Five Men Rule New York Finances

Following is an Associated Press dispatch: Washington, Dec. 10.—The first testimony as to concentration of money and credit was heard today by the house banking and currency committee in its investigation of the so-called money trust. W. B. Frew, president of the Corn Exchange bank of New York, and chairman of the New York clearing house committee, occupied the stand throughout the day and was put through a gruelling examination by Samuel Untermeyer, counsel for the committee. Through Mr. Frew Mr. Untermeyer put into the record evidence of trust agreements by which five men control two of New York's greatest financial institutions, the Bankers' Trust company and the Guaranty Trust company, with aggregate deposits of nearly $400,000,000. The bankers' trust, Mr. Frew said, was controlled by H. P. Davidson, George B. Case and Daniel G. Reid, the Guaranty company by H. P. Davidson, George F. Baker and William P. Porter.

These men hold and vote the stock of the companies, except enough to allow a board of directors to qualify, and under the trust agreements have authority over the affairs of the companies, even to the acquisition of merger or other institutions.

Mr. Untermeyer also secured from Mr. Frew a description of the method by which money was attracted to New York when small country merchants and farmers demand funds for the moving of crops or the accommodation of their business affairs. Mr. Frew said that the money was needed on the New York stock exchange for speculative purposes; that country banks kept large sums on deposit in New York, and that thus when the "home" demand for money became strong, the New York price for money rose, and the New York banks, in order to gain the big interest charges, put their money out on call loans on the New York stock exchange. All these loans are based on stock exchange collateral, Mr. Untermeyer elicited.

The day ended in a discussion in which Mr. Frew, through his counsel, Charles E. Rushmore demanded the opportunity to make certain explanations as to his position in regard to the clearing house provision whereby New York bankers must charge a uniform rate for the collection of out-of-town checks. Mr. Untermeyer characterized this rule as a usurpation of the power of the officers of the bank, and as tending to eliminate competition and remarked that the clearing house might just as well prescribe a uniform rate of interest on deposits, as is done under the rules of the Salt Lake clearing house.

Mr. Frew said "this should be stopped," but defended the out-of-town collection rate rule.

The committee ordered Mr. Frew to submit his request in writing and probably he will be allowed to resume the stand tomorrow to make a further statement.

The "Morgan influence" in New York banking formed the basis for most of the day's session. Walter E. Frew was under fire of questions by Samuel Untermeyer, the committee's attorney, who sought in vain to get Mr. Frew to admit that the phenomenal rise of the Bankers' Trust company deposits—from $5,000,000 in 1903 to $168,000,000 at the present time—was due to the influence of J. P. Morgan & Co.

Mr. Frew did not know just what was meant by "Morgan influence." He admitted, however, "that the three men who hold a voting trust that rules the Bankers' Trust company were "associated with Mr. Morgan."

Mr. Untermeyer endeavored to bring out that the merger of the Mercantile Trust company, which was controlled by the Equitable Life Assurance company, and with the Bankers' company, and which added materially to the deposits of the latter, was brought about through the "Morgan influence."

Mr. Frew, although a director of the Bankers' company, said he knew nothing of the negotiations, which were conducted entirely by the trustees.

Mr. Frew declared that he "did not admit that the clearing house committee has autocratic powers," and held that a bank could only be temporarily excluded from the clearing house by the clearing house committee and that that body did not have the final decision as to final expulsion.

Mr. Frew admitted that a few banks suspended by the clearing house could not clear through another clearing house bank.

"Then, if a bank is suspended, there is no way it can clear through another bank, is there?" asked Untermeyer.

"No, but a bank can carry on its business without that privilege," said Frew.

Mr. Frew appeared before the investigating committee in connection with the inquiry to determine how great control is held by the clearing houses of large cities over the banks that do business through them. Frequently in the opening part of the hearing there were clashes between Mr. Frew and Mr. Untermeyer. Mr. Untermeyer endeavored to show that a bank not a member of the clearing house or excluded temporarily could not do business.

Mr. Frew admitted it would be under a heavy handicap, but thought it could still carry on a general banking business.

THE WAYS OF WALL STREET

The interesting methods of the New York Stock exchange were described before the house banking currency committee in its money trust inquiry. Frank K. Sturgis, of the firm of Strong, Sturgis & Co., a member of the board of governors of the stock exchange, was the principal witness. An Associated Press report says: The examination of Mr. Sturgis by Samuel Untermeyer, counsel for the committee bristled with technical questions and involved digressions. Mr. Sturgis at times insisted on long explanations in answering questions, and once flatly declined to answer. His counsel, John G. Milburn, interfered to preserve the calm dignity of the examination.

The testimony of Mr. Sturgis brought out the following points:

The membership of the stock exchange has increased since 1869, when it was fixed at 1,100. Since then the business done and the stocks listed on the exchange have increased about fifty times over.

Mr. Sturgis declared that an increase in membership was unnecessary for the present membership was well able to handle the business.

In a dozen recent failures Mr. Sturgis admitted stock exchange houses had carried with them stock owned in part by the parties, but hypothecated by the brokers for more than the real ownership by the broker. In such cases the proceeds of the sale of the bankrupt broker's seat on the exchange goes, it was explained, not to his customers but his creditors inside the exchange. Mr. Sturgis thought this was fair and just, as it was a regulation subscribed to by the members in the exchange and recognized by the public.

Stock exchange brokers usually use the stock owned in part by their customers as collateral to support their own loans, Mr. Sturgis said, rehypothicating the securities for a greater amount than is represented in the debt of the customer on the stock. He added that the governors of the exchange would welcome any suggestion that would put a stop to the practice. He disagreed with a scheme proposed by Mr. Untermyer that would force brokers to mark on "loan envelopes" containing their collateral the amount for which they were already held as securities by the broker, in order that the bank might make its loan to the broker on that basis. This scheme, Mr. Sturgis contended, would entail an almost prohibitive amount of bookkeeping.

Mr. Sturgis, through a grilling examination, insisted the stock exchange could not prevent manipulation of the market by pools and syndicates. He said they could not go behind a transaction to discover a buyer or seller's motive.

On this point Mr. Sturgis and counsel for the committee had a spirited argument.

"Is it legitimate for a member of the exchange to give an order to sell a certain amount of stock to one broker and an order to buy the same amount of the same stock to another broker " asked Mr. Untermeyer.

"So long as there is no collusion and the commissions are paid, it is not illegitimate," said Mr. Sturgis.

The relations of the New York stock exchange and the consolidated stock exchange came in for a share of Mr. Sturgis' attention, following the examination of half a dozen members of the consolidated exchange, who declared the stock exchange rules forbid its members to do any business with consolidated brokers or any one connected with the consolidated exchange. Mr. Sturgis said that the consolidated had always been a competitor of the stock exchange and that sometimes the feeling of rivalry grew bitter.

Half a dozen members of the consolidated exchange, including President Meguel d'Augero, told the house money trust committee that under the rules of the New York stock exchange they were absolutely prohibited from doing any business with members of that organization, and said their business had been curtailed by the prohibition.

The committee also heard several money brokers, operating in the "loan crowd" on the New York stock exchange, who testified that a low rate of interest would prevent the movement of money toward New York from country banks when the money was needed at home points.

A. H. Griesel, of Griesel & Rogers, New York, testified as to methods of operation of the New York stock exchange. He said the lending of money on the exchange did not begin ordinarily until about 11 a. m., sometimes at 10:30, if the market is very active.

"Sometimes," he said, "$3,500,000 or $4,000,000 is loaned in fifteen or twenty minutes, this volume of transactions serving as a basis for rates on renewal of loans. I have lent sometimes $20,000,000 or $25,000,000 a day and borrowed perhaps $15,000,000 in a single day. I have lent as high as $35,000,000. I represent the borrower rather than the lender and of course I get the benefit of the transactions." Millions and millions, the witness said, were lent over the telephone.

Mr. Sturgis testified he had been a member of the governing board of the New York stock exchange for many years and was its president from 1892 to 1894. He said that the governing board, which was the executive authority, was composed of forty men and that the exchange membership amounted to 1,100. It had 1,060 members when organized. He said the volume of business today was probably fifty times as great as it was when the exchange was organized in 1869.

"Then, why, if the business has increased so much, has the membership of the exchange not increased proportionately?" asked Mr. Untermeyer.

"I can only say in answer that the public's business has been well taken care of by the exchange. There are plenty of brokers to care for the business, as evidenced by the fact that the price of seats on the exchange has gone down in the last few months. Brokers have been unable to make a living," answered Sturgis.

Mr. Sturgis said the price of seats was now about $55,000, but that as high as $95,000 had been paid for a seat.

Reading from the answers to the house committee, Mr. Sturgis referred to the unscrupulous methods and the timidity of certain parties in "locking up the certainty."

"What did you mean by that?" asked Mr. Untermeyer.

"We meant," answered Mr. Sturgis, "that during the 1907 panic, some bank and trust companies, fearful of their deposits, locked up their money in their vaults far in excess of their reserve, keeping it out of circulation, where it belonged."

Mr. Untermeyer and the witness became involved in a heated discussion about collateral for loans and securities. Mr. Sturgis finally said such a practice was sometimes pursued, but he pointed out provisions in the rules of the board which, he said, provided for repression of the practice.

Mr. Untermeyer elicited that it was the practice of some brokers to use as collateral all stock held for a customer, no matter how much the customer paid for it.

"Then, if the broker fails, the customer's stock is gone?" asked Mr. Untermeyer.

"Not all of it."

"Do you know of an instance of a single brokerage house ever having failed with stock exchange securities in its possession?"

"Back in the panic of 1893," began Mr. Sturgis, and a laugh swept the room. He admitted that usually a failure had exhausted all the stock owned, as well as that of its customers.

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