

Treasury Officials and the Bank Suit

A suit filed April 12 in the supreme court of the District of Columbia by the Riggs National bank, of Washington, for an injunction against Secretary of the Treasury Wm. G. McAdoo, Comptroller of the Currency John Skelton Williams, and United States Treasurer John Burke, alleges a combination and conspiracy to wreck it and asking that these officials be restrained from carrying out their alleged conspiracy. A temporary injunction was granted and the suit set for trial on April 16, but a postponement was granted at the request of Louis D. Brandeis, special counsel for the department of justice, until May 12th.

Below is a statement given to the press in regard to the injunction suit and an explanation of the dealings of the treasury officials with the Riggs National bank.

STATEMENT FOR THE PRESS

John Skelton Williams, comptroller of the currency, said:

"I have not seen the bill filed by the complainants but have read the extracts furnished the press.

"The recent investigations of the affairs of the Riggs National bank disclosed irregularities and unlawful practices on the part of certain officers of sufficient importance to merit their reference to the department of justice, and that department engaged the services of Louis D. Brandeis, of Boston, some weeks ago as special counsel in the case. It is consistent with the attitude of these officers to attempt by unwarranted and untrue statements to place themselves and the bank in a position of martyrdom at the hands of the administration.

"It is not the practice of this department to discuss in the public press the affairs of any national banking association, but since the officers in question have had the temerity to submit this matter to the court, this office is prepared to show a condition of affairs in the management of this institution which fully warranted the action taken by this office. The bank is solvent. The interests of the depositors have been safeguarded by the actions of the comptroller's office, but if the methods and practices complained of had been permitted to continue, the results would have been serious. The evidence will abundantly show that it has been necessary for this office to seek to terminate the reprehensible practices of the officers in question and their misuse of the powers delegated to them by the directors.

"The penalty imposed for failure to make reports, the collection of which penalty they seek to have enjoined, grows out of their unwillingness to disclose the true nature of the transactions engaged in.

"The whole purpose of the department has been to require the bank to give up the unlawful and dangerous practices and methods which had been in vogue for years past, and which had threatened alike the welfare and security of both shareholders and depositors, and to require the banks to conform to the plain requirements of the national bank act, and to the regulations of the office of the comptroller of the currency.

"In view of the many false and misleading statements contained in the announcement prepared for the press by the Riggs National bank, and the references of the bank to the letters which it has received from this office during the past six or eight months, this office thinks it proper that the public should be given further information as to the true contents and purport of this correspondence and therefore submits the following extracts from three of the letters addressed to the Riggs National bank by the comptroller of the currency since July last, and referred to in the statement given out by the bank.

INFORMATION REQUESTED

"In its efforts to ascertain the real truth in regard to the operations and affairs of the Riggs National bank, letters were from time to time directed to the bank from the office of the comptroller of the currency for information. These requests for data in various cases were refused, and on March 30th, the Riggs National bank was notified of the imposition of a penalty of \$5,000 under section 5213 of the United States revised

statutes, for its refusal to furnish information to the Comptroller's office in regard to its affairs.

"On April 5th, the comptroller of the currency addressed a letter to the bank calling its attention to various false statements which had been made by its officers under oath, and what are regarded as deliberate efforts to deceive the department, and notified the bank that "In view of the unsatisfactory and dangerous conditions which have come to light as the result of the investigations of the bank by this office and the national bank examiner; in view of the unreliability of the statements made by your officers under oath or otherwise, and your long continued defiance of the law and disregard for the instructions of this office, you are hereby notified that the comptroller of the currency will, until further notice, refuse to approve the Riggs National bank as depository for the reserves of other national banks."

Extract from letter addressed by the comptroller of the currency to the Riggs National bank July 22, 1914:

You are hereby admonished that this office strongly disapproves of the policy and practice of having the president, vice-president and cashier of a national bank conduct a brokerage shop, or business, within, and as a part of the business of the national bank, buying and selling speculative and "wildcat" stocks and other securities on commission and using the bank as an agency for carrying, on margin, stocks and other securities thus bought and sold and dealt in.

The books of your bank show that large sums of money are being loaned on speculative securities to the officers of your bank and to its clerks and employes, in these speculations. This office regards this as a demoralizing example to the other employes of your bank.

In speaking of the loans made to the cashier of your bank, aggregating \$63,500, you declare that these loans "were secured by high-class, marketable local and out-of-town stocks and bonds, having a market value of \$70,000," although at today's prices they barely cover the loan.

Among the "high-class, marketable local and out-of-town stocks and bonds" I note the following:

	Market Value
200 shares St. Louis and San Francisco preferred stock	4
100 shares Rock Island railroad preferred stock	1 1/2
100 shares Rock Island railroad common stock	1
200 shares Missouri Pacific railroad stock	9 1/4
200 shares Inspiration Consolidated Copper stock	18
350 shares Inter-Continental Rubber stock	7 1/2

Among the stocks securing the loans to your assistant cashier, which you approvingly refer to as "recognized stock exchange collateral," I notice:

100 shares American Can	26
200 shares Missouri Pacific	9 1/4

Among the stocks securing loans to Vice-president Flather of \$63,800 appear 415 shares of Green Cannanea Copper stock, etc.

Such securities as these I should hardly expect to find in the loans of conservative bank officers and their clerks, who should certainly be expected to scrutinize with special care the collateral placed upon the loans which they may require the bank whose interests they have sworn to safeguard and protect to make to themselves.

It appears that for the sake of the commissions collected by your officers in buying and selling bonds and stocks, you have been executing orders for women (including treasury employes), young men, clerks, professional and business men, who have been tempted to engage through you in stock speculations which have proved in various cases costly and damaging, if not ruinous. To facilitate these operations there is, it appears, installed in your bank a private telegraph line connecting you with a stock-brokerage house in New York, and two private telephone lines connecting you with two stock-brokerage offices in Washington.

The books of your bank showed at the date of the last examination that nearly \$1,000,000

of the funds of the bank were being loaned to some forty or fifty women on stocks and other securities, many of them of a highly speculative character, which had been bought for account of these women by officers of your bank, and for which your officers had duly collected their "commissions." Some of these loans had sufficient margin, but others were but scantily secured. But few, if any, of these women had any balances with your bank upon which they might have drawn to make good shrinkages in their collateral, and as much of the collateral was of a slow character, it is uncertain what the results would have been, or would be, if it should have been necessary, or should be necessary, for you to call those loans.

As an example of the evils which have resulted from the policy and methods pursued by your bank in this connection, I will cite the case of ——— who, it appears, purchased through in January last—whether through your active solicitation or otherwise I am not informed—1,000 shares of Rock Island preferred stock and 500 shares of Rock Island common stock at a cost of \$26,978.50. These stocks in the brief period of six months have shrivelled up so that today they are worth at current quotations scarcely \$2,000, showing a loss to your unfortunate customer, including interest, of more than \$25,000.

The commission which you collected of \$187.50 it seems to me is no compensation for the injury inflicted upon your unhappy client, who was, as you presumably knew when you made the transaction for him, a man of limited credit and means, and in no condition to engage in such a speculation. He still owes you, I understand, approximately \$20,000 on extremely doubtful security. You inform me that he has given you as further protection against the cost of the Rock Island stock now valued at only \$2,000, \$16,000 of the notes of the ——— Company,

I regret to have to inform you that this office has evidence which indicates that other statements recently submitted by you and other officers of your bank to this office, under oath, in addition to the incorrect statements to which your attention has been specifically called in this letter, are also untrue.

Should you or the other officers of your bank desire to review and correct statements which have been made to this office by yourself and other officers of the Riggs National bank in connection with these recent investigations, before this office takes action in the premises, you are requested to notify me immediately, and to furnish, under oath, such corrections as you may be prepared to submit.

You are instructed to have this letter read to your board of directors, at their next meeting, and send copies of it to those members of the board who may not be present at the meeting, and to notify this office that these instructions have been complied with.

Extract from letter addressed by the comptroller of the currency to the Riggs National bank under date of March 9, 1915:

"Investigations by this office indicate that the officers of your bank have not only made or connived at the making of so-called "dummy" or indirect loans, by which funds are furnished to customers beyond the amounts which the bank could legally lend directly to these customers, nived at the making of so-called "dummy" or could legally lend directly to these customers, but your officers have, on different occasions, it appears, loaned to themselves or one to the other, the bank's funds through these so-called "dummy" or indirect loans."

Extract from letter addressed by the comptroller of the currency to the Riggs National bank on March 30, 1915:

"The investigations of the bank examiner had raised serious questions as to whether or not your bank had collected the proper amount of interest, which it was entitled to receive, from its officers on loans (large and small) which had been made to those officers personally, sometimes directly on notes signed by themselves and sometimes indirectly on "dummy" notes signed by clerks of the Riggs National bank, or of other banking institutions, or by outsiders, which said "dummy" loans were usually secured by 'collateral' provided by the officers of the Riggs National bank."