. Oh, yes; here it is.

Mr. SAPERSTEIN. Let me read that paragraph [reading]:

The First National Bank needed to maintain its own liquidity and it had loans with the Mount Clemens Bank of $932,000. The Reconstruction Finance Corporation was in operation. What was more natural than to ask the Reconstruction Finance Corporation to take this loan and relieve the First National Bank of its burden? Not long after the Mount Clemens Bank made an application to the Reconstruction Finance Corporation for a loan this loan was approved at $1,200,000. It involved taking from the National Credit Corporation such collateral as it had and from the First National Bank such collateral as it had, and still further additional collateral was taken from the bank's portfolio. Of the loan of $1,200,000 $25,000 was withheld by the Reconstruction Finance Corporation for the purpose of taking care of 1929 taxes on property mortgaged to the bank and pledged to the Reconstruction Finance Corporation. $55,000 was withheld by the Reconstruction Finance Corporation until such time as some collateral items were put in proper shape. $197,000 was paid to the National Credit Corporation, and $932,000 would have been paid to the First National Bank if there had been that much left. But the total of these figures makes $1,209,000. The First National Bank loan was paid with the exception of $7,000, which was paid a day later. The loan was finally paid on May 20, 1932.

Does that refresh your recollection as to whether after the payment of the loans from the National Credit Corporation and of these other incidental charges which were required to be paid by the Reconstruction Finance Corporation, there was anything left over either to build up the reserves of the Citizens Savings Bank or even to pay off the loan of the First Wayne in full.

Mr. MILLS. It speaks for itself. I would say—if you are asking me as to the truth of the application, which I have not seen—I would say, "yes, it is true." You have not pointed out in this reading that the application was for $1,250,000. They did not get $1,250,000. If they had gotten it there would have been something to build up reserves with.

The CHAIRMAN. From this statement it would appear that the application was for $1,200,000.

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Mr. SAPERSTEIN. The application was made for $1,250,000. It was originally granted for $1,225,000. It was then reconsidered and $1,250,000 was ultimately granted.

Mr. MILLS. No; I think that $1,200,000 was all that was ultimately granted by Washington.

Mr. SAPERSTEIN. The amount was cut down by Washington?

Mr. MILLS. Yes, I believe so. I do not know anything about the details of this thing. I did not sit in on them.

Mr. SAPERSTEIN. Do you know that after the amount of the loan was disbursed by the Citizens Savings Bank there was a deficiency of seven or eight thousand dollars payable to the First Wayne Bank?

Mr. MILLS. I recall that Mr. Locke or Mr. Sweeny told me that the Mount Clemens loan had been repaid except something under $10,000. That is the way I recall that it was stated to me. It had all been repaid except something under $10,000, and they were keeping after Mount Clemens to have that repaid.

Mr. SAPERSTEIN. That would indicate that there had been an insufficient amount granted by the R.F.C. to enable this bank to liquidate its obligation to the First Wayne in full?

Mr. MILLS. And the National Credit; and to take care of these other charges, including taxes; yes.

Mr. SAPERSTEIN. During the time when you were chairman of this advisory committee were you also active in the performance of your duties as chairman of the First National Bank?

Mr. MILLS. I was.

Mr. SAPERSTEIN. And as chairman of the First National Bank did you follow the development of this situation in Mount Clemens?

Mr. MILLS. Oh, in general; not in any detail. It was only one of a thousand problems we had. The actual following of the situation—let me put it this way: Mr. Sweeny, president of the bank, was in charge of loans, with the controller of loans that had been established in 1932. I never considered myself a loan officer. I would neither make nor decline loans. I sat on the executive committee. I knew in a general way what was going on, but the detail was handled by Mr. Sweeny, the controller of loans; Mr. Romer; and Mr. Locke. I knew in a general way.

Mr. SAPERSTEIN. At the time that Mr. Ballantyne resigned were not the minutes of the bank amended to provide that the chairman of the board should be the chief loaning officer of the company?

Mr. MILLS. Not the chief loaning officer.

Mr. SAPERSTEIN. He was the chief executive officer?

Mr. MILLS. Yes.

Mr. SAPERSTEIN. Was it not also provided that he would have to pass upon all loans?

Mr. MILLS. Oh, no. Under the resolutions no loan could be made except upon listed collateral, more than $10,000 or $15,000, without the approval of the executive committee. If you walked in there and wanted a loan of $20,000, with all the collateral in the world, I could not give you a loan unless you posted collateral.

Mr. SAPERSTEIN. You kept in close touch with Mr. Sweeny, did you not?

Mr. MILLS. I kept in close touch with all the officers I could, considering the magnitude of the business of our bank. I was working 15 to 18 hours a day, frequently.

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Mr. SAPERSTEIN. But to recur to this Mount Clemens loan, you followed the course of that pretty closely, did you not?

Mr. MILLS. I followed it just as I did all the rest of them. It was nothing more or less than any of the others.

Mr. SAPERSTEIN. I want to show you a memorandum which purports to be a memorandum from Wilson W. Mills to Mr. Donald M. Sweeny, dated July 13, 1932, and ask you whether you can identify that memorandum.

Mr. MILLS. Yes. That would require one little explanation.

Mr. SAPERSTEIN. First let me have the memorandum marked.

Mr. MILLS It is just a matter of wording, nothing more.

The CHAIRMAN. Let it be admitted.

(Memorandum dated July 13, 1932, from Wilson W. Mills to Donald M. Sweeny was received in evidence and marked "Committee Exhibit No. 156, Feb. 7, 1934.")

Mr. SAPERSTEIN. The memorandum which has been marked committee exhibit 156, under this date, is from Wilson W. Mills to Mr. Donald M. Sweeny, dated July 13, 1932, and reads as follows [reading]:

COMMITTEE EXHIBIT NO. 156

FIRST WAYNE NATIONAL BANK, MEMO

To: Mr. Donald N. Sweeny.
From: Wilson W. Mills.
Date: July 13, 1932.
Subject:

Being in charge of the Banking Division, I told Atwood of Mt. Clemens on the telephone today that he would have to talk with you about any loan. You can be as hard-boiled as you wish. He will tell you what they hope to get from the R.F.C., and Chick Fisher can tell you closer what they will get, although I do not want us to rely too much on our loan to them to what even Chick Fisher thinks they will get from the R.F.C.

W. W. MILLS.

Mr. MILLS. I did not use very good English there. Mr. Sweeny was in charge of the bank division. That is why I was addressing the note to him. The construction might be put on it that I was in charge of the bank division. It was just a matter of English, nothing else.

Mr. SAPERSTEIN. Who was Chick Fisher?

Mr. MILLS. He was the manager of the R.F.C.—what was the date of that?

Mr. SAPERSTEIN. July 13, 1932.

Mr. MILLS. I think at that time he was manager of the R.F.C. He subsequently left the R.F.C. and became a vice president of the bank. I think at that time he was manager of the R.F.C.

Mr. SAPERSTEIN. What loan was referred to in this memorandum?

Mr. MILLS. The Citizens Savings Bank were always wanting loans, and Mr. Atwood was running the Citizens Bank at Mount Clemens. He was the best asker of loans I have ever known. He was down there trying to get loans, loans, loans.

Mr. SAPERSTEIN. Do you know the amount of the particular loan he was attempting to get from your bank in July 1932?

Mr. MILLS. I do not—just more loans.

Mr. SAPERSTEIN. Was there any application pending, additional to the one for $1,250,000, from the Citizens Bank to the R.F.C.?

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Mr. MILLS. I do not know. The records of the Detroit agency will show that. I do not know.

Mr. SAPERSTEIN. Did you not know at the time that you referred to in this memorandum when you said in this memorandum:

He will tell you what they hope to get from the R.F.C., and Chick Fisher can tell you closer what they will get.

Mr. MILLS. Yes. Mr. Atwood was quite a confirmed optimist, and what I wanted to caution Mr. Sweeny about was this: Mr. Atwood might say, "I hope to get so-and-so from the R.F.C.", and maybe he had not applied for any loan. He may have; I don't know. But being an optimist I thought he might say, "Well, I will get a million dollars." And I wanted to caution Sweeny that maybe he would not get that and he had better check it up. You will see from this memorandum of Mr. Locke's that the matter is covered, because after our collateral and loan and the National Credit collateral and loan were taken over by the R.F.C., we made further advances to the Mount Clemens Bank on collateral which was later taken by the R.F.C.; and it was probably some of those to which he is referring.

Mr. SAPERSTEIN. What were the amounts of those advances?

Mr. MILLS. I do not know. They are here some place [referring to memorandum]. It says right here, on the bottom of page 3, after they had paid the $7,000 deficiency—if you understand what I mean by that?

Mr. SAPERSTEIN. Yes.

Mr. MILLS. Mr. Locke's memorandum says that between the date they paid that $7,000 deficiency and November 23, 1932, when the bank closed, the Peoples Wayne County Bank advanced to the Citizens Savings Bank a total of $70,000, which was in anticipation of moneys to be received from the R.F.C.

What happened was, as I recall it, that Mr. Atwood, of Mount Clemens stated that the R.F.C. had made certain commitments for certain loans when certain things were done. He wanted the money right away, and apparently our bank was satisfied that those things would be done, so we advanced it.

Senator COUZENS. When you were constantly advancing money to the Citizens Bank did you make any examination of the kind of withdrawals that that bank made?

Mr. MILLS. No, sir; I did not.

Senator COUZENS. It occurs to me, in observing these loans from time to time, advances to banks where deposits are running off and off, that there are many smart withdrawals, that is, those that are on the inside and know of the weakening condition of the bank all the time, and they get the money while the man on the outside is eventually worse off because he is sacrificing collateral back of his deposits, and the preferred creditor is getting the money. It seems to me, as long as you were advancing these large sums, and over quite a long period of time, it would have been to your interest at least to have known who was withdrawing the money all the time.

Mr. MILLS. Now that you remind me, we did this, Senator. I do not like to say this, but I will have to. We checked up on the directors and called them to task and said that they must have confidence in the bank and it was up to them, these gentlemen that lived in Mt. Clemens, to go out and sell that bank to their friends and save that

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bank. I went up there one day and had quite a long talk with those directors. We wanted to save that bank. We had an investment in it. If it had not been for that investment we would not have made them these loans. We did not want any loans on mortgages, that is, as collateral. They were not liquid enough. We read several riot acts to those Mount Clemens directors.

I want to state this, in view of everything that transpired. The First National Bank never had a deposit in Mount Clemens, never took any money out. None of this money went to the First National Bank. I was informed that the American State Bank had a $25,000 certificate of deposit up there which probably the First National Bank did inherit as part of their assets. I asked about that, and that was never cashed and none of this money that went to the First National Bank.

Senator COUZENS. In talking with directors of the R.F.C., many of them are convinced that loans advanced to some of those banks were rather inadvisable because of the insiders knowing of the internal condition of the banks and withdrawing their money through the advancement of R.F.C. money and leaving the rest of the depositors hanging in midair. My particular criticism of this whole transaction on which we have been spending so much time this morning is that your bank was advancing money when there were constant withdrawals, and it seems perfectly obvious to me now that some of the insiders were getting their money while you were advancing more money and further weakening the conditions of those depositors who still had the money left. That is a procedure which you would naturally abhor as much as I do.

Mr. MILLS. I am glad to understand your position in this, Senator, because I had understood that you thought the First National Bank had taken some of its own money out of the bank. That is why I made the statement that I did before.

Senator COUZENS. No; my criticism was that you have been a party to undoubtedly cleaning out all of the best assets of the Citizens Bank of Mount Clemens to pay off yourselves with, which resulted in a weakening of the assets.

Mr. MILLS. You mean of the other depositors who had not taken their money out of the bank?

Senator COUZENS. Yes.

Mr. MILLS. That applies to anybody. Anybody who happened to take their money out of the bank on February 11 was better off than the man that did not. We did read the riot act several times to those directors at Mount Clemens, and we told them that if we ever knew or ever learned of any of their affiliated companies taking any moneys out of that bank themselves something would happen. We never learned that.

Senator COUZENS. Did you ever check up to see whether that was true or not?

Mr. MILLS. Mr. Locke was present when I made that statement to them, and I asked Mr. Locke to bear it in mind and let me know if it happened. I never heard from him, so I presume it did not happen.

Mr. SAPERSTEIN. From the time when the original loan of $1,250,000 was made by the R.F.C. to this Citizens Savings Bank, its condition continued to grow progressively worse, didn't it?

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Mr. MILLS. Well, I presume so. I know that the State of Michigan closed the bank in November.

Senator COUZENS. Well, that is quite obvious.

Mr. SAPERSTEIN. Mr. Mills, I show you a memorandum dated October 14, 1932, from Mr. Locke to E. N. Sweeny, president, and ask you whether this memorandum was ever called to your attention.

Mr. MILLS (after looking at the memorandum). I have no recollection of that, of ever having seen it or heard the matter discussed, except what is stated in this memorandum.

Mr. SAPERSTEIN. But you have no doubt that it is a memorandum made by Mr. Locke addressed to Mr. Sweeny, have you?

Mr. MILLS. Well, it purports to be. It is not signed; but if you state it is, all right. I do not know anything about it, that is all.

Mr. SAPERSTEIN. Mr. Chairman, I wish to offer it in evidence.

The CHAIRMAN. Let it be admitted.

(A memorandum dated Oct. 14, 1932, from Mr. Locke to E. N. Sweeny, president, was marked "Committee Exhibit No. 157, Feb. 7, 1934", and will be found immediately following where read by Mr. Saperstein.)

Mr. SAPERSTEIN. The memorandum which has been marked "Committee Exhibit No. 157", of this date, reads as follows:

OCTOBER 14, 1932.

Mr. D. N. SWEENY, *President*
R. B. LOCKE

CITIZENS SAVINGS BANK OF MT. CLEMENS, MICHIGAN

Early this morning, Mr. Atwood called me and wanted to know how quickly I could come out to Mt. Clemens. He did not wish to discuss the need for the call over the telephone but stated that it was very urgent.

I drove out and found that they have just been through their regular state banking department examination and last night the examiner reviewed the examination of the Directors. Atwood stated that the examiner, Wixom, stated to the Board that he had been to Lansing and had a conference with Commissioner Reichert, Deputy Taylor and the Attorney-General and they were all agreed in their desire that the Bank be closed. The Directors objected to this demand, discussed it for a long time and refused to close the Bank. When I arrived there they were all very much upset and were working every possible lead to forestall any such action on the part of the State Banking Department. Mr. Merrill, of Mt. Clemens, the Chairman of the Macomb County Republican Committee, was in the office trying to communicate with Governor Brucker. Merrill stated that the closing of the Bank would have a disastrous effect upon the chances of the Governor in Macomb County. The Governor was not out of bed at that moment and left orders that he not be disturbed. Upon arising, however, he called Merrill at the Bank and after Merrill's explanation, the Governor stated although he had but one hour to stay in Lansing, he would immediately go and consult with Commissioner Reichert.

With the information at hand, it does not seem reasonable for the Banking Department to insist upon closing the Bank at this time. At the time the one-man grand jury proceedings against McGill were instituted, the Bank experienced quite a little run on commercial deposits and the following table will show the progress the bank has made since that time.

Date	Com'l Deposits	Bills Payable	Cash on hand
6-1-32	$464,000	$1,201,000	$140,000
8-1-32	301,000	1,217,000	41,000
10-13-32	364,000	1,181,000	119,000

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This tabulation shows that from June 1, to August 1, they lost approximately $165,000 in commercial deposits with an increase of but $16,000 in their bills payable and a loss of but $100,000 in cash. However, from August 1 to October 13, they recovered $63,000 of their deposits, paid out $36,000 of their bills payable, and gained $78,000 in cash.

In view of all the circumstances and what they have been through, it seems to me that this showing is encouraging rather than discouraging. The final settlement of the McGill case definitely removes that menace from their picture.

When Atwood first went into the Bank, the public attitude toward him was definitely antagonistic but Merrill told me confidentially that the public now feel that after all Atwood is not as "hardboiled" and unreasonable as he was originally thought to be.

The Mt. Clemens Savings Bank and the Citizens Savings Bank are continually trying to work out some plan for a consolidation which would involve also the First National Bank. Of course with the condition of the three banks as it is, it is not at all certain that any solution other than an entirely new bank can be found. However with conditions as they are, there seems to be everything to be gained and nothing to lose by allowing these banks to continue their endeavor to work out their own salvation.

Senator COUZENS. The bank was not closed until after the election of 1932, is that it?

Mr. MILLS. Apparently. As I recall it, Senator Couzens, Governor Brucker did not carry Macomb County.

Mr. SAPERSTEIN. But the bank was ultimately closed on November 23, 1932.

Mr. MILLS. I think that is correct.

Mr. SAPERSTEIN. Do you know whether there was an assessment imposed upon the stockholders of the Citizens Savings Bank?

Mr. MILLS. I was told there was.

Mr. SAPERSTEIN. And that was a 100-percent assessment, was it not?

Mr. MILLS. I was so informed.

Mr. SAPERSTEIN. So that the holder of the stock which had been turned over to the Peoples Wayne County Bank at the time of the original agreement to make an advance in the sum of $750,000, was assessed in the amount of 100 percent of the par value of the stock?

Mr. MILLS. Oh, I presume so.

Mr. SAPERSTEIN. Who was the holder of that stock?

Mr. MILLS. The stock was held by—well, I don't know exactly, but I know the name of the party that held a part of it.

Mr. SAPERSTEIN. What was the name of the party who held a part of it?

Mr. MILLS. The C. & D. Holding Co. held a part of it. It was a corporation formed to hold this stock. You see, the stock was held originally by the Peoples Wayne County Bank, but it was in trust for all of the clearing-house banks and the trust companies, and any liability on that stock by way of assessment or otherwise would be, under the agreement, borne proportionately by the other members of the Detroit clearing house banks and the trust companies. Also I was told that some of the shares of the stock were not transferred into the name of that holding company.

Senator COUZENS. What was the C. & D. Holding Co.?

Mr. MILLS. It was just a corporation formed for the purpose of holding this stock.

Senator COUZENS. But what did the letters "C. & D." stand for?

Mr. MILLS. I have heard a lot of stories, but I don't know.

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Senator COUZENS. Wasn't it understood on the Street to stand for "The Cats and Dogs Co."? [Laughter.]

Mr. MILLS. That is the story I heard on the street. And I think it might have been a good name for this company as things eventuated.

Mr. SAPERSTEIN. Wasn't the organization of that company your idea, Mr. Mills?

Mr. MILLS. No; I don't believe it was. A lot of us discussed it. It was discussed at a meeting of the officers, and with counsel for the bank.

Senator COUZENS. What did you intend it to mean when you suggested that it be called the C. & D. Holding Co.?

Mr. MILLS. I do not know that I suggested it. I don't know that I have that much humor. It might be that I did, but if so, I do not recall it.

Senator COUZENS. And you do not know what it means now?

Mr. MILLS. Well, off the record, I think that is what it did mean.

The SHORTHAND REPORTER (Mr. Hart). Well, I must make some record here when you make an answer.

Mr. MILLS. Well, I will say that that is probably what it meant.

The CHAIRMAN. Did it have any other stock than the stock of this bank?

Mr. MILLS. I think it had nothing else. I do not know where "the dogs" were. [Laughter.]

Mr. SAPERSTEIN. The sole purpose of the incorporation of this C. & D. Holding Co. was to take over a portion of this stock from the Citizens Savings Bank, so that if an assessment were to be levied it would not be levied upon the Peoples Wayne County Bank; is that correct?

Mr. MILLS. Yes. It was to have it held in that way. And I do not understand why it did not all go under that name. I believe it was understood by the officers that it was all to go under the name of that company. But there is no question that the beneficial interests of the C. & D. Holding Co. represented the guaranteeing banks and trust companies in Detroit.

Mr. SAPERSTEIN. I will suggest a reason, and let us see whether you agree with me. So far as that portion of the stock was concerned which was held as collateral for loans——

Mr. MILLS (interposing). That may have been.

Mr. SAPERSTEIN (continuing). The legal title wasn't actually in the Peoples Wayne County Bank so as to subject it to liability for assessment.

Mr. MILLS. That might be the reason it was not transferred. It had not occurred to me, of course.

Mr. SAPERSTEIN. All the stock which the Peoples Wayne County Bank would otherwise have had legal title to was transferred to the C. & D. Holding Co.?

Mr. MILLS. If it was not done, it should have been done and was intended to have been done.

Mr. SAPERSTEIN. I have before me a copy of what purports to be a letter, which is unsigned but which bears the initials ECPD: WAM, addressed to Donald N. Sweeny. Have you any idea who ECPD is?

Mr. MILLS. Yes. I believe he is a member of Bulkley, Ledyard, Dickinson & Wright.

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Mr. SAPERSTEIN. What is his name?

Mr. MILLS. Mr. Davis.

Mr. SAPERSTEIN. This letter is dated June 5, 1933, and reads as follows [reading]:

DONALD N. SWEENY, Esq.,
LIGHTNER, HANLEY, CRAWFORD, SWEENY & DODD,
1601 Dime Savings Bank Bldg., Detroit, Mich.

DEAR DON: You will remember that several weeks ago I telephoned you as to C & D Holding Company, which was incorporated at the request of Bill Mills by us and of which one of our employees was sole incorporator. We have never known exactly how the corporation fitted in the bank picture, but assume that it does so. We have just received a copy of an order of Judge Warner, entered April 20th at Mt. Clemens, assessing stockholders of the Citizens Savings Bank one hundred per cent, and a letter dated June 2, 1933 of M. E. Watkins, Receiver, addressed to Henry Sarns and eleven others, including C & D Holding Company, which sets forth that the Receiver intends to hold the persons to whom the letter is addressed liable for stock assessment on 2166 shares, evidenced by certificate number 378 in the name of C & D Holding Company.

We assume that the matter should be turned over to some lawyer to represent C & D Holding Company, or possibly the corporation or persons for whose benefit it held the stock. Not knowing the facts, we are taking the liberty of again calling the matter to your attention, and trust that you will refer it to the proper parties.

Sincerely,

ECPD: WAM

Now, do you agree with the statement contained in this letter that the C. & D. Holding Co. was incorporated at the request of "Bill Mills"?

Mr. MILLS. If Mr. Davis said I asked him to incorporate it, there is no question that I did ask him to incorporate it. The officers of the bank had discussions, and they asked to have it incorporated. And if Mr. Davis says I called him up about it, I did.

Mr. SAPERSTEIN. Do you know whether that assessment was paid?

Mr. MILLS. I don't know. The receiver can tell you. I am not given access to those books and I don't know.

Mr. SAPERSTEIN. Now, Mr. Mills——

Mr. MILLS (continuing). I presume he is contesting it.

Mr. SAPERSTEIN. What was that?

Mr. MILLS. I should assume that the receiver is contesting the assessment, but I don't know.

Mr. SAPERSTEIN. Mr. Mills, would it be fair to say that when the R.F.C. made this loan of $1,250,000 to the Citizens Savings Bank, and the greater portion of that loan was applied toward the repayment of the outstanding obligation from the Citizens Savings Bank to the Peoples Wayne County Bank, that that was a bailing out of the Peoples Wayne County Bank out of a bad loan?

Mr. MILLS. No.

Mr. SAPERSTEIN. Why not?

Mr. MILLS. In the first place, I don't think it was a bad loan. It was not a quick loan, and I never said it was. But as to the Peoples Wayne County Bank, that loan was only made in 1931—it was made on mortgages, and I think the last part of that loan was made in November of 1931. It was not an old loan, and it was secured by mortgages. I would not by any stretch of the imagination say it was an old loan. It was not the type of loan we were welcoming in

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the institution, because not a quick loan, it could not be quickly liquidated, but it was not a bad loan.

Mr. SAPERSTEIN. Looking back on the course of events, and the closing of this bank in Mount Clemens, do you think this loan could have been paid in any other way than through a loan from the R.F.C.?

Mr. MILLS. I haven't any doubt that it would have been paid over a period of time, even looking back, and that is something I do not like to do. It is not a fair thing to ask a man to look back and say what it would be from this viewpoint. But I have no doubt it would have been paid, because it was the cream of the mortgages.

Mr. SAPERSTEIN. It could not have been paid off if the bank, as actually happened, had been closed by the State banking commissioner in 1932, could it?

Mr. MILLS. I do not say it would have been paid off by this time, but I still say it would have been paid off, because it was the very cream of the mortgages up there.

Senator COUZENS. Mr. Mills, there was one question you brought up on yesterday that I have been pondering over. It appears that in 1931 you were urging upon President Hoover and other public officials the enactment of a so-called "home loan mortgage bank" and something like the old War Finance Corporation, is that correct?

Mr. MILLS. I had three things in mind, Senator Couzens, that I thought should be done. First, a home-loan bill, not in the form in which it was finally passed; and, secondly——

Senator COUZENS (interposing). In what form did you desire it to be passed?

Mr. MILLS. I wanted to see an institution very similar to the Federal Reserve banks, that would be set up to rediscount properly amortized and good mortgages. And that was for two reasons; it would help to liquidate our bank and, secondly, I thought it was sound public policy to have such an institution, not for any type of mortgage but for sound mortgages, that had been reasonably paid down, on a man's house, and that type of thing. That was what I was hoping for and asking for in such a bill.

Senator COUZENS. And that was a part of the liberalization of the Federal Reserve Act that Senator Vandenberg was talking about in his correspondence, was it?

Mr. MILLS. I do not know that it was that, in the matter of the Federal Reserve Act, but it was also thought that something should be done about liberalizing the Federal Reserve Act; whether it would be in one bill or in two bills, I don't recall.

Senator COUZENS. The R.F.C. was another step along the lines of your thought, only you used the suggestion—what was that?

Mr. MILLS. The War Finance Corporation wording.

Senator COUZENS. Yes. Well, I am still unable to understand why you did not use the facilities of the R.F.C. in 1932 at all, when the effect would have been the same. I mean if you had used their facilities the effect would have been the same as though you had rediscounted your mortgages to a Federal Reserve bank, or in a bank of a home-loan banking system.

Mr. MILLS. No, Senator.

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Senator COUZENS. Why not?

Mr. MILLS. We had the closing in Detroit—well, I think I can illustrate it better by this method: We had a very substantial amount of eligible paper which we could have taken over to the Federal Reserve bank and on 24 hours rediscounted it with them and obtained the cash. But to do that we would have to pay them interest. Now, we did not have to do that and go to that interest expense until we needed funds. And we had ample funds to see us through, except in the case of such an earthquake as occurred in Detroit. We had at that time approximately $60,000,000, as I recall it, in cash. We did not need to rediscount, but we wanted the door open so we could rediscount those things. In other words, we wanted to have the right to use those things if and when we should need them.

Senator COUZENS. You testified that you did not use the R.F.C. because you did not want to pay interest charges of 5 percent on a loan you would have gotten from them.

Mr. MILLS. Not until the necessity for using it occurred.

Senator COUZENS. Well, back in 1931 you, apparently, were far-sighted enough to have been planning to set up two agencies for the relief of banks.

Mr. MILLS. We wanted a reservoir, as I think I expressed it, so that if the necessity arose we could go there. I think I said it should be something like having a fire hydrant in front of your building, but do not turn on the water until a fire starts, and yet be ready in case a fire should start.

Senator COUZENS. But in all this correspondence that has been developed here you were pointing out conditions in Michigan.

Mr. MILLS. And nationally.

Senator COUZENS. Yes; and nationally. But particularly you were attracting attention to Michigan, with which I am finding no fault. So eventually these agencies were set up and you did not use those agencies because you thought it was not necessary; is that it?

Mr. MILLS. We did not use them because right up to the time of the bank holiday we had in cash and governments a sum of approximately, as I recall it, 50 or 60 million dollars, which would have seen us through. But if an emergency should come, we wanted this reservoir of credit so that we could use it when the time came. You see, the interest burden is terrific. At that time the R.F.C. interest rate was 5 percent.

Senator COUZENS. Yes; but you were getting interest on your securities all the time.

Mr. MILLS. Yes. But, after all, it was affecting our earnings. Those earnings were being built up, except for the small dividends paid at the end, three small dividends, and they were small; those earnings were being built up for the benefit of the depositors of the bank. I have tried to make it clear, Senator Couzens.

Senator COUZENS. All right.

Mr. SAPERSTEIN. Mr. Mills, at the time when Governor Comstock's proclamation was made, and the First National Bank in Detroit closed its doors, do you know what amount was owed to that bank by officers, directors, and employees of the institution?

Mr. MILLS. No; but I know it was very substantial.

Mr. SAPERSTEIN. How much, according to your recollection, did it amount to?

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Mr. MILLS. I haven't access to the records, but it was very substantial. I wish to state this: That the loans—and please understand, Mr. Chairman, that I am not alibiing at all, for the loans were there when I went into the bank, and we were pounding away at them and we were getting them down, but not as fast as we liked, and still we were getting those loans down. The loans were all good, I am informed, when made, but a lot of them were on bank stocks, and you just could not sell them because there was no market for them. But there was a very substantial amount.

Mr. SAPERSTEIN. I have before me some compilations made by the receiver of the First National Bank, Mr. C. L. Thomas, as of the date when the proclamation was made, and these compilations indicate that on February 11, 1933, the First National Bank in Detroit had outstanding, due from officers, directors, and employees, and former officers, directors, and employees of the institution, direct and indirect loans aggregating $33,296,618.64.

Mr. MILLS. I do not believe it. Now, that is a matter of my belief, but I just don't believe it.

Mr. SAPERSTEIN. Well, now——

Mr. MILLS (continuing). That is, there must be a duplication there. Oh, yes; there must be a duplication there.

Mr. SAPERSTEIN. These loans include loans made directly and indirectly to the officers, directors, and employees of the bank.

Mr. MILLS. May I ask: Does it also include duplications, where various people had gone surety, where two officers had gone surety? Are those included twice?

Mr. SAPERSTEIN. It does not so state.

Mr. MILLS. Well, my statement stands. I cannot believe it. But I have not access to the records. At the same time I do not believe it.

Mr. SAPERSTEIN. Do you know how many shares of Detroit Bankers Co. stock were held by the institution as collateral for loans at the time of the closing?

Mr. MILLS. Why, I heard some testimony here, but my recollection is that it was in the neighborhood of 300,000 shares. That is only a recollection. I heard some testimony here the other day of a figure something like two hundred and fifty-thousand-and-odd shares. I do not know whether it was at the time of the closing or not. But I think it was around 300,000 shares.

Mr. SAPERSTEIN. I have before me a compilation of loans and a schedule of the number of shares of the Detroit Bankers Co. stock pledged as collateral for loans to present and former employees of the Detroit Bankers Co., including employees of the First National Bank in Detroit.

Mr. MILLS. May I ask you a question? I know I am on the stand and you are not, but what does he mean by "former employees"? How many years back? These banks have been going since 1860, and I don't know.

Mr. SAPERSTEIN. I cannot answer that question. But in my question to you I incorporated the factor that these loans were made to former officers, directors, and employees of the bank, as well as to those when the bank closed.

Mr. MILLS. I know that.

Mr. SAPERSTEIN. This schedule indicates that on December 31, 1932, there was owed to the bank by officers and employees the sum

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of $3,154,546, and that there was pledged as collateral for those loans Detroit Bankers Co. stock, to the extent of 29,905 shares; and that on February 11, 1933, there was outstanding $3,119,490 of loans, and that there was pledged as collateral in the form of Detroit Bankers Co. stock 29,792 shares.

Mr. MILLS. Well, I don't think we will quarrel about that. That would be about my recollection.

Mr. SAPERSTEIN. That would be about your recollection?

Mr. MILLS. Yes.

Mr. SAPERSTEIN. I also have before me a schedule prepared by the receiver, which indicates that the outstanding loans to directors at the time of the closing totalled $20,568,554.39, and that there was pledged as collateral in the form of Detroit Bankers Co. stock 59,922 shares. Does that accord with your recollection?

Mr. MILLS. Well, what other collateral was there? There was other collateral besides that.

Mr. SAPERSTEIN. Yes; there is other collateral.

Mr. MILLS. You bet there is.

Mr. SAPERSTEIN. And that collateral is listed with these loans, but included in the collateral which was pledged for these loans aggregating $20,568,554.39 were 59,922 shares of Detroit Bankers Co. stock. Now, does that accord with your recollection?

Mr. MILLS. Well, it would only be a guess, but I won't quarrel with that. As long as we understand that there was a lot of other collateral up as well.

The CHAIRMAN. That does not quite make up the 30 million dollars.

Mr. MILLS. No.

Mr. SAPERSTEIN. According to the report made by the bank examiner on February 11, 1933, which, I assume, you have not seen——

Mr. MILLS. I certainly have not seen it.

Mr. SAPERSTEIN. There is a list of direct and indirect loans to corporations or enterprises in which any director is largely interested, giving the name and interest of the director or officer, and that list, which includes 18 corporations in which directors of the First National Bank are directors or officers, shows that there were outstanding direct loans of $9,562,321.67 to those corporations and indirect loans of $46,251.68. Does that accord with your recollection?

Mr. MILLS. Well, I haven't anything directly on that, except that I am sure there is a large amount of duplication in it. At least I believe there is a large amount of duplication. I know of one loan that was guaranteed by six directors of the bank, a small loan. Now, if they accumulate those guaranties, the figures get quite out of line. It all depends upon what theory he used in those figures. I have never seen the paper.

Mr. SAPERSTEIN. This paper I have read from shows the amount of the loans made to each corporation, so that there is no duplication in that figure, is there?

Mr. MILLS. Well, may I see the document?

Mr. SAPERSTEIN. Yes. Here it is.

Mr. MILLS. Is this the yellow sheet, so-called?

Mr. SAPERSTEIN. That is not the yellow sheet. At least I do not think so. Does it say "Confidential Memorandum" on it?

Mr. MILLS. It does not say about that.

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Mr. SAPERSTEIN. That is one of the schedules contained in the regular report.

Mr. MILLS. (Begins looking over the paper.)

Senator COUZENS. I want to say at this point that there is no schedule furnished on the confidential yellow sheet.

Mr. MILLS. There is not?

Senator COUZENS. No. All that is on the confidential yellow sheet is a comment by examiners, plus the report which is furnished to bank officials.

Mr. MILLS (looking over the paper). For instance, here is a line on this paper, which includes the Detroit Bankers Co. with Emory W. Clark's name afterwards, $4,000,000. I do not know why Emory Clark's name is on that. I think it is a little misleading. We all know what the Detroit Bankers Co. loans were, and how they were incurred.

Mr. SAPERSTEIN. In what respect is that item misleading, Mr. Mills?

Mr. MILLS. It says Emory W. Clark, an officer or director, is largely interested. I do not believe Emory W. Clark had any very large interest in the Detroit Bankers. He was a fair stockholder, but I think the implication here is a little strong, to attempt to hang $4,000,000 of Detroit Bankers Co. loans and charge it up to Emory Clark.

Mr. SAPERSTEIN. You do not see any evidence of any repetitions there, do you?

Mr. MILLS. No; I do not see any evidence of repetitions. There are some more that might be put on, small ones.

Mr. SAPERSTEIN. You mean loans to other corporations not included in this list?

Mr. MILLS. They may be of no great consequence; nothing of any consequence. With that main exception of the Detroit Bankers Co., as far as I can see, it is probably right. I do not know the interest of these gentlemen in those loans. I think a lot of those loans were also secured. A lot of them had been based upon credit. Some of them I recognize as being perfectly good, paid on the nail. A lot of them were paid the day after the holiday, or some of them were.

Mr. SAPERSTEIN. You know that these loans to officers and directors presented a very serious problem at the time you got into the bank, do you not?

Mr. MILLS. Yes. That was one of the problems we worked on.

Mr. SAPERSTEIN. What steps did you take in an effort to remedy this situation?

Mr. MILLS. We did three things. I explained this the other day, but I will risk repetition and go over it. First, they took employees, as distinguished from the officers. I do not mean first in point of time, but one of the things we did was to take employees, and a committee was appointed consisting, as I recall it, of Mr. Oscar Webber, Mr. Barbour, Mr. Holden, and Mr. Sweeny, and the personnel officer of the bank, Mr. Failor. The personnel records of those employees were gone over—his pay, what he could do, his manner of living, and everything else, and there was deducted from his pay what we thought would be the best thing to deduct, to produce two conditions: First liquidation of the indebtedness to the

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bank; and secondly, to keep the employee still in a fair frame of mind, so he would be willing to fight his way out of the difficulties which he and everybody else were in. Then, we did the same thing with the officers. I think we were probably a little stricter with the officers. That same committee functioned with them. Then we came to the directors. A committee was appointed in May 1932 to go over these directors' loans, and to insist on liquidation from directors. Where loans in the past had been made to directors who were not in active business, upon no credit statements and that type of thing, we tried to get one of two things—either collateral or a statement and payment on account of those loans, and to start in on a definite basis of payment of the loan. I made myself very unpopular with certain directors with that in mind. Possibly we went at it too hard. I do not know. But we went right after it, tooth and nail, to do that. That is what we did, and what we tried to do.

Senator COUZENS. Who was Mr. George A. Burns; one of your vice presidents?

Mr. MILLS. He was a vice president who came from the Wayne County and Home Savings Bank.

Senator COUZENS. Do you know what his occupation is now?

Mr. MILLS. I do not.

Mr. SAPERSTEIN. You were aware, Mr. Mills, were you not, that during the year 1931 a rather exhaustive survey was made by Mr. Verhelle for the purpose of ascertaining the policy of other banking institutions with regard to officers' and employees' loans?

Mr. MILLS. I think Mr. Verhelle made a survey of what the institution was doing. I do not know it was in 1931. I thought it was in 1932. I know he did it sometime.

Mr. SAPERSTEIN. Let me read to you a letter written by Mr. Verhelle, dated June 8, 1931, to Mr. Thomas J. Craven, New York representative of the First National Bank, Detroit, 20 Exchange Place, New York City. (Reading:)

DEAR TOM: Would you mind calling a few of your friends around New York, representing, say, about six of the larger institutions, and check with them on their officers' and employees' loan policies.

We are particularly interested in knowing whether or not they permit their officers and employees to borrow, with collateral, at their own institution.

Whether or not they give them a preferred rate or treat them as they would any other customer; i.e., charge regular rate and when margin is insufficient, possibly sell them out.

Whether or not they make emergency loans to their officers and employees, and if so, on what basis.

Whether or not they permit their officers and employees to carry commercial accounts and, if so, do they segregate them from their other customers.

Sincerely yours,

J. V., *Comptroller.*

To which a reply was found, a photostatic copy of which I have before me, from Mr. Craven to Mr. Joseph Verhelle, under date of June 12, 1931, as follows [reading]:

JUNE 12, 1931.

Mr. JOSEPH F. VERHELLE,
Comptroller Detroit Bankers Company,
First National Bank Building, Detroit, Mich.

DEAR JOE: Glad to hear from you at last and have the chance of being of some help, if possible.

To answer your questions in order: The officers of institutions here are not allowed to borrow with collateral at their own institutions without confirma-

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tion from the Board of Directors. This causes a certain amount of embarrassment and delay, which has practically eliminated any such exceptions being made. Employees do not borrow from their own institutions or carry accounts with it.

Some years past, various New York banks had reciprocal arrangements for their employees. In other words the employees of two banks would each carry their accounts at the other institution and preference would be given in cases of small balances, small loans, and certain courtesies which are agreed upon. I do not think this condition exists in very many banks any more. The officers of New York institutions carry their accounts at banks of their own discretion and are not allowed to carry them in either the branches or the main office of the bank by whom they are employed. I understand that collateral is not treated in a preferential way by any New York institutions except in individual cases. For instance several banks have set up a special fund to be handled at the discretion of the personnel department and one loan officer, which is supposed to take care of employees who have gone beyond their means by some unusual circumstances, such as births, deaths, etc. This fund is written out of the surplus of the bank and put into a trust account. However, it is very seldom used in cases where employees have borrowed on the bank's stock for speculation purposes, or other specific personal needs, and I understand the loaning bank is usually pretty strict as far as the margin is concerned.

One New York bank, which I don't doubt you will recognize, has protected in sort of a guarantee, the collateral of its employees whenever the collateral is their own bank's stock. This is not an entirely unusual case, I understand, but such a general rule as this bank has made is an exception.

The officers of the institutions down here who have been borrowing from banks of their own choice, have been pretty roughly treated as a rule. I have personally known several officers who were borrowing on their own bank's stock at other institutions, and the loaning bank gave them no preference or consideration on margin. In the case of banks whose stocks have not been publicly supported by them or manipulated, they have usually let the officer "row his own boat." In the case of employees it is different, and specific arrangements, which are too numerous to go into, have been made in each case of an individual employee.

As far as your last paragraph is concerned, it is entirely contingent upon the by-laws of the institutions. Quite a few of the banks here do not permit their officers or employees to be identified with any corporations or partnerships, and in cases where they allow this, the account is not carried with the bank, unless an unusual case such as a bad loan where the officer is representing his bank.

I hope this answers in a general way what you want. However, if the information is not specific enough, I shall be glad to go into it in detail in another letter, if you will please drop me a memo.

Best regards.

Sincerely,

TOM.

You know, Mr. Mills, that substantially the same letter was written by Mr. Verhelle to the officers of quite a number of banks, and that substantially the same reply was received, do you not? I mean a reply was received which indicated that it was not the policy of those banks to permit loans to be made by employees and officers in their own institutions, as a general rule.

Mr. MILLS. I do not know whether I knew that or not. I will say this, that after I took charge of this bank in May, and I believe before that time—I know it was true in the Peoples Wayne—an employee was not even loaned $10 without it being approved by the executive committee. We would have this in the First National Bank afterward. We would have small employees' loans that were spoken of there. He speaks of it as a great virtue to have the confirmation of the directors. If the wife of an employee was having a child and he had to have $50, that would come up at the executive committee, and, upon recommendation of the personnel department,

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he was given it. Loans of that type were absolutely negligible. No loan, after my day in that bank—and I am informed before, as well—was made to an officer or director of the bank without first going to the executive committee of the board. I know that was true in my day.

Mr. SAPERSTEIN. But, Mr. Mills, what Mr. Craven says is that—

The officers of institutions here are not allowed to borrow with collateral at their own institutions without permission from the board of directors. This causes a certain amount of embarrassment and delay, which has practically eliminated any such exceptions being made. Employees do not borrow from their own institution or carry accounts with it.

Mr. MILLS. All right. In our institution I think the same result was very apparent. As soon as I went in that bank we went after these loans of officers and employees, and there were very few applications for new loans from them. There were some. As I say, there were these necessity or emergency loans for serious illnesses and things that had to be taken care of.

Senator COUZENS. We are not speaking about those.

Mr. MILLS. The substantial loans, Senator, all had to go to the executive committee. Then we started as to directors as well as officers and employees, by insisting on periodical schedules of reductions. We insisted on it.

Now, we had considerable discussion in the bank early in 1932 as to whether it was advisable to even permit officers of the bank to keep their own accounts in the bank. I mean their deposit accounts. That matter was finally settled by having a special ledger, an employees' or officers' ledger carried in the main office, and they were all lumped in that, so that they could be seen at once. They were not spread throughout the entire bank. We thought it was better, and I still think it is better, to have an officer carry his own account, if he desires, in that bank, so long as he has not the privilege of O.K.ing any overdrafts, or something of that sort.

The CHAIRMAN. You speak about taking up these matters with the executive committee, but you did not tell what the executive committee usually did to those applications.

Mr. MILLS. Senator, I hate to say "while I was the head of the bank", but I have to, just to point out the time, because my connection has been comparatively recent with it, although I was a director of the Peoples Wayne County Bank in April or May of 1930. If a matter came up, we will say, on a credit statement for an unsecured loan—let me explain the course of a loan. I think that would be the better way. Every morning, first, there was a group meeting, that is, of the men who were primarily responsible for the loan. If you had a loan there which would fall in a group that carried the letter "F", three or four men would pass upon that first. If it met with their approval, it then went to the general loaning officers' committee. They met every morning at 9 o'clock. If a statement was involved, it also went to the credit department for analysis, and from the credit department it would go to the executive committee, and the officer in charge would stand at one end of the table and he would stand up and state the facts, and why loaning officers had recommended the loan. The members of the executive committee would very frequently question it and ask for more information. They would either approve it, if they were satisfied, or

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they would decline it, or they would ask for more information. Have I answered your question, Senator?

The CHAIRMAN. Yes.

Mr. SAPERSTEIN. Mr. Mills, do you recognize that even that policy was out of line with the policy of these banks which you consulted?

Mr. MILLS. No; I do not; and I did not consult with those banks. I do not recognize it at all. I think we were doing as good a job on these loans, under the conditions prevailing, as anybody did.

Mr. SAPERSTEIN. Let me read you an excerpt from a letter which was written to Mr. Verhelle from Mr. C. W. Nelson, vice president of the Northern Trust Co., in response to a letter similar to the one which Mr. Verhelle wrote to Mr. Craven.

Senator COUZENS. What date is that?

Mr. SAPERSTEIN. June 9, 1931. You were then chairman of the Peoples Wayne?

Mr. MILLS. Yes.

Senator COUZENS. Mr. Mills has testified that he did not know anything about those letters. Is that true?

Mr. MILLS. I have no recollection of them, Senator.

Mr. SAPERSTEIN. But I understood him to say that he knew Mr. Verhelle had made an investigation as to what the practice was in other banks.

Mr. MILLS. I knew that at some time Mr. Verhelle told me he had made an investigation.

Mr. SAPERSTEIN. This was in June 1931.

Senator COUZENS. What was the outcome of that investigation, Mr. Mills? What did you do about it?

Mr. MILLS. We did this. One of the questions that came up was whether an employee—including officers—could maintain accounts in the bank.

Senator COUZENS. Is that what you have just described?

Mr. MILLS. Yes.

Senator COUZENS. All these loans, hundreds and hundreds——

Mr. MILLS. I said an account in the bank.

Senator COUZENS. These inquiries were about loans particularly.

Mr. MILLS. They are also about accounts.

Senator COUZENS. Is it not a debatable question among bankers whether it is better to have the employees and officials do business with the bank where it would be known to the officials of the bank or whether it is better for them to do it on the outside, where there would be no knowledge of their activities?

Mr. MILLS. It is a very debatable question.

Senator COUZENS. What is your opinion as to which is the better way?

Mr. MILLS. I think, Senator—you and I are from Detroit. I am inclined to think that borrowings in a place like Detroit, where there are other institutions which are able to take care of them, should probably be from other institutions. But in a small community, where you have only one bank, it can not be done that way. One of these suggested matters of legislation deals with that, and goes into it quite in detail. I think there is no question that there have been certain abuses in the part with respect to directors' loans. I think the testimony before this committee and other matters have shown it. That is my personal opinion.

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Senator COUZENS. Your personal opinion is that it is better for a bank officer or a bank employee to do his borrowing from some other bank than his own?

Mr. MILLS. Yes; excluding the small loans on emergency matters.

Senator COUZENS. I understand. Then, is there any way, under those circumstances, to have knowledge of the conduct of an official so far as his financial affairs are concerned, if he does it with some other bank? Is there any interchange of credit information, or knowledge through the banks showing such a condition?

Mr. MILLS. Nothing more than the "grapevine", Senator, and the grapevine sometimes is a pretty good instrument of communication.

The CHAIRMAN. Would it not be a good idea to provide in the law that directors of banks should report to their own boards their operations outside of the bank, such as borrowings, interest, and so forth?

Mr. MILLS. I would say that that would be all right, except in some cases where a man is on a board, and is in active business, and has borrowed on a straight line of credit from another bank, at arm's length. I would doubt the wisdom of reporting that, because there is no inducement to another bank to lend a director of a competing institution money on a general line of credit without security, unless they are satisfied it is a good loan. No, I can see no purpose to be served by reporting that. On collateral loans I might agree with you, Senator.

The CHAIRMAN. The object would be to inform the directors of his own bank as to his financial transactions outside of that bank, so as to show his interest.

Mr. MILLS. To show his interest, and possibly the detail of it. There is a question in my mind as to the advisability of going into too much detail about it as to other institutions.

Mr. SAPERSTEIN. Mr. Mills, I have before me what purports to be a report made on officers' and employees' loans under date of May 25, 1931, from J. F. Verhelle, addressed to Mark A. Wilson. Was this report ever called to your attention?

Mr. MILLS. 1931?

Mr. SAPERSTEIN. May 25, 1931.

Mr. MILLS. I do not recall it. I recall another one very distinctly, a report the directors made up, and this committee I spoke of, Messrs. Webber, Holden, and Barbour, made up as to directors' loans, but that was in 1932.

Senator COUZENS. Have you a copy of that?

Mr. MILLS. Yes; I have, Senator.

Senator COUZENS. Have you it with you?

Mr. MILLS. Yes, sir; I have it here.

Senator COUZENS. We would like to have it.

Mr. SAPERSTEIN. Will you produce that report, Mr. Mills?

Mr. MILLS. Yes, sir. I do not recall ever having heard anything about that [indicating].

Senator COUZENS. While you are looking that up, where is Mr. George J. Pipper, the head auditor we referred to yesterday? Where is he now?

Mr. MILLS. I am informed he is auditor of the Manufacturers National Bank of Detroit.

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In pursuance of this policy that was put in in 1932 on these loans, here is a copy of a report to the governing committee from this subcommittee, dated June 14, 1932 [producing paper].

Senator COUZENS. By whom is that signed?

Mr. MILLS. This is a copy. It does not seem to be signed. My recollection of the committee that handled it—and I think I am correct—is Mr. Oscar Webber, Mr. Sweeny, and either or both, Mr. James S. Holden and or W. T. Barbour. It is not signed.

Senator COUZENS. But you identify it as their report, do you?

Mr. MILLS. I am quite certain it is their report. It is a carbon of it. One page is blank. I do not know what that signifies. You will see their recommendations. This kind of thing happened——

Senator COUZENS. This is all confined to employees' loans, is it not?

Mr. MILLS. Is not that officers and employees?

Senator COUZENS (reading). "Your subcommittee appointed to review and report on loans of officers and employees"—Yes.

Mr. MILLS. That is the one.

This kind of thing happened. One of the senior officers of the bank owed the bank some money, and his note was fairly collateralled—not by marketable collateral. This officer's brother owed the bank some money, and went into bankruptcy. This senior officer felt a great responsibility for it, for his family's name, and he assumed the debt of his brother. Otherwise the bank would have lost. That added to an officer's loan. That kind of thing happened more than once.

Mr. SAPERSTEIN. That report which you have produced relates only to officers' and employees' loans, as I understand it.

Mr. MILLS. Yes.

The CHAIRMAN. What bank was that?

Mr. MILLS. That was the First National or the Peoples Wayne. I do not recall, at that particular time, which the bank was.

Mr. SAPERSTEIN. Was there also a report prepared with reference to directors' loans?

Mr. MILLS. There was.

Mr. SAPERSTEIN. Have you a copy of that?

Mr. MILLS. No; I have not a copy of that. That is in the records of the bank, though. The receiver has it, or should have it.

Mr. SAPERSTEIN. May we have this marked in evidence, Mr. Chairman? I do not think it is necessary to spread it on the record.

The CHAIRMAN. It may be marked.

Mr. SAPERSTEIN. I offer in evidence this report to the governing committee, dated June 14, 1932, relating to officers' and employees' loans.

(Report to governing committee from subcommittee, dated June 14, 1932, in re officers' and employees' loans, was received in evidence, marked "Committee's Exhibit No. 158, Feb. 7, 1934," and the same is not printed here for the reasons stated above.)

Mr. SAPERSTEIN. I have before me what purports to be a photostatic copy of the minutes of the regular meeting of the governing committee of the board of directors of the First Wayne National Bank of Detroit, held on April 29, 1932. Will you look at these minutes and see whether you can identify them, Mr. Mills?

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Mr. MILLS (after examining paper). Oh, yes. This is the report of the directors' loans that I told you was made.

Mr. SAPERSTEIN. I offer that in evidence.

Mr. MILLS. It looks like a true copy of it. That is when we were getting after these directors' loans.

The CHAIRMAN. Let it be admitted.

(Photostatic copy of minutes, regular meeting, governing committee of the board of directors of the First Wayne National Bank of Detroit, Apr. 29, 1932, was received in evidence, marked "Committee Exhibit No. 159, Feb. 7, 1934", and portions thereof were subsequently read into the record.)

The CHAIRMAN. What is the date of it?

Mr. MILLS. April 29, 1932.

Mr. SAPERSTEIN. Prior to the date when this report was rendered by the committee to the governing committee, had you received a report from Mr. Dwight Douglas, dated January 5, 1932, with regard to directors' and officers' loans, a photostatic copy of which I show you [exhibiting a paper to the witness]?

Mr. MILLS. I have no present recollection of it.

Mr. SAPERSTEIN. The memorandum which is attached to that report is addressed to you from Mr. Douglas.

Mr. MILLS. This purports to have been addressed to me from Mr. Douglas, and I probably received it. I have not any present recollection of it.

Mr. SAPERSTEIN. I ask that that report be marked in evidence. It need not be spread on the minutes.

The CHAIRMAN. Let it be admitted.

(Copy of report, Douglas to Mills, Jan. 5, 1932, in re directors' and officers' loans, was received in evidence, marked "Committee Exhibit No. 160, Feb. 7, 1934", and the same is not printed here for the reason stated above.)

Mr. SAPERSTEIN. Mr. Mills, by referring to that report, which was rendered to you by Mr. Douglas in January 1932, will you give us the amount of the loans outstanding from officers and directors in January 1932, direct and indirect?

Mr. MILLS. All I can read you is what it says, without having had any opportunity to check it or even possibly explain duplications. I am not saying there are any in it. I do not know.

Mr. SAPERSTEIN. Subject to any correction you may want to make later, give us the amount.

Mr. MILLS. It says:

Recapitulation of loans to directors as of December 17, 1931. Direct loans, $14,274,000; indirect, $4,643,000; value of collateral, $13,327,000; mortgage loans, $1,831,000; land contracts, $19,000; total loans, $20,742,000.

Then it says [reading]:

Affiliated borrowings: Direct loans $18,000,000; indirect, $447,000; commercial credit, $170,000; mortgage loans $2,676,000; land contracts, $44,000; total $21,386,000.

Mr. SAPERSTEIN. I believe in the question which I asked you I embodied the fact that those loans had been made to directors and officers. As a matter of fact, if you examine the report, you will find that those loans were made to directors only. The officers' loans are not included. Am I correct in that?

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Mr. MILLS. No; you are in error on that. I see that right away, because right here, on the first page—here is one, Dr. Henry Belanger. He is listed as "direct; value of collateral", and a lot of stuff here. I am certain he was never a director of any of these banks that constituted the First National.

Mr. SAPERSTEIN. Look at the recapitulation on the first page and see what the caption is.

Mr. MILLS (reading). "Recapitulation of loans to directors as of December 17, 1931."

Mr. SAPERSTEIN. That was prepared by Mr. Douglas, apparently, or prepared for Mr. Douglas, was it not?

Mr. MILLS. I do not know. I presume so. Then here is Calvin T. Bentley, William Blanck, Tom Bosquett. He was not a director of the bank at that time anyway. Here is M. C. Bourassa. A lot of these names I do not know. Some are directors, and I recognize some officers who were not directors, but there are certainly a lot of them that are not directors.

Mr. SAPERSTEIN. May I say, Mr. Mills, according to the records which have been furnished to us by the receiver, the men whose names appear on that list are all directors of the units of the Detroit Bankers Co.

Mr. MILLS. That is a little different. I was thinking of the First National Bank. If they are including these banks where we have a small interest in Lansing or Saginaw, I have not the remotest idea who they are.

Mr. SAPERSTEIN. Of course, that is an exhibit prepared by one of the officers of your own bank, and you are the one who is best qualified to know what they are including.

Mr. MILLS. I am trying to tell you that the majority of these people are not directors of the First National Bank or the Detroit Trust Co. Some of them may be directors. I do not even know who some of them are. I never heard the names of some of them. They may be directors——

Senator COUZENS. You do not question the caption there?

Mr. MILLS. I do not know what it means.

Senator COUZENS. If it includes units of the Detroit Bankers Co. you would have no reason to deny that that caption is correct, would you?

Mr. MILLS. On the assumption that it includes all these units. I do not know what they are.

Senator COUZENS. I think that is a safe assumption. It was prepared by the auditors of the Detroit bankers.

Mr. SAPERSTEIN. The total of those two figures, loans to directors as of December 17, 1931, and affiliated borrowings, is over 41 million dollars, is it not, Mr. Mills?

Mr. MILLS. So this memorandum says.

Mr. SAPERSTEIN. So that, in the light of that exhibit, prepared by one of the officers or auditors of your own bank, do you still contend that you do not believe that the amount of loans outstanding to officers and directors as of the date of the closing of your bank by the governor's proclamation was $33,296,000?

Mr. MILLS. No; I certainly do not believe it; because it is perfectly obvious on the face of this document that it is not so. This

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document lists loans to these various people. Who they were I do not know. Take Eberts, for instance. I never heard of the gentleman. That is the first one I happen to come to on this page.

Mr. SAPERSTEIN. Eberts, may I say for your information, appears to have been a director of the Peoples Wayne County Bank. at Wyandotte.

Mr. MILLS. A little country bank down there. I do not know who he is.

Mr. SAPERSTEIN. It was a unit of the Detroit Bankers Group.

Mr. MILLS. The Detroit Bankers Co. owned it; yes.

Mr. SAPERSTEIN. When you undertake to dispute——

Mr. MILLS. I am not disputing. I am telling you I do not know who these gentlemen are, most of them. I do not know who they are.

Senator COUZENS. As a matter of fact those are small loans in those small subsidiary banks and would not, in the aggregate, affect the whole situation very much.

Mr. MILLS. I do not look at it that way, Senator.

The CHAIRMAN. The committee will now take a recess until 2 o'clock.

(Whereupon, at 1 p.m., Wednesday, Feb. 7, 1934, a recess was taken until 2 p.m. of the same day.)

AFTERNOON SESSION

Upon the expiration of the noon recess the hearing was resumed at 2 p.m.

The CHAIRMAN. The committee will come to order.

Mr. Mills, you may resume the witness stand.

TESTIMONY OF WILSON W. MILLS, GROSSE POINTE FARMS, DETROIT, MICH.—Resumed

Mr. SAPERSTEIN. Now, Mr. Mills, when I showed you this report made to you on January 5, 1932, by Mr. Douglas——

Mr. MILLS (interposing). Which purports to have been made, you mean?

Mr. SAPERSTEIN. Yes; which purports to have been made to you, and which has been marked "Committee's Exhibit No. 160" of this date, you raised the question as to whether this report did not contain some duplications.

I would like to call your attention to the last page of this exhibit and to the following summaries which appear thereon:

The total loans to directors are listed as $22,165,461.49. These are the total direct loans.

Then there is a column entitled "Less duplications", $1,423,438.79.

And the bottom column is "Net total, $20,742,022.70", appearing under the caption "direct loans."

As for the affiliated borrowings, there is a column entitled "Total loans, $53,346,276.45; less duplications, $31,959,293.99"; and "Net total of affiliated borrowings, $21,386,982.46"; which is the net total appearing under the caption "Affiliated borrowings" in the recapitulation.

Does that obviate from your mind the idea that there may have been duplications in this report?

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Mr. MILLS. As far as my knowledge goes, I do not recall ever having seen the report before. I am not denying I received it, you understand, but I have no other recollection of it. I can take it and study it and see. That is all I can do. May I have it just a moment?

Mr. SAPERSTEIN. Yes [handing Mr. Mills the document].

The CHAIRMAN. It appears that duplications have been accounted for in the report.

Mr. MILLS (after examining document). Now, do you know what this means, what this "Affiliated borrowings" means?

Mr. SAPERSTEIN. I assume that it means loans made to corporations or partnerships or other legal entities in which the directors had an interest or were officers or directors.

Mr. MILLS. That would include General Motors or any corporation like that.

Mr. SAPERSTEIN. Well, you can look at the list and see whether it includes any corporation like that. I think they are all listed there, aren't they?

Mr. MILLS. Now, I notice on this note—I am not trying to be captious about it, but I do not want the wrong impression to go out—Mr. Douglas states that "Enclosed is a recapitulation of directors-officers loans covering the entire institution." I presume that is Detroit Bankers Co.

Mr. SAPERSTEIN. Yes.

Mr. MILLS. So I know nothing about the Detroit Bankers Co. end of it. I can tell in a general way the First National part.

Mr. SAPERSTEIN. But those are loans made by the First National to directors of all the units of the Detroit Bankers, are they not?

Mr. MILLS. It does not say that—

> Enclosed is revised recapitulation of directors' and officers' loans covering entire institution—

and it is on the stationery of the Bankers Co., and I presume it is all the units of the Bankers Co. I do not know, but that would certainly be my presumption.

Then he says this:

> It still contains a loan of $1,597,916.62, marked Detroit I. E., duplicated 12 times. This is the First National Co. loan, and it is a corporation matter, and in my opinion should not be included.

Mr. SAPERSTEIN. If you will look at that exhibit you will find that that loan is duplicated 12 times in the body but then deducted from the total.

Mr. MILLS. I see. I think the document speaks for itself is the most I can say for it. I don't know any more about it than that.

Mr. SAPERSTEIN. The chairman suggests that this committee's exhibit no. 160 ought to be spread in full upon the minutes of this hearing, and I will ask the shorthand reporter to see that that is done.

(Exhibit no. 160, received in evidence on p. 1206, will be found in the chairman's copy only, at the end of the day's proceedings.)

Mr. SAPERSTEIN. In Committee's Exhibit 159 of this date, which purports to be a photostatic copy of the minutes of the governing committee of the board of directors of the First Wayne National Bank held on April 29, 1932, there is contained a report of the com-

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mittee on directors' loans. You have seen that, haven't you, Mr. Mills?

Mr. MILLS. Is that the one you introduced this morning?

Mr. SAPERSTEIN. That is the one I introduced this morning.

Mr. MILLS. Yes.

Mr. SAPERSTEIN. Now, I want to read a portion of that report [reading]:

The committee previously appointed to consider directors' loans made the following report thereon, which report, after being read, was unanimously adopted.

The report follows:

Your committee appointed to consider and report upon directors' liabilities to the Bank have met. We had before us a list of all direct and indirect liabilities of each director to the Bank, including liabilities by way of mortgages, whether the director still holds the property subject to the mortgage or not. We did not include mortgages on properties owned by directors where there is no legal liability in connection therewith. We are having this list prepared, however, and will report on it at a subsequent date.

In connection with the examination we not only considered the collateral but also the history of the borrowing and the tendency of the same, whether upward or downward, balances of directors, interest rate, and the like.

We make the following general recommendations and thereafter make reference to directors' liabilities where the same are not fully satisfactory.

General Future Policy:

One. All applications for loans by directors shall be made to the chairman of the Board or to such other executive officer as he may designate, or in the absence of the chairman, to the next ranking officer under the by-laws.

I want to suspend the reading for a moment and ask you whether that recommendation was adopted, Mr. Mills.

Mr. MILLS. I think the whole resolution was adopted. I designated Mr. Sweeny as the loaning officer under that. The whole thing was adopted.

Mr. SAPERSTEIN. Was the recommendation followed thereafter?

Mr. MILLS. Oh, yes; it was followed.

Mr. SAPERSTEIN (continuing reading):

Second. The chairman of the Board will assume responsibility with reference to directors' loans and attempt to put them in proper condition where they are not now in proper condition, and will make to the Governing Committee a report semiannually as to the condition of each loan.

Were such reports made by you?

Mr. MILLS. One was in process of preparation when the Michigan holiday intervened. It was in the process of preparation.

Mr. SAPERSTEIN. This meeting was held in April and the recommendation provides for semiannual reports.

Mr. MILLS. Yes.

Mr. SAPERSTEIN. Was no report prepared or rendered in October?

Mr. MILLS. It was not. One was prepared as of the 1st day of November, the end of October, and it was in preparation when the holiday intervened. It took time to get all these records out, and that report was including these mortgages where there was no agreement to pay the mortgage.

Mr. SAPERSTEIN. Have you any draft of such a report?

Mr. MILLS. No; it is in the bank. The receiver has whatever is there. I haven't it.

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Mr. SAPERSTEIN (continuing reading):

Three. No loans, either directly or indirectly, are to be made to directors or upon their endorsement or guarantee except where the loan is secured by ample collateral satisfactory to the officer making the loan, or unless backed by a satisfactory current statement of the borrower's financial condition.

Was that recommendation followed?

Mr. MILLS. Yes.

Mr. SAPERSTEIN (continuing reading):

Four. All existing liabilities of directors are to be either covered by collateral and/or supported by a financial statement.

Was that recommendation followed?

Mr. MILLS. Yes; that was followed.

Mr. SAPERSTEIN. Did you get financial statements from all those directors whose loans were not amply secured by collateral?

Mr. MILLS. I got them—I asked all those whom we did not have financial statements from. Understand, on some of them we already had them.

Mr. SAPERSTEIN. Yes.

Mr. MILLS. For financial statements where we did not have them or where the loan was not properly collateraled.

Mr. SAPERSTEIN. Was that request of yours acceded to by the directors?

Mr. MILLS. In most cases; yes. I think probably in all cases. I am not sure, but in most cases. We had some resignations after this report was filed.

Mr. SAPERSTEIN. Did you have any resignations when a request was made for a financial statement?

Mr. MILLS. No.

Mr. SAPERSTEIN. And those financial statements should now be on file in the bank in the possession of the receiver?

Mr. MILLS. They should be there, sure. The receiver ought to have them.

Mr. SAPERSTEIN (continuing reading):

Five. It is the policy of the bank that all directors' loans shall be subject to steady liquidation and not allowed to run for any longer period than is considered reasonable for other commercial or personal loans of persons not directors.

Was that policy put into effect?

Mr. MILLS. We tried to follow that policy.

Mr. SAPERSTEIN. Were you successful to any degree?

Mr. MILLS. Yes; to some degree. Some directors, like some individuals, could not make any immediate payments, but many did make payments. They were treated after that time—this will sum it all up—after that time we treated directors a darned sight stiffer and stronger than we treated outsiders. That is what actually happened.

Mr. SAPERSTEIN. I called your attention this morning, Mr. Mills, to the fact that the summary of the directors' loans outstanding as of the date when the Governor's proclamation went into effect, according to the receiver's records, was $20,568,544.39. According to committee's exhibit no. 160, which is the report purporting to have been rendered to you by Mr. Douglas in January 1932, the previous year, the amount of direct loans to directors is $20,742,022.70. Apparently the amount of the decrease in these direct loans was some-

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thing less than $200,000 during the period of a year. Is that in accord with your recollection?

Mr. MILLS. I don't know. I was not a director of the First National Bank in 1931 at all. I don't know anything about their loans in 1931.

Mr. SAPERSTEIN. Well, I haven't said anything about 1931.

Mr. MILLS. Yes; that Douglas report covers all the units. That is 1931, isn't it?

Mr. SAPERSTEIN. I have called your attention to the exhibit which was prepared for us by the receiver as of February 11, 1933.

Mr. MILLS. Oh, yes. And you are comparing that with this——

Mr. SAPERSTEIN. I am comparing that with the one made in January 1932.

Mr. MILLS. Now, there may have been some new good directors' loans made in the meantime.

Mr. SAPERSTEIN. But you cannot say what the amount of the liquidation was?

Mr. MILLS. No; I could not say. I haven't those records. The records will show. The receiver has them all.

Mr. SAPERSTEIN. Then, do you say now that during the year 1932 after the total volume of direct loans to directors amounted to over $20,000,000 and loans to affiliates amounted to over $21,000,000, you continued to make new loans to directors?

Mr. MILLS. If they thought they merited it. The name of, for instance, one contractor, who was an individual, to be used for his business to employ labor. We loaned him money and it was paid. We were conducting a banking business. Why shouldn't we?

Mr. SAPERSTEIN. Was that contractor a director of one of the units of the Detroit Bankers Co.?

Mr. MILLS. Yes. He was with the First National Bank. He paid it. I think it was made to Mr. Allbury.

Mr. SAPERSTEIN. Mr. Allbury?

Mr. MILLS. Mr. Mercier. The loan was paid. It was a perfectly proper loan made and paid. We were doing a banking business. A director is not disqualified from borrowing from a bank on a proper statement or on the proper collateral. At least he should not be.

Mr. SAPERSTEIN. Do you remember what the amount of that loan was?

Mr. MILLS. No; I do not.

Mr. SAPERSTEIN. Do you know when it was made?

Mr. MILLS. No.

Mr. SAPERSTEIN. Are you sure it was made in 1932?

Mr. MILLS. Pretty sure. I cannot swear to it. I will do everything except swear to that.

Mr. SAPERSTEIN. You mention that as an illustration of the type of loan made.

Mr. MILLS. Yes; we were doing that type of business, and a director was entitled to a loan either on a collateral for proper purposes or on a statement he made which was sufficient as long as it fell within that resolution that was made.

Mr. SAPERSTEIN. I will resume reading the report:

6. It is expected that the average balances of directors shall be commensurate with any outstanding loans.

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Was that policy put into operation?

Mr. MILLS. I instructed the loaning officers to do it. I don't know as I ever checked it up, but I am satisfied that loaning officers did what they were instructed to do.

Mr. SAPERSTEIN. What did you consider a commensurate amount of the average balance as compared with the loan?

Mr. MILLS. It depends on a lot of circumstances. There is no hard-and-fast rule. If an account is dormant, or practically dormant, no expense of handling the account, with a substantial balance, it does not need as much of a balance in such an account like that as a very active balance of a smaller amount which costs the bank money to handle. All those things enter into the picture. It may be 10 percent; it may be as high as 25 percent of the amount of the loan. It varies with circumstances and conditions.

Mr. SAPERSTEIN. Did you say that the name of the contractor whom you mentioned a moment ago was John A. Mercier?

Mr. MILLS. Yes; Mercier, I think.

Mr. SAPERSTEIN. The report made to us by the receiver as of February 11, 1933, shows under John A. Mercier unsecured loans, $4,000; collateral loans, $247,356.27; indirect loans, $28,505.80; mortgages, $112,617.50; total liability, $392,479.57, as against which collateral held was 500 shares of J. A. Mercier Co. stock at $250, with an estimated value of $125,000. Against Mr. Mercier there was also a stock assessment of $76,397.22.

Is that the type of loan you made in 1932?

Mr. MILLS. I would like to see the credit statement of Mr. Mercier. Have you that here?

Mr. SAPERSTEIN. You have mentioned this as an illustration of the type of loan that you made?

Mr. MILLS. Yes; based on credit statement.

Mr. SAPERSTEIN. You said nothing about credit statements.

Mr. MILLS. I did say something about credit statements. I beg your pardon; I did.

Mr. SAPERSTEIN. Well, let me ask you about collateral, then. Were these loans made without adequate collateral?

Mr. MILLS. Commercial loans based on credit statements do not have collateral.

Mr. SAPERSTEIN. They do not have collateral?

Mr. MILLS. Not commercial loans based on proper credit statements do not. By commercial loans I mean not on the commercial side but regular commercial loans for a business. They may be collateraled, but not always collateral, at all.

Mr. SAPERSTEIN. Do you know when this loan was paid, Mr. Mills?

Mr. MILLS. Well, it appears on February 11, it is a commercial loan, from what you read, and it was only $4,000. I would like to know what happened to it afterward. I am sure it was paid.

Mr. SAPERSTEIN. You made the assertion before that this loan has been paid.

Mr. MILLS. I said the loan that had been paid——

Mr. SAPERSTEIN (interposing). You said as of February 11, 1933.

Mr. MILLS. Well, I don't know whether that is relating to that loan or another loan. Might I ask the question, whether this large amount that you have given of the indebtedness of directors includes assessments?

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Mr. SAPERSTEIN. Oh, no.

Mr. MILLS. I am glad to have that cleared up. I didn't know whether it did or not, because you read assessments in that case.

Mr. SAPERSTEIN. Certainly, the report prepared in January 1932 could not possibly include assessments.

Mr. MILLS. Oh, no.

Mr. SAPERSTEIN. I will resume the reading of this report:

Seven. It shall be the duty of the chairman of the board promptly to call to the attention of the governing committee any loans of a director which become, for any reason, in an unsatisfactory condition, and it shall be the duty of the governing committee to take whatever action with reference thereto it shall deem wise.

Was that recommendation followed by you as chairman of the board?

Mr. MILLS. It was. I reported on a few loans after that time to the governing committee.

Mr. SAPERSTEIN (resuming reading):

We offer the following comments as to the following individual directors' loans, it being understood that the loans of all directors who are liable to the bank and whose names are not mentioned are, in the opinion of the committee in a satisfactory condition:

Frederick M. Alger:

This director is liable for over $55,000 of indirect liabilities. One of the liabilities is that of the Polonia Publishing Company for approximately $30,000. The officers of the bank feel that there is no probability of any payment from the maker of this obligation, and the officers likewise have some question as to the ability to pay of John F. Reynolds, the principal on another obligation of $24,000. No statement of John F. Reynolds is in the possession of the bank. The committee therefore recommends that the officers of the bank be instructed to look to the endorser and to arrange a liquidation schedule for the indirect liability.

What, if anything, was done in response to that recommendation?

Mr. MILLS. Mr. Sweeny took it up with Colonel Alger, and some arrangement was made. The colonel is now dead. I don't know what arrangement was made, but if it was not satisfactory I would have been advised of it.

Mr. SAPERSTEIN. According to the receiver's record there were outstanding total liabilities against Colonel Alger on February 11, 1933, when the bank closed, of $57,880.08, which is some $2,000 in excess of the amount outstanding at the time this report was prepared.

Mr. MILLS. May I see the report, please?

(The document was handed to Mr. Mills.)

Senator COUZENS. Was there any assessment in that amount?

Mr. SAPERSTEIN. No; the assessment is set up separately as $111,337.83.

Mr. MILLS. How much is the amount given there?

Mr. SAPERSTEIN. $57,880.08.

Mr. MILLS. All right; I call your attention to this in this matter of Colonel Alger: "This director is liable for over $55,000." One is for 30 and the other is for 24. Apparently it is 55.

Mr. SAPERSTEIN. This shows indirect loans $37,880.08 and collateral loans $20,000, or a total of $57,880.08.

Mr. MILLS. Well, the indirect then you see has been reduced. This report did not cover, as it states on its face, any items that were

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considered to be proper. It says these are the only things where there is any question about it. It says that on the face of it.

Mr. SAPERSTEIN. It does not say that, Mr. Mills; it says on the face of it that it does not cover directors' loans that are satisfactory.

Mr. MILLS. I will read it.

Mr. SAPERSTEIN. Just before that name.

Mr. MILLS. Directors' loans that were satisfactory. Colonel Alger was a director.

Mr. SAPERSTEIN. Yes.

Mr. MILLS. Colonel Alger at the time of this report had indirect liabilities of $55,000. Did you say in that report there were, how much?

Mr. SAPERSTEIN. There were indirect loans of $37,880.08 and collateral loans of $20,000.

Mr. MILLS. Just a moment. I beg your pardon. They had been reduced from $55,000, the indirect, to some thirty-odd that you read. The collateral loan was apparently in perfect condition, or in satisfactory condition.

Mr. SAPERSTEIN. So you think at the time this comment was made that collateral loan was existent and outstanding but was not mentioned in this report?

Mr. MILLS. For the reason stated, that it was apparently satisfactory. That is my thought of it; yes. So there was a reduction.

Mr. SAPERSTEIN. I will resume the reading of the report:

GEORGE H. BARBOUR.

This loan has been in the bank for a long time, but the liquidation thereon has in recent times been commensurate with the ability of the borrower to pay. Liquidation should continue, and the officers of the bank should be instructed to procure additional collateral.

May I ask whether that recommendation was followed?

Mr. MILLS. I can shorten this by saying that the officers were instructed to carry out every one of those recommendations.

Mr. SAPERSTEIN. Well, as I understand it, the whole matter was placed under your direct control.

Mr. MILLS. Or such officer as I might designate, and I designated Mr. Sweeny.

Mr. SAPERSTEIN. It also says:

It shall be the duty of the board promptly to call to the attention of the governing committee any loans of a director which become, for any reason, in an unsatisfactory condition——

Mr. MILLS (interposing). Yes; and I stated that I did report a few.

Mr. SAPERSTEIN. Do you know whether the loan of Mr. Barbour was reduced between the time when this report was made and the time when the bank was closed?

Mr. MILLS. I don't know. I have no way of telling. I don't know.

Mr. SAPERSTEIN. At the time the bank was closed his total outstanding liability was $103,750, as against which collateral was held having a value of $96,096.

Mr. MILLS. Who made the value?

Mr. SAPERSTEIN. Several of these stocks or securities held as collateral seem to be listed stocks.

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Mr. MILLS. All right; who made the value of the lease? In other words, I am trying to find out what basis this was done on. I recall there was a lease in there.

Mr. SAPERSTEIN. There does not seem to have been any lease at the time the bank was closed.

Mr. MILLS. Well, I am sure there was a lease, cigar store, and Cadillac store.

Mr. SAPERSTEIN (resuming reading).

JOHN R. BODDE:

This director is liable as an endorser upon three obligations. Deducting the present value of the collateral, it would appear that this director is liable for approximately $36,000, as the makers of the obligations have but little worth. It is recommended that this director furnish collateral and/or personal statement and that a schedule for liquidation be arranged.

Do you know whether any collateral was procured from Mr. Bodde?

Mr. MILLS. He was unable to furnish any collateral. He furnished a statement.

Mr. SAPERSTEIN. At the time the bank was closed, according to the receivers records, the total liability of Mr. Bodd was as follows:

Unsecured loans, $5,933.72; indirect loans, $55,918.90, making a total liability of $61,852.62.

Mr. MILLS. A lot of those indirect were guarantees of officers of the bank, which was one of the things that made me think that there are a lot of duplications in here.

Mr. SAPERSTEIN (resuming reading):

JULIAN P. BOWEN.

This loan is considered somewhat unsatisfactory with reference to collateral, but the committee is satisfied that the directors and officers of the bank are doing everything possible to put the loan in proper shape. The borrower has agreed to deposit some additional stock which he expects to receive shortly.

Now, was that additional stock ever furnished?

Mr. MILLS. I don't recall.

Mr. SAPERSTEIN. Let me say that at the time of the closing of the bank Mr. Bowen's total liability was $370,000, as against which there was held as collateral securities owned by Julian P. Bowen in the sum of $183,120 and securities apparently furnished by Bowen Bros. in the sum of $111,021, which would make a total of about $294,000.

Mr. MILLS. Who made the value of the unlisted stock in that case?

Mr. SAPERSTEIN. Well, I assume that the receiver made it, based upon the best information available to him.

Mr. MILLS. I presume so.

Mr. SAPERSTEIN. That is the best that anyone can do in valuing unlisted stock.

Mr. MILLS. I would not quite agree with that statement.

Mr. SAPERSTEIN. There was also a stock assessment against Mr. Bowen amounting to $52,640.91.

Mr. MILLS. The gentleman is now deceased.

Mr. SAPERSTEIN (resuming reading):

LEO M. BUTZEL.

Most of the indirect liability of this director is secured, but a part of it is not. It is therefore recommended that he furnish collateral and/or personal statement and that a schedule for liquidation be arranged with him.

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Was that done with regard to Mr. Butzel?

Mr. MILLS. I don't recall; but his balances were at all times such in the bank that there was no question about any obligations.

Mr. SAPERSTEIN. At the time the bank closed Mr. Butzel was indebted to it in the sum of $27,776.23.

Mr. MILLS. How much was his deposit?

Mr. SAPERSTEIN. As against which there was no collateral.

Mr. MILLS. How much was his deposit?

Mr. SAPERSTEIN. How much was his deposit?

Mr. MILLS. He had a deposit of over $100,000 in the bank, my recollection is $150,000 at the closing of the bank. Now that is my recollection. I can verify that in a moment. [Mr. Mills consulted an associate.] His partner tells me that is correct.

That is the trouble with a lot of these things. They do not tell the real story. Many of these gentlemen had very substantial deposits in the bank. I am certain Colonel Alger had a substantial deposit.

Mr. SAPERSTEIN. There was also a stock assessment against Mr. Butzel in the sum of $63,829.31.

Mr. MILLS. Yes; and he is not contesting the assessment either.

Mr. SAPERSTEIN. The next director on the list is Henry T. Cole. [Resuming reading:]

The collateral of this director's loan is decidedly shy.

Mr. MILLS. It is decidedly shy.

Mr. SAPERSTEIN (continuing):

The committee is convinced, however, that the bank has all the available collateral which may be obtained; that the borrower is a good moral risk and that eventually the note will be paid. The officers of the bank have done everything possible to put this loan in proper shape.

Mr. MILLS. Mr. Cole voluntarily mortgaged his house. He had various properties owned by him and others jointly, and he did everything, changed his manner of living, and everything else, to pay the indebtedness.

Senator COUZENS. May I comment on your criticism of the receiver. You say it does not tell the whole story. Well, we are reading from the directors' report, and if these balances were much in excess of the loans, why did the directors criticize these loans in their report?

Mr. MILLS. We did not have the balances in mind at the time.

Senator COUZENS. Well, perhaps the receiver did not either.

Mr. MILLS. Obviously he did not.

Senator COUZENS. Let us be fair to both sides then.

Mr. MILLS. I agree with you, Senator.

The CHAIRMAN. The balances may be temporary.

Mr. MILLS. This balance of that gentleman that I mentioned I do not recall.

Senator COUZENS. I am not disputing it at all, but I did not want you to have the record stand that these criticisms were the receiver's criticisms. These are the directors' criticisms of their own colleagues.

Mr. MILLS. What I was criticizing, Senator, was not the directors' report, but when they state that the receiver says at the time of clos-

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ing Mr. X owed $50,000 with no collateral, then I think it is only fair to state something about the balance.

Senator COUZENS. I don't object to that, but you must remember that Mr. Saperstein is reading from a directors' report on their own colleagues.

Mr. MILLS. And a receiver's report.

Senator COUZENS. Yes.

Mr. SAPERSTEIN. Mr. Mills, I understood you to say a moment ago with regard to Mr. Butzel, and you said it very positively as I understood you, that Mr. Butzel's balance at the time that the bank was closed was over a hundred thousand dollars?

Mr. MILLS. That was my recollection. His partner is sitting in the back of the room, and he nodded his head to me. I have those balances some place. I can probably tell you exactly—try to.

Mr. SAPERSTEIN. Will you refer to any data that you have there which may assist you in determining what his balance actually was at the time of the closing?

Mr. MILLS. Memorandum prepared for me during the holiday by Mr. F. Howard Russ, who was in charge of balances, shows that Mr. Butzel on December 31, 1932, had a balance of $125,913, and on February 11 had $136,669.

Mr. SAPERSTEIN. How many accounts did he have?

Mr. MILLS. I don't know how many accounts he had. That is how much money he had in the bank. He may have had certificates of deposit or a dozen accounts.

Mr. SAPERSTEIN. That was prepared by whom?

Mr. MILLS. Mr. Russ, who was in charge of relations with customers.

And while we are at it, some of these other gentlemen—Mr. Alger, whose name you read, on February 11—and you understand we chose February 11, that being the last day of banking in Michigan for some time—had a balance in his account of $41,473.

Mr. SAPERSTEIN. Well, suppose you let me go on with the report, and then if you want to read those balances you may.

Mr. MILLS. I will read this—may I do these gentlemen the justice of reading any that you have already covered?

Mr. SAPERSTEIN. I was going to suggest that after I finish this list you go back and give us all those balances at one time.

Mr. MILLS. Well, whatever you or the chairman wishes.

The CHAIRMAN. I suppose you will pretty soon finish that, won't you?

Mr. SAPERSTEIN. Oh, yes.

The CHAIRMAN. We might as well go on and finish it now.

Mr. SAPERSTEIN. The next director is William M. Dillon. [Resuming reading:]

The loans of this director are decidedly undercollateraled, and it is recommended that collateral and a statement be secured from him and the matter aggressively pressed by the officers of the bank.

Was that done?

Mr. MILLS. Mr. Dillon subsequently resigned as a director, and the matter then handled by the regular channels of the loaning officers of the bank.

Mr. SAPERSTEIN. That was handled through the regular channels?

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Mr. MILLS. After he resigned; yes.

Mr. SAPERSTEIN. At the date of the closing Mr. Dillon's total liability was $33,250, as against which there was collateral evaluated by the receiver at $32,003. I don't suppose you have any quarrel with that evaluation?

Mr. MILLS. I don't know. I wouldn't be surprised.

Mr. SAPERSTEIN. Just by way of illustration: The first item on the collateral is "Tam O'Shanter Country Club membership, 200 shares Scotten Dillon Co., at 15½, $3,100." Do you think that that is an unfair valuation?

Mr. MILLS. Well, I don't know. Scotten Dillon is a prosperous concern. I would not be able to state whether it is a proper valuation or not. Some of them I happen to know about.

Mr. SAPERSTEIN. Some of the items of collateral?

Mr. MILLS. Not of his collateral, but some of the gentlemen in particular I knew something about the collateral.

Mr. SAPERSTEIN. All of his collateral is Scotten Dillon except the last item, which is Detroit Bankers Co.?

Mr. MILLS. Yes.

Mr. SAPERSTEIN. Which is listed at 12.

Mr. MILLS. Yes.

Mr. SAPERSTEIN. Next is Edwin J. Eckert:

This director's secured and unsecured obligations amount to considerably more than the value of the collateral. It is therefore recommended that additional collateral and/or a statement be secured. Attention is called to the fact that this director is liable upon several mortgages which have not been reduced as they should have been. It is recommended that these mortgages be watched, but as the value of the property seems to be considerably in excess of the present balances due on the mortgages, that payments from this director be applied upon his general indebtedness after payment of mortgage interest.

Do you know what the condition of that loan was?

Mr. WILSON. Mr. Eckert was a vice president, and later went into the loans covering officers and directors.

Mr. SAPERSTEIN. At the time of the closing of the bank his indebtedness was $87,452, as against which there was collateral of $13,625, and that collateral consisted principally of an item of 1,000 shares of Detroit Bankers Co., listed at $12 a share, a total of $12,000.

The next item on this list is Allen F. Edwards:

The collateral of this director's loan is decidedly shy. The committee is convinced, however, that the bank has all the available collateral which may be obtained; that the borrower is a good moral risk, and that eventually the loan will be paid. The officers of the Bank have done everything possible to put this loan in proper condition.

Now, at the time of the closing of the bank the total liabilities of Mr. Edwards, as estimated by the receiver, were $673,498.09, of which the sum of $11,498.09 had been charged off. The collateral was $270,493, which leaves a shortage of collateral of something like $400,000.

Mr. MILLS. It is no longer that way.

Mr. SAPERSTEIN. Had anything been accomplished during the year 1932 toward the liquidation of that loan?

Mr. MILLS. Well, the report said that everything had been done that could be done, as I recall it. Didn't you read it that way?

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Mr. SAPERSTEIN. Yes; that everything had been done prior to the rendition of this report. But was anything done subsequently?

Mr. MILLS. There did not seem anything that could be done subsequently. Mr. Edwards was—well, I don't know that anything was done subsequently.

Mr. SAPERSTEIN. It would seem that the amount which appeared to be outstanding against Mr. Edwards as of the date of this report, which was prepared by Mr. Douglas, is identical with the amount which was outstanding at the time when the bank was closed.

Mr. MILLS. He was not in any position at the time to reduce his indebtedness.

Mr. SAPERSTEIN. The next item is John H. Emmert:

The value of the collateral on this director's loan is close. It is recommended that additional collateral and/or a statement be secured.

Now, were either of these steps taken in regard to Mr. Emmert's loan?

Mr. MILLS. The matter was referred to Mr. Sweeny. If he had not followed it up, I would have heard of it.

Mr. SAPERSTEIN. The total liability outstanding against Mr. Emmert at the time of the closing of the bank was $3,000. There was no collateral, but there was a stock assessment of $1,947 against him.

Mr. MILLS. I can assure you that he was good for both of them.

Mr. SAPERSTEIN. Next is D. M. Ferry:

It is recommended that a schedule for liquidation be arranged with him on his indirect obligations.

Was such a schedule prepared?

Mr. MILLS. I know that he was seen. I know that. I was at the meeting at which he was seen, and he was talked to. And I think he brought in some kind of a schedule of what he could do. From there on I do not know about it.

Mr. SAPERSTEIN. At the time of the closing of the bank his total liability was $93,500, as against which collateral was held in the sum of $43,250; and there was a stock assessment levied against Mr. Ferry in the sum of $203,698.33.

Mr. MILLS. He had $42,000 in the bank at the time of the closing.

Mr. SAPERSTEIN. The next item is Fred J. Fisher:

A separate and supplemental report will be furnished at a later date on this director.

Was such report prepared and furnished?

Mr. MILLS. Such report was furnished.

Mr. SAPERSTEIN. Have you a copy of that report?

Mr. MILLS. That was not a prepared report. It was a verbal report.

Mr. SAPERSTEIN. Do you remember the substance of that report?

Mr. MILLS. Why, yes. But I might add that his obligations have all been taken care of since.

Mr. SAPERSTEIN. They were not taken care of up to the time of the closing of the bank.

Mr. MILLS. At the time of the closing they had not been taken care of in full, but they were taken care of in full within 2 months afterwards, I believe. I was so informed by Mr. Fred J. Fisher.

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Mr. SAPERSTEIN. At the time of the closing of the bank his outstanding liabilities were $3,973,000, as against which there was collateral of Prime Securities Corporation, which do not seem to have any value listed, and 1,250 shares of stock of the Detroit Bankers Co.

Mr. MILLS. The Prime Securities Corporation stock had tremendous value. Do you mean it was not evaluated on the sheet?

Mr. SAPERSTEIN. Yes; no valuation is shown on the sheet. It seems only to have a miscellaneous value.

Mr. MILLS. You see that has all been taken care of since the closing, to the best of my knowledge, or so Mr. Fisher informed me.

Mr. SAPERSTEIN. The next one is J. B. Ford, Jr.:

The indirect liability of this director upon the obligation of the Alpha Tau Chapter House Association, and upon the obligation of Wood Williams has been very steady. It is recommended that a definite program for liquidation of these two items be arranged.

Now, the amount of his outstanding liability was $286,499.01, as against which there was collateral aggregating $14,125.

Mr. MILLS. Did you say $14,000?

Mr. SAPERSTEIN. Yes.

Mr. MILLS. Have you the Michigan Alkali stock there?

Mr. SAPERSTEIN. I have 10,000 shares of Universal Cooler Corporation, class A stock, at $1 a share, $10,000, and notes of R. F. Wilson of $4,125. And that is all.

Mr. MILLS. Well, I think there is some error, because Mr. Ford stated to me on Monday of this week that all of his obligations to the bank had been paid; that the receiver got all the collateral there. And I believe he said, but I cannot swear to this, that he had a substantial amount of Michigan Alkali stock that the receiver was hanging on to, but that his obligations had been paid. The receiver is hanging onto them because of the assessment matter.

Mr. SAPERSTEIN. Did your bank at the time you were chairman of the board have any of this Michigan Alkali stock as collateral?

Mr. MILLS. I think we had quite a bit of Michigan Alkali stock. That is my recollection of it.

Mr. SAPERSTEIN. Next is Harry J. Fox:

The condition of this director's loan is entirely unsatisfactory. An attempt should be made to secure fees coming to him as one of the receivers of the Fidelity Trust Company. A further verbal report will be made on this item.

Was such a report made?

Mr. MILLS. It was.

Mr. SAPERSTEIN. Do you remember the substance of it?

Mr. MILLS. I do.

Mr. SAPERSTEIN. What was it?

Mr. MILLS. There was a verbal report that stated Mr. Fox has retired from business, and that he was a most inactive director; that being entirely inactive and not putting in any work like the most of these other directors were in the institution, that it might be better if there was a severance of his relation, and Mr. Fox entirely agreed. In fact, he might have made the suggestion himself, but I do not recall.

Mr. SAPERSTEIN. Now, Mr. Mills, do you know that there was a charge-off on that loan of about $191,000?

Mr. MILLS. I know that there was some amount of charge-off, but don't know what it was.

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Mr. SAPERSTEIN. Was that while he was still a director of the bank?

Mr. MILLS. I don't know.

Mr. SAPERSTEIN. At the time of the closing of the bank Mr. Fox's liability to the receiver was $107,029 as against which there was collateral of $44,487, and a stock assessment of $12,551.80 levied against him.

Next is John H. Hart:

The collateral and the mortgage loans of this director are both unsatisfactory as to value of the collateral and as to the value of the property covered by mortgages. Not only has amortization not been made on the mortgages, but interest on the mortgages is in default. We understand that the latter items will shortly be rectified. It is recommended that this item be referred back to the committee for consultation with the director in an endeavor to help him work out his situation.

Now, did the committee help to work out Mr. Hart's situation?

Mr. MILLS. Yes. The committee told me that he was in difficulties on account of some property he had sold and where the purchasers had not made payments, and that that was why he had delayed in making these payments. I believe that matter has been since adjusted, although I am not certain about it.

Mr. SAPERSTEIN. The total liabilities of Mr. Hart at the time of the closing of the bank were $178,825, as against which the collateral held was evaluated at $8.700.

Mr. MILLS. Well, now, were there not also mortgages included in that?

Mr. SAPERSTEIN. There is the Detroit Golf Club membership, class A, which does not seem to have been valued, but—yes; there is a mortgage.

Mr. MILLS. You have not mentioned any of these properties so far.

Mr. SAPERSTEIN. Well, so far there have not been any mortgages, except in one case, and the present one to which I am calling your attention.

Mr. MILLS. Well, here is one now. And there was another gentleman who had a mortgage, because I recall your reading that it was better to apply the principal payments on the indebtedness, instead of on the mortgages.

Mr. SAPERSTEIN. I stated that there was one other case where there was a mortgage held as collateral.

Mr. MILLS. Well, let us include them as you go along, if you have no objection.

Mr. SAPERSTEIN. What was the value of the collateral?

Mr. MILLS. I do not know what the value of the collateral was.

Mr. SAPERSTEIN. All that it says here is:

Mortgage (Recorded).
Land contract.

Do you know what these items refer to?

Mr. MILLS. The land contract is one that I mentioned to you. After he had sold his property on a land contract, he was having some trouble with the vendee in the matter of payments on it, and that was what was causing this delay in interest payments.

Mr. SAPERSTEIN. Next is W. H. Lally:

Balances far from commensurate with the loan, and the borrower should be required to increase such balances. The present schedule of liquidation is satisfactory, provided the same continues. This director, with four other direc-

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tors of this bank, is liable in the sum of $3,500 upon a guaranty of the Oxford Corporation. It is understood that this director and the four other directors will give an additional guaranty in the sum of $1,000 each, and that total payments of all these guaranties in the sum of $500 every 90 days, will be arranged.

What about that?

Mr. MILLS. Mr. Lally stepped up the balances, I was informed, and he put up the guaranty. I was one of these other directors.

Mr. SAPERSTEIN. You were one of the directors that guaranteed this Oxford Corporation?

Mr. MILLS. Yes, sir. We all put up guaranties. It was a voluntary act. Mr. Lally made his payments in accordance with the schedule.

Mr. SAPERSTEIN. What was the Oxford Corporation?

Mr. MILLS. It was a small investment company, a private investment company.

Mr. SAPERSTEIN. Was it formed for the purpose of investing in the stock of the Detroit Bankers Company?

Mr. MILLS. It was not. It was formed in 1925 or 1926, long before the Detroit Bankers Co. to my knowledge was even thought of.

Mr. SAPERSTEIN. What was the maximum amount of the loan made to the Oxford Corporation?

Mr. MILLS. Oh, you have me on that. I think it was about $25,000 or $26,000 or something of that sort. I do not recall.

Mr. SAPERSTEIN. Mr. Mills, the liability of Mr. Lally as set up by the receiver as of the date of the closing of the bank amounted to $89,300, as against which there was collateral valued at $21,840, and an assessment levied against him of $19,553. Now, do these figures represent any reduction from the date when this report was made, in April of 1932?

Mr. MILLS. They speak for themselves.

Mr. SAPERSTEIN. Well, the report I have just read to you does not contain the figures. Have you any recollection along that line?

Mr. MILLS. I haven't any recollection; no.

Mr. SAPERSTEIN. Next is S. R. Livingstone:

This obligation is considerably under-collateraled, and on account of lack of a statement it is impossible properly to value some of the collateral. Additional collateral and/or a statement or guaranty of the obligations should be secured. There has not been sufficient liquidation. That which is stated regarding Oxford Corporation guaranty above applies to this director.

Were any steps taken toward the liquidation of this loan?

Mr. MILLS. Yes. Mr. Livingstone put up the Oxford Corporation guaranty, and he made the payments suggested that he should make on the Oxford Corporation guaranty. You understand that that was a purely gratuitous act. While he did not reduce his own personal indebtedness, he did apply it toward substantial reductions of partnership indebtedness of his. So we felt that he had certainly done his part because he applied it on his partnership indebtedness. While his own indebtedness was not cut down, his partnership indebtedness was cut down.

Mr. SAPERSTEIN. At the time of the closing of the bank Mr. Livingstone's total liability was $340,422, as against which there was collateral held valued at $129,440, together with life insurance of $30,000.

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Next is T. W. P. Livingstone:

That which is stated as to the preceding director applies to this director, except that liquidation on account of this indebtedness has been substantial since January 1, 1931. The recommendations as to the obligations of the preceding director are likewise applicable as to this director, with the exception above noted. This director is also one of the guarantors of a portion of the Oxford Corporation liability, and what has previously been said in that connection applies here.

Mr. MILLS. Well, he signed the guaranty of the Oxford Corporation with us, and he made payments with us according to schedule. He was a director—and I am sorry his name came up, but he was the director I spoke of this morning, who generously accepted his brother's obligation when his brother went into bankruptcy.

Mr. SAPERSTEIN. Mr. Livingstone's account at the time of the closing of the bank was $140,426, and the collateral against that was $152,372, which collateral is in excess of the total liability outstanding.

Mr. MILLS. Oh, yes.

Mr. SAPERSTEIN. Next is William J. McAneeny:

This loan is somewhat under-collateraled, but the committee is convinced that the bank has all available collateral that may be obtained; that the borrower is a good moral risk, and that eventually the loan will be paid. The officers of the bank have done everything possible to put the loan in proper condition.

Mr. McAneeny's account at the time of the closing of the bank was $55,000, and he had up as collateral $53,975.

Mr. MILLS. Oh, yes.

Mr. SAPERSTEIN. Next is John A. Mercier:

It is recommended that this director furnish collateral and/or a recent personal statement, and that a schedule for liquidation be arranged with him. However, it is understood that a statement will, in the ordinary course, shortly be forthcoming, and there is no reason to ask for it unless it does not appear in due course.

This is the man mentioned before as the one to whom a loan was made in 1932, is he not?

Mr. MILLS. I think he is.

Mr. SAPERSTEIN. How about that report?

Mr. MILLS. It came in due course. It was a good statement, and a line of credit was authorized by the executive committee.

Mr. SAPERSTEIN. I have already read Mr. Mercier's outstanding liability as being $392,479.57.

Next is Wilson W. Mills:

Remarks with reference to Oxford Corporation apply to this director.

Mr. MILLS. I put up my guaranty on the Oxford Corporation matter and made payments on it. And I have asked the receiver to take it out of my account. At the time of the closing of the bank I had over $38,000 in the bank, and the total guaranty was less than $4,500. And while on the subject I will say that I guaranteed a note of $500 of my sister, and I asked the receiver to take that out of my account. So far as I know, I think I am surety on a mortgage, and that is all.

Mr. SAPERSTEIN. Your total liability here appears to consist of these indirect loans of $4,729.87, and mortgages of $5,600, or a total liability of $10,329.87.

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Mr. MILLS. While on these mortgages, I do not know anything about any $11,200. These mortgages were made years ago, and the properties were sold and the mortgages assumed by other persons.

Mr. SAPERSTEIN. There was also a stock assessment levied against you of $9,433.46.

Mr. MILLS. Yes; and upon which I have made substantial payments.

Mr. SAPERSTEIN. There is still a balance owing on that?

Mr. MILLS. Yes; there is a balance owing. I have not been able to pay all of it, but I am paying on it, and am not fighting the assessment either.

Mr. SAPERSTEIN. Next is Peter J. Monaghan:

The mortgage of this director has not been amortized and interest is past due. The collateral loan of this director does not have sufficient collateral, and it is recommended that additional collateral and/or a statement be secured and a program for liquidation arranged.

Now, was any further collateral secured from Mr. Monaghan?

Mr. MILLS. I do not know whether any further collateral was secured from him or not, but the indebtedness to the receiver has been paid.

Mr. SAPERSTEIN. According to the receiver's record of February 13——

Mr. MILLS (interposing). I am speaking of after that time.

Mr. SAPERSTEIN (continuing). The total liability of Mr. Peter J. Monaghan was $45,025, with collateral of $11,700.

Mr. MILLS. The indebtedness I am informed has subsequently been paid.

Mr. SAPERSTEIN. Has Mr. Monaghan informed you to that effect?

Mr. MILLS. No. Some bank officer who knew about it informed me.

Mr. SAPERSTEIN. Next is Lucien S. Moore, Jr.:

The collateral of this director is decidedly shy. The committee is convinced, however, that the Bank has all available collateral which may be obtained; that the borrowed is a good moral risk, and that eventually the loan will be paid. The officers of the Bank have done everything possible to put this loan in proper condition. The mortgage of this director has not been properly amortized, but it is recommended that all payments be applied upon this indebtedness rather than the mortgage, excepting only interest upon the mortgage.

Now, at the time of the closing of the bank the total liabilities outstanding against this director were $131,763.60, as against which there was collateral held of $7,697, together with a life-insurance policy in the sum of $15,000.

Mr. MILLS. Is that all?

Mr. SAPERSTEIN. That is all.

Mr. MILLS. What about the mortgage?

Mr. SAPERSTEIN. A mortgage does not appear.

Mr. MILLS. Well, there is a mortgage.

Mr. SAPERSTEIN. Next is M. J. Murphy:

The direct and indirect liability of this director is not sufficiently collateraled. It is recommended that this director furnish collateral, and/or personal statement, and that a schedule for liquidation be arranged with him.

Now, did he furnish any collateral subsequent to the rendition of this report?

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Mr. MILLS. I think he could not, is my recollection of it.

Mr. SAPERSTEIN. At the time of the closing of the bank——

Mr. MILLS (continuing). He had assumed some obligations of members of his family, and that put his loan in this position, in an attempt to help the position of the bank.

Mr. SAPERSTEIN. Did he furnish a statement?

Mr. MILLS. I do not recall.

Mr. SAPERSTEIN. The receiver's record shows total liabilities of $395,294.90, with collateral held against it of $129,350, of which the largest item was 7,800 shares of Detroit Bankers Co. stock, listed at $12 a share, totaling $93,600, and there wasn't much in that collateral, was there?

Mr. MILLS. Well, now, I am satisfied that that loan will be paid, Mr. Saperstein, without any question.

Mr. SAPERSTEIN. Well, have you any information as to whether or not any part of that loan has been paid?

Mr. MILLS. No. But I have every reason to believe that the loan will be paid.

Mr. SAPERSTEIN. Next is George Harrison Phelps:

The collateral of this director's loan is decidedly shy. The committee is convinced that the bank has all available collateral which may be obtained; that the borrower is a good moral risk, and that eventually the loan will be paid. The officers of the bank have done everything possible to put this loan in proper condition. It is understood a schedule of liquidation has been agreed upon.

Now, was there any liquidation of this loan?

Mr. MILLS. A schedule was agreed upon, and I believe he followed it. I know that it was agreed on.

Mr. SAPERSTEIN. Mr. Phelps' outstanding liability at the time of the closing of the bank was $80,418.17, and his collateral was $105,000. So, apparently, that loan was adequately collateraled.

Mr. MILLS. It was more than that. And I think it was reduced.

Mr. SAPERSTEIN. Next is U. Grant Race.

It is recommended that this director furnish collateral, and/or personal statement, and that a schedule for liquidation be arranged.

Was that done with regard to Mr. Race?

Mr. MILLS. He furnished a statement.

Mr. SAPERSTEIN. His outstanding liability at the time of the closing of the bank was $57,445, as against which there was collateral held of $14,400.

Next is W. C. Rands:

It is recommended that this director furnish collateral, and/or personal statement, and that a schedule for liquidation be arranged.

Was any further collateral procured from him?

Mr. MILLS. I do not recall.

Mr. SAPERSTEIN. Well, the receiver's record shows that his outstanding liability was $8,031.56, without any collateral.

Mr. MILLS. Well, he is good for it.

Mr. SAPERSTEIN. And there was an assessment against him also of $49,267.53.

Mr. MILLS. Well, he is good for that, too.

Mr. SAPERSTEIN. Next is Fred J. Robinson:

It is recommended that this director furnish collateral, and/or personal statement, and that a schedule for liquidation be arranged.

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Was any further collateral procured from him?

Mr. MILLS. I don't know. Mr. Robinson resigned about that time, and it went into the regular loaning group for handling. I don't know whether there was any additional collateral furnished or not.

Mr. SAPERSTEIN. His total liability at the time of the closing of the bank was $234,531.26, and the collateral held had an estimated value of $133,070, plus a first real-estate mortgage with a face value of $80,000.

Mr. MILLS. I thank you for that.

Mr. SAPERSTEIN. Well, I have been reading the mortgages, except in the case of the first one.

Mr. MILLS. Oh, I understand.

Mr. SAPERSTEIN. You are at perfect liberty to look through this at any time you want to do so.

Mr. MILLS. I understand.

Mr. SAPERSTEIN. Next is W. Dean Robinson:

It is recommended that this director furnish collateral, and/or personal statement, and that a schedule for liquidation be arranged.

Now, was any collateral procured from this man subsequent to the report?

Mr. MILLS. I do not believe that he was in a position to furnish any at that time, although I am not certain.

Mr. SAPERSTEIN. Well, his total liabilities at the time of the closing of the bank were $117,275, as against which there was held as collateral 442 shares of the Detroit Hume Pipe Co., with no market value, and 1,085 shares of Mellen Wright Lumber Co., with no market value.

Mr. MILLS. Those were both, or at least one of them is a rather profitable concern. It was worth money although not so listed.

Mr. SAPERSTEIN. Next is Walter S. Russell:

It is recommended that this director furnish collateral and/or personal statement, and that a schedule for liquidation be arranged.

Now, was any further collateral procured from him?

Mr. MILLS. The same kind of schedule was arranged for, and I was informed the other day that the loan had been paid in full.

Mr. SAPERSTEIN. At the time of the closing of the bank his outstanding liability was $221,315, and collateral held was evaluated at $119,812. Did Mr. Russell inform you that the loan had been paid in full?

Mr. MILLS. No. But Judge Murfin informed me of that, as I recall it.

Mr. SAPERSTEIN. Next is Mr. Wesson Seyburn.

The collateral supporting this director's loans is considerably less than the loans. This director also has a large amount of indirect liability, a large portion of which it appears to the committee will have to be liquidated by this guarantor. It is recommended that more collateral be secured from this director, and/or a financial statement; that financial statements be secured upon certain of the indirect liabilities in which companies this director is interested, and that a program of liquidation, both on his direct and indirect obligations, be arranged.

Were any of those things done?

Mr. MILLS. I think all of them were done. I saw Mr. Seyburn myself and told him I wanted a statement. I secured a statement

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from him. I also told him that he must start liquidating on this indirect and he almost immediately made some payments on the indirect loans. He either gave them or we were in process of getting them at the time of the holiday, I mean additional mortgage security.

Mr. SAPERSTEIN. You never did get any additional collateral from him from the time this report was rendered, did you?

Mr. MILLS. Well, I said we either got it or were in process of getting it.

Mr. SAPERSTEIN. His total liability at the time of the closing of the bank was $380,270.67, as against which the only collateral held was 6,004 shares of Detroit Bankers Co. stock, at $12 a share, or a total of $72,048.

Mr. MILLS. Well, I had up with him the matter of a mortgage on some property. And that matter was a rather involved transaction. It was not simply a straight mortgage. And that matter was under way at the time of the bank holiday. Mr. Seyburn told me that his direct loans had all been taken up since.

Mr. SAPERSTEIN. No effective steps had been taken between April of 1932 and February of 1933 with regard to this loan, had there?

Mr. MILLS. Why, certainly; we got a statement. I told you that. I think that is doing something.

Mr. SAPERSTEIN. But no collateral for the loan?

Mr. MILLS. You said "effective steps." He made liquidation of some of the loan. He liquidated some of the indirect loan.

Mr. SAPERSTEIN. Was his statement satisfactory?

Mr. MILLS. The statement was, as I recall it, not a bad statement. It was not a quick statement at all. There was nothing quick about it. It was a slow real-estate statement.

Mr. SAPERSTEIN. Next is Donald N. Sweeny.

Certain mortgages of this director have not been properly amortized. It is recommended that liquidation of these mortgages be immediately commenced in accordance with our mortgage requirements.

Was that done in regard to Mr. Sweeny?

Mr. MILLS. Yes. I told him about it, and I am informed that the mortgages have been reduced at least since the holiday by a very substantial sum. You see in the old days on these mortgages, Mr. Haass' policy was that any mortgage which had a certain amount of amortization, it was better not to amortize it any further, because money at that time was free in Detroit, and he considered that a demand mortgage note, and this was after 3 years had passed, was better than a new mortgage. And very frequently, until the clearing house put in a rule, they did not insist upon amortization.

Mr. SAPERSTEIN. Between the date when the report was prepared by Mr. Douglas, and February 11, 1933, the total amortization seems to be as follows: Mr. Sweeny's mortgage loans in January of 1932 were $65,467.50, and in February of 1933 they were $60,629.32.

Mr. MILLS. Well, you see, here is what is wrong with some of these records: You stop in these liabilities with his mortgage, and as to a lot of them the receiver has no way of checking, except to go to the office of the register of deeds to see about them. A lot of those records have been gotten up by the receiver putting down a person's name as the liability, and he is the person to whom he sends notice. And yet in many cases he is not liable for them, because that person has not assumed to pay the mortgage.

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Mr. SAPERSTEIN. The first figure I read to you was the figure I got from the record made by Mr. Douglas.

Mr. MILLS. Well, Mr. Douglas is just as human as the receiver about these mortgages. He may not have known about that, either.

Mr. SAPERSTEIN. Next is Herbert B. Trix.

The mortgage of this director has not been properly amortized. It is recommended that liquidation of this mortgage be immediately commenced in accordance with our mortgage requirements.

Was that done?

Mr. MILLS. It was taken up with him. I do not know what happened. I cannot recall. Mr. Chittenden took it up with him.

Mr. SAPERSTEIN. His total liabilities at the time of the closing of the bank were $30,194.27, with collateral of $24,340.

Next is Orla B. Taylor.

This director, with several others, is liable as guarantor of Sigma Chi Building Company in a total amount of $3,500. It is not considered necessary to obtain a financial statement or other collateral, although it is suggested that the Building Company arrange to take steps to liquidate its obligation.

Next is W. M. Walker:

The mortgage of this director has not been properly amortized. Arrangements should be made to place it on a proper basis, provided this can be done without jeopardy to the other obligations of this director, which also are under-collateraled. Although the officers have been close to this situation and are doing all that can be done to secure additional collateral, statement and liquidation, the situation is unsatisfactory.

Were any effective steps taken subsequent to this report in regard to Mr. Walker's loan?

Mr. MILLS. That matter was referred to Mr. Chittenden, and I do not recall what the result was.

Mr. SAPERSTEIN. At the time of the closing of the bank his total liabilities were $146,349.75, as against which the collateral held was $2,400.

The next one is Oscar Webber:

This director is liable jointly and severally with other individuals, three of whom are presumed to be good, for a substantial obligation of the Tam-O-Shanter Country Club. As there appears to be no probability of the Club's being able to liquidate the indebtedness directly, it is recommended that steps be taken to arrange liquidation of this particular item by the guarantors. The balance of the obligations are in proper condition.

What steps, if any, were taken with regard to this loan?

Mr. MILLS. Well, I had a talk with Mr. Webber about it. Mr. Webber was on the committee that prepared this report, as was I, and we discussed it right at the time. Mr. Webber agreed to liquidate. He had liquidated on other loans, and the last time I saw him he told me everything had been paid in full, all liabilities to the bank.

Mr. SAPERSTEIN. At the time of the closing of the bank his outstanding liabilities were $578,400, as against which collateral was held, consisting of 30,000 shares of J. L. Hudson Co. stock, at $15 a share, or an estimated value of $450,000. Do you say that the entire amount has been paid in full?

Mr. MILLS. He told me that all liabilities to the bank had been paid in full.

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Mr. SAPERSTEIN. The next one is Mark A. Wilson:

It is recommended that this director furnish collateral and/or personal statement, and that a schedule for liquidation be arranged.

Was anything done with regard to Mr. Wilson's loan?

Mr. MILLS. Yes; Mr. Wilson paid his loan.

Mr. SAPERSTEIN. Mr. Wilson's outstanding liabilities at the time of the closing of the bank were $7,275. You say that loan has since been paid?

Mr. MILLS. I think it was paid before the closing. Mr. Wilson can tell you about that.

Mr. SAPERSTEIN. Of which $900 was in the form of unsecured loan, and $6,375 was in the form of a mortgage loan.

Mr. MILLS. Well, the mortgage I did not include.

Mr. SAPERSTEIN. The last director on the list is DuBois Young.

The collateral of this director is decidedly shy. The committee is convinced, however, that the Bank has all available collateral which may be obtained; that the borrower is a good moral risk, and that eventually the loan will be paid. The officers of the bank have done everything possible to put this loan in proper condition.

Was that loan liquidated to any degree subsequent to this report?

Mr. MILLS. I do not recall.

Mr. SAPERSTEIN. At the time of the closing of the bank Mr. Young's total oustanding liability was $427,500, as against which the securities held as collateral aggregated $232,627.

Mr. MILLS. Well, now, Mr. Chairman, may I read, on account of these total indebtednesses of directors of the bank, the comparative balances as of December 31 and February 11, because I think it is due to those directors?

The CHAIRMAN. Yes.

Mr. MILLS. On December 31, 1932, there was standing in the names of five directors of the bank $1,468,149, and the balances as of February 11 were $1,562,979. Practically all of them show increases. Now, I do not wish to embarrass them by reading them, and yet I have no objection to doing it.

Senator COUZENS. I was wondering, in that connection, whether or not you had any knowledge of any of the directors, or directors' companies, withdrawing any what was called "smart" money from December 31, 1932, until the closing of the bank.

Mr. MILLS. I have no such knowledge, and I do not believe that it occurred.

Senator COUZENS. You know there was a drop-off in deposits from December 31, 1932, to February 11, 1933, of a very large sum of money?

Mr. MILLS. Yes, sir; a very substantial amount.

Senator COUZENS. Have you got those?

Mr. MILLS. I think I better read this, then.

Senator COUZENS. Well, I do not think it necessary for you to read any except those that have been criticized.

Mr. MILLS. Colonel Albrecht had a balance at the close of $41,473.

John R. Bodde had a balance of $196.

J. P. Bowen had a balance of $391.

Leo M. Butzel had a balance of $136,669.

D. M. Ferry, Jr., had a balance of $42,732.

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These all show pretty substantial increases from December to February. And I will be glad to read them both if you would like to have them.

The CHAIRMAN. All right.

Mr. MILLS. Fred J. Fisher had a balance of $96,711.

J. B. Ford, Jr., had a balance of $69,837.

Mr. T. W. P. Livingstone had a balance of $2,454.

Mr. McAneeny had a balance of $1,401.

Mr. Wesson Seyburn increased his balance from $91,537 to $170,978.

Mr. SAPERSTEIN. Might I suggest, Senator Couzens, that so long as Mr. Mills is reading those directors who increased their balances he also give us those who decreased their balances?

Mr. MILLS. I will read them all if you desire.

Mr. SAPERSTEIN. You have been reading those who have increased their balances.

Mr. MILLS. Colonel Alger's was reduced from $121,000 to $41,000. Mr. Bodde's was reduced from $1,500 to $196. Mr. Bowen's was reduced from $1,708 to $391. Mr. Butzel's was increased from $126,000 to $136,000. Mr. Ferry's was increased from $21,000 to $42,000. Mr. Fisher's was increased from $85,000 to $96,000. Mr. Ford's was decreased from $78,000 to $69,000. Mr. Livingston's was decreased from $2,900 to $2,400. Mine was increased from $30,000 to $38,000. Mr. Seyburn's was increased from $91,000 to $170,000.

Now, there is one I should like to read which was not mentioned in your list, and with your permission I will read it.

The CHAIRMAN. Very well. You may proceed.

Mr. MILLS. E. D. Stair increased his from $64,000 to almost $103,000; in fact, it was $102,988. Mr. Sweeny increased his from $4,600 to $5,100. Mr. Taylor increased his from $1,800 to $14,400.

Mr. SAPERSTEIN. Mr. Mills, have you now finished your list?

Mr. MILLS. Yes.

The CHAIRMAN. I do not quite understand why a man should owe the bank, say, $25,000, and have a balance in the bank to his credit of, say, $50,000.

Mr. MILLS. Well, that frequently happens in our experience. For instance, we were speaking about Mr. Seyburn a while ago owing something like $500,000, and here he had $170,000 in the bank at the time of the closing.

Senator COUZENS. I suppose that was due to the fact that he had an operating business and had to have a balance.

Mr. MILLS. I suppose that was the reason.

Mr. SAPERSTEIN. Mr. Mills, I show you what purports to be a photostatic copy of a letter addressed to you from Mr. Thomas, dated March 2, 1933, and ask whether you can identify that letter as having been received by you.

Mr. MILLS (looking at the paper). I received substantially that letter from Mr. Thomas. I presume this is a copy of it. But I do not recall it.

Mr. SAPERSTEIN. Senator Couzens, I wish to offer it in evidence.

Senator COUZENS (presiding). The same will be admitted to evidence.

(A letter dated Mar. 2, 1933, from Mr. Thomas to Mr. Mills, was marked "Committee Exhibit No. 161, Feb. 7, 1934", and will be found immediately following where read by Mr. Saperstein.)

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Mr. SAPERSTEIN. The letter which has been marked "Committee's Exhibit No. 161" of this date is dated March 2, 1933, addressed to Mr. William B. Mills, chairman of the board of directors, First National Bank, Detroit, Mich.

I assume that you are sometimes known as "William"; is that right?

Mr. MILLS. Never at all.

Mr. SAPERSTEIN. Well, it starts out by calling you "Dear Bill."

Mr. MILLS. That is myself.

Mr. SAPERSTEIN [reading]:

DEAR BILL: Can't help from writing you, knowing what you are going through, and remembering what I went through two years ago. The reason I am writing is because you were so willing to help me when I was having my troubles.

You, of course, do not hear what is being said on the outside, and whatever I say I trust you will keep absolutely confidential.

Unfortunately, you have such a large board that it is almost impossible to control them. Every time you have a meeting some of them leave and tell some friend confidentially what has transpired, and that starts the gossip. You know as well as I do that a number of your directors called up their friends before the holiday, intimating that they had better protect themselves. All you have to do is to look over your records and see who cashed in before February 11th. I can't help but feel that directors are the cause of a great many banks being in the condition they are in today. I say this because I know from experience, and most of them have no business sitting on a bank board as they do not know the first principle about banking.

You, no doubt, have one of the hardest propositions to face of any banker in the country, but you have got it in you to lick it. You were brought up in a section where men were men, and had to fight, so just let that old western spirit carry you on to success.

In these days, one has to forget friendships in business. The head of any institution must rule with an iron hand, and must have men around him that are fully qualified—whether they be friends or enemies. You know now, as well as I do, that you have been carrying a lot of excess baggage, both from an officer's standpoint and a director's. If your bank goes on, which I hope to God it does (and not under the Ford plan), take a broom and sweep your institution clean, retaining only those for officers and directors that you know can run a bank. Forget about the family ties on your board. The majority of them could not make a success in business; that being the case, how are they going to dictate the policy of the bank?

Some day, Bill, I am going to ask you who on your board insisted that suit be brought against me, after they were advised not to bring suit, knowing that some day I would pay everything I owed if suit were not brought. One of your directors made the remark that "if Luther Thomas could have a reception for his daughter, he could pay what he owes the bank." That is enough to prove to me some of the weak brains you have on your board. Some day I will tell you who paid for the small reception and the small amount it cost.

I hope you will take all I have said as from a friend to a friend, and treat it as for your own private information, and use it as you like. I am now under no obligation to anyone, and for that reason if I can do anything for you on the outside, do not fail to call upon me.

I am getting a great "kick" out of this new business I am in, and thank God I am out of the banking business.

Success to you, Bill, old boy, and again assuring you I am for you from the start to the finish, I am,

Yours very truly,

(Signed) LUTHER D. THOMAS.

Who is the Mr. Thomas who signed this letter?

Mr. MILLS. He was formerly president of the Fidelity Trust Co. of Detroit.

Mr. SAPERSTEIN. And he was indebted to your bank, apparently, judging from the——

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Mr. MILLS (interposing). Judging from the letter, at least. He had sued the bank, too, although he said that he was a friend of mine.

Mr. SAPERSTEIN. Did you know that his loan had been charged off by the bank?

Mr. MILLS. I don't recall it, but that would not stop suit being brought against him anyway. We had large recoveries on charge-offs.

Mr. SAPERSTEIN. Aside from this obligation which he owed to the First National, did he have any relations with it?

Mr. MILLS. You mean on the board or anything of that sort?

Mr. SAPERSTEIN. Yes.

Mr. MILLS. No, no.

Mr. SAPERSTEIN. Now I want to refer you particularly to this portion of Mr. Thomas' letter:

> Unfortunately, you have such a large board that it is almost impossible to control them. Every time you have a meeting some of them leave and tell some friend confidentially what has transpired, and that starts the gossip. You know as well as I do that a number of your directors called up their friends before the holiday, intimating that they had better protect themselves. All you have to do is to look over your records and see who cashed in before February 11.

Do you concur in that statement of Mr. Thomas?

Mr. MILLS. I certainly do not concur in that statement. I concur to this extent only: We had until January 1 or the meeting in January an enormous board. It was one of the problems that I inherited in this thing, this enormous board of over 70 men. It is too large a board. The governing committee at various of our meetings considered it, and finally that board was cut down. Evidently Mr. Thomas did not know it was cut down. In January it was cut down to, roughly, about 30. I don't recall the exact number. From then on the bank had a more reasonable number on their board.

I recall receiving that letter, and it came in during the holiday some time, as I recall it, and I telephoned Thomas and asked him who he had in mind about this "smart" money, and he said, "Oh, I won't tell you. I can't tell you. I won't tell you." And he stalled on telling me, and I gave instructions to Mr. Russ, who was in charge of all accounts, to check everything and see if he could find any "smart" money out of that bank, and we have not been able to find any that we can label as "smart money" at all, none at all.

Now I want to point this out: These directors' balances showed increases in almost every case; and some of them very substantial increases. A few decreases, but nothing more than normally could be expected. Practically all of their companies of which they were directors showed substantial increases during this period.

God knows, if I had known there was going to be a holiday, I would not have taken any money out, but I certainly would not have permitted corporations in which I was interested to increase their balances. The record is perfectly clear as to what happened on various corporations of which I was a director, which showed very substantial increases in balances, and that same type of thing goes all through the directors.

Thomas heard some talk and wrote the letter, apparently.

Senator COUZENS. That suggests me to ask, Mr. Mills, concerning a letter that you wrote to Mr. Leyburn in January 1933, which I think was either read or put into the record of the grand jury in Detroit.

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Mr. MILLS. I think you put it in. I believe you did.

Senator COUZENS. Yes. What did you have in mind when you wrote that letter?

Mr. MILLS. I had this in mind: Our bank did not have the liquidity that I wanted it to have. That bank should have had more liquidity. We would have had it if it had not been for these heavy withdrawals which I talked about in the last 18 months.

I heard of the Dawes loans, by which certain banks got loans, and that bank overnight became almost 100 percent liquid. I wanted to get everything, all the information that I could, for the benefit of the bank.

Senator COUZENS. Well, of course, the Dawes plan, I understand, was the organization of a new bank.

Mr. MILLS. I didn't know what it was when I wrote Mr. Leyburn. I wanted to get all the dope. I knew the result was that that bank had become almost, if not entirely, 100 percent liquid. I wanted to get all the dope I could.

Senator COUZENS. The old bank is still liquid?

Mr. MILLS. So I learned, but I didn't know at the time. I wanted to find out how it was done. I conceived it was my duty to get everything, all the dope I could. That is why I wrote Mr. Leyburn, and I asked him what was done in the Dawes situation and how it was done.

Senator COUZENS. Were you contemplating doing something along the same line?

Mr. MILLS. If it could be gotten. I didn't know what it was, you see, Senator, until I received the answer, but if I could have found a way to have made this bank more liquid, increased its liquidity by from 50 percent to 60 or 70 or 100 percent, unless it seemed to be a suicidal thing to me, I would have done it, because we did not have the liquidity we wanted. I never had a question of the soundness at all.

Senator COUZENS. You could have become more liquid, of course, by putting up some mortgage with the R.F.C., could you not?

Mr. MILLS. No; because we would have had a bill payable on the other side.

Senator COUZENS. Yes; but you would have been able to pay out your deposits instead of having these frozen assets. I mean the R.F.C. loan would not have been a frozen asset?

Mr. MILLS. Yes; but I do not believe it would have affected our liquidity, Senator.

Senator COUZENS. What did these banks borrow from the R.F.C. for if it was not to enable them to pay out their deposits?

Mr. MILLS. That was what it borrowed for, but we had, as I said this morning, at the time of the holiday 40 or 50 million dollars. Forty or fifty million dollars would not carry us through up to that time.

Mr. SAPERSTEIN. I want to ask him two questions. Mr. Mills, we have taken a great deal of testimony before this committee with regard to the events leading up to the Governor's proclamation. I assume that you have heard some of that testimony and have read the newspaper reports with regard to it.

Mr. MILLS. I have read the newspaper reports of it.

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Mr. SAPERSTEIN. I do not want to take up the committee's time by having a repetition of all that, but do you think that there is anything that you can add from your point of view to round out the record with regard to the events leading up to the proclamation?

Mr. MILLS. Well, I stated in my prepared statement that we did not wish the holiday, finally reluctantly voted for it in the clearing house, and I stated why we voted for it, on account of the Ford situation, on account of Mr. Leyburn's statement.

Mr. Leyburn opened the meeting to the Governor, and it was understood that it was not to be a permanent thing. He certainly said it was just going to be a holiday for a few days. I remember his words, I would like to say here—we were in a small room there—and he said "We are in a hell of a mess, and it is going to be necessary to have a holiday, in my judgment, here for a few days in order to get things straightened out." And I think, if his testimony was substantially as I read it in the press, I haven't any particular quarrel with it.

Mr. SAPERSTEIN. You said at the beginning of your testimony that you had some suggestions you would like to offer for legislation.

Mr. MILLS. I have.

Mr. SAPERSTEIN. Have you those in written or typewritten form?

Mr. MILLS. I have.

Mr. SAPERSTEIN. May we have a copy of those?

Mr. MILLS. I would like to discuss them with the committee if I may. I will try to make it as short as I can.

Senator COUZENS. Well, I think, Mr. Mills, it would be much better for the record, because the chairman has to go down to the White House at 4:30 and there is only myself left, so I think for the benefit of the whole committee you can either read them or put them in the record if you choose.

Mr. MILLS. I would prefer, then, Senator, if I may read them.

Senator COUZENS. Yes; you may.

Mr. SAPERSTEIN. Have you a copy of them, Mr. Mills?

Mr. MILLS. Yes (handing paper to Mr. Saperstein).

One: Legislation to prohibit any bank member of the Federal Reserve System to have its stock held by any corporation. They are probably constitutional and other objections to prohibiting existing corporation stockholders, but as to such future stockholders I believe there can be none. There is going on in Detroit now lawsuits involving between thirty and forty millions of dollars of bank assessments, all thirty or forty million being held by two corporations. Incidentally, these suits were brought not because the banks were insolvent, but because they had been closed by the Government. That is the theory of the plaintiff. There is in my mind no question of the utmost of good faith in the litigation—personally I am not a party to it, preferring to pay on account of my assessment—but the fact remains that corporate ownership of member banks is one cause of this litigation, which promises to be both expensive and long drawn out—all to the detriment of the depositor. Such suggested legislation, if adopted would of course do away with the creation of any future group banking systems, but it would not affect existing ones.

I do not believe I have anything more to say on that one. I think it speaks for itself. I think the present legislation has taken care of conditions that existed at the time these groups were formed.

Senator COUZENS. But it has not taken care of that particular problem?

Mr. MILLS. Not this problem. And there is again the individuals who formed corporations and attempted to have their corporation

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own bank stock and get away from any bank assessment. Yet I think the courts generally look through those things. But it at least stops that.

Senator COUZENS. Of course, double assessment is done away with now anyway for the future.

Mr. MILLS. Yes; for the future. I am glad you said that.

Two: A bank should by law compel its directors to bona fide liquidate any indebtedness to the directors' bank, at least every 18 months under penalty of forcing the bank to charge-off such unliquidated loan from its acceptable assets. Possibly the comptroller should be vested, upon good cause being shown, to extend this time a year, and the director should remain out of debt to his bank for at least a period of 120 days after the debt is first paid off. We of the local R.F.C. board in Michigan saw in probably 80 percent of bank applications for aid, directors' loans which had run for years with practically no liquidation thereon. In so far as I know, all these loans were good loans when made, but Directors, in common with all other persons, disliked to liquidate on a falling market and many officers who in large banks frequently handle these loans are often over-awed and not insistent enough upon director liquidation.

I do not believe a bank should be prohibited from loaning to its directors at all, as this would in the smaller communities work a great hardship where there is only one bank available in the community, but I do believe that a bank director should not stand in a favored class but must definitely be required to liquidate his obligation within the above period, or else have the bank charge the same off its assets. This provision probably should not apply to first mortgage savings loans made to directors, where the loan is not in excess of 50 percent of the real estate and improvements thereon—this for the reason that it is not customary to require payment of such mortgage loans from people in general within any such short period of time.

I think that is self-explanatory. We have found, and you found that through your records here, the case where a director's loan has gone for a long period of time, and I think if they had been compelled, the banks had been compelled, to charge them off, say, within 18 months after they were made or collect them, that there would have been collections made on many of them. I think it generally was better for the directors.

Senator COUZENS. Don't you think we ought to prohibit loans on unimproved real estate too?

Mr. MILLS. Well, I think that depends on the location of the real estate. For instance, Senator, there are some parking lots in Detroit upon which I would darned sight rather have mortgages than I would upon some of the improved real estate. I think you agree with me to that extent.

Senator COUZENS. Yes. Well, is there no way of discerning between——

Mr. MILLS (interposing). I would say income-producing real estate possibly, or that a mortgage might only be made upon real estate having substantial income production.

Senator COUZENS. Of course, these parking lots do not have substantial income production.

Mr. MILLS. Well, of course, that gets back again to the question of what "substantial" is.

Senator COUZENS. What I had in mind was this, platting of farm lands out in the suburbs and lending money on them, which I think ought to be prohibited, especially in a commercial bank, or even in a bank with deposits of any kind.

Mr. MILLS. There was not much of that at first. Practically all of it was on homes. I think that could be met by a provision upon income upon which there is not a substantial, in relation to the

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value of the property, income, if it is vacant property, unimproved property. Some of these parking lots are valuable property, and I think the owners, while they cannot get mortgages in Detroit now for love or money, but if things ever do change they should have the opportunity of securing mortgage loans from the bank on that type of property.

Senator COUZENS. What for; for the purpose of improving it or for any other purpose?

Mr. MILLS. For any purpose that they wish, because I think it should be presumed that they probably would not throw it away. I do not believe in too much governmental or bank—well, I will put it governmental inquiry as to the purposes of loans, so long as a loan is proper in the first instance and is properly kept hold of.

Mr. SAPERSTEIN. Mr. Mills, I note that the suggestion that you make in paragraph no. 2 relates exclusively to loans to directors.

Mr. MILLS. Yes.

Mr. SAPERSTEIN. Nothing is said about loans to officers or employees. Have you any suggestions with regard to them?

Mr. MILLS. I think the same thing should apply to officers who are not directors of banks. But the same tendency occurs to the same extent, because an officer who is not a director of a bank is so far down in the scale that he does not have much influence in influencing the bank officials in not requiring payments from him. I think it might be perfectly proper to include bank officers and employees, but I do not think it is as important as it is directors, for the reason I stated, because the director after all directs the institution, and an officer who is not a director is not very high in the heirarchy of the bank's organization.

Mr. SAPERSTEIN. Did you find instances in your bank, for example, where it was inadvisable or sometimes even impossible to dispense with the services of an officer or employee because of the heavy line of credit which he had at the bank and the large amount outstanding?

Mr. MILLS. No; we did not do that. The consideration of indebtedness to the bank was never taken into consideration whether we kept a man or not. If he was doing good work, he was kept, and the fact that he was not indebted to the bank or was indebted to the bank did not enter into it. Neither did it enter into his salary. That was the general policy that we tried to follow.

Senator COUZENS (presiding). You may proceed.

Mr. MILLS (continuing):

Three: It is axiomatic that a bank should be of service to its community. Nowadays how many banks are? When a bank shows 75 per cent or 80 per cent liquidity it is not being of proper service. While I fully recognize the difficulty, nevertheless it seems to me that safety has been made a fetish to the exclusion of service. A safe deposit box does no good to the community and neither does a bank which is in such condition. The very justification for its existence ceases. What is the remedy? I have three things to suggest:

(*a*) The R.F.C. might prohibit any part of the avails of loans made by it to railroads or other institutions to be used to liquidate indebtedness of such railroad or other institutions to a bank having a higher degree of liquidity than, say, 40 per cent.

(*b*) An enlarging of the rediscount privileges of the Federal Reserve banks.

(*c*) —and this is rather different—To encourage banks to again undertake their natural loaning functions in the community, it is submitted that the law might be amended so as to give to a bank making a loan, let us say, to a manufacturer, a prior lien on all quick assets of that manufacturer. I fully

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realize that this latter suggestion would tighten credit which the manufacturer might receive from other than banking sources, but it is withon the power of the manufacturer's suppliers to protect themselves by title-retaining contracts and the like and I believe this would result in liberalizing bank credit. A bank should fully and adequately serve the legitimate credit demands of its community or else go out of business.

Senator COUZENS. That is the Canadian system?

Mr. MILLS. Somewhat along the lines of the Canadian system. It is not identical, but somewhat along those lines.

Four: Bank receiverships today are by law shrouded in secrecy. What liquidation is being secured on loans, on mortgages, on bond portfolios, fees paid to attorneys and the like, are in general shrouded in secrecy, and this by law, although the funds that are being used are the funds of depositors. In Detroit today, for instance, there are the most extravagant rumors as to fees being paid counsel for the receivers, of low rentals of valuable main office and branch sites, sale of participation in notes where interest is guaranteed by the receiver, and a spirit which is well nigh that of suspicion is pointing its finger at these receiverships. Why cannot the transactions in a bank receivership be given the same degree of publicity as are the transactions in any Federal Court Receivership, where the files in the court are open for public inspection?

I believe, therefore, the statute might be amended so as to either give by law more publicity to the proceedings, the fees, the operations, etcertera, by periodically issuing a public statement, or else for the law to provide for the election by depositors of a depositors' committee, to whom the receivers shall periodically report as to expenses, general condition of liquidation, and the like. In other words, where the money which is being dealt with, to change the statute so as to throw more light on what is being done than the law now permits.

Senator COUZENS. Would you say, Mr. Mills, that there was anymore secrecy under the receivership than there was under the operation of the banks under their prior management?

Mr. MILLS. I do not think that is a fair test, Senator.

Senator COUZENS. Just why not? The depositors' money is still being dealt with, and I think the relations are identical.

Mr. MILLS. You take a manufacturing corporation: That manufacturing corporation consists of other peoples' money, stockholders' money that is in there. When that company goes into hands of receiver, any Federal court receivership, or any receivership, anybody that has any interest may examine the files and ascertain what is being done with those funds. I do not see why there should be a different rule for receiverships in banks than there is for receiverships in any other kind of a business. That is my position.

Senator COUZENS. I am perfectly willing to go that length, if the banks will do the same when they are operating. I am unable to visualize any difference between the handling of half a billion dollars of the depositors' money by private interests and handling 500 million dollars by governmental agencies.

Now, you know there has been printed in the press recently a statement from the receiver of the First National Bank and also a statement from the receiver of the Guardian National Bank of Commerce.

Mr. MILLS. I have seen the press reports.

Senator COUZENS. Yes; and I have the signed reports of the receivers of both these banks, and they indicate the cost of liquidation to be about 1½ percent; and in view of that and these published statements and the estimated value of the remaining assets it seems to me quite a good deal of information has been furnished to the public, and I am unable to visualize how there can be all of these rumors as to extravagance, when, in the case of the Guardian Na-

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tional Bank of Commerce, the cost of receivership has been 1.49 percent of moneys collected, and in the case of the First National 1.53 in the case of collections.

So I think there is hardly any foundation for all those rumors about the expense of receivership.

Mr. MILLS. Well, Senator, you have not been in Detroit in the last 2 or 3 months, but I can assure you——

Senator COUZENS. I am not talking about rumors; I am talking about facts.

Mr. MILLS. I am not exaggerating when I say that the cry has gone up they are dealing with other peoples' money and there should be publicity and that there is no way that anybody can find out what is being paid to anybody, what rentals they are securing for any of their properties that they are administering.

Senator COUZENS. I am not criticizing that, but I want to say that if the depositors in these closed banks are entitled to that information—and I am not saying they are not entitled to it—then they are entitled to the same information when their deposits are handled by private interests.

Mr. MILLS. I will agree with that.

Senator COUZENS. Then all right, we agree. We do not disagree at all, because I comprehend that if both of those banks, the Guardian National Bank of Commerce and the First National Bank, had been opened with the open door, as you are suggesting for receivers, this collapse would not have occurred.

Mr. MILLS. That I cannot agree with at all.

Senator COUZENS. Well, I don't expect, but that is my opinion.

Mr. MILLS. I cannot agree at all. I cannot see where the lack of an open door—in fact, I didn't know the door was closed—but I cannot see where if it were that would have made any difference.

Five. It developed at Detroit last summer that it had been the secret practice of the preceding Comptroller of the Currency to have examiners make two reports upon the same examination. One of these reports, called the "white sheets", was given to the bank and to the directors; the other, called the "yellow sheets", went to the Comptroller. Frequently the two sheets were very different, and the contents of the "yellow sheets" were never revealed to the bank. Banks must frequently have been lulled into what later became a false sense of security as to the actual position of the Comptroller's Office. Again, which report is to be believed?

Also, by making a secret report to the Comptroller, the bank's officers and directors are not afforded the opportunity of meeting the charges or of correcting the situation. In fact, they knew nothing of them. It is a terrible type of bureaucracy. The truth, and the full truth as it is seen, should be told both parties.

I stated here that I had no doubt as to the solvency of the First National Bank. Since actions speak louder than words, I pointed out that my own and connected deposits at the time of the institution of the Michigan bank holiday had balances which were probably at their very peak. I also pointed out that the chief national bank examiner had permitted the payment of dividends by the bank right up to the Michigan holiday and that such dividends were the very negations of insolvency. The examiner—in my mind; I have not stated that—is precluded from stating that these dividends were permitted by him to enable the Detroit Bankers Co. to meet payments upon its debt, because the evidence herein shows that the First Detroit Co., a subsidiary of the Detroit Bankers Co., might have been liquidated, and that its net assets were sufficient to take care of all of the outside indebtedness of the Detroit Bankers Co.

To prove insolvency there has been read into the testimony almost daily excerpts from the so-called "yellow sheets", being confidential reports from the examiner to the Comptroller of the Currency, and which were not sub-

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mitted to members of the board of the bank or to its officers, and it is upon information contained in these "yellow sheets" that the claim is made that the First National Bank was insolvent. These "yellow sheets" show, when taken in connection with the testimony of the examiner, that as early as September of 1931, or certainly in May of 1932, the examiner had no real belief in the solvency of the First National Bank. Under his own testimony neither he nor the Comptroller could have had any belief in its solvency, because he stated his classifications were exceedingly lenient upon the bank and any strict examination would have undoubtedly shown that the bank was then insolvent. That is what he stated. Note this was in May of 1932.

Examinations of national banks are made not for bankers but to protect the public. The public rely upon them, and under the testimony that has been introduced in this hearing, and in view of the fact that the "yellow sheets" have been treated as scripture and as the tablets of Moses, the Comptroller's office must stand upon them. If the Comptroller believed in May of 1932 that this bank was insolvent, it was his duty to have closed the bank at that time and not permitted the hundreds of millions of dollars of losses which followed from his permitting deposits to be made in the bank after that date.

I respectfully insist with all the force I can that an examination by this committee should be made of the Comptroller's office and of the actions of the Comptroller in this respect, which, if the "yellow sheets" are to be accredited, has caused this tremendous loss to hundreds of thousands of depositors in Michigan. It seems to me that the principal must be held liable for the acts of his agent, to wit, that the Government of the United States should make these depositors whole for the negligence of the then Comptroller. That is upon the assumption that these "yellow sheets" are correct.

Senator COUZENS. I want to say that the yellow sheets contain no figures other than were submitted to the officers of the bank, and a study of the so-called "white sheets" and the "yellow sheets" will clearly disclose there was no difference in the figures, but there was difference in the comments; and I submit that credit managers like Mr. Ballantyne, who was a credit manager for year—he was a credit manager when I first became a bank director—frequently did not discuss with the credit applicant the condition of the management of the business that was applying for the credit, but he did appear before bank boards and bank managers and submit private and personal criticism concerning the management and the prospective management and what the prospects of the institution were, and the comptroller in this connection acted very much in the same capacity, and I want to say, as one member of this committee, that I know of no member that does not condemn the comptroller's office all during 1930, 1931, and 1932 for not taking action, and vigorous action, in connection with the reports that were filed by his examiners.

Mr. MILLS. Evidently we agree again.

Mr. SAPERSTEIN. Mr. Mills, in that connection may I refer back to the statement at the top of the next to the last page, where you say, "I have no doubt as to the solvency of the First National Bank." Do you mean to imply by that that you have no doubt about it at this time?

Mr. MILLS. No; I haven't even now.

Mr. SAPERSTEIN. You think that the bank was entirely solvent at the time that it closed, do you?

Mr. MILLS. I do. I certainly do.

Mr. SAPERSTEIN. How do you reconcile that position with your insistence that the comptroller's office ought to be held liable for not having announced that the bank was insolvent a year or a year and a half ago?

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Mr. MILLS. The statement is perfectly clear. I state that these yellow sheets have been read, these confidential memorandums, from the examiner to the Comptroller, in which he states, as I recall one of them, "there is no question in my mind that this bank is insolvent."

Now, if that is correct, it was the Comptroller's duty to have closed the institution—if it was correct. If it was not correct, then the bank was solvent.

Senator COUZENS. Testimony has been introduced before this committee by Mr. Leyburn—and I have not checked it up—to the effect that the Comptroller did not have adequate power under the statutes to close the bank. All he could have done was to assess the stockholders to make good any deficiency in the capital.

Mr. MILLS. I think the statute is perfectly clear.

Senator COUZENS. Well, we will not discuss that, because I am not a lawyer.

Mr. MILLS. I think it is perfectly clear.

Senator COUZENS (presiding). Is that all, Mr. Mills?

Mr. MILLS. That is all.

Senator COUZENS. Mr. Mark Wilson.

TESTIMONY OF MARK A. WILSON, DETROIT, MICH., RECEIVER OF THE UNION INDUSTRIAL TRUST & SAVINGS BANK, FLINT, MICH.

Senator COUZENS (presiding). Mr. Wilson, do you swear the testimony you are about to give to this committee will be the truth, the whole truth, and nothing but the truth, so help you God?

Mr. WILSON. I do.

Senator COUZENS. Will you please give the reporter your name and address and occupation?

Mr. WILSON. Mark A. Wilson, Detroit, Mich.; receiver of the Union Industrial Trust & Savings Bank, Flint, Mich.

Mr. SAPERSTEIN. Mr. Wilson, you were formerly connected with the Detroit Bankers Co., were you not?

Mr. WILSON. Yes, sir.

Mr. SAPERSTEIN. From what date to what date?

Mr. WILSON. I was elected vice president of the Detroit Bankers Co. in January 1930 and resigned, I believe, the first of 1932.

Senator COUZENS. What was your occupation before you went to the Detroit Bankers Co.?

Mr. WILSON. Clearing-house examiner of Detroit.

Senator COUZENS. Clearing-house examiner?

Mr. WILSON. Yes, sir.

Senator COUZENS. In Detroit?

Mr. WILSON. Yes, sir.

Senator COUZENS. How long?

Mr. WILSON. Around July the first, 1922.

Senator COUZENS. And prior to that?

Mr. WILSON. Prior to that I was an examiner for the Federal Reserve Bank of Chicago and the national bank examiner for the Comptroller of the Currency.

Senator COUZENS. And when did you begin that banking experience? Do you know when you began that banking experience?

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Mr. WILSON. Well, I think the latter part of 1918 and ran up to July 1, 1922, I was with the Federal Reserve Bank at Chicago and the national examiner.

Mr. SAPERSTEIN. From January 30 to May 1, 1932, did you act as vice president of the Detroit Bankers continuously?

Mr. WILSON. Those are the approximate dates; yes, sir.

Mr. SAPERSTEIN. Were you a director?

Mr. WILSON. I was not.

Mr. SAPERSTEIN. And what duties were assigned to you as vice president of the company?

Mr. WILSON. I don't know as there were any specific duties.

Senator COUZENS. Did the bylaws provide any?

Mr. WILSON. No, sir; not to my knowledge.

Mr. SAPERSTEIN. What duties did you perform generally?

Mr. WILSON. During the year of 1930 I was more or less handling the merging of the banks that took place during that year, banks that were owned by the Detroit Bankers Co. The greater part of my time was spent in that work.

Mr. SAPERSTEIN. You refer to those banks which were taken into the group during the year 1930, do you not?

Mr. WILSON. Yes; all that were owned by the Detroit Bankers Co. and located within Wayne County, metropolitan district of Detroit.

Mr. SAPERSTEIN. During that period who was your superior officer?

Mr. WILSON. Mr. Julius Haass, president.

Mr. SAPERSTEIN. And after Mr. Haass' death who became your superior officer?

Mr. WILSON. Mr. John Ballantyne.

Mr. SAPERSTEIN. In your capacity as vice president of the Detroit Bankers Co. did you acquire any information as to the status of the units of the Detroit Bankers Co. and of their activities?

Mr. WILSON. Yes, sir.

Mr. SAPERSTEIN. Did you know while you were vice president of the Detroit Bankers Co. of a transaction whereby the First National Bank, which had theretofore held a note of the Wayne Body Corporation, marked off some $64,000 of that obligation?

Mr. WILSON. I didn't know at the time of the inception of it. I learned about it afterwards.

Mr. SAPERSTEIN. How did you learn about it, Mr. Wilson?

Mr. WILSON. Overhearing the conversation between Mr. Ballantyne and Mr. Chittenden. Mr. Ballantyne at that time was chairman of the board of the First National Bank. Mr. Chittenden was president of the First National Bank at that time.

Mr. SAPERSTEIN. When did that conversation take place?

Mr. WILSON. About the 1st of June of 1931.

Mr. SAPERSTEIN. Will you give us the substance of the conversation?

Mr. WILSON. As I recollect the conversation, it was at the time on the train en route to Chicago and, as I recollect it, Mr. Ballantyne mentioned the loan to Mr. Chittenden in my presence, and there was some discussion, and I entered into the discussion, because it was news to me. I didn't know of the existence of the loan. And I took a rather definite position in regard to that loan.

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Mr. SAPERSTEIN. Tell us what was said as nearly as you can remember with regard to this loan.

Senator COUZENS. Perhaps you can approach it in a different way.

Mr. WILSON. It is very difficult for me to recall the conversation going back that far.

Senator COUZENS. I think if you will disregard the conversation and tell us what you know about the loan and its final disposition, it will answer the committee's purpose just as well.

Mr. WILSON. I took this position, as I recollect, and it is the best of my memory, with Mr. Chittenden and Mr. Ballantyne at that time: That that loan should not have been made; in my opinion it was no legal loan at the time it was made.

Senator COUZENS. You mean the time it was made to the Wayne Body Corporation?

Mr. WILSON. I believe at the time the trustee's loan that I am not speaking about.

Senator COUZENS. That is what I want you to, if you can, tell the committee what happened and the disposition of the Wayne Body Corporation loan that was afterwards turned into a trustee's loan, because I do not think that that is on the record.

Mr. WILSON. Senator, I haven't the facts.

Mr. SAPERSTEIN. Perhaps I can refresh your recollection as to the facts, Mr. Wilson. I have before me what purports to be a photostatic copy of a memorandum prepared by Mr. H. A. Leitner on October 27, 1931. Who was Mr. Leitner?

Mr. WILSON. He was an officer of the First National Bank, loaning officer.

Mr. SAPERSTEIN. The memorandum reads as follows [reading]:

WAYNE BODY CORPORATION

Referring to our records in this matter, I notice that our loan to the above company totaled $276,439.71 in the early part of the year, and that this loan was secured with the following items:

1,012 shares Detroit Bankers Co. common stock in the name of Mary K. Robertson and pledged by this party for the payment of the above loan.

$39 C/D on the First National Bank, Detroit, #20230.

$275,000 mortgage dated May 19, 1926, between the Gotfredson Land Co. and Wm. J. Gray, covering 1,100 acres of land recorded in Liber 1722, pages 616 to 633, Wayne County Records.

Negotiations for the settlement of this item were entered into some time in February 1931. Mr. George M. Frischkorn, acting for an undisclosed principal, offered to buy this loan for a cash price of $200,000. That offer was refused, and subsequently it was raised to $212,000. We accepted the offer of $212,000 and on February 26 received George M. Frischkorn's check for that amount drawn on the Dearborn State Bank; and on February 28 charged off the balance of the loan, $64,439.71.

Subsequently, on the approval of the senior committee, this $212,000 in cash was reinvested in Detroit Bankers stock, with the hope of recovering the $64,000 loss charged off, and at this date, therefore, we hold 2,483 shares of Detroit Bankers Co. common stock, the average purchase price per share being $88. It will be necessary for this stock to reach a price of $112 per share within the next 2 years to fully recover our investment in this instance.

Mr. Hart and the writer sat in on all the negotiations with Mr. Frischkorn, and after the deal was finally closed it was suggested that Mr. Blessed and the writer act as trustees for the bank on the stock purchase. At this time, therefore, we have in our records a note signed by Mr. Blessed and the writer, as trustees, for $212,000 secured by 2,483 shares Detroit Bankers stock and the beneficiary under the plan is the First National Bank in Detroit. All divi-

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dends received from the stock are to be charged against the loan as a carrying charge. In other words, whatever dividends we get will represent whatever interest return we get on the loan. Incidentally, whatever profits or losses there are will accrue to the bank itself, the trustees getting no compensation or consideration for acting in this capacity.

(Signed) H. A. LEITNER.

Was the conversation that you overhead between Mr. Ballantyne and Mr. Chittenden substantially in accord with this memorandum that I have read?

Mr. WILSON. Substantially in accord. Of course, I could not vouch as to the date and the figures.

Senator COUZENS. That is the one that you said that you concluded was an illegal loan?

Mr. WILSON. I believe that it was.

Senator COUZENS. That is to those two trustees, Blessed and Leitner?

Mr. WILSON. Yes, sir; correct.

Mr. SAPERSTEIN. What was the basis of your statement that it was an illegal loan, Mr. Wilson?

Mr. WILSON. I asked Mr. Chittenden who the trustees represented.

Mr. SAPERSTEIN. What did he say?

Mr. WILSON. Said "The bank, I guess."

Mr. SAPERSTEIN. Did he say by whose authority the loan had been made?

Mr. WILSON. I think he said it had been reviewed by several of the officers of the bank and had been also approved by the executive committee. I believe that loan was made in the earlier part of 1931.

Mr. SAPERSTEIN. I have before me what purport to be the minutes of a meeting of the executive committee held on February 10, 1931 [reading]:

Executive committee meeting, Tuesday, February 10, 1931.

Present, Messrs. Gilchrist, Holliday, Flinn, Ferry, McMillan, Stair, Ballantyne, Chittenden, Brown, Hart.

Mr. Hart—the question of the offer for the Wayne Body Co.—Gotfredson claim—was again discussed, and it was decided that $212,000 be fixed as the minimum for which we could sell our claim.

Then follow the minutes of the executive committee for Thursday, February 26, 1931, when Messrs. Holliday, Flinn, McMillan, Ballantyne, Chittenden, Brown, and Hart were present. [Reading]:

Mr. Hart reported the sale and adjustment of our claim against Wayne Body Co., endorsed by Benjamin Gotfredson, in principal sum of $268,388.07, and accrued interest to October 15, 1930, $8,031.64, for a cash consideration of $212,000, resulting in a deficit of $64,439.71 charged to profit and loss account.

There was no indication in those minutes as to the purpose to which the $212,000 was to be devoted, was there, Mr. Wilson?

Mr. WILSON. I do not know about those minutes, Mr. Saperstein. I was not a member of the board or a member of the executive committee at the time.

Senator COUZENS. Does the reading of that, Mr. Wilson, refresh your mind as to what happened on the train when you discussed this with Mr. Ballantyne or Mr. Chittenden?

Mr. WILSON. Well, nothing happened on the train, Senator, except the general discussion with regard to the loan, the trusteed loan of about $212,000, and I suggested to Mr. Chittenden then that he

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should not have acted on the executive committee on his return to Detroit.

Senator COUZENS. Did Mr. Ballantyne and Mr. Chittenden argue in favor of the loan in the discussion with you when you said you thought it was an illegal loan?

Mr. WILSON. No; they both had a great deal of apprehension about having made the loan.

Senator COUZENS. Both Mr. Ballantyne and Mr. Chittenden had considerable apprehension about the legality of the loan?

Mr. WILSON. That is my recollection; yes, sir.

Mr. SAPERSTEIN. Now I want to read a photostatic copy of a memorandum which appears in the files of the First National Bank, signed by Mr. H. A. Leitner, under date of February 27, 1931, re Wayne Body Corporation [reading]:

Yesterday afternoon Mr. Hart, Mr. Butzel, and I closed the open matter by obtaining a check for $212.000 from Mr. George M. Frischkorn, for which we turned over a note of the Wayne Body Corporation endorsed by Benjamin Gotfredson for $268,388.07, together with its security, consisting of 1,012 shares of Detroit Bankers in the name of Mary Robertson and C. D. of $39 in the name of Mary Robertson, and an assignment of a $275,000 mortgage on which Mr. Hart is trustee. The Detroit Bankers stock is in the name of Mary Robertson and not accompanied by any assignment except the general assignment by our attorneys, and the C. D. had to be endorsed by Mr. Gotfredson before Mr. Frischkorn could cash it.

All of these papers were turned over to Mr. George M. Frischkorn and his attorney, Mr. Remus. Mr. Hart executed the second assignment of the mortgage to accomplish all the details necessary in this transaction. The check for $212,000 was drawn on the Dearborn State Bank by George M. Frischkorn and was applied to the credit of the Gotfredson loan. The balance was applied to the charge-off.

As far as has been determined, the $212,000 realized from this sale is to be invested in Detroit Bankers Co. stock to be purchased somewhere between 85 and 89. Mr. Blessed told me today that if invested on this basis Detroit Bankers would have to reach 111 per share before we could recover our loss fully. The stock is going to stand in the name of Mr. Blessed and myself as trustees for the bank.

Does that indicate to your mind, Mr. Wilson, that it was the intention of the directors of the First National Bank at the time this loan was sold for $212,000 to devote that amount when it was received toward the purchase of additional shares of Detroit Bankers stock?

Mr. WILSON. It is my recollection that it was their intention at the time of that compromise about this loan, but it was later decided that they would use the funds received through this trusteed note for the purpose of buying Detroit Bankers stock.

And I might add this: Mr. Chittenden and Mr. Ballantyne in the conversation which we have previously referred to stated that they believed at the time the loan was made that it was a legal loan.

Mr. SAPERSTEIN. That it was a what?

Mr. WILSON. A legal loan.

Mr. SAPERSTEIN. A legal loan?

Mr. WILSON. At the time it was made; yes. After our discussion they had apprehension in regard to the legality of the loan.

Mr. SAPERSTEIN. You mean as a result of what you said to them?

Mr. WILSON. Yes.

Mr. SAPERSTEIN. They changed their minds, or at least they were apprehensive as to whether or not it was a legal loan?

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Mr. WILSON. Yes; that is my recollection.

Mr. SAPERSTEIN. Now, you know, do you not, that this $212,000 was devoted between March 5, 1931, and March 17, 1931, entirely toward the purpose of acquiring 2,483 shares of Detroit Bankers stock?

Mr. WILSON. I did not know that as a fact.

Mr. SAPERSTEIN. Did you gather that from the discussion that you had with Mr. Chittenden and Mr. Ballantyne?

Mr. WILSON. Only from the conversation with Mr. Chittenden and Mr. Ballantyne.

Mr. SAPERSTEIN. I may say for the record, Mr. Wilson, that we have here photostatic copies of exhibits indicating that 2,483 shares of Detroit Bankers stock was purchased by these trustees and that the sum of $212,000 was expended therefor.

Senator COUZENS. Does the record show that the trustee loan was paid, or is it still unpaid?

Mr. SAPERSTEIN. The record does not show that as yet.

Do you know whether that trustee loan was paid, Mr. Wilson?

Mr. WILSON. I do not know; no. I have no record of it. I believe the records of the receiver will indicate whether that loan has been paid. I remember that there was a specific reserve set up on that loan at the time of the consolidation later in 1931.

Senator COUZENS. You mean, set up because it was a contemplated loss?

Mr. WILSON. That is right, Senator, for the amount it was set up.

Senator COUZENS. Yes.

Mr. WILSON. Yes.

Senator COUZENS. I mean when you set up these reserves you used your best judgment as to the probable loss and fixed the reserve for that amount?

Mr. WILSON. The reserve was supposed to conform to the shrinkage in the value of the collateral, and, as I recollect, it was about eighty-five or eighty-six thousand dollars.

Mr. SAPERSTEIN. I have before me what purports to be a photostatic copy of the records of the First National showing items charged off February 29, 1932, and under the caption "Specific reserves" and alongside the names "Blessed and Leitner, trustees" there is an item of $86,000. Is that the reserve to which you have just referred?

Mr. WILSON. It is my recollection; yes. At the time of the consolidation, the national examiner, Mr. Hopkins, requested a specific reserve of whatever the figure is there, about 85 or 86 thousand dollars, and later on during 1932 that specific reserve was applied.

Mr. SAPERSTEIN. Alongside the item which I have just read "Specific reserves" appears under the caption "Claims" the sum of $125,965, which I take it is the entire balance of this loan. What is indicated by the fact that that item of $125,965 appears under "Claims"?

Mr. WILSON. Well, I would presume that that that loan had been transferred to the so-called "claims" or "special-loan" department.

Senator COUZENS. When that was done it was contemplated that the loan was not very good at least—is that not true?

Mr. WILSON. It was transferred there for special action for that purpose, yes.

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Senator COUZENS. And when it is transferred for special action the assumption is that it is not entirely right, isn't it?

Mr. WILSON. That is correct.

Mr. SAPERSTEIN. Mr. Wilson, did you ever have occasion in the performance of your duties as vice president of the group to examine the bank examiner's reports of the condition of the First National Bank of Detroit?

Mr. WILSON. Yes, sir; up to the time I had resigned as vice president of the Bankers Co.

Mr. SAPERSTEIN. I have before me what purports to be a photostatic copy of the examiner's report of condition of the First National Bank of Detroit on September 25, 1931, and under the caption "Slow and doubtful paper and losses on loans" appears the following: "$211,965, Clarence D. Blessed, Herman A. Leitner, trustees", and in the margin under the caption "Loss" appears the figure "$86,000."

And I am quoting from the examiner's comment:

> This loan was apparently made for the purpose of speculating in stock of the Detroit Bankers. The margin is now short in the amount classified, and there is nothing in evidence to support this deficit. Additional information needed.

Do you know whether any steps were taken by the Detroit Bankers Co. or by the Peoples Wayne Bank to make good the deficit in the collateral?

Mr. WILSON. I did not know of any steps that were taken.

Mr. SAPERSTEIN. I have before me what purports to be a photostatic copy of several charge tickets of the Peoples Wayne County Bank indicating that on March 3, 1932, 1,143 shares of Detroit Bankers' Co. stock were added by the bank as collateral to this loan in order to bolster the margin. Was that transaction ever called to your attention, Mr. Wilson?

Mr. WILSON. I believe that transaction was handled by Mr. Sweeny. I don't recollect it having been called to my attention.

Mr. SAPERSTEIN. Do you know where the 1,143 shares of Detroit Bankers Co. stock which were added to this account as margin came from?

Mr. WILSON. I have not all the details on that. I cannot remember the details, but as I remember, it originated in the Wayne Home Office of the Peoples Wayne County Bank.

Mr. SAPERSTEIN. Do you know whether that stock had previously been held as collateral for another loan?

Mr. WILSON. That is my recollection; yes, sir.

Mr. SAPERSTEIN. And that other loan had been made to Edwin J. Eckert and John R. Bodde as trustees in the sum of $144,950—is that correct, Mr. Wilson?

Mr. WILSON. In substance that is my recollection. I don't remember the figures.

Mr. SAPERSTEIN. So in substance what occurred was that these 1,143 shares of Detroit Bankers Co. stock which theretofore had been held as security for a loan made to Edwin J. Eckert and John R. Bodde as trustees for the Peoples Wayne Bank, were transferred to this loan which the bank examiner had criticized as being under water and were thereafter used as collateral for the loan made to Blessed and Leitner as trustees—that is correct, isn't it?

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Mr. WILSON. I don't recollect knowledge of that transaction at the time.

Mr. SAPERSTEIN. The records of the bank show that that is so.

Mr. WILSON. I understand it is substantially correct.

Mr. SAPERSTEIN. Now I want to call your attention to the following memorandum under date of March 14, 1932, from Mr. John H. Hart to Mr. John Ballantyne. Let me show it to you and ask you whether this was called to your attention [handing document to Mr. Wilson].

Mr. WILSON (after perusing document). I don't recall ever having seen that communication.

Mr. SAPERSTEIN. I offer it in evidence.

Senator COUZENS. The same will be marked.

(Letter dated March 14, 1932, from John H. Hart to John Ballantyne was thereupon designated "Committee Exhibit No. 162, Feb. 7, 1934", and same appears in full immediately following, where read by Mr. Saperstein.)

Mr. SAPERSTEIN. The letter which has been marked "Committee's Exhibit 162", dated March 14, 1932, to Mr. John Ballantyne from Mr. John H. Hart, re Clarence D. Blessed, Herman A. Leitner, Trustee Loan [reading]:

I am attaching excerpt from the minutes of the Executive Committee of the First National Bank, January 29th, 1931, February 10th, 1931 and February 26th, 1931, the dates upon which action was taken concerning our claim against the Wayne Body Company, from which it is noted the officers were authorized to sell our claim in the principal sum of $268,388.07 to the Frischkorn interests for $212,000.

When this matter was presented to the Executive Committee on February 10th, 1931, and February 26th, 1931, the proposed plan previously discussed and approved by the Senior Officers of re-investing the cash received in Detroit Bankers Company stock at the then existing market of approximately 85 was presented to the Executive Committee and left with the officers with power. It was not specifically stated in writing up the minutes, but it was fully discussed and approved.

In presenting the proposition, the points brought out were substantially as follows:

Our claim against the Wayne Body Co., endorsed by Benjamin Gotfredson, was secured by the deposit of 1012 shares Detroit Bankers Company stock and deed in trust covering approximately 1152 acres Farm property near Ypsilanti, then under foreclosure proceedings.

The pledge of Detroit Bankers Company stock was contingent upon the Bank enforcing its claim against the real estate first and secondarily against the stock for any deficiency.

While this property was originally appraised by our representatives at $250.00 per acre, Mr. Quirk of Ypsilanti now placed a value of from $100.00 to $125.00 per acre upon it with no apparent market and in lieu of going through with the foreclosure proceedings which would require 12 to 15 months further delay and the assumption of an annual carrying charge of approximately $16,000.00, the officers were inclined and did sell the claims for $212,000.00, re-investing the amount in 2,483 shares Detroit Bankers Company at an average cost of $85.38, in the belief that a moderate recovery in the market estimated at $111 would have offset the loss of $64,439 which then existed.

This memorandum is written to record the fact that the entire transaction, including the purchase of Detroit Bankers Company stock, was done with the knowledge and approval of the executive Committee and the Senior Officers.

Then follow some notations in pencil which I do not think are important.

Senator COUZENS. Who is that signed by?

Mr. SAPERSTEIN. It is not signed, Senator Couzens, but it is addressed to Mr. John Ballantyne from Mr. John H. Hart.

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Who was Mr. Hart, Mr. Wilson?

Mr. WILSON. Mr. Hart was an executive loaning officer of the First National Bank.

Mr. SAPERSTEIN. Now, with reference to Senator Couzens' question as to the present status of that loan I want to read for the record an exhibit furnished to us by A. C. Thomas, receiver of the First National Bank of Detroit, dated September 14, 1933; subject, H. A. Leitner and C. D. Hoppin, trustees.

Was there a change made in the trustees, do you know?

Mr. WILSON. What is the date of your memorandum there, now?

Mr. SAPERSTEIN. That is September 14, 1933.

Mr. WILSON. That is quite possible, because Mr. Blessed resigned as an officer of the bank and left the employment of the bank.

Senator COUZENS. And Mr. Hoppin took his place as trustee?

Mr. WILSON. That is possible. I don't know.

Senator COUZENS. I think that appears in the record before.

Mr. SAPERSTEIN. Yes. This memorandum obviously relates to the same loan, because it says:

According to our records, the loan in the name of Clarence D. Blessed and H. A. Leitner, trustees, originated March 5, 1931, in the amount of $212,000; $35 was paid on this loan on July 14, 1931, leaving a balance of $211,965.

On February 29, 1932, $86,000 of this loan was charged off to specific reserve, leaving a balance of $125,965. The liability ledger shows this loan changed to H. A. Leitner and G. S. Hoppin, trustees, July 8, 1932. This loan was collateraled with 3,626 shares of Detroit Bankers Co. stock.

I am enclosing photostatic copy of the notes, the collateral card, and the old liability ledger card.

C. A. THOMAS,
Receiver First National Bank, Detroit.
By E. R. LATIMER.

That indicates, does it not, Mr. Wilson, that no part of that note except $35, was paid down to the time of the appointment of the receiver?

Mr. WILSON. I think so; yes, sir.

Mr. SAPERSTEIN. Do you know whether any steps whatever were taken with a view to salvaging any part of this loan by either Mr. Ballantyne or Mr. Chittenden or any other of the officers of the bank who were responsible for its inception after you called their attention to the fact that the loan was in your opinion illegal?

Mr. WILSON. Well, I can only follow what I know.

Mr. SAPERSTEIN. Tell us what you know.

Mr. WILSON. Mr. Chittenden on his return to Detroit from Chicago presented the matter to the executive committee. At that time I was a member of the executive committee of the First National Bank. Mr. Chittenden explained the conversation Mr. Ballantyne, himself, and I had had with regard to the loan, and my viewpoints, fully, to the committee. And I stated to the committee that if any liability was incurred on that loan those responsible for it would have to pay it.

Mr. SAPERSTEIN. When the losses occurred?

Mr. WILSON. If any losses eventually occurred on that loan, that it was my belief that those responsible for the loan would have to personally pay.

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Mr. SAPERSTEIN. When the sum of $86,000 was charged of were any steps taken for the purpose of enforcing that liability?

Mr. WILSON. Not to my recollection.

Senator COUZENS. Who advised this executive committee, Mr. Chittenden? What was the action of the executive committee?

Mr. WILSON. I don't recall, Senator, of any action, specific action, having been taken, or any record of the conversation having been entered into the minutes.

Senator COUZENS. You think they just let it ride?

Mr. WILSON. That is my recollection; yes, sir.

Mr. SAPERSTEIN. Some mention has been made during the course of my examination of you regarding the Leitner and Blessed loan, of the collateral which was transferred from another loan made to John R. Bodde and E. J. Eckert as trustees of the Peoples Wayne.

Senator COUZENS. Do you happen to know anything about that transaction, Mr. Wilson?

Mr. WILSON. Senator, I do not know the origination of that transaction. I know and knew at one time that there was such a note, and it is my belief that it originated in the Wayne County office.

Senator COUZENS. How? Do you know how it originated?

Mr. WILSON. Well, you will have to go—it originated following old practices going back 15 or 20 years. My recollection is that Detroit bank stocks were not listed in the exchange, and the most of the purchases and sales of those stocks were made over the counter in the respective institutions, and these shares were accumulated by the bank probably upon orders or indication or desires of old stockholders or depositors that they would like to buy some Detroit bankers stock, or they had previously come into the bank and wanted to buy some bank stock, and I think they kept a record of those desiring to purchase and those desiring to sell and took care of them as best they could. I think this followed from that old-established practice running 15 or 20 years in Detroit.

Senator COUZENS. And then when this trusteeship was formed that was an accumulation of purchases and sales that left the debit balance in the bank for the amount of the trusteeship; is that correct?

Mr. WILSON. I think you will find that this accumulation of the trustee note, of the Bodde and Eckert trustee note, was the result of those purchases and sales, and it was the accumulation.

Senator COUZENS. Yes.

Mr. WILSON. That is what I think it was, although it is possible that——

Senator COUZENS (interposing). They probably bought more stock than they sold.

Mr. WILSON. Yes; but I believe in most cases that is what they thought was an honest commitment to buy.

Senator COUZENS. Yes; and those whom they thought committed themselves to buy reneged on the purchase?

Mr. WILSON. That is exactly as I recollect.

Senator COUZENS. Yes.

Mr. WILSON. There was one large order.

Senator COUZENS. Who was that large order supposed to be?

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Mr. WILSON. I don't know as I can supply that name. I am not positive, but I believe you could ascertain that name. There was one large order given.

Mr. SAPERSTEIN. I have before me what purport to be the minutes of a meeting of the executive committee of the Peoples Wayne on November 13, 1930, in which the following statement appears under the caption "Detroit Bankers Co. Stock" (reading):

Authority was granted to any two of the three following officers: John R. Bodde, president; E. J. Eckert, and George A. Burns, vice presidents; to borrow as trustees an amount not to exceed $145,000 secured by 1,143 shares of Detroit Bankers Co. stock, representing an average of $126.65 per share. These shares have accumulated through odd purchases, representing an original investment of approximately $145 per share, which has been reduced by subsequent sales to the present average price of $126.65 per share.

Does that refresh your recollection as to the origin of the stock which was on hand at the time this loan was made?

Mr. WILSON. I do not believe I could add any more to what I have said. It was carrying through an old-established policy with regard to purchases and sales of the stock, which originated in that office.

Mr. SAPERSTEIN. I have before me what purports to be a photostatic copy of the collateral loan register of the Peoples Wayne County Bank as of November 21, 1930, and among the items which appear on this collateral loan register are the following: "No. 16856, November 21"—120 days, the time of the note is 120 days—"due March 23, Edwin H. Eckert, George A. Burns, 1,143 shares of Detroit Bankers stock" under the caption "Collateral."

Under the caption "Principal and interest" appears $144,950. Under the caption "Collateral loans" appears $144,950. Under the caption "Balance" appears $144,950.

Does that indicate that the amount of $144,950 was loaned to these two gentlemen as trustees for the bank collateralized by 1,143 shares of Detroit Bankers Co. stock?

Mr. WILSON. I presume that such a loan was made for the purpose of picking up that overage or accumulation.

Senator COUZENS. How did they carry those items in the bank before this trusteeship? I am curious. Did they carry it as cash?

Mr. WILSON. I would assume that they carried it as cash.

Senator COUZENS. There was no other way to carry it because they could not cash in the stock direct.

Mr. WILSON. None that I know of.

Mr. SAPERSTEIN. I show you what purports to be a photostatic copy of a letter from George A. Burns, vice president, to the Detroit Bankers Co., attention Mr. Mark A. Wilson, vice president, and ask you whether you can identify that letter.

Mr. WILSON (after perusal of the document). Probably I received such a letter.

Mr. SAPERSTEIN. I offer it in evidence.

Senator COUZENS (presiding). The same may be entered in the record.

(Letter dated Jan. 20, 1931, from George A. Burns to Detroit Bankers Co., attention Mark A. Wilson, was thereupon designated "Committee Exhibit No. 163, Feb. 7, 1934", and appears in the record immediately following where read by Mr. Saperstein.)

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Mr. SAPERSTEIN. The letter which has been marked "Committee Exhibit No. 163" of this date is as follows [reading]:

DETROIT, MICHIGAN,
January Twentieth, 1931.

DETROIT BANKERS COMPANY,
Detroit, Michigan
(Attention Mr. Mark A. Wilson, Vice President.)

GENTLEMEN: Wish to inform you that we are holding in the Discount Department note for $144,950 in the names of John Bodde, Edwin J. Eckert and George A. Burns, as trustees authorized by the Board of Directors.

This note is secured by 1143 shares of Detroit Bankers stock which was purchased at higher levels. The average price of this stock is $127 a share. Dividends accrued January 1st, 1931 were credited to said note. The date of this note is November 21st, 1930.

Trusting this is the desired information, I remain

Yours very truly,

(Signed) GEORGE A. BURNS,
Vice President.

This was apparently written in response to a request by you for information.

Mr. WILSON. I think that is correct; yes, sir.

Mr. SAPERSTEIN. What was your purpose in requesting that information, Mr. Wilson.

Mr. WILSON. I presume my attention had been called to that loan, either by the examiners or the auditing department, and I had phoned and wanted a letter from Mr. Burns in regard to that transaction. I think after that then I requested the auditing department, as I recollect, of the Bankers Co. to cause to be made an audit with regard to those transactions, as to how those shares were accumulated.

Senator COUZENS. Then the accumulation of those shares under this Bodde and Eckert trusteeship and under the Blessed and Lightner trusteeship was the accumulation of bank shares by depositors' money in violation of the law; at least that was your judgment, was it not?

Mr. WILSON. Yes, sir. Although there is one point there: There is a possible difference between those two trustee notes.

Senator COUZENS. Will you explain the difference.

Mr. WILSON. The First National trustee note of Blessed and Lightner, as I understood it, they were trustees acting for the First National Bank, which, in my judgment, was an illegal loan.

Now, the other is possibly—and I do not know, and you have the records to show, that Mr. Bodde and Mr. Eckert acted as trustees for the Detroit Bankers Co.

Senator COUZENS. But in both cases they used the bank's money?

Mr. WILSON. Yes, sir.

Mr. SAPERSTEIN. Do I understand that your opinion about this Bodde-Eckert loan was that it was not legal?

Mr. WILSON. I would not want to hazard a guess upon that.

Mr. SAPERSTEIN. Did you ever express any opinion to that effect?

Mr. WILSON. I don't remember that I ever did.

Mr. SAPERSTEIN. I have before me what purports to be a letter from the State Department of banking to the Peoples Wayne County Bank, Detroit, Mich., under date of April 3, 1931, signed by L. D. Rose, examiner. I will not read the entire letter, but I want to call

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your attention particularly to the following paragraph in the letter [reading]:

5. Detroit Bankers Company stock held as collateral:
On date of examination you held as collateral 62,646 shares of this company's stock, having an aggregate value of $5,324,910. This, together with a direct loan of $863,441.76 to the Detroit Bankers Company, is in our opinion a heavy concentration, and we view with apprehension this policy and recommend that loans of this nature be curbed.
6. $144,950, Edwin J. Eckert, et al, Trustee. Collateral 1143 shares Detroit Bankers Company, value $91,440.

And directly beneath that:

$13,944.30, cash item, Wayne-Home office. Collateral 155 shares Detroit Bankers Company, value $12,400.
It is our understanding that the item for $13,944.30 was eliminated during the course of our examination. We also request that the trustee loan, which represents an accumulation of Detroit Bankers Company stock for resale, be eliminated from your assets and the loss charged off. It is thoroughly understood that items of this nature will not again be placed in the assets of your bank.

Do you know whether that loan was charged off pursuant to the request of the State banking department?

Mr. WILSON. My recollection is it was charged off; yes, sir.

Mr. SAPERSTEIN. I have before me a letter addressed to the Hon. R. E. Reichert, Commissioner State Banking Department, Lansing, Mich, under date of May 9, 1931, which is not signed but which apparently was sent by the executive vice president.

Mr. WILSON. That would have been Mr. Sweeny—Donald N. Sweeny.

Mr. SAPERSTEIN. I will not read the entire letter. I merely want to refer to items 5 and 6 therein contained (reading):

5. Detroit Bankers Co. stock held as collateral:
The directors and officers of this bank concur in your conclusion that concentration of Detroit Bankers Co. stock as collateral to loans should be avoided. To this end future loans against this collateral will be strictly watched.
6. Detroit Bankers Co. stock held by trustees:
Items mentioned of $144,950 and $13,944.30 are being eliminated.

That would conform with your recollection that those items were eliminated?

Mr. WILSON. That is my recollection. I do not believe that the large loan was eliminated until the latter part of the year. I cannot answer as to the small items.

Mr. SAPERSTEIN. Now I want to call your attention to a memorandum signed by Arthur S. Knudson. Who was Arthur S. Knudson?

Mr. WILSON. He was examiner of the Detroit Bankers Co. working directly under me.

Mr. SAPERSTEIN. Working under you?

Mr. WILSON. Yes.

Mr. SAPERSTEIN. Was the original of this memorandum ever exhibited to you?

Mr. WILSON (after perusing document). It is quite possible it was. It is quite possible I asked for it.

Mr. SAPPERSTEIN. I offer that in evidence.

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Senator COUZENS (presiding). The same may be entered in the record.

(Memorandum headed "E. J. Eckert, John R. Bodde & Geo. A. Burns, Trustees", signed "Arthur S. Knudson", was thereupon designated "Committee Exhibit No. 164, February 7, 1934," and appears in the record, immediately following where read by Mr. Saperstein.)

Mr. SAPERSTEIN. The memorandum which has been marked "Committee Exhibit No. 164", of this date, is as follows (reading):

E. J. Eckert, John R. Bodde, & Geo. A. Burns, Trustees.
Status of loan as of 5-6-31 at Peoples Wayne County Bank.

Amount of loan	$144,950.	
Number of shares held		
1,143 shares	81,153.	—Market value 5-6-31
Deficiency	$63,797.	

Dividends as received are applied on note as interest.

I understand it was the concensus of opinion of the officers reviewing the loans at the Peoples Wayne County Bank, that no charge-off was to be made on this item.

(Signed) ARTHUR S. KNUDSON.

Apparently there was some objection on the part of the officers of the bank with regard to that charge-off, was there not?

Mr. WILSON. I don't recollect the objections at that time. They agreed with the State examiner previously during the year to eliminate the item, and later on, prior to the consolidation of the First National Bank, the item was charged off or eliminated entirely. That is my recollection.

Mr. SAPERSTEIN. It was written down to $1 on December 16, 1931; is that correct?

Mr. WILSON. Well, probably $1, yes. I believe that is correct.

Mr. SAPERSTEIN. That is the account where these 1,143 shares of Detroit Bankers Co. stock which you said before were transferred to the Lightner and Blessed account came from?

Mr. WILSON. That would be my deduction, the two banks having been consolidated December 31, 1931.

Mr. SAPERSTEIN. Senator Couzens, before we adjourn, may I say that this witness, in response to a subpena duces tecum served upon him, has, I see, brought to the hearing room several notebooks. I should like to ask that he produce those notebooks at this time and surrender them into the custody of counsel to the committee so that we may examine them before the hearing tomorrow morning.

Senator COUZENS (presiding). That will be done.

Mr. WILSON. That is perfectly all right.

Senator COUZENS (presiding). The committee will adjourn until 10:15 tomorrow morning.

(Accordingly, at 5 o'clock p.m., the committee adjourned until 10:15 o'clock on the following morning.)

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COMMITTEE EXHIBIT FOR No. 136, FEBRUARY 6, 1934

JANUARY 27, 1934.

MEMORANDUM TO WILSON W. MILLS

You have asked me for a memorandum of the principal subjects covered by J. F. Verhelle's criticism of the officers of the bank, dated May 18, 1932, insofar as they relate to my own conduct. While there is little order in the arrangement of subjects in the original criticism, they seem to fall under certain subject groupings which I shall follow as nearly as possible.

CONTROL OF NOTES

The first implication is that a system to effect control of the paper of the bank was opposed by the loaning officers of the Peoples Wayne County Bank (the implication being that I particularly opposed such improved system) for the purpose of concealing "numerous errors and other questionable items from being brought up for discussion". I need only call your attention to the fact that the block system of handling notes was established first in the Peoples Office, of any of the units of the Detroit Bankers Company, largely under my direction and initiative, and was not established in the First National Office until after the consolidation of the Peoples and the First.

Allied to this charge is also the one that a report was addressed to the Executive Committee on November 17, 1931, on American State Bank Commercial loans intending to prove that the method in use by the Peoples Wayne County Bank Claims Department was more efficient than that employed by the Special Loan Department operated by the Detroit Bankers Company. I am sure you will recall this report because it was submitted to you before being presented to the Committee and had your specific approval, and if I am to be hanged for recognizing greater efficiency in one method of departmental operation than in another method, even though the latter is especially approved by J. F. V., then I must have been the subject of hanging in the conduct of my duty long ago.

WISE CHROME PRODUCTS COMPANY

My relations with this company are as follows: In January 1929, I purchased $4,000.00 par value preferred stock and $2,000.00 par value common stock paying therefor $6,000.00 cash; on November 3, 1930, I purchased $1,000.00 par value common stock paying therefor $1,000.00 cash. This stock I still own although it is wholly valueless now. No dividends were ever paid on the common stock; on the preferred stock, which carried an 8% dividend rate, I received three (3) semi-annual dividends of $160.00 each, one in 1929 and two in 1930. I was never an officer or director and at no time were my stockholdings more than a small fraction of the entire capital of the company, so that it should not even be intimated that I was in any sense a majority stockholder.

I do not have at hand a record of the commercial borrowings of the company, but I am quite sure that of the $25,000.00 which the company owed the bank at the time of the criticism, $15,000.00 was owing before my stock ownership. Mr. Maxwell Wise, the head of the company, had a long and successful record in the chrome plating business, having built up and sold at a very handsome profit the Wise Industries, and this fact induced Mr. John Bodde (whose interest was the same as mine) and me to invest in the company with the hope of profit. At no time did I ever have anything to do with the mortgage on the plant, and my impression is that it was made a considerable time before I bought my stock. I have no recollection whatever of the statement attributed to me concerning the foreclosure of the mortgage; at that time as you know there was a marked lack of contact between the mortgage and commercial departments, and it is very unlikely that any such conversation took place. The charge is made that I authorized chronic overdrafts on the account of the company at the Canton-Gratoit Office.

I did authorize some temporary overdrafts on occasions when I was assured that during the day or not later than the next morning, a covering check would be deposited; but on the subject of chronic overdrafts may I refresh your

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memory that you called in Clayton Porter, the Manager of the Branch, who admitted that these chronic overdrafts were allowed on his own responsibility and contrary to my explicit instructions. On February 14, 1931, the company being in need of funds, and in my judgment entitled to no more bank credit, I loaned them $3,000.00 drawing a check on my commercial account which was deposited in their commercial account. This is the incident from which by innuendo J. F. V. appears to make into something heinous. For this loan I took the promissory note for $3,000 of Wise Chrome Products Co. endorsed by Maxwell M. Wise, and on which I subsequently received five (5) quarter-annual installments of interest at 6% per annum. I still hold the note which is, of course, entirely valueless. Reviewing the entire matter briefly, I was not an officer, director or employee of the company; I was not responsible in any way for more than $10,000 of loans, if for that, which loans were regularly made in the ordinary course of business, reported to and approved by the executive committee, and upon statements duly filed with the Credit Department. I was not responsible in any way for the mortgage or its foreclosure or failure to foreclose it; I was not responsible for chronic overdrafts on its account, which in any event could not have profited me in any way, and in the end I lost my entire investment in stock and note in the amount of $10,000.00.

MORTGAGE LIABILITY

J.F.V. at the beginning of this criticism of me states:

"Donald N. Sweeny has 21 mortgages as his own direct obligation, with a present balance of $55,640.00, all of which are in arrears as to principal payments."

Later he states:

"It is understood that when the Credit Department was asked to prepare a statement of the Directors' and Officers' loans on April 13, 1932, they furnished the information that the legal liability in connection with mortgages of Mr. Donald N. Sweeny was limited to five mortgage loans totalling $14,830.00 in addition to the five mortgages described in the report in the hands of Mr. Mills, there appears to be an unquestionable legal liability in connection with seven other mortgages totaling approximately $44,000.00."

Both of these statements are untrue. I have in my possession a schedule made up for me by the Mortgage Department dated January 12, 1932, showing all of the items covering properties to which I then held title and so far as I know no change was made in this schedule between its date, January 12, 1932, and the date of the Verhelle report, May 18, 1932, except possibly minor payments upon principal. This schedule shows 20 mortgages totaling in principal $56,000.00. This figure does not balance either with J. F. P.'s first statement of $55,640.00 nor with his second statement (incidentally inconsistent with his first) of $58,830.00. You will recall that you submitted the matter of legal liability on those mortgages to Mr. Archer Ritchie who advised you fully thereon. Of the entire list I was found to be liable on only three mortgages as follows:

No. 5459, for $8,500.00, covering the premises at 2056 Atkinson Avenue, which is my home. This mortgage was signed by myself and my wife and is our direct obligation. (Incidentally, it has not been reduced to $2,600.00).

No. 8824, covering a dwelling house and lot at 1338 Hubbard Avenue for $2,100.00. I did not make this mortgage which was executed by Georginia Mather, but title was transferred to me by a deed in which I assumed and agreed to pay the mortgage.

No. 50945, covering a dwelling house on Lauder Avenue, $3.000.00. This mortgage was made by me and the property was conveyed to Leo Welch on November 15, 1931, so that on the date of the report it was an indirect and not a direct obligation.

As to the remainder of the mortgages, while I own the property in fee, covered thereby, I did not assume or agree to pay the obligation of the mortgage, and therefore, have no legal liability therefor. Inasmuch as these mortgages were all made long before my connection with the properties they cover could possibly have been known to the bank, the bank cannot in any way assume that the loans were made in the slightest reliance upon my credit. For this reason the bank has no more right to assume a moral obligation on my part to pay the mortgages than a bondholder of the Pennsylvania Railroad would be en-

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titled to assume a moral obligation on my part to pay his bond merely because I happen to be a stockholder of the railroad.

J. F. V. gets all mixed up on the question of moral liability. The utmost that can be said to be the moral liability of the owner of the property, the mortgage on which he has not assumed, is that he will devote such funds as come from the property to the payment of the debt, in other words, that he will not milk the property. If he had intended to undertake any greater liability he would have definitely assumed it in his deed of conveyances. Every one of the mortgages upon the schedule of properties owned by me was in perfect and up-to-date condition as respects interest, and so far as I know as respects taxes. Further than this most of the mortgages had already been very substantially reduced from their original amounts. It is admitted that they were technically overdue, in fact all except two were entirely due by reason of the three year terms having expired. This, as you know, was the condition with the great majority of our mortgage loans, and was in the old days cited as a virtue, i.e., that 85 or 90% of our mortgage loans were past due and subject to call on demand.

Except for my illness, which confines me to the most limited activity in bed, I had expected to be able to present in tabular form the picture of these mortgage loans, showing the original amount, the amount on January 12, 1932, and especially the bank at which they were originally made. It is my belief, although without access to the scattered records unprovable, that a substantial portion of these mortgages was made at banks other than the Peoples State or Peoples Wayne County Bank, and, therefore, without any possibility of my having influenced their being made. I state to you unqualifiedly, as I previously stated to the Investigation Committee of which you were a member, that I have never asked the bank to make a mortgage loan with the intention of thereafter assuming it.

In addition to the above mortgages commented on by J. F. V. he mentions a joint liability with A. H. Moody upon mortgage of $30,000.00. This is not a direct but an indirect liability, and the circumstances are as follows:

Prior to 1923, the Peoples State Bank was the owner of a building lot on the northeast corner of Nevade and John R Streets, upon which it expected in the future to erect a branch. Before the branch was built, the Wayne County & Home Savings Bank built a branch on the southwest corner of Nevade and John R Streets, making it undesirable for The Peoples State Bank to go ahead with its project to build. In 1923, therefore, the bank sold the lot to one Louis Stoll, and as part of the consideration for making the sale agreed to take back a construction mortgage on the building to be erected by Stoll, for $30,000.00, to run for five years straight without principal payments. This transaction was handled by Henry P. Borgman, Vice President, and it is hardly necessary to state that I, then a junior officer of the bank, knew nothing whatever of the purchase or sale. Later (I think it was in 1925) Stoll having sold the property on land contract offered the vendor's interest in the contract to Arnott H. Moody and me, at a discount, and we purchased it subject to the mortgage which (unfortunately for us) we assumed and agreed to pay. Over a course of a few years the vendee's interest was transferred two or three times and eventually came into possession of one Albert J. Boyer. While he owned it the amount of the contract was reduced to the amount of the mortgage, and in accordance with his agreement in the contract, he took a deed wherein he assumed and agreed to pay the mortgage. From the records he has not done this, and at the time of the Verhelle report, as well as at the present time, the mortgage is under foreclosure by the bank. The appraisal of the property made last year as reported to me by one of the members of the bank's legal department, indicates that even now the property is worth fairly the amount of the mortgage and all accruals thereon, but if and when a deficiency judgment is obtained Mr. Moody and I will undoubtedly be liable for the amount of this deficiency which we can then proceed to collect, if we can, from Mr. Boyer. Please note, however, two very obvious facts: (a) We are not yet liable for the mortgage but are merely sureties therefor, and will remain such until it is proved that a deficiency exists. (b) As to the old question of moral liability, there can be no doubt whatever that we have no moral liability whatsoever for the payment of this debt since Henry Borgman in 1923 could not possibly have foreseen our con-

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nection with the mortgage in 1925, and further there is nothing we can do legally in the matter until our liability is determined, our hands being entirely tied until a decree is taken.

GENERAL BUILDING CORPORATION—STANDARD HOME BUILDING COMPANY

I became associated with the General Building Corporation as its secretary about 1922. Prior to this time I had done some small legal work for the company in the way of examination of abstracts, etc., and in 1922, was asked to take the place of, nominally, of the then retiring secretary. I was not an organizer of the company as stated in the J.F.V. report. At first I owned 10 shares of stock at $10.00 par value, paid for at par. In 1923, I purchased 10 more shares at par, $100.00 total. In 1924, upon an increase of capital of the company, I bought 700 additional shares at par, $7,000.00 total; and these purchases, a total of 720 shares of a par value of $7,200.00, constitutes my present holding. I have received but one dividend, $720.00, in 1928. As secretary I drew a salary in 1924 of $2,500.00, in 1925 of $2,500.00, and in 1929 of $1,000.00; in other years I drew no salary. The total capitalization was $44,000.00, so that my holding was less than one sixth of the whole. At the time I became a loaning officer of the bank I had been both an officer and director of this company for several years, and therefor, I asked that the loans of this company be handled by Mr. Richard T. Chadmore, then a senior officer of the bank. At a later period the handling of these loans was taken over by Arnott H. Moody, through whom a line of credit was granted to the company at a time when I was absent from the bank on a vacation. I have never had anything to do whatever with the mortgages of the company or the management of its affairs, and I resigned as a director December 30, 1932.

Standard Home Building Company is a subsidiary of General Building Corporation, and I was one of the organizers and secretary and director from its inception. In order to remove its financial activities from the bank by which I was employed, it did its business entirely with the Dime Savings Bank, later the bank of Michigan, until the merger of the latter bank with the Peoples Wayne County Bank forced the account and borrowing into the latter bank. I held only one share of common stock of this company, but on November 16, 1928, I purchased $5,000.00 par value of preferred stock, 7%, upon which I received regular semi-annual dividends until it was redeemed in 1931, at which time I took the par value of the stock in land contracts, paying a substantial amount in cash to help the company. I have never had anything to do with the management or operation of this company, nor did I ever receive any salary.

J. F. V. says that I appear to be indirectly connected or affiliated with four other companies. I cannot imagine what these companies are, since the only directorships or officerships which I ever held prior to leaving the bank (other than in units of the Detroit Bankers Company) were as a director in Cope Swift Company and in the American Products Company, in neither of which did I have any financial interest whatsoever, nor receive any remuneration of any kind therefrom, being merely a director nominated by and holding officer for the benefit of the bank as a creditor of these companies. To the best of my recollection I have had no other corporate connections.

MISCELLANEOUS

I am entirely at a loss to understand why he fills so many pages with the names of people with whom I have had no personal dealings whatsoever, except that he may suppose that thus by innuendo his accusations may gain weight. I know Bernard A. Lipson slightly but would not be able to recognize him on the street if I saw him. I knew Milford Stern, who is now dead. I knew Louis Chernoff slightly. I know Charles M. Leyton and have given him some insurance business. I know Leo Kolodin, who is a young lawyer, and has handled one or two minor matters for me in the Circuit Court Commissioner's Office, since the closing of the bank. I used to know John C. Hopp, but never intimately, and have not seen him for a long time. I do not know Sara Rosenzweig, Gertrude Wahlstein, Oscar Adelman or Harold N. Harris, Abener C. Rosenzweig. I have no faint idea why the Palace Garden Company is dragged in by the ears. I know E. A. O'Connor who is a certified public accountant of

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repute. I know M. A. Lipsitz whom I understand to be very well to do. I do not know Jesse B. Brown or Edward H. Webb or Henry Nussbaum or L. Oppenheim. Why these names were brought into the report, or what is intended to be proved or insinuated thereby, I do not know.

C. ROY DAVIS

I find that I have omitted mention of C. Roy Davis and Marie S. Davis. About 1915, Dr. C. Roy Davis, who is my close friend, began the purchase of vendor's interests in land contracts as a form of investment. At that time I started looking after these investments for him, entirely without charge to him, and have continued in this supervisory work until the present time. I did not actually keep his books which work was done for him by a certified public accountant who rendered annual reports directly to him, but I did oversee the collection of payments and disbursements of funds upon mortgages and for other purposes.

In this connection it was necessary for me to maintain an account separate and segregated from any of my own, and I have maintained such an account, designated "Donald N. Sweeny, Trustee" from about 1915, down to the time of the closing of the bank. This account frequently ran into substantial figures and until early in 1932 was maintained at the Delray branch where it was started many years before. In the spring of 1932, in order to avoid the difficulty of transferring credits from the main office to the branch, the account was removed to the main office. At the time of the monthly disbursements, about the first of May, 1932, by mistake Delray checks were used instead of checks drawn on the main office, checks so drawn totalling $947.59. On May 6, 1932, I was advised by Theodore F. Torney, Manager of the Delray Branch, that the account of Donald N. Sweeny, Trustee, was overdrawn between $400.00 and $500.00, and unwilling that this amount should remain as an overdraft over night, I instructed that an amount necessary to balance the account $947.59, be transferred by telephone. There can be no question whatever as to the propriety of this, and as to the further question of kiting, since there was on deposit in the main office in the same name several thousand dollars (I believe between $3,000.00 and $5,000.00) there could be no reasonable excuse whatsoever for the overdraft at Delray except an inadvertent use of the wrong check book. I state here as I stated before the Examining Committee, that I have nor have had no personal interest whatsoever in this account nor in the land contracts or mortgages of C. Roy Davis or Marie S. Davis.

Criticism has been made of the commercial loans of C. Roy Davis, J. F. V. has omitted to mention (inadvertently I hope), but cannot believe that these loans were at all times supported by adequate collateral of the highest marketability, both stocks and bonds, with ample margin and well fortified by the secondary support of adequate and substantial account balances. These loans are entirely paid, having been liquidated within a few weeks after the closing of the bank. The incident of the River Rouge account of C. Roy Davis is in error. He never did have an account of $15,000.00 in Peoples Wayne County Bank of River Rouge, but did have a $5,000.00 certificate of deposit which to his sorrow he has been unable to collect because of the closing of that bank.

(Sgd) DONALD N. SWEENY

STATE OF MICHIGAN,
County of Wayne, ss:

DONALD N. SWEENY, being first duly sworn deposes and says; that the foregoing statement dated January 27, 1934, entitled "Memorandum to Wilson W. Mills" and by him subscribed, is true of his own knowledge, except as to matters therein stated to be on information and belief, and as to those matters he believes it to be true.

(Sgd) DONALD N. SWEENY

Subscribed and sworn to before me this 3rd day of February, 1934.
[SEAL] (Sgd.) DAISY C. HOYETT,
Notary Public, Wayne County, Michigan.
My commission expires June 26, 1937.

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COMMITTEE EXHIBIT No. 160 (Feb. 7, 1934)

EXHIBIT No. 15 A

DETROIT BANKERS COMPANY, MEMO

To Mr. Wilson W. Mills
From D. Dwight Douglas
Date January 5, 1932
Copy to Mr. Ballantyne
Subject:

Enclosed is a revised recapitulation of directors' and officers' loans covering the entire institution, which can replace the one previously sent you. It still contains a loan of $1,597,916.62 marked D 12, i.e., duplicated twelve times. This is the First National Company loan and is a corporation matter, and in my opinion should not be included.

Also enclosed is a list which I have made of the loans that are reported in Mr. Verhelle's figures as under water, which I told you I would send.

D.D.D.

EXHIBIT No. 15 B

Recapitulation of loans to directors as of Dec. 17, 1931

Direct loans	$14, 247, 297. 50
Indirect loans	4, 643, 124. 41
Value of collateral	13, 327, 397. 25
Mortgage loans	1, 831, 878. 64
Land contracts	19, 722. 15
Total loans	20, 742, 022. 70
Affiliated borrowers:	
Direct loans	18, 049, 067. 06
Indirect loans	447, 321. 02
Commercial credit	170, 000. 00
Mortgage loans	2, 676, 181. 00
Land contracts	44, 413. 38
Total loans	21, 386, 982. 46

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Exhibit No. 15 C

Name	Direct loans	Indirect loans	Value of collateral	Mortgage loans	Land contract loans	Total loans
A. A. Albrecht	$5,062.50		$50,000.00			$5,062.50
Frank H. Alfred						
F. M. Alger	55,363.22	$55,855.84	53,750.00	$11,855.07		123,074.13
Ayers, Chas. H	(1)					
Standish Backus						
Ford Ballantyne	121,455.81		174,500.00			121,455.81
John Ballantyne	(1)					
George H. Barbour	127,583.34		60,225.00			127,583.34
Wm. T. Barbour	108,551.55		179,350.00			108,551.55
Dr. Henri Belanger	3,354.70		892.50	12,400.00		15,754.70
Calvin P. Bentley						
Wm. Blanck	(1)					
John R. Bodde		27,561.91	2,250.00			27,561.91
Warren S. Booth	47,598.03		135,000.00			47,598.03
Thos. J. Bosquett	28,900.00	3,496.88	41,670.00			32,396.88
M. C. Bourassa	294.99	3,371.00		11,653.12		15,319.11
Edgar W. Bowen	394,148.89		417,325.00			394,148.89
	152,084.66 D		163,545.00 D			152,084.66
Julian P. Bowen	391,870.94		551,590.00			391,870.94
	152,084.66 D		163,545.00 D			152,084.66
Lacey S. Brown		1,321.25				1,321.25
McPherson Browning	25,600.00		26,100.00			25,600.00
A. H. Buhl	500,000.00					500,000.00
C. Henry Buhl	(1)					
Lawrence D. Buhl	40,000.00	230,000.00	55,750.00			270,000.00
Howard W. Bulkley	28,576.13		4,860.00		$19,532.76	48,108.89
F. C. Burden	34,203.33	429.30	41,715.00			34,632.63
F. X. Burke	1,218.00		1,190.00			1,218.00
H. C. Burke	52,969.22		27,390.00	66,850.00		119,819.22
Clarence M. Burton		28,526.19				28,526.19
Lawrence K. Butler	7,097.32		12,800.00			7,097.32

Name	Direct loans	Affiliated borrowings				
		Indirect loans	Commercial credit	Mortgages	Land contracts	Total loans
A. A. Albrecht	$35,236.80	$4,367.37			$40,000.00	$79,604.17
Frank H. Alfred	406,243.95			$11,700.00		417,943.95
F. M. Alger	1,597,916.62					1,597,916.62
	1,597,916.62 D12					1,597,916.62

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Ayers, Chas H	158,250.00	48,020.59		299,624.63		505,895.22
Standish Backus	158,250.00 D3	48,020.59 D3		294,774.63 D2		505,895.22
				4,850.00 D3		
Ford Ballantyne						
John Ballantyne						
George H. Barbour						
Wm. T. Barbour				5,000.00		5,000.00
				5,000.00 D3		5,000.00
Dr. Henri Belanger						
Calvin P. Bentley	140,000.00					140,000.00
Wm. Blanck						
John R. Bodde				28,393.43		28,393.43
				28,393.43 D		28,393.43
Warren S. Booth	200,000.00			299,419.00		499,419.00
Thos. J. Bosquett	250,903.86					250,903.86
	185,000.00 D3					185,000.00
M. C. Bourassa						
Edgar W. Bowen	150,843.74		170,000.00			320,843.75
	75,843.75 D2		170,000.00 D2			320,843.75
	75,000.00 D2					
Julian P. Bowen	150,843.75		170,000.00			320,843.75
	75,843.75 D2		170,000.00 D2			320,843.75
	75,000.00 D2					
Lacey S. Brown						
McPherson Browning						
A. H. Buhl	603,431.19			5,600.00		609,031.19
	158,250.00 D3			750.00 D		609,031.19
	185,000.00 D3			4,850.00 D3		
	45,000.00 D2					
C. Henry Buhl	215,181.19 D					
Lawrence D. Buhl	855,652.47			750.00		856,402.40
Howard W. Bulkley	185,000.00 D3			750.00 D		856,402.40
	45,000.00 D2					
	215,181.19 D					
F. C. Burden	410,471.28 D3					
F. X. Burke						
H. C. Burke						
Clarence M. Burton	429,874.01					429,874.01
Lawrence K. Butler						

[1] Nothing.

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Exhibit No. 15 D

Name	Direct loans	Indirect loans	Value of collateral	Mortgage loans	Land contract loans	Total loans
Leo M. Butzel		$92,211.81				$92,211.81
Henry E. Candler	(1)					
David S. Carter						
John Cassidy	$507.50	60.84		$10,240.00		10,808.34
Herbert L. Chittenden	26,000.00	572.30	$20,230.00	18,550.00		45,122.30
Emory W. Clark						
Chas. F. Clippert	126,940.10	26,573.43	107,425.00			153,513.53
Henry T. Cole	137,000.00		47,030.00			137,000.00
Chas. F. Collins				5,534.00		5,534.00
E. F. Connely	8,497.97		3,000.00			8,497.97
R. P. Connor	4,835.95	808.70	2,400.00	3,500.00		9,144.65
D. W. Daker	36,496.85		22,375.00			36,496.85
James E. Danaher				8,730.00		8,730.00
R. E. Danaher				15,000.00		15,000.00
Jas. E. Davidson	95,000.00	365,000.00	116,250.00			460,000.00
M. B. Davis	1,218.50		2,257.00			1,218.50
Wm. M. Dillon	37,337.28		25,059.00	26,000.00		63,337.28
Horace E. Dodge, Jr	7,055.50		8,325.00			7,055.50
John M. Donaldson	(1)					
D. Dwight Douglas	(1)					
S. T. Douglas	95,085.54	1,000.00	107,527.00			96,085.54
Geo. W. Drennan	12,165.00		15,000.00	12,950.00		25,115.00
Walter L. Dunham	46,500.00	31,500.00	35,000.00			78,000.00
E. J. Durocher	1,544.88					1,544.88
John M. Dwyer	594,094.81					594,094.81

Name	Direct loans	Affiliated borrowings				
		Indirect loans	Commercial credit	Mortgages	Land contracts	Total loans
Leo M. Butzel	$5,273,254.61	$48,020.59		$28,393.43		$5,349,668.63
	1,155,000.00 D	48,020.59 D3		28,393.43 D		5,342,572.38
	81,355.56 D2					
	1,597,916.62 D12					
	410,471.28 D3					
	865,000.00 D					
	867,342.40 D					
	289,072.50 D					
Henry E. Candler						
David S. Carter	9,500.00					9,500.00

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John Cassidy						
Herbert L. Chittenden						
Emory W. Clark	3,617,916.62 1,155,000.00 D 1,597,916.62 D12 865,000.00 D	48,020.59 48,020.59 D3		294,774.63 294,774.63 D2		3,960,711.84 3,960,711.84
Chas. F. Clippert		798.50				798.50
Henry T. Cole	15,000.00					15,000.00
Chas. F. Collins						
E. F. Connely						
R. P. Connor						
D. W. Baker						
James E. Danaher						
R. E. Danaher						
Jas. E. Davidson	321,600.00					321,600.00
M. B. Davis						
Wm. M. Dillon						
Horace E. Dodge, Jr						
John M. Donaldson						
D. Dwight Douglas	1,609,222.83 1,597,916.62 D12			5,000.00 5,000.00 D3		1,614,222.83 1,602,916.62
S. T. Douglas						
Geo. W. Drennan	9,026.91					9,026.91
Walter L. Dunham	104,132.61					104,132.61
E. J. Durocher						
John M. Dwyer						

[1] Nothing.

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Exhibit No. 15 E

Name	Direct loans	Indirect loans	Value of collateral	Mortgage loans	Land contract loans	Total loans
T. T. Dysarz	$21,577.41	$659.97	$1,450.00	$4,400.00		$26,637.38
H. A. Eberts	4,081.22		6,550.00			4,081.22
Edwin J. Eckert	66,650.00	655.85	30,000.00	19,300.00		86,605.85
C. G. Edgar		150,000.00				150,000.00
Allen F. Edwards	660,399.28		374,696.00			660,399.28
John H. Emmert	19,500.00	4,200.00	26,100.00			23,700.00
D. M. Ferry, Jr		76,678.25		79,150.00		155,828.25
Hugh J. Ferry				4,420.00		4,420.00
Chas. T. Fisher	2,788,416.67	862,460.01	1,750,000.00			3,650,876.68
	1,271,354.13					1,271,354.13
Fred J. Fisher	1,274,179.76		1,565.00			1,274,179.76
	1,271,354.13					1,271,354.13
Jas. H. Flinn	190,000.00		233,600.00	37,478.72		227,478.72
J. B. Ford, Jr	328,893.75	44,261.27	579,668.00	250,000.00		623,155.02
Robert W. Ford	91,537.84	5,072.30	15,000.00			96,610.14
Harry J. Fox	223,392.69	130,444.40	244,620.00			353,837.09
R. P. Fraser	28,955.94		10,920.00			28,955.94
J. C. Friedel	28,411.25		26,800.00	2,000.00		30,411.25
John A. Fry	195,419.50		71,093.75	13,600.00		209,019.50
Chas. Gartner	5,076.50	11,586.38	2,330.00	19,000.00		35,662.88
Ralph Gilchrist	(1)					
Wm. J. Gray	2,500.00	1,500.00	6,720.00			4,000.00
Albert E. Green	11,971.26		13,300.00			11,971.26
Walter F. Haass	95,073.64	26,835.82	81,350.00	17,900.00		139,809.46
Hamilton Hadden	(1)					
Henry A. Haigh	40,183.33		44,400.00			40,183.33

Name	Direct loans	Affiliated borrowings				
		Indirect loans	Commercial credit	Mortgages	Land contracts	Total loans
H. A. Eberts	$9,527.82	$1,624.19				$11,152.01
	6,989.49 D	401.00 D				7,390.49
C. G. Edgar	2,033,041.62					2,033,041.62
	260,125.00 D					1,858,041.62
	1,597,916.62 D12					
Allen F. Edwards	14,857.65					14,857.65
	14,857.65 D					14,857.65

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D. M. Ferry, Jr	1,945,438.62	48,020.59	$170,000.00	$412,002.68		2,576,056.24
	75,843.75 D 2	48,020.59 D3	170,000.00 D2	294,774.63 D2		2,381,555.59
	1,597,916.62 D12					
	120,000.00 D 2					
	75,000.00 D 2					
Chas .T. Fisher	2,533,575.00					2,533,575.00
	2,073,575.00 D					2,533,575.00
	460,000.00 D					
Fred J. Fisher	2,533,575.00					2,533,575.00
	2,073,575.00 D					2,533,575.00
	460,000.00 D					
Jas. H. Flinn	280,000.00			956,146.79		1,236,146.79
	180,000.00 D			298,957.95 D		1,236,146.79
	100,000.00 D2			2,813.00 D		
				654.875,84 D		
J. B. Ford, Jr	188,009.31					188,009.3
Robert W. Ford						
Harry J. Fox	1,679,272.18					1,679,272.18
	1,597,916.62 D12					1,679,272.18
	81,355.56 D2					
J. C. Friedel						
John A. Fry						
Chas. Gartner	11,008.40					11,008.40
Ralph Gilchrist						
Wm. J. Gray	30,000.00					30,000.00
Albert E. Green						
Walter F. Haass	913.65	4,310.80				5,224.45
Hamilton Hadden						
Henry A. Haigh						

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EXHIBIT No. 15 F

Name	Direct loans	Indirect loans	Value of collateral	Mortgage loans	Land-contract loans	Total loans
Julian H. Harris	$603,431.15		$258,001.00			$603,431.15
Henry Hart				$6,525.00		6,525.00
John H. Hart	83,900.00	$9,831.33	66,670.00	99,600.00		193,331.33
Oren S. Hawes	3,000.00		5,800.00			3,000.00
C. L. Heide	1,750.00			5,710.54		7,460.54
Christian H. Hecker						
Edward J. Hickey	25,192.03		54,155.00			25,192.03
James Holden	(1)					
Fred W. Hodges	32,981.25		66,500.00			32,981.25
Wm. P. Holliday		456.82				456.82
Edwin K. Hoover	5,914.96		2,700.00			5,914.96
Chas. J. Horger		600.00		63,762.00		64,362.00
Warren J. Hoysradt	(1)					
F. Langdon Hubbard	1,167.60					1,167.60
Frank W. Hubbard	1,530.75	1,567.58	5,000.00	4,725.00		7,823.33
J. C. Hutchins	3,548.50		6,000.00			3,548.50
Raymond A. Jacobs	40,373.79		8,825.00			40,373.79
Geo. H. Johnstone	5,055.64	91.36	450.00	26,100.00		31,247.00
Lewis H. Jones						
Mylne Keena	46,773.95		28,175.00			46,773.95
Wm. H. Kirn	(1)					
Chas. Krause	2,550.84		1,785.00			2,550.84
E. O. Krentler	10,544.00		27,750.00			10,544.00
E. R. Labadie		1,274.60				1,274.60
F. X. Lafferty	1,200.00	126.00				1,326.00

Name	Direct loans	Affiliated borrowings				
		Indirect loans	Commercial credit	Mortgages	Land contracts	Total loans
Julian H. Harris	$423,913.03			$4,850.00		$428,763.03
	158,250.00 D3			4,850.00 D3		163,100.00
Henry Hart				9,500.00		9,500.00
John H. Hart						
Oren S. Hawes	333,063.33	$860.65		980,483.79		1,314,407.77
	180,000.00 D			298,957.95 D		1,233,333.79
	100,000.00 D2			654,375.84 D		
C. L. Heide						
Christian H. Hecker	154,815.70			13,409.41		168,225.11
	45,000.00 D2			2,813.00 D		47,813.00

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Edward J. Hickey	118,674.09			65,000.00		183,674.09
	103,547.00 D			65,000.00 D		168,547.00
James Holden						
Fred W. Hodges	158,250.00			4,850.00	$4,413.38	167,513.38
	158,250.00 D3			4,850.00 D3		163,100.00
Wm. P. Holliday	279,469.82			3,500.00		282,969.82
	279,469.82 D					279,469.82
Edwin K. Hoover	1,597,916.62					1,597,916.62
	1,597,916.62 D12					1,597,916.62
Chas. J. Horger						
Warren J. Hoysradt						
F. Langdon Hubbard						
Frank W. Hubbard	906,175.12					906,175.12
	867,342.40D					867,342.40
J. C. Hutchins						
Raymond A. Jacobs						
Geo. H. Johnstone						
Lewis H. Jones	1,597,916.62			2,425.00		1,600,341.62
	1,597,916.62D12					1,597,916.62
Mylne Keena						
Wm. H. Kirn						
Chas. Krause						
E. O. Krentler						
E. R. Labadie						
F. X. Lafferty						

[1] Nothing.

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Exhibit No. 15 G

Name	Direct loans	Indirect loans	Value of collateral	Mortgage loans	Land contract loans	Total loans
W. H. Lalley	$93,785.33		$166,785.00			$93,785.33
Henry Ledyard	6,057.75		5,000.00			6,057.75
Peter J. Leszczynski	26,544.67	$1,691.98	17,864.00	$74,538.16		102,774.81
Edwin C. Lewis	290,120.50		234,435.00	1,362.50		291,483.00
Eugene W. Lewis	144,237.45		158,240.00			144,237.45
Eugene R. Lewright	25,243.90		10,190.00	6,400.00		31,643.90
S. R. Livingstone	106,807.59		125,778.00			106,807.59
T. W. P. Livingstone	71,822.50		73,406.00			71,822.50
Arthur E. Loch	87,069.76	4,700.26	50,750.00	33,000.00		124,770.02
Robert B. Locke	33,939.83		12,210.00	7,975.00		41,914.83
R. J. Lynch	2,850.52		1,165.00			2,850.52
Ernest K. Matlock		456.83		11,000.00		11,456.83
Wm. B. Mayo						
Edward C. Mahler	(1)					
Herbert W. Mason	3,045.50			2,075.00		5,120.50
Wm. J. McAneeny	127,118.02		127,000.00			127,118.02
Wm. H. McClenahen	16,110.23		13,387.50	5,150.00		21,260.23
N. F. H. McLeod	194,476.96		217,890.00			194,476.96
C. W. McCall	(1)					
James T. McMillan						
John A. Mercier	255,279.78	17,246.50	125,000.00	158,550.00		431,076.28
Sidney T. Miller	(1)					
Wilson Mills				6,655.00		6,655.00

Name	Direct loans	Affiliated borrowings				
		Indirect loans	Commercial credit	Mortgages	Land contracts	Total loans
W. H. Lalley	$27,681.48			$35,000.00		$62,681.48
	27,681.48 D 2			35,000.00 D 2		62,681.48
Henry Ledyard						
Peter J. Keszczynski						
Edwin C. Lewis	54,321.50			63,256.67		117,578.17
Eugene W. Lewis	646,471.78					646,471.78
	410,471.28 D 3					586,471.28
	176,000.00 D					
Eugene R. Lewright						

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S. R. Livingstone	869,684.91	12,474.72		60,330.00		982,489.63
	84,590.14[1] D			35,000.00 D 2		147,271.62
	27,681.48 D 2					
	388,407.99			35,000.00		423,407.99
T. W. P. Livingstone	84,590.14 D			35,000.00 D 2		409,228.99
	27,681.48 D 2					
	141,957.37 D					
	120,000.00 D 2					
Arthur E. Loch						
Robert B. Locke						
R. J. Lynch	8,125.32					8,125.32
	8,125.32 D					1,825.32
Ernest K. Matlock						
Wm. B. Mayo	5,941.64					5,941.64
Edward C. Mahler						
Herbert W. Mason						
Wm. J. McAneeny						
Wm. H. McClenahen						
N. F. H. McLeod	1,597,916.62					1,597,916.62
	1,597,916.62 D12					1,597,916.62
C. W. McCall						
James T. McMillan	1,597,916.62			5,000.00		1,602,916.62
	1,597,916.62 D12			5,000.00 D3		1,602,916.62
John A. Mercier						
Sidney T. Miller						
Wilson Mills						

[1] Nothing.

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EXHIBIT No. 15–H

Name	Direct loans	Indirect loans	Value of collateral	Mortgage loans	Land contract loans	Total loans
Peter J. Monaghan	$43, 593. 42	$2, 017. 45	$24, 750. 00	$11, 000. 00		$56, 610. 87
A. V. Moninger	8, 987. 50		14, 990. 00			8, 987. 50
Arnott H. Moody	16, 078. 02		11, 600. 00	88, 175. 00		104, 253. 02
Lucian S. Moore	21, 509. 93	100, 136. 50		68, 328. 50		189, 974. 93
F. G. Morley	8, 618. 70		30, 000. 00	8, 900. 00		17, 518. 70
J. O. Murfin	15, 189. 60		17, 925. 00			15, 189. 60
M. J. Murphy	97, 195. 83	136, 500. 00	86, 250. 00			233, 695. 83
Frank J. Navin	(1)					
W. J. Nesbitt	52, 220. 74		28, 097. 00	32, 847. 28		85, 068. 02
Truman H. Newberry	761, 625. 00		1, 100, 000. 00			761, 625. 00
John T. Nichols	25, 000. 00		45, 000. 00			25, 000. 00
Willard Ohliger	(1)					
Nelson L. Olson	21, 863. 31	3, 559. 79	40, 000. 00			45, 423. 10
George Osius	82, 547. 33	3, 945. 33	56, 040. 00	1, 375. 00		87, 867. 66
Henry Otis	97, 456. 00	470. 30	98, 510. 00	6, 700. 00		104, 626. 30
James V. Oxtoby	10, 126. 29		12, 500. 00			10, 126. 29
C. E. Partridge				19, 675. 00		19, 675. 00
Julius C. Peter				14, 625. 00		15, 625. 00
Geo. Harrison Phelps	126, 713. 75		140, 163. 00			126, 713. 75
Julius Porath	15, 719. 34			1, 800. 00		17, 519. 34
Daniel L. Quirk, Jr	(1)					
U. Grant Race	12, 775. 18	355. 38	17, 250. 00	34, 000. 00		47, 130. 56
Horace H. Rackham	(1)					
W. C. Rands	1, 795. 21	91, 570. 64	1, 900. 00			93, 365. 85
Fred J. Robinson	84, 825. 00		239, 160. 00			84, 825. 00

Name	Direct loans	Indirect loans	Affiliated borrowings			
			Commercial credit	Mortgages	Land contracts	Total loans
Peter J. Monaghan	$477, 563. 62	$21, 447. 43				$499, 011. 05
A. V. Moninger		21, 447. 43 D				21, 447. 43

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Arnott H. Moody						
Lucian S. Moore	76,145.83	42,435.93				118,581.76
F. G. Morley						
J. O. Murfin		21,447.43				21,447.43
		21,447.43 D				21,447.43
M. J. Murphy	92,814.65					92,814.65
Frank J. Navin						
W. J. Nesbitt						
Truman H. Newberry	40,400.00			$5,000.00		45,400.00
				5,000.00 D3		5,000.00
John T. Nichols						
Willard Ohliger						
Nelson L. Olson	3,559.79					3,559.79
George Osius						
Henry Otis						
James V. Oxtoby						
C. E. Partridge						
Julius C. Peter						
Geo. Harrison Phelps						
Julius Porath						
Daniel L. Quirk, Jr						
U. Grant Race	292,319.00	3,247.07				295,566.07
	289,072.50 D					289,072.50
Horace H. Rackham						
W. C. Rands	2,189,743.46	14,123.90				2,203,876.36
	81,355.56 D2					2,089,743.46
	410,471.28 D3					
	1,597,916.62 D12					
Fred J. Robinson	289,992.36	92,410.28		61,301.37		443,714.01
	67,500.00 D	11,477.75 D				78,977.75

[1]Nothing.

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EXHIBIT No. 15 I

Name	Direct loans	Indirect loans	Value of collateral	Mortgage loans	Land contract loans	Total loans
W. Dean Robinson	$50,000.00	$57,500.00	$103,070.00			$107,500.00
Chas. M. Roehm				$20,200.00		20,200.00
Henry Roehrig	50,315.86	3,999.19	37,047.50	17,065.00		71,380.05
E. H. Rogers	11,112.13		7,800.00	24,500.00		35,612.13
Walter S. Russell	302,829.20		230,395.00			302,829.20
F. Howard Russ, Jr	(1)					
Dr. Roman Sadowski	8,704.76	2,727.45	6,528.00	14,400.00		25,832.21
Carter Sales	(1)					
I. J. Salliotte	1,218.20	2,800.00	1,800.00			4,018.20
John H. Schaefer	1,421.00	12,793.34				14,214.34
Jos. B. Schlotman	5,063.19	304.95	57,000.00			5,368.14
Emery Schonfeld	(1)					
Walter Scotten						
Wessen Seyburn	507,205.03	598,835.84	590,120.00			1,106,040.87
Henry Shearer	(1)					
Henry Shelden		119,000.00		3,656.25		122,656.25
John C. Shields	(1)					
Robert Shiell						
Howard F. Smith	5,069.51		11,750.00			5,069.51
Chas. P. Spicer	9,700.00		8,960.00			9,700.00
E. D. Stair		14,441.30				14,441.30
Henry G. Stevens	(1)					
Ralph Stone	2,000.00		4,350.00	23,500.00		25,500.00
Emil Stroh	(1)					
Donald N. Sweeny				65,467.50		65,467.50

Name	Direct loans	Indirect loans	Affiliated borrowings			Total loans
			Commercial credit	Mortgages	Land contracts	
W. Dean Robinson	$67,500.00	$11,477.75				$78,977.75
	67,500.00 D	11,477.75 D				78,977.75
Chas. M. Roehm	14,857.65					14,857.65
	14,857.65 D					14,857.65
Henry Roehrig	15,114.81	401.00				15,515.81
	8,125.32 D	401.00 D				15,515.81
	6,989.49 D					
E. H. Rogers						
Walter S. Russell						
F. Howard Russ, Jr						

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Dr. Roman Sadowski	2,727.45					2,727.45
Carter Sales						
I. J. Salliotte						
John H. Schaefer						
Jos B. Scholtman						
Emery Schonfeld						
Walter Scotten	52,487.50					52,487.50
Wesson Seyburn	68,938.46	587.93		$89,500.00		159,026.39
Henry Shearer						
Henry Shelden	64,390.00	15,684.32		442,700.00		522,774.32
John C. Shields						
Robert Shiell	341,576.94					341,576.94
Howard F. Smith						
Chas. P. Spicer						
E. D. Stair	2,043,041.62	14,499.60				2,057,541.22
	1,597,916.62 D12					2,043,042.62
	260,126.00 D					
	185,000.00 D3					
Henry G. Stevens						
Ralph Stone						
Emil Stroh						
Donald N. Sweeny						

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EXHIBIT No. 15 J

Name	Direct loans	Indirect loans	Value of collateral	Mortgage loans	Land contract loans	Total loans
Orla B. Taylor	(1)					
Albert P. Ternes	$22,503.33	$75.00	$8,437.00	$19,200.00		$41,778.33
L. S. Trowbridge	7,977.80	10,629.60		110,625.00	$189.39	129,421.79
Herbert B. Trix	23,153.38		23,852.00	14,250.00		37,403.38
Stephen Trybus	11,524.44		9,524.00	16,525.00		28,049.44
C. B. Van Dusen	105,000.00	84,012.00	233,420.00			189,012.00
B. G. Vernor	24,360.00		12,000.00			24,360.00
Wm. M. Walker	38,037.81		6,000.00	25,000.00		63,037.81
H. B. Ward				7,000.00		7,000.00
Fred Wardell	425,000.00	1,488.39	1,396,250.00			426,488.39
John W. Watling	30,412.50		76,400.00			30,412.50
Oscar Webber	376,213.41	400,000.00	550,000.00			776,213.41
Richard H. Webber						
George Wiley	7,123.75		14,600.00			7,123.75
Mark Wilson	1,150.37			6,375.00		7,525.37
Chas. Wright, Jr	17,582.63	775,000.00	15,840.00	13,050.00		805,632.63
Dubois Young	478,245.20		423,384.00			478,245.20
	15,670,736.29	4,643,124.41	13,490,942.25	1,831,878.64	19,722.15	22,165,461.49
Less duplications	1,423,438.79		163,545.00			1,423,438.79
Net total	14,247,297.50	4,643,124.41	13,327,397.25	1,831,878.64	19,722.15	20,742,022.70

Name	Direct loans	Affiliated borrowings				
		Indirect loans	Commercial credit	Mortgages	Land contracts	Total loans
Orla B. Taylor						
Albert P. Ternes	$129,019.22	$45,854.31		$17,772.15		$192,645.68
L. S. Trowbridge	25,423.61			3,412.50		28,836.11
Herbert B. Trix						
Stephen Trybus						
C. B. Van Dusen	2,035,000.00					2,035,000.00
B. G. Vernor						
Wm. M. Walker	218,260.84			101,000.00		319,260.84
	103,547.00 D			65,000.00 D		272,094.00
H. B. Ward						
Fred Wardell	379,471.82					379,471.82
	100,000.00 D2					379,471.82
	279,471.82 D					

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John W. Watling	661,957.37					661,957.37
	141,957.37 D					261,957.37
	120,000.00 D2					
Oscar Webber	10,309.63			64,300.00		74,609.63
				64,300.00 D		64,300.00
Richard H. Webber				64,300.00		64,300.00
				64,300.00 D		64,300.00
George Wiley						
Mark Wilson						
Chas. Wright, Jr	214,500.00			1,175.00		215,675.00
	176,000.00 D					176,000.00
Dubois Young						
	47,783,324.80	528,667.79	$510,000.00	4,479,870.48		53,346,276.45
Less duplications	29,734,257.74	81,346.77	340,000.00	1,803,689.48		31,959,293.99
Net total	18,049,067.06	447,321.02	170,000.00	2,676,181.00	$44,413.38	21,386,982.46

[1] Nothing.

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STOCK EXCHANGE PRACTICES

THURSDAY, FEBRUARY 8, 1934

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

The subcommittee met at 10:15 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, and Couzens.

Present also: Ferdinand Pecora, counsel to the committee; Julius Silver and David Saperstein, associate counsel to the committee; and Frank J. Meehan, chief statistician to the committee.

The CHAIRMAN. The subcommittee will come to order. Mr. Saperstein, you may proceed.

TESTIMONY OF MARK A. WILSON, DETROIT, MICH., RECEIVER OF THE UNION INDUSTRIAL TRUST & SAVINGS BANK, FLINT, MICH.—Resumed

Mr. SAPERSTEIN. Mr. Wilson, will you state, briefly, what the business of the First National Co. of Detroit was?

Mr. WILSON. At the time of its incorporation it was an affiliate of the First National Bank, handling purchases and sales of securities for customers and clients.

Mr. SAPERSTEIN. Do you know whether the First National Co. ever accepted deposits?

Mr. WILSON. I believe the records reflect that they did.

Mr. SAPERSTEIN. Among the records which you were subpenaed to bring before this committee, and which you delivered into our possession, I note a schedule which purports to show customers' deposits of the First National Co. of Detroit, and that schedule shows that as of the close of business August 31, 1930, there was on deposit with the First National Co. of Detroit for the account of various customers the aggregate sum of $1,549,467. Can you say by what authority the First National Co. of Detroit accepted those deposits?

The CHAIRMAN. First, were those demand deposits?

Mr. WILSON. I believe they were payable on demand.

Mr. SAPERSTEIN. Were they all demand deposits?

Mr. WILSON. I do not know whether they were segregated as demand or time deposits, but I believe they were payable upon demand if the depositor desired funds.

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Senator COUZENS. What evidence was given to the depositor of his deposit?

Mr. WILSON. I do not know.

Senator COUZENS. You do not know what form evidenced the deposit?

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

Mr. SAPERSTEIN. Will you now answer the question: Do you know by what authority the First National Co. of Detroit accepted those deposits?

Mr. WILSON. I do not know by what authority they accepted them.

Mr. SAPERSTEIN. Would you consider that the acceptance of those deposits constituted the carrying on by the First National Co. of Detroit of the banking business?

Mr. WILSON. Well, it would be banking to the extent of accepting deposits.

Mr. SAPERSTEIN. Do you know whether there was anything in the original articles of association of the First National Co. which authorized them to accept deposits?

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

Mr. SAPERSTEIN. I have before me what purports to be a copy of the articles of association of the First National Co. I ask you whether you can identify this as a true and correct copy thereof.

Mr. WILSON (looking at paper). I would be unable to identify the articles of association of the First National Co.

Mr. SAPERSTEIN. Have you never seen them?

Mr. WILSON. I do not recollect ever having seen them.

Mr. SAPERSTEIN. That copy is taken from the records of the First National Co., and, Mr. Chairman, I offer it in evidence, but it need not be spread in full on the record.

The CHAIRMAN. Is it certified to by any officer of the company?

Mr. SAPERSTEIN. No; it is not certified to, but it was delivered to our investigators as a true and correct copy of the articles of association.

The CHAIRMAN. I think it might be marked for identification.

(The articles of association of the First National Co. of Detroit were marked "Committee Exhibit No. 165 for identification, Feb. 8, 1934", and will be held in the records of the committee.)

Mr. SAPERSTEIN. I want particularly to refer, Mr. Wilson, to article II of the articles of association of the First National Co. of Detroit, which has been marked "Committee Exhibit No. 165 for identification", as of this date. Article II provides as follows:

> The purpose or purposes of this corporation are as follows:
>
> To buy, sell, pledge, hold, and generally deal in bonds, notes, mortgages, debentures, and other evidences of indebtedness, and stocks, investments, and securities of every name or nature, as agent or broker, and to transact all other business incident to the foregoing.

That is the end of article II. Would you say there was anything in those purposes as expressed in article II which authorizes the acceptance of deposits by the First National Co.?

Mr. WILSON. Well, I do not recognize any such authority in that particular article.

Mr. SAPERSTEIN. Did you call the attention of any of the officers or directors of the First National Co. to the fact that there was no authority for that company to accept deposits?

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Mr. WILSON. I think it is quite possible there were some discussions had in regard to the First National Co. and these accounts which they were carrying during the year 1930, leading up to the disposal of those liabilities, paying them off. I did not have a great deal to do with the First National Co.

Senator COUZENS. Do you know whether they have discontinued the taking of deposits?

Mr. WILSON. Well, I think they discontinued taking deposits after the formation of the Detroit Bankers Co. I do not think they ever accepted any deposits in that company after the formation of the Detroit Bankers Co., which was in January of 1930.

Senator COUZENS. And that was in January of 1930?

Mr. WILSON. That is correct.

Senator COUZENS. Did they retain all these deposits, amounting to $1,549,476, from the date of the organization of the Detroit Bankers Co. up to August 31, 1930?

Mr. WILSON. At the time of the organization of the Detroit Bankers Co., as I recollect, the deposit account was considerably higher than that. But they were reducing them, were in the process of paying out those deposits.

Senator COUZENS. But you have no information as to the amount of the deposits at the time of the organization of the Detroit Bankers Co., have you?

Mr. WILSON. I have the report of Ernst & Ernst, which is in the hands of Mr. Saperstein, which indicates the amount at the time of their examination on December 14, 1929.

Mr. SAPERSTEIN. I show you what purports to be a report of examination of the First National Co. of Detroit, December 14, 1929, which appears to have been prepared by Ernst & Ernst, and ask you whether you can identify that report.

Mr. WILSON (after looking casually at the report). I can identify this report as a report made by Ernst & Ernst.

Mr. SAPERSTEIN. Does that report which you have just referred to indicate the amount of customers' deposits in December?

Mr. WILSON. That is correct. This is a report of the examination of the First National Co. as of December 14, 1929, as presented by Ernst & Ernst, certified public accountants.

Mr. SAPERSTEIN. By referring to that report, can you give us the amount of deposits as of that date?

Mr. WILSON. In the balance sheet as of December 14, 1929, under the heading "Liabilities", there are customers' deposits, which are further qualified by saying "For investment", of $2,614,360.54; and further qualified by "Pending delivery of securities", another amount of $514,880.30, or a total of $3,129,240.84.

The CHAIRMAN. What became of those deposits?

Mr. WILSON. Those were paid later in full, as I recollect.

The CHAIRMAN. What was that answer?

Mr. WILSON. They were paid off in full later on.

Mr. SAPERSTEIN. Did the First National Co. pay interest on those deposits?

Mr. WILSON. My recollection is that they did; yes, sir.

Mr. SAPERSTEIN. Generally at what rate?

Mr. WILSON. Generally at 4 percent.

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Mr. SAPERSTEIN. At the time when the First National Co. was taking those deposits what was the rate of interest paid by the First National Bank?

Mr. WILSON. Well, I would have to confine my answer to the year 1929, which covers this period. At that time the First National Bank's bylaws provided for paying 3-percent upon savings accounts and time deposits, as I recollect. And upon commercial deposits I do not know of any regulation or rule that limited the amount of interest paid.

Mr. SAPERSTEIN. How much, according to your recollection, was actually paid during that period?

Mr. WILSON. Well, I doubt if the records of the First National Bank during 1929 will show that they paid in excess of 3 percent upon any account, either commercial accounts or savings accounts.

Mr. SAPERSTEIN. Those persons who became depositors or customers of the First National Co. received, generally, 4 percent on their deposits?

Mr. WILSON. Yes.

Mr. SAPERSTEIN. Did you cause an inquiry to be made as to the legality of the acceptance of those deposits by the First National Co.?

Mr. WILSON. No; I do not recollect of it.

Mr. SAPERSTEIN. Was there any discussion as to its legality in which you participated?

Mr. WILSON. None in which I participated that I recollect.

Mr. SAPERSTEIN. You say the company discontinued taking deposits some time in, or immediately after the formation of the Detroit Bankers Co.?

Mr. WILSON. No. I would not intend to say immediately afterwards. They discontinued accepting deposits, new ones; yes.

Mr. SAPERSTEIN. How long did it continue to retain those customers' deposits which it had?

Mr. WILSON. Why, I would have to rely upon what the records show. I do not know when they finally paid them off.

Mr. SAPERSTEIN. Were you the only officer who raised the question as to the right to take those deposits?

Mr. WILSON. Well, I don't recollect of participating in discussions in regard to those deposits.

Mr. SAPERSTEIN. Did you at any time object to the First National Co. taking deposits?

Mr. WILSON. Undoubtedly I objected to the First National Co. accepting deposits; yes, sir.

Mr. SAPERSTEIN. Was there any connection between the fact that the First National Co. discontinued accepting deposits and your objection to it?

Mr. WILSON. Well, I would say that I probably expressed myself to the extent that those deposits should be paid off by the First National Co. and the practice discontinued entirely.

Senator COUZENS. May I ask this question: Do you know whether all this list of deposits shown as of August 31, 1930, aggregating $1,549,476 have been paid off in full?

Mr. WILSON. It is my recollection that they were paid off in full in the latter part of 1930, but I haven't any actual date.

The CHAIRMAN. What became of the First National Co.?

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Mr. WILSON. At the time I left the Detroit Bankers Co., in the spring of 1932, the First National Co. was in existence. I do not know about it today.

Mr. SAPERSTEIN. The First National Co. was not under supervision of any State or Federal banking department, was it?

Mr. WILSON. That is correct.

Mr. SAPERSTEIN. What was the basis of the objection you made to the acceptance of deposits by the First National Co.?

Mr. WILSON. Well, my basis would be that they were accepting those funds for deposit, or as the report there indicates, probably for investment purposes. But I am not sure. I considered them, in my own mind, as deposits, and I did not believe the company should carry on that type of transaction.

Mr. SAPERSTEIN. Did you consider that that type of business was in competition with the business conducted by the First National Bank?

Mr. WILSON. No; I wouldn't see any objection there. It was handled by the same individuals probably.

Mr. SAPERSTEIN. Mr. Wilson, I show you a letter, or a copy of a letter, addressed to Mr. Julius H. Haass, under date of January 6, 1930, and ask you whether your signature appears at the end of that letter.

Mr. WILSON (after hastily scanning each page of the letter). I believe that is a copy of a letter I wrote to Mr. Haass under that date.

Mr. SAPERSTEIN. Mr. Chairman, I now offer the letter in evidence.

The CHAIRMAN. It may be admitted.

Mr. SAPERSTEIN. It need not be spread in full upon the minutes of our hearing. I will read the portions I want to call the witness's attention to.

(A letter addressed to Julius H. Haass, under date of January 6, 1930, by Mark A. Wilson, was marked "Committee Exhibit No. 166, February 8, 1934", but it is not to be spread in full on the record.)

Mr. SAPERSTEIN. The letter, which has been marked in evidence "Committee Exhibit No. 166", as of this date, is dated January 6, 1930, and addressed to Mr. Julius H. Haass, president of the Detroit Bankers Co., Detroit, Mich. I want to call attention to the following portions of this letter, Mr. Wilson——

Senator COUZENS (interposing). What is the date of the letter, Mr. Saperstein?

Mr. SAPERSTEIN. It is dated January 6, 1930. It was originally written as "1929" but appears to have been corrected to read 1930. Mr. Wilson, the date was intended to be 1930, wasn't it?

Mr. WILSON. That is my recollection.

Senator COUZENS. That was 2 days before the organization of the Detroit Bankers Co.?

Mr. WILSON. Yes, sir. And following a meeting at Mr. Haass's house on January 1, 1930.

Mr. SAPERSTEIN. I read from the letter:

At the meeting of the board of directors of the Detroit Bankers Co., held Thursday, January 2, I was instructed to further investigate the position of the First National Co. and the Detroit Co. with respect to the change in the position of these two companies since August 31, and to recommend to you what steps should be taken, if any, to offset or counterbalance any major changes.

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Changes in these two companies as of December 31, 1929, as compared with August 31, 1929, were substantial, owing to the fact that both of these companies deal in stocks, and the recent decline in stock prices materially affected the value of the holdings of these two companies.

However, it has been my feeling that it was well known to the board that these companies did deal in stocks, and it was also undoubtedly understood that the value of the stockholdings was subject to fluctuation in accordance with general market conditions. It does not seem to me that any particular criticism can be leveled against the officers of either of the two companies because the general decline in stock prices found them with stocks on their shelves which were subject to revaluation.

I have felt, however, that after August 31, 1929, matters in connection with the merger had progressed to such a point that any major change of policy on the part of either of the two companies should have had the approval, either informally or formally, of the Board of Directors of the Detroit Bankers Co.

I want to interrupt the reading of this letter at this point, Mr. Wilson, and ask you to what you referred when you used the expression—

Any major change of policy on the part of either of the two companies should have had the approval, either informally or formally, of the board of directors of the Detroit Bankers Co.

Mr. WILSON. Well, I believe the letter indicates further along as to what I had in mind there. But, as I recollect it, it was the purchase by the First National Co. of stocks of banks which were to become units of the Detroit Bankers Co. under the proposed set-up.

Mr. SAPERSTEIN. When you say "purchased" did you mean purchased subsequent to the date when the plans for the merger had reached the point you refer to in this sentence?

Senator COUZENS. There was no merging then, was there?

Mr. WILSON. There was no merger then.

Mr. SAPERSTEIN. You used the expression "merger" and that is the reason I am using it. You said in the letter:

I have felt, however, that after August 31, 1929, matters in connection with the merger had progressed to such a point that any major change of policy on the part of either of the two companies should have had the approval, either informally or formally, of the Detroit Bankers Co.

After the plans for this consolidation had progressed to the point to which you refer in this letter, were those stocks in banks which were to become units of the Detroit Bankers Co. traded in by the First National Co.?

Mr. WILSON. Well, that is the basis of that memorandum. There were purchases made following the negotiations, right up to the commencing of the formation of the Detroit Bankers Co., I mean the announcement of it, which was announced the latter part of September of 1929. But there was a period there, between that date and the formation of the Detroit Bankers Co., on January 8, 1930, and prior to the report of Ernst & Ernst, auditors, as of December 14, 1929.

Mr. SAPERSTEIN. Do you know who participated in the purchase of those securities?

Mr. WILSON. I don't know the individuals. Only the First National Co. have I reference to.

Mr. SAPERSTEIN. And when you said in your letter that it was your feeling these matters should have been submitted to the board of directors of the Detroit Bankers Co., to what individuals did you refer? Had the board of directors already been decided upon?

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Mr. WILSON. I believe so, at the date of that communication you have there in your hand. I think during the fall of 1929, after the announcement of the formation of the holding company, I mean the Detroit Bankers Co., it was known who would be the directors of the Detroit Bankers Co.

Mr. SAPERSTEIN. I will resume the reading of the letter:

In conformance with this theory my investigation has been conducted to determine what, if any, losses sustained after August 31 were the result particularly of major changes in policies, or the result of transactions of sufficient importance to have justified their reference to the board of directors for approval.

I assume here you meant the proposed board of directors of the Detroit Bankers Co.

Mr. WILSON. The proposed board of directors of the Detroit Bankers Co.

Mr. SAPERSTEIN. The letter continues:

I have felt that this also covers the period from August 31 to the time of the formation of the board, because meetings were being constantly held, and opportunity was presented to disclose any major change from the figures which had been presented.

Mr. Wilson, had you attended those meetings?

Mr. WILSON. I attended some of those meetings; yes, sir.

Mr. SAPERSTEIN. Had anything been said, either formally or informally, at those meetings with regard to the purchase of those unit bank stocks, or proposed unit bank stocks, by the First National Co.?

Mr. WILSON. Not to my recollection.

Mr. SAPERSTEIN. How did you first discover that those purchases had been made?

Mr. WILSON. When the Ernst & Ernst report was filed, or presented.

Mr. SAPERSTEIN. Are you now referring to the report which was presented on December 14, 1929?

Mr. WILSON. That is correct.

Mr. SAPERSTEIN. Now, I will read the following paragraph in the letter:

With respect to the First National Co., the situation is somewhat more difficult. The net worth of the company decreased approximately $575,000, although at December 14 reserves had increased $193,000 and dividends had been paid of $33,000, so that the net change during the period was $350,000. However, on August 31 there was some $600,000 appreciation of security values over the carrying value; and, while no particular point was made of the general appreciation, it was pointed out that the appreciation on the Flint Bank stock of $372,000 would be augmented to realize a profit in excess of $500,000. It was generally understood that the $600,000 appreciation would be used as an offset to investments in State bank stocks at that time, which amounted to approximately $2,800,000.

With reference to your statement that the net worth of the company decreased approximately $575,000, was that between the two dates August 31 and December 14, 1929?

Mr. WILSON. That was the comparison, I believe, that I was making.

Mr. SAPERSTEIN. To what do you ascribe that decrease?

Mr. WILSON. Well, I think my letter there discusses that matter fully.

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Mr. SAPERSTEIN. Can you sum it up? Your letter is quite lengthy, and I am trying to shorten the examination as much as possible. I notice that in the next three or four pages you give a detailed explanation, and I thought you might be able to summarize it for us.

Mr. WILSON. On one item that I presume you are leading to, there was a substantial depreciation in the investment of the stocks of the units of the bank which were later to become units of the Detroit Bankers Co., the purchases that were made during that period.

Mr. SAPERSTEIN. Yes; the purchases that were made during the period from August 31, 1929, to December 14, 1929, resulted in a depreciation in the net worth of the First National Co. of $575,000; is that correct?

Mr. WILSON. I don't recall that exact figure; no, sir.

Mr. SAPERSTEIN. That is the figure that you have here, "the net worth of the company decreased approximately $575,000." That is the reason I used that figure.

Mr. WILSON. Whatever figure was used there would be what we believed was the fact at that time.

Mr. SAPERSTEIN. Now I will read further from your letter [reading]:

State bank stocks owned increased during the period $4,400,000, and eliminating the holdings of the Flint Bank the increase is $4,800,000. These new holdings during the period have all been disclosed to you, and this report does not need again to list the holdings. No attempt has been made to value the holdings upon a market basis, and any change in value of these State bank stocks does not enter into these figures.

With respect to Detroit bank stocks, I cannot feel that the officers of the First National Co. are entirely free from criticism. In other words, while it is my theory that any changes in holdings which follow an ordinary policy already laid down and understood by the other members of the group need not have been discussed, I do feel that any major changes of investment program should have been thoroughly understood by all parties. I feel that large transactions in the stocks of the participating banks did constitute a major change of investment program that should have been made known to the group either in advance of the transactions or prior to the final consummation of the merger.

At the close of September the holdings of the First National Co. in Detroit bank stocks aggregated over $900,000, and was an item sufficiently large to have required its being pointed out to the other members of the group before the negotiations were consummated.

At December 14, 1929, the carrying value of all Detroit bank stocks was $1,199,071.51, from which amount should be deducted the few remaining shares in the Union Investment Co., leaving a net total of $1,174,495.41. This carrying value was arrived at in general by carrying forward therein any losses or profits on the intervening transactions, though this rule was not invariable.

Was this criticism that you made of the officers of the First National Bank conveyed to those officers?

Mr. WILSON. Yes, sir.

Mr. SAPERSTEIN. By whom?

Mr. WILSON. That letter was presented to the proposed directors of the Detroit Bankers Co., read in full, as I recollect.

Mr. SAPERSTEIN. The letter was addressed to Mr. Julius H. Haass, president?

Mr. WILSON. Yes; but I believe it was presented.

Mr. SAPERSTEIN. Was it presented by him to the directors?

Mr. WILSON. I believe so; yes, sir.

Mr. SAPERSTEIN. What, if anything, was done with regard to this criticism of yours?

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Mr. WILSON. I believe that letter further carries on my recommendations what should have been done.

Senator COUZENS. Did this accumulation of bank stock that you refer to here result from prior knowledge that they had of the prospective organization of the Detroit Bankers Co.?

Mr. WILSON. I cannot answer that, Senator.

Senator COUZENS. After the general knowledge was obtained that the Detroit Bankers Co. was going to absorb the stock of these various banks the investment of the First National Co. in bank stocks greatly increased, the record shows.

Mr. WILSON. The quotation of the Detroit Bankers Co. stock during the summer of 1929 greatly increased; yes; and at that time Mr. Douglas was sitting in on the negotiations and was chairman of the First National Co.

Mr. SAPERSTEIN. Who was the president of the First National Bank?

Mr. WILSON. You are referring to as of that date?

Mr. SAPERSTEIN. Yes.

Mr. WILSON. Mr. E. K. Hoover, Ed K. Hoover.

Mr. SAPERSTEIN. Your letter goes on to make the following suggestion [reading]:

In order to carry out my theory that the merged banks should be held harmless from the results of these purchases it is my suggestion that the First National Group assume the responsibility for these stocks at the carrying values thereof, and that they give to the merged companies a trustee note for $1,143,033.24, secured by all of the securities in question and by sufficient additional stock in Detroit Bankers Co., so that the present market value of all of the collateral would equal the face value of the note. I feel that in asking for collateral on the basis of present prices only equal to the face value of the note it will not be long before there is some actual excess collateral value.

To do this would require 690 shares of old First National Bank stock, but I have increased this slightly, and am suggesting that there actually be deposited 3,500 shares of Detroit Bankers stock, which is a slight increase over the amount actually required. This would give total holdings of Detroit Bankers stock of 8,960.99 shares of stock as collateral for the loan of $1,143,033.24.

Was that suggestion of yours carried out?

Mr. WILSON. As I recollect, that suggestion was that I believed the banks, going into the Detroit Bankers Co., should be held harmless for the many losses incurring from the transaction as a whole, amounting to $143,000. Isn't that correct?

Mr. SAPERSTEIN. Have you any data to indicate whether or not that note was ever executed; and if so, what collateral was deposited as security?

Mr. WILSON. There was a note executed, and the collateral was deposited with the Detroit Trust Co. as trustees.

Mr. SAPERSTEIN. What was the amount of the note?

Mr. WILSON. I don't recollect. I don't know as I have that information.

The CHAIRMAN. The note was made by whom and to whom?

Mr. WILSON. I don't have all the details on that so that I can remember; but it was a trustee agreement for the deposit of this additional collateral with the Detroit Trust Co.

Senator COUZENS. Was the note substantially in the amount referred to in the letter you wrote—a million some hundred thousand dollars?

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Mr. WILSON. My recollection is, Senator, that the full amount was not—my recollection is this: That these additional shares were acquired by the First National Bank Group individually. But I would have to have the agreement to be able to answer it. I haven't that agreement. I don't know as I ever saw the agreement.

Mr. SAPERSTEIN. Can you refer me to any data indicating whether that note was executed and the amount of collateral?

Mr. WILSON. I haven't first-hand information in regard to the note having been executed.

Mr. SAPERSTEIN. Is there anything in this book which would indicate the amount?

Mr. WILSON. The shares of the Detroit Bankers Co. were deposited. I might be able to find this information later, but I don't know as I could right now.

Mr. SAPERSTEIN. We won't take up the committee's time to look for it now.

Mr. WILSON. The trust agreement would produce all the facts in regard to that additional pledge of securities. I haven't that.

Mr. SAPERSTEIN. Did you make any investigation into the circumstances under which these so-called "State banks" were acquired by the First National Co.?

Mr. WILSON. No; I don't believe I made an investigation.

Mr. SAPERSTEIN. When you became an officer of the First National Co. what was the status of these State banks?

Mr. WILSON. There was a partial ownership in about, as I recollect, 10 State banks. There is a schedule in front of you giving complete information in regard to those investments and the amount of the investment, the aggregate and individual.

Mr. SAPERSTEIN. Did you make an examination of the minutes of the executive committee of the First National Co. of Detroit to determine whether or not the acquisition of those State banks had ever been authorized?

Mr. WILSON. I did.

Mr. SAPERSTEIN. What did you find?

Mr. WILSON. I searched the minutes of the First National Co. personally and never found that there had been any action recorded in regard to the purchase of those State banks.

Mr. SAPERSTEIN. Were you present at a meeting at Mr. Hoover's office on February 17, 1930, with Messrs. Browning, Lewright, Hoover, and Russ, for the purpose of discussing the situation in regard to these State banks upon the formation of the Detroit Bankers Co.?

Mr. WILSON. Could you refresh my memory there with what you have?

Mr. SAPERSTEIN. I have before me some notes which appear to have been prepared by you with regard to that meeting. I show you these notes and ask you whether they were prepared by you at a time when the facts were fresh in your recollection.

Mr. WILSON (after referring to data). This is a personal memorandum dictated by me following certain meetings and conferences had in regard to the First National Co.

Mr. SAPERSTEIN. By referring to that memorandum can you tell us what transpired at that meeting at Mr. Hoover's office?

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Mr. WILSON. Are you referring to the February 17 meeting?

Mr. SAPERSTEIN. Yes.

Mr. WILSON. May I read what I have?

Mr. SAPERSTEIN. Yes.

Mr. WILSON [reading]:

Meeting at Mr. Hoover's office with Messrs. Browning, Lewright, Hoover, Russ, and myself. Figures were submitted by Mr. Hoover in regard to the present number of shares and the carrying value of said shares, and also a statement was submitted showing the dividends received on these State bank stocks and carrying charges, which included an item of $80,000 commission to be paid to the First National Co. for their services in buying these stocks.

Mr. SAPERSTEIN. Mr. Wilson, I want to interrupt you at that point. Did you know anything about that $80,000 commission up to that point?

Mr. WILSON. My recollection is that I did not up to this point.

Mr. SAPERSTEIN. Why should the First National Co., which had purchased the stocks, be entitled to a commission of $80,000 for the purchase of the stocks, and by whom would that commission be payable?

Mr. WILSON. Well, I don't know why there should have been a commission paid. It was stated by Mr. Hoover that it was understood there was a commission of $80,000 to be paid to the First National Co. for their services in buying these stocks.

Mr. SAPERSTEIN. Who was to pay that commission?

Mr. WILSON. Well, I presume the First National Bank.

Mr. SAPERSTEIN. If the First National Co. bought the stocks and took title to them, why should the First National Bank have been obligated to pay a commission of $80,000 to the First National Co.?

Mr. WILSON. Well, I can only say what is my personal reflection upon that.

Mr. SAPERSTEIN. Will you give us the benefit of your personal reflection?

Mr. WILSON. That would be that the First National Co. acted as the agent for the First National Bank in the purchase of those stocks. They were the vehicle used in the purchase of those stocks.

Senator COUZENS. Did the money come out of the First National Bank to pay for the stocks?

Mr. WILSON. I do not believe I have sufficient facts and evidence upon that, Senator. They borrowed the money, partly I think from the First National Bank and partly in New York; First National Co. did, in order to permit the payment of these bank stocks.

Senator COUZENS. Did you finish reading that memorandum there?

Mr. WILSON. I would like to finish reading it.

Mr. SAPERSTEIN. Yes; go ahead, Mr. Wilson.

Mr. WILSON [reading]:

Mr. Browning stated that he did not know this commission existed and he would like the opportunity of discussing the matter with the board of the Detroit Bankers Co. further, and Mr. Hoover was asked to get in touch with Ernst & Ernst and have them give a statement as to the amount which should be paid by the Detroit Bankers Co. to the First National Co. for these stocks.

Now, the reason this came up at this time, if you will permit me to explain, is that under date of February 13, 1930, the board of directors of the Detroit Bankers Co. by resolution authorized the

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officers of the Detroit Bankers Co. to purchase these stocks from the First National Co. in the amount of $6,903,000, and further authorized the officers of the Detroit Bankers Co. to borrow the necessary funds for this purpose on unsecured notes.

The meeting of February 17 was to take steps to carry out the instructions of the board of the Detroit Bankers Co. in actually purchasing these stocks, and I would like to read further:

The board of directors meeting Detroit Bankers Co. at 2 p.m.

This is on February 17, 1930.

Mr. Browning stated to the board that in buying State bank stocks of $6,900,000 the Detroit Bankers Co. were in reality paying the First National Co. a commission of $80,000 for having originally bought the stocks; that he was presenting this matter to the board only for the purpose of having them have full knowledge of this commission.

Mr. Douglas took exception that it was a commission. I agreed with Mr. Browning. It was decided that this commission should not be paid, due to the fact that it would be necessary for the First National Co. to pay an income tax of $8,800 on the $80,000, and it was the opinion of the board that this amount of taxes should be saved.

Mr. Browning further stated that the action of the Detroit Bankers Co. in buying these stocks did not meet with the full approval of certain members of the board, which he stated was the first indication he had had of this difference of opinion.

I stated to the board that I did not think it was the proper time for the Detroit Bankers Co. to become the actual owners of these shares, for various reasons:

1. Congress is apparently on the verge of making an exhaustive study of group and chain banking, and from this investigation there may come laws which would materially affect our position if we were the actual owners of stocks in the State banks.

2. That if we purchased the stocks and were owners of record the fact would be made known in the State at large and we would have definitely committed ourselves to the policy by implication of owning minority stock interests in the State banks, which policy had not been definitely decided upon by the board.

3. In my opinion, this transaction, involving approximately $7,000,000, was of such importance that the matter should be properly submitted to the stockholders for approval; that, in my opinion, not even the directors knew of this contemplated transaction in purchasing minority interests in State banks.

Mr. Douglas stated that he thought all of the directors of our institutions knew of the proposed purchase, but the other bank presidents stated that their boards did not know of the same.

4. I further stated that if we bought these stocks it would be necessary for us to purchase additional minority interests of other banks in the State or state to them that it was not the policy of the Detroit Bankers Co. to have minority interests and apologize for the action of the First National Bank in purchasing these stocks before the organization of the Detroit Bankers Co.

5. I further stated that we were writing a blanket guaranty on the entire deposit liability of these banks, the minority stock interest of which we were purchasing.

Mr. Ballantyne and Mr. Seyburn took considerable exception to my position. Mr. Seyburn finally made a motion that we proceed to buy these stocks. Mr. Browning put the motion, and Livingstone and Barbour voted "no", indicating a split opinion.

After considerable further discussion, Mr. Brodde and Mr. Chittenden withdrew the affirmative votes, and Mr. Seyburn then changed his motion that the Detroit Bankers Co. loan to the First National Co. in the amount of approximately $6,900,000 to assist them in carrying these State banks' stock, which was unanimously passed.

Senator COUZENS. And so as a result of that later motion which was carried the title to these State bank stocks was never acquired by the Detroit Bankers Co.?

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Mr. WILSON. That is correct. The title remained in the First National Co.

Senator COUZENS. Right up to this minute.

Mr. WILSON. Up to the time I left there, they were still there, although there had been many attempts to move them.

I would like further to read on February 18, 1930, with your permission.

Mr. SAPERSTEIN. Go ahead, Mr. Wilson.

Mr. WILSON (reading):

Meeting with Mr. Ballantyne in his office. I stated to Mr. Ballantyne that before we bought and became owners of record of the State bank stocks I would like to know definitely who would be responsible to the Bankers Co. for the 7 million dollars investment, for the benefit which was supposed to accrue from the investment to the members of the Detroit Bankers Co. Also I would like to know whether in buying these stocks we were definitely committing ourselves to this mode of banking and were willing to negotiate with the other banks in the State for the minority holding of their institutions.

I further stated that it would seem to me that we would eventually merge the five institutions in Detroit, and it would be better for us to hold the stocks in other banking institutions in the holding company [meaning the First National Co.]; and I thought we had met the wishes of the First National Co. in agreeing to loan them an amount equivalent to their total investment in the State banks, and I certainly could not see any objection to carrying them in this manner for a sufficient time to carefully study and analyze a proper method of carrying these stocks.

I told him that I very much disliked to take issue with him on this matter and was somewhat surprised with the position he had taken, knowing his conservatism.

Mr. Ballantyne stated that he did not think we were so far apart as the conversation indicated, and that he was very much opposed to the State-wide banking and to owning large blocks of the stocks, but that he thought we had them and had already made a commitment and could not back out; that if a plan could be evolved in the future he would be perfectly willing to postpone the actual purchase of these shares.

I stated that I should not think we should attempt to cover up one blunder by making another blunder. He stated that he thought we should show an act of courage in consummating this deal and should not attempt to rub an open sore, and every effort should be made to corral the good will and efforts of the First National.

I then stated to Mr. Ballantyne that if it was an act of courage it might be proper to give disposition to the State shares, taking any loss necessary.

Senator COUZENS. Have you any record, Mr. Wilson, of the shares in these 10 banks and the price paid for them?

Mr. WILSON. I have in that book; yes, sir.

Senator COUZENS. I think this is an appropriate place to put them in at this time.

Mr. SAPERSTEIN. I show you a memorandum which appears to have been made on the letterhead of the First National Co. of Detroit, Inc., under date of January 27, 1930, and I ask you whether you can identify this memorandum as having been made by you or under your direction.

Mr. WILSON (after examining document). This is a memorandum undoubtedly presented to me by the officers of the First National Co. indicating the investments, numbers of shares, par value, investment par value, cost per share, and the total cost.

Mr. SAPERSTEIN. Of these State banks we have been discussing?

Mr. WILSON. Yes, sir.

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Mr. SAPERSTEIN. I offer it in evidence.

The CHAIRMAN. Let it be admitted.

(Memorandum dated Jan. 27, 1930, on letterhead of First National Co. of Detroit was thereupon designated "Committee Exhibit No. 167, Feb. 8, 1934", and appears in the record following, where read by Mr. Saperstein.)

The CHAIRMAN. What is the total investment in these State bank stocks?

Mr. WILSON. The total investment at this time, Mr. Chairman, is $7,261,000, in round figures.

Senator COUZENS. And that happens to be the same amount, or practically, that is shown on the Ernst & Ernst report of December 14, 1929?

Mr. WILSON. That would be approximately the same amount; yes, sir.

Senator COUZENS. So there was no acquisition of the shares after that time, apparently?

Mr. WILSON. Not to my knowledge.

Mr. SAPERSTEIN. The exhibit which has been marked "Committee's Exhibit No. 167" under date of February 8, 1934, is dated January 27, 1930, and reads as follows:

Subject	Shares	Par value	Investment, par value	Cost per share	Total cost
Alpena Trust & Savings Bank	329	$100	$32,900	$235.21	$77,385.00
American State Bank, Lansing	1,139	100	113,900	649.45	739,734.00
Bank of Saginaw	2,500	100	250,000	480.80	1,202,000.00
Central National, Battle Creek	5,450	10	54,500	35.48	193,349 34
Peoples Commercial & Savings, Bay City	1,000	100	100,000	750.00	750,000.00
First National Bank, Pontiac	973	100	97,300	699.79	680,900.00
Hackley National Bank	11,008	10	110,080	110.35	1,214,730.00
Kalamazoo Trust & Savings	50	100	5,000	232.00	11,600.00
Loan & Trust, Grand Ledge	20	100	2,000	205.00	4,100.00
Monroe State Savings	200	100	20,000	175.00	35,000.00
Old Kent, Grand Rapids	15,650	20	313,000	149.75	2,343,500.00
United States Savings, Point Huron	70	100	7,000	132.98	9,308.46
Total					7,261,606.80

Mr. WILSON. Mr. Saperstein, I would like to say that my recollection is that four of those banks were licensed last March to do business upon an unrestricted basis, a hundred percent unrestricted basis, and those four banks have continued to meet all demands of their depositors right through.

Senator COUZENS. What banks are those?

Mr. WILSON. Four of those banks.

Mr. SAPERSTEIN. Will you name those four?

Mr. WILSON. The Central National Bank of Battle Creek, Peoples Commercial & Savings Bank of Bay City, the Hackley National Bank of Muskegon, the Old Kent Bank at Grand Rapids, and I believe also the Loan & Deposit at Grand Ledge. That was a very small investment.

Mr. SAPERSTEIN. What is the situation with regard to the others that you have not named?

Mr. WILSON. The other banks were not licensed or have been reorganized on some basis or another.

The CHAIRMAN. They were all closed at the time of the holiday?

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Mr. WILSON. They were all closed, and some of them were not licensed to be opened.

The CHAIRMAN. And only four or five of them have opened since; is that the idea?

Mr. WILSON. Five, I think, have continued right through to pay their deposits and meet all demands a hundred cents on the dollar.

Senator COUZENS. Those are very extravagant prices they paid, are they not, for some of those shares?

Mr. WILSON. In my judgment they were.

Mr. SAPERSTEIN. Were they extravagant in the judgment of some of these officers who were engaged in negotiating the purchase, Mr. Douglas for example?

Mr. WILSON. I would rather Mr. Douglas should answer for that.

The CHAIRMAN. It looks like a commission ought to have been paid by those banks.

Senator COUZENS. Or at least to the stockholders who got these prices.

Did you say the Old Kent at Grand Rapids was operating 100 percent?

Mr. WILSON. It was licensed to operate on 100 percent unrestricted basis, yes, sir; my recollection. I am sure I am correct about that.

Senator COUZENS. Where were you at the time the Detroit Bankers was organized?

Mr. WILSON. I was clearing-house examiner in Detroit.

Senator COUZENS. Did you participate in any of the negotiations for this holding company proposition?

Mr. WILSON. I sat in on several meetings, yes, sir; with Mr. Haass.

Mr. SAPERSTEIN. I want to show you what purports to be a copy of a letter which appears among your records addressed to Mr. F. Howard Russ, Jr., from Dwight Douglas, dated September 6, 1929, and signed with the initials "D.D.D." and ask you whether you can identify that as a correct copy of any communication that appears in the files of the Detroit Bankers Co.?

Mr. WILSON. I believe it to be a copy of a letter. Of course, I never had possession of the original.

Mr. SAPERSTEIN. Where did you get the copy?

Mr. WILSON. The copy was furnished by one of the officers of the First National Co., I presume.

Mr. SAPERSTEIN. I would like to read the copy into the record. Copy of memo to Mr. F. Howard Russ, Jr., from D. Dwight Douglas dated September 6, 1929, appearing among the files of Mr. Wilson is as follows——

The CHAIRMAN. Who is Mr. Russ?

Mr. WILSON. Mr. Russ, Mr. Chairman, was a vice president of the First National Bank at that time.

Mr. SAPERSTEIN (reading):

In reference to Muskegon Mr. Monroe and Mr. Wagner came in and we discussed the whole situation again. I also talked to Mr. Angell. [See below.] They said they could not get the stock at $1,000; that they had a tentative offer, which was not final, from the Guardian, which provided for a guaranteed price on the stock and a trade on the basis of slightly over $1,800 a share; that over $1,300 had been bid by some broker. I told him just what you and I said before—that we would leave the price to them and trust them to make it fair. One thousand two hundred dollars seems a little high, but I am satisfied in the long run fundamentally. That is an important situation to us. They have

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promised to have not less than 15 percent and not over 20 percent to us they think within the week. Angell was strong for it. I have not talked with Walker. (Watch your step with Walker and Angell. I think there is a little feeling there.) Spent an hour with Angell and went over the whole situation. He is strong for us. I had it definitely understood with all three of them that we did not need any written contract or option but assumed we had an understanding, which they confirmed to me, if anyone ever tried to buy their bank we would be given the first opportunity. I said their promise and word were as good as a legal document, which they confirmed. You have done a good job here and the Hackley Union helps a lot as against a pretty sure loss in Flint. Called Heber Curtis and told him about it. He was pleased. He had helped a great deal in his talk with Wagner himself, who went to him.

(Signed) D. D. D.

Does this memorandum indicate that there was some competition between thte First National Group and the Guardian Group with regard to the acquisition of some of these out-State banks?

Mr. WILSON. It would so indicate to me, yes.

Mr. SAPERSTEIN. Who ultimately got this Muskegon bank?

Mr. WILSON. The First National Group.

Mr. SAPERSTEIN. At what price?

Mr. WILSON. The records will indicate. I haven't that.

Mr. SAPERSTEIN. Was the name of that bank the Hackley National Bank of Muskegon.

Mr. WILSON. I think it is now known as the Hackley Union National Bank of Muskegon.

Mr. SAPERSTEIN. The record shows that 1,108 shares were purchased at a cost of $110.35 a share, a total cost of $1,214,730. Is that the bank which was referred to in this memorandum when it is said that "they could not get the stock at $1,000; that they had a tentative offer which was not final from the Guardian, which provided for a guaranteed price on the stock and a trade on the basis of slightly over $1,800 a share"?

Senator COUZENS. It would appear that they reduced the par value between the time that was taken over.

Mr. SAPERSTEIN. Yes. Can you enlighten us at to what the reduction was in the par value of the stock?

Mr. WILSON. Well, I don't know. Doesn't that indicate the par value?

Senator COUZENS. Ten dollars is the par value.

Mr. SAPERSTEIN. It indicates a par value of $10 here. And this memorandum also indicates that Mr. Douglas' opinion was that the price demanded for this Hackley National Bank was too high, doesn't it?

Mr. WILSON. I prefer not to comment upon that. I think it speaks for itself.

Mr. SAPERSTEIN. The situation with regard to these State banks after the Detroit Bankers Co. made the loan to the First National Co. grew progressively worse, did it not, Mr. Wilson?

Mr. WILSON. I think so.

Mr. SAPERSTEIN. I want to show you a memorandum dated September 12, 1931, which bears the typwritten signature "Mark A Wilson" and is addressed to Mr. John Ballantyne. Can you identify that memorandum?

Mr. WILSON. I believe that is a memorandum that I probably dictated at the time.

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Mr. SAPERSTEIN. I offer it in evidence.

The CHAIRMAN. Let it be admitted.

(Memorandum dated Sept. 12, 1931, from Mark A. Wilson to John Ballantyne was thereupon designated "Committee Exhibit No. 168, Feb. 8, 1934", and appears in full in the record immediately following where read by Mr. Saperstein.)

Mr. SAPERSTEIN. The memorandum which has been marked "Committee's Exhibit No. 168", bearing this date, is addressed to Mr. John Ballantyne, Saturday, September 12, 1931, and reads as follows [reading]:

Relative to the State bank examination, the laws of the State expressly prohibits an examiner from divulging any information obtained during the course of an examination except through the expressed authority of the board of directors; consequently, if he would conduct an examination of certain State banks it would be necessary for the directors of the respective State banks to pass a formal resolution authorizing the examiner to make known his findings to the officers and directors of the First National Co. or the Detroit Bankers Co. The following thoughts have occurred to me relative to the State examinations:

1. If we make an examination and find an unsatisfactory or dangerous condition, we would be prohibited from disposing of any of our stockholdings at this time, or at any future time, pending an adjustment of the affairs of the bank; otherwise, if we sold any or all of our holdings based on inside information obtained by our own examiners, I believe the purchaser would have grounds for legal action.

2. It would take 6 or 7 examiners to make a complete examination of from 1 to 2 weeks. I very seriously doubt the advisability of sending a crew of examiners into the State at this time, unless it is absolutely necessary. I am thoroughly convinced that most of the trouble and unrest in the banks in the State is coming from the inside of institutions—the officers, employees, and directors. If the Detroit Bankers Co. send their examiners into these banks, it will result in comment by officers, employees, and directors, and I would not want to take the responsibility for what might occur from these comments.

3. Mr. Peter J. Monaghan tells me it would be necessary for the board to pass the resolution described in the first paragraph of this communication. If such a resolution is presented to the respective board of directors, then, in my opinion, each director will leave the meeting feeling that the Detroit Bankers Co. have reasons to believe that the bank is unsafe and for that reason have requested the authority for an examination. I do not care how this is explained to the directors; the more the explanation, the bigger the question will become, and we are quite liable to destroy the morale and confidence of the local board of directors in their own institutions, which can be readily done at this time.

4. If we make these examinations and find an unsatisfactory condition, which I think is quite possible in one or two or more instances, then it behooves us to present our findings not only to the banking commissioner but also the Federal Reserve authorities. I would hate to see our office get into the position where we would have to disclose our findings and precipitate in any additional action at this time.

I would suggest that Mr. Douglas obtain from each one of the banks the last three copies of letters of criticism from the banking department relative to the State banks, and a copy of the national bank examiners' report relative to the two national banks, which will give us a start. If the above information obtained indicates that additional checking should be had, then I believe Mr. Douglas' suggestion that a checking only of the paper be made by some competent credit person would be advisable.

MARK A. WILSON.

Mr. Wilson, were any examinations made of the State banks after this memorandum of yours to Mr. Ballantyne?

Mr. WILSON. Afterward?

Mr. SAPERSTEIN. Yes.

Mr. WILSON. I think in one instance.

Mr. SAPERSTEIN. What is that?

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Mr. WILSON. One instance, I think, only.

Mr. SAPERSTEIN. Only in one instance. At the time you prepared this memorandum, was an examination in contemplation of all the State banks?

Mr. WILSON. Mr. Douglas had been in charge of all the State bank investments throughout. I never personally ever had any responsibility in regard to those investments or the contacts with those banks. At that particular time the basis of the memorandum was that Mr. Douglas thought we should send out examiners into those banks and make a complete examination of those banks, and that was my view as expressed in that memorandum.

Mr. SAPERSTEIN. After you expressed these views you did not send your examiners to any of the banks except one?

Mr. WILSON. I believe Mr. Ballantyne concurred in my recommendation. Later on I think we made one examination. That is my best recollection.

Mr. SAPERSTEIN. What was the method of evaluating the securities held by the units of the Detroit Bankers Co. which was employed when you became one of the vice presidents of the Bankers Co.?

Mr. WILSON. I do not believe I could give you that. I had very little contact with the First National Co.

Mr. SAPERSTEIN. What was the method employed by any of the units of the Detroit Bankers Co.?

Mr. WILSON. Well, in picking up that memorandum, which I remember more or less the contents of, I presume that you are referring to setting up the assets as to books and also as to an indicated appraised value.

Mr. SAPERSTEIN. Yes. Had the securities of the units of the Detroit Bankers Co. been carried at an appraised value?

Mr. WILSON. I became a director of the First National Co. in the latter part, as I recollect, of 1931, served just a few months as a director prior to the time I resigned, and at the time I suggested that the statement of the First National Co. filed with the directors of the First National Co. and with the directors of the Detroit Bankers Co. should present not only a schedule of the book holdings, but also a schedule of the indicated value of those holdings. So we could then have both pictures.

Senator COUZENS. When you referred to resigning just now were you referring to resigning from the First National Co. or the Detroit Bankers Co.?

Mr. WILSON. Both at the same time, Senator. Practically the same time.

Senator COUZENS. Why did you resign?

Mr. WILSON. Well, it has been testified here it had been decided by the most influential directors and other officers that the activities of the holding company should be curtailed due to the fact that the merger of the People's Wayne County Bank and the First National Bank had been completed at the close of December 31, 1931. Prior to the steps leading up to that merger I handed Mr. Ballantyne my resignation, dated, I believe, the last week in September of 1931. I believed that it would result in being accepted after the completion of that merger. I handled the merger of the First National Bank and the People's Wayne County for the Detroit Bankers Co. That took about 3 months' time.

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At the turn of the year it was thought that Mr. Douglas and I would be made executive vice presidents of the First National Bank. I think Mr. Douglas declined at the inception of 1932 to accept the executive vice presidency of the First National Bank. Later on the situation developed in Pontiac in which I stepped in with Mr. Leyburn and perfected a reorganization of the First National Bank of Pontiac, which took me up through February of 1932.

It was suggested that I accept the executive vice presidency of the First National Bank, and that I would be more or less in charge of loans, which I declined, because I did not believe that they were in position or were willing to give me the authority necessary to carry through the responsibility which I would have assumed.

And then, furthermore, I had been known as a Ballantyne man, and still am. Mr. Ballantyne had decided the first part of April to tender his resignation, and I thought that I should also tender my resignation and retire from the picture, which I did.

Senator COUZENS. So there is some politics in banks the same as there is in public office, is there?

Mr. WILSON. There is lots of politics in banks, Senator.

Senator COUZENS. Lots of politics?

Mr. WILSON. Yes, sir.

Senator COUZENS. So that is how you came to be designated as a Ballantyne man, is it?

Mr. WILSON. I presume so. I have the highest respect for Mr. Ballantyne as a banker.

Senator COUZENS. You stated awhile ago that it had been decided by the influential directors to curtail the activities of the Detroit Bankers Co. As I recall, you said that?

Mr. WILSON. I believe that is substantially what I said.

Senator COUZENS. And, based on the decision of these influential directors, you concluded to put in your resignation?

Mr. WILSON. No; not necessarily based upon their decision. It was the result of their decision to curtail the activities of the Detroit Bankers Co. and more or less eliminate dual authority, as I would put it today, and responsibilities in the Bankers Co. without direct authority to take action to bring about the corrections, and this merger we hoped would bring about direct control so we would eliminate overlapping of not only responsibility but overlapping of authority. We were attempting to get into direct control of the condition. Prior to that it was not a direct control. In fact, the control of the picture at that time was more or less in the hands of certain influential directors.

Senator COUZENS. In the Detroit Bankers Co. or——

Mr. WILSON. Well, in the entire picture.

Senator COUZENS. In the entire picture. Who were those directors?

Mr. WILSON. They were members of the board of the Detroit Bankers Co. and later members of the governing committee of the First Wayne National Bank.

Senator COUZENS. Well, I assume that is obvious. You said they were directors. I was asking who they were.

Mr. WILSON. There was a large number of directors, Senator, that were more or less active.

Senator COUZENS. Yes; but the influential directors who made up the governing board, who brought about this decision to curtail some

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of the activities of the Detroit Bankers Co., were they in control of the board of directors of the Detroit Bankers Co.?

Mr. WILSON. They were in control; yes.

Senator COUZENS. And that was the control that was not in harmony with Mr. Ballantyne; is that right? I mean according to his own testimony, is that right? Is that your understanding of it?

Mr. WILSON. That is my understanding of it; yes.

Mr. SAPERSTEIN. Mr. Wilson, I should like to ask you a few questions with regard to the merger between the Peoples Wayne County Bank and the First National Bank. At the time when the merger took place or about that time, did the examining department of the Detroit Bankers Co. make an examination of the status of those two banks?

Mr. WILSON. You mean prior to the merger in December 1931?

Mr. SAPERSTEIN. Yes.

Mr. WILSON. I believe the national-bank examination was made and the directors' examination of that bank was made on the same date, as I recall.

Mr. SAPERSTEIN. Yes; the two examinations were made concurrently at that time?

Mr. WILSON. Concurrently, yes; and we would have our examiners making their appraisals as well as the national examiner's appraisals.

Mr. SAPERSTEIN. Let me show you a memorandum which appears to have been prepared by you under date of December 26, 1931, and ask you whether this memorandum bears your initials at the end.

Mr. WILSON (after examining the document). That is correct.

Mr. SAPERSTEIN. I offer it in evidence.

The CHAIRMAN. Let it be admitted.

(Memorandum dated Dec. 26, 1931, from Mark A. Wilson to John Ballantyne was thereupon designated "Committee Exhibit No. 169, Feb. 8, 1934", and the same appears in the record following, where read by Mr. Saperstein.)

Mr. SAPERSTEIN. The memorandum which bears "Exhibit No. 169" of this date addressed to John Ballantyne from Mark A. Wilson, December 26, 1931, subject, First Wayne National Bank, reads as follows [reading]:

The following is a recapitulation of the classification of the assets of the First National Bank and the Peoples Wayne County Bank as reflected in National Bank Examiner Hopkins's reports.

There follows a recapitulation of the slow, doubtful, and estimated losses. I will not stop to read the detail, but the grand total is—

Slow, $54,962,298.37; doubtful, $11,174,865.34; and estimated loss, $16,423,667.20.

The new bank will have a capital structure of $57,000,000 plus, as per the figures which have been submitted to the directors of the respective banks after the elimination of the losses as estimated by the examiners totaling $16,423,667.20.

In addition to the losses eliminated through reserves or charge-offs the above recapitulation reflects slow assets of approximately $55,000,000 and doubtful assets in excess of $11,000,000. Due to lack of necessary funds we have not been able to set up against these slow and doubtful assets any reserves. It would seem to me that our directors should be advised that additional losses of substantial amounts will have to be met. It will not be possible for us to make any further reduction in our capital structure. Consequently all future losses developing from the slow and doubtful assets will be a direct charge to our earnings. Unless business conditions change materially during the next year it is more than probable that additional losses totaling $10,000,000 or more

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will develop, in which event the directors of the First Wayne National Bank will be faced with the serious problem of discontinuing their dividends.

The loaning policies of the First Wayne National Bank will be carried on by the same executive officers who are more or less responsible for the condition of the respective institutions. I am not unmindful of the fact that most of the large banking institutions in the country find themselves in the same condition. However, I am sure that a policy of direct control will be put into operation, and I am sure it will be very much needed in the First Wayne National Bank, and we have given our definite promise to the Comptroller of the Currency this would be done.

Also, the attention of our directors should be called to the very slow liquidity of both the First National Bank and the Peoples Wayne County Bank. If we fail to get direct management with the power necessary, then I, personally, am very fearful of the consequences. We are conscious of the fact that many banks will have to close in Michigan in 1932. Several large ones are hanging by shoe strings. I am advised from a confidential source, that our neighboring State on the south—namely Indiana—will have over 100 bank closures next year. In addition to which, we know that there is serious trouble ahead in Cleveland and Chicago. Consequently, the liquidity of the First National Bank is of extreme importance and the management mandatory.

Signed with the initials "M.A.W."

Now, Mr. Wilson, would it be fair to infer from this memorandum which I have just read into the record that on the date of this memorandum, namely, December 26, 1931, you thought that the situation in both the First National Bank and the Peoples Wayne County Bank, which were merged into the First Wayne National Bank, was extremely precarious?

Mr. WILSON. Well, I would say the memorandum there expressed quite freely my thoughts at that time.

Senator COUZENS. Who suggested the consolidation of the Peoples Wayne and the First National?

Mr. WILSON. I cannot answer that question. I do not know at whose suggestion it was.

Senator COUZENS. It was the first intimation put forth after the Detroit Bankers Co. commenced that in regard to both of them, wasn't it?

Mr. WILSON. I presume it was.

Sentor COUZENS. In your statement previously made that you handled the consolidation of the Peoples Wayne County Bank and the First National Bank, can you tell us which of the two was in better condition?

Mr. WILSON. I believe the report of the examiner and of the national examiner, in those books there, will indicate the status of those two banks.

Senator COUZENS. Yes; I know. And I recall those two statements. But I am wondering what your recollection is as to the condition as between those banks.

Mr. WILSON. Well, the Peoples Wayne County Bank had a larger capital structure, so that they might have had the same amount of doubtful paper and losses, but it would not have been as serious as in the case of the First National Bank, because their capital structure was much less than in the case of the Peoples Wayne County Bank, provided they had an equal amount of estimated losses and doubtful items.

Senator COUZENS. Laying aside the relationship between losses and doubtful accounts in both banks as related to their capital structure, which of the two banks had the greatest amount of doubtful assets as it related to its capital structure?

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Mr. WILSON. Which of the two banks?

Senator COUZENS. Yes; which was in the worse condition as related to its capital.

Mr. WILSON. The figures would indicate it was the First National Bank.

Senator COUZENS. That was my understanding, that it was because of the condition of the First National Bank the suggestion was made that they consolidate with the Peoples Wayne County Bank. Isn't that true, based on your own observation of the examiner's reports?

Mr. WILSON. The relationship between losses and doubtfuls to the capital structure of the First National Bank?

Senator COUZENS. Yes; which was in the worst condition. The First National Bank was much worse, was it not?

Mr. WILSON. Yes.

Senator COUZENS. And it was because of that condition the suggestion was made to the owners that there be a consolidation of the two units.

Mr. WILSON. And also because of the desire for direct management. There had been split authority as between the First National Bank and the Peoples Wayne County Bank. Mr. Mills was chairman of the Peoples Wayne County Bank and Mr. Ballantyne was chairman of the First National Bank. We thought if we could bring about that merger we would have more direct control.

Senator COUZENS. And that was desired on the part of the Detroit Bankers Co.?

Mr. WILSON. Yes, sir.

Senator COUZENS. I was referring to the desire on the part of the Federal Government to save the First National Bank. You saw the examiner's report as to the First National Bank; did you?

Mr. WILSON. Yes, sir.

Senator COUZENS. And what is your recollection of those reports?

Mr. WILSON. That there would have to be substantial adjustments made in the capital structure of the First National Bank; that there were accumulated losses.

Senator COUZENS. And also that they had gone to the directors of the Detroit Bankers Co., the owner of both units, for a suggestion as to how to remedy, or how to improve the condition of the First National Bank.

Mr. WILSON. The owner of both units was the Detroit Bankers Co.

Senator COUZENS. That is what I say, that they went to the owner of both units, and pointed out the condition.

Mr. WILSON. The owner of both units was the Detroit Bankers Co.

Senator COUZENS. I say they went to the owner of both units.

Mr. WILSON. Yes, sir.

Senator COUZENS. Which was the Detroit Bankers Co.?

Mr. WILSON. Yes, sir.

Senator COUZENS. And stated to the owner of both units the condition of the First National Bank, and suggested that the owner of the First National Bank would have to do something to improve the condition of the First National Bank; isn't that true?

Mr. WILSON. You are referring to the national bank examiner?

Senator COUZENS. Yes.

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Mr. WILSON. Yes, sir; that is substantially correct.

Senator COUZENS. All right.

The CHAIRMAN. How did the deposits compare in the Peoples Wayne County Bank and in the First National Bank?

Mr. WILSON. I believe I have a complete statement there of each one of the banks during the time they decided to merge those two banks. That will give you complete information, if you would like to have it.

Mr. SAPERSTEIN. Can you lay your hands on that statement readily, Mr. Wilson?

Mr. WILSON. Yes, sir; I think so. [The witness reaches for two large typewritten books of statements and papers.] Here it is.

Mr. SAPERSTEIN. This paper that you have just handed to me purports to be a statement of the condition of the Peoples Wayne County Bank and of the First National Bank as of November 17, 1931. It indicates that on that date the Peoples Wayne County Bank had demand deposits of $127,388,313.64 and time deposits of $216,175,038.99, making a total of deposits of $343,563,352.63; and that the First National Bank on that date had demand deposits of $82,711,988.22 and time deposits of $70,823,353.34, making a total of deposits of $153,535,341.56. The combined deposits as listed on this statement of condition were as follows: Combined demand deposits, $210,100,301.86; combined time deposits, $286,998,392.33; and the combined total of deposits was $497,098,694.19. Does that answer your question, Mr. Chairman?

The CHAIRMAN. Yes.

Mr. SAPERSTEIN. Now, Mr. Wilson, reverting to the answer that you just made to one of Senator Couzens' inquiries regarding some basis of comparison between the condition of the Peoples Wayne County Bank and the First National Bank, let me refer you to this recapitulation of losses in the national bank examiner's report. It appears in committee exhibit no. 169. The recapitulation of the Peoples Wayne County Bank is as follows: Slow assets, $35,636,-187.84. First National Bank, slow assets, $19,326,110.53. Doubtful assets of the Peoples Wayne County Bank, $5,319,523.97, and doubtful assets of the First National Bank, $5,855,341.41. Estimated losses in the Peoples Wayne County Bank were $10,610,471.91, and estimated losses in the First National Bank were $5,813,195.29. I believe I have already read the grand total into the record.

The CHAIRMAN. All right.

Mr. SAPERSTEIN. Mr. Wilson, did you or your staff of examiners, have any reason to dispute this classification of the slow, doubtful, and loss items of the national bank examiners?

Mr. WILSON. No; we did not have any reason to dispute them.

Mr. SAPERSTEIN. You thought they were substantially accurate, did you?

Mr. WILSON. We believed they were, at that time.

Mr. SAPERSTEIN. I note here that you say——

Mr. WILSON (continuing). We were perfectly willing to accept that.

Mr. SAPERSTEIN. You were perfectly willing to accept them as the basis for your future action and conduct in the management of the bank, were you?

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Mr. WILSON. Yes.

Mr. SAPERSTEIN. I note here that you say:

Unless business conditions change materially during the next year, it is more than probable additional losses totaling $10,000,000 or more will develop.

Did that situation come about?

Mr. WILSON. I cannot give you the information or the facts upon that, because I haven't them.

Mr. SAPERSTEIN. You were there during 1932, were you not?

Mr. WILSON. No; I was not. I was practically out of the picture then.

Mr. SAPERSTEIN. You were there during one half of the year?

Mr. WILSON. No. I was practically out of the picture the first part of March 1932.

Mr. SAPERSTEIN. When did your resignation become effective?

Mr. WILSON. The first part of May, but I have not the exact date.

Mr. SAPERSTEIN. You also say:

In which event——

That is, should further losses develop:

In which event the directors of the First Wayne National Bank will be faced with the serious problem of discontinuing their dividends.

While you were still with the Detroit Bankers Co. were they faced with the problem of discontinuing their dividends?

Mr. WILSON. I believe they were. I believe they were faced with the problem of either discontinuing or materially reducing their dividends at the time they passed the dividend in March of 1932.

Mr. SAPERSTEIN. In March of 1932 the dividend rate of the First National Bank was decreased, was it not?

Mr. WILSON. That is my recollection.

Mr. SAPERSTEIN. I think it was cut from $3.40 to $2.40.

Mr. WILSON. Well, that is the Detroit Bankers Co. rate that you are now referring to, isn't it?

Senator COUZENS. That is not the First National Bank.

Mr. SAPERSTEIN. You say the First National Bank rate of dividend was cut?

Mr. WILSON. It was cut proportionately, but I haven't the figures.

Senator COUZENS. Well, that is in our record.

Mr. WILSON. That is in the record, I believe, but I haven't it.

Mr. SAPERSTEIN. Was there any opposition on the part of the directors to that decrease in the individual rate of the First National Bank?

Mr. WILSON. Well, there was quite a discussion. You are now referring to the March 1932 meeting of the board, when they took action upon the dividend of the Detroit Bankers Co.?

Mr. SAPERSTEIN. Yes.

Mr. WILSON. There was quite a discussion in regard to the dividend; yes, sir.

Mr. SAPERSTEIN. Do you recall what the nature of the discussion was, and what arguments were advanced in opposition to a reduction of the dividend?

Mr. WILSON. I have a memorandum there among those books before you, in regard to that.

Mr. SAPERSTEIN. Let me show you what purports to be a memorandum in your handwriting, and see if you can identify it.

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Mr. WILSON (looking at the paper handed to him). I can identify that as the pencil memorandum I jotted down at the time of the board meeting or the Detroit Bankers Co., when they were discussing the payment of a dividend for the first quarter of 1932.

Mr. SAPERSTEIN. By reference to that memorandum can you tell us what the discussion was, which directors were in favor of a reduction, and which directors were opposed to a reduction in the dividend?

Mr. WILSON. I can read the memorandum if you wish it done.

Senator COUZENS. Please do that.

Mr. SAPERSTEIN. Yes; will you please do so?

Mr. WILSON. According to this memorandum, which was as of March 7, 1932: Mr. Alger, very reluctantly, $3.40. Now, you understand that these were the statements of the directors as I jotted them down.

Mr. SAPERSTEIN. All right.

Mr. WILSON. Mr. Stair the same as Mr. Alger. Mr. Barbour: Should not pay out more than we earn, $2.40. Favoring cut. Mr. Douglas, cut $2.40. Mr. Browning, cut now. Mr. Bodde, 85 cents, indicating old rate. Mr. Chittenden, cut. Mr. Mills, $2.40, indicating cut. Mr. Gilchrist, large losses. Cut to the bottom. Mr. Livingstone, $3.40. Mr. Seyburn, take the cut, $2.40. Mr. McMillan, 85 cents for 3 months.

Senator COUZENS. That means the existing rate.

Mr. WILSON. Yes; the old rate, for that particular time.

Mr. SAPERSTEIN. Is that all of the memorandum?

Mr. WILSON. That is all that I have. I remember distinctly, Senator Couzens, at that time, that Mr. Seyburn, before voting, requested that the senior officers of the bank who were directors, express their viewpoint before he would take a vote, and he requested what they thought about a dividend.

Senator COUZENS. And that was done?

Mr. WILSON. That was done, and their statements are so recorded in that memorandum.

Senator COUZENS. The statements of what the senior officers said?

Mr. WILSON. Yes, sir; those which were directors.

Senator COUZENS. Are those included in the list that you just called off?

Mr. WILSON. Yes, sir.

Senator COUZENS. I was called out of the room awhile ago while the deposits of the two banks were being read into the record. Who was the directing head of the People's Wayne County Bank when this consolidation was made?

Mr. WILSON. Mr. Mills was the chairman.

Senator COUZENS. And who was the directing head of the First National Bank?

Mr. WILSON. Well, I would say it was Mr. Ballantyne, as chairman. Mr. Chittenden was also the president of the First National Bank at that time, but the operation of the bank was more or less left to Mr. Chittenden by Mr. Ballantyne.

Senator COUZENS. So that when these two great institutions combined there were two factions apparently, because you said there was a conflict, and therefore the desirability on the part of the Detroit Bankers Co. to unify the management; is that correct?

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Mr. WILSON. Well, naturally, as in the case of two large institutions, it was thought better to consolidate the institutions, and then when you attempt to consolidate the personnel that becomes a most troublesome melting pot. You can consolidate figures, but you cannot consolidate bank officers and personnel.

Senator COUZENS. So when you consolidated the figures, and, I assume, the money, you found that you could not consolidate the management of the People's Wayne County Bank and the First National Bank; is that correct?

Mr. WILSON. Well, that is where quite a great deal of discussion was entered into in regard to the bylaws.

Senator COUZENS. And that was the point where Mr. Ballantyne complained that he could not get adequate authority, is it?

Mr. WILSON. And that is correct.

Senator COUZENS. That he could not get adequate authority?

Mr. WILSON. That he could not get adequate authority; yes.

Senator COUZENS. And I assume that was brought about by the faction in the First National Bank, and the faction in the Peoples Wayne County Bank, which, it was attempted, should be put into the melting pot?

Mr. WILSON. I believe that is correct.

Senator COUZENS. So that created a faction that brought about, eventually, both the resignation of Mr. Ballantyne and yourself, is that correct?

Mr. WILSON. Well, for the sake of argument we will say it is substantially correct.

Senator COUZENS. So in the politics of bank management, so-called, the Mills faction won out over the Ballantyne faction, is that correct?

Mr. WILSON. Substantially so; yes, sir.

Senator COUZENS. At least substantially so?

Mr. WILSON. Yes, sir. But I should like to add this: That when they let Mr. Ballantyne go they immediately began to destroy confidence in the entire banking situation in Detroit. Senator Couzens, you talked about "smart money" going out, on yesterday, and smart money started out then.

Senator COUZENS. And smart money did go out then, is that it?

Mr. WILSON. Mr. Ballantyne had the respect of the community and of the bankers, as to soundness, and he still has.

Senator COUZENS. Apparently that was the inference, that that was the thing Mr. Mills did not have.

Mr. WILSON. Mr. Mills' experience as a banker is quite limited, unfortunately.

Senator COUZENS. So it was unfortunate that his banking experience was so limited; is that correct?

Mr. WILSON. Yes; I think it was unfortunate.

Senator COUZENS. So there was a situation of more than mere figures.

Mr. WILSON. There was more than figures.

Senator COUZENS. There was the matter of personality and public confidence involved.

Mr. WILSON. Yes, sir.

Senator COUZENS. And after this consolidation, because of the politics of the situation, public confidence was lost?

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Mr. WILSON. I firmly believe that.

Mr. SAPERSTEIN. Mr. Wilson, did you inaugurate this so-called "claims department" in the merged bank?

Mr. WILSON. I would not say that I inaugurated the claims department. A claims department was first considered, as I recall it, following the examination of the First National Bank by one of the national bank examiners in the early part of 1931. And it was thought that in view of the increased accumulation of past-due items, and also in regard to items which we had inherited from the American State Bank, it would be advisable to set up a special loan department to take care of loans which were becoming past due.

Mr. SAPERSTEIN. Were you in charge of that department?

Mr. WILSON. I was not.

Mr. SAPERSTEIN. Who was in charge of it?

Mr. WILSON. Mr. Guy Bratton was selected to take charge of the special loans or claims department which was inaugurated about July 1, 1931.

Mr. SAPERSTEIN. On July 1, 1931, was this department organized to the point where it was ready to function?

Mr. WILSON. I believe that Mr. Bratton started—well, now, I believe that Mr. Bratton assumed the responsibility about that date, and started his organization.

Mr. SAPERSTEIN. From that date or about that date did the two institutions, the First National Bank and the People's Wayne County Bank, commence to turn over to the claims department those items which were to be acted upon by the claims department in an attempt to liquidate them?

Mr. WILSON. Did the People's Wayne County Bank do it?

Mr. SAPERSTEIN. Yes.

Mr. WILSON. I believe the records would indicate the extent to which they turned over their items.

Mr. SAPERSTEIN. What was that answer?

Mr. WILSON. I say, I believe the records would indicate as to the extent to which they were turning over their special loans or items at that time.

Mr. SAPERSTEIN. Will you refer to those records and tell me to what extent the People's Wayne County Bank referred items to this claims department during the year 1931?

Mr. WILSON (looking over some papers). Well, the first statement I have is for the month of September 1931.

Mr. SAPERSTEIN. How many claims were referred to the claims department during that month?

Mr. WILSON. By whom?

Mr. SAPERSTEIN. By the Peoples Wayne County Bank.

Mr. WILSON. According to this record, in round figures, $337,000, which includes items of the American State Bank of $293,000.

Mr. SAPERSTEIN. How much was referred by the Peoples' Wayne County Bank for the month of October 1931?

Mr. WILSON. It shows $86,000, which includes items of the American State Bank of approximately $68,000.

Mr. SAPERSTEIN. For the month of November how much did the Peoples Wayne County Bank refer to the claims department?

Mr. WILSON. I haven't the November figures, but I do have the December figures.

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Mr. SAPERSTEIN. Will you give us the December figures?

Mr. WILSON. The December figures show $1,007,000, which includes items of $504,000 previously charged off, and one of $372,000 of the American State Bank.

Mr. SAPERSTEIN. Will you give us the figures for January 1932?

Mr. WILSON. For the Peoples Wayne County Bank, $13,974,000.

Mr. SAPERSTEIN. Can you explain that increase?

Mr. WILSON. That includes American State Bank items of $6,842,000.

Mr. SAPERSTEIN. Can you explain the very decided increase in the amount which was referred by the Peoples Wayne County Bank to the claims department in January of 1932 over the amount which have been referred in December of 1931?

Mr. WILSON. Well, this would indicate that in the month of January the Peoples Wayne County Bank office, following the consolidation on December 31, 1931, had turned over their claims department to the consolidated claims department.

Mr. SAPERSTEIN. Weren't they required before the consolidation to turn their claims over to the claims department?

Mr. WILSON. I think that was the contemplated plan originally, that the consolidated claims department would handle all claims of the Peoples Wayne County Bank and of the First National Bank.

Mr. SAPERSTEIN. Why didn't they turn them over before the consolidation?

Mr. WILSON. I cannot answer that.

Mr. SAPERSTEIN. Were attempts made to induce them to do so?

Mr. WILSON. Yes, sir.

Mr. SAPERSTEIN. By whom?

Mr. WILSON (after, apparently, engaging in deep thought for about 1 minute). I think that final action on that was taken by Mr. Ballantyne in the latter part of 1931.

Mr. SAPERSTEIN. What did the final action consist of?

Mr. WILSON. It consisted of claims of the Peoples Wayne County Bank being turned over to the consolidated claims department, the special loan department.

Mr. SAPERSTEIN. Who had been the executive head of the Peoples Wayne County Bank up to the time of the merger?

Mr. WILSON. Mr. Mills had been the executive head, as chairman of the board.

Mr. SAPERSTEIN. Did the Detroit Bankers Co., or the officers of that company, who were handling this claims department, meet any resistance on the part of Mr. Mills, or of any other officers of the Peoples Wayne County Bank, to turning over their claims to the claims department?

Mr. WILSON. Well, I would say there was resistance on the part of the Peoples Wayne County Bank, but it would be difficult for me to say from whom.

Mr. SAPERSTEIN. It was not until January of 1932 that that resistance was finally broken down?

Mr. WILSON. I believe that is substantially correct.

Mr. SAPERSTEIN. Did the Peoples Wayne County Bank have a claims department of its own?

Mr. WILSON. They did; yes, sir.

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Mr. SAPERSTEIN. Did you have opportunity to observe whether that claims department was functioning efficiently?

Mr. WILSON. I do not believe I am in possession of sufficient facts to properly answer that question.

Mr. SAPERSTEIN. Let me show you what appears to be an original letter dated October 27, 1931, on the letterhead of the Peoples Wayne County Bank, signed with the initials "D. M. I." over the typewritten name "D. M. Irwin." Who was Mr. Irwin?

Mr. WILSON. Mr. Irwin was in charge—well, what is the date of that communication?

Mr. SAPERSTEIN. It is dated October 27, 1931.

Mr. WILSON. Mr. Irwin was in charge of the claims department of the Peoples Wayne County Bank office at that time.

Mr. SAPERSTEIN. Can you identify the letter which I now show you as having been received by you or by any member of the staff of the Detroit Bankers Co.?

Mr. WILSON (after looking at the letter). Well, it is addressed to "Members of the staff." I presume it was so received.

Mr. SAPERSTEIN. Members of the staff of what company?

Mr. WILSON. Of the claims department of the Peoples Wayne County Bank, Detroit, Mich.

Mr. SAPERSTEIN. Mr. Chairman, I now offer that letter in evidence.

The CHAIRMAN. Let it be admitted.

(A letter dated Oct. 27, 1931, addressed to Members of the Staff, Claims Department, Peoples Wayne County Bank, and signed "D. M. Irwin", was marked "Committee Exhibit No. 170, Feb. 8, 1934", and will be found immediately following where read by Mr. Saperstein.)

Mr. SAPERSTEIN. The letter which has been marked "Committee Exhibit No. 170" as of this date, is as follows:

PEOPLES WAYNE COUNTY BANK,
Detroit, Mich., October 27, 1931.

MEMBERS OF THE STAFF, CLAIMS DEPARTMENT,
Peoples Wayne County Bank, Detroit, Mich.

During the summer months the Bank makes very little attempt to control the hours of employment, it being frequently felt that bright summer afternoons are better devoted to golf than to business. [Laughter.]

However, during the fall and winter season a regular schedule goes into effect. The hours of this Department will be:

Daily: 8:30 a.m. to 5:00 p.m.
Mondays: 8:30 a.m. to 4:30 p.m. and 6:00 p.m. to 8:00 p.m.
Saturdays: 8:00 a.m. to 1:00 p.m.

Inasmuch as time clocks are not punched by members of the Department, I should appreciate everybody conforming to the schedule in so far as is practicable.

Personally, I feel that during this stress period, especially with our competition with the Detroit Bankers Company, that it would be well for every member of the staff to add at least one evening's work voluntarily to the regular schedule. Whether this evening be devoted to office work or outside is immaterial.

I am relying on having the same cooperation that we have had in the past.

Very truly yours,

(Signed) D. M. I.
D. M. IRWIN.

What competition is referred to by Mr. Irwin, do you know, Mr. Wilson?

Mr. WILSON. Well, I wouldn't know just what he had in mind.

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Mr. SAPERSTEIN. What he says is:

Personally, I feel that during this stress period, especially with our competition with the Detroit Bankers Company.

That was your company, wasn't it?

Mr. WILSON. I was vice president of it.

Mr. SAPERSTEIN. Were you aware of any competition existing between your company, or the claims department of your company, and the claims department of the Peoples Wayne County Bank?

Mr. WILSON. Yes; very definitely so.

Senator COUZENS. What was that competition like?

Mr. WILSON. Well, they desired to keep their own special loans and claims and make their own collections. They did not desire to turn them over to the Detroit Bankers Co. By keeping them in their own office they retained control of those loans.

Senator COUZENS. So he was not talking about golf competition, was he? [Laughter.]

Mr. WILSON. I do not believe so, Senator Couzens.

Mr. SAPERSTEIN. Was it your opinion at that time that the claims department of the Detroit Bankers Co. was better qualified and more efficient than the claims department of the Peoples Wayne County Bank?

Mr. WILSON. It was my opinion at that time; yes.

Mr. SAPERSTEIN. Now, Mr. Wilson, I want to show you a memorandum to Mr. John Ballantyne, which bears the typewritten signature "Mark A. Wilson", under date of October 14, 1931, and ask you whether that memorandum was prepared by you and presented to Mr. Ballantyne?

Mr. WILSON (after looking at the memorandum). I believe so; yes.

Mr. SAPERSTEIN. Mr. Chairman, I desire now to offer it in evidence.

The CHAIRMAN. Let it be admitted.

(A memorandum dated Oct. 14, 1931, to John Ballantyne and signed by Mark A. Wilson in typewriting, was marked "Committee Exhibit No. 171, Feb. 8, 1934", and will be found immediately following were read by Mr. Saperstein.)

Mr. SAPERSTEIN. The memorandum which had been marked "Committee Exhibit No. 171" of this date, is dated October 14, 1931, and addressed to Mr. John Ballantyne, and reads as follows:

1. A set-up is being prepared today by Mr. Verhelle, which will be available tomorrow morning. This set-up will show the necessary steps to be taken to reduce the operating costs of our various units, an additional million dollars or over. I believe that it is imperative for this step to be taken immediately.

Mr. Frank Wolf, president of The Commonwealth-Commercial, has indicated to me, which I have transmitted to Mr. Mills, that he would be willing to lease the space of The Bank of Michigan office, from The Peoples Wayne County Bank, provided The Peoples Wayne County Bank would purchase from his bank, mortgages to the extent of $2,000,000. He might be willing to take a lesser amount, which would enable us to close one additional down-town office.

2. The matter of adjusting our "Officers & Employees" loans, as per the recommendation of the Detroit Bankers Company Board, should not be delayed any longer. I have given Mr. Clark, as chairman, a memorandum to this effect. This is vital to the morale of our organization.

3. The Joint Claims Department, operating under Mr. Bratton's direction, is not functioning according to schedule or expectation. Either this department should be discontinued or we should have full cooperation from the Peoples Wayne County Bank. There are millions of dollars of claims which

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should have the constant attention of the best man-power available in our organization. We have been drifting in this work.

4. Both the First National Company and the Detroit Company are hopelessly insolvent. Substantial capital will have to be transferred to them to permit the meeting of their obligations. A definite policy must be determined upon and certain individuals charged with the task of working out these problems.

There are additional steps and adjustments which will be necessary, but I believe the above can be carried out without conflicting with any program which may be determined upon at a later date.

MARK A. WILSON.

Mr. Wilson, I want to direct your attention first to this reference to the joint claims department operating under Mr. Bratton's direction. That is the claims department we have been referring to, isn't it?

Mr. WILSON. It is.

Mr. SAPERSTEIN. I want to call your attention also to this statement:

Either this department should be discontinued or we should have full cooperation from the Peoples Wayne County Bank.

Were you seriously contending at that time that the department should be discontinued if you could not get the cooperation of the Peoples Wayne County Bank?

Mr. WILSON. I believed that it should be discontinued and the First National set up its own claims department and the Peoples Wayne County Bank its own claims department. But at that particular time we were in the midst of the consolidation of those two banks.

Mr. SAPERSTEIN. Did you feel that the cooperation of the Peoples Wayne County Bank was so vital that the primary function of the claims department was lost without that cooperation?

Mr. WILSON. Yes.

Mr. SAPERSTEIN. So that otherwise it should be discontinued?

Mr. WILSON. The primary function was lost unless we could have full cooperation.

Mr. SAPERSTEIN. I call your attention to the statement that you make in paragraph 4 of this memorandum:

Both the First National Co. and the Detroit Co. are hopelessly insolvent.

When you made that statement was it based upon your survey of the condition of those two companies?

Mr. WILSON. That was the result of my observations at that time. It was my belief.

Mr. SAPERSTEIN. When you used the term "hopelessly insolvent", did you intend to convey to Mr. Ballantyne that there was no use in attempting to rehabilitate these companies or to keep them alive any longer?

Mr. WILSON. They were both in process of liquidation.

Mr. SAPERSTEIN. You stated here that substantial capital will have to be transferred to them to permit the meeting of their obligations.

Mr. WILSON. That is true.

Mr. SAPERSTEIN. Was substantial capital transferred to them?

Mr. WILSON. I do not recall that there was any substantial capital transferred to them at that time.

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Senator COUZENS. When was it that the First Detroit Co., if I have the title correct, or the Detroit Trust Co., was turned over to the Detroit Bankers Co.? Do you recall some earlier testimony where there were dividends paid by the Detroit Trust Co. to the Detroit Bankers Co. through the liquidation of capital stock of the Detroit Co.?

Mr. WILSON. As I recall it, that was in December of 1931, but I do not have the exact date.

Senator Couzens. In December of 1931?

Mr. WILSON. Yes, sir.

Senator COUZENS. That was after the date of this memorandum of yours?

Mr. WILSON. Yes.

Senator COUZENS. I am at a loss to know how the Detroit Trust Co. could declare a dividend in the matter of a wholly insolvent company.

Mr. WILSON. This was between the First Detroit Co. and the Detroit Trust Co.

Senator COUZENS. Oh, there is a difference between the First Detroit Co. and the Detroit Co.?

Mr. WILSON. Oh, yes.

Senator COUZENS. The First Detroit Co. was the one that was solvent and the one that declared the dividend?

Mr. WILSON. Yes, sir.

Senator COUZENS. And the Detroit Co. was an affiliate or selling organization?

Mr. WILSON. Of the Detroit Trust Co.; yes, sir.

Senator COUZENS. All right.

Mr. SAPERSTEIN. The First Detroit Co. was the company that ultimately came to be known as the "Assets Realization Co.", wasn't it?

Mr. WILSON. I do not think so.

Senator COUZENS. That was the First National Co.

Mr. WILSON. I believe that is right.

Mr. SAPERSTEIN. What happened to the First Detroit Co. ultimately?

Mr. WILSON. I haven't those facts and I don't know. The First Detroit Co. was in operation at the time I left.

The CHAIRMAN. What were the relations between the Detroit Co. and the First National Co.?

Mr. WILSON. Up to the time when I left there wasn't any particular relationship. The Detroit Co. was an affiliate of the Detroit Trust Co., and the First National Co. was an affiliate of the First National Bank.

The CHAIRMAN. You mentioned them in some connection, and I didn't know what one had to do with the other.

Mr. WILSON. No.

The CHAIRMAN. It did not make any difference to you what became of the Detroit Co., as I understand.

Mr. WILSON. Well, the Detroit Co., Senator Fletcher, was owned by the Detroit Trust Co.

Mr. SAPERSTEIN. Mr. Wilson, I want to call your attention to the following statement, which appears in Committee Exhibit No. 171, under the second paragraph:

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The matter of adjustment of our officers and employees loans, as per the recommendation of the Detroit Bankers Co. board, should not be delayed any longer.

To what recommendations did you refer, Mr. Wilson?

Mr. WILSON. May I see that for a minute?

Mr. SAPERSTEIN. Certainly.

Mr. WILSON (looking at the letter again). I do not recall the specific recommendations. That matter was discussed at several meetings of the board of the Detroit Bankers Co., and had been referred to a committee of the Detroit Bankers Co. for recommendation, to assist officers and employees in their obligations, their loans to the bank. I do not recall any definite recommendation having been carried through that extended assistance.

Mr. SAPERSTEIN. Are those the recommendations to which Mr. Mills referred in his testimony yesterday, when he said that a schedule was prepared for each officer and employee of the amount he was to pay monthly?

Mr. WILSON. That is quite possible, but I do not recall as to that specific recommendation at that time. It is quite possible, however.

Mr. SAPERSTEIN. At the time when you first began to look into the matter of the advisability of the Detroit Bankers Co. taking those stocks over from the First National Co., did you canvass the opinion of the commissioner of banking of the State of Michigan, and other governmental authorities, to find out their views as to the advisability of such a move?

Mr. WILSON. As I remember it, I did.

Mr. SAPERSTEIN. Did you write a letter to Mr. Reichert, commissioner of banking of Michigan, asking for his opinion on that subject?

Mr. WILSON. I believe I did.

Mr. SAPERSTEIN. Did you receive a reply to your letter?

Mr. WILSON. That is my recollection.

Mr. SAPERSTEIN. I show you a letter signed by R. E. Reichert, addressed to you, under date of February 21, 1930, and ask you whether this is the reply that you received to your letter soliciting Commissioner Reichert's opinion.

Mr. WILSON (after looking at the letter). I believe that is the reply to such communication.

Mr. SAPERSTEIN. Mr. Chairman, I now offer it in evidence.

The CHAIRMAN. Let it be admitted.

(The letter dated Feb. 21, 1930, from Commissioner R. E. Reichert, commissioner, State banking department, to Mark A. Wilson, vice president, Detroit Bankers Co., was marked "Committee Exhibit No. 172, February 8, 1934", and will be found immediately following where read by Mr. Saperstein.)

Mr. SAPERSTEIN. The letter, which has been marked "Committee Exhibit No. 172", as of this date, is as follows:

MICHIGAN STATE BANKING DEPARTMENT,
LANSING, *February 21, 1930.*

Mr. MARK A. WILSON,
Vice President, Detroit Bankers Company,
First National Bank Building, Detroit, Mich.

DEAR MARK: I have your letter enclosing a booklet showing the financial status of the Detroit Bankers Company which I was very glad to receive.

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The question that you raise in your last paragraph is one that in my opinion is open to argument. Anticipating that this whole question of branch banking, group banking, and unit banking will have a thorough airing, both in congress and possibly in the next session of the state legislature, it may be wise to act rather conservatively on any program of extension.

You and I have discussed this matter quite thoroughly on previous occasions, and I think are of the opinion that group banking is not without its benefits but whether they will over shadow some of the disadvantages, only time will tell. As you know, I have always questioned whether group banking could be made operative. I am firmly of the opinion, until proven otherwise, that it will eventually mean branch banking, and then the question arises whether we are ready to accept a branch banking system.

I think that your plan of confining your operations to the metropolitan district of Detroit, until such time as the group banking system shall have a further trial and has thoroughly been discussed, is in my opinion a very wise move for the present time.

I shall be glad to d.scuss this matter with you when I am again in Detroit.

Sincerely yours,

(Signed) R. E. REICHERT,
Commissioner.

The CHAIRMAN. Mr. Wilson, what is your opinion on group banking now, after all of your experience?

Mr. WILSON (after lapsing into thought for about 1 minute). Well, Senator Fletcher, I would not be in favor of it.

The CHAIRMAN. And what about branch banking?

Mr. WILSON. As to branch banking I have a very definite opinion. I believe that we could have county-wide branch banking, but I do not believe we are ready for State-wide branch banking.

Senator COUZENS. You would limit branch banking to county-wide limits, would you?

Mr. WILSON. Yes, sir. I do not think we are ready for State-wide branch banking. And that is partly due to the fact that we have not the trained bankers to carry it through.

Senator COUZENS. But as I understand you, you are quite convinced that group banking or chain banking is not good public policy?

Mr. WILSON. Senator Couzens, during this period, and as Mr. Haass first indicated in his annual report of the Detroit Bankers Co., he was not endorsing group banking. The Detroit Bankers Co. attempted to confine its operations to the metropolitan district of Detroit; and it was hoped by those consolidations that we would eventually be able to discontinue the holding company, through consolidations. And if the bank had gone through the crisis last year it would have been in position at this time to have discontinued a holding company insofar as the metropolitan district of Detroit is concerned, because they could have established those outlying banks as branches, and would have had one banking structure, with trust companies.

Senator COUZENS. And you favored the abolition of any holding company plan in the unification?

Mr. WILSON. We thought that would be possible in a 5-year period. That was one reason why I always opposed branching out through the State, because I thought we could eventually get county-wide branch banking, and could convert those outlying banks into branches of the downtown office.

Senator COUZENS. Mr. Stair was in error, then, when he said that the organization of the Detroit Bankers Co. would confer greater

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loaning facilities to industry through the Detroit Bankers Co., was he not?

Mr. WILSON. Well, now——

Senator COUZENS (continuing). In other words, it did not increase their capital or surplus.

Mr. WILSON. That, to my mind, was never taken into consideration at that time.

Senator COUZENS. It was not a factor in the organization of the Detroit Bankers Co.?

Mr. WILSON. No, sir; not to my knowledge.

Mr. SAPERSTEIN. Mr. Wilson, did you also solicit the opinion of the Comptroller of the Currency with regard to the advisability of this expansion program?

Mr. WILSON. Yes, sir.

Mr. SAPERSTEIN. I show you a letter addressed to you, signed by J. W. Pole, and ask you whether you received that letter from Mr. Pole?

Mr. WILSON (after looking at the letter). I did.

Mr. SAPERSTEIN. Mr. Chairman, I now offer the letter in evidence.

The CHAIRMAN. Let it be admitted.

(A letter from J. W. Pole, Comptroller of the Currency, to Mark A. Wilson, dated Feb. 28, 1930, was marked "Committee Exhibit No. 173, Feb. 8, 1934", and will be found immediately following where read by Mr. Saperstein.)

Mr. SAPERSTEIN. The letter which has been received in evidence and marked "Committee Exhibit No. 173", as of this date, is as follows:

TREASURY DEPARTMENT,
Washington, February 28, 1930.

Mr. MARK A. WILSON,
Vice President, Detroit Bankers Co., Detroit, Mich.

DEAR MR. WILSON: I wish to thank you for your letter of the 18th, enclosing booklet detailing the component parts of the Detroit Bankers Co.

I note you personally have taken the position that the operations of this company should be confined to the Detroit Metropolitan District, and request an expression of an opinion from me. I am sending herewith copy of statement made by me before the Banking and Currency Committee this week, from which you should be able to get a clear idea as to the direction in which my mind runs.

Have you a copy of that statement, Mr. Wilson, that he sent to you?

Mr. WILSON. No; I have not.

Mr. SAPERSTEIN. I will resume the reading of the letter:

As to what legislation will be enacted, it is difficult to forecast notwithstanding the fact that support is growing for some form of extension of branch banking. Such exension under the group system, I feel sure, will be presented to the committee in an impressive manner, possibly with the idea of getting recognition from Congress as being the final solution of the banking problem. My own opinion is that this may be merely a transitional step toward further extension of branch banking.

The underlying purpose of my recommendation to Congress is to carry to the rural communities a sound banking service and that the scope of this activity should be confined to the area from which business would naturally flow to a metropolitan center. You naturally would be the best judge of what constituted such an area with Detroit as the central point, and in view of this, it might not seem unwise to take time by the forelock.

Yours very truly, (Signed) J. W. POLE,
J. W. POLE,
Comptroller of the Currency.

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Senator COUZENS. Mr. Wilson, what is your interpretation of his statement "taking time by the forelock"?

Mr. WILSON. Well, Senator Couzens, my reaction to that was to probably extend our operations outside of the metropolitan district of Detroit.

Senator COUZENS. Not within a certain trading area?

Mr. WILSON. And not confine it to a certain trading area, as Mr. Pole was defining that policy at that time.

Senator COUZENS. The setting up of branch banking within a certain trading area.

Mr. WILSON. Yes, sir.

Senator COUZENS. What would you construe the trading area of Detroit to be?

Mr. WILSON. I have always wondered. I don't know. The geographical location of Detroit makes it rather difficult to confine it to a certain trading area, to any extent.

Senator COUZENS. So that if Congress should enact legislation to permit branch banking by trading areas, it would be a rather difficult matter to determine the area in which branch banking should be confined.

Mr. WILSON. I think it would be rather difficult to draw those lines in regard to certain cities.

Senator COUZENS. And that was the reason that you a while ago mentioned county lines?

Mr. WILSON. Yes. County lines have already been established, and have existed for years, by law.

Senator COUZENS. And that is the reason you recommended only branch banking within county lines?

Mr. WILSON. That would be my recommendation yet today.

Mr. SAPERSTEIN. Mr. Wilson, have you any suggestions or recommendations that you desire to make to this committee for legislation in regard to the banking situation?

Senator COUZENS. Mr. Chairman, might I suggest that we let that go until after lunch. It is now 1 o'clock.

The CHAIRMAN. You will be back after lunch, Mr. Wilson?

Mr. WILSON. Yes; Mr. Chairman.

The CHAIRMAN. I should like to know, first, whether you have any suggestions to make to the committee.

Mr. WILSON. Yes, sir; I have. But it would take some time to express them.

The CHAIRMAN. Very well. The subcommittee will now stand in recess until 2 p.m.

(Thereupon, at 1 p.m., Thursday, Feb. 8, 1934, the subcommittee recessed to meet again at 2 o'clock the same day, at the same place.)

AFTERNOON SESSION

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

The CHAIRMAN. The committee will come to order, please.

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TESTIMONY OF MARK A. WILSON, DETROIT, MICH., RECEIVER OF THE UNION INDUSTRIAL TRUST & SAVINGS BANK, FLINT, MICH.—Resumed

Mr. SAPERSTEIN. Mr. Wilson, when we recessed you had indicated that you had some suggestions that you desired to make to this committee to assist it in framing legislation in regard to the banking situation. Will you be kind enough to read those suggestions into the record?

Mr. WILSON. With your permission, just for a few moments, I should like to make a brief statement with regard to certain matters that I would like to clear up before I give you those suggestions.

Mr. SAPERSTEIN. Very well.

Mr. WILSON. I would like to hand to you a letter dated May 25, 1932, addressed to the First National Bank & Trust Co., Pontiac, Mich., and signed by Alfred P. Leyburn, chief national bank examiner, Seventh Federal Reserve District. There has been quite a good deal of discussion with regard to the Pontiac situation and the establishment of a new bank, and I would like to offer this letter as a partial explanation.

Mr. SAPERSTEIN. The letter which the witness has just handed to me is on the letterhead of the Treasury Department, Office of the Comptroller of the Currency, Chicago, dated May 25, 1932. It is addressed to the First National Bank & Trust Co., Pontiac, Mich., and signed by Alfred P. Leyburn, chief national bank examiner Seventh Federal Reserve District. I will offer the letter in evidence,

The CHAIRMAN. Let it be received.

(Letter dated May 25, 1932, from Alfred P. Leyburn to First National Bank & Trust Co., Pontiac, Mich., was received in evidence, marked "Committee Exhibit No. 174, Feb. 8, 1934", and appears in the record where read by Mr. Saperstein.)

Mr. SAPERSTEIN. The letter which has been marked "Committee Exhibit No. 174" of this date is dated May 25, 1932, and reads as follows [reading]:

COMMITTEE EXHIBIT No. 174

TREASURY DEPARTMENT,
OFFICE OF COMPTROLLER OF THE CURRENCY,
Chicago, May 25, 1932.

FIRST NATIONAL BANK & TRUST CO.,
Pontiac, Mich.

DEAR SIR: An appraisal of the assets of the First National Bank and Trust Company, Pontiac, Michigan, in November disclosed a very serious impairment of capital and surplus caused by losses. This was aggravated to a large extent by the closing of the other bank in your city which caused heavy withdrawals, and consequently it was necessary to collect on your best assets, which include bonds and securities.

The officers and directors of the bank were advised of this unsound condition and it was requested that it be remedied, otherwise it would be necessary to make a 100% assessment on all the stockholders, as provided by the statutes, for the protection of the depositors. This, of course, would have meant a thirty days' notice to the shareholders and a meeting, which would have caused adverse reports concerning the condition of the bank and would undoubtedly have resulted in its closing due to this publicity.

An effort was made to secure the new capital necessary by the sale of additional stock, but it was not successful. The directors then entered into

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negotiations with the Detroit Bankers Company and with the assistance and full approval of the Comptroller of the Currency, an agreement was consummated whereby that company organized a new bank, provided the entire capital and surplus of $750,000.00, assumed all liabilities, and took over all assets of the old bank.

To insure against loss from further shrinkage in the value of bonds and other assets and that these could be liquidated within a period of two years at the valuations fixed by the officers and directors a guarantee fund was created. The amount of this fund is $600,000.00, the equivalent of an assessment of 100% which would have been levied upon all the stockholders.

The prompt and generous action of the small group of directors, officers, stockholders and public-spirited citizens who met the emergency by agreeing to temporarily provide the guaranty fund and posted cash and securities amounting to $600,000.00 unquestionably saved the closing of the bank. It likewise saved the stockholders from an immediate assessment of 100% on their stock and undoubtedly prevented further losses in the event they would have been compelled to raise funds from the sale of securities or otherwise to meet the assessment.

It would appear that the stockholders should recognize that the burden of this guaranty fund justly belongs to the stockholders in proportion to their individual holdings and not to the few who came to the rescue of the bank by making considerable sacrifices and assumed the guaranty in order that the deal might be consummated.

Very truly yours,

(Signed) ALFRED P. LEYBURN,
Chief National Bank Examiner, Seventh Federal Reserve District.

Have you anything to add to that statement in regard to the First National Bank & Trust Co. of Pontiac?

Mr. WILSON. No; except the fact that there was possibility of fire breaking out in Pontiac, and in cooperation with Mr. Leyburn we decided to proceed with the organization of the new National Bank to take over the old First National Bank & Trust Co. of Pontiac, which was done. The General Motors Corporation put a million dollars on deposit; the Detroit Bankers Co. supplied a new capital of $750,000; three additional directors from General Motors Corporation were added to the board, and the local directors contributed approximately $500,000 and a pledge of securities to the Detroit Trust Co. as trustee to guarantee the stock assessment up to that extent; and we thought we were doing a good job in Pontiac, although I took the definite position with Mr. Ballantyne that the Detroit Bankers Co. should not go into Pontiac; that if the bank had to fail, let it fail and take the consequences; although I later went through it with Mr. Leyburn and made the set-up which led to the reorganization.

Senator COUZENS. You remember that there has been considerable testimony introduced here as to a diversion?

Mr. WILSON. That is right, Senator.

Senator COUZENS. A diversion of a dividend of a million and a half dollars of the First National Bank to the Detroit Bankers Co. for the purpose of liquidating their debt of which $750,000 was later turned over to the Pontiac bank. Do you know anything about that?

Mr. WILSON. My recollection of that is that the dividend was one million and a half paid by the First National Bank to the Detroit Bankers Co. for the purposes indicated in the resolution drafted by Mr. Long. Later on difficulty existed in Pontiac, and in order to save the situation the money was used for that purpose.

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Mr. SAPERSTEIN. There is nothing in this letter which I have just read, exhibit 174, to indicate that the Comptroller of the Currency approved of or even knew of the fact that this fund of $750,000 was being diverted from the original purpose for which it had been created, is there?

Mr. WILSON. I do not believe Mr. Leyburn knew. He knew that the Detroit Bankers Co. was putting up the money. I doubt seriously if he knew from what pot it was coming. He just knew they were furnishing the capital. That would be my recollection.

Mr. SAPERSTEIN. Do you know at whose request or instigation the fund of $1,500,000 was diverted from its original purpose, namely, the liquidation of the indebtedness of the First National Bank?

Mr. WILSON. It was done with a great deal of care. The matter was presented as recorded in the minutes of the Detroit Bankers Co., and the members of the board of the Detroit Bankers Co., who were also the governing committee of the bank, after due consideration of all the facts that were then known, believed unanimously that we should go in and save the Pontiac situation. So they carried out the reorganization of this new national bank in Pontiac to take over the old First National Bank in Pontiac.

Senator COUZENS. Did you make any check of the securities of the First National Bank & Trust Co. of Pontiac before the Detroit Bankers Co. went in there with new capital?

Mr. WILSON. Yes, we did, Senator; and I would like very much to present our findings on that.

Senator COUZENS. I think it would be appropriate, because there has been a lot of controversy about the wisdom of the procedure, especially for those who put up the $600,000 to prevent the double assessment.

Mr. SAPERSTEIN. Will you take charge of these notes of yours and pick out the information that would help you to answer Senator Couzens' question?

Mr. WILSON. Prior to the time that the examination of the First National Bank & Trust Co. of Pontiac was made by the examiners of the Detroit Bankers Co. there had been an examination made by a national bank examiner under date of November 23, 1931. That was about 90 days prior to the time we finally perfected the reorganization. This national bank examiner's report reflected doubtful $89,659; and most of that was depreciation of bonds. There was a loss of $81,443, and most of that was additional depreciation of bonds which he thought ought to be written off. In fact, there was $88,562 of depreciation of bonds recorded in the doubtful column and $71,510.48 recorded in the loss column. So substantially all of the doubtful and loss items were depreciations. That was under date of November 23, 1931.

Senator COUZENS. I understood you to say, Mr. Wilson, that the Detroit Bankers' arrangement was consummated within 90 days after that?

Mr. WILSON. I think so.

Senator COUZENS. How do you account for the fact that Mr. Leyburn's letter was not written from Chicago until May 25, 1932?

Mr. WILSON. The reason for that, Senator, is that the directors out there who would put up this money desired to proceed with the stock

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assessment and they wanted a letter from Mr. Leyburn in order to show to the stockholders who had not originally contributed. That is my recollection.

In this national bank examiner's report there is approximately only $11,000 of doubtful loans and losses; and in our examination that was made practically 90 days later than that we showed $408,000 of doubtful loans and discounts and $271,000 in doubtful and loss loans and discounts. Our total recapitulation on that date was as follows:

Doubtful, $728,000; loss, $814,000.

That shows quite a wide variation between the national-bank examiner's report 90 days prior——

The CHAIRMAN. What was the capital?

Mr. WILSON. The capital of that bank was $600,000.

Senator COUZENS. So by comparison of those figures you conclude that the national-bank examiners had been very liberal in their appraisal of the assets?

Mr. WILSON. The national-bank examiners had been very liberal.

Senator COUZENS. Because your own investigation showed that the condition was much worse than that shown by the national-bank examiners.

Mr. WILSON. That is correct.

The CHAIRMAN. Was the new bank successful? Has it gone on all right?

Mr. WILSON. The new bank did not succeed, and there is quite a story to that.

The CHAIRMAN. They were reorganized and set up and reopened and did business?

Mr. WILSON. They got organized and set up, and we also placed in that bank one of our most capable men as executive vice president for liquidation purposes and for carrying through certain policies that we thought were sound for that institution; and I have a very complete record in regard to what was done during that period, from that time up to the date of the holiday.

Senator COUZENS. When did this reorganized First National Bank of Pontiac close?

Mr. WILSON. Are you referring to the new one that we set up?

Senator COUZENS. Yes.

Mr. WILSON. It was at the time of the holiday declaration.

Senator COUZENS. And it never opened after that?

Mr. WILSON. It never opened after that; but since that time it has paid its depositors 65 percent, already, within 4 months. One of the reasons it did not open was because there was a switching of papers.

Mr. SAPERSTEIN. What do you mean by that?

Mr. WILSON. I mean just that.

Mr. SAPERSTEIN. Can you define that for the purpose of the record?

Mr. WILSON. The First National Bank of Pontiac, as I am informed and believe, had approximately $600,000 of excess funds. This bank had no bills payable at the time it was closed. It had substantial cash and bonds. I have a statement to that effect. It also had excess funds to the extent that it was able to purchase paper to the amount of about $600,000, and that was supposed to be prime

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paper purchased from the First National Bank of Detroit. At the time of the trouble in Detroit I am advised that there was nonrediscountable paper exchanged for the most desirable paper which was held by the First National Bank of Pontiac, because the bank in Detroit was trying to collect a substantial amount of paper which was eligible for rediscount with the Federal Reserve Bank of Chicago. In the final compromise they took approximately $100,000 loss on that paper and received, as I understand, about $500,000 for their $600,000 worth of paper, in cash, bought by the officials which assisted them in their plan for reorganization in the payment of certain funds to the depositors.

Senator COUZENS. The First National Bank of Pontiac deposited $600,000——

Mr. WILSON. It had bought paper from the First National Bank of Detroit, good-name paper.

Senator COUZENS. Bought it outright?

Mr. WILSON. Yes, sir; surplus funds.

Senator COUZENS. If they bought it outright, why was not the transaction closed? Why was the matter brought up again?

Mr. WILSON. Because after the Governor's holiday in Michigan the First National Bank was attempting to liquefy itself to the greatest extent, and in doing that they wanted this eligible paper back in their portfolio in order to show how much they could rediscount with the Federal Reserve bank, to have as much available cash on hand as they could, and they gave the Pontiac bank, in exchange for that, poorer paper not of a rediscountable type.

Senator COUZENS. Why did the officials make such an unfavorable exchange?

Mr. WILSON. I cannot answer as to that, Senator.

Senator COUZENS. Was it not a rather unusual situation?

Mr. WILSON. I think so; yes, sir.

Senator COUZENS. You have never been able to account for why the directors of the First National Bank of Pontiac should exchange $600,000 of good collateral for poor collateral?

Mr. WILSON. No; and I was never able to account for why it was not relicensed after the carefulness with which it was set up.

Senator COUZENS. What effect did this exchange of collateral have?

Mr. WILSON. Following the holiday I think that bank should have been licensed, except possibly for the fact that $600,000 of quick assets were tied up and probably would get into litigation.

Mr. SAPERSTEIN. Do you know whether this switching of papers, as you describe it, was discussed by the board of directors of the First National Bank of Pontiac?

Mr. WILSON. I do not know, sir.

Mr. SAPERSTEIN. Do you know the officers who handled the transaction?

Mr. WILSON. I presume the officer of the First National Bank at Pontiac was Harold B. Ward, who was the executive vice president, a most capable banker.

The CHAIRMAN. Did the Pontiac Bank get any money from the R.F.C.?

Mr. WILSON. They were not borrowing any money at that time, Senator; they did not need any money.

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The CHAIRMAN. Not even after the closing?

Mr. WILSON. After it was closed there was a new bank; it was reorganized into a national bank later on in July, and they then borrowed from the R.F.C. for the purpose of making a pay-off to the depositors. I am informed by the receiver that 65 percent of the deposits have been paid off and were paid off before August 1, 1933.

Senator COUZENS. You have just spoken very highly of Mr. Ward, who was the executive vice president. What do you think impelled him to make this exchange?

Mr. WILSON. I presume he was under the influence of the First National Bank officers in Detroit. That is my only answer.

Senator COUZENS. When you resigned from the Detroit Bankers Co. what was your observation as to the condition of the First National Bank at that time?

Mr. WILSON. The latest available figures I had in regard to the condition of the First National Bank of Detroit at the time I resigned were the figures submitted by the examiner prior to the consolidation. We knew at that time, of course, that there were some loans going into the special loan department; they were increasing. We knew real-estate values were further depreciating; we knew that the bond account was further depreciating.

Senator COUZENS. When you left you knew that the First National Bank was getting worse?

Mr. WILSON. There was no question about the First National Bank getting worse. Every other bank in the country was getting worse at that time, through that period.

Mr. SAPERSTEIN. Do you know what the percentage of liquidity was at the time you retired?

Mr. WILSON. I do not know, but it was very low.

Mr. SAPERSTEIN. Will you give us the benefit of your best judgment as to what it was at that time?

Mr. WILSON. I would not want to hazard a guess; but the liquidity of the First National was never high.

Mr. SAPERSTEIN. Was it on the increase or on the decrease at the time you retired?

Mr. WILSON. That would be absolutely a guess; I don't know. It was not changing materially. That would be my best judgment and recollection.

Senator COUZENS. Do you have anything more to say about Pontiac?

Mr. WILSON. No, Senator; I believe not. I think I have covered that situation.

Mr. SAPERSTEIN. Have you any observations to make in regard to——

Mr. WILSON. I have two or three other observations that I would like to make.

Senator COUZENS. There is one matter that I would like to take up before you conclude your testimony with respect to your recommendations, and that is that during the grand-jury investigations in Detroit there came to my attention some "window dressing" which was alleged to have taken place between the Highland Park State Bank and the Union Industrial Bank of Flint, and, as I recall, you were requested to bring down all of the evidence you had in connec-

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tion with any of these banking operations in Detroit. I ask you now if you have any evidence of the so-called "window dressing" by the use of certificates of deposit of the Highland Park State Bank bv the Union Industrial Bank of Flint?

Mr. WILSON. I will offer all the records I have pertaining to the window dressing that you speak of, in view of the fact that I am receiver of the Union Industrial Trust and Savings Bank of Flint.

Mr. SAPERSTEIN. When were you appointed receiver of that bank?

Mr. WILSON. I believe, September 28, 1933.

Mr. SAPERSTEIN. Since then you have been engaged in liquidating the affairs of that institution?

Mr. WILSON. Since then I have been engaged in the reorganization of a bank that would make possible the maximum pay-offs of the Union Industrial Bank and the National Bank of Pontiac, which has been completed.

Mr. SAPERSTEIN. These records which you have produced came into your possession as receiver of that bank, and you found these records among the files of that bank?

Mr. WILSON. That is correct.

Senator COUZENS. Do you recall the testimony that was introduced with respect to certain alleged deposits having been made in the Union Industrial Bank by the Guardian Detroit Bank, December 31, 1931?

Mr. WILSON. I read sketches, Senator, in the newspapers only. During that period I was quite busy. I have not been able to follow it as closely as I would have liked to.

Senator COUZENS. Can you tell us anything from your own knowledge as the receiver of the Union Industrial Bank with respect to these certificates of deposit which have been used to wipe out bills payable?

Mr. WILSON. I have not studied those records, Senator, sufficiently so that I could answer the questions that might be propounded to me. The complete original records are there, but I just simply could not properly answer at this time. I might say that as soon as I found that had occurred, I turned the information over to the prosecuting attorney.

Senator COUZENS. The prosecuting attorney of Genesee County?

Mr. WILSON. Yes; last July.

Senator COUZENS. You turned it over as long ago as last July?

Mr. WILSON. I did, sir, before it came out in the investigation.

Senator COUZENS. What impelled you to turn this evidence over to the prosecuting attorney of Genesee County?

Mr. WILSON. The matter came to my attention in regard to those transactions. As soon as it did I immediately went to Lansing and discussed it with the banking department, and they advised me to immediately turn it over to the prosecuting attorney for whatever action he might deem advisable.

Senator COUZENS. It must have occurred to you then that those transactions were illegal if you did that?

Mr. WILSON. At least they were transactions of a nature that should properly be investigated.

Senator COUZENS. By a prosecuting officer?

Mr. WILSON. That was my conclusion.

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Senator COUZENS. During previous hearings there were introduced into the record certain testimony and certain certificates of deposit and records with respect to deposits made in the Union Industrial Bank by the Guardian Detroit Bank on December 31, 1931, which had the effect of wiping out bills payable. Then on January 2, 1932, 2 days afterward, those C.D.'s were returned and deposit withdrawn. The effect was to wipe out any bills payable in the Union Industrial Bank; but after the December 31, 1931, statement had been published bills payable again appeared. Among those put into the record at that time—and I am trusting somewhat to my memory; I may not be exactly accurate—there was a C.D. for $600,000. The testimony that was heretofore introduced referred to December 31, 1931. These certificates of deposit which I now hold in my hand are for $1,200,000 deposited in the Union Industrial Bank on December 31, 1931, and $600,000 deposited in the Union Industrial Bank by the Highland Park State Bank, December 31, 1930, which had the effect, as the records show, of wiping out $1,800,000 of bills payable as of December 31, 1930; and these were shortly afterward—sometime between then and the 15th of January—withdrawn and the bills payable were reinstated in the Union Industrial Bank.

I just want to make that a matter of record; and I would like to offer in evidence, Mr. Chairman, these two certificates of deposit.

The CHAIRMAN. Let them be admitted.

(Certificate of deposit dated Dec. 31, 1930, in the amount of $600,000, was received in evidence and marked "Committee Exhibit No. 175, Feb. 8, 1934.")

(Certificate of deposit dated Dec. 31, 1930, in the amount of $1,200,000, was received in evidence and marked "Committee Exhibit No. 176, Feb. 8, 1934.")

Senator COUZENS. Mr. Chairman, I would like to offer for the record general journal ledger statement of condition of the Union Industrial Trust & Savings Bank of Flint as of December 30, 1930, showing bills payable of $1,800,000, and as of December 31, 1930, no bills payable, and as of January 2, 1931, the reinstatement of $1,000,000 of bills payable. I would like to have them just marked for identification.

The CHAIRMAN. That may be done.

(Tabulated statement headed "Union Industrial Bank, Flint, Mich.", dated Dec. 30, 1930, was marked for identification "Committee Exhibit No. 177, Feb. 8, 1934.")

(Tabulated statement headed "Union Industrial Bank, Flint, Mich.", dated Dec. 31, 1930, was marked for identification "Committee Exhibit No. 178, Feb. 8, 1934.")

(Tabulated statement headed "Union Industrial Bank, Flint, Mich.", dated Jan. 2, 1931, was marked for identification "Committee Exhibit No. 179, Feb. 8, 1934.")

Mr. WILSON. Mr. Stair indicated in his testimony that I became a vice president of the bank at the time of its consolidation. I wish to state that I was never an officer of any bank in Detroit at any time.

Senator COUZENS. Your official duties were all confined to the holding company?

Mr. WILSON. Yes, sir.

Mr. SAPERSTEIN. Of which you were vice president?

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Mr. WILSON. Yes. Mr. Stair also indicated, in regard to the reduction of expenses of the Detroit Bankers Co.—I forget the figure, but it was rather a substantial amount at the time Mr. Ballantyne and myself resigned—I believe the record will show that while there may have been a substantial reduction in the expenses of the Detroit Bankers Co., I believe a checking would indicate that that was only a transfer to the First National Bank and that the expenses of the First National Bank increased more or less.

Senator COUZENS. In the same amount that the Detroit Bankers Co. was reduced?

Mr. WILSON. Approximately the same amount.

That is all I have on that. I just wanted to make that observation.

Senator COUZENS. Then you do not agree with Mr. Stair that Mr. Ballantyne was not active?

Mr. WILSON. That Mr. Ballantyne was not active?

Senator COUZENS. I understood he was not well and was therefore not active and that was the reason his resignation was asked for.

Mr. WILSON. No; I do not agree with that.

There was some reference also made by Mr. Stair that my examiners had examined two Redford banks which were bought by the First National Bank. That is not a statement of fact. We never examined either of those Redford banks.

Mr. SAPERSTEIN. Was there any examination made?

Mr. WILSON. An examination was made by Mr. Jacobs who was vice president of the First National Bank at that time, and upon his findings it was recommended that the First National Bank of Detroit purchase, as I recollect, the assets of those two banks and assume the deposit liabilities and probably other liabilities. I have not all the facts, but I wanted to correct the statement that we ever approved of that. We did not. The only approval I know of was as a member of the executive committee of the First National Bank at the time the statement was brought in regarding the taking over of those banks and it was presented to the committee and recommended that it be done, I believe the records would show that I voted in the affirmative.

Mr. SAPERSTEIN. Was the purchase of those Redford banks a wise one?

Mr. WILSON. It was not. I think members of the executive committee believed that if it was recommended that we take them over they would be taken over with the necessary and proper approval of the Comptroller of the Currency. That was not obtained.

Mr. SAPERSTEIN. You mean that the approval of the Comptroller was never obtained for taking over these Redford banks?

Mr. WILSON. That is my understanding.

I have one other matter. There was quite a good deal of discussion in regard to the twelve trustees of the Detroit Bankers Co. wherein they owned $100 worth of stock apiece. I would like to explain as briefly as possible what I know about those trustees' shares.

Mr. SAPERSTEIN. Will you give us that explanation?

Mr. WILSON. Mr. Haass realized on the formation of the Detroit Bankers Co. that it was a large job. He wanted to be asolutely in

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control throughout that period. He did not want any interference from any directors.

Senator COUZENS. Did he mean to accomplish that by voting control?

Mr. WILSON. He did; and you will find in those 12 names a voting control by Mr. Haass if he had wished it in case of an emergency.

Senator COUZENS. You mean the committee to gather from that that Mr. Haass would control the other 11 votes?

Mr. WILSON. That he would control sufficient votes to have a majority; he would have had a majority of the votes. That is the explanation I have, and I believe it is a sound one, because he was embarking upon quite a journey with his bank, with a lot of directors who might have different opinions in regard to consolidations, and what not.

Senator COUZENS. How was the change brought about so that the board of directors of the Detroit Bankers Co. was increased by a considerable number later on?

Mr. WILSON. Those 12 trustees were later increased to 20, and within a month or two later to 21. That was brought about by the desire of some later directors to become directors of the Detroit Bankers Co. They wanted to get in.

Senator COUZENS. What became of the 12 trustees who were there at the organization of the Detroit Bankers Co.?

Mr. WILSON. As I recollect, they continued and became a part of the 20.

Senator COUZENS. And those in addition to the 12 were as much a part of the trustees' agreement as the original 12?

Mr. WILSON. Yes; and finally the 21.

Senator COUZENS. And Mr. Haass was able to control a majority of the 21 the same as he was able to control a majority of the 12?

Mr. WILSON. At the time they were selected I think they were selected carefully so that the control could be carried through.

In regard to the 17-percent dividend which was declared by the Detroit Bankers Co., and which has been discussed, I would like to offer my explanation in regard to that.

Mr. SAPERSTEIN. Will you do so?

Mr. WILSON. The 17-percent dividend was fixed, as I recall it, in this manner. The Peninsular State Bank stockholders desired to receive approximately the same returns upon Detroit Bankers Co. stock in the way of dividends as they had been receiving upon dividends on stock in the Peninsular State Bank.

Senator COUZENS. And that went through with all of the organizations and became a part of the Detroit Bankers Co.?

Mr. WILSON. It had to go through the other major banking units in order to carry through the requirements as desired by the directors and officers of the Peninsular State Bank.

Mr. SAPERSTEIN. Is it not a fact, Mr. Wilson, that the 17-percent rate which was adopted by the Detroit Bankers Co. at its inception represented a step up over the 5-year average dividend rate of these five constituent banks, and that to maintain that 17-percent dividend rate it would have been necessary for those five constituent banks to step up their earnings as well?

Mr. WILSON. The Peninsular State Bank dividend was not stepped up; it was reduced from $350,000 to $348,500. The Detroit Trust

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Co. was stepped up very materially. That dividend rate was $480,000 a year, and the new dividend which would be necessary for them to pay was $1,020,000. It was more than double. But Mr. Browning took a position with Mr. Haass, who canvassed each one of those bank presidents whether they could carry through with that—Mr. Browning took the very definite position that the Trust Co. should carry through and pay that dividend. So he was committing his institution to pay out in excess of 60 percent of the earnings and the earnings were knocked down over a period of 3½ or 4 years. The Bank of Michigan dividends were stepped up probably, as I recall, from $600,000 to $637,500. That was about a 5-percent step-up. Mr. Livingstone thought that his bank could earn around $900,000 a year based upon previous earnings and economies which he proposed to put through.

The First National Bank step-up was about a 10-percent step-up—I forget the exact figure. They had been paying, roughly, about a million dollars, and I think it was stepped up to about $1,100,000. It was about a 10-percent step-up. Mr. Douglas thought he could carry through and effect economies, and his earnings had been estimated at about 1½ to 2 million dollars at that time.

The real step-up came in the Peoples Wayne County Bank, which was a step-up to $2,500,000; and the dividend rate as fixed at that time was fixed for that purpose, but from later events it was too high. and it should have been reduced before it was reduced.

I would like to make this one statement, that I was more or less responsible for what was done in these outlying banks. We started to combat the payment of dividends in those outlying banks in 1931, and the only banks that carried through, with one exception, were those who have today paid their depositors 100 cents on the dollar. My records here indicate that even in June 1931 the dividend at River Rouge was discontinued. The dividend at Ecorse was discontinued entirely in June 1931 because they were accumulating undesirable assets. You can go through the records that I have available—and I am perfectly willing to submit them to you—in regard to the dividend policies of the outlying banks. The banks were in this position, that the Detroit Bankers Co. had already paid a sufficient amount of money to continue reasonable dividends without asking the outlying banks for any dividends for a period of a year or a year and a half. It had already been accumulated in a very short time.

Mr. SAPERSTEIN. Mr. Wilson, do you think that the indebtedness of $7,200,000 which the Detroit Bankers Co. assumed at the time of the acquisition of these outlying banks was a serious contributing cause to the difficulties in which the Detroit Bankers Co. found itself?

Mr. WILSON. There is no question whatsoever about that. It was a contributing factor.

Mr. SAPERSTEIN. When you say it was a contributing factor do you mean it was the principal cause of the difficulties of the group company?

Mr. WILSON. That is correct.

Mr. SAPERSTEIN. Just before you read your suggestions I would like to read into the record from the examiner's report of condition of the First National Bank of Detroit as of September 25, 1931, the examiner's comment with regard to those Redford banks which you

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mentioned a moment or two ago. He says, under the caption of Criticism, Redford Banks (reading):

The action of this bank in taking over the assets of the two Redford State banks without first submitting them to this office for appraisal is subject to severe criticism. You will find attached to this report schedules and appraisals made of the assets held in this bank under agreements dated May 29, 1931. These agreements provide for a 5-year program under which liquidation is to be made. The assets as a whole are of a highly objectionable character and nonconforming as to admissibility, notwithstanding the fact that the capital structure of the two banks offer a protection through the shareholders' equity of $740,596.96, and a guarantee bond signed by the directors of one of the banks for $25,000. Substantial loss in cases of this kind will probably be serious. The elimination of those assets which are not conforming to the national banking laws or represent questionable values under no circumstances could be permitted to run for the duration of 5 years. Shrould an examination have been made by your department prior to the acquisition of these assets, it would have been impossible to find sufficient acceptable items to make the take-over possible. The responsibility of the directors with respect to the matter is direct.

Do you agree with those conclusions of the bank examiner, Mr. Wilson?

Mr. WILSON. I might say that I do not find any fault with it, unless you just want me to answer in the affirmative. I believe the examiner is substantially correct in his deduction.

I have one statement which I would like to make before offering a few suggestions, and I will hurry through with those.

In regard to the inability of these banks to reopen following the Governor's proclamation and the President's proclamation, I have jotted down a few underlying causes. I do not believe there is any one contributing factor; I think there are many cumulative factors that brought about these conditions. I have them listed very concisely.

No. 1 is excessive and destructive competition. That has been proven all the way through.

Senator COUZENS. Between the Guardian Group and the Detroit Bankers Group?

Mr. WILSON. Not only the groups but between the banks before the formation of the groups.

The CHAIRMAN. You said excessive and destructive competition?

Mr. WILSON. Yes. No. 2 is lack of confidence brought about by many causes, partly due to the listing of the bank stock on the stock exchange and the falling of those quotations.

No. 3, the borrowings of directors and officers and the making of slow capital loans partly predicated upon stock of the holding company.

No. 4, affiliates and security companies.

No. 5, the failure of the American State Bank.

No. 6, the economic depression.

No. 7, directors and the governing committee.

Senator COUZENS. What do you mean by that? You say they were a contributing cause for the failure of the banks to open. Will you elaborate on that?

Mr. WILSON. There was too much interference in the so-called "select steering committee."

Senator COUZENS. Who made up that committee?

Mr. WILSON. They were self-selected. That is what I believe.

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Senator COUZENS. Can you identify them by any records of the board of directors?

Mr. SAPERSTEIN. Would it help you to answer that question if you had before you the annual reports?

Mr. WILSON. I would say those names would be found in the final list of directors of the Detroit Bankers Co. and the governing committee—at least, at the time I resigned. I do not say all of them, but some of them.

Mr. SAPERSTEIN. Who constituted the governing committee at the time you resigned?

Mr. WILSON. I have not that information.

Senator COUZENS. Can you tell it from the list of the directors published in any one of the annual reports?

Mr. WILSON. The greatest problem of the Detroit Bankers Co. was keeping the directors and the governing committee in line and in having too much interference in operation and giving the management the power to shape a few policies necessary to start the ship to port.

Senator COUZENS. Would they interfere with the loaning officers?

Mr. WILSON. The loaning officers jumped whenever they cracked the whip. The loaning officers didn't have any opinion that they could put into effect.

Mr. SAPERSTEIN. I show you the annual report to the stockholders dated December 31, 1931, which contains a list of the directors of the Detroit Bankers Co., and I ask you whether you can identify these directors whom you have designated as constituting the so-called steering committee.

Mr. WILSON. Going down the list, I would say Colonel Alger, first, Emory W. Clark, Ralph Gilchrist, James S. Holden, James T. McMillan, Wilson W. Mills, Truman H. Newberry, Wesson Seyburn, E. D. Stair, Oscar Webber.

No. 8 was "Dame Rumor."

No. 9, State bank stock investment——

Mr. SAPERSTEIN. Will you go back to your no. 8 and expand a little on what you mean by "Dame Rumor"?

Mr. WILSON. Well, there were rumors brought about through newspaper publicity in regard to the R.F.C. borrowings, large borrowings reflected in the statement of condition of the various banks through newspapers and the radio.

No. 10, devaluation of assets——

Mr. SAPERSTEIN. What was no. 9?

Mr. WILSON. State bank stock investments.

Mr. SAPERSTEIN. Go ahead.

Mr. WILSON. No. 10, devaluation of assets.

No. 11—and this was one of the prime ones—lack of leadership.

No. 12, lack of coordination of Government agencies.

Mr. SAPERSTEIN. What do you mean by that?

Mr. WILSON. I believe the Government agencies should have got together upon a plan of solving those large Detroit banking problems at the time of the holiday.

Mr. SAPERSTEIN. What Government agencies do you refer to?

Mr. WILSON. Well, I would say the Comptroller of the Currency, the Reconstruction Finance Corporation, and possibly the Federal Reserve Bank.

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No. 13, liquidity of mortgages.

No. 14, free banking system in this country.

Mr. SAPERSTEIN. Will you expand on that?

Mr. WILSON. To this extent. If I am correct in my count there are 57 varieties of banking in this country today.

Mr. SAPERSTEIN. Is that by actual count, or is that just a figure of speech?

Mr. WILSON. No; that is by actual count.

Mr. SAPERSTEIN. How do you arrive at those figures?

Mr. WILSON. You have 48 State banking systems. That accounts for 48 of your 57.

The CHAIRMAN. What about the other nine?

Mr. WILSON. I have not them down here. I might recall a few of them. You have your national banking system; you have your trust companies accepting deposits; you have your savings banks; you have your small loan banks——

Senator COUZENS. You have also group banks and chain banks?

Mr. WILSON. Yes; and what not. There are 57.

Senator COUZENS. So you did not get this figures from Heinz' pickles?

Mr. WILSON. No, sir. I did not realize I had reached exactly that figure.

Now, in regard to the suggestions, Mr. Chairman, I offer these for what they are worth. They are from observations which I have made after 15 or 16 years of examining work, including State, Federal, National, and clearing house.

No. 1: I believe a law should be passed to prohibit completely loans to officers, directors, and employees of a bank. The closing of many banks today was due to officers, directors, and employees having loans. I have just reorganized a bank in Flint, Mich., last June, which was reopened upon a 55-percent basis, under what is known as the "Michigan plan", the first bank in Michigan opened under that plan; and the contributing factor facing that bank was the directors, officers, and employees loans. If those had been out of the bank, the bank could have been opened on a 100-percent basis. There are many cases of that type in the State and Nation.

No. 2 is the publication of call statements. I believe consideration should be given in regard to amending the law to prohibit banks from making condensed statements of condition. That has been one of our great contributing factors toward difficulty over a period of years. A banker wanted to show a gain in his profits and he got in the habit of running a quarter-page or half-page statement giving a great deal of publicity to it. I believe banks should be confined to the publication of a statement of condition containing all the facts in regard to the condition of the bank, and the pledging of any assets or what not, so that depositors may know at all times as much as possible from the statement about the condition of the bank. And this I would certainly have, that there should be some check upon the manner in which the Comptroller of the Currency has been making his call statements to the banks throughout the country for years. It has been going on since Mr. Williams was Comptroller of the Currency.

Senator COUZENS. Has a new policy been adopted by the present Comptroller? I was informed that it had been adopted.

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Mr. WILSON. I do not know, Senator.

Deposits in Postal Savings funds, where a bank has to go into the market and buy Government bonds——

Mr. SAPERSTEIN. What is your suggestion with regard to that?

Mr. WILSON. I think it should be discontinued. Trustees should not deposit those funds in banks, with the possible exception of the Federal Reserve banks. They should be deposited with the Treasury Department, or they should go in the market themselves and buy their own Government securities. It forces banks to buy them to obtain the deposits and take the risk upon the marketing of Government securities.

The CHAIRMAN. Banks have been soliciting them, have they not?

Mr. WILSON. They make very little money out of it, if anything.

The CHAIRMAN. But I think they all want them.

Mr. WILSON. Any bank can go to the Postal Savings trustee and obtain large deposits for the purpose of inflation of statements. Postal Savings trustees are unable to find a lot of banks who will accept their deposits and the pledging of Government bonds. That is the condition today.

Senator COUZENS. What have you to say with respect to the duplication of deposits by one bank depositing with another?

Mr. WILSON. I am coming to that.

No. 3: Prohibit absolutely the pledging of assets by any bank to secure any type of deposit. That law should be so written that they might control all the banks of the country. There is no reason why any type of depositor should be preferred over any other type.

Senator COUZENS. You and I will disagree on that, because there is a perfectly legitimate reason, preferably by the issuance of surety bonds rather than the selection of assets, because it is obviously necessary for these governmental activities to continue and perform their necessary public service, and they must have their funds available more readily than a private institution.

Mr. WILSON. More readily available; but those funds, in my opinion, Senator, should be deposited in the Federal Reserve banks.

Senator COUZENS. That probably would be a solution. But they must have their funds available for performing their public service.

Mr. WILSON. That is right.

I think that very careful study should be made of the laws concerning the various types of bonds, investments made for savings, and for commercial purposes. There should be a very definite restriction thrown around the type of bonds that banks may purchase in regard to classes of bonds and in regard to maturities. There is a difference between savings investments and commercial investments.

Mr. SAPERSTEIN. You recognize that there are such restrictions, do you not?

Mr. WILSON. I recognize that many banks have failed on account of their bond account, thousands of them, on account of depreciation of their bond account, slow real-estate bond investments, which should never have been placed upon their books.

Senator COUZENS. What kind of bonds?

Mr. WILSON. Real-estate bonds and holding-company bonds of public utilities. They should confine their bond investments to operating companies if they are going into the utility field and not

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have holding-company bonds. I think there should be certain restrictions there.

Mr. SAPERSTEIN. You may go ahead with your recommendations.

Mr. WILSON. I think there should be certain restrictions thrown around investment in banking houses and furniture and fixtures accounts.

Mr. SAPERSTEIN. What do you mean by that?

Mr. WILSON. Well, I am receiver for the Union Industrial Trust & Savings Bank of Flint, Mich. Since the beginning of the depression in 1930 they go ahead and build a 16-storied modern building and tie up hundreds of thousands of dollars of their deposits that are today, or should be, depositors' money. They did not need that building. But they got around the requirements as to building it. And many banks are getting around investments of that type by doing it through a real-estate corporation or a real-estate company. And, more particularly, fixtures should be included in the matter of a maximum amount that is allowed to be invested in banking structures. In the case of the Union Industrial Trust & Savings Bank in Flint, they took their legal limit, which was 50 percent of their capital and surplus, and put up another building, but they were still short of what was required for it. And what did they do? They went ahead and created a $500,000 furniture and fixture account.

Senator COUZENS. And there was no inhibition against their doing that?

Mr. WILSON. No.

Mr. SAPERSTEIN. Go ahead with your recommendations.

Mr. WILSON. The Federal Reserve System at the present time requires that certain percentages shall be carried with the Federal Reserve. I mean as reserves with the Federal Reserve bank. It is 3 percent on time deposits. And it varies with regard to demand deposits. It runs up to 7, 10, and I believe 12 or 14 percent. I think that reserve is too low.

Mr. SAPERSTEIN. What reserve do you think would be adequate?

Mr. WILSON. A 3-percent reserve on time deposits is perfectly absurd, in my opinion.

The CHAIRMAN. That is a matter for action by the Federal Reserve Board. They are to determine that, are they not?

Mr. WILSON. It is in the law. And I think the law should be amended to provide that the capital banking structure should be upon a conservative ratio to the deposit liabilities.

Senator COUZENS. Would you say 10 to 1 would be a conservative one?

Mr. WILSON. Ten-to-one is absolutely not sufficient. We know that by experience. That is the old measuring stick.

Senator COUZENS. Do you think the 10 to 1 was too big a ratio?

Mr. WILSON. Undoubtedly too large. It should be fixed at 6 to 1 or 7 to 1. Assets depreciate much more rapidly than that, and consequently you have all your bank failures in the country, just because you haven't had a sufficient buffer for the depreciation of those assets.

The CHAIRMAN. What do you mean by that?

Mr. WILSON. The old ratio was that a bank that had, say, $1,000,000 of deposits should have $100,000 of surplus and capital structure. That is 10 to 1.

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Senator COUZENS. Then you believe that if a bank has a million dollars of deposits it should have about $200,000 in capital and surplus?

Mr. WILSON. I believe that would be more like it. I think that would be a much more sufficient buffer to offset any depreciation of assets.

The CHAIRMAN. What do you think about doing away with the double liability of bank stockholders?

Mr. WILSON. I haven't that in my notes here, or, rather, my recommendations. But if the ratio of your capital structure is 5 or 6 or 7 to 1, then you do not need the double liability to the extent that you do if you go along under the old plan of 10 to 1. It would not be so much needed then. And it has not always proven successful, although in some cases you have been able to collect. It is not the protection that you think it is. And it would not be the protection to depositors as though you had a greater amount of capital structure to your deposits. Then you will have that protection. A stock assessment is something that you hope to collect, but you do not always collect it. Although in the case of the Genessee County Bank of Flint I collected stock assessments in June, in 19 days, 70 percent of it. I levied a 100-percent stock assessment against $1,000,000, and collected $700,000 in 19 days in order to reopen that bank.

Mr. SAPERSTEIN. If the ratio should be retained at 10 to 1 would you be in favor of retaining that double stock liability?

Mr. WILSON. The ratio of 10 to 1 is not any protection.

Senator COUZENS. That is a rather hypothetical question, as it is being abandoned by many States and the Federal Government.

Mr. WILSON. I believe in restrictions in regard to mortgages, the amount invested, the type of mortgage, and their location, should be studied with an idea of revamping the law.

Mr. SAPERSTEIN. You may go ahead with your recommendations.

Mr. WILSON. The next one I have is in regard to bank examiners. I believe that bank examiners should be included in the civil service.

Mr. SAPERSTEIN. Should be in the civil service, do you say?

Mr. WILSON. Yes, sir; they should be in the civil service.

Senator COUZENS. Do you agree that a national bank examiner should be eligible for employment by banks he examines?

Mr. WILSON. I seriously doubt whether he should be.

Senator COUZENS. It was not very successful in the case of the Guardian Detroit Group, was it?

Mr. WILSON. It was not very successful; no, sir. During the period I have examined banks, in the last 15 or 16 years, I have had many opportunities to go into a bank, but never accepted, with the one exception of going in as vice president of the Detroit Bankers Co., but not into a bank itself.

Mr. SAPERSTEIN. You may proceed with your recommendations.

Mr. WILSON. Then in regard to bank examinations, I should like to add to that that the law be so amended as to eliminate to some extent the terrific duplication which is going on in this country today. For instance, there are examinations——

Mr. SAPERSTEIN (interposing). Do you mean duplication of bank examinations?

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Mr. WILSON. I mean of bank examinations. You have a State bank examination and you have Federal Deposit Insurance examiners, and you have national bank examiners, and you have Federal bank examiners, and you have R.F.C. examinations. Certainly the Government agencies ought to be able to adopt one form of examination to be used by all departments and thus eliminate the excess cost and the time of these examinations.

The CHAIRMAN. Don't they cooperate in any way?

Mr. WILSON. Oh, they cooperate, probably, Senator Fletcher, but they still have their examiners.

Mr. SAPERSTEIN. Go ahead with your recommendations.

Mr. WILSON. Another recommendation I have here is that no bank should be permitted to pay a dividend until it has received the approval of its supervising authority—I mean in the matter of the declaration of every dividend. That is could only be paid after it had been approved. As to member banks, probably the Federal Reserve Board; and as to national banks, probably the Comptroller of the Currency; and as to nonmember State banks, I believe now they should go to the Federal Deposit Insurance Corporation, unless you can put them under one camp, which I do not believe you can do today.

Senator COUZENS. Mr. Wilson, have you observed any of the Federal Reserve banks showing favoritism toward one community over another?

Mr. WILSON. My observations have been confined entirely to the seventh Federal Reserve district, Chicago. Never in the experience I have had since last April in the reorganization of banks in Michigan have I had anything but the full and hearty approval of the Federal Reserve Bank of Chicago. And in the matter of the opening of the bank at Flint last week it was necessary to put through certain credits. I called the Detroit branch of the Federal Reserve Bank of Chicago and they kept their books open until 11 o'clock at night in order to be able to complete that transaction that day. I had full 100 percent cooperation at all times.

Senator COUZENS. Then your answer to my question as to whether you have found any favoritism is no?

Mr. WILSON. I have not.

Senator COUZENS. I merely want to say that during the period from March 10 on——

Mr. WILSON (interposing). And that is the period I am talking about.

Senator COUZENS (continuing). Evidence has come to me, and it is true that it was not written but oral, that some of the 12 Federal Reserve banks did play favorites as between one community and another, and as between one bank and another.

Mr. WILSON. Well, Senator Couzens, I have failed to find anything like that, and I have been through quite a number of reorganizations in Michigan since April.

Senator COUZENS. That is your observation in the seventh Federal Reserve District, is it?

Mr. WILSON. Yes, sir.

Mr. SAPERSTEIN. Proceed with your recommendations.

Mr. WILSON. The next recommendation is: To prohibit the listing of any bank stocks, or the stocks of holding companies that are

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owners of bank stocks, on any exchange, or to even have quotations in the newspapers.

Senator COUZENS. Do you agree with Mr. Mills that a corporation should not hold bank stocks?

Mr. WILSON (after thinking for about a minute). Well, I wonder if you could write a law of that type, one that they could not get around.

Senator COUZENS. Well, I am just asking whether you believe it would be desirable if we could draft such a law. I know that we could not draft a law that Mr. Long could not get around. [Laughter.] But we might draft a law that some others may not be able to get around.

Mr. WILSON. You might draft such a law, but still I believe if a corporation wanted to own stocks they could still own stocks of banks and carry them in the names of trustees or nominees. I do not believe it could be stopped.

Senator COUZENS. If it could be written into a law, do you believe it would be a desirable thing to do?

Mr. WILSON. I would not want to give an offhand opinion on that. I would want to think about it.

The CHAIRMAN. What do you think about holding companies? Do you think they are a subterfuge and device that might well be done away with?

Mr. WILSON. Well, I do not believe a holding company has, over a long stretch, any position in the banking picture in the country.

Senator COUZENS. What is your next recommendation?

Mr. WILSON. My next recommendation is to county-wide branch banking. I think under the law it should be limited to county-wide, and not State-wide or overlapping State lines. That is due to the difficulty of obtaining the man power required. If the law is not so amended, I think you will see a great influx of State-wide branch banking in the next 5 or 6 years. And I do not think we are ready for it.

Mr. SAPERSTEIN. Go ahead with your next recommendation.

Mr. WILSON. The next one is as to the confusion in your banking systems. I believe it has been spoken of as the "57 varieties." And I do not know how you are going to correct it. It is one of the underlying causes of the weakness of the banking system, with 57 banking systems competing with one another.

The CHAIRMAN. Do you favor a unified banking system?

Mr. WILSON. Yes, sir; very definitely, sir.

Mr. SAPERSTEIN. Go ahead with your next recommendation.

Mr. WILSON. The next one is: To prohibit holding-company units. so long as they are in existence, from holding holding-company stock as collateral or borrowing on it in any manner whatsoever.

My last recommendation, which probably should have been the first one, is to extend the temporary insurance fund for at least 1 year pending further study. That is very important at this time.

Senator COUZENS. Mr. Wilson, as a general principle, do you believe in the guaranteering of bank deposits?

Mr. WILSON. I am very much in favor of the insurance fund today.

The CHAIRMAN. Why not continue the present law for a year and see how it works?

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Mr. WILSON. That is what I am recommending. That you extend the temporary insurance fund for 1 year, until you have made further study of it and see how it works.

The CHAIRMAN. How about standing by the statute for another year?

Mr. WILSON. That is what I say.

Senator COUZENS. I do not think you get the point made by the chairman of the committee. He asked you: Why not let the law remain as it is for another year?

Mr. WILSON. Because you come into the permanent fund the 1st day of July, and banks are not ready to get themselves in position by that time. They will have to have more time.

Senator COUZENS. Mr. Wilson, you have not covered the matter of duplication of deposits. I mean of banks depositing funds in other banks.

Mr. WILSON. No; I have not covered that. I had it down on my memorandum but I haven't covered it.

Senator COUZENS. I think that is one of the most vicious points about bank statements.

Mr. WILSON. Well, my recommendation on that is that all banks carry reserves with the Federal Reserve System, and eliminate this duplication of deposit accounts. Under this plan sometimes you will end up with 10 times the same deposit.

Senator COUZENS. Absolutely. That was happening in all this window dressing, and it would not be possible if they were not permitted to do that.

Mr. WILSON. Yes, sir. A lot of banks carry reserves with Federal Reserve banks, you know.

Senator COUZENS. Yes; but there are many accounts kept in the big cities, in some banks there, for the purpose of being used as checking accounts.

Mr. WILSON. It could be kept at the Federal Reserve Bank of New York, for instance.

Senator COUZENS. But you would not permit one bank to deposit in another, would you?

Mr. WILSON. No; absolutely not; because it is absolutely a duplication, and sometimes it is done as much as 10 times before you get through with one deposit.

Senator COUZENS. So when you have estimated a national deposit of, say, $50,000,000 it may only be what?

Mr. WILSON. It may only be twenty-five or thirty million dollars.

Senator COUZENS. Yes; it might be only $25,000,000.

Mr. WILSON. Yes, sir; that is correct.

The CHAIRMAN. I do not quite get that. How does that come about?

Senator COUZENS. Mr. Chairman, if I were to put $5,000,000 in a Detroit bank today, it can deposit that $5,000,000 in another bank, and then you have $10,000,000, and they can deposit the $5,000,000 in still another bank, and there you have $15,000,000.

Mr. WILSON. Oh, yes. But you can start back before you get to Detroit, and say you put $1,000 in a small county bank, and that might be deposited in a bank located at the county seat, and then that bank might deposit it in Detroit, and then it might be sent to

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Chicago, and afterward to New York, and then to Boston, and back to St. Louis, and you run from 5 to 10 times on the same deposit.

The CHAIRMAN. I understand that. Now, is that all that you have to say, Mr. Wilson?

Mr. WILSON. That is all, I think, Mr. Chairman.

Mr. SAPERSTEIN. Mr. Wilson, have you anything further to add to the record here, or any further recommendations?

Mr. WILSON. In regard to recommendations I have no more to say at this time. In regard to the operations of the units and loans and investments and mortgages, and whatnot, of the Detroit situation, I could sit here and testify for a week and then I would not be through.

The CHAIRMAN. Then you may be excused, Mr. Wilson.

Senator COUZENS. Just one minute before you leave the committee table. Mr. Wilson, you have examined the most of the national-bank examiner's reports of the First National Bank unit of the Detroit Bankers Co. since the organization of the Detroit Bankers Co., haven't you?

Mr. WILSON. Up to the time I left as vice president of the Detroit Bankers Co.

Senator COUZENS. What is your general opinion of those reports; are they fair and reasonable?

Mr. WILSON. They were always fair and reasonable, with one exception that I remember.

Senator COUZENS. And what was that exception?

Mr. WILSON. That was at the time of the examination of the First National Bank in May; either in April or May, of 1931.

Senator COUZENS. And what was not fair about that?

Mr. WILSON. The field examiner, in making his report, had not gone strong enough.

Senator COUZENS. In other words, instead of being too harsh, you thought he had been too liberal; is that it?

Mr. WILSON. I stated in the executive committee meeting at that time, and Mr. Leyburn was present, and he is here now and can probably recall that I made such a statement—I don't know about that, but I hope he can—and I made the statement to the examiner, after he had told his story, that he was all right as far as he had gone, but that he had not gone far enough.

Senator COUZENS. From your long experience, have you heard of these so-called "yellow sheets" before?

Mr. WILSON. Yes; I have written many of them.

Senator COUZENS. So you were not unfamiliar with the fact that there were confidential reports sent to the Comptroller of the Currency by national bank examiners?

Mr. WILSON. I had known of those reports for years.

Senator COUZENS. And as long as they deal with personalities and the organization, do you not think they are justified?

Mr. WILSON. I think they are justified, and I think they should be continued.

Mr. SAPERSTEIN. That is all, Mr. Wilson, and we thank you.

The CHAIRMAN. You are excused now, Mr. Wilson.

(Thereupon Mr. Wilson left the committee table.)

The CHAIRMAN. Who will you have next, Mr. Saperstein?

Mr. SAPERSTEIN. Mr. Verhelle.

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TESTIMONY OF JOSEPH F. VERHELLE, GROSSE POINTE, MICH., SENIOR OFFICER OF THE MANUFACTURERS' NATIONAL BANK OF DETROIT—Resumed

The CHAIRMAN. Mr. Verhelle, do you wish to make a further statement?

Mr. VERHELLE. Yes, sir.

The CHAIRMAN. I think you wanted to reply to some things that have been stated here with regard to your reports, and so forth, and if so, you may now do so, but be as brief as you can about it; condense it.

Mr. VERHELLE. Mr. Mark A. Wilson elaborated to some extent on the nature of the organization there and, as he expressed it, the question of expense was no consideration in the matter of my resignation from the Detroit Bankers Co. And it is on that point that I wish to elaborate, as well as on the matter of the First National Co., which was brought up here this morning when Mr. Wilson read a statement in a letter which I did not recall the other day, but which referred to the fact that the First National group of directors was to hold the Detroit Bankers Co. harmless on our stocks purchased. That was probably the most serious consideration in connection with the Detroit Bankers Co.

Mr. SAPERSTEIN. Are you now referring to securities purchased after the merger had been agreed upon but before the Detroit Bankers Co. actually began to operate?

Mr. VERHELLE. Yes, sir.

Mr. SAPERSTEIN. Can you give us the amount of those purchases?

Mr. VERHELLE. The amount purchased, roughly speaking, was about $8,000,000 or a little over. There were State bank stocks totaling $6,900,000, plus another figure of approximately $1,400,000, making a total of approximately $8,200,000.

Senator COUZENS. What did the $1,400,000 cover?

Mr. VERHELLE. Local bank stocks.

Senator COUZENS. Were those local bank stocks bought after the officials of the First National Co. knew of the contemplated organization of the Detroit Bankers Co.?

Mr. VERHELLE. Yes, sir.

Senator COUZENS. So, in effect, the First National Co., because of its prior knowledge of the organization of the Detroit Bankers Co., went out and bought up stock of individual units.

Mr. VERHELLE. Well, as to the cause of it, I suppose that would be a logical conclusion to draw.

Mr. SAPERSTEIN. Were those purchases made with the knowledge and approval of any of the directors, or of those men who were scheduled to become directors of the Detroit Bankers Co.?

Mr. VERHELLE. Because of the very heavy problem involved in connection with the burden that the Detroit Bankers Co. was forced to carry. I made a study of it, and found no approval on the part of the board of directors or meetings at which it was provided to carry that through.

Mr. SAPERSTEIN. Was Mr. Wilson's statement correct when he said that none of the members of the board of the Detroit Bankers Co. knew anything about those purchases?

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Mr. VERHELLE. Officially they certainly would not have known, but as to whether or not any of them knew anything about it, it is a rather difficult statement for me to answer.

Mr. SAPERSTEIN. Did you find as a result of your investigation that there was any attempt on the part of directors or officers of the First National Bank to conceal the fact that those purchases were made?

Mr. VERHELLE. Well, I individually called on a large number of directors and officers at the time of my investigation, and they all claimed, or those that I had interviewed who might have had knowledge of it, that they had no knowledge whatsoever up to New Year's Eve of 1930.

Mr. SAPERSTEIN. You say the directors of the First National Bank had no knowledge of those purchases?

Mr. VERHELLE. Those whom I interviewed, including the President of the First National Co.; and, you understand, the First National Co. had actually supplied the funds. The funds of the First National Co. were procured and used for the purpose of purchasing this stock. Mr. Hoover was the president of the company, and, quite naturally, I interviewed him, but he claimed to have no knowledge or connection with the transaction, and denied all knowledge of it. There were others I interviewed, and who gave me substantially the same statement.

Mr. SAPERSTEIN. Will you name those officers or directors of the First National Bank or of the First National Co. who did have knowledge of the acquisition of those bank stocks?

Mr. VERHELLE. Well, Mr. Howard Russ, of course, had, as the evidence shows.

Mr. SAPERSTEIN. What was Mr. Russ's position?

Mr. VERHELLE. Vice president of the First National Bank. I believe he was executive vice president. And D. Dwight Douglas.

Mr. SAPERSTEIN. What was his position?

Mr. VERHELLE. President of the First National Bank.

Mr. SAPERSTEIN. Yes. Go ahead.

Mr. VERHELLE. Mr. Emory Clark, who was chairman of the board of directors of the First National Bank.

Mr. SAPERSTEIN. Have you now named all the officers or directors who knew about the acquisition of those stocks by the First National group?

Mr. VERHELLE. I believe they are all that I can recall right now.

Mr. SAPERSTEIN. How many directors were there on the board of the First National Bank at that time?

Mr. VERHELLE. I would have to look up the record in order to tell you. I presume around 22.

Mr. SAPERSTEIN. Twenty-two members of the board?

Mr. VERHELLE. I believe that is correct.

Mr. SAPERSTEIN. And the remainder, or substantially all the remainder that you interviewed, disclaimed any knowledge of the purchase of those bank stocks by the First National Co., did they?

Mr. VERHELLE. Mr. Ralph Gilchrist, a director, knew about it. Mr. James T. McMillan denied knowing anything about it. Mr. Hoover denied knowing anything about it. I think the most of them did know about it after the first of the year.

Mr. SAPERSTEIN. I mean before the first of the year.

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Mr. VERHELLE. Before the first of the year is what I have been referring to.

Mr. SAPERSTEIN. Have you now exhausted your recollection as to the names of officials or directors of the First National Bank who knew about the acquisition of those bank stocks by the First National Co.?

Mr. VERHELLE. Yes, sir; substantially so.

Mr. SAPERSTEIN. You have named four persons?

Mr. VERHELLE. I think that is correct.

Mr. SAPERSTEIN. Very well; you may now go ahead with your statement.

Mr. VERHELLE. Well, at that time, as indicated in that letter read this morning, the First National group agreed to hold the Bankers Co. harmless from any losses resulting from those purchases. It was a matter of very different interpretation with the directors and others, as to the matter that the directors were responsible therefor, or those who were responsible for the purchases, for a sum of approximately 8 million dollars, because afterward those stocks became not only valueless but resulted in liability to the First National Co., which reflected itself in the Dertoit Bankers Co. A trustee agreement, with quite a large number of amendments, had been drawn up that lent itself to numerous interpretations, and many legal opinions were obtained in connection with it. But one of the items specifically contained in it was that these directors would agree to provide credit in the sum of $1,141,000 for the use of the First National Co., and the asset was set up on the books of the First National Co. at that figure. It was probably secured at the time when the trustee agreement was entered into, but some time later on the statement of the First National Co. had been changed to reduce that asset down to $443,000, which was approximately the asset value of the stock, the underlying collateral.

Mr. SAPERSTEIN. What was the underlying collateral?

Mr. VERHELLE. The Detroit Bankers Co. stock; 5,364 shales, I believe.

Mr. SAPERSTEIN. What was its value at the time it was deposited as collateral?

Mr. VERHELLE. I believe it was $1,140,000.

Mr. SAPERSTEIN. Do you mean it had a value equivalent to the amount of the obligations those directors had assumed?

Mr. VERHELLE. Yes, sir.

Mr. SAPERSTEIN. Who were the directors who undertook to furnish this credit to the First National Co.?

Mr. VERHELLE. Mr. Emory Clark, according to the minutes, on which I based by investigation, together with such other inquiries as I made, had made the commitment that the directors would look after that particular liability; and Mr. Dwight Douglas was also a party to it, and the two jointly paid the interest on $1,140,000 regularly up to the time when I left there. That 3-year agreement expired on January 1, 1933, approximately a month and a half after I left the Detroit Bankers Co.

Mr. SAPERSTEIN. You say the value of the collateral declined subsequently, until it was worth only about $450,000?

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Mr. VERHELLE. Yes, sir; that asset had been written down to $443,000.

Mr. SAPERSTEIN. How did that come about?

Mr. VERHELLE. That is exactly the question I asked the treasurer of the company, and he said it was done by authority of the board of directors of the company. I suggested to him that it was highly improper for the company to write down their own liability, and that it was my opinion he ought to set it back up on the books until he had obtained propery authority.

Mr. SAPERSTEIN. You were talking with Mr. Clark then?

Mr. VERHELLE. No. I was talking with Mr. Blessed, the treasurer of the company. He requested a memorandum or letter from me to that effect, which I immediately gave him. And the asset was set back upon the books at the original figure of $1,140,000.

Mr. SAPERSTEIN. Go ahead.

Mr. VERHELLE. Just the morning prior to the next meeting of the First National Co., Mr. Douglas demanded a letter of me authorizing on the part of the Detroit Bankers Co. the reduction of this asset by substantially $700,000. I wrote a letter to the effect that I neither could give such authority nor could I see where such authority was in line. He returned it to me, and I wrote two or three other letters, and none of those was satisfactory; and, finally, a few minutes before the meeting, I wrote some letter, a copy of which I do not have, and the contents of which I am not certain of, except that it was to the effect that there were legal opinions that this asset might be changed from a value of $1,140,000 to $450,000. It was my opinion the directors' liability was still as I had originally contended it was.

Mr. SAPERSTEIN. When was this meeting held?

Mr. VERHELLE. About the middle or early part of the year 1931.

Senator COUZENS. When did you first become connected with the Detroit Bankers Co.?

Mr. VERHELLE. In the early part of 1930, I think February 26, or something of that sort.

Senator COUZENS. You were with the Detroit Bankers Co. at the time the First National Co. of Detroit had all these deposits, then?

Mr. VERHELLE. Yes, sir.

Senator COUZENS. Do you know how those deposits were liquidated?

Mr. VERHELLE. By the sale of certain assets of the First National Co., and I think it was practically the way they were all eliminated.

Senator COUZENS. Were they all liquidated 100 percent?

Mr. VERHELLE. Yes, sir.

Senator COUZENS. In looking over the list of these customers' deposits as of the close of business shown here I find some substantial amounts, including, for instance, some from public sources. For instance, here is the Brockway Township School District, $20,000, and there is another public deposit here of the Grosse Pointe Village of $12,357. I wonder how public officials got authority to deposit public funds in a holding company of this sort.

Mr. VERHELLE. Well, it might have been for the purpose of picking up certain securities or taking care of coupons or something of

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that sort. I know that these deposits were all taken care of just as fast as the liquidation of those assets would allow, and I know that they were continuously followed up with a view to liquidating them.

Senator COUZENS. Could that be the case in a deposit like W. S. Butterfield, $100,000, and Detroit Free Press, $100,000, and Detroit-Windsor Ferry Co., $150,000, and Lewis H. Jones and Ida Jones, $50,000, and Pacific Steel Boiler Co., $100,000, and Stout Air Lines, Inc., $150,000? Would they likely be made for the purpose of taking up obligations?

Mr. VERHELLE. No sir.

Senator COUZENS. What were they?

Mr. VERHELLE. Those deposits were probably left there. The original intent of deposits with the security company was to leave on deposit money so that securities might be purchased when, as, and if certain issues came out without the necessity of transferring the money. In those particular instances it was done with a view of holding up or helping out the company in a number of those cases which you have read off there.

Senator COUZENS. In other words, of holding up the First National Co.?

Mr. VERHELLE. Yes, sir.

Senator COUZENS. They paid 4 percent for the privilege of being held up; is that it?

Mr. VERHELLE. Yes, sir.

Mr. SAPERSTEIN. Will you now go ahead with your statement in regard to the First National Co.?

Mr. VERHELLE. Well, after Mr. Wilson left, and after Mr. Ballantyne left, or before they left, a study was made, as I say, by me of that particular company, and an attempt was made to provide a solution for it. The matter was taken up with the directors of the First National Co.; that is, with the old directors, for a new set of directors was appointed for the purpose of liquidating the company. And the matter was brought to their attention, the condition of these State-bank stocks, indicating that there was a substantial liability in connection with the holding of them, in addition to the loss involved in connection with the original investment. And it was rather definite in my opinion that there was a moral obligation on the part of the directors of $8,000,000, and a legal obligation to the extent of $1,140,000.

Senator COUZENS. Do you know whether any effort has been made to assert that liability?

Mr. VERHELLE. No, sir; I do not.

Mr. SAPERSTEIN. Was your refusal to give your approval to the writing down of this liability of the directors to approximately $450,000 the subject of criticism on the part of those directors?

Mr. VERHELLE. My resignation was requested a number of times by Mr. Clark, and I understand he was the principal obligor in connection with that liability.

Senator COUZENS. He was the principal obligor, do you say?

Mr. VERHELLE. Yes, sir. He had made the commitment to the Detroit Bankers Co. at the time of its confirmation, that he would hold them harmless from any loss in connection with that transaction.

Senator COUZENS. You will remember that Mr. Mills disagreed with your testimony, and that he regretted having to let you go. You heard his testimony?

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Mr. VERHELLE. Yes, sir.

Mr. SAPERSTEIN. Did you ultimately resign as a result of those repeated requests made on you to tender your resignation?

Mr. VERHELLE. That was one of the many contributing factors of a similar nature. In other words, in view of the Pontiac transaction, that might be considered in connection with it.

Mr. SAPERSTEIN. That was another contributing factor?

Mr. VERHELLE. Well, that specific item was not, but it might have been in connection with this.

Mr. SAPERSTEIN. Have you anything further to say in regard to testimony that has been offered here by other witnesses?

Mr. VERHELLE. Not particularly; no, sir.

Senator COUZENS. Well, let us go to the next witness?

The CHAIRMAN. You are now excused, Mr. Verhelle.

(Thereupon the witness left the committee table.)

The CHAIRMAN. Who will you have next?

Mr. SAPERSTEIN. Mr. Leyburn.

The CHAIRMAN. Mr. Leyburn, you will come around to the committee table. You have already been sworn, I believe.

Mr. LEYBURN. Yes; in the other Detroit case.

The CHAIRMAN. Well, that is all right.

TESTIMONY OF ALFRED P. LEYBURN, CLEVELAND, OHIO, CHIEF NATIONAL BANK EXAMINER FOURTH FEDERAL RESERVE DISTRICT—Resumed

Mr. SAPERSTEIN. Mr. Leyburn, I believe the record already shows that you are now the chief national bank examiner of the fourth Federal Reserve district.

Mr. LEYBURN. That is correct.

Mr. SAPERSTEIN. And that you were formerly chief national bank examiner of the seventh Federal Reserve district.

Mr. LEYBURN. That is correct.

Mr. SAPERSTEIN. Which includes Detroit.

Mr. LEYBURN. That is correct; yes, sir.

Senator COUZENS. Mr. Leyburn, before Mr. Saperstein proceeds with your examination let me ask you: Can you tell us why you were transferred from the seventh Federal Reserve district to the fourth Federal Reserve district as chief national bank examiner?

Mr. LEYBURN. Senator Couzens, I knew you would bring that up.

Senator COUZENS. Well, I don't know how you knew it. I did not discuss it with you.

Mr. LEYBURN. I know that. But I will tell you what is was: Politics!

Senator COUZENS. Oh, I did not know that politics entered into the Comptroller's office.

Mr. LEYBURN. When did you find that out?

Senator COUZENS. Well, I have been getting lessons recently, and been assured that it did not.

Mr. LEYBURN. Well, that was why I was transferred. You may draw your own conclusions.

Senator COUZENS. Tell us why.

Mr. LEYBURN. Well, the junior Senator from Michigan, with whom you are acquainted, and although I have never met him per-

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sonally, yet I have heard of the proceeding otherwise, requested my transfer, in connection with Senator Van Nuys, of Indianapolis, who had been recently elected, and who, I suppose, had listened to some fellow once who told him I cut a figure. In other words, that I was too brutal, I believe they said, and was too hard on folks, or words to that effect.

Senator COUZENS. Were any complaints made in writing to the Comptroller of the Currency about you?

Mr. LEYBURN. I wouldn't know that, Senator Couzens. Complaints were made verbally. I do not know about any in writing.

Senator COUZENS. What complaints did the Comptroller assign for transferring you from the seventh Federal Reserve district to the fourth Federal Reserve district?

Mr. LEYBURN. That I was too hard on the bankers, and that I was too brutal and got rough with them, or words to that effect.

Senator COUZENS. Did the Comptroller agree with the complainants?

Mr. LEYBURN. I could not say as to that. But I was transferred.

Senator COUZENS. When he transferred you did he tell you he agreed with the complaints?

Mr. LEYBURN. No, he did not; and, by the way, it was the Acting Comptroller, not the Comptroller.

Senator COUZENS. That was Awalt?

Mr. LEYBURN. Yes, sir; it was the Acting Comptroller.

Senator COUZENS. All right. You may proceed, Mr. Saperstein.

Mr. SAPERSTEIN. Mr. Leyburn, I want to take you back to the period just before the merger of the People's Wayne County Bank and the First National Bank of Detroit.

Mr. LEYBURN. I will tell you what the history of it was if you will allow me. I think I can cover many of the things you are going to ask me if I may read extracts from this paper.

Mr. SAPERSTEIN. By "this paper" what do you mean?

Mr. LEYBURN. My résumé, I think, will cover the situation.

Mr. SAPERSTEIN. Was that prepared by you for the purpose of enabling you to give a concise statement of this matter?

Mr. LEYBURN. Yes, sir.

Mr. SAPERSTEIN. Then go ahead and tell your story.

Mr. LEYBURN. In the first place, let us get this straight: You have heard a story about rotten loans and rotten banks. The First National Bank of Detroit was not rotten—it was putrid; and I hope a certain Detroit newspaper does not print that statement upside down and make it look like roses.

Mr. SAPERSTEIN. As of what time are you now describing the condition of the First National Bank as putrid?

Mr. LEYBURN. It will go back a considerable time. The Detroit Bankers Group differs from the Guardian Detroit Group by virtue of the fact that they had in some banks throughout the State of Michigan, as that chart on the easel shows, a minority stock interest, with the exception of the Pontiac Bank, and they subsequently secured control.

Now, the Detroit Bankers Co. owned all the stock of the Peoples Wayne County Bank and of the First National Bank, except qualifying shares. And they were also affiliated with the Detroit Trust

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Co. The First National Bank in 1932 had 76 directors, and at the annual meeting in 1933 the board was reduced to 38 members. The consolidated bank originally had 194 branches, and that was reduced to 160. As a matter of fact, it was about the third largest bank outside of New York City, and it was a tremendous job to ever go through it.

In 1931—and that was before the consolidation—the First National Bank was not in good condition. As a matter of fact, the examination that Mr. Mark Wilson spoke of, and I think he meant September 25, 1931, showed slow assets $19,326,110 and doubtful assets $5,855,341 and losses $5,813,195.

Mr. SAPERSTEIN. Might I interrupt you for a moment right there?

Mr. LEYBURN. Yes, sir.

Mr. SAPERSTEIN. Was this classification of assets, as estimated by the bank examiners, imparted to the directors of the First National Bank?

Mr. LEYBURN. Yes; that is the classification on page 11, that went to the directors of the bank. I mean the figures I just gave you.

Mr. SAPERSTEIN. All right. Go ahead.

Mr. LEYBURN. An examination of the Peoples Wayne Bank on November 12, 1931, showed that they had about 60,000 separate mortgages, which is probably about the largest total in the United States, or pretty close to it, and they approximated $138,240,000. In view of the fact that the management was such, that the stock ownership was held by the Bankers Group, you would have to consider them all as one, and it was felt that if the consolidation was effected you would get economy of operation. As a matter of fact, in the consolidation $20,000,000 was taken out, and everybody was of the concensus of opinion at the time that they were afraid of the real estate in there, and that it was probably the best thing to do under the circumstances.

The first examination of this bank after the consolidation was made on May 6, 1932, and concluded June 3, 1932. At the conclusion of that examination, or about June 10, I met the examiner who conducted the examination, and this so-called "Governing committee" up there that did not govern.

At that meeting were present Mr. Alger, Mr. Bowen, Mr. Emory Clark, Mr. Ralph Gilchrist, Mr. James S. Holden, Mr. James T. McMillan, Mr. Wilson W. Mills, Mr. Truman H. Newbery, Mr. Wesson Seyburn, Mr. E. D. Stair, Mr. Oscar Webber, and Mr. Utt, the examiner.

Mr. SAPERSTEIN. With the exception of Mr. Utt, were the other persons all members of the governing committee?

Mr. LEYBURN. They were, as to these names I am giving you.

The CHAIRMAN. How many branches did they have?

Mr. LEYBURN. They originally had 195, which number was reduced to about 160 branches in the city of Detroit.

Mr. SAPERSTEIN. The Chairman is referring to the Peoples Wayne County Bank?

The CHAIRMAN. How many did they have?

Mr. LEYBURN. I do not know how many, but after the two banks were consolidated they had 195 branches. They must have had over 100 branches themselves, I think, before the consolidation.

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The CHAIRMAN. Well, I did not quite catch that. Were branches permissible under the Michigan law?

Mr. LEYBURN. Yes; in cities.

The CHAIRMAN. Those all were within that limit?

Mr. LEYBURN. Yes, sir.

Mr. SAPERSTEIN. Go ahead, Mr. Leyburn.

Mr. LEYBURN. At that examination, which was the first examination after the consolidation, a total of 256,370 shares of Detroit Bankers Co. stock was pledged as collateral; which, of course, we criticized. The liquidity of that bank at that time was about 28 percent. As a matter of fact, this bank never did have much liquidity. I am reminded that Mr. Mills asked, "If a bank were 70-percent liquid, what would it do with it?" Well, I don't know how he would know, for this bank was never over 35-percent liquid at any time. Officers and employees loans were $3,083,000, on which there was a loss of $2,000,000. And that is the line you were talking about yesterday.

The Detroit Bankers Co. was also a heavy borrower at that time. The governing committee admitted that the condition of the bank was unsatisfactory. Some of their real-estate loans had started to go bad, with approximately $8,000,000 subject to foreclosure.

The bank had also guaranteed part of the American State Bank, and there was the possibility of a very heavy loss. It had also guaranteed a part of two banks in Redford, Mich., in which they were interested.

It was recommended that they cut the dividend from 16 percent to 8 percent, and even then that would be unjustified so far as earnings and assets were concerned. Yes; but it would have been bad business, you know, to cut the dividends right off after consolidation.

During the examination President Ballantyne and Vice President Wilson resigned because they could not agree with the policies of the directors, and they realized the true condition of the bank. And Mr. Ballantyne resigned in order to keep his self-respect, he said. And that is just what he did. And that is what Mark Wilson did. And I would believe anything that Mark Wilson would tell me. And what they needed was about six Ballantynes and a dozen Mark Wilsons up there. Some of the other directors did not resign in order to save a self-respect they did not have.

Mr. SAPERSTEIN. Was it your observation that Mr. Ballantyne was not getting the control and cooperation that he wanted?

Mr. LEYBURN. Yes. I have listened to the testimony here, and I will say that it gave Mr. Mills the whip hand. He could be a Mussolini under that situation. That governing committee ran that bank. There is no question about that. When the directors of any bank delegate authority to someone else to run it they cannot escape responsibility for such action. That committee was absolutely dominated by Mills.

We felt at that time that the bank had about $49,000,000 in losses, and at least $70,000,000 of slow assets, and $54,000,000 of doubtful assets.

Mr. SAPERSTEIN. Was that opinion imparted to the directors of the bank?

Mr. LEYBURN. Yes; verbally at this meeting.

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Mr. SAPERSTEIN. That is, to the governing committee?

Mr. LEYBURN. Yes.

Mr. SAPERSTEIN. It was not imparted to the directors?

Mr. LEYBURN. Oh, no; to the governing committee.

Mr. SAPERSTEIN. Why wasn't it given to the directors of the bank?

Mr. LEYBURN. Well——

The CHAIRMAN (interposing). Do you mean the First National Bank?

Mr. LEYBURN. This was the merged bank. You could not take a board of directors, which at that time was composed of about 78 men, and discuss a condition like this of a bank and not expect to "bust" the bank, and all smart money go out of it. As a matter of fact, there was some evidence introduced here that some of the directors were talking about what happened in board meetings. Do you remember the letter on yesterday?

Now, when they spoke up, two or three of them, they said: "We figure on about $45,000,000." And that nearly knocked us out of our chairs.

Mr. SAPERSTEIN. About $45,000,000 what?

Mr. LEYBURN. Of losses.

Mr. SAPERSTEIN. Did they tell you what they figured as doubtful or slow?

Mr. LEYBURN. No; I think they just said losses. I will give them the benefit of the doubt on that.

Mr. SAPERSTEIN. Your estimate was $49,000,000 losses, while theirs was $45,000,000?

Mr. LEYBURN. Yes, sir. And there was no way to take care of that without busting the bank. And you know what the condition was at that time.

I submitted to the board of directors a statement which showed slow $76,849,369, doubtful $91,138,760, and loss $8,545,777. It was concluded to take out this loss of approximately $8,500,000.

Now, based on that examination, which of course goes to Washington with the yellow sheet on it, the Comptroller of the Currency addressed a letter to the board of directors of that bank, and he said:

> Will you kindly review the report at your next board meeting, and thereafter advise this office of the action taken and the progress made in remedying each of the matters mentioned.

And he made particular reference to the $4,000,000 loan to officers, employees, and the management of the bank. Then he went on to say:

> The extremely large aggregate of slow and doubtful assets, especially the latter, which are shown at $91,000,000, and other unsatisfactory conditions in the bank, reflect a state of affairs calling for constructive and vigorous action and changed policies with a view to bringing about a marked improvement in the bank's condition as rapidly as this can be accomplished.

Then he went on to say:

> Since the contents of the examiner's report and the criticized matters are so self-explanatory, it is believed unnecessary to dwell further herein on the situation in your bank.

Now, President Sweeny replied to that letter of the Comptroller's, about a 3-page letter, and he stated that the report had been reviewed with the governing committee.

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Now, granting that it is true, what did he tell the governing committee? If there was any questioning of the report it would go back to him.

The next examination of the bank, just before the bank holiday, was made November 18, 1932, and was concluded in December. A meeting was held with the governing board around Christmas time. The classifications as shown by the report that went to the directors was: Slow, $78,305,000; doubtful, $83,874,000; loss $6,013,000.

The question of dividends was considered, and they were advised that no dividends should be paid at that time at all, because it would not be legal to do it. To that Truman Newberry took violent exception. And, as you may recall, Truman H. Newberry was elected to the United States Senate once, and he came down here to Washington to take his seat, but found it was crowded. [Laughter.]

Mr. SAPERSTEIN. Can you give us the names of the members of the governing committee who were present at the time?

Mr. LEYBURN. F. M. Alger—well, will you give me a copy of the minutes of that date, because Mr. Stair was not present at this meeting I am sure, and I do not want to do anybody an injustice. I believe you have a photostatic copy of those minutes.

The CHAIRMAN. While Mr. Saperstein is looking for the minutes let me ask you: I think Mr. Mills testified that they never declared any dividend without your approval.

Mr. LEYBURN. I know he did; and I will get to that a little later on. He testified to a good many other things, too.

The CHAIRMAN. That he wanted to centralize authority, I believe, in this combination, and I presume he got that. Then his idea was to reduce the overhead and expenses.

Mr. LEYBURN. Well, he reduced the overhead all right when he raised his own salary the first of the year from $40,000 to $50,000. I think he wanted the distinction of being the only bank in the United States or industrial leader that did it. So he claimed he had a contract, and I don't know whether he did or not, but at least he didn't have to take the money. He could not distinguish between "mine" and "thine" very well, I should think.

Mr. SAPERSTEIN. You are referring to a photostatic copy of the minutes of the governing committee of the board of directors of the First National Bank of Detroit dated Friday, December 30, 1932, are you?

Mr. LEYBURN. That is right. Whoever was present was the governing committee.

Mr. SAPERSTEIN. According to the photostatic copy which is enclosed with a copy of your report, the following members were present——

Senator COUZENS (interposing). Let us have the report put into the record. As long as that is a photostatic copy of the actual minutes, let us put them in.

Mr. LEYBURN. You see, what they wanted to do was——

Senator COUZENS (interposing). Just a minute. Let us get this into the record first.

Mr. LEYBURN. Certainly.

Mr. SAPERSTEIN. I will offer this photostatic copy of the minutes of the meeting of Friday, December 30, 1932.

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The CHAIRMAN. It may be admitted in evidence.

(A photostatic copy of the minutes of the governing committee of the board of directors of the First National Bank, Detroit, held on Dec. 30, 1932, was marked "Committee Exhibit No. 180, Feb. 8, 1934", and will be found immediately following, where read by Mr. Saperstein.)

Mr. SAPERSTEIN. The minutes which have been received as Committee Exhibit No. 180, are as follows:

A special meeting of the governing committee of the board of directors of the First National Bank, Detroit, was held on Friday, December 30, 1932, at 2 o'clock a.m.——

Mr. LEYBURN. That should be p.m.

Mr. SAPERSTEIN. But it says a.m.

Mr. LEYBURN. Very well, but I know that it was actually p.m.

Mr. SAPERSTEIN. You know that it was p.m., do you?

Mr. LEYBURN. Yes. I was there.

Mr. SAPERSTEIN. All right. I continue reading:

The following members were present:

Messrs. William T. Barbour, Julian P. Bowen, Emory W. Clark, John B. Ford, Jr., James S. Holden, James McMillan, Wilson W. Mills, Truman H. Newberry, Leo M. Butzel.

Also Mr. Alfred P. Leyburn, chief national bank examiner in charge of the seventh Federal reserve district and Mr. R. S. Beatty, national bank examiner in charge of the current examination of the First National Bank, Detroit.

Mr. Wilson W. Mills presided and Mr. J. M. Dodge acted as secretary of the meeting.

BANK EXAMINATION

The comments and recommendations of the examiners, covering the second regular examination of the bank for the year 1932, were read to the committee and thoroughly discussed.

It was recommended by Mr. Leyburn, and approved by the committee, that an immediate charge-off be made of bad and doubtful assets, totaling $6,000,000. Of this amount, $818,206.43, was to be applied against defaulted bonds and the remainder against loans, the selection of which was to be made by the bank officers and reported to the examiner.

Mr. Leyburn recommended, and the recommendation was approved by the committee, that no further public dividends be declared without the prior approval of the Comptroller of the Currency.

Mr. Beatty, examiner in charge, commented on the fact that his examination showed a much improved condition in the bank operations; that considerable effort was being put forth and its results were apparent; and that the bank management had established a much better control over the entire operation than heretofore.

There being no further business, the meeting, on motion, adjourned.

J. M. DODGE, *Secretary.*

Are these the minutes you referred to?

Mr. LEYBURN. Those are the right names, but those minutes and the minutes of the meeting of June 10, 1932, are absolutely false. They do not show that we discussed the precarious condition of that bank with the directors. And I am going to discuss that further on in my statement.

Mr. SAPERSTEIN. Will you be a little more specific as to the respects in which the minutes are false?

Mr. LEYBURN. Does it say anywhere in those minutes that we ever mentioned $49,000,000 of losses to them?

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Mr. SAPERSTEIN. Is this statement correct:

Mr. Beatty, examiner in charge, commented on the fact that his examination showed a much improved condition in the bank operations; that considerable effort was being put forth and its results were apparent; and that the bank management had established a much better control over the entire operation than heretofore.

Mr. LEYBURN. That statement is correct. He did make that statement.

Mr. SAPERSTEIN. But you say the minutes do not show something that transpired in addition to that, do you?

Mr. LEYBURN. They do not. The minutes of neither one of these meetings show those things.

Mr. SAPERSTEIN. The other meeting which you refer to is the meeting of June 10, 1932?

Mr. LEYBURN. That is right.

Mr. SAPERSTEIN. The meeting following your first examination of the merged bank?

Mr. LEYBURN. That is right.

Mr. SAPERSTEIN. I have before me what purports to be a photostatic copy of the minutes of a meeting of the governing committee of the board of directors of the First Wayne National Bank of Detroit, held June 10, 1932. Mr. Chairman, I offer them in evidence.

The CHAIRMAN. Let them be admitted.

(A photostatic copy of the minutes of a meeting of the governing committee of the board of directors of the First Wayne National Bank of Detroit, held on Friday, June 10, 1932, at 2 p.m., was marked "Committee Exhibit No. 181, February 8, 1934", and will be found immediately following where read by Mr. Saperstein.)

Mr. SAPERSTEIN. The minutes, which have been received in evidence as Committee Exhibit No. 181, as of this date, are as follows:

A meeting of the governing committee of the board of directors of the First Wayne National Bank of Detroit was held on Friday, June 10, 1932, at 2 o'clock p.m., in the directors' room of the Detroit Bankers Co.

The following members were present: Messrs. F. M. Alger, Julian P. Bowen, Emory W. Clark, John B. Ford, Jr., Ralph Gilchrist, James S. Holden, James T. McMillan, Wilson W. Mills, Truman H. Newberry, Wesson Seyburn, E. D. Stair, Oscar Webber, and Messrs. John R. Bodde, vice chairman of the board; Herbert L. Chittenden, chairman of the executive committee; T. W. P. Livingstone, vice chairman of the executive committee; Donald N. Sweeny, president; J. F. Verhelle, comptroller of Detroit Bankers Co. Mr. Wilson W. Mills presided.

NATIONAL EXAMINERS

Messrs. Leyburn and Utt, chief national bank examiner and examiner in charge, were present and reported the result of their examination. They recommended that the bank do not declare a quarterly dividend in excess of $2.10 per share upon its stock. The general matter of organization of the bank and the like were discussed.

At this point in the proceedings, Messrs. Bodde, Chittenden, Livingstone, Sweeny, and Verhelle left the meeting.

QUARTERLY DIVIDEND

Upon motion, duly made and seconded, it was determined to recommend to the board of directors of the bank that a quarterly dividend be declared in the sum of $2 per share.

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AMERICAN STATE BANK MORTGAGES

The chairman brought up the matter of taking over certain American State Bank mortgages into the account of the bank. As a matter of policy this was approved, and subject to similar action on behalf of the executive committee and the mortgage loan committee, the bank was authorized to take over these mortgages, the specific mortgages now to be taken over to consist of 88 mortgages bearing interest at the rate of 7 percent, having a present balance of $73,668.74, having been paid down from an original amount of $228,861, and having a present valuation of the properties of $418,000, and upon which interest and principal payments have been promptly made.

BRANCH BANK CLOSINGS

The chairman requested authorization for the closing of the following nine branches: no. 67, Forest-Cadillac; no. 113, Sherman-Chene; no. 153, Warren-Walton; no. 168, Grand River-Trumbull; no. 207, Gratiot-Jos. Campau; no. 210, Cass-Grand River; no. 217, Adams-Woodward; no. 218, Chene-Harper; no. 49, West Jefferson-Dearborn, which upon motion duly made, seconded, and unanimously adopted, he was authorized to proceed to close.

There being no further business, the meeting, on motion, adjourned.

Now, do these minutes correctly set forth what transpired at that conference or meeting so far as the national bank examiners were concerned?

Mr. LEYBURN. They do not.

Mr. SAPERSTEIN. In what respect do they fail to set forth what transpired at the meeting?

Mr. LEYBURN. There is nothing there about either the $49,000,000 or the $45,000,000. There is nothing in there that we told them about the condition of the bank. There is nothing in there that we told them that if any dividend was declared it would be on their own responsibility, and it would be questioned as to legality.

Mr. SAPERSTEIN. Now you may go ahead with your statement.

Mr. LEYBURN. When it was ascertained that the Reconstruction Finance Corporation would not grant a loan to the Union Trust Co., on the Saturday before the banking holiday, I called Mr. Mills over to the Detroit Club and told him the situation in the Guardian Group. He was rather peeved because I had not told him sooner. But you must remember that there might have been a chance to get the loan, and they were competitors, and one could not put himself in the position of giving the condition of a rival bank.

After the banking holiday Mr. Davidson, of New York, came to Detroit, but I do not know at whose request. A meeting was held at the Detroit Club the morning he arrived, and I and Examiner Sedlacek were present. There were present also: Mills, of the First National Bank; Sloan, of General Motors; Walter Chrysler, of Chrysler Motors; Leobolt, the secretary of the Ford Motor Co.; and probably 10 or 12 others whom I do not remember at this time.

The question came of some plan of reorganizing the Guardian National Bank and the First National Bank. I stated that any reorganization should be on a sound basis and that the town needed some banking facilities. Mills got up and commenced to tell what a swell bank he had. I think he said it was 80 percent liquid, or words to that effect. I stood for that just about as long as I could, and I got up and said that his statement was misleading, and told them what kind of a monkey house he did have over there. That is

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the time, or the next day, that some one stated that remarks I made made a chill run up the spine of some of his departments. The chill should have run up his spine, as a matter of fact. The bank was never 80 percent liquid. It was really 25 percent. They even had to borrow to make the 5 percent disbursement during the banking holiday. In his bond account alone $52,948,500 was pledged, which included $44,606,000 Liberty bonds.

Mr. SAPERSTEIN. Did you take issue with him then and there?

Mr. LEYBURN. And how! I would take issue with him now if he were here. I stated that the large amount of real-estate mortgages which the bank had—approximately 60,000 separate mortgages, totaling about $156,000,000—was not desirable for a commercial bank. The next time I made the statement I said they were no good.

It was proposed during the holiday that Henry and Edsel Ford subscribe approximately $11,000,000 new capital to make possible the organization of two new banks to take the place of the First National and the Guardian National Bank of Commerce. It was also contingent upon an R.F.C. loan of $100,000,000 to the First National Bank and approximately $35,000,000 to the Guardian National Bank, which would have made an initial payment to the depositors of around 50 percent. Later on the R.F.C. reduced its offer so that they could not disburse 50 percent. The Ford interests would not go through with any plan that contemplated payment to depositors under 50 percent, and that plan fell through. It was the hope of Mr. Mills that he could be president of the new bank, but the Ford people would have nothing to do with him in that direction.

The next plan was to reorganize the First National Bank, provided they could obtain a loan of $20,000,000 from a bank or banks in New York City and rediscounts of around $4,500,000 from the Federal Reserve Bank of Chicago. Mr. Mills, of course, was anxious to be president of this reorganized bank. The New York banks claimed that it was questionable if the First National Bank could transfer any of its assets during the banking holiday for a loan, and so the loan was not granted and this deal fell through.

It has previously been testified—and there is no question that they knew what they were talking about—it was testified by Mr. Edsel Ford and others, that Mr. Henry Ford stated that if the Union Trust Co. was not taken care of he would withdraw his deposit out of the First National the minute the bank opened, which was approximately $20,000,000. The bank, furthermore, would have been faced with withdrawals of $20,000,000 from other banks outside of Detroit. If that bank had been permitted to open the day following the bank holiday, you can see they would be ruined right away. Forty million dollars would have gone up, and all that would have been left would have been just a shell. So we could not let that happen. That is probably about the most sensible thing I ever did.

They have claimed consistently that no criticism has ever been made of their real-estate loans by a bank examiner. If you would look into the report of examination of May 1932, there is a long page that reads like this:

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917 real-estate mortgages subject to redemption	$6,065,000
672 real-estate mortgage foreclosures	3,580,000
66 land contracts being foreclosed	601,705
Other real-estate loans, interest past due more than 6 months, number of items 929; past due as to interest or principal or both	5,051,233
Land contracts past due as to interest or principal or both	1,355,195
Real-estate mortgages where interest is in default only, total of interest due	450,369

I am not adding up these totals.

Other real estate at this examination amounted to, in addition to banking house equity and sites, $8,398,325.

These items total $25,031,458.

In addition to that, they carried an equity in the banking house of $18,071,495. There is the answer to the statement that we never criticised the real-estate loans.

Early in 1932 the First National Bank advanced $150,000 to the Detroit Bankers Co. to meet current expenses. This was carried as a "suspense item" on the books of the First National Bank. At that time the banks of the group were still paying dividends.

Then they had another outfit there called the First National Co., that you have heard a lot about. They had total liabilities and assets of $9,513,613.

The statement which I have before me is of November 18, 1932. It shows cash, $3,711.90; investments, book value, bonds, $757,292.44; stocks, $1,670,620.23; Detroit Bankers Co., trustee account, $1,143,033.24; State bank stocks, $5,791,974.80; notes and accounts receivable, $146,980.47; total assets, $9,513,613.08.

You come to the liability side with a capital of $1,000,000 and a surplus of $522,556.02 (red). That outfit was borrowing $8,749,000. That is their total borrowings besides accounts payable of $287,151. You people have gone into that pretty thoroughly.

Senator COUZENS. What were the total liabilities?

Mr. LEYBURN. Including capital?

Senator COUZENS. No.

Mr. SAPERSTEIN. Without including capital.

Mr. LEYBURN. Over nine million dollars. That is borrowed money. The borrowed money was from the Detroit Bankers and the First National Bank. As a matter of fact, the notes payable to the First National Bank amounted to $400,000, and there was another note for $979,000. Then, from the Detroit Bankers Co. they borrowed $7,370,000.

Of this $7,000,000 loan I mentioned that they had with the Detroit Bankers Co., they charged off in 1932 at various times $3,100,000.

Senator COUZENS. Who charged it off?

Mr. LEYBURN. The Detroit Bankers Co., in 1932, $3,100,000. I am sure that is correct.

Senator COUZENS. How did you get those Detroit Bankers Co. figures?

Mr. LEYBURN. I got them from the statement that we got during the examination.

Senator COUZENS. You did not examine them, did you?

Mr. LEYBURN. No; I had no power to examine affiliates at that time. I wish we had the power.

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Senator COUZENS. I do not understand why you make the statement that they wrote off a certain amount——

Mr. LEYBURN. Yes; I will show you where I got that. It shows on their own statement.

Senator COUZENS. On their own statement that they charged it off?

Mr. LEYBURN. It is right here in their own statement.

Senator COUZENS. What does it say?

Mr. LEYBURN. This statement that I am reading from now is called "Reconcilement as of the 18th of November 1932", and it shows charged off $3,100,000. Then I checked this with the receiver as to how it was charged off. It was charged off in installments.

According to Mr. Mills' testimony before the left-handed grand jury, an additional advance of depositors' money of $900,000 was made on January 9, 1933, which was, of course, shortly before the banking holiday. If Mills' testimony was correct, this was used to pay off a loan at the Continental Illinois Bank & Trust Co. The depositors' money was used to prevent a suit being filed against the Detroit Bankers Co. The directors knew that the Detroit Bankers Co. could not pay the loan; and if a suit was started, the public would realize the condition and withdraw their money. I checked that. I think he gave you something on that. It is a fact about that $900,000——

Mr. SAPERSTEIN. I think the record already shows that.

Mr. LEYBURN. I think that is correct.

The statement has been made that the American State Bank was taken over to save the depositors from loss. It may be true that a few of the officers of the Detroit banks were willing to give away from $2,000,000 to $10,000,000 of the money placed in their hands as trustees to save some other people from loss. As I see it now, perhaps there might have been some reason for it, for the bankers were afraid that their banks could not stand substantial withdrawals even back in 1931. These bankers that took over the American State Bank knew that the American State Bank had purchased a lot of other banks, paying fabulous prices for them.

The governing committee of the First National Bank, which consisted of the names I have mentioned, well knew the condition of the institution, and if their testimony is correct, they deliberately misled some members of their board. As a matter of fact, I think there is a serious liability there, because it absolutely is a breach of trust. Let us assume for the purpose of argument that the examiners told Mills they had a swell bank——

Senator COUZENS. How do you account for the fact that a number of those members of the governing board increased their deposits between that time and the closing of the bank?

Mr. LEYBURN. I can answer that.

Senator COUZENS. All right.

Mr. LEYBURN. That bank was so large and prominent that everybody up there thought that the Government would never let anything happen to it. That is the answer to that.

Senator COUZENS. You think that they increased their deposits without any assurance from anyone that the bank would continue to operate?

Mr. LEYBURN. I am of that opinion.

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Senator COUZENS. It is only an opinion?

Mr. LEYBURN. Yes, sir; let us assume for the purpose of argument that the examiners told them that they had a good bank, or never told them that the bank was bad, and then they received the report of examination showing a precarious condition but raised no protest whatsoever. At no time did they ever protest to Washington. If I were to go into that bank and tell them something that was not the fact, they would come down here and raise hell. They never did.

Senator COUZENS. How do you account for the fact that the Comptroller of the Currency took no action when you sent those yellow sheets in?

Mr. LEYBURN. I thought I covered that question in the Guardian group.

Senator COUZENS. How do you account for it in this group? Because I understand that the criticisms of this group are worse than in the case of the Guardian group.

Mr. LEYBURN. The same policy would hold in this case.

Senator COUZENS. Did you ever discuss it with the Comptroller or the Deputy Comptroller or any other officer in the office of the Comptroller of the Currency, as to the condition of the First National Bank?

Mr. LEYBURN. Frequently. It was the biggest problem we had.

Senator COUZENS. With whom did you discuss it?

Mr. LEYBURN. Mr. Pole and Mr. Awalt and a number of people at various times.

Senator COUZENS. What did they say?

Mr. LEYBURN. To use their words, they said, "Don't let anything happen."

Senator COUZENS. How could you prevent letting anything happen?

Mr. LEYBURN. It looked like I could not.

Senator COUZENS. What did they mean?

Mr. LEYBURN. That I would "rock the boat."

Senator COUZENS. By rocking the boat you would compel them not to charge off these bad accounts?

Mr. LEYBURN. Not to take the surplus away, or anything like that. That was the policy at the time.

Mr. SAPERSTEIN. Did you follow that policy with regard to this bank?

Mr. LEYBURN. I will let the evidence speak for itself in that direction.

The CHAIRMAN. Was there any political pressure brought to bear in the matter?

Mr. LEYBURN. If there was, I did not know it. I could not answer that; I do not know.

Senator COUZENS. Would you say that instructions from the Secretary of the Treasury or the President of the United States were political pressure?

Mr. LEYBURN. If that is what you mean, I would say yes.

Senator COUZENS. You testified when you were on the stand before that these instructions came from the powers higher up.

Mr. LEYBURN. Yes.

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Senator COUZENS. And when asked to enumerate those powers, you said the President of the United States and the Secretary of the Treasury.

Mr. LEYBURN. That is just what I said.

Senator COUZENS. I am asking as to your construction of political pressure, in answer to the question of the chairman, which was whether political pressure was used. I would like to know whether you interpret such pressure as being political.

Mr. LEYBURN. I do not think I would in that case. I think probably what Senator Fletcher meant was whether there were any Senators or politicians in Michigan that asked for leniency.

The CHAIRMAN. No; I did not mean that particularly. I meant, pressure from any source, from higher-ups or anyone else.

Mr. LEYBURN. The only thing I know is general instructions. If you want to construe that as poiitical pressure, it was used on a lot of banks.

As you are aware, a conservator was appointed for the First National Bank of Detroit during the banking holiday, and later on a receiver was appointed, I think in May. The word "conserve" means to keep from loss, decay, or injury; supervise and protect; preserve or be a guardian, or to take care of insane persons. After reading the testimony of some of the directors before that left-handed jury up there, I am of the opinion that a conservator should have been appointed for some of the directors.

President Sweeny testified before the one-man grand jury and some ex-judge in Detroit—I know who he is now; Murfin, I think it was—that the so-called "yellow" confidential sheets of the reports of examination were false reports to the Comptroller. Of course, by the very nature of the confidential reports the bankers could not see them. They have been attached to every copy of a report that goes to the Comptroller of the Currency since 1914. I just glanced through some before I left to come down here. They give the comments of the examiner. Suppose he thought there was a shortage in the bank, he would put it in the confidential section. If he put it out where a man could see it, of course, he would cover the shortage up. He could not put it in the white sheets and have them floating all around. As a matter of fact, every banker that has been in the game very long is acquainted with those yellow sheets.

Mr. SAPERSTEIN. Mr. Mills stated that "it developed at Detroit last summer that it had been the practice of the Comptroller of the Currency to have examiners make two reports upon the same examination." Was there any effort on your part ever to conceal the fact that this practice existed?

Mr. LEYBURN. It has been the custom of the Comptroller's office ever since I can remember. They have the yellow sheets attached to this, and they go to the Federal Reserve bank and the Comptroller.

Mr. SAPERSTEIN. Is that still the practice?

Mr. LEYBURN. Yes; and I think it ought to be. If any of the directors or the governing committee of the First National Bank had just spent a half hour looking through those reports, they would have realized the condition of their bank. Some of them must have looked at them. I claim that the condition of the bank did not change over night; that it was known to the executive officers and

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the governing committee. The First National Bank Building was carried as an asset on November 18, 1932, of the First National Bank Co. at $7,732,461.29, less reserve for depreciation of $337,500. This was only an equity which the bank had in the building or depositors' money which they had invested in this enormous building over and above the prior first mortgage. There was an asset that was nearly one third of the bank's total capital, and there was a prior lien on it, and yet he knew nothing about it.

Mr. SAPERSTEIN. Are you familiar with the fact, Mr. Leyburn, that this so-called "asset" of the First National Bank Building was carried on the reports rendered to stockholders at $7,732,461 and that the mortgage upon that building was not carried as a liability?

Mr. LEYBURN. I would have to see that report. I am not familiar with it offhand. It shows on our report there, of the examination of June 1932, that the consolidated bank had loaned to officers and employees $3,083,000, of which a large number were highly questionable. I believe there were about 84 officers of that bank borrowing at that time, and since January 1, 1932, the loans have only been reduced $57,873.

It was also the policy never to sell out anyone on Detroit Bankers stock for fear of depressing the market. As a matter of fact, they were very lenient on selling out any collateral loans.

Chairman of the Board Mills' ignorance of and indifference to the banking business appears to be exceeded only by his desire to remain in that condition. He has extreme adroitness and suavity of manner, and if the depositors and the people of Michigan believe his story, he would appear to be the personification of Harriet Beecher Stowe's immortal work. He would possess the severity and firmness of Simon Legree, the deep humility of Uncle Tom, and the sweet gentleness of Little Eva. As a matter of fact, he is a great disappointment to me. He says he knows nothing about anything. If that be true, the $40,000 salary and the raise he gave himself served to pay for services that he never performed. I would like to know what those officers did up there at $30,000, $40,000, and $50,000 a year.

Mr. SAPERSTEIN. Do you know when his salary was raised?

Mr. LEYBURN. Yes, sir; January 31, 1933.

Senator COUZENS. What was your reaction to the resignation of Mr. Mark Wilson and Mr. Ballantyne?

Mr. LEYBURN. They absolutely resigned to keep their self-respect. That is what Mr. Ballantyne told me, but he has probably forgotten it; he is getting up in years. There is no question but what they did the right thing. They should have done it a couple of months before they did. They could not get anything that was constructive before that committee up there.

Senator COUZENS. Do you agree in general with the testimony of Mr. Mark Wilson?

Mr. LEYBURN. Absolutely; and I noticed that some other witnesses, our opponents, said they would believe anything he said. So would I. He is a man of high integrity and ability. I have tried to get him to work for me a number of times, but somebody always beat me to the draw.

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The failure of this bank, as in the case of the Guardian Detroit Group, is due to the involved condition of the holding company, the Detroit Bankers Group, and the First National Co., the taking over of the American State Bank——

Mr. SAPERSTEIN. Do you mean the First National Co.?

Mr. LEYBURN. The holding company. I am talking about the Detroit Bankers Co. and the First National Co. [continuing] the taking over of the American State Bank and the banks at Redford—no; I do not believe there were any directors interested in that bank, so I still do not know why they took it over. Also the high percentage of loans secured by real-estate collateral. Speculative loans did not have proper attention, and the most incompetent management that the examiner has ever contacted in a large bank was met with.

In conclusion I want to say that there is no irony—there is a little sarcasm, I think—and no beautiful sunshine in my testimony. I am simply stating the facts, according to what target I shoot at. Some of the statements I have made have been attacked up in Michigan. If the cap fits them, they should wear it. It would fit some more of the heads up there if they would cut the corners off of them.

Mr. SAPERSTEIN. Mr. Mills, in his prepared statement before this committee, has said with reference to the practice of sending yellow sheets to the Comptroller and only exhibiting white sheets to the directors—and I am quoting from his statement:

> Banks frequently have been lulled into what later became a false sense of security as to the actual position of the Comptroller's office.

What have you to say about that comment?

Mr. LEYBURN. It looks to me like he was lulled into false security, all right, but he lulled himself into it.

Mr. SAPERSTEIN. Were any representations ever made by you or by your examiners to Mr. Mills which might have lulled them into a false sense of security as to the attitude of the Comptroller's office toward his bank?

Mr. LEYBURN. Of course not. Any report of examination is subject to the Comptroller's approval. At that time they were not trying to upset anything. They always want to attack somebody. It is always the examiner's fault. You remember that some years ago a large bank in New York City closed and the newspapers and all criticized one of the outstanding men of the United States, and even indicted him, and later on when things became better he did everything he could to save the bank, and half of the directors went up the river. Based on that theory, the directors of the Wabash Railroad ought to have to wait for an examiner of the Interstate Commerce Commission to come around and tell them that their railroad is going into receivership.

Mr. SAPERSTEIN. What have you to say as to the solvency or insolvency of the First National Bank at the time of the banking holiday?

Mr. LEYBURN. We made an examination of the bank during the banking holiday. As a matter of fact, when any bank does not open we make an appraisal of the assets to see what plan can be followed out. We made one that started February 11 or 12. I do not recall the date of finishing it. We were in hopes that they could

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pass a bill in Michigan that would take care of the situation. They commenced to fight among themselves, the upstate banks, and Senator Couzens tried to get them together. That examination made during that holiday shows the First National Bank of Detroit to be insolvent.

Senator COUZENS. To what extent?

Mr. LEYBURN. Close to $4,000,000, after you deduct surplus, profits and reserves. Of course, after the bank closed——

Senator COUZENS. Just a minute. You say that there was $25,000,000 capital there?

Mr. LEYBURN. Yes.

Senator COUZENS. And that capital was affected to the extent of $4,000,000?

Mr. LEYBURN. No; I would not say that.

Senator COUZENS. What did you say?

Mr. LEYBURN. Let us get that straight. The capital of the bank was $25,000,000. The surplus was $25,000,000. The net undivided profits were $3,625,695. Reserves, $12,848,000. If you deduct all those things you would still be $4,000,000 out. That is the basis of the examiner's report.

Senator COUZENS. To what extent was the $25,000,000 of capital affected?

Mr. LEYBURN. It was all gone.

Senator COUZENS. The capital was gone and the surplus was gone?

Mr. LEYBURN. Yes.

Senator COUZENS. And the undivided profits were all gone?

Mr. LEYBURN. Yes.

Senator COUZENS. Then they were $4,000,000 short in their ability to liquidate?

Mr. LEYBURN. That is right. Have I made that clear? We did not go through all the real-estate mortgages. That would be an impossible task. These figures are conservative.

Senator COUZENS. Did you take the book value of real estate?

Mr. LEYBURN. Yes, we did; we took the book value.

Senator COUZENS. In other words, when you came to arrive at the figures showing insolvency to the extent of $4,000,000 you had then taken the book value of all of the bank's real estate?

Mr. LEYBURN. I would say that we did, unless they were devalued, or something like that.

Senator COUZENS. How much did you take out when you arrived at those figures for devalued real estate?

Mr. LEYBURN. I do not believe we took out any. I think we took the real estate "as is." I cannot testify to that, because I did not make the examination personally.

Senator COUZENS. Who did make it?

Mr. LEYBURN. Mr. Harry Walker.

Mr. SAPERSTEIN. This examination is signed by Harry W. Walker.

Mr. LEYBURN. He is here in Washington. How about having him straighten you out on that? I do not like to testify to something that I am not exactly straight on.

Senator COUZENS. I wish he would, because there has been much discussion about the action of the examiners and banking officials on devaluating real estate which was mortgaged and owned by the banks.

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Mr. LEYBURN. Yes.

Senator COUZENS. If I understand your testimony correctly, it is to the effect that you took the book value and did not depreciate those real estate figures on the books of the bank?

Mr. LEYBURN. I think that is right. I think in his remarks in the yellow sheets he states——

Mr. SAPERSTEIN. Let me read you what the examiner says under "General remarks" in these so-called "yellow sheets" [reading]:

The complete examination of this bank was impossible, due to the limited amount of time and only a skeleton crew with which to work. Consequently there are numerous schedules which are not complete, or omitted entirely. A comparatively recent report was made as of the close of business November 17, 1932. In accordance with instructions from Chief Examiner Leyburn no attempt was made to list slow loans, for probably over 90 percent of loans classified as doubtful or loss would be classified as slow under the prevailing conditions. I made no examination of real estate loans or contracts, but judging from the previous report of examinations the bank will continue to acquire a substantial amount of real estate, and consequently a substantial amount of losses will be sustained. In reviewing this bank's loans appraisals of the paper were made on the assumption that some sort of reorganization would be effected and that assets would be liquidated in an orderly manner under some sort of a composition of deposits. * * * After the bank's loans had been completely reviewed it was learned that an immediate reorganization was impracticable, and a conservator has been appointed. In other words, under a conservator it is presumed that liquidation will be forced, and under forced liquidation it is highly probable that substantially more losses will be sustained than have been estimated in this report. In conclusion I have no hesitancy in making the statement that I believe this bank to be hopelessly insolvent.

Senator COUZENS. What date was that?

Mr. SAPERSTEIN. February 11, 1933—as of February 11; and the examination was closed on March 17, 1933.

Senator COUZENS. That report was dated March 17, 1933, and that was the date that it was delivered to the Comptroller's office; is that correct?

Mr. LEYBURN. I would have to look at that. [After referring to document.] It was completed on March 17. It could not have been delivered to the Comptroller's office that soon. I have heard the statement about real-estate mortgages. I do not know whether they were talking about R.F.C. appraisals. We do not make any appraisal for the R.F.C. The question came up about Pontiac——

Senator COUZENS. Before you go into that, have you sent any communications to the Comptroller's office after the February 11 examination was concluded?

Mr. LEYBURN. In 1933?

Senator COUZENS. Yes; or before.

Mr. LEYBURN. You mean, have I written any letters?

Senator COUZENS. If anybody has communicated with the Comptroller's office.

Mr. LEYBURN. Either over the phone or by telegraph; yes.

Senator COUZENS. Have you got any telegraphic evidence of what you sent to the Comptroller's office?

Mr. LEYBURN. I will see. I do not know whether I have or not. [After referring to file.] No; I have not.

Senator COUZENS. Are you sure you sent some telegrams?

Mr. LEYBURN. I would not swear that I sent telegrams, but I certainly talked to him on the phone.

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Senator COUZENS. Do you know why they selected February 11 to make that examination?

Mr. LEYBURN. That was just before the banking holiday.

Senator COUZENS. Yes; but you did not know the banking holiday was going to occur, did you?

Mr. LEYBURN. I knew something was going to happen, and I was getting prepared for something.

Senator COUZENS. So on February 11 you started an examination of the First National Bank——

Mr. LEYBURN. I had half my men up there.

Senator COUZENS. Just a minute until I have concluded my question, please. On February 11 you decided to make an examination of the First National Bank?

Mr. LEYBURN. Yes, sir; that is right, under instructions from Washington.

Senator COUZENS. You decided on February 11 to make an examination of the First National Bank of Detroit because you believed something was going to happen?

Mr. LEYBURN. I believed something was going to happen, and I wanted to see what kind of plan we could make if they did not get R.F.C. money.

Senator COUZENS. They had not applied for it on November 11, had they?

Mr. LEYBURN. No; but the Union Trust Co. had.

Senator COUZENS. I am talking about the First National Bank. I am trying to find out what led you to start the examination on February 11, 1933, before there was any bank holiday and while the bank was still in operation.

Mr. LEYBURN. Because I felt that the Union Trust Co. was going to blow.

Senator COUZENS. And you thought that if the Union Trust Co. was going to blow the First National Bank would blow?

Mr. LEYBURN. I was thoroughly convinced of that.

Senator COUZENS. So it was because of what you knew about the Union Guardian Trust Co. that you started your examination of the First National Bank?

Mr. LEYBURN. That is correct. Does that answer your question?

Senator COUZENS. Yes.

Mr. SAPERSTEIN. Supplementing what I read a moment ago with regard to your examiner's appraisal of real estate, I find in the same report a schedule known as "8-A" containing the following notation under the caption Other Real Estate:

> There appears to be a statement of the book value of various parcels of real estate owned by the bank——

Mr. LEYBURN. That is other real estate; that is not real-estate mortgages.

Mr. SAPERSTEIN. Let me read this [reading]:

> $14,102,330, and the bank's estimated value of $10,692,400, showing a loss of $3,409,929. The above-estimated loss represents the bank's estimate of values as a going bank. Since these estimates of values were made the bank has gone into the hands of a conservator.

It states that an arbitrary estimate of loss on this account is placed at $7,000,000, or approximately 50 percent of the carrying value, which is believed to be conservative.

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Senator COUZENS. That means the real estate owned by the bank for banking purposes and the real estate accrued under foreclosed mortgages?

Mr. LEYBURN. This is the bank's "Other real estate" account.

Mr. SAPERSTEIN. Can you put your finger on the bank's real-estate mortgage account in that report?

Mr. LEYBURN. Here it is, right here [indicating].

Mr. SAPERSTEIN. You are referring to what?

Mr. LEYBURN. Other real estate. It was carried on the books at $14,102,330, and the loss was estimated at $7,000,000.

Senator COUZENS. Let me get that straight. Do you mean the real estate owned for banking service?

Mr. LEYBURN. No, sir.

Senator COUZENS. Is that separate?

Mr. LEYBURN. In other words, 1,124 separate pieces with a book value of $11,747,048.

Senator COUZENS. Was the title to those 1,124 separate pieces in the bank?

Mr. LEYBURN. Yes; other real estate.

Senator COUZENS. Other than that used for banking facilities?

Mr. LEYBURN. I am not certain of that.

Mr. SAPERSTEIN. I notice that you have one schedule, no. 11, entitled "Banking house, bank offices", and so forth, and a separate schedule for other real estate?

Mr. LEYBURN. Yes.

Senator COUZENS. It is one-thousand-one-hundred-and-eight-four-and-odd pieces?

Mr. LEYBURN. There is more than that. This statement is made February 11. It shows for banking house and offices, $16,999,429.

Senator COUZENS. Was the banking house carried in your report at the same figure as it was carried on the bank's books?

Mr. LEYBURN. You mean the $16,000,000.

Senator COUZENS. Yes.

Mr. LEYBURN. That is what it shows here.

Senator COUZENS. So you did not depreciate the bank figure?

Mr. LEYBURN. In addition to the banking-house figure, it shows for other real estate $16,998,250. That is what we classify as loss.

Senator COUZENS. Those pieces that you are talking about now were the pieces on which the bank had foreclosed?

Mr. LEYBURN. Yes; and taken title to.

Senator COUZENS. There was nothing in those lists including the Catholic loans?

Mr. LEYBURN. No, sir.

Senator COUZENS. You state that you did not take from the bank's assets these so-called "Catholic loans"?

Mr. LEYBURN. Absolutely not. I will tell you where that originated.

Senator COUZENS. Go ahead.

Mr. LEYBURN. The Catholic loans, through consolidation and otherwise, were around $10,000,000, I think. They were classed as a large line. I think Mr. Mills put that story out in the hope that the radio priest would get on my neck. That is my opinion.

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Senator COUZENS. Some 10 or 11 million of the Catholic loans were an accumulation of loans that had been heretofore made in these 5 or 6 separate units?

Mr. LEYBURN. That is correct.

Senator COUZENS. And from the accumulation of these loans in the First National Bank, as the result of the consolidation, it made what you examiners believed to be an excessive loan?

Mr. LEYBURN. That is right. It was only criticized as to amount.

Senator COUZENS. In other words, they contend that the accumulation of loans on Detroit Bankers stock was the result of the consolidation of the separate units that took over the loans of all of the banks?

Mr. LEYBURN. That is what they contend; yes.

Senator COUZENS. And is that substantially true?

Mr. LEYBURN. I think that is about right.

Senator COUZENS. Let us get back to February 11. At what time did you start the examination on February 11?

Mr. LEYBURN. The report does not give the time it started.

Senator COUZENS. Do you not recollect what time you put your examiners to work in the First National Bank?

Mr. LEYBURN. No. At that time we were literally swamped up there with everything going on. The world was going upside down. I don't know whether it was morning or afternoon.

Senator COUZENS. You did not get any tip from anybody, outside of your knowledge of the company's condition, to start this examination?

Mr. LEYBURN. No; I was familiar with it because I was working on it. I didn't need any tip.

Senator COUZENS. I wondered whether you got it without needing it. Did anybody suggest that there might be difficulty there and that it would be well to make an examination?

Mr. LEYBURN. No, sir; I am positive they did not.

Senator COUZENS. From any source?

Mr. LEYBURN. No, sir. If they did, I certainly do not remember it. Has anybody made that charge?

Senator COUZENS. I am not on the witness stand.

Mr, SAPERSTEIN. I want to ask you one or two questions.

Mr. LEYBURN. I want to explain about Pontiac, too.

Senator COUZENS. Go ahead, but I hope you will not take too long.

Mr. SAPERSTEIN. On the subject that Senator Couzens just raised with regard to the valuation of these mortgage loans, I should like to read into the record the comment of your examiner in the previous report for November 1932, which seems to be tied up with the last report. In the last report he says [reading]:

> I made no examination of the real-estate loans or contracts, but, judging from the previous report of examination, the bank will continue to acquire a substantial amount of real estate, and consequently a substantial amount of loss will be sustained.

That would seem to indicate that he made a very exhaustive examination of the real-estate loans in the previous report, would it not?

Mr. LEYBURN. Yes. In June he was very familiar with them.

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Mr. SAPERSTEIN. Under the caption of "Criticisms" on page 11-A the examiner makes the following comment [reading]:

Real-estate mortgages exceed 50 percent of savings deposits. While no loss has been estimated at this time, with the present demoralized real-estate market, aggravated in this city, which is virtually a one-industry city, by the unprecedented orgy of real-estate speculation and the present tax situation, it is inconceivable to anticipate anything but eventual substantial loss and the acquisition of a large amount of other real estate.

Senator COUZENS. Does it not indicate that there was no cut-down in the assets?

Mr. LEYBURN. It looks like it to me; yes.

Mr. SAPERSTEIN. That was the procedure followed in both the November 1932 and February 1933 reports, was it not?

Mr. LEYBURN. I am of that opinion.

As to the question about Pontiac, the statement was made here that $1,500,000 worth of dividends were declared in December, I think, 1931. If my memory is correct on that date, it was for the purpose of using $750,000 at Pontiac to recapitalize the bank. As a matter of fact, I was always informed that that bank was getting its capital from the Detroit bankers. There never was anything said about $1,500,000 for that purpose.

Senator COUZENS. That is not the testimony. The testimony is that the First National Bank declared a dividend of one and a half million dollars through the Detroit Bankers Co. to enable the Detroit Bankers Co. to liquidate their debts.

Mr. LEYBURN. That dividend was not declared for that express purpose.

Senator COUZENS. That is in the record.

Mr. LEYBURN. It was always known as the "First National Bank" and it was close to Detroit and they wanted to save it if they could, and Mr. Wilson cooperated with me.

Senator COUZENS. There is no dispute about that. Mr. Long testified himself as to the purpose of the dividend, and later testified that $750,000 was used for the purpose of rehabilitating the First National Bank of Pontiac.

Mr. SAPERSTEIN. The minutes also indicate what the purpose was, and they have been offered in evidence.

Is there anything else you want to say?

Mr. LEYBURN. Yes.

Senator COUZENS. I tell you what I wish you would do, Mr. Leyburn. I wish you would make an analysis of the report of November 1932 and of February 11, 1933, and be able to tell us tomorrow whether or not the assets in the various mortgages as represented on the books of the bank were cut down by the bank examiners during their examination. Just tell us that tomorrow.

Mr. LEYBURN. All right.

Mr. SAPERSTEIN. And I might suggest that while he is doing that he may also determine whether the value of those Catholic loans was cut down in those reports.

Senator COUZENS. We will adjourn until 10:15 tomorrow morning.

(Whereupon, at 5:12 p.m., the subcommittee adjourned until tomorrow, Friday, Feb. 9, 1934, at 10:15 a.m.)

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STOCK EXCHANGE PRACTICES

FRIDAY, FEBRUARY 9, 1934

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

The subcommittee met at 10:15 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) and Couzens.

Present also; Ferdinand Pecora, counsel to the committee; Julius Silver and David Saperstein, associate counsel to the committee; and Frank J. Meehan, chief statistician to the committee.

The CHAIRMAN. The subcommittee will come to order. Mr. Saperstein, you may proceed.

Mr. SAPERSTEIN. Mr. Leyburn, will you resume the stand.

TESTIMONY OF ALFRED P. LEYBURN, CLEVELAND, OHIO, CHIEF NATIONAL BANK EXAMINER OF THE FOURTH FEDERAL RESERVE DISTRICT—Resumed

Mr. SAPERSTEIN. Mr. Leyburn, at the conclusion of yesterday's testimony you were requested by Senator Couzens to make an analysis of the bank examiners' reports of the First National Bank of Detroit of November 1932, and of February 11, 1933, and determine whether the various mortgages as evaluated on the books of the bank were cut down by the bank examiners during their examinations. Have you had an opportunity to do so?

Mr. LEYBURN. Yes. Last night I talked to the examiner and made that examination. He is now stationed in Washington. I looked at the reports. They were not cut down either in 1932 or in February of 1933 in any manner.

Mr. SAPERSTEIN. At what valuation were they taken?

Mr. LEYBURN. They took the bank's appraised values.

Mr. SAPERSTEIN. Do you mean at both periods?

Mr. LEYBURN. There were 60,000 mortgages in that bank, and we would have been there yet had we tried to go over them in detail.

Senator COUZENS. When you say "the bank's appraised value", was that the same as the mortgage value?

Mr. LEYBURN. Not necessarily.

Senator COUZENS. To what extent was the difference between the face of the mortgages and the amounts to which they were cut down?

Mr. LEYBURN. Well, Senator Couzens, as I say, they were not cut down in the examinations.

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Senator COUZENS. You said you took the bank's appraisal. Was the bank's appraisal lower than the face of the mortgages?

Mr. LEYBURN. No, sir; I would say not.

Senator COUZENS. Well, you did not say that in answer to my question. You said they took the bank's appraisal, and it seems to me the bank's appraisal might be different from the face of the mortgages.

Mr. LEYBURN. It could be different; yes.

Senator COUZENS. But it was not in fact?

Mr. LEYBURN. It was not.

Senator COUZENS. All right. You may go ahead, Mr. Saperstein.

Mr. SAPERSTEIN. Mr. Leyburn, did you also, since the recess yesterday afternoon, have an opportunity to determine whether at any time you cut down the value of the so-called "Catholic loans"?

Mr. LEYBURN. We never did it at any time, never cut down the value of them. As a matter of fact, I have seen a lot of Catholic loans in my time, and I have yet to see one that was not paid.

Mr. SAPERSTEIN. Mr. Leyburn, have you anything to add to the record as it stands before you get to your suggestions for legislation?

Mr. LEYBURN. Yes; and it won't take but a minute. I wish to make a correction of my testimony as shown on page 97-F of the galley proof. Either they got it down wrong or I gave it wrong myself. I don't know which, but it is either the one way or the other. Here is the way it reads in the galley proof:

> I stated that the large amount of real-estate mortgages which the bank had—approximately 60,000 separate mortgages, totalling about $156,000,000—was not desirable for a commercial bank.

Now it is the next sentence that I wish to set straight on the record, and it now reads:

> The next time I made the statement I said they were no good.

It should be:

> The next time I heard the statement made, it was said that they were no good.

That is, somebody had quoted me that way.

The CHAIRMAN. Now, what is the precise correction that you want to make? I do not quite understand you yet.

Mr. LEYBURN. I would rather have my testimony read this way: That later on it was rumored that I had said the mortgages were no good.

Senator COUZENS. Well, let us see if we can understand that aright. And you mean that you made no such statement.

Mr. LEYBURN. Of course not.

Senator COUZENS. All right.

Mr. SAPERSTEIN. Is there anything else that you want to add to the testimony?

Mr. LEYBURN. Yes. I noticed after I got off the stand yesterday, as to the meeting held by me with the governing committee in June of 1932, that in addition to the members of the governing committee there were present: John R. Bodde, vice chairman of the board; Herbert L. Chittenden, chairman of the executive committee; T. W. P. Livingston, vice chairman of the executive committee; Donald

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N. Sweeney, president, and J. F. Verhelle, comptroller of the Detroit Bankers Co. Now, these men were not present all through the meeting, but Mr. Verhelle was there, and he heard me tell about the losses and about the matter of dividends. Mr. Verhelle, of course, later on was forced out of the bank because they did not want around a man who told the truth.

Mr. SAPERSTEIN. You mean that Mr. Verhelle was forced out of the Detroit Bankers Co.?

Mr. LEYBURN. Yes, sir; as comptroller. And where he made his mistake was in staying on with the bank after Mark Wilson left.

Mr. SAPERSTEIN. At what point did these gentlemen withdraw from the meeting?

Mr. LEYBURN. I think in the minutes they say, "At this point these men withdrew from the meeting." I think that is shown in the minutes.

Mr. SAPERSTEIN. All right. You may go ahead.

Mr. LEYBURN. Now, we always hear when we hear talk about banks, closed banks, or even about going banks, it would seem, that proper consideration is not being given to the depositors. They are always afraid that you will protect the borrower. I sincerely hope and firmly believe that the officers of the two closed Detroit banks and other closed banks, who think they are doing their community a favor by not selling out the customers on collateral, are all wrong. The principle of a collateral loan is that the borrower pledges marketable securities in excess of the loan. As the value of the securities pledged decrease the customer should be advised and directed to furnish more collateral, and if that is not done the collateral should be sold and the loan paid. According to the testimony before the 1-man grand jury in Detroit, and down here, and according to the reports of national-bank examiners, this was not done in the case of the Detroit banks, especially where they had their own stock up as collateral.

Now, one of the greatest causes of loss to depositors was due to that very thing. And after the market becomes less for the stock, the borrower is in no position to pay the difference, and bank officers and directors know that the only chance to reclaim depositors' money is a return of stock-market values comparable to the period from 1927 to 1929. Owing to this policy, practiced by the officers and directors of the Detroit banks and of other banks as well, but specifically the banks in Detroit, which is flagrant, it has caused losses of millions of dollars to depositors and stockholders, and has bankrupted hundreds, perhaps thousands, of some of the best citizens of Detroit. As a matter of fact, it has just about disrupted society in that community. It is astounding to look at the reports of examiners and find loans so much in excess of the value of the collateral pledged. It would appear impossible for the makers ever to repay the loans.

Mr. SAPERSTEIN. Have you anything else to say along that line?

Mr. LEYBURN. Now, that is all that I have to say except in respect of laws.

Mr. SAPERSTEIN. Will you proceed to give to the committee your suggestions for legislation?

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Mr. LEYBURN. I am of opinion that on the call statement that a bank publishes there should be more detail, and that where bonds are pledged they should be shown separately and for what purpose. For instance, a bank could have $10,000,000 of Liberty bonds, and still have them all pledged, and nobody would know about it when reading the statement. I do not think that bonds should ever be pledged for any deposits, outside of Postal Savings and straight Government deposits.

Mr. SAPERSTEIN. In that connection let me ask you: What do you think of Mr. Wilson's suggestion that no type of deposit should be preferred over any other?

Mr. LEYBURN. I agree partially with that opinion. But in that connection let us suppose this were the situation: That the United States Government had a deposit out for the benefit of some veterans' hospital in the far West. If that money was not secured and something should happen to the bank, it might be very embarrassing indeed.

Mr. SAPERSTEIN. To what extent, then, do you agree with Mr. Wilson's suggestion?

Mr. LEYBURN. I would say United States Government deposits; not State money, or town money, or city money.

Mr. SAPERSTEIN. Will you proceed with your recommendations for legislation.

Mr. LEYBURN. I would say that after a report of an examination goes back to a bank, within 30 days the directors should sign a letter and send it to the Comptroller of the Currency to the effect that they have reviewed the examiner's report of examination, and should state what the classifications are. In that event we would get away from this " I don't remember " stuff you have heard here before your committee.

Mr. SAPERSTEIN. Under the present practice, as I understand it, they are requested to acknowledge receipt of the Comptroller's letter and to indicate what action has been taken upon it.

Mr. LEYBURN. Yes. But there are some flaws in there. It is true that it is to be considered at a meeting of the board of directors, at the next meeting of the board, and that fact noted in the minutes. But it is not so much that you note in the minutes that you have received the report; it is what you say in the minutes about it. That is my point.

The CHAIRMAN. On this matter of bank statements, Mr. Leyburn, I quite agree with your idea. But isn't that a matter that the Comptroller of the Currency can regulate without a statute?

Mr. LEYBURN. I think you are right on that, Mr. Chairman.

The CHAIRMAN. I should think so.

Mr. LEYBURN. I think you are right on that. I haven't checked it, but believe you are right on it.

The CHAIRMAN. All right.

Senator COUZENS. But has it not developed that the Comptroller of the Currency has insufficient authority to handle banks such as were reported in the condition that you reported these two Detroit banks as being in?

Mr. LEYBURN. Up to June of 1933 he had no power to remove officers.

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Senator COUZENS. Not until June of 1933?

Mr. LEYBURN. Yes. The new banking act gives him authority to do that.

Senator COUZENS. And up to that time he did not have statutory authority to properly handle a bank in the condition that you reported these banks to be in; is that it?

Mr. LEYBURN. That is my opinion.

Senator COUZENS. That is my understanding of the testimony.

Mr. LEYBURN. Yes. But I think he has the right under the new law. That gives him authority to remove bank officers.

Senator COUZENS. But he might need more power than that. I understood that he did not have the power to close a bank that he found to be insolvent, except through the means of assessment of stockholders, which requires 30 days' notice.

Mr. LEYBURN. No, Senator Couzens, I think you are a little wrong on that. In other words, if a bank is insolvent the Comptroller of the Currency always had power to close it. But if the capital of a bank is impaired, or there is a violation of the law, he had no way of getting at the officers except by voiding the charter. If the capital of a bank is short, that is, as it was, he had to put an assessment on the bank.

Senator COUZENS. And that goes a long ways toward destroying the bank.

Mr. LEYBURN. That is right.

Senator COUZENS. And if that is the law today it should be remedied.

Mr. LEYBURN. Well, I don't know. I still think that his power to remove the officers of a bank corrects all that.

Senator COUZENS. Well, I do not think the removal of the officers of a bank will always rehabilitate the bank. That does not rehabilitate the capital of a bank.

Mr. LEYBURN. Do you mean to have a law by which he could change the capital account of a bank more easily?

Senator COUZENS. No. I mean this situation: If you go into a bank that has $25,000,000 of capital, and you find the capital impaired to the extent of $10,000,000, there is no way, as I understand it, to compel a rehabilitation of that capital except through an assessment of the stockholders.

Mr. LEYBURN. That is correct.

Senator COUZENS. And that means that all of the stockholders no matter how many there may be, have to be notified, and that in itself creates suspicion and disturbance which affects public confidence to such an extent that it is possible the bank will be closed rather than rehabilitated.

Mr. LEYBURN. You are absolutely correct on that.

Senator COUZENS. So I am of opinion there should be some additional statutory provision that the Comptroller of the Currency may either close the bank or have something else done that would not create such a condition as I have just described.

Mr. LEYBURN. All right.

The CHAIRMAN. I think in that situation the bank ought to be closed.

Senator COUZENS. That is what I want to know about, what the examiner's viewpoint is about that?

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Mr. LEYBURN. Of course if you put an assessment on the stockholders, that is one thing, and if you close the bank that is another thing; but even then you have all the publicity attendant upon it.

Senator COUZENS. And you have 30 days of disturbance.

Mr. LEYBURN. You have more than that. You have to give 30 days' notice to the shareholders of the bank, and then they have 60 days in which to pay the assessment, and that is a period of 3 months.

Senator COUZENS. And in that time the bank, in all probability, would be wrecked.

Mr. LEYBURN. If a large bank, unquestionably so.

Senator COUZENS. So that the whole system is wrong, and there must be some other method devised to rehabilitate the impairment of a bank's capital, something more than is now prescribed by law.

Mr. LEYBURN. I see what you mean, Senator Couzens. But I would have to give some thought to that. That is a deep question, and I will be glad to write a memorandum on it if you wish. I would have to think it over. But I get your point exactly.

Senator COUZENS. All right.

Mr. SAPERSTEIN. Mr. Leyburn, what is your next suggestion?

Mr. LEYBURN. When a report of an examination is considered, and proper mention thereof made in the minutes of the meeting, a copy of those minutes, signed by the directors present, should be sent to the Comptroller of the Currency. I say that because I am never going to have any more minutes flashed on me like was done here on yesterday.

Mr. SAPERSTEIN. When you make an examination of a bank don't you have occasion to examine the minutes of the meeting wherein the report of the previous examination was presented?

Mr. LEYBURN. Yes. They go through the minutes.

Mr. SAPERSTEIN. Didn't you do so in February of 1933?

Mr. LEYBURN. I could not say as to that. In the case of a big bank like that it may be that an assistant went through the minutes, but by so doing how would he know what went on in the meeting?

Mr. SAPERSTEIN. What is the method followed in the examination of minutes of meetings of a bank, or is there any?

Mr. LEYBURN. We go through the minutes usually to get the directors in attendance, and then we see if the report was considered according to the minutes. And sometimes you will pick up some good stuff in there.

Senator COUZENS. Why wouldn't it be a good idea, after having had these oral discussions which are referred to so frequently, to reduce them to writing and make those oral discussions a part of the minutes of the directors?

Mr. LEYBURN. I think that would be a good idea.

Senator COUZENS. Because now there is controversy arising between bank examiners, who may have a long oral discussion with directors, and the directors, who may either forget or deny the statements made; and there is a conflict of testimony between bank examiners and directors as to what did take place. It seems to me that in this whole testimony before the committee the greatest difficulty for the committee is to know who is telling the truth about these alleged

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conversations between examiners and directors or the governing committee.

Mr. LEYBURN. I think you are right on that. In other words, the examiner could write out a memorandum and say: "Here are my recommendations or criticisms."

Senator COUZENS. And then they might be spread on the minutes of the meeting.

Mr. LEYBURN. Yes.

Mr. SAPERSTEIN. Will you please proceed with your recommendations for legislation?

Mr. LEYBURN. I am of opinion that officers', directors', and employees' loans should be listed in the call report; that is, as to amounts; and that they should be required to state in there the number that are secured and the number that are unsecured.

The CHAIRMAN. In what?

Mr. LEYBURN. In the call statement. As to amounts, not names, because it would probably be embarrassing.

Mr. SAPERSTEIN. You may proceed with your recommendations as to legislation.

Mr. LEYBURN. I do not think that any officer or director should borrow from his own bank, unless it first has the approval of the executive committee of the bank. I do not think that a national bank should ever lend on what is to all intents and purposes its own stock; that is, on group stock under any circumstances, as was done in Detroit.

Senator COUZENS. Mr. Wilson testified that he believed that receivers' records, such as a case of a receiver operating under the jurisdiction of the Comptroller of the Currency, should be a public record in the same manner as the record of a receiver for a manufacturing concern or merchandising concern. I suggest that if his premises are correct, the same information should be submitted to the public when a bank is under the control and operation of private persons. And I ask you if it is not a fact that had the public been informed in 1930, 1931, and 1932 of the conditions reported by the examiners, the extent of loans of directors and officers, and the extent of employees' loans, they would never have been permitted to get into the condition they did get into.

Mr. LEYBURN. I think you are right on that, except that I do not see how you could publish the condition of a bank, or the report of a receiver, giving the name and amount of this loan and that loan, of a neighbor here and a neighbor there, without making a very embarrassing situation. But granting he was right, he should come through with his report in the way you state.

Senator COUZENS. Well, let us assume that in 1930, 1931, and 1932 in the publication of these reports there had been required to be shown the amount of directors' loans, the number of directors' loans, the amount of secured and unsecured directors' loans, the company loans that each director was affiliated with, and the number and amount of employees' loans, without names, would that not have proved a deterrent in the matter of the laxity which developed in connection with the loans in the banks now under discussion?

Mr. LEYBURN. I think you are right; but even then I do not know how it could be done without, possibly, hurting the bank, if there was

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too much publicity, just like the publicity on the R.F.C. loans is bad.

Mr. SAPERSTEIN. Have you any other suggestions to make?

Mr. LEYBURN. I do not think that national bank stock should be held by any corporation or affiliate in which the directors of the bank are interested.

I think the auditor of a bank should report direct to the board of directors and not to the executive officers.

I think the equity in bank buildings should be shown as an equity. Frequently it is not shown as an equity at all. For instance, there might be a prior lien of a million dollars on a building.

Then when we speak of Government supervision of banks, and of bank examiners, the question is often brought up about examiners going out of the Government service. I think if you would make the service more attractive to examiners, they would not be hopping around. For instance, if you would pay them more money—and I am not talking about myself but about field examiners—they would then make it their life work. The men who make these examinations and these reports—and as to the reports of banks up there in Detroit, they are probably some of the best reports you ever read—these men are probably getting about $6,000 for work of that kind. It takes years to make a bank examiner. They are not made in a day. When you get a man and train him and he turns out good work, why not keep him?

The CHAIRMAN. Do you advocate the placing of national bank examiners under the civil service?

Mr. LEYBURN. I will put it this way: They should be either under the civil service or be appointed like Federal judges, so they cannot be shot at. I think if they were appointed like Federal judges it would be a good thing for the service. A national-bank examiner can be shot at and he is shot at. He ought to have some protection, some place. There is no use in putting a man up in the front line with a broom in his hand when he should have a rifle.

Mr. SAPERSTEIN. Mr. Leyburn, have you now completed your suggestions for legislation?

Mr. LEYBURN. I think so.

Mr. SAPERSTEIN. Have you anything else to present to the committee?

Mr. LEYBURN. Well, I have a concluding statement to make, and it won't take but a second.

Mr. SAPERSTEIN. All right.

Mr. LEYBURN. I want to state that I am personally of the opinion, if people would come down here and tell the truth, and remember that they have nothing to fear before this committee or any other committee down here—and I hope the rest of the witnesses will read what I am saying and do that—it would be very helpful. I never saw such confusion as I have heard down here. I do not think that applies to me, however, because I have been brutally frank with this committee. As a matter of fact, I have bared my soul.

In conclusion, I want it distinctly understood by the people of Michigan—and they are the people I am more concerned in than anybody else, for I am thinking more about the man growing celery

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at Kalamazoo or the man trapping beaver on Indian River than anybody else; the small depositors, not the directors—yes; I want it distinctly understood by this committee and the people of Michigan that I have tried to correctly portray the situation. And if I have succeeded in telling the real reason why the banks of Michigan closed and am vindicated by the people of Michigan, I will consider my time on earth well spent, and can then undertake the great adventure without fear or trembling, with the full knowledge that my shortcomings will be entirely obscured, if not obliterated, by my testimony.

Mr. SAPERSTEIN. I thank you very much.

The CHAIRMAN. Mr. Leyburn, you are excused.

(Thereupon Mr. Leyburn left the committee table.)

The CHAIRMAN. Mr. Saperstein, who will you have next?

Mr. SAPERSTEIN. Mr. Ballantine.

TESTIMONY OF ARTHUR A. BALLANTINE, NEW YORK CITY, FORMERLY ASSISTANT SECRETARY AND UNDER SECRETARY OF THE TREASURY

Mr. SAPERSTEIN. Mr. Ballantine, will you state for the record your full name, address, and present business or occupation.

Mr. BALLANTINE. My name is Arthur A. Ballantine. My business is the general practice of the law, as a member of the firm of Root, Clark, Buckner & Ballantine, 31 Nassau Street, New York City.

Mr. SAPERSTEIN. Were you formerly connected with the office of the Secretary of the Treasury of the United States?

Mr. BALLANTINE. I was.

Mr. SAPERSTEIN. In what capacity?

Mr. BALLANTINE. At what date?

Senator COUZENS. In any capacity.

Mr. BALLANTINE. I was Assistant Secretary of the Treasury beginning on the 15th day of March 1931, and up to the 12th day I think of February 1932. And from that date, that is, February 12, 1932, up to May 15, 1933, I was Under Secretary of the Treasury.

Mr. SAPERSTEIN. At the time when you were an Assistant Secretary of the Treasury who was the Secretary of the Treasury, for the record?

Mr. BALLANTINE. Andrew W. Mellon.

Mr. SAPERSTEIN. And when you were Under Secretary of the Treasury who was the Secretary of the Treasury?

Mr. BALLANTINE. Ogden L. Mills.

Mr. SAPERSTEIN. Now, let me take you back to the period preceding the closing of the banks in the State of Michigan. When was your personal attention called to the fact that the banking situation in the State of Michigan was growing acute?

Mr. BALLANTINE. My attention was not called to that in any definite way, that is, in any way that required my continuous attention to it, until about the 8th or 9th of February of 1933. Before that time I had known of the situation with reference to the Guardian National Bank, or the Guardian group, the Guardian Trust Co. particularly; that it presented some problems, and that there was an application before the Reconstruction Finance Corporation for a

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further loan or loans which it was hoped would cure that situation. That had come to my attention. But I had no occasion to do anything about it that I remember or until, I think, probably the 8th day of February 1933.

Senator COUZENS. Did you act in behalf of Mr. Ogden Mills as a member of the board of directors of the R.F.C. at any time?

Mr. BALLANTINE. I did, Senator Couzens. The law provides that the Under Secretary of the Treasury will substitute for the Secretary when he is unable to attend meetings of the Reconstruction Finance Corporation. I did that for Mr. Mills to a considerable extent.

Mr. SAPERSTEIN. Were you present at a meeting of the Reconstruction Finance Corporation which was held on January 26, 1933, at which time Mr. Longley and Mr. Kanzler came to Washington for the purpose of discussing the difficulties of the Guardian National Bank with the members of the R.F.C.?

Senator COUZENS. I think I might correct Mr. Saperstein by saying it was in regard to the Union Guardian Trust Co. and not the Guardian National Bank of Commerce.

Mr. SAPERSTEIN. With that correction I should like to ask you that question, Mr. Ballantine.

Mr. BALLANTINE. When you ask me about a meeting on a particular date my answer is that I would not know without consulting the record.

Mr. SAPERSTEIN. Well, I ask you about that date, Mr. Ballantine, because I expect that was the time when the matter was originally called to your attention. According to Mr. Leyburn's testimony there was a meeting held on January 26 at which Mr. Longley, Mr. Kanzler, Mr. Ogden Mills, Mr. Miller, Mr. Pomerentz——

Mr. BALLANTINE. That should be Mr. Atlee Pomerene.

Mr. SAPERSTEIN. Mr. Pomerene, Mr. Jones, yourself, Mr. Gardner, Mr. McKee, and others were present. Do you recall that meeting?

Mr. BALLANTINE. Well, I recall such an application and a discussion of it. I would not recall the date of the meeting or when it came up.

Mr. SAPERSTEIN. Can you tell us what transpired on that occasion?

Mr. BALLANTINE. Well, I recall that Mr. Kanzler and Mr. Longley were there and that they stated a large loan was required on account of the cash demands made on the Trust Co. I recall that they presented, or had presented to the officers of the R.F.C., a list of collateral or had indicated the collateral they wished to offer for a loan. The loan was of a considerable amount. I think that the Trust Co. already had a loan of something like $15,000,000, and that whatever they were asking for was in addition. I think the loan that they suggested ran up to, I should say, in the vicinity of $40,000,000; at any rate thirty-five or forty million dollars is the figure that comes to my mind now. And there was discussion as to whether that large loan could be granted. It was represented, as I recall it, by those gentlemen representing the trust company and the group, that a loan of some such proportions was essential. I do not recall the conclusion of the discussion. I do not know whether I was present when the discussion was concluded.

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Mr. SAPERSTEIN. Do you recall whether at that meeting it was represented by those officials of the Union Guardian Trust Co. that the situation in Detroit was growing acute?

Mr. BALLANTINE. Yes; it was so represented, that the situation was growing acute.

Mr. SAPERSTEIN. And did you shortly thereafter go to Detroit for the purpose of looking into the situation?

Mr. BALLANTINE. Yes. Now, that comes up to this date, and I think it was the 8th of February, and I think that was about the next time I heard of the situation. On the evening of that day I was asked to come over to the White House and talk to the President. I went over there. Mr. Miller was there, I think, who was the president of the R.F.C., and Mr. Roy Chapin, who was Secretary of Commerce, and I. And we had a discussion with President Hoover about this Detroit bank situation as presented by the Guardian loan application. It was then stated, I think by Mr. Miller, that the loan which had been applied for was larger than seemed to be warranted by the collateral that was available. It was further stated that unless something were done about this situation of the Guardian there might be very serious developments in Detroit. The President expressed the deepest concern about that situation and asked these various officers that every possible effort be made to see whether adequate assistance could not be rendered, and requested Mr. Chapin and myself to go to Detroit and take the situation up with the officers of the bank there, and be in communication with the R.F.C. officials here, and see whether a practicable plan could not be devised and put into effect. I did, after that, go to Detroit. I think I went to Detroit on the 9th of February. That was on Friday.

Mr. SAPERSTEIN. You mean you arrived in Detroit on the 9th?

Mr. BALLANTINE. No. I left here, I think. I have not had the records checked or read the testimony as to the dates, but I would say that I arrived in Detroit on Saturday morning the 11th of February. It might have been Friday, but I think it was Saturday.

Mr. SAPERSTEIN. Is it your best recollection that this conference you had with the President was held on February 8?

Mr. BALLANTINE. It was held either the 8th or the 9th. I do not know whether a day intervened after that conference. I remember having the discussions after the conference over at the R.F.C. before going to Detroit. Whether a day intervened or not I would not be sure.

Mr. SAPERSTEIN. Upon your arrival in Detroit what steps did you take to ascertain what the situation was?

Mr. BALLANTINE. Mr. Chapin and I arrived in Detroit on that morning, which I think was Saturday the 11th, and we went at once to the office of the Guardian Trust Co., and there went into conference with the officers. Mr. Ernest Kanzler was there, who was either chairman of the board or president—I think chairman of the board at that time. Mr. Longley was there. Mr. Lord participated in the discussions at times, and Mr. Henry Bodman was there, who was a director, and I think acted also to some extent as counsel. At any rate, he was a director, and there were perhaps other officers who were in at times, but we began a discussion of what could be done.

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We talked from the R.F.C. standpoint, and I was there as representing the R.F.C. on the ground, the directors of the R.F.C. Mr. McKee was there representing the R.F.C. examiners, and he had a considerable number of assistants who were there working on checking the condition of the banks.

I said, in behalf of the R.F.C., that we wanted to do everything it was possible to do, wanted to save this situation; that it seemed to us that the critical point was the Trust Co., and couldn't we begin on that and see what was the absolute requirement for putting the Trust Co. in a satisfactory condition, and then see how much else would be required; but the amount that had been suggested in Washington was larger than was felt to be within the loaning power of the corporation on the collateral, and let us begin and build up and see where we got off.

The result was that we took the Trust Co., which then had this $15,000,000 loan that I have spoken of. I think that was the figure. It had some $20,000,000, or a little over 20 million, between $20,000,000 and $21,000,000 of deposits. The collateral which it had still available, unpledged, did not seem to warrant a loan on the basis of Mr. McKee's examination, of more than $5,000,000.

Mr. SAPERSTEIN. May I interrupt you a moment, Mr. Ballantine? Do you remember what the collateral was that had previously been pledged for this loan of $15,000,000?

Mr. BALLANTINE. No.

Senator COUZENS. Let him complete his story first.

Mr. SAPERSTEIN. All right.

Mr. BALLANTINE. So far as the collateral is concerned, I did not look at that. Mr. McKee and his assistants passed on the collateral, and they reported the amount which could be loaned upon it. Five million dollars was as much loan value as they had in available collateral. It developed that the Guardian group could supply to the Trust Co. some assets on which a loan could be made of $3,600,000. That added up to about 8½ million dollars, or $8,600,000. That left a gap of some $13,000,000 that it was necessary to fill in order to enable the Trust Co. to meet its deposits. That was a deficiency in capital of the Trust Co. at that time, because there was nothing to pledge against that for further loans. That problem it was hoped in this conference to solve by having various larger depositors in the Trust Co. subordinate loans to the amount of 8 or possibly 9 million dollars—we hoped for $9,000,000—putting those loans behind other depositors' loans. Then that would leave some $4,000,000 of additional cash to be put in there. That, we hoped to get from Detroit interests who would themselves help out in this rescue effort.

Then, beyond that, we felt we had to have a couple of million dollars more of capital, or something like that, because if we got this refinance plan a mortgage company was to be formed, and that at first had to have some capital, so that substantially we had the problem, in saving the trust company itself, of getting 14 or 15 million dollars, $9,000,000 of which we hoped to get by having depositors subordinate.

It was felt that if that could be done, the trust company would be in such condition that its deposits could be taken over by the Guardian Bank, the trust company owning the Guardian Bank cash

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assets against the amount of the deposits. The trust company would have been left, then, to operate as a pure trust company, and to handle its trust business, but would have been in a satisfactory condition, with capital which was enough for that.

However, that did not by any means cover the whole situation, because funds were needed not merely for the trust company but for other units of the Guardian Group. It was in part the necessities of other units of the Guardian Group which contributed to the size of the loan that I referred to earlier. When it was examined it was finally concluded that probably $15,000,000 of additional loans, which would be made available to other units of the Guardian Group, including the Guardian Bank, would be sufficient, so that if the R.F.C. put up about 23 million more, instead of the much larger amount that had been talked about, $8,600,000 going to the trust company and $15,000,000 going to other places in the Guardian Group, and if we got this 14 or 15 million dollars, $9,000,000 by subordinating and the rest by new cash which would be secured by those who wanted to help the situation, we then would have a structure which would save the Guardian Trust Co. and the Guardian Group.

After considerable discussion that plan was agreed to by those who were in the conference. The trust company officers and group officers thought that was all right. Mr. Leyburn and Mr. McKee, who spoke for the R.F.C.—of course, Mr. Leyburn was bank examiner—thought the loan was O.K.—Mr. McKee did. We then proceeded to take that up with the R.F.C. We had telephone arrangements so that we could talk to the board.

They went over this pretty carefully, sitting at the other end, and they approved this plan and said they would go ahead with it. We had been doing some work during the day on the idea of getting in this extra money and getting that subordination. We had understood that Mr. Ford, who had a 7½-million-dollar deposit in the trust company, was ready to subordinate that deposit, and that would leave us 1½ million dollars to go with other depositors, and we initiated discussions with one or two of those, I think that day.

The next day was Sunday and everybody was on hand out there working on putting through this plan for getting the $13,000,000 to $15,000,000 arranged.

In the course of that morning, or sometime that day, word came to us that Mr. Ford did not want to make that subordination. That, of course, was a surprise, or was contrary to what we had supposed, but we continued to work on this and talked with various large depositors and communicated that fact to Washington, to the President, and asked that he arrange for us to see Mr. Ford about that and discuss that with him.

That day was spent in discussing with some of the larger depositors about subordination, discussing with representative of General Motor, Chrysler, and Hudson Stores about their coming in and supplying the money. The motor companies were ready, or expressed readiness to cooperate, but said that they could not do it unless Mr. Ford came in on the cash as well. His deposit was already in there, and if there was going to be cash he should do that.

When the 13th came, which was a holiday, the putting through of the plan depended on how we stood with Mr. Ford. Mr. Chapin and

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I went to see him on that day, and he was perfectly polite, but he said at the outset that he did not think that he could agree to anything we had to propose, and we were unable to change his mind on the subject. We had a long talk with him about it, and we expressed to him the view, of course, that if this plan failed for the trust company, and we could not arrange all this, the trust company would have to fail. We said that would put pressure on the other banks, and he inquired about the First National Bank, how that would stand. We told him the R.F.C. and the authorities would render every support, but it would be under a strain. He felt that if that pressure was thrown on the First National Bank, he would have to take out his own deposit, which was some $25,000,000 or more, and we asked him whether that was a fact that we could use with the R.F.C. as part of our problem, and he said yes.

Mr. Ford said he could not believe that the plan would break down for the lack of this much money, the $13,000,000. He thought that must come from somewhere, and that in some way this was being directed at him. We showed him that was not the case in any sense of the word, and that the difficulty was not about the amount of $13,000,000, but was the legal restriction about the amount of R.F.C. loans. What the R.F.C. could get collateral for it stood absolutely ready to lend; but when it reached the point where it was capital and the R.F.C. could not get any collateral, they could not step into that breach, even though that breach was relatively small, and that it was beyond the power of the Government, with the best will in the world, to bridge it under legal authority.

I think Mr. Ford still thought that it was curious that we could loan larger amounts, and yet not supply that particular $13,000,000. We tried to make that clear to him, and he was perfectly ready to discuss it, but I do not think he was convinced that that gap could not be bridged.

We tried to explain what the consequences would be, and he felt that we had consequences that would extend it to other banks. I think he was reluctant to believe that; but if it did, it might be something which was inevitable anyhow.

He remained of his opinion. We urged him to think it over and reminded him that he always claimed the prerogative of changing his mind, and we hoped he would think that over and do it. He said he would think that over, but he doubted whether he would change his mind.

Mr. SAPERSTEIN. Was any proposal made to Mr. Ford other than that he should defer his $7,500,000 deposit in the Union Guardian Trust Co.?

Mr. BALLANTINE. No specific one. We told him that those who had indicated that they would come in on putting up new cash felt that they could not justify that to their own companies and stockholders unless Mr. Ford also came in on new cash. No amount was mentioned, but we told him that they felt it was indispensable that he come in on the new cash, because that is what they told us. Then we came back—I assume you want me to proceed with how this developed.

Mr. SAPERSTEIN. Yes. Go right ahead, Mr. Ballantine.

Mr. BALLANTINE. We finished our talk with Mr. Ford, I should say, around noon. We got back possibly around 1 o'clock to the

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Trust Co. This was on the 13th. We communicated to the assembled group, which included the officers of the Guardian, and also included representatives of the First National Bank—we had been talking with representatives of the First National Bank, because, of course, they were acutely concerned with what happened to the Guardian. Mr. Mills was there, and Mr. Sweeny, of the First National Bank, and also Mr. Stevens, the Federal Reserve agent from Chicago, and Mr. Melvin Traylor was there, of the First National Bank of Chicago; and Mr. Sloane Colt, of the Bankers Trust in New York, was there.

Senator COUZENS. Can you tell us at this point, without interrupting your story, why Mr. Traylor was there and why Mr. Colt was there?

Mr. BALLANTINE. No, Senator Couzens; I do not know. They were there, but just who asked them, or why, I do not know.

Senator COUZENS. You may proceed.

Mr. BALLANTINE. We were glad to see them there.

We reported the conversation with Mr. Ford, and that we had endeavored to show him the picture as we saw it, and how this would extend throughout the State and would go outside the State if we could not save the Guardian Trust Co. situation.

It was then suggested by the bankers that they all thought, as we had indicated, that if the Guardian Trust Co. could not be opened, the Guardian Bank, the national bank of the group, could not open, because it would be faced with an absolute run, and the idea was also expressed that that would throw a great strain on the First National Bank. Anyway, if Mr. Ford's deposit was to come right out, the First National Bank could not face that. That was suggested, and that would put the State, at least, on a clearing-house certificate basis, at best, and that Mr. Ford ought to know that the bankers there all thought that. I told them that Mr. Chapin and I had already drawn about that picture, but Mr. Ford had said that he would think this over.

I called up Mr. Liebold, who was Mr. Ford's general assistant or secretary, and who had been present, as was Edsel Ford, at the conference with Mr. Ford, and told this thing to him. I think that I got Mr. Liebold. There was a time when he was not there, and I talked, I think, with the advertising manager, whose name I do not recall, but I would say I communicated that to Mr. Liebold and asked him to report that to Mr. Ford, and then either call back, or perhaps Mr. Ford would call back and tell us his final conclusion.

He did that, or it may be that some other individual did it for Mr. Ford, but about 4:30 we got word from Mr. Ford that he did not see the situation in any different light, and that he felt that he could not come in, and he felt just the same way about his deposit.

Mr. Wilson Mills, of the First National Bank, when he heard this statement as to what Mr. Ford said, had wanted to get in direct touch with Mr. Ford, and I understand did so. I think that he saw Mr. Ford. I think someone went with him to see Mr. Ford—possibly Mr. McMillan. Mr. Mills finally came back, as this conference went along, I would say along toward 6 o'clock, and reported no change, that Mr. Ford saw the thing in the same way.

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That left the conference with the situation that there was no plan by which the Guardian Trust Co. could be opened. It was perfectly clear that as we could not get the $13,000,000—of course, nobody else was going to subordinate if Mr. Ford did not, because of the connection which Mr. Edsel Ford had had with the Guardian, and the other depositors whom we hoped to have subordinate were much smaller in amount anyway, and they would not do it, and we did not have any ability to raise this other money under the conditions that had been suggested, and we had no means of opening the Guardian Trust Co. There was no means.

That meant that the Guardian Bank could not be opened, because it was all under the group, and looked like the same thing, and Mr. Leyburn and the bankers felt perfectly clear that if they opened with the trust company closed there would be an immediate and most drastic kind of run, which meant simply that some depositors would be preferred to others, and it would do nobody any good, and it could not be opened.

That left the First to talk over its situation, and, of course, that was being most earnestly done. As this went on and the situation developed during the day communication had been had with the Governor, and the Governor came down and was there in the evening, at least. He got there as soon as he could after the communication, and Mr. Arthur Lacy was there, a lawyer who was with the Governor, advising him.

Senator COUZENS. Can you suggest at that point, Mr. Ballantine, who suggested calling the Governor?

Mr. BALLANTINE. No, sir; I cannot, Senator. I cannot suggest it. I was trying to think since I got this notice yesterday afternoon, who suggested the holiday, and I cannot think who made that suggestion. It was a time of considerable excitement. Everybody was enormously concerned, and I do not think anybody was making any notes. Where the suggestion came from that the banks be closed I do not know. I cannot recollect. That suggestion was before the group and, of course, was before it when the Governor got there.

To resume, Senator Couzens, when the Governor did come the situation was laid before him, and he, of course, was vastly concerned. The suggestion was laid before him—by whom I do not remember—that the only thing to do, inasmuch as there was now no plan for putting any keystone in this arch, to have more time so that it could be ascertained whether some plan could not be worked out, and that meant that the banks would have to be closed, and if the Detroit banks were closed, that would throw great pressure on all the State banks, and, therefore, the thing indicated was to have a State bank holiday, so that a plan could be worked out which would enable the reopening of the Detroit banks and enable the reopening of outside banks. It was felt that the legislature, being in session, could immediately pass a State law which would enable the State situation to be dealt with, and if we got time to do that, and got a State law, and got a longer interval, we could get the banks reopened on a satisfactory basis. That was the hope.

Senator COUZENS. What bank?

Mr. BALLANTINE. The Detroit banks, Senator Couzens; and then, under the protection of a State law, which we contemplated would

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immediately be secured, they would open all the State banks, or part of the outside banks. It was hoped they could open them all with a State law.

The Governor faced this thing and said that if he were going to take any such action he would want to have a written request for it from those who ought to be able to speak. That meant, in the concrete there, the clearing house committee of the Detroit banks, of which Mr. Lord, of the Guardian group, was chairman. But all the members of that committee were there. I say all. That is my impression, that the members of the clearing house committee of the Detroit banks were there. There was a Mr. Hicks, who was president of the State Banking Association, there, too, and the clearing house committee went into long discussions. They had long discussions as to what should be done. They lasted, I should say, some hours during the evening, and finally they made the written request to the Governor. I do not recollect seeing that, but something was handed to the Governor.

Senator COUZENS. During this time, Mr. Ballantine, were you in touch with the R.F.C., or were any of the officials in Detroit in touch with the R.F.C.?

Mr. BALLANTINE. We were in constant touch with them. The R.F.C. Board was all sitting in session at Washington in the R.F.C office. I remember that well, because along about 3 o'clock in the morning one of them remarked to me over the telephone that it was getting late. I remarked to him that it was just as late out in Michigan as it was down in Washington, but they were all there, right through—the directors—and we were reporting what developments there were and talking with them.

We also talked with the Deputy Comptroller, Mr. Awalt, who was available on the telephone. I am not sure whether he was at the R.F.C., but he was available and we talked with him about this situation.

Senator COUZENS. What did he say?

Mr. BALLANTINE. He had considerable hope at one time that a clearing-house-certificate basis could be worked out, which would make it possible not to close the banks. As far as I know there was no support to that, because it was felt it took time to work it out, and we did not have any time. The clearing-house-certificate situation did not seem to exactly apply to the problem we had in hand.

He was concerned also, Senator Couzens, about the opening of the First National Bank, with the knowledge that the largest account, or one of the largest, would be immediately withdrawn, and he expressed a great deal of concern about that, and the effect of that upon other depositors in the bank.

Mr. SAPERSTEIN. Did you notify him about the proposed moratorium?

Mr. BALLANTINE. I do not recall discussing that with him, but we discussed the situation as it developed, and I should say that he must have known it. I am sure he did, because he was discussing the clearing-house plan as compared with the closing of the banks.

The president of the State association, as I understood, made the request of the Governor. The clearing house committee made the request to the Governor, and the Governor finally issued his proclamation. That was pretty late when that was finally done.

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When that was done, it was the feeling of those who were there that if that were not so it was absolutely clear that the Guardian Group banks could not be opened up; that it was practically certain that the First National Bank could not be opened up. It was extremely doubtful whether the Comptroller would have permitted that, to say the least, but, as I understand it, they joined in the clearing-house request for the holiday, and it was felt that if the Detroit situation had to be closed to that extent, that inevitably meant that the rest of the State would have runs, and it was far better to conserve the interest of depositors generally, and make possibly a better rehabilitation to have the holiday, with an interval to work, than to attempt to stagger through another day.

Senator COUZENS. During all this discussion on the night of the 13th and the early morning of the 14th, was there any discussion as to the condition of the Detroit banks?

Mr. BALLANTINE. Yes; there was discussion, Senator Couzens.

Senator COUZENS. Can you tell us what the nature of it was, Mr. Ballantine?

Mr. BALLANTINE. There was discussion as to how liquid they were, and what payments they could make, how they could meet the cash withdrawals, and how much money would be secured by those banks against any collateral to face runs. There was talk about the First National Bank securing a very large loan from the R.F.C., practically all on mortgages, and securing, perhaps, what other loans and other collateral they had from New York banks, and how much such a loan could be. There was similar talk about a loan to the Guardian Bank from the R.F.C.

Senator COUZENS. That was all during the evening of the 13th?

Mr. BALLANTINE. Such discussions were going on; yes, sir.

Senator COUZENS. Were there any discussions at that time about limited withdrawals? You spoke about a State law.

Mr. BALLANTINE. Yes.

Senator COUZENS. That State law was contemplated to authorize limited withdrawals?

Mr. BALLANTINE. Yes. There was discussion of a State law which would provide for limited withdrawals. I recall discussion of the possibility of such a law.

Senator COUZENS. What was the limit of the withdrawals discussed at that time, or was there any limit discussed at that time?

Mr. BALLANTINE. I do not recall that.

Mr. SAPERSTEIN. Were there any representations made at that time by the officials of the Guardian Group as to the percentage of liquidity of the Guardian National Bank of Commerce?

Mr. BALLANTINE. There was discussion of the percentage of liquidity of both banks, the Guardian National Bank of Commerce and the First National Bank.

Mr. SAPERSTEIN. Do you recall what representations were made at that time?

Mr. BALLANTINE. What the figures were?

Mr. SAPERSTEIN. Yes.

Mr. BALLANTINE. No; I do not think I do. I recall that there was discussion of it, and that there was some difference of opinion, but what the exact figures were I do not recall.

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Mr. SAPERSTEIN. Was there any discussion as to the solvency or insolvency of either of these banks?

Mr. BALLANTINE. Of course, Mr. Leyburn was there, and what was being discussed was the question whether those banks could be opened up without being gutted by runs. That was the real question which was under discussion, and as far as I was concerned, it was not so much a question of ultimate solvency then discussed as whether the opening of the banks did not mean that some creditors who were diligent and who got there, and perhaps were larger creditors, would be paid off to the detriment, and perhaps ultimate prejudice of smaller creditors, and to the ultimate prejudice of the rebuilding of the banks. The question of whether, in the end, either bank would pay all its deposits was not in the foreground. That was not the problem we were dealing with. We were dealing with standing the immediate pressure.

Senator COUZENS. Then, after that date, you came back to Washington?

Mr. BALLANTINE. That is what I was thinking about. I do not know what somebody else was thinking about.

Senator COUZENS. You came back to Washington after that?

Mr. BALLANTINE. I did, Senator Couzens. I came back the next day, the 14th, and that morning saw some of the representatives of both banks, that is, the First National and the Guardian, and it was suggested, I think by Mr. Wilson Mills, that with this problem which they had, the Treasury ought to supply some banking adviser who could help them work it out. I told them that that was not strictly a Treasury problem. I said that I had come there representing the R.F.C., which stood ready to do everything that they could do to handle the situation to the extent of their resources; that Mr. McKee was going to be there on the ground representing them, but on the strict banking side, the Comptroller was in charge, and his representative, Mr. Leyburn, was there; that if they wanted advice on banking, it seemed to me that ought to come from some outside experienced banker; that the Treasury was not equipped to supply that, and that we could not do it. They asked, or Mr. Mills asked, if we would not make some suggestion as to someone who might help them, and I said I would lay that before my chief, Mr. Mills, and report that they would like that. I said we would be constantly at their service for anything that the Treasury or the R.F.C. could do in its field.

I got back and reported to the President, and, of course, reported to Mr. Mills about this, and they, of course, were enormously disappointed at this development, and it was felt by all the directors on the R.F.C., to whom I also reported, that they must go right at plans for getting banking started up in Detroit.

Senator COUZENS. Before you go ahead with that, when you were in Detroit on the 11th, 12th, and 13th, did you know that the Comptroller's office was making an examination of the First National Bank?

Mr. BALLANTINE. I saw Mr. Leyburn right along, Senator Couzens, and knew that he had men there.

Senator COUZENS. You knew that they were making an examination of the assets of the First National Bank, did you?

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Mr. BALLANTINE. Yes. I knew that they were working on the assets, just as Mr. McKee was checking. They were working with Mr. McKee's men, as I understood it, so as to tell Mr. McKee's men about it.

Senator COUZENS. When did you first learn, or make up your mind, that the First National Bank and the Guardian National Bank of Commerce were insolvent?

Mr. BALLANTINE. As I have said, Senator, I did not have that problem, or attempt to reach any independent conclusion on that subject.

Senator COUZENS. No; but I mean, after that, when did you first learn that these banks were insolvent? Perhaps I can refresh your recollection, because sometime early in March—I have the exact date, but it does not occur to me just now—I had a meeting with Secretary Woodin and you and Mr. Awalt.

Mr. BALLANTINE. Yes.

Senator COUZENS. At that time all of you were very positive in your declarations as to the insolvency of those two banks, and I wondered how you got that information, and how much earlier than the date I saw you you reached the conclusion that these banks were insolvent.

Mr. BALLANTINE. I would not be able to tell you about that, Senator. As this consideration went on in the R.F.C. and in the Treasury, more reports were received from Mr. Leyburn and, of course, he guided the Comptroller fundamentally on the condition of the banks, and when reports indicated that, or what date, I would not be able to say.

Senator COUZENS. I am assuming—if I am not accurate in this assumption, you may tell me—that you got this information from records in the Comptroller's office.

Mr. BALLANTINE. I got the information from statements by the Comptroller and his assistants, and records.

Senator COUZENS. Those records satisfied you, as I understood it on the date we had the meeting, that both these banks, the First National Bank and the Guardian National Bank of Commerce, were insolvent.

Mr. BALLANTINE. Senator, I did not myself sit down and go over the collateral, or reach an independent conclusion on the subject. You have heard Mr. Leyburn testify, and you know how the facts developed in his mind. There was nothing there to controvert those facts.

Mr. SAPERSTEIN. You were up to the point, Mr. Ballantine, where you had had a discussion with Mr. Mills the day following your arrival in Washington.

Mr. BALLANTINE. Yes.

Mr. SAPERSTEIN. Will you proceed from there?

Mr. BALLANTINE. That matter came up of whether any suggestion could be made about some banker who might be of assistance in the situation. Mr. Mills thought that some names could be suggested.

Senator COUZENS. You mean Mr. Ogden Mills.

Mr. BALLANTINE. Ogden Mills, Secretary of the Treasury. He though some names could be suggested, but that any invitation ought to come directly from the banks, and that it was not really a Treasury

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matter. Some names were suggested, among which was the name of George W. Davison, and Mr. Wilson Mills, or someone, asked Mr. Davison to go out and advise with them about the situation.

From then on, from that very day on, the matter was continuously before the R.F.C., to see whether plans for reopening or plans for banks which were to take over assets and enable them to pay off the creditors in part could be worked out. There was discussion as to whether there should be one bank or whether there should be two banks. The matter passed through various phases. At one time we thought two banks were going to be set up considerably earlier than they were.

Senator COUZENS. At that point, had you reached the conclusion that these banks could not reopen?

Mr. BALLANTINE. As they were, Senator?

Senator COUZENS. Yes.

Mr. BALLANTINE. Yes.

Senator COUZENS. You had reached the conclusion——

Mr. BALLANTINE. You mean me or the R.F.C.?

Senator COUZENS. You or your associates had reached the conclusion, apparently, when you talked about one or two new banks.

Mr. BALLANTINE. Yes.

Senator COUZENS. You had then reached the conclusion that there was no opportunity of opening the old banks.

Mr. BALLANTINE. Yes. Neither the Comptroller nor the R.F.C., nor any of us who considered it felt that you could just reopen those banks. As we got further into the facts in the situation we felt that if you reopen the banks without new capital, and an absolutely unassailable front in what they took over, that you would run into too much difficulty again; and that the real way to handle the situation was to have new capital supplied, to have the assets that were taken over as banking assets, assets that were substantially liquid, and have banks that everybody could have the utmost confidence in. But there was too much impairment in the old just to reopen their doors as they were.

Senator COUZENS. When you said previously that Mr. Davison and the rest of you discussed whether there should be one or two new banks, you had then concluded that there was no opportunity, apparently, of rehabilitating the capital of either of those banks so that they could go on as going concerns?

Mr. BALLANTINE. I do not recall Mr. Davison being at Washington and discussing that with him there. I was not referring to him when I spoke, Senator. Let me get the question.

(The reporter read the pending question.)

Mr. BALLANTINE. Of course, we looked at the formation of new banks that had new capital, but which took over large parts of the assets of the old in each case, and presumably a considerable part of the personnel and the quarters. We looked at those things as rehabilitations of the old banks.

Senator COUZENS. But under a new charter and a new capital structure.

Mr. BALLANTINE. Yes, Senator.

Senator COUZENS. So that you could not, either technically or literally, say they were a continuation of the old banks under the old charters, could you?

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Mr. BALLANTINE. Correct. As far as merely lifting the ban on the old by some process and saying that the old banks went on as they were, the Comptroller, whose primary question that was—because he would have had to give a certificate and decide whether they would be opened or not—I do not think he ever reached the conclusion that the assets were in such condition that that could be done.

Senator COUZENS. When you reached that conclusion, have you anything in mind, Mr. Ballantine, as to the amount of assets that you could not take over from either of the banks?

Mr. BALLANTINE. You recall, now, Senator——

The CHAIRMAN. How about the buildings? They had too much in that, didn't they?

Mr. BALLANTINE. They had very large amounts of real estate. Take the First National Bank. They had acquired a number of buildings by successive consolidations, so that they had a very large amount of bank premises. That is true.

Mr. SAPERSTEIN. Mr. Ballantine, when the proposition was first advanced that two new banks be organized for the purpose of taking over the assets of the old, do you recall that an estimate was made as to the amount which it would be necessary for the R.F.C. to advance in order to make this proposition effective?

Mr. BALLANTINE. Yes. As I say, the matter of opening banks that would serve both to continue banking facilities and to pay off as much as possible of the depositors in the other banks, received continuous attention by the R.F.C. and by the Treasury. Various amounts were suggested as capital in the two cases, and also as to the loans. What would be taken over from the First National Bank, of course, was much larger, because it had some $425,000,000 of deposits, or something of that sort, and the Guardian had less than $150,000,000 of deposits. There were suggestions, I think, ranging from not less than 15 or 20 millions in the case of the First National, if they were going to have as big a bank as before, and from 5 to 10 millions in the case of the Guardian. With respect to the loans that would have to be made to liquidate the assets that could be liquidated, it was hoped to make enough to take up about 50 percent, or at least 50 percent of the deposits. That is, they would take over enough so that the loan on that would pay 50 percent of the deposits.

Mr. SAPERSTEIN. How much of a loan was it estimated it would be necessary for the R.F.C. to make in order to enable the First National Bank to pay 50 percent of its deposits?

Mr. BALLANTINE. The First National Bank had, as I recollect, between 425 and 450 million dollars of deposits. What the R.F.C. would have to loan would depend upon how much they could get from other sources. It was hoped that they would get at least 20 to 30 million dollars on loans of other assets that would be arranged with New York banks. They had some bonds and loans that might be used there. I do not recall the exact figure, but what the R.F.C. would have to put up to pay 50 percent would be the difference between this 20 or 30 millions, and perhaps 10 millions that the bank had in addition, and the larger figure, so that it ran to very large figures—140 or 150 million.

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Mr. SAPERSTEIN. Do you recall that there was considerable discussion among the members of the board of the R.F.C. with a view to making a loan of as high as $100,000,000?

Mr. BALLANTINE. Oh, yes; there was.

Senator COUZENS. I had to leave the room a moment ago, and I was wondering if, while I was gone, any matter came up about who was to provide the capital during the time that Mr. Davison was there discussing whether there would be one or two new banks. Was there any discussion as to where the capital was to come from?

Mr. BALLANTINE. I do not know anything about that, Senator. I was not there.

Senator COUZENS. You testified a while ago that there was a discussion as to whether there was to be one bank or two banks, after Mr. Davison went there.

Mr. BALLANTINE. Yes; and independently of Mr. Davison, I remember discussing that question with you several times, as to whether there would be one or two banks.

Senator COUZENS. I am talking about the time Mr. Davison was there. That was long before you discussed it with me.

Mr. BALLANTINE. Yes, sir; and he thought there should be one bank. How he thought the capital should be arranged I do not know.

Senator COUZENS. In asking that question I was trying to arrive at the origin of the more or less public discussion about its being a Wall Street bank, and I wondered if there was any discussion about the money coming from New York to provide the capital.

Mr. BALLANTINE. I never heard any.

Senator COUZENS. Either here or in Detroit?

Mr. BALLANTINE. No, sir. I never heard any discussion at all about anybody in New York supplying the capital.

Of course, when we had the two-bank plan later, that we thought was going to go through, Mr. Ford was going to put up the capital for both banks, which would take over these banks, and then there was a plan for others to put up local capital. You made suggestions along that line yourself, Senator.

Senator COUZENS. Yes.

Mr. BALLANTINE. I never heard any suggestion about New York money coming into the capital of the Detroit banks.

Senator COUZENS. I never heard any discussion about it at any time, either in Detroit or Washington, and I wondered where it originated. That is what I was trying to elicit from you—whether you had heard any suggestion of that kind.

Mr. BALLANTINE. I cannot shed any light on it.

Mr. SAPERSTEIN. Mr. Ballantine, I have before me the minutes of the board of the R.F.C., which relate to this Detroit banking situation. Do you recall a meeting of the board which was held on February 22, 1933, at which the following discussion, which is incorporated in the minutes, took place——

Senator COUZENS. Does the record show that Mr. Ballantine was there?

Mr. SAPERSTEIN. Yes; the record shows that you were present, and I am asking you whether you recall this discussion.

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Mr. BALLANTINE. Yes.

Mr. SAPERSTEIN (reading):

After a full discussion of the Detroit situation it was the sense of the board that, subject to the results of Mr. Mills' conference with Mr. Woodin tonight, if the First National Bank and the Guardian National Bank of Commerce proceeded to set up two new institutions with capital funds sufficient to satisfy the Comptroller of the Currency, and satisfactory to him in all other respects, the board would be disposed to make a loan up to the legal limit to the First National Bank, and a loan up to $35,000,000 to the Guardian National Bank of Commerce with the understanding that such loans would be fully and adequately secured and that in so far as possible adequate provision would be made to take care of preferred and unknown liabilities of the respective banks. The board authorized Mr. Miller to advise officials of the two banks referred to as to the board's attitude in the matter.

Do you recall such a discussion, Mr. Ballantine?

Mr. BALLANTINE. I recall a number of discussions, many discussions. I cannot isolate the 22d of February in my mind, and that particular discussion, but what is there set down represents what was the attitude of the Reconstruction Finance directors. I know that. I recall that.

Mr. SAPERSTEIN. I want to call your attention particularly to that portion of these minutes which states (reading):

Subject to the results of Mr. Mills' conference with Mr. Woodin tonight——

Were you familiar with the nature of the conference which was held between Mr. Mills and Mr. Woodin?

Mr. BALLANTINE. I do not recall anything except that it was felt that with a new Secretary of the Treasury coming in, and a very large commitment here, or loan to be made, it was desirable to clear the situation with him. I remember that that came up, but I do not know about the conference.

Mr. SAPERSTEIN. You do not recall that the result of that conference was made known at a meeting of the board at which you were present?

Mr. BALLANTINE. I do not recall any impediments having developed from any such conference. I think I would remember it if there had been.

Mr. SAPERSTEIN. We already have the result of that conference in the record.

Mr. BALLANTINE. Yes.

Mr. SAPERSTEIN. I do not know, from these minutes, whether you were present at the time those results were made known to the board or not.

Mr. BALLANTINE. I never heard of any difficulty or impediment from such a source or conference.

Mr. SAPERSTEIN. Will you go on and tell us of the procedure after the board had determined that its sense was that a loan of $100,000,000 should be made to the First National Bank, and $35,000,000 to the Guardian National Bank of Commerce, for the purpose of reorganizing the new bank? What transpired?

Mr. BALLANTINE. There was a time when it was thought that separate banks would be organized, and the understanding was that Mr. Ford was going to supply the requisite capital for each of the banks. I could not give you the date, but it must have been somewhere close to that date of the 22d of February. It was certainly

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before the first of March. That plan, however, fell through. I do not know what happened to it, but it did not continue to get local endorsement, apparently, in Detroit, for some reason or other.

Senator COUZENS. The proceedings before the Senate are of a rather unusual character this morning, and I think the chairman and I would like to answer the roll call that has just been called. I suggest to the chairman that we recess until 2 o'clock or 1:30.

The CHAIRMAN. We are very anxious to get through today. Would it take very much longer?

Mr. SAPERSTEIN. I do not think so, Mr. Chairman. I think that Mr. Ballantine is almost through with his statement, and then we have two other witnesses whom, I feel quite sure, we will be able to dispose of this afternoon.

The CHAIRMAN. Does that suit you, Mr. Ballantine, to adjourn until 2 o'clock?

Mr. BALLANTINE. Oh, yes. Anything is satisfactory to me. I hope we can get through today.

The CHAIRMAN. We will now take a recess until 2 o'clock.

(Whereupon, at 12 o'clock noon, Friday, Feb. 9, 1934, a recess was taken until 2 p.m. of the same day.)

AFTER RECESS

The subcommittee resumed at 2 p.m. on the expiration of the recess.

Senator COUZENS (presiding). The subcommittee will please come to order. The chairman is in conference and asked me to preside until he could get here so as to expedite the hearing. Therefore we will start in now. Proceed, Mr. Saperstein.

Mr. SAPERSTEIN. Mr. Ballantine will please resume the stand.

TESTIMONY OF ARTHUR A. BALLANTINE—Resumed

Mr. SAPERSTEIN. Mr. Ballantine, when we recessed before lunch you were about to tell us the details of the reorganization plan subsequent to the closing of the banks. In view of the fact that our inquiry is an inquiry into the causes and events leading up to the closing of the banks, it is not necessary for you to go any further along that line.

Mr. BALLANTINE. All right.

Mr. SAPERSTEIN. Now, I should like to ask you this question: In your opinion, did the various agencies of the Federal Government cooperate with the bank officials in Detroit in an endeavor to save the banking situation there?

Mr. BALLANTINE. There is no question in my mind but that they cooperated to the fullest possible extent. From the President on down they stood ready, as they declared to the Detroit bank officials, to bring all the resources of the Federal Government into that situation in an effort to save and later on relieve the banks. They were ready with their time and thought, and they gave greatly of both, to do everything that could be done in that situation. And I think that was absolutely the general attitude of the Washington officials. I do not see how they could have done more than was done.

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Senator COUZENS. Mr. Ballantine, during your service in the Treasury Department did you at any time have any jurisdiction over the office of the Comptroller of the Currency?

Mr. BALLANTINE. I had contact with the Comptroller of the Currency. And he did discuss matters with me from time to time pertaining to his office. I found that the practice had been for the Comptroller to report to the Secretary directly on a good many matters, and not all matters that he had to take up with the Treasury were cleared through me as Under Secretary, but a number were.

Senator COUZENS. In the organization of the Treasury Department certain bureaus or departments or sections were assigned to certain Assistant Secretaries, were they not?

Mr. BALLANTINE. That is correct.

Senator COUZENS. Was the Comptroller of the Currency's office assigned to any particular Assistant Secretary?

Mr. BALLANTINE. The Comptroller was on the chart of the Under Secretary as the contact with the Treasury Department.

Senator COUZENS. And not under any Assistant Secretary, particularly?

Mr. BALLANTINE. No, sir.

Senator COUZENS. Before you conclude your testimony, I wondered if you had any suggestions to offer from your long experience there, as to legislation that might be helpful in the handling of banks through the office of the Comptroller of the Currency.

Mr. BALLANTINE. I haven't given that as much thought as the subject deserves, Senator Couzens. I was interestd in what was said this morning in the course of your discussion with Mr. Leyburn. I feel that there is always a chance for improvements, and it would be very strange if, having gone through such a time as we have gone through, the unprecedented experience of banks, we could not look that situation over now and find ways in which we could have the administration on a better basis. I think it expresses my thought to require a statement by banks as to what the amount of their pledged assets are. Take the Postal Savings pledges, to require them to appear it would seem to me would be a desirable thing. I am not sure whether that can be done without legislation or not.

Senator COUZENS. It is being done in quite a few cases now. I notice that some bank statements carry the amount of securities pledged for both municipal and Government deposits.

Mr. BALLANTINE. I think that a desirable result to attain. I do not think that you could do away with secured United States Government deposits in banks. I do not think it would do to do away with security for Postal Savings; and also in the ordinary operation of the Treasury with Government deposits, which are left until needed, against security. I think that a decided convenience to the Government. I think it a help to the banks, generally speaking; and I do not believe that is any prejudice to deposits. I do not think that ought to be done away with. But I do think that the bank statement showing what is pledged is proper and desirable.

Senator COUZENS. During your association with the Treasury Department, do you believe that prior to the act of June 1933 the Comptroller of the Currency had adequate power to deal with banks, either those which had their capital impaired or those which were leaning toward insolvency?

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Mr. BALLANTINE. No. It was rather borne in on me that he did not have adequate power. The Comptroller of the Currency in the last analysis had to either close a bank or leave it open. There was no twilight zone. There was nothing he could do short of that. There would be cases where he would find practices going on that were not desirable and which he would like to correct, and which he would try to correct, and yet his only power was to close the bank. I think it was desirable that the Comptroller of the Currency be given the power, as he was by the Banking Act, to recommend the removal or displacement of officers who failed in their duty or refused to correct dangerous practices. I do not think he had sufficient authority before that time.

Senator COUZENS. What authority do you think he should have in the case of impairment of capital? A mere change of officers would not remove that.

Mr. BALLANTINE. No, sir.

Senator COUZENS. It appears from the testimony heretofore given before this committee that he had no alternative in the case of impairment of capital except to give 30 days' notice to rehabilitate the capital, and then 60 days for the payment of the assessments, all of which seem to me to be an impractical procedure so far as public confidence is concerned.

Mr. BALLANTINE. That was his legal power. That was the legal situation. Often in practice where the suggestion would be made for repairing the capital, it would be done, not under an assessment but under the threat of an assessment. I think that is a very important subject. I do not know by what legal means he could get more capital otherwise. I suppose you have to rely on an assessment; and we could not make the conditions as to bank stocks so onerous that people would feel they were liable for assessment for as much as the par value of their stock without any notice. I do not know, Senator Couzens. I think it is a very important subject, but you would have to look at it a little bit from the stockholders' standpoint.

Senator COUZENS. Yes. I wondered if you had any suggestion as to how impaired capital might be restored other than by the closing of the bank and/or an assessment. Both of them seem to me rather vigorous remedies.

Mr. BALLANTINE. They are. Well, Senator Couzens, the only suggestion I would have to make would be the one that has been used in practice. The Comptroller goes to bank people and says: "Now, see here. If this isn't made good, I will have to make an assessment." And then where they can they will do it without the machinery of an assessment. That actually happens. But you are asking about some more legal power, and I am afraid I have no suggestion to offer on that subject now.

Senator COUZENS. Have you any other suggestions to make as to legislative remedies for the administration of banks as the result of your experience?

Mr. BALLANTINE. I think the situation has already improved in various respects by reason of the banking act. I doubt whether the banking act has said the last word on the subject, but I haven't studied this record in the way it ought to be done in order to be

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able to make suggestions that I feel would really be of any help to you.

Senator COUZENS. Have you any views with respect to group banking?

Mr. BALLANTINE. The matter of branch banking, with all its complications, has rather appealed to me more, Senator Couzens, than group banking. I think group banking rightly applied can be a useful instrument, and has been in some cases, notwithstanding what we see in this particular situation. I have been rather inclined to think that branch banking rested on a sounder basis, in that while there is the suggestion as to the group banking form of organization that you have protection in the size of the group, and the capital of the group, and all, yet it actually may not be legally available to the depositor in the case of a particular member of the group. There may be a cut-off somewhere, so that he does not get the full benefit of that credit. Of course, in the case of a branch bank, that bank is absolutely liable for each deposit. I certainly would not say that, without provision for branch banking at any rate, or even with it, that group banking was to be rejected as one means of performing banking functions. I think if we were to examine every situation—other situations whch are not before this committee—we would find elements that showed the constructive use of group banks.

Mr. SAPERSTEIN. Our record as it now stands with relation to group banking might lead one to the conclusion that in periods of stress the group structure is more likely to accelerate the slide down hill than if you had independent banks. Do you agree with that conclusion?

Mr. BALLANTINE. I do not think it has done that in all cases. I think you would find that there are probably situations where it had operated the other way. There is that danger, because if you get one weak point developed in a group and that point goes, why, the whole structure is going to be affected. There is no doubt about that. On the other hand, I think there have been cases where a holding company behind a group has kept itself in strong condition and been able to correct an individual situation which might not otherwise have been corrected.

Senator COUZENS. Mr. Ballantine, we thank you for coming. Now, if you have no other suggestions to offer, you may be relieved.

Mr. BALLANTINE. I thank you, Senator Couzens.

(Whereupon Mr. Ballantine left the committee table.)

Senator COUZENS. Who will you have next, Mr. Saperstein?

Mr. SAPERSTEIN. Mr. Stevens.

Senator COUZENS. Mr. Stevens, will you please come forward, hold up your right hand, and be sworn:

You solemnly swear that you will tell the truth, the whole truth, and nothing but the truth, regarding the matters now under investigation by the committee. So help you God.

Mr. STEVENS. I do.

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TESTIMONY OF EUGENE M. STEVENS, CHAIRMAN OF THE FEDERAL RESERVE BANK OF CHICAGO, AND FEDERAL RESERVE AGENT FOR THE SEVENTH DISTRICT, CHICAGO, ILL.

Senator COUZENS. Mr. Stevens, please give your full name, address, and occupation.

Mr. STEVENS. My name is Eugene M. Stevens. I am chairman of the Federal Reserve Bank of Chicago, chairman of the board, and also the Federal Reserve agent for the seventh district. My office is in Chicago.

Mr. SAPERSTEIN. Mr. Stevens, how long have you been chairman of the board of the Federal Reserve bank in Chicago?

Mr. STEVENS. Since January 1, 1931.

Mr. SAPERSTEIN. And how long have you been Federal Reserve agent for the seventh district?

Mr. STEVENS. For the same period.

Senator COUZENS. What was your experience before you became connected with the Federal Reserve Bank of Chicago?

Mr. STEVENS. Well, I was in the investment banking business in Minneapolis, with my own firm, for about 17 years. Then I came to Chicago as vice president of the Illinois Trust & Savings Bank, which was afterwards merged with two other banks, as the Illinois Merchants Trust Co., of which I became executive vice president, and later president.

Mr. SAPERSTEIN. What year did you terminate your connection with that bank?

Mr. STEVENS. I was president of the Illinois Merchants Trust Co., which was merged in 1929—no, in 1928—with the Continental National Bank, and at that time I became nominally the president of the Continental Illinois Bank & Trust Co., although the direction of affairs was in the hands of the chairman. I stayed with that bank for a little over a year, and resigned of my own accord and took the chairmanship of the Federal Reserve Bank. My position in the bank after the consolidation was more or less nominal.

Mr. SAPERSTEIN. Did you in your position with the Federal Reserve Bank have opportunity to observe the operations of national banks?

Mr. STEVENS. Yes. We have worked very closely with the Comptroller's office. National banks, of course, are members of the Federal Reserve System, and the examination reports made by examiners of national banks come to my office, including the confidential reports that have been referred to here.

Mr. SAPERSTEIN. Do you mean the so-called yellow sheets?

Mr. STEVENS. Yes, sir. And they are very carefully analyzed in my office, and an analysis of each one is made, which comes to my desk. So that we are constantly in touch with the condition of national banks as well as of State banks.

Mr. SAPERSTEIN. In the Comptroller of the Currency's examination of national banks in Detroit during the years 1930, 1931, and 1932, did you take cognizance of those examiners' reports that came to your desk?

Mr. STEVENS. Yes, sir.

Mr. SAPERSTEIN. What, if anything, did you do about them?

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Mr. STEVENS. Well, we are, of course, in the position of keeping ourselves informed. National banks were directly under the Comptroller of the Currency, however, as you know.

Mr. SAPERSTEIN. Yes.

Mr. STEVENS. We had the habit, and still have, of making these analyses of reports for our own files, a copy of which we send to the Federal Reserve Board, of national banks as well as State banks.

Mr. SAPERSTEIN. You said a while ago that in this process you kept in close touch with the Comptroller of the Currency.

Mr. STEVENS. Particularly with the office of chief national bank examiner of the Chicago district.

Mr. SAPERSTEIN. Is that the main contact you have with the Comptroller's office—through the chief national bank examiner rather than with the Comptroller's Office in Washington?

Mr. STEVENS. Yes; I should say so.

Mr. SAPERSTEIN. When you got those reports from the chief national bank examiner would you then have conferences regarding the condition of the banks with the Comptroller of the Currency?

Mr. STEVENS. No; not directly with the Comptroller.

Mr. SAPERSTEIN. What was the condition of these Detroit banks as you observed it from your examination of the bank examiners' reports?

Mr. STEVENS. Well, do you mean the period under review here?

Mr. SAPERSTEIN. Yes.

Mr. STEVENS. Well, of course, we had access, as I say, to national bank examiners' reports, and also the information which has been detailed to you by Mr. Leyburn.

Mr. SAPERSTEIN. And did you reach the conclusion that conditions in Detroit were growing progressively worse during the years 1930, 1931, and 1932?

Mr. STEVENS. Quite.

Mr. SAPERSTEIN. Did you also reach the conclusion that in the latter part of 1932 the situation had grown very acute?

Mr. STEVENS. Yes; we certainly did.

Mr. SAPERSTEIN. Did you go to Detroit, Mr. Stevens, to look into the situation there?

Mr. STEVENS. Yes. The situation had grown progressively serious, more serious, and it was our business to be as well informed as we could be as to the banking situation in our entire district, Michigan being a part of our district.

Senator COUZENS. Did you go to Detroit to go into this banking situation at any time prior to the closing of the banks?

Mr. STEVENS. I arrived in Detroit on Monday morning, February 13.

Senator COUZENS. Had you at any time in 1930, 1931, or 1932 gone to Detroit to confer with Detroit bankers in regard to their condition?

Mr. STEVENS. Yes.

Senator COUZENS. When?

Mr. STEVENS. I don't know that I could give you the exact date, but I had been in Detroit occasionally. National banks were under the supervision of the Comptroller of the Currency, and the prin-

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cipal banks in Detroit were these two national banks. So that we looked to the Comptroller for our information in respect to them. But the whole Michigan banking situation had been getting progressively difficult. During the year 1932 a great many of the smaller banks in Michigan went into temporary holiday for reorganization purposes. So that when this situation arose early in February of 1933 we were cognizant of it. I learned through our various sources of information of the difficulties which seemed to be besetting the Union Guardian Trust Co., which, by the way, was a State bank and was not a member of the Federal Reserve System.

Mr. SAPERSTEIN. What source of information did you have with regard to it?

Mr. STEVENS. Well, I do not believe I can recall the exact information that came to me, except the information that came to me at the time when I went over there. But we had been keeping in touch with the situation, and kept in touch with Mr. Leyburn's office. We have a branch in Detroit, and through these various agencies, and through our contacts and our general information, we knew that the situation was serious; so much so, that on Sunday night, February 12, I went to Detroit. And I took with me the Deputy Governor of our bank, and also several credit men from our bank.

Mr. SAPERSTEIN. What was your purpose in taking the credit men with you?

Mr. STEVENS. To supplement some facilities we had in the Detroit branch, in the expectation that there was the probable closing of the Trust Co. in Detroit, which would make trouble for the national banks, and so that we would be ready to render them what assistance we could in the way of credits.

Mr. SAPERSTEIN. Do you mean assistance in the form of loans?

Mr. STEVENS. Yes, sir.

Mr. SAPERSTEIN. Did you make such tender after your initial survey of the situation?

Mr. STEVENS. Well, we arrived there on Monday, which was a holiday. It was a bank holiday, being the observance of Lincoln's birthday, and banks were closed on that day. So we had no opportunity to make an actual tender of service on that day. Events that occurred that afternoon and evening, as Mr. Ballantine has related to you, resulted in a State holiday being declared that night. So that the next day the banks were not opened. But thereafter some banks came to see us to know what we might do to help them in reopening. I attended the night session which has been referred to, at which time the proclamation was announced by the Governor of Michigan.

Mr. SAPERSTEIN. Can you, without going over the entire ground that Mr. Ballantine covered, give us your participation in that conference?

Mr. STEVENS. Yes.

Mr. SAPERSTEIN. If you will.

Mr. STEVENS. While it is immaterial. I should like to correct one thing that Mr. Ballantine said. I was not present at that afternoon meeting to which he referred.

Mr. SAPERSTEIN. You were there only in the evening?

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Mr. STEVENS. I was there in the evening meeting and all night. The evening meeting consisted of numerous informal conferences all over the office floor of the Trust Co., and several formal conferences. Mr. Ballantine has related the events of the evening session, and I do not think I have anything particularly to add to it except to corroborate what he said.

Mr. SAPERSTEIN. Can you supplement what he said by telling us who it was that first suggested that the Governor of the State of Michigan be called down there?

Mr. STEVENS. Well, the situation developed that evening as he has related it; that is, the plan to take care of the Trust Co. so that it might reopen or might transfer its deposits the next morning had fallen through. And word came to us there, as he has related, that some large interests in Detroit were about to withdraw their deposits the next day if the banks opened. The condition of the national banks was such, and the condition of the public mind was such, that we felt very strongly if the banks opened the next morning they would have serious inroads on their deposits. As I say, the whole night was spent in these informal conferences. I do not believe I can tell you who first suggested getting the Governor there.

Senator COUZENS. Did you approve the bank holiday?

Mr. STEVENS. I certainly did, and I will be glad to tell you why if you would like me to.

Senator COUZENS. I wish you would.

Mr. STEVENS. I approved the bank holiday, because it was apparent that the next day withdrawals would be made on the part of corporations and others who sensed the situation; that heavy withdrawals would be made, which in my opinion would constitute preferential payments; and that a very large number, several hundred thousand savings depositors would suffer, would be left holding the bag as to what assets might be left. And when my opinion was asked informally by some of the banks, I stated that opinion to them, that I thought their duty was to handle this matter in such a way that preferential withdrawal of deposits could not be made.

Mr. SAPERSTEIN. Was it your opinion that if the Union Guardian Trust Co. did not reopen the following day, the Guardian National Bank of Commerce, and the First National Bank of Detroit, would be forced to close as well?

Mr. STEVENS. Yes, sir. The Guardian National Bank of Commerce had, as you know, affiliations in the group, with something like 15 or 16 key points in Michigan, and the ramifications of the thing were so broad that the closing of an important member of the group, as the trust company was, would in our opinion have been reflected on all members of the group.

Mr. SAPERSTEIN. Do you think that is the fundamental unsoundness in the group banking idea?

Mr. STEVENS. I do.

Mr. SAPERSTEIN. Was there any discussion on that night in relation to the question of solvency or insolvency of these national banks?

Mr. STEVENS. I do not think there was any particular discussion at that time relative to the question of solvency. I think Mr. Ballantine covered that, according to my recollection. We were most concerned that night as to what must be done in the immediate future.

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The banks would normally have opened the next morning, and we felt that nothing but disaster would happen to the major banks if they were opened the next morning. And at that time we were concerned mostly with that question. The Governor of Michigan—if I may resume as to the actual connection there?

Mr. SAPERSTEIN. Yes; please do so.

Mr. STEVENS. The Governor did not arrive from the State capital until late at night, I should think perhaps after midnight. On his arrival a formal meeting was had, which was attended by the officers of the principal banks in Detroit, the chief officers of those banks; by, I think, some of their attorneys, and Mr. Ballantine representing the Reconstruction Finance Corporation, and Mr. Chapin the Secretary of Commerce, Mr. Leyburn, myself, and, I think, Mr. Traylor of the First National Bank in Chicago, and——

Senator COUZENS (interposing). Why did Mr. Traylor come along there?

Mr. STEVENS. Well, I cannot tell you exactly, but I assume that Mr. Traylor and Mr. Colt, of New York, were both there on account of their interest as correspondent banks of those banks.

Senator COUZENS. Because they had loans from some of these banks?

Mr. STEVENS. I don't know as to that, but they were generally interested in the situation. I think they came along to be helpful. Mr. Colt, of the Bankers Trust Co., was there also.

That meeting convened, and Mr. Kanzler, of the Guardian Group, outlined to the Governor the events of the day, which have been related to you, in the sense that the plans for reopening of the Guardian Trust Co., the Union Guardian Trust Co., the next day had fallen through. It appeared from information that we had that large demands were to be made on the other banks, and the consensus of that meeting developed that the Governor should call a bank holiday for the next morning.

Of course, the Governor took it very seriously, and he finally said that he would wish to have a formal request from the Detroit Clearing House Association and also from the State Bankers Association. He suggested also he would like to have a request from the United States Treasury Department of the Federal Reserve banks. I told him that we were not authorized to make a request of that kind from the Federal Reserve banks, but we would offer no objection.

The Clearing House Association met, were in session for sometime, and finally authorized a formal request to the Governor, and the proclamation was issued that night.

Senator COUZENS. From your knowledge of these examiners' reports over the years under review, did you reach any conclusion as to the solvency or insolvency of those two national banks?

Mr. STEVENS. Yes, sir.

Senator COUZENS. What were your conclusions?

Mr. STEVENS. My final conclusion was reached about the time of these meetings, Senator. As Mr. Leyburn has testified, he was in that time examining the First National Bank, and I had information from him and from their examinations which led me to believe they were correct, and my considered opinion at that time was that the banks were insolvent.

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Senator COUZENS. Both of them?

Mr. STEVENS. Both of them; yes, sir.

Mr. SAPERSTEIN. Did you give expression to that opinion to any of the officials of either of those banks?

Mr. STEVENS. I don't think I did that night, because that question of solvency was not under consideration that night. I was in Detroit for about two weeks thereafter and participated in many conferences, and I remember very distinctly giving that information to some of the officers of the Guardian Bank, that that was my opinion.

Senator COUZENS. What officer did you give that considered opinion of yours to?

Mr. STEVENS. I remember a conference with Mr. Kanzler and Dr. Murphy and Mr. Bodman of the Guardian Group. Mr. Kanzler was presenting to me for my advice a plan which he was trying to work out for the reorganization of their bank, in which he felt that the good will of the Guardian banks should be preserved, the stockholders should continue their opportunity of working the situation out, and I told him in my opinion that the good will of the Guardian Bank was all gone and it was not worth anything at that time, and the bank in my opinion was not solvent.

Mr. SAPERSTEIN. Was that opinion expressed by you during the pendency of the first 8-day moratorium declared by the Governor?

Mr. STEVENS. Yes, sir.

Mr. SAPERSTEIN. Did you express it to any of the officials of the First National Bank of Detroit during that period?

Mr. STEVENS. No, I didn't. It so happened that I did not come as closely in contact with the First National people as I did with the Guardian people in these conferences there.

Mr. SAPERSTEIN. When you expressed that opinion did the Guardian officials take issue with you on it?

Mr. STEVENS. I don't remember of any definite statement being made. It was apparent, I think, that Mr. Kanzler did not agree with me. I cannot say what the other men said or how they felt about it.

Mr. SAPERSTEIN. And during that entire 2-weeks period did you remain in Detroit and make yourself available at all times for the purpose of giving advice or rendering service to the officials of these banks?

Mr. STEVENS. I was in Detroit all that 2-weeks period excepting for I think one day when I went over to Chicago for a directors' meeting, and I felt it my duty to be there to watch the developments and to be of any assistance that I could.

Mr. SAPERSTEIN. Did you make any offer of assistance in the form of credits during that period?

Mr. STEVENS. During that period—you are speaking after the declaration of the holiday?

Mr. SAPERSTEIN. Yes.

Mr. STEVENS. Yes, sir. During that period the First National Bank people came to us to see what they could do in the event of reopening. We had loaned them through the Federal Reserve bank, had a loan with them, which was made I think a week or two before the holiday, amounting to about $11,000,000 on Government bonds, which was all they had asked us for.

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They came to us a few days after the declaration of the holiday. I am not sure but what they came to us the Monday before the declaration of the holiday, not with a formal application, but with something like $11,000,000 of so-called "eligible paper", or what they considered eligible paper, on which they desired to make a loan. Our men went through that and found about a little over $5,000,000 of it which was eligible, on which we made a commitment to make the loan.

Later in the week Mr. Sweeny, the president of the First National Bank, came to us with respect to a further loan under what we call the 10–A loan, which was under the 10–A section of the Glass-Steagall bill.

Senator COUZENS. That is what I was going to ask you about.

Mr. STEVENS. And you remember that we were not authorized under the law to grant the 10–A or the 10–B loans excepting where all of their eligible paper had been exhausted.

They came to us, I think, about the following Friday, and I had a memorandum from our officer who handled it saying at that time that they would like to have us consider about $35,000,000 on a 10–A loan. Under the law the 10–A loan required a group of two or more banks. They told us that they had not yet gotten another bank to join them, but probably could do so. They submitted to us collateral amounting to face value of about $49,000,000 and suggested that they might want a loan of $35,000,000 against it.

Senator COUZENS. Were those mortgages?

Mr. STEVENS. No. This consisted largely of collateral loans secured by listed and unlisted securities, and some municipal loans in it, my recollection is, some were Detroit warrants, the Catholic loans, and other bonds to the extent of 8 or 9 million dollars.

They stated to us that the purpose of that loan was in order that they might work out a partial reopening of their bank the following week on a basis of 50 percent payment of deposits. They stated to us that after deducting their secured deposits there were $354,000,000 of deposits in the bank and they were aiming to pay depositors 50 percent through the establishment of a new bank, and to meet that 50 percent, which was $177,000,000, they were hoping to get a loan from the R.F.C. for a hundred million dollars. They had cash and due from banks $38,000,000, unpledged Government bonds of $7,000,000, and a commitment from us for $5,000,000 on eligible paper, a total of $150,000,000, and to meet the $177,000,000 and have some working capital left, they would like to have from us about $35,000,000 under the 10–A loan.

Now, part of that requirement we understood had originally been expected to be obtained from the New York banks, and that they had apparently heard from the New York banks that they could not make the loan.

Senator COUZENS. Is that Friday following the Monday closing order?

Mr. STEVENS. Yes; I think it was on Friday. It was February 18.

Senator COUZENS. So that at that time they were contemplating organizing a new bank?

Mr. STEVENS. Yes, sir.

Senator COUZENS. And were you present at any of the conferences when Mr. Davidson, of New York, was present?

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Mr. STEVENS. Yes; I was present at one or two informal conferences, several informal conferences, where Mr. Davidson was present.

Senator COUZENS. Was there any suggestion as to the capital that was to be furnished for a new bank?

Mr. STEVENS. Well, I don't remember definite amounts being named. It was understood that the capital would have to be on a basis of approximately at least 10 percent of whatever deposits were taken over.

Senator COUZENS. So that if they took over 175 million, approximately, they would have to have a capital of $17,500,000?

Mr. STEVENS. Something like that; yes, sir.

Senator COUZENS. And was there any discussion as to where that capital was to come from?

Mr. STEVENS. Well, it was understood that the capital would have to be raised locally.

Senator COUZENS. That was the discussion, was it?

Mr. STEVENS. Yes, sir.

Senator COUZENS. To raise the capital locally?

Mr. STEVENS. Yes, sir.

Senator COUZENS. And had that plan of loaning them under section A, plus the R.F.C. loan, plus the New York loan, gone through, additional money in the amount of seventeen and a half million dollars would have been furnished by local interests for capital?

Mr. STEVENS. Approximately that; yes, sir. That is what it should have been.

Senator COUZENS. And, of course, had that plan of borrowing gone through and an organization of a new bank accomplished by February 18, it would have provided for capital being raised of approximately 17 million dollars?

Mr. STEVENS. Yes, sir.

Mr. SAPERSTEIN. What was the attitude of your board toward this $35,000,000 application?

Mr. STEVENS. Under the law a 10–A loan, which is a group loan, has to be submitted to the board of directors of the Federal Reserve bank of the district where it is made. It cannot be authorized by the officers.

Senator COUZENS. What is the section of the law—this is not particularly pertinent—which allows an industry to borrow direct from the Federal board with certain types of securities?

Mr. STEVENS. I don't remember the number of the section, Senator. I am familiar with it; yes, sir.

Senator COUZENS. There is a provision of law to that effect?

Mr. STEVENS. That industry can only borrow on such paper as would be eligible to the Federal Reserve bank and can only borrow from the Federal Reserve bank under the law if they are unable to get it from any other bank.

Senator COUZENS. Yes.

Mr. STEVENS. It has not proved very effective.

Senator COUZENS. You have not made any loans under it, have you?

Mr. STEVENS. We made a few loans on Government bonds to industrials, Senator, but I dont think any others, although we had many of them submitted to us for our examination.

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Mr. SAPERSTEIN. You were going to tell us what your board did about this $35,000,000 request.

Mr. STEVENS. Oh, because of the meeting of the board to be held in Chicago—I am a member of the board, but I was in Detroit and did not attend the meeting—and our board called in counsel and considered the matter very carefully. I think it is fair to say that we had had no formal application for this 10–A loan. In fact, we had not been advised definitely as to what other banks might join in to make it legal. But our board—perhaps I might read a bit from the minutes of that board meeting.

Senator COUZENS. Yes; you may do so.

Mr. STEVENS. This is the executive committee.

While the committee was unanimously in favor of doing everything possible to help the situation in this emergency, it was apparent from the information submitted that the First National Bank, Detroit, would not be able to turn over to the new institution sufficient cash and satisfactory assets to pay the depositors in full, and the making of this loan would add only approximately 8 percent to the amount to be paid to the depositors; that if the loan were made to a bank which at the present time is closed and which it is understood is not to reopen, it would establish a dangerous precedent; that the Federal Reserve bank would be better serving the interests of the public by conserving its resources as much as possible for existing member banks to enable them to meet the demands of their depositors, and that under all the circumstances they believed it would be unwise for this bank to entertain the loan.

I may say that our counsel raised the question as to the legality of our making a loan to a bank which was closed and which was not expected to open 100 percent.

Senator COUZENS. When you said "in full", in reading that quotation from the executive committee meeting, did you mean a hundred percent?

Mr. STEVENS. Yes, sir; I said that it was apparent that the institution did not have sufficient cash and satisfactory assets to pay the depositors in full.

Senator COUZENS. That in itself was an acknowledgment of insolvency, then, wasn't it?

Mr. STEVENS. Yes, sir; I think these events justified our opinion of the insolvency and also of the lack of liquidity of the bank. I am speaking now of the First National Bank. Because they admitted to us in that first week that in order to pay their depositors 50 percent they would have to obtain a loan from the R.F.C. of a hundred million dollars and wanted from us about $35,000,000.

Senator COUZENS. And 20,000,000 from New York?

Mr. STEVENS. No; the 35,000,000 which they wanted from us included that which they had been unable to get from New York, as I understand it.

Mr. SAPERSTEIN. What was the date of the meeting the minutes of which you just read from?

Mr. STEVENS. February 20. That action was taken by our executive committee and was afterwards ratified by a board meeting later.

Mr. SAPERSTEIN. Was any application made by the Guardian Group for credits?

Mr. STEVENS. No, sir. The Guardian Group during that week submitted to us a list of, I think, about 50 names for us to consider as to whether they would be eligible for rediscount if they wanted to, but they never made any definite application.

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And I think I am right in saying, if I did not say it, that we had no definite application for this 10-A loan, no formal application; a tentative application.

Mr. SAPERSTEIN. Mr. Stevens, do you think that the agencies which you represented did everything possible consistent with sound Federal Reserve practice and with public policy to assist this banking situation in Detroit?

Mr. STEVENS. Of course, that was our purpose and our very great desire, and as I look back on it now and as I felt at the time, we did everything we could legally do, and we were willing to go just as far as the law would allow, and to stretch a little if necessary.

Mr. SAPERSTEIN. Have you any suggestions to offer to this committee with regard to banking legislation?

Mr. STEVENS. Well, I didn't know I was going to be asked that question. Of course I have a good many, a number of ideas which may not be worth much, but many of which will be a repetition of some of the things given to you. I will mention a few of them if you would like me to.

Mr. SAPERSTEIN. I wish you would.

Senator COUZENS. We would be glad to have them.

Mr. STEVENS. At the risk of repeating some things that have already been said here, I cannot help but feel that one of the roots of all of our troubles is our dual system of banking which we have and the various controls which make a duplication of supervision and considerable difficulty in unification of banking practice. It is not necessary for me to elaborate on that. You know to which I refer. I also feel that until the passage of the Banking Act of 1933 the supervising authorities were without sufficient authority. If I may refer to it a moment, when I first went into a Federal Reserve bank I caused a review to be made of the banks in our district which had closed in the previous 10 years, a review of the examiner's reports, and a brief summary of each one of them over a 10-year period, and in almost every case it was definitely apparent from the successive examiners' reports of each bank that the bank was continually going downhill, that the bank was doomed to trouble, to ultimate extinction, and there was no way to prevent it excepting in an advisory capacity.

Senator COUZENS. That is, either by State or Federal agency?

Mr. STEVENS. No. Under the law it was only when the capital actually became impaired or some actual insolvency action took place that the supervising agency could act. There was no way to prevent this difficulty, which would be apparent for several years, excepting by advice, counsel, which was not apt to be followed.

Therefore I think that the inclusion of the powers to the supervising authorities in the Banking Act of 1933 should tend to prevent a great deal of trouble.

Senator COUZENS. But the mere removing of officers does not accomplish that, does it?

Mr. STEVENS. No, sir. Although in cases such as I have mentioned, it was frequently mismanagement and bad policy which was apparent and which could have been corrected.

Mr. SAPERSTEIN. Have you any suggestion that would enable the authorities to avoid in some way the actual levying of assessment in

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order to repair the capital structure and the consequent disastrous effects that generally follow?

Mr. STEVENS. That is a very difficult question. I concur with what Mr. Ballantine said, that as a matter of practice it is very frequently done by voluntary contributions to stock on the part of directors or large holders without a public assessment. That has been done very frequently, particularly within the last year, in the matter of reorganization of banks. But that is not a legal remedy.

Mr. SAPERSTEIN. You can suggest no legal remedy?

Mr. STEVENS. I think the remedy should be directed as much as possible to the prevention of banks getting in that condition rather than their cure after they do get in that condition.

Senator COUZENS. When the R.F.C. subscribes to large amounts of preferred stock in these banks do they conduct an examination, a continuing examination, as well as the Federal Reserve or the national-bank examiners?

Mr. STEVENS. In the earlier days of the operation of the R.F.C. they conducted what was largely an asset examination rather than a complete audit examination, but in connection with the issuance of preferred stock which they undertook in the fall they advised us as far as member banks were concerned that they would accept the figures of our examinations, and they have made no examinations of their own since.

Senator COUZENS. You have no direct examinations of your own, do you?

Mr. STEVENS. Yes, sir.

Senator COUZENS. Of what banks?

Mr. STEVENS. We have a right to examine all the State banks in the system.

Senator COUZENS. And do you do it?

Mr. STEVENS. We have a right also to accept the State authorities' examinations. We are increasingly doing the examination ourselves. We have built up our examining forces. For example, we are examining in our bank every State member bank in our district before the 1st of July on the question of certification for the permanent insurance, and in many cases, Senator, we have joined heretofore with the State in its examination, a joint examination, and we still continue to do that, but we have built up our examining forces several times what they were and are giving more direct examination.

Mr. SAPERSTEIN. Why did you consider it necessary to do that?

Mr. STEVENS. Well, I would not want to imply that we did not have confidence in the State examinations. But we felt that we had certain standards, and we felt that as far as possible it was desirable for us to coordinate those standards between the National and State departments, and that it was desirable for us as far as possible to get our own facts and information of the State member banks. So that in the last year or two we have very greatly increased our own examinations.

Senator COUZENS. You do not examine any of the nationals?

Mr. STEVENS. No, sir.

Senator COUZENS. You rely on the Comptroller's Office to do all of that?

Mr. STEVENS. We are not supposed to examine the national banks.

Senator COUZENS. And you do not do it?

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Mr. STEVENS. No, sir. I may say that we have worked very, very closely, particularly in the last year, with the Comptroller's Office, through the chief national bank examiner in our district in the reorganization of banks.

Senator COUZENS. That is national banks?

Mr. STEVENS. Yes, sir, as well as the State banks. I have had one of my assistants in the national bank examiner's office practically continuously since March in conference with his representative and the R.F.C. representative calling in hundreds and hundreds of bankers and working out plans of reorganization and capitalization, and the chief national bank examiner's office has welcomed that cooperation.

I may say that in the case of the granting of a charter by the Comptroller or the approval of the reorganization of a national bank by the Comptroller my approval is always asked by the Comptroller, and in all these reorganizations we have sat right in with the working out of the reorganization, rather than waiting until after it was done and then reviewing it for approval.

So we work very closely.

Senator COUZENS. Going back to those reports of the chief national bank examiner for the Detroit banks, did you at any time take any action with respect to those reports; I mean make any recommendations to the Comptroller or enter any protests as to the continuing condition of those banks and the fact that they were getting worse and worse?

Mr. STEVENS. No; we did not take it up direct with the Comptroller, Senator.

Senator COUZENS. What did you say to the examiner about those conditions?

Mr. STEVENS. Well, of course, I discussed it. Mr. Leyburn and I discussed it a number of times.

Senator COUZENS. Was there anything, in view of the fact that they were members of the Federal Reserve, that you could have done under the law?

Mr. STEVENS. I think not, Senator. In those national banks the matter was reported directly to the Comptroller. As you know, the Comptroller is a member of the Federal Reserve Board.

Senator COUZENS. Yes.

Mr. STEVENS. And under the law supervision of the national banks is directly under the Comptroller.

Senator COUZENS. So, no matter how negligent the Comptroller of the Currency may have been, there is no action on the part of the Federal Reserve banks that can be taken?

Mr. STEVENS. I think there is no legal action, Senator.

Senator COUZENS. So these banks, if the Comptroller is negligent enough, may be continuing to grow worse and worse and you have no control over the fact that they are members of your organization?

Mr. STEVENS. No, sir. I did informally, continually, or frequently, discuss with the Federal Reserve Board in Washington this whole situation in Michigan and in Detroit; told them it was giving us a good deal of concern.

Senator COUZENS. What did they do about it?

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Mr. STEVENS. Well I don't know. I don't know. But under the practice, and I think under the law, the national banks are the direct concern of the Comptroller, and a national bank is automatically a member of the Federal Reserve System, and we are not supposed to have any authority over the national bank.

Senator COUZENS. There is no way you can expel them from membership?

Mr. STEVENS. No, sir.

Mr. SAPERSTEIN. Have you any further suggestions that you want to offer, Mr. Stevens?

Mr. STEVENS. I will just mention one or two things. I don't think they will require any explanation. Of course, they had altogether too many banks and too free granting of bank charters. We also had a bad credit situation. In my opinion, the fundamental basis of our trouble had been too free granting of credits in many cases. Banks were engaged too much in capital financing.

Mr. SAPERSTEIN. Would you say that there was too free granting of credits for speculative purposes?

Mr. STEVENS. Well, I didn't have that in mind. I had in mind credit being too easy in times of prosperity for all sorts of enterprises, including speculative enterprise and promotional enterprise and everything else. Credits were too easy, in my opinion, to the farmer on his land at high prices and for expansion purposes.

Mr. SAPERSTEIN. Any further suggestions, Mr. Stevens?

Mr. STEVENS. I agree with what I think Mr. Wilson said here yesterday, that reserves against time deposits at 3 percent are too low. In time of stress the so-called "time deposits" are just as apt to be withdrawn as the demand deposits.

Mr. SAPERSTEIN. What would you consider an adequate reserve?

Mr. STEVENS. The reserves on demand deposits run up as high as 13 percent, depending on the class of securities in which the reserves are. I think there should be little differentiation in reserves between time and demand deposits.

I may make one or two other observations, as long as you have asked for them. Whether we like it or not, I think we will have to take care of some communities by some form of branch banking. There are a great many small communities that need some banking facilities that cannot afford to maintain a unit bank, that cannot afford to engage the proper talent for a unit bank. I feel that any form of branch banking should at least start within restricted limits.

Mr. SAPERSTEIN. Have you any opinion as to what those restrictions should be?

Mr. STEVENS. It is difficult to put them within county limits, because that is not a proper limitation as far as territory is concerned. Broadly speaking, I think that branch banks should be located within 50 miles of the parent bank. That, of course, would have to be modified in some of the Western States, but I am speaking of more or less thickly populated areas. In that case the parent bank would know its territory, would have its local affiliations, could handle the situation from a local standpoint. At least, that is in my opinion the way branch banking should be started. If it is advisable later to extend the limits, it can be very easily done.

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I think another difficulty we have had has been what might be classified as promotional banking, in which is included certain consolidations and mergers, which were an emphasis of size rather than quality and which tend to get out of control.

Mr. SAPERSTEIN. Do you think that was the situation in Detroit?

Mr. STEVENS. I think to a very large extent the difficulties in Detroit arose from the consolidations of several banks, which never became merged under single control, in the sense the authority in control having a proper picture of the consolidated bank.

Senator COUZENS. Have you any comment to make with regard to group banking?

Mr. STEVENS. I think that group banking has in some places been able to save the banks from the public standpoint, Senator, in smaller communities, but usually at the expense of the parent bank, and the experience we have had in our district with group banking has not been that it was satisfactory from the standpoint of the group.

Senator COUZENS. Did you hear a witness testify the other day—I think you were here—that all reserves of all kinds should be kept in the Federal Reserve system and there should be no duplication of bank deposits and one bank depositing with another?

Mr. STEVENS. Yes, I heard that, Senator; but I did not hear it very clearly at all. I was in the back of the room.

I question the advisability of that as broadly as stated. We do not conceive in the Federal Reserve system that the required reserves under the law are by any means the total liquidity which a bank should possess. If we so conceived we would increase the reserves materially.

Senator COUZENS. Well, how would you eliminate this great duplication of deposits by one bank depositiong with another?

Mr. STEVENS. I was about to say that there is a certain amount of those deposits in various cities that are almost a matter of necessity on account of intercity relations and intercity business connections. It is quite necessary, for example, for a certain bank to carry an account in Chicago on which Chicago drafts and Chicago commitments may be made. The same way in New York and other central cities.

Senator COUZENS. You do not think that should be done through the Federal Reserve in Chicago?

Mr. STEVENS. No; I think not.

Senator COUZENS. How would you eliminate this duplication, or do you think it is desirable to eliminate this duplication of deposits?

Mr. STEVENS. I think that there is a so-called "pyramiding" of deposits that is misleading as to the total amount of deposit credit which is outstanding, and also is very difficult to handle as withdrawals come. Whether that can be eliminated is a rather difficult question. The only way I can see it could be eliminated would be increasing reserves in the Federal banks.

Senator COUZENS. Would it be practieable to deduct from the published statements the bank deposits so there would not be a constant urge to create totals so that the bank would look big?

Mr. STEVENS. I am very favorably inclined to anything which makes a bank's statement fuller and more comprehensive and more understandable. I fully agree that pledged securities should be set out.

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Senator COUZENS. The testimony that has been introduced here shows that banks within groups and banks without groups switched and put in reciprocal deposits and built up their statements for the end of the year or semiyearly period, which gave an absolutely false impression as to the amount of deposits and the size of the banks. I am asking you about preventing that sort of practice.

Mr. STEVENS. Of course, I do not believe in reciprocal deposits. And I do not believe in any kind of deposits for window-dressing purposes; but there is a certain amount of the deposits of one district which may have employment in certain times of the year that naturally will go to some other district where the funds may be used, and that is part of the reason of this so-called "pyramiding of deposits." It is perfectly possible for a small bank in the country to have a large amount of deposits, either temporary or permanent, that it cannot use in its own community, and those funds naturally gravitate to some other city, larger city, where they are used for those purposes.

Senator COUZENS. Well, they gravitate there whether there is use for them or not.

Mr. STEVENS. Naturally. But that is regulated, supposedly, by the interest which will be paid on those funds in that city.

Mr. SAPERSTEIN. Even where they do gravitate to other places where there is use for them, this duplication does result?

Mr. STEVENS. Oh, it does.

Mr. SAPERSTEIN. And what the Senator would like to know, as I understand his question, is whether you have any suggestion by which this duplication would be eliminated.

Senator COUZENS. What would you say to the provision, either by order of the Comptroller of the Currency or by statute, that in marking the amount of the deposits that a bank carries they deduct the totals of deposits before they publish them, so they will not have that temptation all the time to make their totals so great in order to make people believe that they are a bigger bank than they are?

In other words, I observe that whenever the Comptroller of the Currency or a banking commissioner calls for a bank statement many of the bankers, directors, and those particularly interested in banks, run to the footings to see how much they have increased since the last statement.

Now, of course, the larger the footings ordinarily, the bigger the bank. It really does not mean anything if you have attempted to pad your deposits by getting other banks to deposit with you. I think there is a temptation for largeness.

Mr. STEVENS. Yes; I agree with you.

Senator COUZENS. Everybody wants to be big.

Mr. STEVENS. Quite.

Senator COUZENS. That has created a lot of our evils in industry and in merchandising and in banking, and it is particularly dangerous, it seems to me, in banking to have that condition exist.

Mr. STEVENS. Answering your question, I think that it would be perfectly proper to set up in the deposits the amount of bank deposits. I doubt if it could be deducted from the total deposits, because from the standpoint of that individual bank there is a deposit liability the same as anything else.

Senator COUZENS. Yes; it could be set up as a separate item that they would know.

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Mr. STEVENS. That they would know. I don't think it would require legislation. I think the Comptroller could designate the form in which the statement should be made.

Senator COUZENS. Did you happen to notice any discussion between Mr. Pecora and Mr. Wilson Mills as to the reserve requirements in the Federal Reserve bank the other day?

Mr. STEVENS. No, sir.

Senator COUZENS. Mr. Pecora and Mr. Wilson Mills got into a discussion—and I will have to make it a hypothetical case, because I do not remember the figures: On June 29 the bank showed bills payable $19,500,000. On June 30 it showed none, and on July 1 it showed twenty and one-half million bills payable. On June 30 the bank had drawn its reserves down so that it was deficient eleven and one-half million dollars. But on June 29 it had a substantial balance, because it was borrowing. On June 30 it was eleven and one-half million shy of its reserves, and on July 1 it had borrowed twenty and one-half million dollars and reinstated its reserves, and Mr. Pecora—and I agreed with him—contended that on July 30 that bank was deficient in its reserve eleven and one-half million dollars.

Mr. Mills contended that it was not deficient, because he took the 3-day average. Which was correct?

Mr. STEVENS. Well, as a matter of practice, you probably know that reserves in these major cities have to be figured on a 3-day average.

Senator COUZENS. That law requires, however, that that computation is for the purpose of penalty.

Mr. STEVENS. Yes.

Senator COUZENS. But it has no relation as we interpret the law to the required reserves. In other words, that is a convenient set-up by the Federal Reserve Board for the purpose of computing penalties, but it does not seem, as we interpret the law, to indicate that you are permitted to go below your reserve any 1 particular day within the 3 days.

Mr. STEVENS. May I explain to you from my experience as a banker outside the Federal Reserve bank what I think the application of that is, Senator?

In the major banks which are correspondent banks of many small banks very frequently after the close of the day, after the settlement of the reserve balance with the Federal Reserve bank, late items and transfers may come in from outside which cannot be anticipated, of varying amounts, and sometimes in substantial amounts. From a practical standpoint in a major bank it is almost impossible to adjust the reserves to the close of business every day. I think you can see that.

Senator COUZENS. Yes.

Mr. STEVENS. For that reason, as a matter of practice, we have this 3-day average.

However, we certainly would not countenance, while the reserves in the Federal Reserve bank are there to be drawn on in case of necessity, in case of dire necessity we would let them draw them down, we certainly would not countenance, if we knew it, the draw-

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ing of reserve balance to pay bills payable to us over a month end and then renewing it the next day.

Does that answer your question?

Senator COUZENS. Yes; it answers my question to the extent that it is a bad practice to do that sort of thing. But I still contend that on June 30 the bank was deficient in its reserves 11½ million dollars.

Mr. STEVENS. It was on that date; yes, sir.

Senator COUZENS. It was on that date?

Mr. STEVENS. Yes, sir.

Senator COUZENS. That is all I wanted to know, because Mr. Mills contended it was not, because in the 3 days they averaged up to their legal requirements.

Mr. STEVENS. They are technically short those days; yes, sir.

Mr. SAPERSTEIN. In view of that technical shortage, Mr. Stevens, would you say that if a dividend were paid by that bank on June 30 that dividend would be legal or illegal?

Mr. STEVENS. Well, I cannot pretend to give the legal interpretation of the act, Mr. Counsel, but I would say that it would be technically illegal to pay it.

Mr. SAPERSTEIN. The language of the act is very simple.

Mr. STEVENS. Is it?

Mr. SAPERSTEIN. It says that "No bank shall at any time make new loans or shall pay any dividends unless and until the total balance required by law is fully restored."

Mr. STEVENS. Yes, sir. Of course, as I tried to explain a minute ago, it would be perfectly possible for a bank to have made its reserve balance good at the close of business and have some unforseen withdrawal affect it later that same day.

Senator COUZENS. We would not have gotten into any controversy here about it if that had been the case.

Mr. STEVENS. Yes; I understand. That deliberate withdrawal is a different thing, a deliberate withdrawal for the purpose of paying down bills payable.

Senator COUZENS. Have you anything else to suggest, Mr. Stevens?

Mr. STEVENS. I think not. I would like to emphasize the same thing that has been emphasized before, the necessity of the directors of the banks taking their responsibility and, as Mr. Leyburn has pointed out, the directors of the banks acknowledging, both in their minutes and in their own acceptances, by their own receipts, their knowledge of the condition as revealed in the examiner's report.

Senator COUZENS. That can be done by regulation, can it not?

Mr. STEVENS. It can be done by regulation; yes, sir.

Senator COUZENS. Have you any views about banks loaning to their own directors and employees?

Mr. STEVENS. I think it is bad practice, Senator. I think it is necessary for a bank sometimes to loan to their directors' interests.

Senator COUZENS. Yes.

Mr. STEVENS. It would be very difficult to get the sort of directors that they should have, representative business men.

Senator COUZENS. What do you say about employees?

Mr. STEVENS. I think it is a bad practice, excepting to only the small extent of a welfare fund, or something of that kind.

Senator COUZENS. Yes; in an emergency.

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Mr. STEVENS. A small fund to keep a deserving employee who is in distress out of some loan shark or something of that kind; emergency loans.

Senator COUZENS. But not for buying stocks or investments?

Mr. STEVENS. No, sir.

Senator COUZENS. There seems to be a division of opinion as to whether bank officials keep better control of their employees by permitting them to borrow at their own banks rather than to go to other banks and borrow, where they would not have any knowledge of their borrowings. Have you any opinion about that? Because they do go to other banks and borrow without their superior officers knowing about it.

Mr. STEVENS. Yes, sir. I think there is a good deal to be said for that. I think the borrowing of a bank employee should be known to his employer. I think that in either event employees of the bank should be required to make periodical reports to their employers as to what their loans may be. We require that in our bank.

Senator COUZENS. They are in a particularly strong position of trust, are they not?

Mr. STEVENS. Yes, sir. I think there should be definite discouragement of any bank employee borrowing for any purpose which may be in any sense speculative.

Mr. SAPERSTEIN. Thank you very much, Mr. Stevens.

Mr. STEVENS. Will this excuse me then?

Mr. SAPERSTEIN. You will be excused.

Senator COUZENS. You are excused entirely. Thank you very much, Mr. Stevens.

Mr. SAPERSTEIN. Mr. Awalt.

TESTIMONY OF F. G. AWALT, WASHINGTON, D.C., DEPUTY COMPTROLLER OF THE CURRENCY

Senator COUZENS. Mr. Awalt, you do solemnly swear that the testimony you are about to give in the matters under investigation by the committee will be the truth, the whole truth, and nothing but the truth, so help you God?

Mr. AWALT. I do.

Mr. SAPERSTEIN. Mr. Awalt, will you give your full name, address, and business or occupation for the record?

Mr. AWALT. F. G. Awalt, Deputy Comptroller of the Currency, 2923, Thirty-fourth Street, Washington, D.C.

Senator COUZENS. When did you enter the Comptroller's office, Mr. Awalt?

Mr. AWALT. 1927, Senator.

Senator COUZENS. In 1927—that was your first employment?

Mr. AWALT. In the Comptroller's office. I had been in the Treasury since Mr. Houston's administration in 1920, and before that in the War Department under Mr. Baker.

Senator COUZENS. Had you had any banking experience prior to going into the Treasury Department?

Mr. AWALT. No, sir.

Senator COUZENS. Had no banking experience?

Mr. AWALT. No, sir.

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Mr. SAPERSTEIN. When did you become a Deputy Comptroller?

Mr. AWALT. July 1, 1927.

Mr. SAPERSTEIN. And were you at one time Acting Comptroller of the Currency?

Mr. AWALT. I was Acting Comptroller of the Currency from September 20, 1932, until the new Comptroller was sworn in, I think May 11, 1933, the law providing that in the absence or vacancy in the Comptroller the Deputy Comptroller occupying my particular position would be acting.

Senator COUZENS. Were the deputies ranked?

Mr. AWALT. They are under separate statutes. Originally there was only one Deputy Comptroller of the Currency, and it was under that statute that I was appointed.

Senator COUZENS. Did that mean that you were senior deputy then?

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

Senator COUZENS. Then during the period that you were Acting Comptroller of the Currency that was brought about because of the particular statute under which you were appointed?

Mr. AWALT. That is right, sir.

Senator COUZENS. And you were considered as ranking the other deputies?

Mr. AWALT. I was when acting. I had all the powers of the Comptroller at that time.

Senator COUZENS. But not when you were deputy?

Mr. AWALT. Well, it has always been considered as the senior deputy, because he is acting when the Comptroller is absent.

Senator COUZENS. That is what I mean.

Mr. AWALT. Yes.

Senator COUZENS. He is considered the senior and therefore perhaps ranking. That is the way they rank us politicians.

Mr. SAPERSTEIN. How many Deputy Comptrollers are there?

Mr. AWALT. There are three.

Mr. SAPERSTEIN. And have they particular portions of the country assigned to their jurisdiction?

Mr. AWALT. They have in a general way. Of course, our office has not only the examination of banks, but we have the reorganization of banks. We have the issuance of and redemption of currency. We have the insolvent bank situation. We have over 1,400 of those in the hands of receivers. We have an interpretation of the various bank laws and rules and regulations.

So that the work is varied, but as reports come in from the chief examiner's office they are referred to a crew of examiners in our office who are under a chief examiner, and those examiners analyze the reports and write the letters of criticism or suggest corrections to the directors of the banks. Those letters pass through to the deputies, and they bring any very important proposition to the attention of the Comptroller. You can readily realize that with 6,000 banks making two reports a year, that is, two examinations a year, and also the special examinations, it would be impossible for any one man to go over the reports and attempt to know what is in them. So we have to do it by that method. And in that connection certain deputies have handled certain districts.

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In addition to my other duties I was and am counsel to the Comptroller, so that I get into a great many of the legal phases of the office and a great deal of the administrative end, except appointment of personnel, which I have nothing to do with.

Mr. SAPERSTEIN. Prior to the time you became Acting Comptroller what district or districts did you have supervision over?

Mr. AWALT. For a considerable time I had direct supervision over the fifth and sixth Federal Reserve districts. However, at the time I became Acting Comptroller I was not directly supervising any district, due to the very heavy work on the banking legislation, and so forth.

Mr. SAPERSTEIN. Who was the deputy Comptroller with jurisdiction over the seventh district?

Mr. AWALT. I think that was Mr. Proctor.

Mr. SAPERSTEIN. Early in the year 1931, was there any change in the policy of the Comptroller's office with reference to the methods by which bank examiners should make their examinations?

Mr. AWALT. Yes.

Mr. SAPERSTEIN. What was the nature of that change?

Mr. AWALT. Will you indulge me to let me go ahead on my own?

Mr. SAPERSTEIN. Yes, sir; I would like you to.

Mr. AWALT. In December 1930 the bond situation had become bad. The Comptroller of the Currency requested me to make an examination into the records of the office to find out what particular action had been taken by previous Comptrollers on situations of that sort. I went into that and I found that just subsequent to the World War, or rather after the World War started, the then Comptroller of the Currency, Mr. John Skelton Williams, had issued instructions to national-bank examiners virtually to the effect that all bond depreciation on what could be considered as intrinsically sound bonds should not be written off in the examination.

He gave that out completely to the press in 1917. That was modified in 1920 by requiring 25 percent charge-off on all depreciation on bonds except governments.

Senator COUZENS. What Comptroller was that?

Mr. AWALT. John Skelton Williams.

Senator COUZENS. Still in 1920?

Mr. AWALT. In 1920, June 5; I think he was still Comptroller.

Senator COUZENS. And that was not regardless of whether they were in default or not, was it?

Mr. AWALT. No. Oh, no. The defaulted issues were always charged off.

Senator COUZENS. The defaulted issues were always charged off?

Mr. AWALT. Yes, sir.

Senator COUZENS. And this not writing off and later 25 percent writing off was only in the market decrease in the bonds?

Mr. AWALT. That is right; from book value on the books of the bank. That was March 15, 1920.

On June 5, 1922, the then Comptroller of the Currency, Mr. Crissinger, issued a circular to all national-bank examiners in which he said that all depreciation should be written off except Government securities, and that was somewhat modified in 1923.

Senator COUZENS. How was it modified in 1923?

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Mr. AWALT. December 18, 1923——

Hereafter banks should not be required to charge off depreciation in items appearing in the account of bonds, securities, and so forth, where they are investment securities quoted on the market and readily salable, unless carried at a very substantially higher valuation than is justified by their market or actual value. Usually, therefore, the examiner will confine his request for an immediate charging off of depreciation to defaulted items and those which are otherwise of an undesirable type and uncertain value.

At the time, therefore, that I made this study, we had gone from a period in 1914 back to a period of charging off depreciation practically on all bonds.

As a result of that study, the Comptroller of the Currency directed me to send out over my signature a circular, which I will be glad to place in the record. That circular is dated January 3, 1931, and addressed to all chief national bank examiners. Do you care for me to read it, Senator?

Senator COUZENS. If you will; yes.

Mr. AWALT (reading):

JANUARY 3, 1931.

To All Chief National Bank Examiners:

It is extremely difficult, if not impossible, to formulate general instructions to national bank examiners that would properly apply to all national banks with respect to dealing with depreciation in investment securities held by national banks.

It is the desire of the Comptroller in this period of serious and unusual depression to be as lenient in this matter of the circumstances in each individual case will permit. While it is necessary for your examiners to exercise their judgment in each case, consideration should be given to the present and what is believed to be a temporary condition of the bond market.

Where the depreciation is in bonds on which the interest is being paid and which are believed to be intrinsically sound and have a reasonable rating, the examiner will confine his request for immediate charging off of such depreciation to 25 percent of same at the time of each examination.

In addition to the foregoing, the total depreciation on defaulted issues or on bonds of such quality as to cause the examiner to believe the depreciation is not due to market fluctuations and will not be benefited by any improvement in the bond market should be charged off.

It is, of course, highly desirable that the investment accounts of national banks should consist of high-grade securities and should be well diversified. The examiners should advise the banks that the investment accounts should be properly analyzed from time to time. In the event the banks have no facilities for making such analysis, they should seek the advice of some disinterested and reliable concern engaged in such business.

Very truly yours,

F. G. AWALT, *Deputy Comptroller.*

That was sent with the approval of and at the direction of the Comptroller of the Currency.

Senator COUZENS. During all of this consideration of bond investments by the bank was there any separate consideration given to foreign bonds?

Mr. AWALT. I think not. I did find, however, in my study back in 1914, that the Comptroller at that time directed that no depreciation should be charged off on foreign government bonds which were allied with us during the war period.

Senator COUZENS. But after that you know of no particular attention given to foreign bonds?

Mr. AWALT. Not as a separate class; no, sir.

Senator COUZENS. Of course, you know that played a very large part in the records of a lot of our small banks?

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Mr. AWALT. Yes, I do. Of course, you notice in there, Senator, that we talk about bonds that have a rating too.

The bond market continued to go down, and on August 13, 1931, the Comptroller was out of town and a letter was addressed to me as Acting Comptroller on that particular day by the Governor of the Federal Reserve Board.

Senator COUZENS. And who was the Comptroller at that time, Mr. Pole?

Mr. AWALT. Mr. Pole was Comptroller.

Mr. SAPERSTEIN. Will you read that letter, Mr. Awalt?

Mr. AWALT. That letter is dated August 13, 1931, and says [reading]:

At the meeting of the Federal Reserve Board held on August 11, 1931, the matter of current bonds depreciation in member banks was discussed, and the Board recorded its attitude in the minutes of the meeting as follows:

"It was the sense of the Board that while defaulted bonds could properly be written down to market values, the Comptroller of the Currency would be justified in adopting an attitude of forbearance in dealing with depreciation in the case of interest-paying bonds, it being the belief of the Board that in many instances bonds not in default have depreciated out of line with their probable present and future real values."

This expression of the sense of the Board I personally discussed at a meeting of the 12 governors of the Federal Reserve Banks, which was taking place on August 11, and the governors expressed themselves in harmony with the sense of the Board.

I am submitting this for your consideration in connection with the formulation of policy under present unusual conditions.

Very truly yours,

EUGENE MEYER, *Governor.*

As a result of that letter I took the matter up with the Comptroller upon his return, because it was a major policy which I would not attempt to settle myself, and he issued on August 29, 1931, a modification of the instructions that I had sent out at his direction the first part of the year.

These new insructions did not go as far as the Federal Reserve Board had recommended, but they provided in substance—unless you want me to read this, Senator, the whole thing.

Senator COUZENS. Is it long?

Mr. SAPERSTEIN. Is this the letter of December 18, 1931?

Mr. AWALT. No; I haven't gotten to that yet. Suppose I just give the substance of this?

Senator COUZENS. All right.

Mr. AWALT. It provided, in substance, that no depreciation should be written off on the four highest grade classes of bonds, that is, AAA, AA, A, and BBB.

Senator COUZENS. You mean, that is the Moody classification?

Mr. AWALT. Well, that is Moody's. Standard Statistics was A–1 plus, A–1, A, and B–1 plus. Fitch was AAA, AA, A, BBB. Bond and Quotation Service was A–3, A–2, A, B–3. They were all in that category.

Senator COUZENS. Were they all Standard Statistics rating?

Mr. AWALT. They give Moody, Standard Statistics, Fitch, and Bond and Quotation Service. It was not confined to any one particular service.

But we did continue the charge-off policy of 25 percent on the remaining bonds, that is, at lower ratings than those four ratings,

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and also that all defaulted issues must be charged off at each examination. That was the substance of that particular order.

Mr. SAPERSTEIN. Was there a subsequent relaxation in the direction of leniency?

Mr. AWALT. The bond market continued to go down, and as an example of the situation due to that market's drop, in one district I was informed, that in one Federal Reserve district, one of 245 member banks with capital structure, that is capital, surplus, and undivided profits, of 226 million dollars, 125 million had been wiped out by bond depreciation; of 245 banks with a capital structure of 167 million, 126 million had been wiped out by bond depreciation; of 174 banks with capital of 123 million, 117 million had been wiped out by bond depreciation, and of 172 banks with a capital of 82 million the entire capital had been practically wiped out.

Senator COUZENS. Can you give us a general classification of the kind of bonds that depreciated to the extent that you have just described? Railroad bonds?

Mr. AWALT. Senator, all classes of bonds depreciated in those days, the high-grade as well as the low-grade bonds, except possibly Government.

Senator COUZENS. Those are the bonds that depreciated, but did they include municipal and State and political subdivision bonds and railroad bonds and all that classification?

Mr. AWALT. Yes, sir.

Senator COUZENS. Every kind of known bonds?

Mr. AWALT. Yes, sir; everything the bank had. Of course, some banks had better portfolios than others. Some of them had bought high-yield bonds more of a speculative nature than they probably should have in their portfolios, but they paid higher rates of interest and probably did it to earn with.

The CHAIRMAN. Did you include the depreciation of stocks and real-estate mortgages and all that sort of thing?

Mr. AWALT. I did not understand, Senator.

The CHAIRMAN. Do you include depreciation of stocks and real-estate mortgages?

Mr. AWALT. I have not come to that part of it, sir. I will cover that later.

Mr. SAPERSTEIN. Those figures that you have just given us relate only to depreciation in bonds?

Mr. AWALT. Yes; bonds being the only security that a national bank could properly purchase under the law.

Mr. SAPERSTEIN. As of what time was that survey of yours made, Mr. Awalt?

Mr. AWALT. It was made along in November, I should say latter part of November.

Mr. SAPERSTEIN. November 1931?

Mr. AWALT. Yes. That was not my survey. Those were figures that were furnished by Federal Reserve banks at that particular time, and as a result of that the Comptroller then went as far as the Federal Reserve Board recommended in August and issued his statement, or rather his instructions, to national-bank examiners, dated December 18, 1931, signed by J. W. Pole, Comptroller of the Currency, which you already have in the record. Do you want it again?

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Senator COUZENS. Did you mention a telegram that went out ahead of that?

Mr. AWALT. I have not come to that.

Mr. SAPERSTEIN. The telegram does not relate to bonds.

Senator COUZENS. Yes; but it relates to leniency.

Mr. AWALT. If you will permit me, Senator, I would like to develop that after we have finished with the study on bonds.

Senator COUZENS. We have that one of December 18 already in the record.

Mr. AWALT. So, therefore, Senator, you will see that the Comptroller at last reached in that circular of December 18, 1931, using some of the same language that was used by John Skelton Williams in 1914 during our war period; the same policy that Williams pursued then.

Now I would like to make clear, of course, that I was not Comptroller of the Currency during a great deal of this time. I was only acting Comptroller from September until the following April, as I have explained in the record, and the Comptroller of the Currency is responsible for the policies that were adopted, and he is better able to answer than I. I will do the best I can with the committee, however.

In leading up to this telegram you gentlemen will have to project yourselves back somewhat into the condition which existed in 1931. It is much easier to look at these things now than it was in the time of stress. Nineteen hundred and thirty-one was the worst year prior to the bank holiday for bank failures in the United States. We had 2,294 bank failures, involving a billion seven hundred million dollars.

The CHAIRMAN. In what period of time?

Mr. AWALT. That is in the calendar year, sir.

The CHAIRMAN. 1931?

Mr. AWALT. Yes, sir.

The CHAIRMAN. How many is that now?

Mr. AWALT. Two thousand two hundred and ninety-four.

The CHAIRMAN. That means State banks?

Mr. AWALT. That includes State banks. I will give you those detail figures, Senator. National banks 409, with deposits of 439 million; State banks members of the Federal Reserve System 107, with deposits of 293 million; and nonmember banks 1,778, with deposits of 957 million.

Senator COUZENS. Is that a reflection on the State banks that are members of the Federal Reserve?

Mr. AWALT. Senator, that is a rather embarrassing question.

Senator COUZENS. Well, you do not have to answer it.

Mr. AWALT. The situation was like a fire, because in July we had 93 bank failures in the country, August we jumped to 158, September 305, October 522; and it was around that period, early October, that the Comptroller sent out his telegram.

Senator COUZENS. Will you read the telegram just at this point, so we will know what you are talking about?

Mr. AWALT. The telegram is dated August 6, 1931, addressed to "All Chief Examiners." [Reading]:

Please instruct all examiners to exercise extraordinary discretion in their work and use every effort to encourage and sustain the morale in banks

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examined. Leniency consistent with proper regard for public interest should be extended. Present conditions demand sympathetic treatment on the part of this office and examiners and can in an important measure tend to the alleviation of the difficult problems with which we are temporarily faced.

J. W. POLE, *Comptroller.*

We were not only seeing the depositors of these banks in a panic, and it was spreading from bank to bank, but we were seeing the bankers themselves and we were seeing the directors themselves throwing up their hands. They were in a panic. It was reported to the office that three banks in the State of Wisconsin, small banks, who were perfectly solvent, the directors had just closed the doors of the bank rather than fight the thing out.

And you should also remember that prices had fallen at that time, true not as far as they did go, but cotton was down around 5.3 cents a pound, corn was around 33 cents, wheat was around 30 cents. It was hard to arrive at any figure on land. Complaints were coming in that examiners were not realizing the conditions, and the Comptroller issued these instructions, I understand, because he issued them, I did not—on that basis.

Senator COUZENS. Did he confer with you before he issued them?

Mr. AWALT. He told me that that was the reason that he was issuing them, and he told me particularly that it should be understood that his instructions were also to boost up the morale of these men.

And I might say, Senator—it would probably be of interest to you—I ran across in the files a letter written by the chief examiner of the ninth Federal Reserve district.

Senator COUZENS. What does that cover? The location will be sufficient.

Mr. AWALT. His district was Minneapolis.

Mr. SAPERSTEIN. What does the letter relate to?

Mr. AWALT. It relates to an interpretation of this telegram to his examiners.

Mr. SAPERSTEIN. Will you read it?

Mr. AWALT. Yes. [Reading:]

The following telegram has just been received from the Comptroller of the Currency—

Then he quotes the telegram—

As I interpret the opinion, it is not to be construed as blanket authority to convert our examinations into friendly visits, close our eyes to menacing situations, or pass hopelessly insolvent banks. We have, however, many banks no more or less embarrassed which, with the return of normal conditions, it is reasonable to assume can be worked out. It is the management of such institutions which needs encouragement, and no insurmountable obstacle should be placed in their path.

It has come to my attention in more than one instance of late that good banks are faltering as a result of dwindling public confidence and fright on the part of their directors. In fact, during the current week we experienced the failure of a solvent institution for the latter reason, and action of the kind is out of line with sanity and is totally destruction, and you must exert yourself to the utmost to bolster up sagging courage, reinforce weak lines, and awaken a fighting spirit that will carry on against any odds.

Conditions such as we are now passing through are not new, although the average man's memory is too short to convince him of that fact. It must be recognized, of course, that we are in the midst of a discouraging and a serious period, but the future is not hopeless. Courage and indulgence on your part, coupled with the exercise of sound judgment, is imperative, and I know that

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you are equal to your responsibility. The record of the district during the past 10 years is outstanding, and we must maintain it.

Sincerely,

L. L. MAUDLAN,
Chief National Bank Examiner,
Ninth Federal Reserve District.

Senator COUZENS. And that was addressed to his subordinates?

Mr. AWAIT. To his subordinate examiners.

Mr. SAPERSTEIN. Was that interpretation in conformity with your own?

Mr. AWALT. I would say so.

Mr. SAPERSTEIN. Did you have any examiners who did not interpret your regulations in that way?

Mr. AWALT. I would judge so, from the fact that a subsequent letter was sent out.

Mr. SAPERSTEIN. That is the letter of July 1, 1932?

Mr. AWALT. Yes. I am not sure that I have that letter. In fact, I haven't. It is in the record.

Senator COUZENS. What was the date of that telegram that you just read?

Mr. AWALT. October 6, 1931.

Mr. SAPERSTEIN. In order to refresh your recollection about it, Mr. Awalt, the letter being brief, I will reaed it at this point [reading]:

WASHINGTON, *July 1, 1932.*

All Chief National Bank Examiners:

Reports of examination received by this office recently clearly indicate that some examiners have not fully grasped the meaning of previous instructions issued by this office during the past year with respect to examinations, more particularly instructions issued under date of October 6, 1931, and it would also seem that some of the examiners may not fully appreciate the extremely abnormal business conditions and the weakened condition of the securities market at this time.

Specific attention is called to the classification of loans and discounts, particularly collateral loans which are in amounts in excess of the present market value of the collateral held. In the classification of such loans the examiner should exercise extraordinary discretion.

In addition to giving consideration to the present weak condition of the securities market, very careful consideration should be given to the worth of the debtor, moral standing, and earning capacity. You will at once instruct the examiners in your district accordingly.

Please acknowledge receipt of this letter.

Very truly yours,

J. W. POLE, *Comptroller.*

Mr. AWALT. I am not sure that I know all the facts in regard to the issuance of that letter. As I remember some discussion that took place, some examiners feel that a loan that is based on collateral regardless of the worth of the individual of the borrower, his moral responsibility, or the fact that he has a position and is paying on that, is doubtful or has a loss in it, if the collateral drops. In other words, one man may go into a bank and borrow $2,000 on an open note. He may be a perfectly good risk. He may have a good position, habit of paying his debts, and he may pay that note off. The examiner will go in and classify that as a good loan.

The same man, or another man in the same position, would have a loan in a bank collateraled by market securities. The examiner looking at that as purely a collateral loan would look and see what the

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market on the securities was, which might be abnormal on that particular day, and say the loan had a loss in it.

There is no real consistency in those two positions, where the man is still a good moral risk and could probably borrow the money without putting the collateral, and I believe that was what that was meant for.

Mr. SAPERSTEIN. Was the policy stated in that telegram of October 31 and as further defined in this letter of July 1, 1932, kept in effect until the so-called "national banking holiday"?

Mr. AWALT. That is true. And in that connection I would like to cover my particular part of that policy; that is, during the period that I was Acting Comptroller.

When Mr. Pole resigned in September I was told by Mr. Mills, who was then Secretary of the Treasury, that there would be no new Comptroller appointed, and therefore under operation of law I would remain Comptroller until March 4, Acting Comptroller. He told me that the policies followed by the Comptroller's office under Mr. Pole would be followed by me.

Gentlemen, the banking situation was in a very critical condition at that time, and as you know, it got very much worse. I felt that I should have the benefit of advice in regard to policies, and I went before a joint meeting of the Federal Reserve governors, 12 Federal Reserve governors, and the 12 Federal Reserve agents, at my first opportunity, which was in November. I think the 16th of November 1932, in their meeting in Washington.

Of course, they knew their conditions in their own districts. They had through their meetings learned conditions generally in other districts. I talked to them about the general situation. I told them that I had been told by Mr. Mills that I would be Acting Comptroller until March 4. I asked them if they thought the policy which had been followed by the previous Comptroller with regard to the banking situation was sound under the conditions and that I should follow it. It was not their responsibility, but they were in the banking structure with their member banks and otherwise, and we were dealing with a national situation.

Governor Calkins, Governor of the Federal Reserve Bank of San Francisco, was chairman of that meeting. It was discussed somewhat by the Governors and the agents, and Mr. Calkins said to them—I cannot give his exact words—the substance was this:

> You gentlemen have all heard the discussion and the questions of the Acting Comptroller. If any of you gentlemen have any objections to the following of this policy, I would like you to now express it, or otherwise it will stand as approved.

No objection was raised. I merely mention that to show that the question of the policy that was followed was not one that depended upon one lone person. It was the result of careful study and careful consideration and consulting with the Federal Reserve officials and others.

Senator COUZENS. Has the Secretary of the Treasury any statutory control over the Comptroller of the Currency?

Mr. AWALT. The act provides, Senator, that the Comptroller of the Currency shall perform his functions "under the general direction of the Secretary of the Treasury."

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Senator COUZENS. That is all the statute refers to with respect to the Comptroller of the Currency?

Mr. AWALT. As to general supervision. There are one or two things in the statute that must have the approval of the Secretary of the Treasury, the appointment of bank examiners, for instance, the advancement of funds to protect the property of insolvent banks where you might have a second mortgage and you thought that you had enough equity to protect it by paying off the first mortgage if it was going to be foreclosed, or something of that sort.

Senator COUZENS. That has to have the approval of the Secretary of the Treasury?

Mr. AWALT. Yes, sir; as well as of the Comptroller. A few things of that sort, but in the main I would say that the Comptroller's office is an independent office, except under the general direction of the Secretary, because the law places in him certain responsibility, and the courts have said that he occupies a semi-judicial position, which in many of his actions cannot be reviewed by the courts.

Senator COUZENS. You spoke a while ago of the 12 Federal Reserve agents and 12 Federal Reserve governors. I understood Mr. Stevens to say he was both, didn't he, from the seventh district?

Mr. AWALT. No; I think not. He said he was chairman of the board of the Federal Reserve Bank of Chicago.

Senator COUZENS. So there are two at each place; there is a Federal Reserve agent and a Federal Reserve governor, is that it?

Mr. AWALT. Yes. The Federal Reserve agent is the Government's representative on the board, and he is chairman by the statutory provision.

Mr. SAPERSTEIN. Now, Mr. Awalt, let me ask you at this point: In the light of subsequent developments, and with the aid of hindsight, do you think that the policy that was adopted by the Comptroller of the Currency in 1931 and subsequently pursued down to the national banking holiday was a sound and wise one?

Mr. AWALT. I think it saved hundreds of banks, many communities, and thousands of depositors from ruin, and I say that because values have come back, hysteria has disappeared. And you must remember this, that when a bank closes the assets of that institution naturally depreciate. You take a community with one bank in it; it will set that community back at least 20 years, and when you tie all of its credit structure up there is no demand to buy, values drop, and when you go to liquidate, unless there is some remarkable rise in prices or something, you cannot do it.

There was one thing, if I may depart for a minute from your line of questioning, I neglected to say. Before the Comptroller took the action that he did in connection with the last move on the bonds, he wired to all of the State superintendents of banks or commissioners in the various States to find out what they were doing, and he found that they were either following the formula similar to that which he sent out, or were not taking any notice at all of the bond depreciation.

I might also say that the State department in New York City—that is, in New York State, Mr. Broderick—very kindly gave me permission over the phone to read part of his instructions, you might

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say, to his examiners, and also which were sent out to the bank, and if I may have your permission, Mr. Chairman, I would like to read just a section of that.

The CHAIRMAN. Very well.

Mr. AWALT (reading):

That a period of emergency exists; that there is no fixed measure of value available, in that full and free markets formerly used for testing values of certain assets no longer exists; that current market prices of securities, real estate, and other forms of property held as investments or considered as the basis for loans and credits do not represent the fair value of such assets or furnish a proper basis for determining the soundness of assets predicated thereon or the probable collection value thereof.

Also—

That in making examinations any loan which has become undercollateralized as a result of security depreciation shall not be classified as a loss or as doubtful until careful consideration has been given to the foregoing principle of establishing fair value or to the potential capacity of the borrower to pay any such loan.

And—

That the best interest of depositors and stockholders generally may best be protected by maintaining all banking institutions as going concerns; that the greatest care should be exercised in communication with officers and directors in order not to excite apprehension, and that disciplinary measures of the Department should be limited to such matters as are clearly necessary to be brought to the attention of those in charge of an institution.

Just as an example of what the State departments were doing. We did not go quite that far.

Now, if I may come back, sir, to your question of whether or not I believe that it was a good policy, I thing it might be just wise to point out that wheat is now around 90 cents, cotton is 11, other prices are up, and those things, I believe, have fully justified the office in the position it took at that time.

Senator COUZENS. Mr. Leyburn testified that he believed that if this reorganization of banks that took place in March 1933 had taken place in 1930 or 1931, because of the constant dropping that you have just explained, the recovery would have been more rapid. Do you concur in that opinion?

Mr. AWALT. I think so, Senator, but I do not believe that a general bank holiday could have been placed in operation and accepted by the people of the United States at that time.

Senator COUZENS. At any time prior to March of 1933 could it have been, in your opinion?

Mr. AWALT. Probably, but I do not think any other man could have done it than the new President, Mr. Roosevelt.

Senator COUZENS. In spite of all that leniency that you have described, which brought about these numerous orders and instructions to examiners, and the action of the superintendent of banking of the State of New York, you reached the conclusion that these two Detroit banks under survey, were insolvent, is that true?

Mr. AWALT. Yes, sir; I reached that conclusion legally when I appointed receivers for the two banks in May of 1933.

Mr. SAPERSTEIN. Had you reached that conclusion at any time prior to that date?

Mr. AWALT. Not legally.

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Mr. SAPERSTEIN. I notice you qualify the conclusion by putting in the word "legally." What do you mean by that?

Mr. AWALT. I could not have legally done it, and I say that because the appointment of a receiver is a determination of insolvency.

Mr. SAPERSTEIN. At what time had you come to that conclusion?

Mr. AWALT. As a conclusion, when I had been advised by Mr. Leyburn over the telephone, after the banks were closed by order of the Governor of Michigan, or his proclamation was given, and that in his opinion the banks were insolvent, I mean Mr. Leyburn's opinion. However, his formal examination did not come into the office until much later, and the formal determination of insolvency and the appointment of receivers was based upon his examination.

Senator COUZENS. Well, you have drawn a very nice line of distinction there. When did you firts reach the conclusion in your own mind, before taking legal action, that the banks were insolvent?

Mr. AWALT. When Mr. Leyburn told me of his conclusion that they were insolvent and when I received the same sort of idea from other information.

Senator COUZENS. What was the date of that?

Mr. AWALT. I cannot tell you, Senator Couzens. I don't remember.

Senator COUZENS. Have you any idea about when it was?

Mr. AWALT. Mr. Leyburn might remember.

Mr. LEYBURN. I think it was in March.

Mr. AWALT. Mr. Leyburn refreshes my memory, and he says he thinks it was in March.

Senator COUZENS. Mr. Awalt, do you recall meeting me in Secretary Woodin's office, I think in the middle of March, about the 10th or 15th of March, when I was urging the Secretary of the Treasury to permit the opening of the banks, and you and Mr. Ballantine joined in the conference?

Mr. AWALT. I remember meeting you there; yes.

Senator COUZENS. Do you remember the declaration that you made at that time with respect to these banks?

Mr. AWALT. I don't remember my exact words, but I remember generally saying that based upon information I had received, that the banks were insolvent; and that was, of course, based upon my telephone conversations with Mr. Leyburn and information given by the R.F.C. people.

Senator COUZENS. Have you available anything from the R.F.C. to show that the banks were insolvent?

Mr. AWALT. I have no figures or papers; no, sir.

Senator COUZENS. Was that information conveyed to you orally or in writing?

Mr. AWALT. Orally.

Senator COUZENS. I wonder if I could refresh your mind by reminding you that you told Secretary Woodin that under no circumstances would you certify to the opening of these banks, when I was urging their reopening?

Mr. AWALT. Under no circumstances?

Senator COUZENS. That is, as to the "under no circumstances" you meant under the condition of the assets of the banks, of course, I take it?

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Mr. AWALT. Well, I think that is perfectly true. I could not have done it unless the examiners had found the banks solvent and in liquid enough shape to be reopened.

Mr. SAPERSTEIN. Mr. Awalt, during your encumbency of the office of Acting Comptroller of the Currency were reports of examiners on these Detroit banks called to your attention?

Mr. AWALT. Well, the only examination that was made of the First National Bank, as I remember it, after I was Acting Comptroller, was started in November of 1932, and that report did not come into the office until January 24, 1933. But my attention was called to the matter by Mr. Leyburn on his trip to Washington in regard to a plan to be worked out with the R.F.C., particularly with the Guardian Group. I did not have a conference with the people who came down here, but Mr. Leyburn came in and talked to me about the situation.

Mr. SAPERSTEIN. That was toward the end of January, 1933, was it not?

Mr. AWALT. As I remember it; yes.

Mr. SAPERSTEIN. What did Mr. Leyburn tell you at that time in regard to the Detroit situation?

Mr. AWALT. He told me that the situation was very shaky, that he felt so far as the Guardian Group was concerned that the Ford interests would take care of the situation, with reasonable help from the R.F.C., and that he was in hopes of working the matter out and preventing a crash in the State of Michigan.

The CHAIRMAN. Let me ask you right there: Why does it take so long, from November to January, for the examiner's report to reach you?

Mr. AWALT. Well, Senator Fletcher, of course, that wasn't the only examination report that those men were making. And after they made their report up, which possibly took 3 weeks for the examination, I imagine—didn't it, Mr. Leyburn?

Mr. LEYBURN. The examination was started in November and was not completed until well into December, and it was one of the largest reports we ever made.

Mr. AWALT. Might I let Mr. Leyburn answer that question, because he remembers the dates better than I could?

Mr. SAPERSTEIN. Mr. Leyburn, will you please come over here to the committee table, where we can all hear you?

Mr. LEYBURN. When we speak of the date of an examination we need to explain the time consumed in it. This examination was started November 11, and in the case of a bank like that it would take 3 weeks or a month to examine it, and then by the time the examiner's report is written up, and it is checked by the Chicago office, and means the typewriting of over a thousand pages, and the report has to be dealt with there, the report would only reach Washington about the 25th of January.

The CHAIRMAN. I had the impression that the report was completed in November.

Mr. LEYBURN. No, sir. The examination was started in November, and therefore you can well see that it could not have been completed in November.

The CHAIRMAN. All right.

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Mr. SAPERSTEIN. Mr. Awalt, in the course of your ordinary duties as Deputy Comptroller of the Currency or Acting Comptroller of the Currency, would reports of examinations made by field examiners be called to your attention?

Mr. AWALT. Well, I tried to explain that earlier in my testimony.

Mr. SAPERSTEIN. You said that you had a staff of examiners——

Mr. AWALT (interposing). That is right.

Mr. SAPERSTEIN (continuing). In your office, who would examine those reports?

Mr. AWALT. Yes. If it were a situation such as this situation, for instance, they would have gone to Mr. Proctor, in regard to that particular thing, and he would have taken that matter up with the Comptroller if he thought it was a matter that he should call to his attention.

Mr. SAPERSTEIN. Those matters which the examiners in the Comptroller's office considered desirable to refer to a Deputy Comptroller's attention, would be called to his attention?

Mr. AWALT. Yes, sir.

The CHAIRMAN. Mr. Awalt, I believe you had not finished with the Detroit situation. You said you would get to certain subjects later.

Mr. AWALT. I tried to cover that in this letter. You were asking about land values and mortgages and things of that nature, I believe.

The CHAIRMAN. All right.

Senator COUZENS. Mr. Awalt, was any policy adopted by the Comptroller's office with respect to valuation of real estate and mortgages and things of that kind?

Mr. AWALT. Only the instructions I have read here.

Senator COUZENS. And that did not pertain only to bonds, as I understood it?

Mr. AWALT. Oh, no. This is the letter that went out. [Holding up a letter.]

Senator COUZENS. That was in December, was it?

Mr. AWALT. No; in October. It pertained to other things, too. That is, it was——

Senator COUZENS (interposing). To be lenient generally.

Mr. AWALT. Consistent with public policy.

Senator COUZENS. That is pretty hard to define, public policy.

The CHAIRMAN. Mr. Awalt, how could an examiner, if there were no really fixed values, estimate values of real estate or mortgages? How could he appraise them?

Mr. AWALT. That was the trouble. It was hard to estimate values. And for that reason it was very difficult to say that a bank was absolutely insolvent. As you know, it is so easy to close an institution, but I think there is a very serious duty on the part of the Comptroller of the Currency not to wreck a community, not to close a bank unless he is satisfied it is irrevocably insolvent. And I think that has been more or less the opinion of the courts, to that extent. And I might read that, if you would like to hear it, Senator Fletcher.

The CHAIRMAN. All right. Please do so.

Mr. AWALT. For instance, in the case of *Fidelity & Deposit Co.* v. *Kelso State Bank*, 287 Fed. 828, the district court said, in part:

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It may even be said that the tenor of the decisions, and the theory upon which they proceed, is such that the directors, officers, and/or Comptroller of the Currency should not suspend a bank's operations so long as there is a hope or expectation that it may work its way out of its difficulties, notwithstanding the fact that it is actually insolvent at the time.

And also in the Supreme Court case of *Eastern* v. *Iowa*, 108 U.S. 220, the court said:

Whether a bank is or is not actually insolvent may be often a question hard to answer. There may be good reason to believe that even though temporarily embarrassed, a bank's affairs may take a fortunate turn, that some of the assets that cannot be at once converted into money may be of a character to justify the expectation that if actual and open insolvency be avoided, they may be ultimately collectible, and thus the ruin of the bank and its creditors prevented. In such case the provisions of the Federal statute would permit the Comptroller to withhold the closing of the bank in order to give opportunity to escape final insolvency. It would seem that such exercise of discretion on the part of the Comptroller would in many cases be better for all concerned than the unyielding course of action prescribed by the State law.

The CHAIRMAN. Well, you would consider some of the history of the bank, wouldn't you? For instance, if a bank has been losing money year after year for a period of years, and getting down to where its capital is almost exhausted, even though it was meeting its bills payable, and there was no run on it, yet the fact that it had been losing money constantly would have some weight, wouldn't it, in determining whether it ought to go on or not?

Mr. AWALT. Yes. But, of course, the Comptroller would have no authority to close a bank unless he felt it was really insolvent. And I do not think, while the Comptroller has that power and it is a very mighty power, that he would exercise it arbitrarily or without due discretion in view of public policy.

Mr. SAPERSTEIN. After you had this conversation with Mr. Leyburn in the latter part of January 1933, what did you do, if anything, in regard to the Detroit situation?

Mr. AWALT. There was nothing to do in regard to the Detroit situation except to hope that Mr. Leyburn and the R.F.C. could work out a program to save it.

Mr. SAPERSTEIN. Did you keep currently posted as to the course of events?

Mr. AWALT. In a general way; yes.

Mr. SAPERSTEIN. Did you attend the R.F.C. meetings?

Mr. AWALT. I did not attend any R.F.C. meeting until the 13th of February. Do you want that?

Senator COUZENS. Do you know what official of the R.F.C. advised you orally that the two national banks in Detroit were insolvent?

Mr. AWALT. Senator Couzens, I could not say. I think I got it, probably, in the board meeting over there in the general discussion.

Senator COUZENS. That would be before the closing?

Mr. AWALT. No; I think it was after the closing. It was after the closing, and there was some discussion of some plans for reopening. It might have been Mr. McKee but am not certain about that.

Mr. SAPERSTEIN. Mr. Awalt, you were present at the R.F.C. meeting on February 13 during the afternoon and evening when messages kept coming in continually from Detroit, were you not?

Mr. AWALT. Yes. As Acting Comptroller of the Currency I had no power to sit on the Federal Reserve Board. However, I was

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called into the meeting of the Federal Reserve Board in the afternoon of February 13, and told that they considered it a very serious situation, and I listened to various discussions as to what could be done, or might be done. They adjourned from there, the entire Board, to the R.F.C. Board rooms, and from then on, as testified by Mr. Ballantine, the Board was in session until the very early hours of the next day.

Mr. SAPERSTEIN. What was your personal attitude toward the proposed moratorium or Governor's proclamation?

Mr. AWALT. Do you mean in Michigan?

Mr. SAPERSTEIN. Yes.

Mr. AWALT. Of course, I had no say in the matter, but my attitude was one of opposition to such a holiday, because it was my opinion that the holiday could not be localized, but that it would extend to other States, and that it would mean a general crash.

Mr. SAPERSTEIN. Did you give expression to that opposition at the meeting?

Mr. AWALT. I did.

Mr. SAPERSTEIN. Did you offer any substitute for the moratorium?

Mr. AWALT. Yes. I realized that we could not open those banks with the advice that was before us, as to the temper of the depositors, and that some depositors might pull their money out of the banks to the detriment of others; and I suggested that we might work out some method of clearing-house certificates, probably not on the basis of what are known as the usual clearing-house certificates of 100 percent, but on a proportion of the assets that might be placed with a trustee, and, say, that one bank would put up 40 percent, and another bank 30 percent, and so on, and issue those clearing-house certificates to the people, and thus avoid the situation confronting us.

Senator COUZENS. Wouldn't that of itself have been an act of insolvency?

Mr. AWALT. It might have been, Senator Couzens; I don't know. I have never considered that. It was done, as you know, by all the banks in the country in the panic of 1907, and at this particular time we were looking to a way to save the situation. That was merely my opinion.

I think Mr. Miller, of the Federal Reserve Board, was in sympathy with it, and probably Governor Harrison, of the Federal Reserve Bank of New York. But Mr. Ballantine explained that the situation out there was such that we did not have time to offer anything of that sort, and so forth.

The CHAIRMAN. In such a case, where a bank is authorized to issue clearing-house certificates, may they continue to receive deposits?

Mr. AWALT. Sir?

The CHAIRMAN. In that case would the bank continue to receive deposits?

Mr. AWALT. Only as a trust proposition.

The CHAIRMAN. They would start new deposits?

Mr. AWALT. Yes, sir.

Mr. SAPERSTEIN. Mr. Awalt, one of the witnesses who testified before this committee and who was formerly a chief national bank examiner, stated that in his opinion a chief national bank examiner

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was nothing but a rubber stamp. Will you tell us what the function of a chief national bank examiner is?

Mr. AWALT. The function of a chief national bank examiner, sir, is certainly not to be a rubber stamp. And I think Mr. Leyburn has shown by his testimony, of what he has done, and what he did here, that he was not a rubber stamp. Nor should any chief national bank examiner be a rubber stamp, and if he is he should not be a chief national bank examiner.

Mr. SAPERSTEIN. If a chief national bank examiner annexes his signature to a report prepared by one of the field examiners, is it assumed by your office that he has read the report and that he agrees with its findings?

Mr. AWALT. It is my assumption that he does.

Mr. SAPERSTEIN. Can you tell us what the origin of these so-called yellow sheets is?

Mr. AWALT. I can, from my understanding of the situation.

Mr. SAPERSTEIN. All right.

Mr. AWALT. From people who have been in the office for years and years.

Mr. SAPERSTEIN. All right.

Mr. AWALT. The Comptroller of the Currency has examiners to examine a bank for the purpose of determining the condition of that bank for the information of the Comptroller of the Currency. In other words, they examine the bank for him, to find out what the situation is. Now, prior to 1916 reports of examinations were sent in direct to the Comptroller, and no copy was sent to the bank. The office of the Comptroller wrote lengthy letters to banks, but bank officials and directors did not see the reports. It was determined, so I understand, in 1916 that they should send a copy of the report to the bank examined, in order that it would be, as was stated, both helpful to the bank and to the Comptroller's office in getting matters straightened out. It might say that before that time when a bank was examined and a report was sent in, I am so advised at least, there was always a letter accompanying the report from the exminer. But when this new method was adopted someone conceived the idea that instead of having a letter attached to the report, that they have a section in the bank's report which would be, in effect, a letter from the examiner to the Comptroller, giving the Comptroller the examiner's reactions as to management and various other things; that they have never been told to confine it to any particular thing, but have more or less let the examiner express his opinion at will. And that was the origin, as I understand it, of the report.

Mr. SAPERSTEIN. So that as I understand you, these yellow sheets, or confidential memoranda, were merely an extension of the practice which had theretofore prevailed of having the chief national bank examiner accompany his report with a letter in which he stated his ideas.

Mr. AWALT. That the examiner would accompany his report with a letter.

Mr. SAPERSTEIN. Well, that is what I mean.

Mr. AWALT. That is my understanding gained from people in the office whom I have asked about it.

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Senator COUZENS. What authority has a chief national bank examiner to tell banks whether they shall or shall not pay dividends, or what they must or must not charge off? In other words, is there any power under the statute or the regulations of the Comptroller's office, as to what he can do, or what orders he can give to a bank?

Mr. AWALT. His order not to pay a dividend, Senator Couzens, has no legal effect. A bank may disregard it.

Senator COUZENS. Has he the power to say that this or that should be charged off?

Mr. AWALT. Well, the examiner who makes an examination has the power to set up losses.

Senator COUZENS. And to compel the charging off of them?

Mr. AWALT. He can only compel it in the sense of saying to the bank: Here are losses, and they must be charged off. But he cannot make them do it.

Senator COUZENS. Can the Comptroller's office make them do it?

Mr. AWALT. No; the Comptroller cannot make them do it. But now, Senator Couzens, since this committee so wisely provided section 30 in the Banking Act of 1933, if the officers or directors of banks do not follow the recommendations of the Comptroller's office, or if they have bad practices, or violate the technical provisions of the law, we can cite either the officers or the directors to the Federal Reserve Board and have them removed. That is a power that the Comptroller of the Currency has been asking for since 1895, but the Congress never gave it to us. You left us in the situation of officiating at the birth of a bank, and at its death, but as a doctor in between with no power to make the patient take medicine. All we could do was to suggest, and, more or less, you might say, wield the "big stick". But if they did not want to do it you could not make them do it, and the only thing you could do was to sue them for forfeiture of charter. And if you did that it closed the bank. That was no cure but killed the patient.

Mr. SAPERSTEIN. Mr. Awalt, have you any suggestions for additional legislation?

Mr. AWALT. Well, I cannot speak for the administration on legislation.

The CHAIRMAN. What do you think about the possibility of getting better bank examiners and improving the service by placing them under the Civil Service?

Mr. AWALT. My personal opinion is that we would get worse bank examiners.

Senator COUZENS. You prefer to have them politically appointed, do you?

Mr. AWALT. No, sir.

Senator COUZENS. What is the difference, then? How would you get them if they were not politically appointed unless you put them under the civil service?

Mr. AWALT. Senator Couzens, I have always been opposed to any politics in banking. I think it has no place in banking. I cannot tell you the politics of the chief examiners. They have been chief examiners, some of them, for years. I cannot tell you the politics of any of the examiners. I do not know it, and I do not care what it is, and it should play no part in the matter.

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Senator COUZENS. How were they selected?

Mr. AWALT. This is what is done: The policy of our office for years has been to take young men out of banks, who have had some experience in banks, and make them assistant examiners. They must serve 3 years as assistant examiners before they can be an examiner. And if a vacancy occurs we take the most likely men, who have shown the best training, and so forth, to take an examination. If they pass that examination they are appointed to fill vacancies that occur. In other words, we have tried to make the force a career force, so that our men will go along up through the line.

The CHAIRMAN. Do you get plenty of material that way?

Mr. AWALT. Yes, sir; we get plenty of material. We have thousands and thousands of applications all the time.

Senator COUZENS. Don't you ever take the recommendations of Members of Congress?

Mr. AWALT. I do not doubt that there have been recommendations made, and everybody who wants a job thinks he has to have a Member of Congress or a Senator behind him.

Senator COUZENS. And do you ever take their recommendations?

Mr. AWALT. Well, I have nothing to do with the appointment of examiners, Senator Couzens.

Senator COUZENS. Who does that?

Mr. AWALT. The Comptroller, with the approval of the Secretary of the Treasury.

Senator COUZENS. Well, does the Secretary of the Treasury ever tell you who to appoint?

Mr. AWALT. No, sir.

Senator COUZENS. Did you ever accept any recommendation of a Member of Congress during the time you were acting Comptroller of the Currency?

Mr. AWALT. There may have been recommendations to come in, but to be quite frank with you, Senator Couzens, I paid no attention to them.

Senator COUZENS. Well, I am glad to hear you say that.

Mr. SAPERSTEIN. Mr. Awalt, have you found that you have lost a great many examiners because they have been employed by banks?

Mr. AWALT. Well, I have found that we have lost a considerable number of examiners since Senator Couzens said he was going to introduce a bill to prevent examiners from going to banks.

Mr. SAPERSTEIN. Then you have had some examiners resign——

Mr. AWALT (interposing). Yes, sir.

Mr. SAPERSTEIN (continuing). Because of employment by banks?

Mr. AWALT. Yes, sir.

Senator COUZENS. Then they must have been planning it in advance.

Mr. AWALT. A lot of the examiners felt that you were going to put them into a blind alley. You cannot expect the normal American citizen who is ambitious and hopes sometime to get somewhere to be placed in the position where he feels he is looking up a blind alley and against a stone wall and therefore cannot go any further.

Senator COUZENS. How do you justify the statute which prohibits an employee of the Bureau of Internal Revenue from practicing before the Bureau for 2 years after he has left its employment?

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Mr. AWALT. I would say in that case, Senator Couzens, that you have a man who has been in the employ of the Government, passing upon money claims of the Government, and then he goes out, and he comes back to practice in regard to that money claim which is confronting the Government. As a matter of fact, as far as bank examiners are concerned, or in any other profession, you always have, as in any position, some that may not turn out so well. We try to weed out those. But a great many of our bank examiners have gone out into situations and have really saved those situations and strengthened the management of banks. I think, if you want my opinion, that a bill such as you have in mind going to the extent that no bank examiner should go into any bank he has examined, except with the permission of the Comptroller of the Currency, whether it had a 2-year limitation or not, would be a good bill.

Senator COUZENS. And you do not think that a bank examiner ever caters to the banker in the hope of getting a good berth?

Mr. AWALT. My observations, Senator Couzens, is that most bank officials "cuss" all bank examiners.

Senator COUZENS. And then turn around and employ the worst of them, is that it?

Mr. AWALT. No; I would not say that. It is something like a corporation having a lawyer defeat them in a legal case, and then they think he is pretty good and employ him. And sometimes we have banks come to the Comptroller and ask where they can get management to help correct their situation. They may ask: Have you some good examiner that you can recommend to us?

Senator COUZENS. What do you think of the occasional rotation of examiners, so that they will not go back to the same banks year after year?

Mr. AWALT. I think that is a good thing, and that can be accomplished without legislation.

Senator COUZENS. Are you going to do more of it than you have been doing?

Mr. AWALT. I understand so; yes, sir. I might also say that I noticed you questioned the former witness on the matter of showing securities pledged for deposits, and in that connection the Comptroller has had under consideration the question of showing such things on the face of the reports. We have been working with the Federal Reserve Board for some time on changes that we hope to put into effect. They will come gradually, but we are working toward a different type of report entirely.

Senator COUZENS. What would you say to the requirement on the part of the Comptroller's Office for national banks to state the amount of loans made to directors, officers, and employees?

Mr. AWALT. In the face of their report?

Senator COUZENS. On the face of the public report.

Mr. AWALT. I haven't given any consideration to that, Senator Couzens. Offhand I would not think it would be so good. But you have a provision in your 1933 Banking Act that they cannot loan to any executive officer. This is what occurs to me in that respect: When you say directors, you have men who may be directors of banks and who are also in corporations, we will say. It may be a small community, where there is a fellow in the feed business, or

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something of that sort. Such people cannot very well get accommodations in another town, and, say, they wanted to borrow from the bank, and they may have a loan for small amount, but the feed corporation, or whatever it is, borrows from the bank, and they endorse the obligation. The bank is protecting itself in that way, but that shows up as a loan. It is indirect, it is true, but it would, I think, give a sort of false impression.

Senator COUZENS. Wouldn't it act as a deterrent to directors and employees borrowing from banks if the total amount had to be shown on the statement? I am not saying that they should not borrow, and I haven't the feeling that a director should not borrow, but when they do borrow I see no reason why the extent of their borrowings should not be printed in the public statement. In other words, I think testimony has been disclosed here that there was some objection to any bank having to borrow money, and that they conjured up every sort of device to prevent a showing of bills payable, which brought around an absurd situation. I see no particular objection to a bank having to borrow money. That is what the Federal Reserve System is for, isn't it?

Mr. AWALT. Yes, sir; unquestionably it is. But sometimes they borrow to make loans that should not be made, perhaps, and in that case they are subject to criticism, naturally.

The CHAIRMAN. Coming back to this idea of not mixing politics with the service, to which I do not dissent, it seems to me you want among your examiners men of character, men of upright conduct.

Mr. AWALT. That is right.

The CHAIRMAN. And trustworthy men.

Mr. AWALT. Yes; certainly.

The CHAIRMAN. And courageous men.

Mr. AWALT. Most certainly.

The CHAIRMAN. And men of good judgment.

Mr. AWALT. Oh, yes.

The CHAIRMAN. And if a Senator or a Congressman knows of an applicant, and has known him all his life, and knows his antecedents, knows his character and standing and conduct, and he certifies to that, not as to his competency as an examiner which you must test out and decide, but as to his character, that ought not to harm him with the Department, I take it?

Mr. AWALT. No; I shouldn't say it should harm him.

The CHAIRMAN. It looks to me like it ought to count for something.

Senator COUZENS. I would want to examine him just the same.

The CHAIRMAN. Oh, yes; examine him; but I am speaking of fundamentals, as to his character, and his antecedents, certifying from personal knowledge of those elements without regard to the other. Of course he ought to be examined.

Mr. AWALT. No; I think unquestionably, Senator Fletcher, that if you know a man, and naturally if you have investigated him, and we wanted to find out whether the man was any good or not and you could tell us that he was and that you knew all about him, that is a source of information just like any other source of information; and coming from one who holds the position you do I suppose it would be given considerable weight.

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The CHAIRMAN. Have you anything further, Mr. Saperstein?

Mr. SAPERSTEIN. I have no further questions to propound, if Senator Couzens has not.

Senator COUZENS. I have no more questions.

Mr. SAPERSTEIN. Mr. Chairman, I suggest that the subcommittee now adjourn.

The CHAIRMAN. You are excused, Mr. Awalt. We thank you for coming.

Mr. AWALT. I am glad if I have been of any service.

(Mr. Awalt left the committee table.)

Senator COUZENS. Mr. Chairman, does this now end the Detroit hearings?

The CHAIRMAN. How about that, Mr. Saperstein?

Mr. SAPERSTEIN. Yes; this ends the Detroit hearings.

The CHAIRMAN. Before adjourning, let me put this statement on the record: This subcommittee began its hearings on April 12, 1932, and they have extended down to date, and are not yet complete. But we have developed sufficient facts to warrant and, as we believe, have laid the foundation for legislation. Accordingly today I introduced a bill with reference to securities exchanges, and I think that bill, together with a statement which I made and which will be in the Congressional Record, will be a permanent record of the action of the committee.

Now the subcommittee will stand adjourned subject to the call of the chairman. We are not certain whether we can be here on Tuesday of next week or not, but we will resume the hearings a little later on.

(Thereupon, at 5 p.m., Friday, Feb. 9, 1934, the subcommittee adjourned subject to the call of the chairman.)

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