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Cleveland, bank scandal, Van Sweringens, 1933.

REVEALS STATE SELDOM AUDITED GUARDIAN BOOKS

Senate Investigation Shows Only Three Examinations Since 1928; Probers Tell of Huge No-Interest Loans

HOUSE PAID \$108,000 IN 1930

Former President Had Full Charge of Bonuses, With Receipts Kept Secret, According to Testimony

By IRA WELBORN

Digging into varied matters of the Guardian Trust Co., the State Senate Banking Committee today developed these findings about its operations:

THAT the Guardian on Jan. 1, 1933, had loans and investments totaling \$19,131,563 that were earning nothing for the bank. These loans, while bearing no interest, were carried as assets to the bank.

THAT so far as records revealed the State Banking Department had made only three examinations of the Guardian since 1928 and the Cleveland Clearing House, charged with making examinations, had made no examination of the bank since 1923.

THAT the Guardian set up a so-called "preferred list" of officers and employees when, in 1929, its capital stock was boosted from \$4,000,000, to \$7,000,000. It was brought out that shares for which the public paid \$300 each were sold to officers and employees at \$250 a share.

THAT companies in which bank officers and directors were interested were large borrowers. That interest rates to some of these companies were as low as 1 and 2 per cent.

THAT huge salaries paid to officers of the bank ranged as high as 50 per cent of dividends disbursed to stockholders. That in 1932 the total salaries exceeded the dividend disbursement.

THAT the bank paid out for losses or set aside for losses \$11,000,000 out of \$21,000,000 dividend funds.

THAT the bank had improperly secured loans and was engaged in the brokerage business.

These revelations came today after a first night session had developed that J. Arthur House, president of the bank paid himself a salary of as much as \$108,750 per year, including a bonus of \$15,000 and a Christmas gift of \$3500.

The salary picture was completed today with inclusion of five more officers, whose salaries in 1930 exceeded \$20,000 each. The total paid to 13 officers for that year was \$485,430.

The matter of bank examination was dwelt on at length in questioning by Arthur A. Miller, head of the Cuyahoga Bar Association group conducting the inquiry. It was brought out that the bank had paid a total of \$69,874 for examinations in the years from 1928 to 1932. But it was indicated that these examinations had not been made, particularly in the case of examinations by the Cleveland Clearing House.

Only 3 Examinations

It was developed that the State Banking Department had made only three examinations of the Guardian since 1928.

Senator Marvin Harrison brought this out in an impromptu question to E. J. Falkenstein, accountant for the bar group.

Q.: Have you found other banks where, to put it mildly, you found such moderate examinations by the State Banking Department?

A.: I understand the Standard Trust Co. here in Cleveland was another one.

Q.: Any other banks? A.: None I know of.

Mr. Miller then recited that state banking laws require at least two examinations a year except in cities where Clearing House Associations examine banks, and examinations in such cities required only once a year. Mr. Miller then questioned Mr. Falkenstein on this phase.

Q.: Have you investigated to determine whether the Cleveland Clearing House made regular examinations of the Guardian?

A.: So far as the records indicate, there was no Cleveland Clearing House examination of the Guardian since 1923.

Q.: In the face of the law and the obvious fact that there were no Clearing House examinations, isn't that law inadequate? A.: It would seem so.

Prominent in Hearing

Taking the most prominent parts in the hearing were Mr. Falkenstein, accountant and economist, and Arthur H. Ganger, attorney and accountant, both of the bar group. Theodore W. Kearins, attorney and accountant, also was contributing facts to the investigation.

Citing loans to companies in which bank officers were interested, Mr. Ganger developed that one such, the Industrial Sites Co., had an overdraft of \$11,206 at the bank. H. C. Robinson and H. P. McIntosh II, bank vice presidents, are officers of Industrial Sites.

Another example was cited by Mr. Falkenstein in that the Guardian Bank had donated to the Community Fund in the name of the Hotel Hollenden Co., in which bank officers were company officers.

He said the bank had suffered "big losses" in its dealings with the Hotel Hollenden Co. and its parent firm, the New England Co.

Mr. Miller told the committee that the bank's officers were interested in "virtually hundreds of companies." A list of these companies was introduced as evidence.

Senator Earl Lewis asked if officers of such companies were not often made directors of the bank to

protect bank loans to such companies.

Mr. Miller answered that in many cases large loans were made after company officials became bank directors.

11 Million Applied to Losses

Reciting that the Guardian had non-interest paying loans and investments of more than \$19,131,563.96, Mr. Falkenstein brought out that the bank took out of its \$21,000,000 dividend fund \$11,000,000 to be applied to losses. This was included in the bank's 1932 statement, he said. Other statements had classified the non-paying loans and investments as assets, he said.

The committee dwelt long on the subject of silent directors after Mr. Miller recited that the executive committee of the Guardian had authority over all loans.

Mr. Miller read a list of Canadian banks with a small number of directors. Many of them were much larger institutions than the Guardian, which had 57 directors.

"Canadian Directors Direct"

Senator Lewis asked Mr. Miller if this wide variance in the number of directors was not due to a different system.

"The difference is that a director in a Canadian bank actually directs, and knows what is going on," Mr. Miller answered.

"My point is to show up the policy of large lists of directors whose business connections are advertised to the public and the impression given out that these business leaders are zealously watching the affairs of the bank, whereas they really are not."

"Isn't it also a method of tying in men who control large potential deposits?" Senator Lewis asked.

"Yes." "And some corporations like a representative on the board so when they want credit facilities they will be on the inside instead of on the outside?" Senator Harrison asked Mr. Miller. "I believe that is correct," Mr. Miller replied.

Bank Holdings Revealed

It was developed that the bank's executive committee of nine men held 11.4 per cent of the total shares, that directors held 7.8 per cent and that other officers held 11.3 per cent. Mr. Miller developed this

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Press

July 12, 1933.

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LISTS \$19,131,563 "NO INTEREST" LOANS IN GUARDIAN PROBE

Senate Committee Brings Out Testimony Showing Infrequent Bank Examinations and Huge Salaries and Bonuses Paid Officers

(Continued From Page One)

point to show that some 30 per cent of the bank was owned within it.

Cites "Improper Security"

Mr. Ganger testified as to deals in which the bank had improper security, reciting these instances:

The executive committee on Feb. 14, 1930, voted to Warner Brothers a line of credit resulting in an unsecured loan of \$500,000.

On Feb. 20, 1931, a line of credit was extended to Halsey-Stuart, Chicago brokers, with the bank agreeing to lend 90 per cent of the market value of all listed securities on Halsey-Stuart loans, and 80 per cent on unlisted securities, up to \$1,000,000.

On Feb. 20, 1931—the same date as above—the bank entered a 50-50 participation deal with Hayden-Miller & Co., brokers, to buy \$1,750,000 gold notes of the Ohmer Cash Register Co. It was upon this basis that Mr. Ganger said the bank was "in the brokerage business."

Payment of large salaries, totaling as much as \$350,000 for the seven highest paid men in 1930, and the juggling of accounts so that the bank's advertisements and "hand-out" statements would look good to the public were the two high points of last night's initial hearing.

Salaries Revealed

Mr. House, as president of the Guardian Trust Co., had dominating control of the salaries, in which the board of directors had no word, and he also had complete control of the payment of bonuses which totaled as much as \$45,000 per year, it was testified. Mr. House also had exclusive control of the "Christmas gifts"—usually two weeks' salary—which were given some of the officers of the bank, it was testified. Of these two extra-salary remunerations, the witnesses established, Mr. House paid to himself as high as \$18,500 per year.

Salaries cited at the hearing included:

J. ARTHUR HOUSE, president, \$108,750, including bonus and Christmas gift.
H. C. ROBINSON, executive vice president, \$77,708.50.
H. P. MINTOSH II, son of the board chairman, \$36,775.
T. E. MONKS, vice president, \$36,175.
A. G. STUCKY, vice president, \$30,125.
A. F. YOUNG, vice president, \$30,125.
H. I. SHEPHERD, now deceased, \$33,000.
H. J. MINTOSH SR., chairman of the board, \$20,000.
W. R. GREEN, vice president, \$23,816.66.
GEORGE B. JOHNSON, vice president, \$20,833.33.
JOHN FISH, vice president, \$22,332.50.
W. D. PURDON, vice president, \$21,583.
EARL T. SHANNON, vice president, \$22,833.

Practically all of these officers had outside interests and did not give their full time to the bank, it was testified by Mr. Ganger.

Cut Pay in 1932

The officers reduced their salaries during the short time in 1933 that the bank remained open, it was testified—this after there had already been made sharp reductions in 1932. Typical salaries, including bonuses and Christmas gifts, but not including outside remuneration such as fees for "extra service rendered" from subsidiaries of the bank, were:

J. ARTHUR HOUSE: 1928, \$98,333.33; 1929, \$107,083.33; 1930, \$108,753; 1931, \$90,000; 1932, \$73,750; two months of 1933, \$7000.
H. C. ROBINSON: 1928, \$72,500; 1929, \$76,875.18; 1930, \$77,708.50; 1931, \$65,000; 1932, \$54,925; two months of 1933, \$6666.66.
THOMAS E. MONKS, vice president: 1928, \$33,450; 1929, \$36,275; 1930, \$36,175; 1931, \$33,000; 1932, \$29,975; two months of 1933, \$3850.
H. P. MINTOSH II: 1928, \$33,450; 1929, \$36,875; 1930, \$36,775; 1931, \$33,000; 1932, \$27,791.67; two months of 1933, \$4033.33.

No Bonus After 1930

None of the officers was paid a bonus during the years of 1931 and 1932, it was testified.

The salaries of the five highest paid men in 1928 totaled \$270,480.33, Mr. Ganger testified. The total for the top seven the next year was \$354,733.33, and for 1930 was more than \$350,000, he said.

Entire responsibility for the bonuses was placed on Mr. House,

president of the bank, by Mr. Ganger, third witness of the hearing. Mr. House, he testified, had absolute control of the distribution of bonuses, and the executive committee of nine permanent members and two "rotating members," usually changed each month, were in charge of the salaries. Among the executive committee members were some of the most highly paid members.

The paymaster at the bank had specific instructions, Mr. Ganger testified, not to show or tell to any one the receipts for bonuses received—not even to members of the executive committee.

House Controlled Bonuses

The bonuses were brought out in this questioning of Mr. Ganger by Mr. Miller:

Q.: Do you recollect a clause in the by-laws with reference to the committee deciding on bonuses? A.: The executive committee.

Q.: Did the board of directors have control? A.: I don't believe so.

Q.: Did the executive committee have the power and authority to fix salaries. A.: My recollection is to that effect.

Q.: Was compensation to the board of directors fixed by the executive committee? A.: Yes.

Mr. Ganger then recited the salaries and bonus lists.

Q.: Were the bonuses constant or varied? A.: Varied.

Q.: Who controlled that? A.: Mr. House. The paymaster had special instruction to show the receipts to no one.

Officials of the Guardian Bank, including President House, Executive Vice President H. C. Robinson and Vice President W. R. Green, not only "window-dressed" their statements to make them appear good, it was testified by Mr. Falkenstein and Mr. Kearins, but they recorded such actions in their records and in correspondence.

Letters Submitted

A group of letters among officials of the Guardian and New York banks arranging for transactions which would shield the real condition of the bank were submitted in evidence.

Among these was one in which Mr. Robinson quoted Cleveland rumors that a bank call for a statement might come two days earlier than usual, and arranging in that event to rush through half of a \$10,000,000 loan divided between two New York banks to make the Cleveland bank's cash condition appear \$10,000,000 better off. The particular letter entered as an exhibit was addressed to a vice president of the Guaranty Trust Co., New York, which was to make—and did make—half the total loan, to be reflected in the Guardian's statement that followed a few days later. The call, however, did not come through ahead of time, and Mr. Robinson's fears that the State Banking Department would "jump the gun" and ask for a statement June 28, 1932, instead of the customary June 30, were unfounded.

Letters to Be Studied

Some of the letters were read, the others being marked as exhibits and left for the Senate committee to study at its leisure.

The transactions at the end of 1932 which boosted the bank's deposit figures and reduced its bills payable account, without really doing anything, was only one of six such transactions for statement purposes, it was testified.

Mr. Falkenstein, the first witness, was introduced after Senator L. L. Marshall had turned the session over to Mr. Miller following a talk in which he set forth the purposes of the hearing.

Mr. Miller delivered an opening speech of 13 words: "We would like at this time to present the testimony of Dr. Edward J. Falkenstein."

Mr. Falkenstein, who is not a doctor but whose research for his doctor's degree has taken him into 25 closed Ohio banks, unraveled for an hour the deals which, he testified, made the financial structure of the Guardian Trust Co. appear to the public to be something which it was not.

Tells of Deals

This series of deals, which jockeyed the bank's statements, \$14,000,000, were among the bank, the Discount Co. of New York, the Irving Bank & Trust Co. and the Chemical Bank.

Mr. Falkenstein testified the bank had sold to the Discount Co. large amounts of securities under a repurchase agreement, which enabled the bank to buy back the securities

and thereby creating, in effect, loans which did not show as loans on the bank's books.

With a statement period nearing on Dec. 31, 1932, the bank sent two cashier's checks, one for \$2,000,000 to the Chemical Bank and one for \$5,000,000 to the Irving Bank & Trust Co. These were to be held, according to the arrangements, until Jan. 4, after the statement period, and were to be used to repurchase \$7,000,000 worth of securities previously sold to the Discount Co.

This was done, with the bank paying more interest to the two banks than it would have paid the Discount Co., and guaranteeing the banks against loss. The securities themselves were to be held by the two banks as security against the two checks.

More "Window Dressing"

While the checks were still out the bank issued its end-of-the-year statement, Mr. Falkenstein testified. In this the deposit account was boosted \$7,000,000 and the liability of repurchase agreements or bills payable was reduced by the same amount.

Mr. Falkenstein testified the condensed statements, in which these changes were most graphically reflected, were most generally used by the public as an index to a bank's condition. The short statements are used generally in newspaper advertisements of the bank's condition.

The statements issued, the securities returned to the Discount Co. under a resumption of the original agreement, and the checks were returned to the bank.

Effect of Transactions

The effect of the transactions was brought out in these questions and answers:

MR. MILLER: You mean that the statement as made out was a greater indication that the public had confidence in that bank?

MR. FALKENSTEIN: Yes. Generally speaking, banks do not like to appear as borrowing banks to any greater extent than is necessary.

SENATOR MARSHALL: Then we are to understand the total of the liability was not changed? A.: No, nor of the assets.

MR. MILLER: But it changed the bank from a heavy borrower to a larger depository? A.: Yes, it made

it look better to the public.

Mr. Kearins, following Mr. Falkenstein as a witness, testified the transaction accomplished nothing—that the deal was a temporary machine. The checks did not return to the bank through "usual channels," he testified, and he said, "I do not see how there was any benefit to the depositors; they got additional expenses."

The interest paid for the holding of the checks, Mr. Kearins testified, was more than \$2500—with the bank no better off at the ultimate conclusion of the deals than it was before, except that its statement had appeared to better advantage because of the deals.

Similar Transactions

Other similar transactions were recited, with the bank writing down the book value of its securities and repurchasing them, making repurchase agreements at statement periods without the subsequent statements showing any record of the additional liability and with the bank carrying as deposits as much as \$11,000,000 when in reality that portion of the deposit figure was due solely to such deals as the Irving Trust-Chemical Bank transactions.

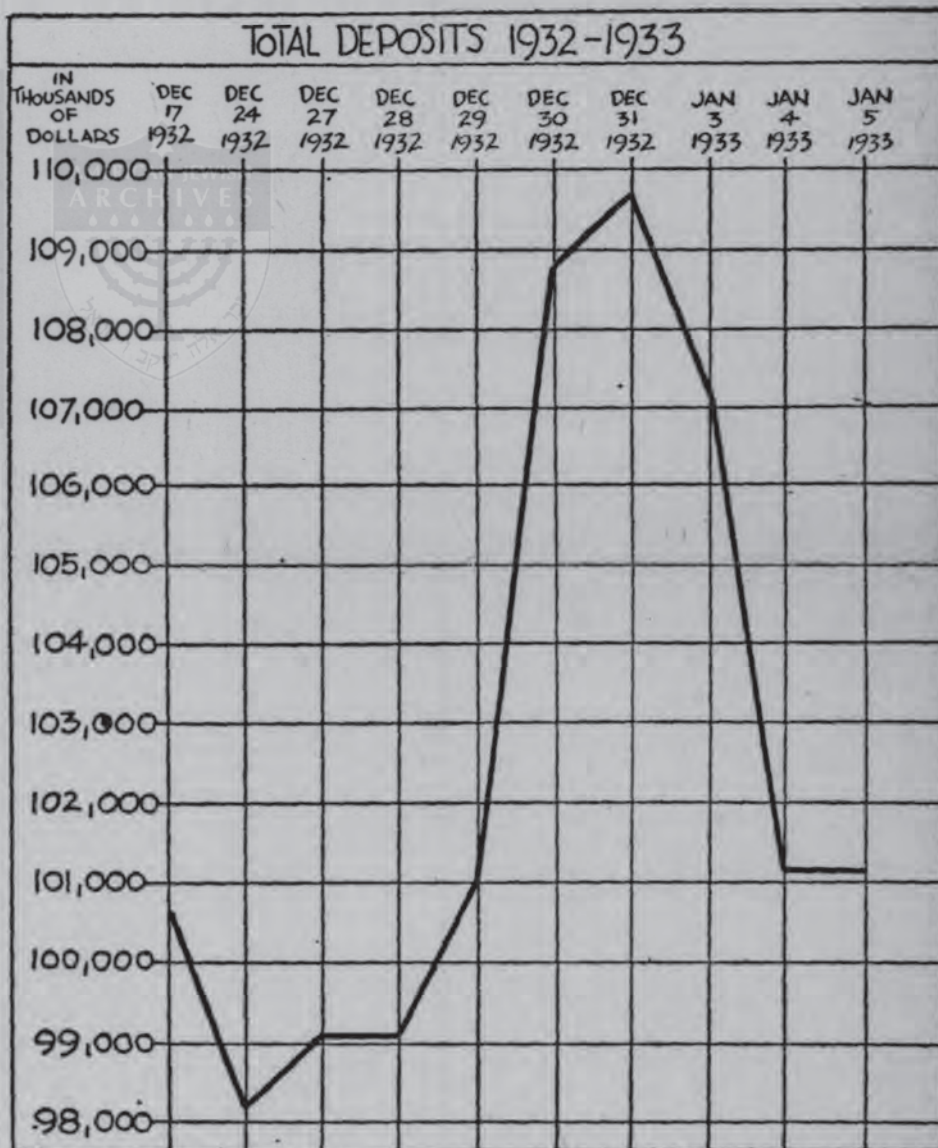
In one instance, Mr. Kearins testified, the bank borrowed \$5,000,000 from the Manhattan Bank, and in its statement of Sept. 30, 1932, carried the item as "due from banks," which in ordinary interpretation of the bank statement, would have indicated that the Manhattan Bank had on deposit in the Guardian that amount of money.

The purport of this line of evidence, it was indicated, was to demonstrate to the State Senate Committee that banks in Ohio have "padded" their statements in attracting other depositors to their institutions and that the heavy costs of such padding has been taken from the depositors' interest in the bank—its assets.

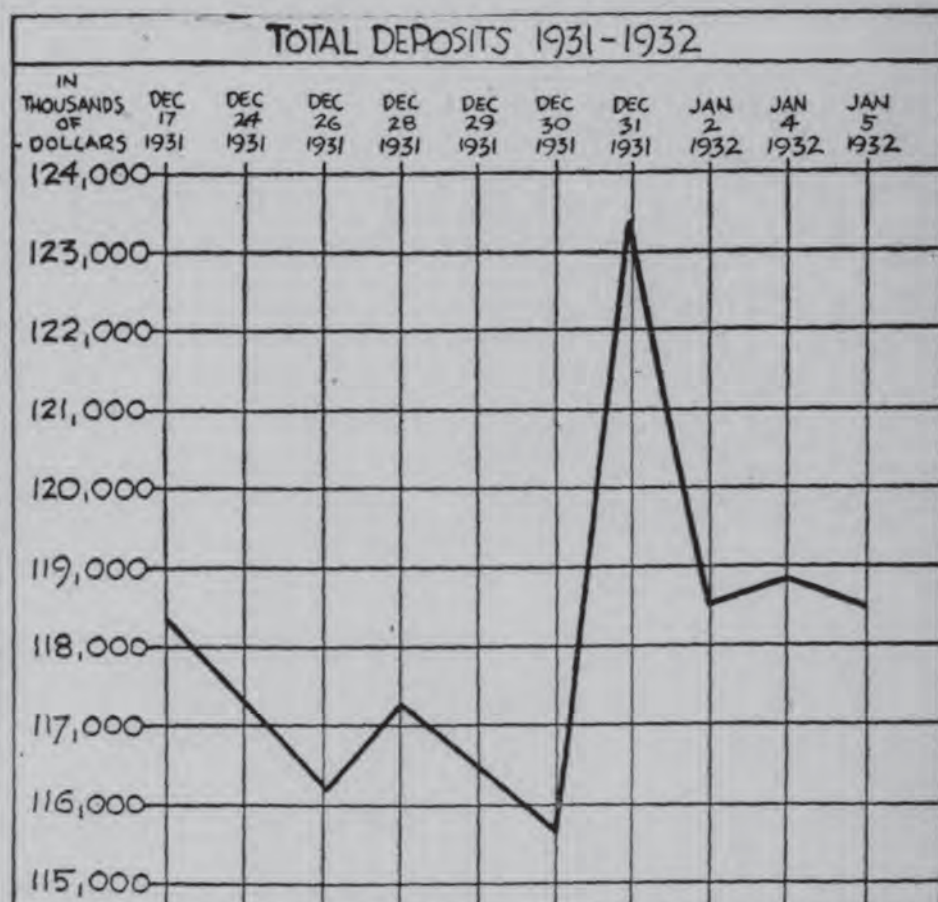
Senator Harrison created the first demonstration of laughter from the tightly packed audience in the small courtroom when Mr. Falkenstein was testifying about the \$7,000,000 transaction with New York banks.

"In substance, that is what we call 'kiting checks,' isn't it?" the senator asked—and the gallery roared. Mr. Falkenstein answered that it was.

HERE'S HOW GUARDIAN DEPOSITS FLUCTUATED



This chart illustrates the rise and fall of Guardian Bank deposits immediately before and after the bank statement of last December.



The chart shows how deposits in the Guardian Bank rose from \$116,000,000 to \$123,000,000 just before bank statement time in December, 1931, and how they fell again immediately afterward.

GUARDIAN 'TRUSTS' PROBED

STATE INQUIRY TURNS NEXT TO UNION BANK

Marshall to Ask Questioning of Cox;
'Smart Money' Withdrawals
at Guardian Examined.

INVESTIGATION of the administration of the Guardian Trust Co.'s \$300,000,000 trust department—the largest in the state—was launched today by accountants acting for the special Senate bank investigating committee.

THE UNION TRUST WILL BE SUBJECTED TO THE SAME SEARCHING SCRUTINY WHICH REVEALED THE GUARDIAN'S HIGH SALARIES, LOANS TO DIRECTORS, BAD INVESTMENTS, AND "PADDED" STATEMENTS.

Senator L. L. Marshall, chairman of the bank committee, said he will so recommend to the committee when it reconvenes.

Superintendent of Banks Ira J. Fulton will be summoned to testify before the committee when it resumes its hearings, as a result of testimony yesterday that Fulton "passed the buck" to officers of the Guardian when it was in a "shaky" condition last year instead of acting then to assess the stockholders.

While accountants checked the Guardian's trust funds, another corps of auditors went into the bank to find out who withdrew "smart money" from the bank during the year-long run which preceded the bank's failure.

The purpose of the investigation into the trust department is to determine whether trusts were loaded with worthless securities, with Guardian stock, with investments

sponsored by companies in which the Guardian and its officials were interested, and whether trust funds were used by the bank to make loans.

"Advertised Error-Proof Experts."

"The Guardian advertised that it had error-proof experts in charge of its trust accounts, and it sent out ambulance chasers to get trust business," asserted Attorney Arthur A. Miller of the Cuyahoga Bar association, who is directing the inquiry.

"THE SO-CALLED EXPERTS TURNED OUT TO BE YOUNGSTERS OUT OF BUSINESS SCHOOL."

Miller listed the objectives of the investigators. They want to know whether:

THE GUARDIAN investment department sold its securities to its trust accounts, and whether the Guardian's own stock was sold to these estates.

THE GUARDIAN officials kept control of companies by placing the stock in the trust estates.

THE GUARDIAN put into the trust estate securities which the bank created and for which it acted as a broker.

THE GUARDIAN kept large trust funds uninvested and undistributed to bolster its cash position, and how much of this was loaned by the bank.

Marshall, saying the committee has not yet voted on inquiry into the Union Trust, stated his belief the bank's operations previous to its collapse would be made public "one way or another" by his committee.

Wants to Quiz Cox, Union Liquidator.

He said he would suggest that, immediately following the current investigation of the closed Guardian Trust Co., his committee call in Oscar L. Cox, Union liquidator, to answer all questions pertaining to the Union at a public hearing.

This, Senator Marshall said, would be both economical and time-saving.

"Our investigation of the Guardian bank should give us an idea of the type of information we will want from other banks in the state," Senator Marshall said. "Because of our modest appropriation, we may submit questionnaires to officials of smaller closed banks."

Need for revision of the banking code on loans to directors and on statements issued by banks was demonstrated at the initial hearings, Marshall declared. Senator Marvin C. Harrison, another Cleveland member of the committee, expressed the opinion that testimony thus far is "appalling," but that he wants to know what the Guardian's officers say before expressing final judgment.

The committee late yesterday authorized Attorney Arthur A. Miller of the Cuyahoga Bar association and E. J. Falkenstein, Irving S. Silbert and A. H. Ganger, accountants, to look into withdrawals.

They want to find out who withdrew money, and whether these withdrawals coincided with the receipt of loans from the Reconstruction Finance Corporation and the Federal Reserve bank.

"Smart money"—a phrase born in the days since Cleveland's two largest banks tottered and fell—is that of a depositor who through "inside" information of unsoundness withdrew his money.

Another committee, consisting of these four and Accountants Theodore Kearns, Frederick Hill and Robert W. Agler, will survey

MARSHALL WILL ASK SENATE PROBE OF UNION TRUST NEXT

Experts Check Guardian 'Smart Money' Trust Department Under Scrutiny.

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the Guardian's administration of trust accounts.

Wilfred J. Mahon, U. S. district attorney, was expected to determine any course of action the government might pursue in a possible inquiry into certain aspects of the Guardian fiasco.

During the Senate committee hearing, two department of justice agents were in constant, if obscure, attendance. These were Robert Chapman, resident agent of the bureau of investigation of the justice department, and his assistant, David E. Hall.

Mahon's ace aides in financial prosecutions, Charles I. Russo and William J. McDermott, attended hearings and will confer with Mahon tomorrow on significant developments.

The Senate committee will resume its inquiry next Tuesday. The following week, Senator Marshall will summon J. Arthur House, president of the bank, and other officers who have been mentioned in the testimony, to tell their side of the story unfolded by Miller's witnesses yesterday and Tuesday night.

That story is one of large loans to officers and directors of the bank, including House himself, of falling markets and disastrous losses to the bank, of the refusal of the bank to write down assets, of loans and investments that soured and no longer bear interest, of hesitancy on the part of the state banking department to issue more than a warning, of concentration of loans to Cleveland financial magnates, the Eaton and Van Sweringen interests.

Bank's "Bad" Condition Shown.

That the bank was in a highly unsatisfactory condition in February, 1932, came to light in the probe when Falkenstein presented to the senators a letter sent to the Guardian executives by Superintendent of Banks Ira J. Fulton.

The letter, sent in November, was based on the February examination of the bank and called attention to the fact that officers and directors of the Guardian had loans of \$5,335,000 and that companies in which directors were interested had loans totaling \$2,091,000. The Van Sweringen interests were indebted to the bank for \$4,306,000 and the Eaton interests for \$4,046,000.

Fulton asked that directors give immediate attention to correcting conditions in the bank, and requested the appointment of a committee.

Falkenstein charged that Fulton had "passed the buck" to the directors, and that it was the state's duty at that time to step in and assess stockholders of the bank 100 per cent, to make up \$7,000,000 of the bank's losses.

Fulton, in a statement last night, denied that the bank's condition last year warranted the assessment Falkenstein recommended.

"The best evidence that the bank should have been closed last year is that it was closed three months later," Miller commented on Fulton's statement. "If the bank had been closed, millions would have been saved for depositors."

But, the witness continued, the directors insisted that their assets were sound and no assessment was considered. On the contrary, they voted the stockholders a dividend.

Loans to House, president of the bank, totaled \$181,125, made back in 1930, Silbert testified.

Largest was a loan of \$140,000 on a trust account secured by collateral now held to be valueless. Of the \$140,000 only \$100 has been paid.

Like other officers, House obtained the loan at a rate of 5 per cent, although Sidney B. Congdon, former conservator, raised the rate to 6 when he took charge of the bank. But interest has not been paid in full since last September.

No Record of Loan Found.

No record of this loan appears in the minutes of the executive committee or the board of directors of the bank, according to the testimony.

Other loans to House were \$30,225 on a trust account, secured by collateral now valued at \$23,367, and a personal loan of \$11,000 secured by collateral valued at \$4,710.

To a son of House, J. A. House Jr., the bank loaned \$6,980, it was testified.

W. R. Green, vice president and controller of the bank, had four loans in 1929, at 5 per cent interest, totaling \$48,636. These loans are still unpaid.

Silbert told the story of a loan to the Van Sweringens. Back in 1929 the bank joined with other Cleveland banking institutions in a \$9,000,000 loan to the Van Ess Co., one of the holding companies of the Van Sweringens. The Guardian's share was \$2,500,000. In 1930 the Van Sweringens themselves became the borrowers, substituting for the Van Ess Co. The collateral was also changed to the extent the Guardian became holder of 60 per cent of the Van Ess capital stock.

No explanation appears in the bank's minutes on the substitution.

However, it was developed in testimony that the last interest on the loan was paid in 1931, and that the bank marked the loan "non-accruing," which, Silbert said, was a concession by the bank that it was a bad loan.

Silbert detailed other loans. The Guardian Securities Co. had two collateral loans at 4 per cent, totaling \$490,500. The H. P. McIntosh S. trust account was carried on the records as a Guardian Trust account. It had two loans at 5 per cent, totaling \$33,110.

As an example of the accommodations to corporations in which Guardian officials were interested, Silbert cited the Akron, Canton & Youngstown Railroad Co.

The Guardian owned \$500,000 worth of A. C. & Y. Co. bonds. At the same time, officers of the bank, including members of the executive committee, were officers of the railroad.

Rail Subsidiary Voted Loan.

On Jan. 30, 1932, the bank's executive committee, members of which owned 1,615 shares of the 15,000 outstanding shares of the company, voted to extend a loan of \$100,000 to the A. C. & Y. Terminal Co., a subsidiary of the railroad company.

The purpose of this loan, Silbert testified, was to enable the railroad company to pay interest on its bonds.

The railroad company, at the same time, asked an extension of the maturity date on \$2,500,000 worth of its bonds until November, 1933. This was granted by the bank's executive committee.

Attorney Miller in a statement to the committee declared that records of the Guardian showed that losses of the bank as of August, 1932, more

than equaled the total amount of capital and surplus.

Miller said the losses at that time aggregated \$16,000,000, divided as follows: \$7,000,000 loss on dividends and interest; \$3,000,000 loss on loans by the bank, and \$6,000,000 loss on assets classified as doubtful.

He told the committee that these figures were attested in the report of the state banking department on the bank's condition. The bank's capital was \$7,000,000 at that time, and its surplus was nearly \$9,000,000.

On the basis of these figures, Falkenstein declared that he would have assessed 100 per cent against the stockholders to write off the bank's losses.

Falkenstein said that this would have been fair to the stockholders, intimating that this procedure would have saved the bank.

Harrison Asks Question.

"Do I understand," interjected Senator Marvin C. Harrison, "that a hiatus of nine months elapsed between the time of the state banking department examination in February, 1932, and the time the department took action in November?"

Falkenstein replied that the examination, while dated Feb. 29, 1932, had actually continued until August of last year.

Senator Marshall asked Falkenstein if he were right in assuming that at least several months elapsed before the state banking department had warned the Guardian directors. Upon being told that this was the case, Marshall said:

"Then the bank went on its own sweet way, and got into trouble during that time."

Three Reports Made.

Falkenstein testified that during the year preceding the closing of the Guardian, three reports of the bank's condition had been made by a stockholders' and directors' committee which had, however, failed

Bank Salaries

Compared with the top salary and bonus of \$108,750 which the Guardian Trust Co. paid to President J. Arthur House in 1930, the present annual salaries of the heads of Cleveland banks range from \$20,000 to \$25,000 each.

The top salary paid in the banking field in Cleveland this year is said to be \$36,000, paid to one of the high officials of the Federal Reserve system in this district.

to make recommendations as to broad general policies of the bank, but had contented itself with details. This committee had failed to write off the depreciation of the bank's assets, and the assets were carried at purchase value rather than at market price.

Earlier testimony developed that the state banking department had made only three examinations of the Guardian during the years 1928 to 1932, although the law provides that at least one examination be made each year in cities which have clearing house associations.

Assessed for Examinations.

Nevertheless, the testimony indicated, the state assessed the bank annually for the examinations—a total of \$26,149.

The Cleveland Clearing House association assessed the bank a total of \$43,725 in the five-year period, although Falkenstein said he was unable to find any traces of an examination by the clearing house examiners as far back as 1923.

Falkenstein told the committee that on Jan. 1, 1933, the executive committee reported that the bank held assets of \$19,131,563 on which no interest or dividends were paid. Nevertheless, these assets, consisting of loans and investments, were being carried by the bank at full book value.

Some indication of the nature of the bank's loans came from Ganger,

Called in Bank Quiz



J. ARTHUR HOUSE

who charged that the bank had gone into the brokerage business.

Loan Instance Cited.

Ganger cited an instance of a loan of \$441,000 to the brokerage firm of Borton & Borton on Nov. 20, 1931. Collateral valued by the brokerage firm at \$490,000 at the time of the loan, since had dwindled in market price, according to Ganger, to \$290,000.

Ganger said that, despite the reduction in the collateral value, the Guardian executive committee authorized a new loan to Borton & Borton of \$64,600 on collateral of only \$78,000.

"If the brokerage company had collateral to put up for a new loan," Ganger asked, "why wasn't it required by the bank to protect its original loan?"

He cited an unsecured loan of \$500,000 to Warner Bros. Pictures, Inc., and a loan of \$1,000,000 to Halsey Stuart & Co., brokers, on Feb. 28, 1930, secured by collateral worth only 10 per cent more than the loan, in a falling market.

Another Loan Described.

Another loan he described was on the same day, when the Guardian "went into the brokerage business" by engaging 50-50 with Hayden, Miller & Co. in the purchase of \$1,750,000 of gold notes of the Ohmer Fare Register Co. at \$95.75.

The committeemen learned that the Guardian established a "preferred list" one of the phenomena of the 1929 era—when it increased its capitalization in 1929 from \$4,000,000 to \$7,000,000. It sold 16,000 shares to the public at \$300 and 4,000 shares to its officers and employees at \$250.

Testimony developed that the executive committee exercised complete control of the bank although it owned slightly more than 11 per cent of the stock.

Investigators failed to find any evidence of large stock transfers prior to the crash. On the contrary, House increased his holdings of the bank's stock.

More About High Pay.

Further testimony on the high salaries paid bank officials—House's salary, Christmas gift and bonus was \$108,750 in 1930—showed that the salaries paid to high officials generally exceeded one-third of the bank's net earnings.

One of the strange items of evidence was that the Guardian, itself a contributor of \$47,000 to the Community Fund during 1928, 1929 and 1930, contributed \$2,750 for the Hollenden hotel, charging it to "unusual" expenses of the bank. The bank's subsidiary, the New England Co., owned stock in the Hollenden.

Minutes of the bank showed that only 10 of the bank's directors attended all the meetings of the board in 1932. Many of them just attended a few meetings.

At these meetings—lasting 30 to 45 minutes—the directors would pass on loans. At one such meeting, it was testified, more than 1,500 loans were ratified.

Today's Business

By

John W. Love



IN watching the post mortem of the Union and Guardian Trust companies at the hands of the Senate's Banking Committee, the spectator inclines to wonder whether money had to be very smart in order to have qualified as smart money in those places.

You'd think ordinary dumb money would have been smartened up by mere contact with what a lot of people seem to have known for quite a while. It is really remarkable what people can keep to themselves for so long and just go on as if everything was all right.

Some of those Guardian officers must often have felt like a man who is sure an illicit affair will be discovered some day, but he goes on because he can never know just when. The failure of protective agencies to discover the Guardian's condition may be suspected to have been due to suspicions of what would have been found out if they had inquired.

* * *

Loans on the Increment

LOOK at the Lenihan committee's report on some of the loans of Union Trust at the last year-end shows how the real estate tail had come to wag the commercial and industrial dog.

Ancestral stems of that institution had been closer to trade and manufacturing. In later years it was turning more and more, or so it seemed, to loans on real estate like Kenyon Painter's, or on real estate, tractions and kindred enterprises of the Van Sweringens, most of these the places that money generally goes after it has been made in industry. If things had been going hard with industry, say through an inflexible rate and tax overhead, it would only be reflected in these other enterprises after it was too late for the bank to do anything about it.

In the autumn of 1929 the Vaness Co. borrowed some \$14,000,000 through the Union Trust Co. Since this was nearly twice the legal limit for the Union Trust, the loan was immediately split up, and the Guardian got a considerable chunk.

But J. P. Morgan & Co. had lent the Vaness Co. almost as much, and they obtained payment on the loan very promptly. Their share was rapidly reduced. Most of the Cleveland portion is still in the Union and Guardian.

When such banks in the interior seem unable to compete on even terms with New York banks, it is not to be wondered at when Congress passes a law guaranteeing smaller deposits. Big banks in the east are reported working on ways to get out of sharing in this guarantee, but it may be put down as certain that Congress will see that participation in a guarantee fund will be made less unattractive for New York than the alternatives.

* * *

Interest Ate Up the Rent

SPEAKING of smart money, or rather, of less dumb money, memory goes back to the visit in Cleveland of a London financial writer, a young man who reported "the City" for one of the press associations in Britain.

He expected to spend only a day here, but lingered for a week, fascinated by what he finally told some acquaintances here looked like a setup for the greatest bank failure in the world's history. He was wrong, as it turned out, for the Bank of United States in New York and the First National in Detroit preceded the Union.

But with the fresh view of a complete stranger, and with an analytical method based upon an antique relationship between rent and interest, the Britisher saw that if prices remained low there was no chance for Union to avoid a fatal impairment of its capital for reasons now clear in the Lenihan report.

One thing the visitor didn't figure on. That was the formation of the R. F. C., and considering the direct wires which existed between here and Washington in the last administration, we now have a sufficient explanation.

July 21, 1933

#8

NEW YORK
JUL 21 1933
JEWISH
LIVES

GHOSTS OF CITY INDUSTRIES IN CHARGE-OFFS

Items Totalling \$9,593,783
Listed in Union Trust's Bad
Investments

Ghosts of former large industries and of bad investments and loans are included in the Union Trust inventory as "charged off." These items are listed at amounts due the bank, but are not included in assets. The items charged off represent losses taken before June 15, 1933. The total of such charge-offs is given as \$9,596,783. Some of the larger items are shown here:

Louis Abrams	\$176,750
Allen Motor Car Co.	32,662
American Foreign Banking Corporation	579,660
Aurora, Elgin & Chicago Railroad	1,768
C. L. Ayers	107,000
H. S. Berlin	94,606
Barnes Mead Lumber Co.	17,000
Bennett Milling Co.	18,972
Britton Printing Co.	18,017
Cambria Coal Co.	220,567
Chicago, Lake Shore & South Bend Railway	516,891
Fred G. Clark	14,236
Fred G. Clark Inc.	92,876
Fred G. & Sherman Clark	7,146
Cleveland Alloys Co.	5,643
Cleveland Akron Bag Co.	324,817
Colonial Taylor Imp. Co.	40,000
J. Connelly Construction Co.	36,848
Consolidated Iron & Steel	346,800
J. W. Corrigan	74,454
Erst Iron Machine Co.	38,478
Ralph L. Fuller Co.	88,294
Grant Lees Gear Co.	131,933
Grant Motor Car Corporation	603,959
Hinig & Co.	15,812
A. H. Hunter	95,192
S. J. Kornhauser	43,038
Lake Erie Motor Co.	14,980
Nathan Liebschutz estate	42,893
M. S. Long et al.	17,272
J. V. Maher	28,950
Marsh Motor Co.	22,251
W. E. Matthews	90,349
Homer McDaniel	26,665
McGraw Tire & Rubber	47,351
J. J. & R. H. McKelvey	16,506
McLean Tire & Rubber	8,633
McMyler Interstate Co.	200,957
Mid-Day Club (payment indorsed)	25,000
B. F. Miles estate	26,817
L. H. Munoz Co.	766,341
National Cattle Loan Co.	24,367
New Home Sewing Machine Co.	67,493
New Home Sewing Machine Co.	67,493
E. A. Noll	66,675
North American Watch Co.	19,701
Ohio Body & Blower Co.	490,243
F. T. Plitch Co.	23,366
W. K. Palmer	24,550
Ranney Fish Co.	28,678
Representative Realty Co.	49,981
Republic Rubber Co.	186,358
Republic Tool & Mfg. Co.	26,208
The Schuster Co.	61,867
H. O. Secrest estate	13,265
Service Motors Inc.	147,361
Standard Knitting Co.	83,323
Vance Stewart	11,005
D. K. Swartwout	40,338
H. M. Strauss	24,988
Thomas Mfg. Co.	35,612
S. Ulmer & Sons	100,000
Union Mortgage Co.	38,665
Universal Auto Foundry Co.	22,000
Victor Rubber Co.	128,509
Western Ohio Railway Co.	60,000
Withington & Green (synd. mgrs.)	17,505
A. Witkowski Sons & Co.	17,661
Edith A. Lafferty	15,000
Bay State Apartment Co.	15,000
Drummond Miller Co.	413,548
Grove Construction Co.	7,475
J. L. & Ada O. Proudfoot	7,148
Safe Motor Sales Co.	12,033
Estate of T. G. Sloan	35,000
Charles Schiappacasse Co.	14,098
Wilcox & Wilcox	26,155
Perfection Die Casting Corp.	10,766
Dobe Construction Co.	\$5,799
Lillian & A. L. Laronge	21,542
Nathan & Fanny Leitzmann	17,387
ASSETS NOT ON BOOKS	
Gandin Lumber Co. (1st mort.)	298,000
Chicago, R. I. & Pac. Railroad	200,000
City of McAlistar, Okla.	500
Interurban Ry. & Terminal Co.	6,000
COUPONS	
C. H. D. Ry. Co.	4,825
Home Riverside Coal Co.	1,300
CHARGED OFF REAL ESTATE MORTGAGE LOANS	
Investors' Land Co.	43,952
Lucerne Garden Realty Co.	6,318

Lists Union Trust Loans to Officers, Directors

Inventory Report on Defunct Financial Concern
Shows \$69,707 Still Owed by Former;
\$6,891,689 by Latter

Substantial loans to former officers of the Union Trust Co. and directors are listed in the inventory report. Among these are the following:

Directors		Total	Due
Ernest S. Barkwell—four demand loans	\$	12,500.00	\$ 8,000.00
W. P. Belden—time loan		11,817.90	11,817.90
George P. Comey—time loan		32,000.00	32,000.00
Willard J. Crawford Jr. (former director)		106,425.00	57,997.34
W. H. Gerhauser—time loan		1,000.00	891.22
G. W. Grandin—two time loans		48,000.00	48,000.00
G. W. Grandin		264,000.00	260,115.04
Adrian D. Joyce—six demand loans		75,000.00	59,500.00
Adrian D. Joyce		70,000.00	70,000.00
Adrian D. Joyce		35,000.00	35,000.00
Adrian D. Joyce		210,000.00	209,341.50
Adrian D. Joyce		300,000.00	259,750.00
Adrian D. Joyce (total)			708,591.00
John A. Haden—time loan		15,345.00	11,657.70
W. A. Harshaw—two time loans		33,900.00	33,900.00
W. A. Harshaw		62,500.00	62,500.00
Ralph T. King—two time loans		13,900.00	13,900.00
Ralph T. King		34,250.00	29,205.71
Bascom Little—demand loans—(indorsed another loan)		43,000.00	35,750.00
Philip R. Mather—time loan		40,000.00	37,530.00
William G. Mather—demand loan		800,000.00	800,000.00
William G. Mather—two time loans		12,322.50	
William G. Mather		24,645.00	
William G. Mather (total)			36,967.50
Otto Miller—five demand loans totaling		1,145,000.00	779,483.00
R. V. Mitcnell—time loan		15,400.00	15,393.60
Laurence H. Norton—time loan		100,000.00	100,000.00
Carl N. Osborne—time loans		90,000.00	61,130.00
Kenyon V. Painter—11 demand loans		4,275,000.00	2,930,000.00
F. P. Root—time loan		14,000.00	14,000.00
Allard Smith (deceased)—time loan		14,132.00	14,132.00
Andrew Squire—two time loans		250,000.00	250,000.00
J. H. Wade Jr.—time loan		350,000.00	350,000.00
Andrew Squire		37,000.00	37,000.00
J. H. Wade Jr. (secured advance)		37,131.00	37,131.00
W. H. Warner Coal Co., per W. H. Warner—time loan		103,980.00	103,980.00
W. H. Warner			9,925.00
Windsor T. White—time loan		695.00	695.00
Total	\$8,751,942.00		\$6,891,689.00
UNION TRUST OFFICERS		Total	Due
Morris S. Halliday (V. Pres. & Bldg. Mgr.)—time loan	\$	9,450.00	\$ 9,450.00
Harry E. Mills (V. Pres.)—time loan		1,800.00	1,800.00
John A. Jackson (Adv. Board)—time loan		10,300.00	10,300.00
W. J. O'Neill (V. Pres.)—demand loan		26,000.00	16,500.00
Joseph C. Royon (V. Pres.)—time loan		6,000.00	6,000.00
J. H. Clark (V. Pres.)—time loan		2,175.00	2,075.00
Joseph J. Sacha (Adv. Board)—time loan		7,650.00	7,582.00
Norman R. Snell (Adv. Board)—time loan		16,000.00	16,000.00
Total	\$ 79,375.00		\$ 69,707.00

Press

Aug. 3, 1933

#6

News

#1

Aug 30, 1933

PAINTER LOANS WILL BE SIFTED BY GRAND JURY

**Check of \$3,775,000 Union
Dealings Set; Ex-Bank
Heads Face Call.**

Data on transactions involving loans totaling \$3,775,000 made by the Union Trust Co. to Kenyon V. Painter, one of its directors and its largest stockholder, will be presented to the new county grand jury next week.

This was announced today by Assistant County Prosecutors Parker K. Fulton and Thomas A. Burke Jr., in charge of investigation of Union Trust affairs.

At the same time it was learned that a number of subpoenas requiring former Union Trust officials and others to appear before the grand jury will be issued by the prosecutor's office between now and next Tuesday, when the new grand jury will convene.

Painter could not be reached for a statement on Fulton's announcement, nor could his attorney, William H. Boyd.

"We are putting the finishing touches on our investigation of the deals by which Painter was permitted to obtain huge loans from the Union Trust, and by which the directors later returned to him \$500,000 of his collateral without payment on the loans," Fulton declared.

Fulton and Burke for weeks have been working with a staff of ac-

Turn to Page 4, Column 7

SIFT PAINTER LOAN

Continued From Page 1

countants seeking evidence of alleged violations of state banking laws by officers and directors of the closed Union Trust Co.

In the Painter loans, County Prosecutor Cullitan said, bank appraisers boosted the value of collateral 800 per cent to make possible the loaning of the large amount.

Neither Fulton nor Burke intimated they had found any evidence of criminality in the Painter loans, although they said the facts surrounding them undoubtedly will be placed before the grand jury next week.

Painter, in recent months, has been made defendant in several suits seeking to collect damages and seeking to set aside transfers of property by Painter to other persons, including his wife.

The foreman of the new county grand jury is to be selected between now and Tuesday by Common Pleas Judge Samuel H. Silbert, who will preside in criminal court during the fall term.

Liquidator Oscar L. Cox of the Union, it was learned, was to confer today with U. S. District Attorney Emerich B. Freed concerning facilities and space for department of justice auditors in the bank for their survey, starting next week.

Freed, it is believed, also will discuss with Cox affairs of the bank generally. Survey of the Union and Guardian Trust Co. by the federal government will be in charge of E. M. Ward, department of justice auditor.

P. Dealer . Sept 9-1933

#2

Forgetting the Depositors.

The Senate investigation of the Union Trust Co. recessed yesterday to permit committee members to attend the legislative sessions next week. Much of the data presented to this time by R. J. Falkenstein, investigator for the committee, has previously been brought to public attention. The Lenihan report of the bank's condition was made a part of the Senate record several weeks ago when the Guardian investigation was in progress.

Of many transactions in the Union which are open to criticism, the withdrawal of collateral by the Van Sweringens was the worst. According to Falkenstein \$4,500,000 of collateral was withdrawn and deposited with J. P. Morgan & Co., presumably as the basis for an additional loan. Only \$380,000 in substitute collateral was received by the Union.

Inasmuch as the Van Sweringen interests owed the Union more than \$10,000,000 when it closed, it is fairly obvious that depositors of the bank must pay, probably in smaller liquidating dividends, for the indiscretion of Union officers in surrendering the collateral which had originally been demanded for their protection.

At a time when clamor is heard on all sides for a more liberal lending policy by the banks it is well to bear in mind that it was undue liberality in lending, and too little regard for the protection of depositors that led to much of the banking trouble. Had the banks insisted all the way through on adequate collateral and sound financial statements, as they are insisting now, there would be fewer closed banks to investigate and little need for new banking regulations.

P. Dealu Sept 9-1933 #3

FINDS BANK CRISIS BLED UNION TRUST

Expert Tells Senators De-
positors Waited While
Millions Went Out.

BY JOHN W. VANCE.

While small depositors were sitting tight, out of town banks were hurrying to the Union Trust Co. to claim their deposits, E. J. Falkenstein, examiner for the special bank investigation committee of the Ohio Senate, testified yesterday before the committee.

Other points stressed by Falkenstein's testimony were that:

THE UNION would still be open if it had been as stiff in requiring collateral from others as it was on loans to banks.

THE UNION paid out more than half of its total earnings as dividends instead of building reserves.

THE CLEVELAND CLEARING HOUSE ASSOCIATION in 1927 severely criticized the Union for poor records and "dangerous loans."

LOANS on real estate froze and were powerful in forcing the collapse of the bank.

Trusts Not Examined.

THE ENORMOUS TRUST DEPARTMENT of the bank had never been examined carefully by the State Banking Department.

THE BANK received large fees for arranging loans and Joseph R. Nutt, former chairman of the board, received a personal fee of \$131,000 but turned it over to the bank.

THE BANK permitted the Van Sweringens to substitute approximately \$380,000 worth of collateral on a loan for approximately \$4,500,000 worth and sent the freed collateral to J. P. Morgan & Co.

THE BANK illegally invested in stock of the Van Sweringen's Alleghany Corp. and lost \$251,676.11.

Falkenstein concluded his testimony and Senator L. L. Marshall, chairman of the committee, recessed the hearings until some unfixed date, to give Falkenstein opportunity to

(Continued on Page 5, Column 2)



FINDS BANK CRISIS BLED UNION TRUST

(Continued From First Page)

continue his work in the Union. He was instructed to go into detail on several transactions, particularly the Van Sweringen loans.

Falkenstein traced the rapid growth of deposits of other banks in the Union, showing that these grew from \$20,000,000 in 1922 to a high point of \$54,000,000 in April of 1931. Between April and December of that year, he testified, they fell to \$20,000,000, a decline of \$44,000,000. The day the Toledo banks failed, Aug. 17, other banks withdrew \$6,473,000 from the Union.

Bank Withdrawals Heavy.

At the close of 1932, Falkenstein said, when the final runs began, there were about \$19,500,000 in other bank deposits. These went down to \$10,000,000 in about a month. The largest withdrawals were by Illinois banks, he said, while the largest individual withdrawal was \$500,000, taken out by the Commerce Bank of Kansas City.

"Then," Senator Marshall said, "they were withdrawing money while the savings depositors, who took less than anyone, held on?"

"That is the case," Falkenstein said.

Falkenstein testified that in making loans to other banks the Union required collateral of a type immediately marketable and always got at least \$4 of collateral for every dollar lent. In some cases the ratio was 10 to 1. On one loan of \$63,660 to the Chagrin Falls Banking Co., he said, the total market value of collateral posted was \$519,232.

"It appears," said Senator John P. Bower, "that the banks didn't trust one another."

"I think you are exactly right, senator," Falkenstein replied.

"Well," said Senator Marvin C. Harrison, "if they had required the same kind of security from the Van Sweringens and Kenyon V. Painter, they'd still be open, wouldn't they?"

"Yes," Falkenstein said. "Aside from the amount of the security, it is all marketable."

Turning to the question of earnings, Falkenstein testified that the net earnings of the Union during its whole existence were \$49,967,000. Of this, he said, \$27,094,000 was paid out in dividends to stockholders. The surplus account received about \$1,400,000 and reserves got about \$19,500,000. Largest of the reserves was \$11,500,000 for losses on loans.

Dividends Over 10 Per Cent.

"They paid better than 10 per cent. a year in dividends," Falkenstein said. "Many people think this too generous. With smaller dividends they could have written off more losses. The conservative policy is to put as much as possible into reserves."

He then testified that he was unable to find any proof of "window dressing" operations at the Union like those previously described at the Guardian Trust Co. in order to make the periodical statements look good.

Falkenstein read excerpts from a report of Francis Coates, jr., examiner for the Clearing House, prepared in 1927 after an audit of the Union which lasted almost two years.

Coates wrote that he found the Union's affairs in a "disturbing condition"; that in many instances the records of the bank were incomplete or scattered, "a dangerous condition to which can be attributed in large measure your losses."

Coates criticized a long list of "so-called commercial loans" usually secured by second or third mortgages. Some, he said, were supported by financial statements of "little or no worth." Many of these loans, Coates said, were to real estate operators and were not prime values and not commercial loans.

He said, in spite of this, the Union was holding such loans and continued to make them, commenting that such borrowers "seemed to be a much favored class." As a class, Coates' report said, these loans were undesirable, slow and undependable.

Coates also said the statistical department was poor and that there was no cross-indexing. He pointed out that the bank had \$1,300,000 of Chase Bag Co. stock as collateral, and no information about the stock. Eventually, Falkenstein commented, the bank had to take possession of the company's assets.

"After Mr. Coates found this incomplete bookkeeping and all, did

he ever go back to the bank to see if this condition had been corrected?" Senator Marshall asked.

"No," Falkenstein said.

Falkenstein testified that the Union had \$21,556,000 invested in real estate, including its banking building, which accounted for about \$11,000,000 of the total. In addition to this, its real estate loans at their highest point were about \$75,000,000. He said that the bank held \$5,164,000 in real estate, 80 per cent. of which was in process of foreclosure.

Eventually, Falkenstein said, in an effort to get cash out of its frozen real estate loans, the Union helped the other banks organize the Western Reserve Mortgage Co. It then sold mortgages to the Western Reserve, receiving notes in return. The Western Reserve borrowed from the Reconstruction Finance Corp., and turned the proceeds over to the Union. This money was applied against the notes.

The Union sold a total of \$46,000,000 worth of mortgages to the Western Reserve and received notes of equal amount. About \$21,000,000 has been paid on the notes.

"Trusts Not Examined."

Falkenstein testified that the trust department of the Union increased its assets from \$135,000,000 in 1924 to \$281,000,000 in 1931. He said he had been told by a state banking department employee that there had never been a real examination of the trust department.

"I don't believe the trust department ever made any report to the state," Falkenstein said. "That means there were \$286,000,00 worth of assets and 3,500 customers and there was no adequate supervision."

Falkenstein said the bank threw its various fees into the "Other Income" account. This included checks, drafts and deposits not called for, although these should have gone to the county treasurer, Falkenstein said.

This also included the bank's income from collections for the East Ohio Gas Co. and the Cleveland Electric Illuminating Co. Fees earned by the real estate department of the bank, which sometimes exceeded \$90,000 a year, also went into this account.

In 1928, Falkenstein said, the account showed payment of a \$12,000 commission for a participation in a loan to the Pere Marquette Co. In 1924 it received \$550,000 in profits from the sale of the First National Bank Building. In 1925 it showed a \$371,000 fee from the McKinney Steel Co. This Falkenstein said, was for persuading other banks to participate in a loan to make possible transfer of control of Corrigan-McKinney Steel Co. to Cleveland-Cliffs Iron Co. interests.

Falkenstein testified that E. S. Burke owned stock in the McKinney Steel Co. and had written a letter offering Nutt a certain amount if he could find a buyer.

Gave Check to Bank.

Nutt later got a check for \$131,000 which he made over to the bank. The bank also was paid \$240,000.

"Apparently this \$131,000 was for brokerage," Senator Marshall said.

"Yes, I saw a letter from Burke in which he told Nutt the money was to go to Mr. Nutt personally," Falkenstein said.

"But Nutt indorsed it to the bank?" Marshall asked.

"Yes."

Falkenstein then described the investment of the bank in Allegheny Corp. stock. It bought 24,667 shares in 1929 for \$579,674, he said, and sold blocks of it that year at a profit of \$373,903.27. However, it was ordered by O. C. Gray, then superintendent of banks, to get rid of the stock, which was an illegal investment, since the issue had not paid dividends for five consecutive years. The

eventual loss was \$251,676.11.

Senator Harrison asked whether any of this stock had been sold to trusts held by the bank.

"Not that I have observed," Falkenstein answered.

Q.—Were any large blocks sold in 1932?

A.—I don't really know. I understand that the stock sold under \$1 a share. Even the preferred was worth only 85 cents.

Q.—All the stock could have been sold in 1929 with a profit to the bank, could it not?

A.—Yes. As it was, there was a net loss of \$251,676.11.

Q.—Who sponsored or recommended the purchase of this stock by the bank?

A.—I don't know.

Examination of 1931.

Q.—How long were the state examiners in the bank at the time of the examination dated as of March 27, 1931?

A.—I don't know.

Q.—They left before Oct. 2, the date of the letter sent out by the superintendent of banks, didn't they?

A.—Yes. In his letter the superintendent apologized for the delay. As you will see from Mr. Wilbur M. Baldwin's reply, dated Dec. 22, 1931, he says he received the superintendent's letter the day before. The letter from the superintendent was written Oct. 22, but not mailed until Dec. 21.

Q.—Is there a possibility that during the time the letter was written to the Union Trust Co. and its receipt by the company, there may have been unofficial communications between the state banking department and officials of the bank?

A.—It is not impossible. There is no evidence to show that there was, however. The bank superintendent also directed the attention of the bank officials to purchases of certain real estate holdings as being contrary to law. He lists thirteen persons who had pledged Union Trust stock as collateral for loans also. Three of those were directors. George P. Comey had pledged 400 shares of the bank's own stock; T. S. Graselli, 1,176 shares, and Charles G. King, 1,000 shares. This in violation of section 710-114 of the general code.

Q.—Why was this last illegal?

Required to Own Stock.

A.—The directors must under the law hold \$500 worth of stock unencumbered. It was also illegal for the Union Trust Co. to accept its own stock as collateral.

Q.—Was the last violation the worst?

A.—I don't know that that's true. Now I also have here the letter from Mr. Baldwin, the president of the bank, attempting to explain certain real estate holdings and saying that the bank would attempt to clear its possession of the Allegheny stock. This was finally sold at a rather heavy loss.

Q.—Not any greater than if they had held on to it, though, was it?

A.—No. It went down a great deal further subsequently.

Q.—Did the bank actually follow out any of the suggestions of the state banking superintendent?

A.—It did dispose of the Allegheny stock and some real estate was disposed of, I believe.

Q.—The Allegheny Corp. was one of the Van Sweringen subsidiaries, was it not?

A.—Yes.

Q.—Did the Van Sweringens borrow money from the Union Trust through any of its other subsidiaries?

A.—Yes. At the time the bank closed they owed a total of about \$10,500,000.

Q.—Was there any evidence that they ever substituted collateral?

A.—Yes. In October, 1930, they withdrew collateral held by the Union Trust Co. against a loan, the market value of the collateral being \$4,500,000 and substituted collateral with a market value of \$380,000. There was a transfer from the Union Trust Co. to the firm of J. P. Morgan, but I will go into that more fully at our next hearing.

P Dealer Sept. 11 - 1933

KA

PAGE THIRTEEN

GIVES DETAILS ON VANS' UNION LOANS

Examiner Discloses Exchange of Collateral and Shrinkages.

Edward J. Falkenstein, examiner for the special bank investigating committee of the Ohio Senate, yesterday disclosed that in its dealings with the Van Sweringen interests on loans, the defunct Union Trust Co. permitted:

Exchange of collateral with a market value of \$4,936,000 for collateral with a market value of \$672,200; exchange of collateral with no market value for collateral which also had no market value but was junior in earning possibilities to the first block.

Deposit of the readily marketable collateral with J. P. Morgan & Co. in New York.

Falkenstein had referred to these transfers in testimony Friday at a hearing. It was suggested by Senator L. L. Marshall, chairman, and Senator Marvin C. Harrison, that he make public the details.

Explanation From Files.

Falkenstein's explanation, taken from the files of the bank, showed that on Oct. 29, 1929, the Vaness Co. borrowed \$5,000,000 secured by collateral worth \$7,295,750 on the market.

On June 20, 1930 the collateral was worth \$5,972,400 and on Oct. 14, 1930 it was worth \$5,089,810. On Oct. 30, 1930 the loan was refunded by a new loan of \$5,000,000 to O. P. and M. J. Van Sweringen, secured by collateral having a market value of \$672,200. At the same time securities worth \$4,492,000 were released.

Another loan of \$9,000,000 to the Vaness Co. was made on Nov. 1, 1929, participated in by four Cleveland banks, the Union Trust's share being \$2,000,000. None of the collateral posted had a market value. The collateral consisted of shares of first and second preferred stock of the Terminal Properties Co., common stock of the same company, common stock of the Van Sweringen Corp., and common stock of the Cleveland Terminals Building Co.

Sent to Morgan.

On May 13, 1930 the Union's share in the loan was increased by \$800,000. On Oct. 30, 1930 the loan was paid off and the collateral released. The payment was made by a new loan of \$9,000,000 to O. P. and M. J. Van Sweringen. The collateral on this loan was solely Vaness Co. common stock, representing 60 per cent. of the Vaness stock.

"In the two transactions," Falkenstein pointed out, "the banks of Cleveland had suffered in realizeable values as to collateral."

"Correspondence and notations of the Union exist to prove that the collateral having immediate market value was sent to New York to J. P. Morgan & Co., where it was deposited against the \$39,000,000 loans made by that company to the Van Sweringens."

News Sept 11-1933

September 11, 1933

STORY OF VANS' UNION TRUST CO. LOANS IS GIVEN

Cox Cites Complete Sched- ules of Collateral Held by Bank.

Oscar L. Cox, liquidator of the Union Trust Co., made public today the complete history of two Van Sweringen loans at the Union Trust.

Partial testimony concerning these loans was taken last week by the investigating committee of the Ohio Senate.

Mr. Cox said:

"In view of the current public discussion of two of the so-called Van Sweringen obligations to the Union Trust Co., it seems appropriate to supply, as supplementing our inventory already of public record, a schedule of the collateral held by the Union Trust Co. at various periods under these obligations and their apparent predecessors.

"Valuations of the collateral have, of course, varied from time to time."

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The schedules are as follows:

1—\$2,800,000. Demand collateral loan O. P. and M. J. Van Sweringen.

On April 19, 1926, the Vaness Co. paid out entirely and was out of debt to the bank until July 21, 1926, when \$225,000 was borrowed. Loans increased gradually, reaching a peak of \$2,250,000 on July 1, 1927. On Oct. 4, 1927, \$1,900,000 was paid, after which loans again increased gradually until they reached a peak of \$4,350,000 on June 23, 1928.

On July 28, 1928, \$2,000,000 of the debt of the Vaness Co. (then at \$3,350,000) was revamped.

The following notes, aggregating \$2,000,000, were paid:

The Vaness Co., dated Jan. 14,

1928 \$ 500,000
Secured by 32,600 shares Terminal Properties, first preferred; 27,300 shares Terminal Properties second preferred; 93,300 shares Terminal Properties common.

The Vaness Co., dated Feb. 17,

1928 500,000
Secured by 5,000 shares N. Y., Chicago & St. L. R. R. common.

The Vaness Co., dated Feb. 17,

1928 500,000
Secured by 5,000 shares N. Y., Chicago & St. L. R. R. common.

The Vaness Co., dated Dec. 28,

1927 250,000
Secured by 2,500 shares N. Y., Chicago & St. L. R. R. common.

The Vaness Co., dated Mar. 1,

1928 250,000
Secured by 2,500 shares N. Y., Chicago & St. L. R. R. common.

Total \$2,000,000

The proceeds of the following note was used to pay the above mentioned obligations:

The Vaness Co., dated July 28,

1928 \$2,000,000
Secured by 32,631 shares Terminal Properties, first preferred; 30,255 shares Terminal Properties, second preferred; 95,600 shares Terminal Properties, common.

On Nov. 1, 1929, the \$2,000,000 note of the Vaness Co. was paid by our corporate trust department, made possible by the bank's participating for exactly the same amount (\$2,000,000) in a total loan of \$9,000,000.

The Vaness Co. Participation, \$2,000,000
Total loan, \$9,000,000; secured by 32,893 shares Terminal Properties, first preferred, 33,187 shares Terminal Properties, second preferred, 99,222 shares Terminal Properties, common, 122,000 shares Van Sweringen Co. 100 shares Cleveland Terminal Bldg. Co.

On May 13, 1930, the bank's participation for \$2,000,000 was paid out of a new participation for \$2,800,000 in a total loan of \$9,000,000.

The Vaness Company Participation \$2,800,000
Total loan, \$9,000,000 secured by: 122,000 shares Van Sweringen Co.; 600,000 shares Van Sweringen Corporation.

On Oct. 30, 1930, a participation of \$2,800,000 in a total loan of \$9,000,000 to O. P. and M. J. Van Sweringen was substituted for the participation of \$2,800,000 in the total loan of \$9,000,000 to the Vaness Co.

O. P. and M. J. Van Sweringen Participation \$2,800,000
Total loan, \$9,000,000 secured by: 97,500 shares (or 60% common) Vaness Co.

This balance of \$2,800,000 is outstanding today.

2—\$4,100,000. Demand Collateral Loan O. P. and M. J. Van Sweringen.

On Oct. 29, 1929, the bank loaned the Vaness Co. \$5,000,000.

The Vaness Co. \$5,000,000
Secured by 32,000 shares Cleveland Railway Co., 6,500 shares Midland bank, 30,000 shares Alleghany Corp. common, 6,000 shares United Corp. common, 3,000 units Western Reserve Inv. Corp. 6% pfd.

On June 20, 1930, 1,700 additional shares of the Midland bank were substituted for the 30,000 shares Alleghany Corporation.

On Oct. 14, 1930, 50,000 shares Van Sweringen Corporation common were pledged as additional collateral to the same loan.

On Oct. 30, 1930, the above loan was paid with a new loan of \$5,000,000 to O. P. and M. J. Van Sweringen:

O. P. and M. J. Van Sweringen \$5,000,000
Secured by 9,000 shares Vaness Co. pfd., 16,250 shares Vaness Co. common, 4,000 shares Niagara Hudson Power Corp. common, 5,000 shares Standard Brands, Inc., common, 3,000 shares Western Reserve Inv. Corp. common, 3,000 units Western Reserve Inv. Corp. common, 17,999½ shares Calumet Trust certificates, 1,400 shares Newton Steel Co. common, 33,000 shares Peerless Motor Car Corp. common, 6,000 shares United Corp. common, 10,296 shares Metropolitan Utilities, Inc., common, and equity in the following held in corporate trust department: 100 shares Traction Stores common, 5,800 shares Cleveland & Youngstown Railroad

common, subject to previous pledge under Metropolitan \$3,100,000 loan, 100 shares Cleveland Traction Terminal common, 1,465 shares Cleveland Interurban R. R. Co. common.

On Nov. 20, 1930, a loan of \$800,000 was made to the Vaness Co. and the loan of \$5,000,000 to O. P. and M. J. Van Sweringen was reduced to \$4,200,000. The following collateral was taken from the \$5,000,000 loan and transferred to the \$800,000 loan.

Vaness Co. \$ 800,000
Secured by 4,000 shares Niagara Hudson Power Corporation common, 5,000 shares Standard Brands, Inc., common; 3,000 shares Western Reserve Investment Corporation common; 3,000 units Western Reserve Investment Corporation; 17,999½ shares Calumet trust certificates; 1,400 shares Newton Steel Co. common; 33,000 shares Peerless Motor Car Corporation common; 6,000 shares United Corporation common.

This left the O. P. and M. J. Van Sweringen loan as follows:

Balance O. P. and M. J. Van Sweringen \$4,200,000
Secured by 9,000 shares Vaness Co. preferred; 16,250 shares Vaness Co. common; 10,296 shares Metropolitan Utilities, Inc., common; equity in four blocks securities as listed previously.

On Dec. 31, 1930, the above loan of \$4,200,000 was paid with a new loan of \$4,200,000.

O. P. and M. J. Van Sweringen \$4 200,000
Secured by 9,000 shares Vaness Co. preferred; 16,250 shares Vaness Co. common; 10,296 shares Metropolitan Utilities, Inc., common.

On Jan. 24, 1931, \$100,000 was paid on the principal of the loan.

The balance of \$4,100,000 is outstanding today.

E. J. Falkenstein, committee examiner, and Senator Marshall, chairman of the committee, also issued a statement regarding the Van Sweringen loans and the substitution of collateral. The statement follows:

ON Oct. 29, 1929, the Union Trust Co. loaned the Van Ess Co. \$5,000,000, secured by various securities valued at \$7,295,750.

THAT, on Oct. 30, 1930, the loan was paid with a new loan of \$5,000,000 to O. P. and M. J. Van Sweringen, secured by collateral valued at only \$672,200.

THAT collateral valued at \$4,936,000 at the market was released.

THAT another loan of \$9,000,000 had been made by the Union Trust Co. to the Van Sweringens, and that this was a participation in which three other banks were interested.

THAT this loan, secured by Terminal Properties, Van Sweringen Co. and Cleveland Terminal Building Co. stock, was paid off and collateral released, the payment being made through another \$9,000,000 loan secured by stock representing 60 per cent of the common issue of the Van Ess Co.

"In the two transactions the banks had suffered in realizable values as to collateral," the statement asserted. "The substitution on the \$5,000,000 loan had resulted in a loss to the Union Trust of collateral having a market value approaching \$4,270,000.

Four Participate in Loss.

"The substitution on the \$9,000,000 participation resulted in a loss to the four participants of collateral having no market value but holding a senior position to the collateral received, as far as earnings were concerned.

"Correspondence and notations in the Union exist to prove that the collateral having immediate market value was sent to New York to J. P. Morgan & Co., where it was deposited against the \$39,500,000 loans made by that institution to the Van Sweringens."

The statement quoted excerpts from a letter in the inter-departmental files of the Union Trust Co.

This letter complained that the house of Morgan had made substantial profits in dealings with the Van Sweringens.

No Excuse for Action.

"While there may have been some excuse for the New York interests taking a prior position to

the Cleveland bank loans made for the development of the local real estate projects, there was no excuse for taking the marketable collateral from the Union Trust Co. \$5,000,000 loan," the letter said.

"There is no information in our files to indicate why the Union Trust Co. permitted the New York interests to take this collateral from the \$5,000,000 loan, to which they were not entitled, nor why the Union Trust Co. permitted the other banks to be paid in the spring of 1930 without having its own loan paid," the letter continued.

The statement also included correspondence between W. J. O'Neill, vice president of the Union Trust Co. and H. C. Robinson, executive vice president of the Guardian Trust Co. Robinson, in January, 1933, urged that the banks should have representation on the Van Ess Co. directorate. O'Neill replied, the statement showed, that all of the local banks had known at the time that the collateral switch was being made.

Kreuger Paper Included in Union \$38,000,000 Investments

In Contrast, Bank Recorded Purchase of 12 Million U. S. Securities

In the investment portfolio of the Union Trust Co., the inventory reveals, is represented part of the capital of industries, utilities, holding companies, municipalities, foreign governments—a collection that includes gold-secured government bonds and others that have long since been charged off as worthless.

Remaining in the bank's assets is a total of \$38,000,000 worth of paper—or paper representing that amount of money invested by the bank, for some of the issues now are at low ebb, in common with the general securities market.

In the foreign field, which has been particularly hard hit in the recent fluctuations of values, the bank invested a total amount of nearly \$5,000,000. Among these were \$500,000 worth of Kreuger & Toll debentures, Chilean Mortgage Bank bonds, Chile Railway refunding bonds, Colombia's external issues, Nuremberg municipals, Argentine Bank of International Settlements issues and others from China, Russia and Italy.

Among the stocks listed were those of a number of domestic companies which have withstood the depression in good condition—as well as many in which officials of the bank were interested and some whose values have been depressed. There are blocks of American Shipbuilding common, Cleveland Graphite Bronze, Wyoming Pocahontas Coal Co., Globe Machine & Stamping, McKinney Steel Holding Co., Interlake Steamship Co., Sheriff Street Market & Storage Co., Continental Shares and the Upson Walton Co.

In the real estate field, the bank held Van Sweringen Co., Del Prado, Bulkley and Hippodrome Buildings, Clark-Randolph Building of Chicago, Northern Ohio Reconstruction Co., and Mayfield Country Club.

Among the industrials were Ohio River Edison Coal, Alleghany By-Products Coke Co., Sagamore Iron, Richfield Oil of California, Chile Copper Co. and heavy holdings of Consolidated Iron & Steel Manufacturing Co.

Several Van Sweringen railroads were among the holdings in that field. Among the rail stocks were Alleghany Corporation, Chesapeake Corporation, Rock Island, Erie, Missouri Pacific, Nickel Plate, New York, New Haven & Hartford, Southern Pacific, Wabash and the A. C. & Y. The A. C. & Y. is centered at Akron and is headed by H. B. Stewart, a Guardian bank director, and several other Guardian directors.

Contrasting with the total investment portfolio of \$38,000,000 was that section which recorded purchases of government securities. This registered a total of \$12,000,000—less than one-third of the total.

The investment list follows:

U. S. Government Securities, carried on books at		\$12,011,481.32
Municipals, carried on books at		\$1,276,502.32
Maturity		Amount carried on books June 15, 1933
3-1-2050	American & Foreign Tr. Co. Inc. Deb. 5c	220,000.00
1-1-53	Associated Electric Co. 4 1/2s	375,000.00
1-15-49	Assoc. Gas & Elec. Conv. Deb. 4 1/2s	400,000.00
3-1-58	Assoc. Gas & Elec. Conv. Deb. 4 1/2s	175,000.00
10-1-68	Assoc. Gas & Elec. Co. Deb. Cons. Ref. 5s	41,000.00
2-15-2002	Assoc. Gas & El. Co. Chib. Ser. A Reg. 5s	155,000.00
11-15-38	Assoc. Gas & Elec. Co. Conv. Inv. Cl. 5 1/2s	571,000.00
12-1-67	Central Ill. Public Serv. 1st Mtg. 4 1/2s	70,000.00
12-1-67	Central Ill. Public Serv. 1st Mtg. 4 1/2s	38,000.00
1-1-48	Central States Elec. Corp. Conv. Deb. 5s	100,000.00
1-1-57	Chicago Railways Co. 1st 5s	100,000.00
1-1-57	Consolidated El. Gas Co. 5-year Sec. Nis. 6s	100,000.00
4-15-32	Cincinnati St. Ry. 1st Mtg. 5 1/2s	50,000.00
4-1-55	Cincinnati St. Ry. 1st Mtg. Ser. B 6s	100,000.00
1-1-50	Cities Serv. Co. Conv. Deb. 5s	70,000.00
1-1-50	Cities Serv. Co. Conv. Deb. 5s	500,000.00
4-1-58	Cities Serv. Co. Debentures 5s	75,000.00
1-1-58	Continental Gas & Elec. Corp. Deb. "A" 5s	50,000.00
1-1-58	Electric Ry. & Tr. Co. Conv. Deb. 4 1/2s	100,000.00
1-1-58	Greystone Corp. Coll. Tr. S. F. Notes 6s	150,000.00
1-1-57	Illinois Pr. & Lt. Corp. 30 Yr. S. F. Deb. 5 1/2s	150,000.00
1-1-63	Indiana Serv. Corp. 1st Lien & Ref. 5s	50,000.00
1-1-50	International Tel. & Tel. Corp. Deb. 4 1/2s	300,000.00
1-1-58	Interstate Public Serv. Co. 1st Ref. F. 4 1/2s	100,000.00
1-1-58	Lake Shore Elec. Ry. Co. Part. in Note 6s	16,666.67
1-1-58	Lake Shore Elec. Ry. Co. Part. in Note 6s	66,666.67
1-1-57	Lake Shore Elec. Ry. Co. Part. in Note 6s	182,000.00
1-1-57	New England Gas & El. Assoc. Conv. Deb. 5s	175,000.00
1-1-57	New England Gas & El. Assoc. Conv. Deb. 5s	27,000.00
4-1-48	New England Pr. Assoc. 20 Yr. Deb. 5s	140,000.00
1-1-55	New Orleans Pr. & Tr. Inc. 1st & 2nd 4 1/2s	30,000.00
1-1-50	Niagara Share Corp. 20 Yr. Conv. Deb. 5 1/2s	50,000.00
1-1-58	Ohio Water Serv. Co. 1st Mtg. A 5s	11,000.00
1-1-48	Oklahoma Natural Gas Co. 1st Ser. B 5s	200,000.00
1-1-50	Pac. Northwest Public Serv. 1st & Ref. 4 1/2s	100,000.00
1-1-50	Philadelph. Gen'l Elec. 1st & Ref. 4 1/2s	208,000.00
1-1-58	Super Power Co. of Ill. 1st 4 1/2s	70,000.00
1-1-58	Super Power Co. of Ill. 1st 4 1/2s	130,000.00
1-1-59	Utilities Pr. & Lt. Corp. 30 Yr. Deb. (with S. F.)	100,000.00
1-1-57	West Texas Util. Corp. 1st Mtg. 5s	200,000.00
1-1-57	Chicago Railways Co. Cons. 20 Yr. A 5s	50,000.00
1-1-57	Cincinnati, Hamilton & Dayton Ry. Co. Hamilton Division 1st 4s	725.00
4-1 & 10-1	Clev. S. W. Ry. & Lt. Co. P. M. Car Tr. 6s	32,800.00

Maturity		Amount carried on books June 15, 1933
5-1-31-34	Det. Unit. Ry. Co. Gen. Equip. Tr. Ser. A 6s	3,446.90
4-1-31	Int. Ry. Co. of Des Moines 1st 10-yr. 7 1/2s	25,000.00
1-1-30	Springfield & Xenia Ry. Co. Part. in Nis	20,737.33
1-1-30	Syracuse Rapid Transit Co. 2d 5s	10,000.00
4-1-72	Chicago, Aurora & Elgin R. R. Deb. 5s	300,000.00
1-1-30	Chicago, Aurora & Elgin R. R. 1st & Ref. 5 1/2s	100,000.00
1-1-31	Cin. Ham. & Dayton Ry. 1st & Ref. Ser. A 6s	2,900.00
1-1-76	Cin. Ham. & Dayton Corp. Prior 6s	7,250.00
1-1-76	Cin. Ham. & Dayton Corp. Adj. Inc. 6s	7,250.00
1-1-76	N. Y. State 30-Yr. Ser. A 4 1/2s	200,000.00
1-1-46	Syracuse Rap. Tr. Co. 1st Mtg. 5s	2,000.00
6-1-32	Cont. Pub. Util. Corp. 20-Yr. Ing. Reg. 5 1/2s	305,000.00
11-1-34	A. C. & Y. Co. Secured 6s	270,000.00
1-1-44	Alleg. Corp. 15-Yr. Coll. Tr. Conv. 5s	500,000.00
6-1-49	Alleg. Corp. 20-Yr. Coll. Tr. Conv. 5s	135,000.00
1-1-47	Alleg. Corp. 20-Yr. Coll. Tr. Conv. 5s	100,000.00
1-1-47	Chic. Mil. St. P. & Pac. Ry. 50-Yr. Mtg. 5s	462,000.00
1-1-47	Chic. Mil. St. P. & Pac. Ry. 50-Yr. Mtg. 5s	164,000.00
1-1-47	Chic. Mil. St. P. & Pac. Ry. 50-Yr. Mtg. 5s	86,200.00
1-1-47	Chic. R. R. & P. Co. 1st & Ref. 5s	18,890.00
1-1-47	Chic. R. R. & P. Co. 1st & Ref. 5s	125,500.00
1-1-47	Chic. R. R. & P. Co. 1st & Ref. 5s	300,000.00
1-1-47	Chic. R. R. & P. Co. 1st & Ref. 5s	100,000.00
1-1-47	Chic. R. R. & P. Co. 1st & Ref. 5s	85,000.00
1-1-47	Chic. R. R. & P. Co. 1st & Ref. 5s	50,000.00
1-1-47	Chic. R. R. & P. Co. 1st & Ref. 5s	75,000.00
1-1-47	Chic. R. R. & P. Co. 1st & Ref. 5s	50,000.00
1-1-47	Chic. R. R. & P. Co. 1st & Ref. 5s	93,000.00
1-1-47	Chic. R. R. & P. Co. 1st & Ref. 5s	93,000.00
1-1-47	Chic. R. R. & P. Co. 1st & Ref. 5s	145,000.00
1-1-47	Chic. R. R. & P. Co. 1st & Ref. 5s	100,000.00
1-1-47	Chic. R. R. & P. Co. 1st & Ref. 5s	145,000.00
1-1-47	Chic. R. R. & P. Co. 1st & Ref. 5s	100,000.00
1-1-47	Chic. R. R. & P. Co. 1st & Ref. 5s	243,031.25
1-1-47	Wabash Ry. Co. Ref. & Gen. Mtg. C 4 1/2s	130,000.00

Maturity		Amount carried on books June 15, 1933
11-1-1933	American Roll Mill. Co. 3-yr. notes 4 1/2s	\$ 198,375.00
6-1-1940	Armstrong Cork Co. 10-yr. conv. db. 5 1/2s	145,375.00
1-1-1947	Chile Copper Co. 20-yr. debentures 5s	204,292.00
1-1-1933-36	Cleveland City Pr. & Tr. Co. 1st Mtg. 6s	75,000.00
3-11-1936	Globe Mach. & Stamp. Co. 1st Mtg. 6s	228,000.00
6-1-1945	Goodrich B. F. Co. 15-yr. conv. deb. 6s	60,000.00
7-1-1947	Goodrich B. F. Co. 1st 25-yr. 6 1/2s	100,000.00
1-1-1921	Hudson Coal Co. 1st Mtg. Ser. A 5s	100,000.00
8-1-1939	H. B. Miller Industries Co. 1st 15-yr. 6 1/2s	79,000.00
4-1-1956	National Steel Corp. 1st coll. S. F. 5s	95,000.00
4-1-1956	National Steel Corp. 1st coll. S. F. 5s	255,000.00
1-1-1955	Newton Steel Co. 1st Mtg. 7s	205,000.00
9-1-1949	No. American Cement Corp. S. F. db. A 6 1/2s	13,000.00
(4-1 & 10-1)		9,250.00
1933-1934	Ohio River Edison Coal Co. 1st 6s	21,000.00
11-1-1943	Pacific Western Oil Co. 15-yr. deb. 6 1/2s	17,270.00
2-1-1943	Phillips Petroleum Corp. deb. S. F. 5 1/2s	118,687.50
4-1-1933	Sagamore Iron Co. part. in loan 6s	320,512.50
1-1-1931-32	Cleveland City For. & Ir. Co. 1st Mt. 6 1/2s	31,040.00
10-1-1921	Alleghany By-Products Co. Co. coll. tr. 6s	40,000.00
10-1-1921	Alleghany By-Products Co. Co. coll. tr. 6s	5,230.50
1-1-1942	Brady Warner Coal Co. 1st S. F. 7s	1,045.40
3-1-1931-41	Consol. Ir. & Stl. Mfg. Co. 6s	93,300.00
do Promissory Notes 6s		53,583.85
1-15-1941	Internat'l. March Crp. 10-yr. conv. db. 5s	50,180.00
8-1-1934	Maier Collieries Co. 1st S. F. 4,000.00	701,396.00
6-1-1935-37	Midland Sheet & Tin Plate 1st Mtg. 8s	200,000.00
5-1-1944	Richfield Oil Co. of Cal. 1st & 2nd tr. cn A 6s	2,045.40
		13,300.00
		81,990.21

Maturity		Amount carried on books June 15, 1933
5-1-37	Bulkley Bldg. Co. Deb. 6s	\$ 500.00
1-1-38	Hippodrome Bldg. Co. L. T. C. 5s	\$ 9,450.00
4-1-31	Mayfield Country Club 1st Mtg. 10 Yr. 6s	11,000.00
4-1-31	Quincy Bldg. Co. Serial 7s	59,000.00
1-1-33	S. W. Car. Euclid & E. 105th L. T. C. 5 1/2s	26,500.00
12-15-32	Union Mtg. Bldg. Prop. L. T. C. 5 1/2s	15,000.00
12-1-31	Auxer, Fred P. & Eliz. 1st Mtg. 6 1/2s	96,000.00
1-1-31	Midland Realty Co. (Painesville) Coll. Trust Notes 6s	400.00
8-1-30	Northern Ohio Reconstruction Co. Income Deb. Notes 5s	10,000.00
1-1-32	National Mtg. Co. 1st Mtg. Coll. Trust Ser. "C" 5 1/2s	12,650.00
6-15-32-5	Sethman, Clarence H., 1st Mtg. Leaseholds 6s	1,400.00
1-1-32-7	Sloan Co., Thomas G., 1st Mtg. Leaseholds 6 1/2s	78,000.00
8-15-32-41	Morgan Prop. Co. 1st Mtg. Serial 7s	112,500.00
	Clark Randolph Bldg. Site L. T. C. (Chicago) 4s	30,500.00
	Community Prop. Co. Unsecured Deb. A Notes 8s	59,000.00
	Huron High Co. 1st Mtg. Serial 7s	4,200.00
	Michigan Chestnut Bldg. Corp. (Chicago) L. T. C. 5 1/2s	53,300.00
	Michigan Office & Theatre Bldg. Site (Detroit) 5 1/2s	28,000.00
11-1-34	Skinner, Marie, 1st Mtg. L. H. 6s	1,000.00
	Smythe Building Co. L. T. C. 5 1/2s	23,000.00
	Union & Haltnorth Building Property L. T. C. 5 1/2s	17,000.00
8-1-35	Van Sweringen Co. 1st Mtg. Coll. Trust 10-Year 6s	5,500.00
10-1-38	Van Sweringen Co. 1st Mtg. Coll. Trust 10-Year 6s	64,000.00
	Del Prado Prop. L. T. C.	36,000.00
		4,000.00

Maturity		Amount carried on books June 15, 1933
1-1-1938-43	Buffalo & Crystal Beach Corp. 1st Mt. 7s	5,100.00
1-1-1944-43	Cleveland & Buff. Transit Co. 1st Mt. 5 1/2s	4,310.00
1-1-1933-43	Clev. & Buffalo Transit Co. 1st Mt. 5 1/2s	9,000.00
4-1-1939	Ohlen-Bishop Co. 1st Mtg. S. F. 6s	86,332.50
1932-1935	Relay Motors Corp. 1st Mtg. 5s	14,750.00
8-1-1943	Gennett Co. Inc. 15-yr. S. F. "A" 6s	49,300.00
2-1-1943	National Credit Corp. Notes	100,000.00
5-1-1938	Serinus Co. E. W. 15-yr. deb. 5 1/2s	52,500.00
	New York Joint Stock Land Bank 5s	100,000.00
	1200 Indiana Limestone Co. of 1945 taken for transfer fee on stock deal	56,000.00
		1.00
		\$ 446,933.84
		\$13,528,976.42

Maturity		Amount carried on books June 15, 1933
5,000	Chesapeake & Ohio Ry. Co. Common \$25.00 Par	\$213,387.50
2,500	Chesapeake Corp. Common No Par	73,125.00
	General Gas & Elec. Corp. Scrip. Cert. for Div. Face Value \$2,325.00	2,325.00
6,100	Central Public Utility Corp. Com. V. & C. Par \$1.00	1.00
87	Cincinnati, Hamilton & Dayton Corp. Com. No Par	36,591.77
2,453	Eastern Utilities Invest. Corp. Class "A" Common No Par	370,800.00
4,120	Northeastern Utilities Co. Class "B" Pref. No Par	12,250.00
125	Tri Continental Corp. No Par Common	99,750.00
1,000	United Light & Power Co. Cum. Conv. 1st 6% Pfd.	1,750.00
50	American Shipbuilding Co. Common No Par	20,295.00
	(Orig. Cost \$84.62)	4,800.00
198	City Ice & Fuel Cumulative 6 1/2% Pfd.	193,312.50
300	Cleveland Graphite Bronze Co. No Par	88,050.00
100	Glidden Co. Prior Preference 7s	1.00
5,000	Myers & Brothers P. E. Common No Par	12,700.00
1,004	Wyoming Pocahontas Coal & Coke Co. 6% Cum. Pfd.	107,324
150	Alleghany By-Products Coke Co. Pref. Par \$100	1.00
200	American Fire Clay & Products Co. Cap.	109,342.50
256	Cleveland City Forge & Iron Co. 2nd Pref. Par \$100	25,559.98
4	Cleveland City Forge & Iron Co. Common No Par	100.00
1,195	Cleveland Hardware & Forging Co. Cap. \$20.00 Par	5,244.98
325	Globe Machine & Stamping 7% Pfd.	1.00
160	Garrison-Seybold Offer Co. 7% Pfd.	19,800.00
53	Hendrick Mfg. Co. Common No Par	22,500.00
2,304	Hinde & Dauch Paper Co. 6% Pfd.	1.00
198	Interlake S. S. Co. Common No Par	19,800.00
375	Kanawha Hocking Coal & Coke Co. 7% Pfd.	22,500.00
23,219	Kanawha Hocking Coal & Coke Co. "A" Common	2,231,977.57
380	McKinney Steel Holding Co. 6% Pfd.	2,850.00
200	Midland S. S. Lane Inc. Cap. No Par	3,350.00
105-60-100	National Malleable & Steel Castings Co. Common No Par	
50	North Elec. Mfg. Co. (Indian, Oh.) Cont. No Par	500.00
99 1/2	Ohlen-Bishop Co. Common No Par	148,048.50
2,080	Perry Fay Co. Capital Par \$30.00	3.00
1,000	Sheriff St. Market & Storage Co. Capital No Par	45,500.00
1,000	Upson Walton Co. Common No Par	20,250.00
1,500	Virginia Carolina Chem. Corp. 6% Cum. Div. Pfd. Pld.	241,655.27
4,080	Virginia Carolina Chem. Corp. Common No Par	
2,128	Wyoming Pocahontas Coal & Coke Co. Com. No Par	10,100.00
100	Chase National Bank N. Y. \$20.00 Par	
83	Cleveland Block Co. Capital (\$31.33)	
	Liquidating Pymt. Received	
129	Properties Co. The 2nd Pref. Par \$100.00	1,290.00
10	(Orig. Cost \$100)	100.00
	Akers, Folkman, Lawrence Co. Cap. (10% Pfd.)	

Valley Mould & Iron	100,000	Peers	1,918
(President J. R. Kraus was a director)		Cannon, Spieth, Tamm, Spring & Annot (dir.)	5,306
Wade Park Manor Co.	35,000	Cleve. Cliffs Iron (dir.)	3,877
(Vice-President G. P. Steele was a director)		Cleveland Stock Exchange	1,291
Warner Collieries	300,000	Continental Shares (dir.)	623
(Director Whitney Warner was a director)		Cumard S. S. Lane	2,302
W. H. Warner Coal Co.	103,980	East & Ernst	3,355
(Director Whitney Warner was a director)		Fox, Dittie & Foose	1,143
		General Electric Co.	4,150
		Grandin & Newcomer (dir.)	2,241
		Great Lakes Towing	2,254
		Guaranty Co. of New York	1,000
		Hayden, Miller Co. (dir.)	1,157
		Holding, Duncan & Leckie	2,480
		Hornblower & Weeks	1,366
		Lehman & Co. (dir.)	1,568
		Marshall Drug Co.	2

P. Dealu Nov 6-1933

11

'SECRET TRUST' IN GUARDIAN PROBED

Falkenstein Tells of Setup
to Handle Securities
That "Went Sour."

BY PAUL L. EINSTEIN.

What investigators described as a "secret trust" set up inside the Guardian Trust Co. without the knowledge of more than three or four of its officers and directors was brought to light by the special State Senate committee investigating banking practices yesterday.

Records of its operation had been placed in the hands of Senator L. L. Marshall, chairman of the committee, and Senators Marvin C. Harrison and John P. Bower, Rushsylvania, only members of the committee present at the final Cleveland session Saturday. Today the committee will transfer its activities to Toledo.

E. J. Falkenstein, chief investigator and auditor for the Senate inquiry, submitted evidence on the "secret trust" in support of his contention that the state banking department should institute detailed inspections of all trust banking operations.

This followed statements to the committee Saturday in which Falkenstein reported that two weeks ago, while he was working in the Guardian, an employe of the state department had come to him and reported that he had been shifted off the investigation of the "secret trust"—Special Trust 1092—"because he was getting too close to some private affairs."

Repository for Write-Offs.

Records of S. T. 1092 show that it was originally established as a repository for assets written off.

Starting early in 1931, Falkenstein pointed out, the bank began paying \$3,000 a month into S. T. 1092 from trust department earnings which should properly have accrued to the bank as a whole. This policy was continued through February, 1933.

Proceeds from this and other sources accruing to S. T. 1092 were devoted to the purchase of securities which had "gone sour" from private trusts in which they were held, Falkenstein said.

In March of 1931, he reported \$125,000 was diverted from a "reserve for depreciation" account in the bank proper to the S. T. 1092, to provide funds for the repurchase of an entire issue of 6½ per cent. leasehold bonds on the Center-Woodland Realty Co. (E. 55th-Woodland property) which had "gone sour."

"There were only three or four persons in the bank who knew about S. T. 1092," Falkenstein said.

"Split Commissions."

Alleged improper income collected by the special trust was in part derived from "split" commissions from loans negotiated by a real estate and loan broker and "serviced" by him after they had been placed with various life insurance companies.

Under an agreement which he had at the bank, it made a practice of referring to him all real estate loan applications which the bank could not arrange to take. He would then contact life insurance company representatives in efforts to place such loans and, if successful, would receive a commission from the borrower.

An agreement provided that the broker was to pay into the bank 60 per cent. of his commission, which was regularly deposited in S. T. 1092. In addition, he was obliged to deposit half of his 40 per cent. share of the commission in the bank, to be kept on deposit in S. T. 1092 to make good any losses on loans which he had negotiated. A total of \$7,762 was forfeited for this purpose between 1927 and 1932.

In the case of a \$200,000 loan negotiated by the broker for H. P. McIntosh, sr., chairman of the Guardian board of directors, on the Heather Building, Euclid Avenue at E. 102d Street, the bank's share of the commission, \$1,200, was refunded to McIntosh, records indicated.

Photostatic copies of an entry ticket in S. T. 1092, and bearing the o. k. of "J. A. H.-Pres." (J. Arthur House, president) showed this refund under date of Nov. 19, 1931.

Correspondence between H. C. Robinson, senior vice president of the Guardian, and Superintendent of Banks, Ira J. Fulton and Fulton's predecessor, O. C. Gray, showed that the bank on Nov. 29, 1930, was ordered to discontinue its practice of making advances to life insurance companies in anticipation of collections of interest and principal on mortgages which it had sold to the insurance companies but continued to administer as agent. The practice was resumed within a year after its discontinuance was ordered and adherence to the regulation promised by Robinson, Falkenstein reported.

Press
Nov 6-1933
#12

NOV. 6, 1933

BANK PROBERS STUDY EFFECTS OF REVELATIONS

Federal and State Investigators Seek to Find Out What Next Action Should Be

Federal and state investigators, busy here probing the Union and Guardian Trust Co. affairs for possible violations of the Ohio and United States criminal statutes, today had some startling revelations brought out by the State Senate Bank Committee last week into which they may sink their teeth.

One of these was the disclosure, through correspondence submitted in evidence, that the Guardian Trust Co. solicited special deposits over statement periods in order to make the bank's cash position look stronger.

Another was that the same bank, for the admitted purpose of deluding the Federal Reserve Bank in its requirements for cash reserve against demand deposits, solicited shielding of demand deposits as time accounts.

A third was that the United States mails were used in both these alleged transactions.

Another was that President J. Arthur House, of the Guardian, was quoted in correspondence as offering to arrange "stock losses" in transfer of bank stock in order for persons so favored to escape part of the income taxation which would have been their due.

Whether the federal agents working here in two groups were interested in following up these disclosures was not known. It was noticed, however, that some of the

federal observers at the hearings were making notations of the dates and authors and recipients of the letters introduced into the testimony.

Working here now on the banking situation are two divisions of federal men—Department of Justice agents working directly and solely on possible violation of criminal federal statutes, and field men working under Ferdinand Pecora, special counsel for the U. S. Senate committee on banking and currency. The latter group is interested primarily in banking conditions which may be used in correcting or enlarging the scope of present bank legislation.

It has been unofficially indicated federal grand jury hearings will be held within the month, and that in event of indictments, trials will ensue not later than Christmas.

Completing its investigations Saturday of Cleveland banks, the

state Senate committee sent its investigator, Edward J. Falkenstein, to Toledo to prepare the field work for a hearing there beginning next Friday.

In the one-day session that explored the secret records of the Union and Guardian Trust companies, the committee put into its record many sensational bits of testimony concerning the two banks. Among these were:

THAT the State Banking Department had complained of illegalities in the business of the Union Trust Bank.

THAT Union loans to the Van Sweringens exceeded the bank's statutory limit.

THAT the bank accepted its own stock as collateral on loans, and that on two occasions, a number of directors had impaired their stock.

THAT the Union had invested illegally in stock of the Alleghany Corporation.

THAT Joseph R. Nutt, former chairman of the Union, received a check for \$130,000 for "brokerage" in the Corrigan-McKinney Steel Co. deal, but did not turn it over to the bank for seven months.

THAT at least \$16,000,000 of the loans in the bank should have been written off and that \$12,000,000 additional were "doubtful."

THAT the Union's credit file on the Van Sweringen brothers indicated that in March, 1932, the net worth of "O. P. and M. J." was \$2,126,726 "in the red."

THAT in a statement to Liquidator Oscar L. Cox, the Van Sweringens gave their net worth as of June 30, 1933 as \$18,649,362.

THAT J. R. Nutt had asked J. P. Morgan Co. to take over a \$3,387,000 loan of Cleveland Cliffs at the bank, with the understanding that Mr. Nutt would get the R. F. C. to take over the loan in turn.



Paris Office

4 Rue Martel

CABLE ADDRESS "LINDNER" CLEVELAND
CODE A.B.C. 5TH EDITION

The Lindner Co.

Fashions in Good Taste

Euclid Square Euclid Avenue at 14th St.

Cleveland,

November 8, 1933

Rabbi Abba Hillel Silver,
The Temple,
Cleveland, Ohio

Dear Mr. Silver:-

Here are some of the items about which I spoke to
you yesterday:

1. The depot on the Square was suggested by President Smith of the New York Central. It was internally opposed by some of the New York Central directors, who were powerless to prevent it. The Company has spent \$93,000,000 in developing this project, which has proven a tremendous white elephant, and has seriously affected the present value of New York Central stock. Only three of the expected seven railroads are using it -- the New York Central, the Big Four, and the Nickle Plate.

2. The necessary depot ordinances were at first defeated in Council, then after extraordinary pressure of different kinds, it was finally adopted by a very narrow margin.

3. A referendum vote was taken, set at a special election, set for the purpose when the voters would not come to the polls. The referendum was favorable to the scheme by a vote of approximately 30,000 to 20,000. Secretary Dykstra of the Citizens League stated to me that the result was achieved by the depot interests hiring the political workers of both political parties, 8000 in number, to bring out the 30,000 votes. (This statement should be verified, if possible at this late date.)

4. The same President Smith of the New York Central brought about the sale of New York Central holdings in the Nickle Plate to the Van's for \$2,000,000. The Guardian Bank loaned the money to the Van's on the stock as collateral, as brought out in recent investigations. An official of the New York Central told me that the



Paris Office

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The Lindner Co.

Fashions in Good Taste

Euclid Square Euclid Avenue at 14th St.

Cleveland,

Silver

Page #2

Nickle Plate deposited \$2,000,000 of the Company's funds in the Bank; ~~th~~^{us} this purchase was made by the Van's, with the Railroad's own money. The Railroad deposited the \$2,000,000 in the Bank - the Bank loaned it to the Van's - the Van's paid it to the New York Central for the stock that was used as collateral. This Nickle Plate stock subsequently became the basis of the Van's railroad pyramid.

5. There were boundless acres of farm lands between Shaker Heights and Chagrin River. Farm lands are worth from \$25 to \$100 an acre as farm lands. As city or suburban lots they can be sold at \$25 to \$200 a foot front. In an acre there are approximately 200 front feet (200 x 210 depth equals 41,000 sq. ft.) Therefore suburban lots multiply the value of farm lands one hundred fold.

It requires roads, sewers, watermains to turn farm lands into suburban lots. These improvements are put in either by the developing company, or in part by public funds. When public credit is used, part is borne by the county or municipality, part is assessed against the benefitted property, and interest and amortization take the form of taxes ^{ass}essed against the property.

A survey given you yesterday shows, on those properties that thus far have been traced through county auditor's office, \$3,500,000 are already delinquent; and additional sums of \$900,000 each six months are inevitably being added to these delinquencies. In the meantime, the burden is correspondingly increased to all within the county who pay their taxes and school teachers, librarians, and county employees will soon have to go without pay, or be paid in scrip. Interest on county bonds are a first lien on the taxes paid, coming ahead of governmental needs.

(I have just been told that a large part of the farm land was bought by inducing the farm owner to take six per cent stock in the development company !!!)

6. The relationships with Nutt-Bradley et al., and its



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The Lindner Co.

Fashions in Good Taste

Euclid Square Euclid Avenue at 14th St.

Cleveland,

Silver

Page #3

ruinous effect upon the banks is a matter of public record. No doubt you are thoroughly apprized thereof.

7. The Street Railway control seems to me to have been acquired for several purposes:

- a) To consolidate with the heavily losing Rapid Transit.
- b) To make bargains against the interests of the Street Railway Company and in favor of the realty holdings at the Square, such as the effort to get Council to authorize \$210,000 for rental of an approach to Higbee's basement, and a project to have the Street Railway Company pay \$1,000,000 annual rental to the Terminal Company (part of the prospective plan inducing the New York Central to endorse the Terminal scheme.)
- c) To increase Terminal and Shaker Heights values to the detriment of the rest of the City -- Euclid Avenue, East Cleveland, etc.
- d) To prevent through routing of street cars, Euclid Avenue subway, and all developments except their own.

8. The Street Railway stock control was purchased by the Metropolitan Securities Company, \$10.00 per share on 300,000 shares. Recent public hearings show that the Guardian Bank loaned \$1,500,000 on these voting rights themselves, and Joe Alexander told me that the other \$1,500,000 was borrowed on a combination of a \$50,000 Kansas City Company, and some other company equally valuable.

The stipulated promise to begin retirement at par of stock last January has not been fulfilled, and a new promise has been substituted for it with the approval of the trust departments of the banks, including the Guardian and the Union. I believe their bonds are in arrears, although I do not know. The Street Railway Company has been so badly run down that the property is being most seriously impaired, and the six per cent guaranteed stock is selling at 36 to 40.



Paris Office

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The Lindner Co.

Fashions in Good Taste

Euclid Square Euclid Avenue at 14th St.

Cleveland,

Silver

Page #4

This list will be added to by Jay Iglauer, who is a much better compiler than I am. I am enclosing a pamphlet of the Euclid Avenue Association, showing the effect of some of these machinations on Euclid Avenue property, and upon City revenues.

With sincere regard, I am

Sincerely yours,

W. R. H. S.
most a. B. S. C.
no doubt, you will so carefully word your
address that even the remote possibility of
libel can not be charged against you.

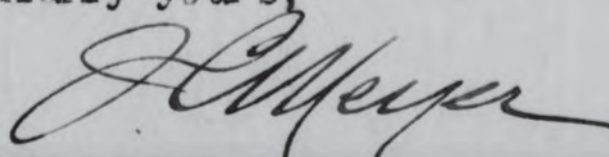
Western Reserve University, Cleveland, Ohio.
November 13, 1933.

Rabbi A.H. Silver,
The Temple,
Ansel Road, Cleveland, Ohio.

My dear Rabbi Silver:

Congratulations on your outspoken attitude toward the "fakers" who formerly passed as financiers. Several people have hinted to me that I make myself rather bold to handle these sacred emblems of Cleveland's prosperity with something other than apotheosis. So you see I have a selfish interest in your lecture. I case I am to be incarcerated in the state or federal penitentiary for telling what I think is the truth I console myself now by the thought that your cell will be near to mine. On the other hand my faith in the stand we take is considerable assurance that these fakers will not be able to make a come-back. Their seven fat years have passed and I doubt if they will be able to come through the lean years with enough "brass" (after all that is about the sum total of their stock in trade) to fool another generation. Unless we raze the monuments which their folly planned and executed the people should see ample warning against again giving them power.

Cordially yours,

A handwritten signature in dark ink, appearing to read 'J. Meyer', written in a cursive style.

GORDON A. DREW
10700 MORISON AVENUE
CLEVELAND, OHIO

Nov 13-33

Mr. Rabbi Silver

Dear Sir:-

I did not
hear your sermon Sunday
but read comments of it in
Monday papers. I never
have taken pen in hand
before to express my appre-
ciation of a speech before
but that did move me to
take action

Your effort to expose the
wrong doer is a great
public service & is very
timely. Let us have more
of them.

Yours Truly & Oblige
G. Drew.

MRS. ROBERT H. JAMISON
2469 KENILWORTH ROAD
CLEVELAND HEIGHTS, OHIO

Tuesday
morning

Dear Rabbi Silverman —

Though I am much
disappointed that you could
not speak at the Women's City
Club — I am very glad to excuse
you to spend your time
writing sermons such as you
preached last Sunday — It
is tremendously encouraging
to find a leader so far less

and with the ability to put
his ideas in clear, forceful
and simple language —

I hope some day the lawyers
who give advice to "financiers";
advice on how to evade the
law without being caught,
rather than how to obey ^{the} ~~the~~ ^{of the} law
spirit as well as the letter, ^{can}
be publicly criticized — I

know of one — who was a partner
of Otis & Co, a director of Continental
Shares — a member of the
executive committee of the
Guardian Bank — and a

MRS. ROBERT H. JAMISON
2469 KENILWORTH ROAD
CLEVELAND HEIGHTS, OHIO

second for a man with fine
legal training. who should
have been upholding the
highest ethics of his profession!
And we all know the man
who has legal advisor for both
the Guardian & the Union Trust
Co. What havoc such men
have wrought with their advice!
With all good wishes I am

Sincerely yours,

Majorin Jamison—

JAY IGLAUER
1228 EUCLID AVENUE
CLEVELAND, OHIO

November 13, 1933

Rabbi A. H. Silver
The Temple
East 105 & Ansel Rd.
Cleveland, Ohio

My dear Rabbi:

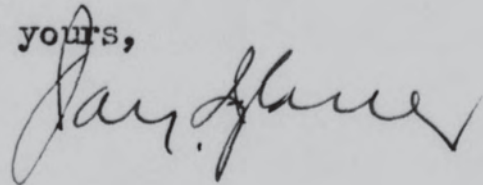
Needless to say I was very much impressed with your address of Sunday morning, November 10th, and if it is in printed form I should like to purchase a half dozen copies - I may need more.

I noticed that you called attention to the tax delinquency, which instead of being \$700,000 really is \$3,500,000 up to this year and is increasing at the rate of \$890,000 each half year.

I sincerely hope that more of the spiritual leaders will emphasize and re-emphasize that what we need, both in business and in politics, is character.

With kindest personal regards, I am,

Sincerely yours,

A handwritten signature in dark ink, appearing to read "Jay Iglauer", with a stylized, flowing script.

IJ

Cleveland O., Nov-14-1933.

Rabbi Silver,

Cleveland,

Ohio.

Dear Sir:-

I was at

The Temple Sunday morning and heard
your address, and I want to Congratulate
you on your courage and fearlessness to
stand up upon the large congregation that
was assembled there and speak the truth
about the Baiting situation in Cleveland.
People have long been too silent on the
subject, and as the old saying goes,
"Silence gives consent"

Very sincerely yours,

Mrs Fred S. Dineen,

6504 Seimwood Ave,

Cleveland,

Ohio.

McKeehan, Merrick, Arter & Stewart

AND

George William Cottrell

TERMINAL TOWER

CLEVELAND

November 14, 1933.

HOMER H. MCKEEHAN
WALTER C. MERRICK
CHARLES K. ARTER
WILLIAM B. STEWART
GEORGE WILLIAM COTTRELL
CLINTON M. HORN
LEROY B. DAVENPORT
CHARLES FOLLETT
NEIL P. BEALL
WALKER H. NYE
LEWARD C. WYKOFF
ASHLEY M. VAN DUZER
CARL A. SCHIFFER
FRED J. PERKINS
BLAKE WOMER
McALISTER MARSHALL
PETER REED
GEORGE P. BICKFORD
JOHN L. YAPLE
KINGSLEY A. TAFT
THOMAS V. KOYKKA
SHELDON S. REYNOLDS

Rabbi Aba H. Silver,
10311 Lake Shore Boulevard,
Cleveland, Ohio.

My dear Rabbi Silver:

My acquaintanceship with you over a long period of years and admiration for you is the permission I take to myself to send you this letter. Your sermon of Sunday offended me deeply.

O. P. and M. J. Van Sweringen have been my personal friends since they came to Cleveland. I have represented them in a great many matters of all sorts. I have yet to know either one of them to attempt to pull a "fast one" or to do any unkind act. Whether or not they are religious men, I do not know, but I do know that if members of my faith and members of your faith would lead as good lives, personally and in business, as do O. P. and M. J. Van Sweringen the world would be an infinitely better place to live in than it is.

Arthur House I have known for a great many years and I think if you follow up the trail of the good that he has done for others you would never have attack him as you did Sunday.

You use the first part of the "Good Book", my faith uses all of it, but I am sure that in either part of it there is enough teaching of charity to others that had you thought it through in advance you would have softened your speech as quoted in the newspapers.

If any one in the city should be bitter toward Arthur House it is myself. I was induced to go on the Board by Mr. House during the last year, and only the last year of the bank's existence. According to the newspapers and the investigators the bank was broke before I went on the Board. Despite all this I am pointing no finger of accusation at Mr. House, nor do I feel resentful toward him. Perhaps that is because as a youth I listened for years

Rabbi Aba H. Silver,
November 14, 1933.

to an old Scotch preacher who used so often to say "Could you do any better yursel."

Of course, I think the function of the pulpit is to save souls, promote kindness and charity one to another and make the world a better place to live in. As an unwelcome and truly voluntary critic I cannot think that your Sunday sermon did any of these things. In fact from the storm of criticism I heard on the street it did not even entertain.

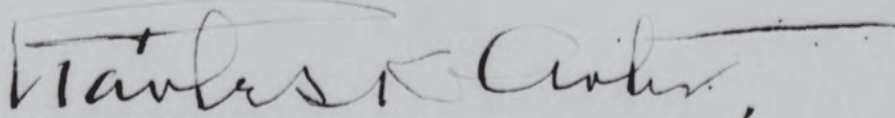
You, of course, realize that it is impossible for a layman, particularly when he is not present, to answer the diatribe of a pulpiter against him. The power of the pulpit and the power of the press are so great and the inability of the person attacked to answer so patent, that I think both the pulpit and press should be very careful not to use the terrific weapon they have unfairly.

I wonder if you thought out in advance what the effect of your sermon would be on the minds of people who will sit on the juries that will try questions of property and question of personal freedom of some of these men before this thing is through. If this continued ex parte publicity and opinion continue much longer I cannot see how any one connected with the bank, or whoever dealt with the bank will stand a very fair chance before the average jury in Cleveland.

There are enough truly public enemies in Cleveland, and in all the cities throughout the nation, to be attacked that I cannot see the necessity for the pulpit attacking gentlemen who were believed in by men like J. P. Morgan, Dwight Morrow and Frank Prentiss, and many, many other friends of mine whose judgment as to men is, I think, better than yours or mine and whose judgment as to business affairs is far superior to either yours or mine.

Please do not feel it is necessary to answer this letter at all. I have no doubt that you have had many letters. Please know, however, that what I say is said with deepest sincerity and without rancor. Those of us who are by temperament and by parental guidance so constituted as to feel that a friend is always entitled to the support of his friends come what may, just have to speak out in meeting.

Sincerely yours,



CHARLES K. ARTER

CKA:L

Copy to
Messrs O.P & M.J.
Van Sweringen and
Mr. Arthur House

ERNEST P. LENIHAN
1900 UNION TRUST BUILDING
CLEVELAND

November 14, 1933

Rabbi A. H. Silver
c/o East 105th Street Temple
Ansel Road & East 105th St.
Cleveland, Ohio

Dear Rabbi Silver:

I can not refrain from expressing my appreciation of your admirable address of Sunday morning. It must be gratifying to you to know the general commendation with which it was received. Your review of the banking situation was a statement of facts given forcefully and eloquently and I hope it may induce some of our other leaders to follow your guidance in an effort to prevent a recurrence of the debacle we have witnessed. Also I believe that those financial bandits who considered the depositors' and stockholders' funds as a private hoard of gold for the personal and almost exclusive use and benefit of themselves and their associates, should be properly punished for the misery and hardships they have inflicted upon hundreds of thousands of our good citizens as well as a wholesome deterrent to others of their stripe.

As you are probably aware, efforts are now being made by certain interests to hush up and condone their actions on, in my opinion, the false assumption that further publicity will be harmful rather than beneficial to the interests of Cleveland. Probably the truth is rather that they desire to conceal situations which have not yet been disclosed.

Very truly yours,

EPL.C

Ernest P. Lenihan

(COPY)

November 14, 1933.

Rabbi A. H. Silver
c/o East 105th Street Temple
Ansel Road & East 105th St.
Cleveland, Ohio

Dear Rabbi Silver:

I can not refrain from expressing my appreciation of your admirable address of Sunday morning. It must be gratifying to you to know the general commendation with which it was received. Your review of the banking situation was a statement of facts given forcefully and eloquently and I hope it may induce some of our other leaders to follow your guidance in an effort to prevent a recurrence of the debacle we have witnessed. Also I believe that those financial bandits who considered the depositors' and stockholders' funds as a private hoard of gold for the personal and almost exclusive use and benefit of themselves and their associates, should be properly punished for the misery and hardships they have inflicted upon hundreds of thousands of our good citizens as well as a wholesome deterrent to others of their stripe.

As you are probably aware, efforts are now being made by certain interests to hush up and condone their actions on, in my opinion, the false assumption that further publicity will be harmful rather than beneficial to the interests of Cleveland. Probably the truth is rather that they desire to conceal situations which have not yet been disclosed.

Very truly yours,

E.P. LENIHAN

EPL.C

Mrs John Jaster

2228 Dennington Dr.

called in on 11/23/33 - read sermon
on Van Sw. in paper -
commended lecture. Thought
if more people spoke up - banks
better off, etc.



Paris Office

4 Rue Martel

CABLE ADDRESS "LINDCOY" CLEVELAND
CODE A.B.C. 5TH EDITION

The Lindner Co.
Fashions in Good Taste
Euclid Square Euclid Avenue at 14th St.
Cleveland,

November 16, 1933

Rabbi Abba Hillel Silver,
The Temple,
Cleveland, Ohio

Dear Mr. Silver:-

I am afraid I disturbed at least one of your regulations last Sunday.

On account of the inclement weather, I did not arrive from the country at the Temple until 11:10, and found the doors closed. As I had come twenty miles to hear you talk, I so urgently pleaded my case with two of the staff of the Temple that they finally led me to the gallery where I heard almost all of your excellent presentation.

I thought your lecture distinctive for its clear, concise statement of facts, for its picture of the occurrences related.

It was also, so far as I know, the first presentation of the subject, where people were called by their names, and not hidden behind euphemisms. It seemed to me a fine example of moral courage, all too rare in these pussyfooting days.

May I say that the one suggestion that has occurred to me, has been that we, your auditors, have not been free from guilt in worshipping the Golden Calf, and have a responsibility in legislation and in individual action, if we wish to prevent such occurrences in the future.

With genuine regard, I am

Sincerely yours,

P.S. I am enclosing my subscription of \$100 to the Anti-Nazi cause, and am enclosing the first quarterly check for \$25.00.

November 17, 1933.

Mr. Charles K. Arter,
Terminal Tower,
Cleveland, Ohio.

My dear Mr. Arter:

Permit me to acknowledge receipt of your letter of November 14th. I am sure that you did not really mean what you said in your letter that I should not "feel it necessary to answer your letter at all." This is like asking the man whom you have engaged in a fight not to strike back.

As a tribute to friendship, your letter is excellent. As a refutation of the facts which I presented in my address last Sunday it is, I am afraid, sadly inadequate. You would have rendered the cause of truth a greater service if you had utilized the space of your letter in refuting the published facts.

Your conception of the function of the pulpit is open to a sharp difference of opinion. You refer to the Old and the New Testament and to the teachings of charity found therein. You have evidently overlooked a lot of other teachings found in the "Good Book." The great prophets in the Bible did not mince words in denouncing malefactors and corruptionists who add "house to house and field to field," who rob widows and orphans and who corrupt the priesthood with money. I should advise you to re-read very carefully, the preachings of Amos and Isaiah and Jeremiah. Perhaps you will recall from the readings of the New Testament how a certain prophet drove the money changers from the Temple and what he said concerning rich men whose difficulty

11-17-33

in entering the Kingdom of Heaven is as great as that of a camel trying to pass through the eye of a needle. You will be amazed when you read the "Good Book" carefully, what sharp and bitter words of denunciation and furious indictments the religious leaders of old used.

I know that there are a great many people who would like the church to speak of sin in general without making any pointed and disconcerting references to particular sinners. That is why there are so many so-called respectable members of churches and synagogues who are cheats, grafters and corruptionists.

I hope that the Van Sweringens enjoyed your letter. With all good wishes, I remain

Very sincerely yours,

AHS:BK





The Lion Knitting Mills Company

Knitters of *Ace Caps*

Sweaters and Fancy Knit Goods

CLEVELAND, OHIO

November 18, 1933

File

Rabbi Abba H. Silver,
Temple, Ansel Rd. Corner E. 105th St.,
Cleveland, Ohio.

Dear Rabbi:-

I want to tell you how much I enjoyed reading your sermon of last Sunday.

If that sermon had been delivered five or six years ago it undoubtedly would have done much to relieve the misery of thousands of families and would have been of great service to the citizens of Cleveland.

Very truly yours,

L. H. Ensten

LHE:HB

November 20, 1933.

Mr. Ernest P. Lenihan,
1900 Union Trust Bldg.,
Cleveland, Ohio.

My dear Mr. Lenihan:

Permit me to thank you profoundly for your kind letter of November 14th. The reaction of the community to my address was such as to make me believe that it was timely and that it has probably served a good purpose. It was good to know that so many leaders in the community were thinking along the same lines that I had been and felt the same way. It was good of you to write.

With best wishes, permit me to remain

Very cordially yours,

AHS:BK

PAINTS • VARNISHES



ENAMELS • LACQUERS

THE ARCO COMPANY

7301 BESSEMER AVENUE

CLEVELAND, O.

November 20, 1933

Rabbi A. H. Silver
The Temple
Cleveland, Ohio

Dear Rabbi:

I regret to say that on account of the Community Fund meetings this week I will not be able to attend the luncheon tendered for Dr. Johnson on the 22nd.

I attended services a week ago last Sunday and know that you will be interested in having my reaction to the subject of your lecture on the catastrophe that has befallen Cleveland as a consequence of the banking failures and the Van Sweringen developments. The lecture was not a revelation by any means as the subject has been very well aired in our daily papers. While you made a reservation with reference to some of Cleveland's bankers, admitting that they were not all subject to severe criticism, I think you should have made a similar statement with regard to the activities of the Van Sweringens. In justice to them, it certainly can be said that some of their developments, particularly the Union Terminal and the beautiful residential district established in the East end, are a credit to the community. Besides a great deal of employment was afforded to many people who would otherwise have been out of work. My own opinion is that their developments have been much more desirable than those being contemplated by the present Administration.

No reference was made to the racketeering, considerable of which is due to some of our own people, and the raiding of our County Treasury, both of which contribute to the financial blight of our city. I honestly believe that much more good could be accomplished by the inauguration of a movement to expose the graft and corruption and the reckless expenditure of public funds, and I think this is the proper time to initiate it because people have finally come to realize that it is not only the taxpayers but the general public as well who are paying the piper. The banking debacle is water over the dam.

I know, dear Rabbi, that you will take this letter in the spirit of constructive criticism in which it was written. With kindest regards, I am

Sincerely yours,

S. B. Wise
S. B. Wise

SDW.T

Factories:—CLEVELAND - LOS ANGELES - TORONTO
Branches in All Principal Cities

November 23, 1933.

Mr. S.D. Wise,
The Arco Company,
7301 Bessemer Avenue,
Cleveland, Ohio.

My dear Mr. Wise:

In reply to your kind letter of November 14th, let me say that I am appreciative of your thoughtfulness in writing to me. I hope that I shall have the opportunity before long to talk over the whole matter with you and to recount to you also my two and one-half hour conversation with Mr. O. P. Van Sweringen -- an interview which he requested. I have received, as you may well imagine, numerous communications in response to my address. I am enclosing herewith a copy of one letter which I believe is of particular interest.

With all good wishes, I remain

Very sincerely yours,

AHS:BK

Enc.

STATUS OF THE COMBINED GENERAL AND SPECIAL TAXES LISTED IN THE NAMES OF THE VAN SWERINGEN CO.
AND THE CLEVELAND TERMINAL CO. ON THE TAX DUPLICATE OF CUYAHOGA COUNTY.

Delinquency For Former Years Prior to First Half 1933 Collection	1932 Assessment for 1933 Collection Total	Half Year	Collected First Half 1933	Penalty on First Half Delinquency	Delinquency And Penalty at Beginning of the Last Half Collection 1933	Amount Due for Second Half of 1933 Collection
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SHAKER HEIGHTS (1809 Parcels)

\$853,183.80	\$564,660.84	\$282,730.42	\$15,706.09	\$27,551.21	\$1,147,359.34	\$1,429,629.76
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M. J. AND O.P. VAN SWERINGEN HOME ON S. PARK BLVD.

\$ 3,897.13	4,202.50	2,101.25		305.37	8,200.51	10,306.76
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UNIVERSITY HEIGHTS (190 Parcels)

\$127,054.99	31,124.79	15,562.39		1,572.60	144,189.98	159,752.38
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BEACHWOOD VILLAGE (546 Parcels)

\$235,249.86	138,125.42	94,062.71	2,304.13	10,191.79	439,504.36	533,567.07
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ORANGE TOWNSHIP (100 Parcels)

\$ 3,957.99	3,090.53	1,545.26		162.61	5,655.36	7,211.13
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HUNTING VALLEY VILLAGE - DAISY HILL FARM

6,705.17	10,905.99	5,452.29		545.79	12,703.95	18,156.95
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PEPPER PIKE VILLAGE (320 Parcels)

\$373,223.34	186,513.79	93,256.29	7,405.14	10,686.68	477,166.91	570,423.81
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CLEVELAND HEIGHTS CITY

\$ 1,321.38	1,440.62	720.30	246.32	94.48	2,636.16	3,356.46
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GATES MILLS VILLAGE (2 Parcels)

10,597.68	23,017.72	11,508.86		1,152.42	53,258.96	64,767
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CITY OF CLEVELAND (77 Parcels)

\$ 23,264.04	17,523.83	8,761.91	1,061.61	321.17	32,847.12	41,609.04
TOTAL	1,030,606.03	515,302.98	27,223.79	53,084.12	2,323,533.15	2,838,781.08

CLEVELAND TERMINAL BLDG. CO. - TERMINAL AREA

Delinquency For Former Years Prior to First Half 1933 Collection	1932 Assessment for 1933 Collection Total	Half Year	Collected First Half of 1933	Penalty on First Half Delinquency	Delinquency and Penalty at Beginning of the Last Half Col- lection	Amount Due for 1933 Collection
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HOTEL CLEVELAND

47,825.65	77,186.69	38,593.34		3,860.66	90,279.65	128,873.00
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TERMINAL TOWER - AIR RIGHTS

16,913.97	223,141.31	111,570.65	102,327.60	863.31	26,520.33	138,090.98
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HIGBEE BUILDING - AIR RIGHTS

119,453.53	207,642.80	103,321.40	37,388.78	1,613.09	137,499.06	241,320.46
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MEDICAL ARTS, BUILDERS EXCHANGE, TERMINAL GARAGE - AIR RIGHTS

9,134.30	155,038.31	77,519.15	44,850.00	3,266.91	45,070.36	122,589.51
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MIDLAND BANK - AIR RIGHTS

434.74	93,234.18	46,617.09	43,078.77	353.33	4,326.39	50,943.98
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AREA BELOW PROSPECT AVENUE AT ONTARIO - BASEMENT RIGHTS

1,062.60	2,142.59	1,071.29	441.60	52.97	1,755.26	2,826.55
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PART OF AREA UNDER MEDICAL ARTS BLDG.

910.80	2,321.99	1,160.99	138.00	102.29	2,036.08	3,197.08
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WEST THIRD - VACATED - AIR RIGHTS

30.36	127.78	63.89		6.33	100.63	164.52
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PROPERTY ALONG ONTARIO BETWEEN HURON AND EAGLE

12,738.39	730.02	360.01	68.45	42.70	13,072.62	13,433.06
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\$208,504.34	\$761,565.67	\$330,782.33	\$278,793.20	\$10,162.12	\$320,660.88	\$ 701,442.71
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Cleveland Union Terminals Company owns all of station site from Public Square to Canal Road and from Ontario to Old Columbus Road, except certain rights owned by the Cleveland Terminals Building Company and the United States of America. This property not listed on the Tax Duplicate - item marked "Deferred by Tax Commission."