

# **STOCK EXCHANGE PRACTICES**

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**HEARINGS**  
**BEFORE A**  
**SUBCOMMITTEE OF THE**  
**COMMITTEE ON BANKING AND CURRENCY**  
**UNITED STATES SENATE**  
**SEVENTY-SECOND CONGRESS**  
**SECOND SESSION**

**ON**

## **S. Res. 84 and S. Res. 239**

**RESOLUTIONS TO THOROUGHLY INVESTIGATE PRACTICES**  
**OF STOCK EXCHANGES WITH RESPECT TO THE**  
**BUYING AND SELLING AND THE BORROWING**  
**AND LENDING OF LISTED SECURITIES**  
**THE VALUES OF SUCH SECURITIES**  
**AND THE EFFECTS OF SUCH**  
**PRACTICES**

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### **PART 6**

**(NATIONAL CITY; CONTINUATION OF**  
**RICHARD WHITNEY TESTIMONY)**

**FEBRUARY 21, 22, 23, 24, 27, 28, AND MARCH 1 AND 2, 1933**

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## SUBCOMMITTEE ON SENATE RESOLUTIONS 84 AND 239

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Mr. MITCHELL. I don't think so, but the record would show it.

Mr. PECORA. You have no recollection of any such thing being told the shareholders?

Mr. MITCHELL. No; I have not, Mr. Pecora.

→ The CHAIRMAN. In other words, the bank had what had become a bad loan? The bank relieved itself by various processes, but the result of it was in the end that the public held long-time securities for it without having knowledge why these issues were made, but which afterwards turned out not to be so very good; is that it?

Mr. MITCHELL. This was not an issue that went to the public, Senator Norbeck. These transfers that have been discussed here were transfers that were made possible through the issuance of stock of the National City Bank.

The CHAIRMAN. Yes; but somebody bought them without having information as to the loss that was being taken up by them?

Mr. MITCHELL. The loss did not exist at that time, Senator Norbeck. These were transferred as a long-term investment for the National City Co.

The CHAIRMAN. But the National City Co. had relieved the bank of this slow and doubtful paper?

Mr. MITCHELL. Short-term loan.

The CHAIRMAN. Yes.

Mr. MITCHELL. The process was taking it out of short term and putting it into long term, and the stockholders when they got through it had exactly what they had before.

Senator FLETCHER. These 250,000 shares of the National City Bank were not offered to the public?

Mr. MITCHELL. By law any increase in capital stock has to be offered to the shareholders pro rata to their existent holdings.

Senator FLETCHER. And that is the way they were disposed of?

Mr. MITCHELL. Yes, sir.

Senator FLETCHER. Not to the public generally?

Mr. MITCHELL. They were offered to our shareholders.

Senator BROOKHART. Listed on the stock exchange?

Mr. MITCHELL. No. Let's see—well, that occurred in 1927. I think our stock was listed on the stock exchange then, but there were no dealings in it.

Mr. PECORA. Now, Mr. Mitchell, as a matter of fact, in February 1927, when these transactions took place between the bank, the company, and the General Sugar Corporation, didn't you and the other directors of the bank know that these loans which the bank then held, which it had made to these sugar companies, were bad loans and were not good investments, even as long-term investments?

Mr. MITCHELL. They were bad short-term loans, Mr. Pecora, and nothing but a turn in the tide would make them suitable for short-term classification.

Mr. PECORA. As a matter of fact, don't you recall that at the meeting of the board of directors of the National City Co. on January 25, 1927, when action was taken with respect to the set-up of the management fund for that year, a resolution of the board with respect to the management fund, after reciting the manner in which that man-

agement fund was to be derived out of current earnings, contained this language:

Except that for the purpose of computation—

meaning the computation of the management fund from earnings—the stock of the General Sugar Corporation which it is intended to introduce into the balance sheet on or about February 15, 1927, in the amount of \$25,000,000, shall not be considered as a part of capital surplus and undivided profits, and any dividends or returns thereon shall not be considered as a part of current earnings.

Don't you recall that resolution?

Mr. MITCHELL. I recall it perfectly well, and I will tell you why it was put in.

Mr. PECORA. Wasn't it put in because the board at that time regarded these loans as bad loans?

Mr. MITCHELL. No, sir.

Mr. PECORA. Not merely slow or doubtful loans, but bad loans?

Mr. MITCHELL. No, sir: it was not, and I have just suggested you let me tell you why it was put in.

Any profit that might come from that investment, any loss that might come from that investment, would be a profit or a loss for which no officer of the National City Co. who might participate in that management fund was in any way responsible. This was a transfer of assets for the convenience of the institution. The debt had been created by a long prior management in the bank. The introduction of that as an investment in the City Co. was not anything that the management at that time had to do with, and if there was a profit or if there was a loss that group of men who were participating in that management fund had nothing to do with it, and so it was eliminated from the computation of the management fund. And that was the sole reason for it to be handled in that way.

Mr. PECORA. But if they had known that was going to be a loss to the company, that would be just the kind of action they would take in order to be fair to the company in the process of computing the management fund, would it not?

Mr. MITCHELL. I think very likely, but that is an assumption. I have given you the truth.

Mr. PECORA. But it is not an unsound assumption or a violent one, is it?

Mr. MITCHELL. No; I think it is quite a reasonable assumption, but it does not happen to be the proper one.

Mr. PECORA. Now, the sugar industry in Cuba collapsed after the war period, didn't it?

Mr. MITCHELL. Yes.

Mr. PECORA. That is about in 1921 or 1922?

Mr. MITCHELL. 1920.

Mr. PECORA. And it has been in a state of collapse practically ever since, hasn't it?

Mr. MITCHELL. That is true.

Mr. PECORA. And continuously since 1920 up to virtually the present time?

Mr. MITCHELL. I think in 1923 or 1924, or 1925, there was a slight breath of hope that came into the situation for a brief period, but by and large your statement is deplorably correct.