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INVESTIGATION OF CONCENTRATION OF ECONOMIC POWER

HEARINGS

BEFORE THE

TEMPORARY NATIONAL ECONOMIC COMMITTEE CONGRESS OF THE UNITED STATES

SEVENTY-SIXTH CONGRESS
FIRST AND SECOND SESSIONS

PURSUANT TO

Public Resolution No. 113 **(Seventy-fifth Congress)**

AUTHORIZING AND DIRECTING A SELECT COMMITTEE TO
MAKE A FULL AND COMPLETE STUDY AND INVESTIGA-
TION WITH RESPECT TO THE CONCENTRATION OF
ECONOMIC POWER IN, AND FINANCIAL CONTROL
OVER, PRODUCTION AND DISTRIBUTION
OF GOODS AND SERVICES

PART 13

LIFE INSURANCE

TRAVELERS INSURANCE COMPANY
SHENANDOAH LIFE INSURANCE COMPANY
EQUITABLE LIFE ASSURANCE SOCIETY
SOUTHWESTERN LIFE INSURANCE COMPANY OF DALLAS
REINSURANCE AND REWRITING
ILLINOIS BANKERS LIFE ASSURANCE COMPANY

SEPTEMBER 11, 12, 13, AND 22; OCTOBER 26 AND 27
DECEMBER 7, 8, 14, 15, 20, 21, AND 22, 1939

Printed for the use of the Temporary National Economic Committee

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(Seventy-fifth Congress)

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II

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¹ On file with the Committee.

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1348-42. Letter, dated November 11, 1929, from J. E. Reault, actuary, Michigan, Insurance Department to E. Forrest Mitchell, Insurance Commissioner, California, voicing official disapproval of the proposed reinsurance contract between the Illinois Bankers Life Association and the Illinois Bankers Life Assurance Co-----	6879	7062
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1348-44. Letter, undated, from H. G. Sellman, actuary, Illinois Bankers Life Assurance Company, to W. H. Woods, president, Illinois Bankers Life Assurance Company regarding disapproval of Insurance commissioner of Oklahoma of proposed reinsurance contract between the Illinois Bankers Life Association and the Illinois Bankers Life Assurance Company-----	6880	7064
1348-45. Letter, dated December 23, 1931, from J. O. Rummens, Deputy Insurance Commissioner, Washington, to William R. Baker, attorney, expressing disapproval of admitting the Illinois Bankers Life Assurance Co. to do business in the State of Washington-----	6880	6880
1348-46. Letter, dated April 25, 1930, from William R. Baker, attorney, to Hugh T. Martin, general counsel, Illinois Bankers Life Assurance Company, advising of difficulties being experienced in securing Iowa's approval to the proposed reinsurance contract between Illinois Bankers Life Assurance Company and the Illinois Bankers Life Association-----	6880	7066

Number and summary of exhibits	Introduced at page	Appears on page
1348-47. Letter, dated May 9, 1934, from H. G. Sellman, actuary Illinois Bankers Life Assurance Co., to Hugh T. Martin, General Counsel, Illinois Bankers Life Assurance Co., describing a conference held with officials of the Missouri Insurance Department relative to procuring a license to operate in Missouri-----	6889	6889
1348-48. Repurchase Agreement, dated November 13, 1930, between the Illinois Bankers Life Assurance Company and the Chatham Phenix National Bank & Trust Company-----	6894	7067
1348-49. Letter, dated March 2, 1931, from R. P. Brewer, vice president, Chatham Phenix National Bank & Trust Company, New York, to Illinois Bankers Life Assurance Company, Monmouth, Illinois, acknowledging receipt of certain notes as security for a repurchase agreement between the bank and the insurance company-----	6895	7067
1348-50. Letter, dated August 8, 1930, from Hugh T. Martin, general counsel, Illinois Bankers Life Assurance Co., to Arthur T. Sawyer, secretary, Illinois Bankers Life Assurance Co., arranging a loan for George F. Ramer, auditor, Illinois Life Insurance Company-----	6899	6899
1348-51. Letter, dated August 17, 1938, from Spafford S. Warren, policyholder, Sycamore, Illinois, to Illinois Bankers Life Assurance Company, Monmouth, Illinois, complaining of the high pressure exerted by a salesman in explaining the plan of reinsurance, and demanding surrender value of his policy-----	6914	7068
1348-52. Letter, dated August 5, 1938, from David B. Landen, policyholder, Moline, Illinois, to Illinois Bankers Life Insurance Company, Monmouth, Illinois, complaining that the company took advantage of him in transferring his policy-----	6914	7068
1348-53. Letter, dated August 2, 1938, from Mary Walker, policyholder, Golconda, Illinois, Bankers Life Assurance Co., Monmouth, Illinois, complaining of misrepresentation made by an agent of the company-----	6914	7069
1348-54. Letter, dated April 4, 1938, from Christian A. Bidlingmaier, policyholder, Winslow, Illinois, to Illinois Bankers Life Assurance Co., Monmouth, Illinois, asking about the possibility of exchanging his policy for a paid-up policy, and advising that the signature on photostatic copies of an application for the policy's exchange and certificate of loan is not his-----	6915	7069
1348-55. Letter, dated September 5, 1938, from Larkin Gorsuch, policyholder, Industry, Illinois, to Illinois Bankers Life Assurance Co., Monmouth, Illinois, complaining about the necessity of his taking loss as a result of the change made in his policy, and asking about the possibility of his obtaining a paid-up policy-----	6915	7069
1348-56. Letters to the Illinois Bankers Life Assurance Company, March 26, 1938, from W. H. Dragoo, Springfield, Illinois, April 9, 1937, from Emma D. Thorpe, Clinton, Illinois, February 28, 1938, from Styrling R. Jackson, Hugo, Oklahoma, April 15, 1938, from Lenden Comer, Adair, Oklahoma, March 5, 1938, from Richard S. Jarvis, Texola, Oklahoma, August 8, 1938, from Gerry Honomichl, Tulsa, Oklahoma, August 29, 1938, from Florence L. Harridge, Park Ridge, Illinois, August 19, 1938, from Mrs. Mary Kampschrader, Louisville, Illinois, the last-mentioned letter enclosing one which had been sent her by the company under date of August 22, 1933, all complaining of the treatment accorded them by the company and its representatives in the rewriting of their policies-----	6915	7070

Number and summary of exhibits	Introduced at page	Appears on page
1348-57. Schedule of all companies for which the American Conservation Company has done rewriting-----	6920	7076
1348-58. Schedule, American Conservation Company, showing insurance written, commissions received, commissions paid, operating expense, gross profit, taxes paid, net profit, investment account, 1930-1938-----	6920	7077
1348-59. Schedules of commissions charged by American Conservation Company for rewriting-----	6921	7078
1348-60. Letter, dated November 15, 1932, from American Conservation Company to Raymond T. Smith, vice-president, Alfred M. Best Co., Chicago, Illinois, offering a commission in return for his best efforts to obtain for the American Conservation Company a transfer of insurance from the Security Life Insurance Company of America to the Central Life Insurance Company of Illinois-----	6924	7078
1348-61. Letter, dated June 16, 1932, from American Conservation Company to Raymond T. Smith, vice president, Alfred M. Best Co., Chicago, Illinois, agreeing to pay 5% of the first year's premiums paid by the policyholders transferred from the Chicago National Life Insurance Company to the Pacific States Life Insurance Company-----	6924	7079
1348-62. Letter, dated December 12, 1932, from American Conservation Company to William Hordes, president Hordes & Kauffman, Detroit, Michigan, general agents, Security Life Insurance Co., agreeing to pay 5% commission on the first-year premiums on policies in Wayne County transferred from the Security Life Insurance Company to the Central Life Insurance Company of Illinois-----	6925	7079
1348-63. Letters from the American Conservation Company, dated July 28, 1936, to Fred P. Cory; July 2, 1936, to Arago F. Guck; June 8, 1936, to O. B. LaFreniere; June 15, 1936, to Miss Hildur Stenstrom; former agents of the Detroit Life Insurance Co., agreeing to pay in each instance certain commissions for work done in connection with the readjustment of the policies of the Detroit Life, and a release signed by Hildur Stenstrom, discharging the American Conservation Company from all claims made as the result of a dispute between that company and Miss Stenstrom-----	6926	7079
1348-64. Letter, dated March 9, 1936, from the American Conservation Company to Levin, Levin & Dill, attorneys at law, Detroit, Michigan, enclosing a resolution authorizing the payment to them of a contingent fee in connection with the reinsurance of the business of the Detroit Life Insurance Company-----	6927	7082
1348-65. Check drawn by the American Conservation Company with notation "Haffner, July fee"-----	6936	7084
1348-66. Letter, dated March 1, 1937, from Ernst & Ernst, accountants, to American Conservation Company, calling attention to certain disbursements discovered during the course of an audit of the accounts of the company-----	6938	7085
1348-67. See Exhibit 2261-----	6943	
1348-68. Check of the American Conservation Co. to the order of the Peoples Trust & Savings Bank, dated March 12, 1931, and cashier's check drawn to the order of W. R. Baker, dated March 12, 1931, and endorsed by W. R. Baker and by Herbert G. Shimp in the sum of \$10,000-----	6944	(1)

¹ On file with the committee.

Number and summary of exhibits	Introduced at page	Appears on page
1348-69. Letters, dated June 13, 1933, from C. S. Younger, president, American Insurance Union, Inc., to Herbert G. Shimp, president, American Conservation Company; June 13, 1933, from C. S. Younger to Herbert G. Shimp; June 14, 1933, from Herbert G. Shimp to the American Insurance Union, Inc., Columbus, Ohio; October 3, 1934, from C. S. Younger to Herbert G. Shimp; October 4, 1934, from Herbert G. Shimp to C. S. Younger, relative to efforts on the part of the American Insurance Union to obtain the reinsurance of the Federal Union and the opposition of the Ohio Insurance Department to this transaction. Also letter, dated October 23, 1934, from Herbert G. Shimp to William R. Baker, attorney, Kansas City, Kansas, suggesting that, if someone offered a job to the Ohio Insurance Commissioner, it might be helpful with the Federal Union deal.	6945	7085
1348-70. Schedule of commissions received by American Conservation Company.	6946	7089
1348-71. Schedule, American Conservation Company, agents' commissions from February 1930 to December 31, 1938.	6947	7090
1348-72. Schedule, American Conservation Company, Special Commissions paid.	6947	7091
1348-73. Schedule of Herbert G. Shimp's loans with Illinois Bankers Life Assurance Company and the American Conservation Company's loans with Illinois Bankers Life Assurance Company.	6948	7092
2261. Memorandum of fees received from American Conservation Company by Henning & Baker, attorneys, Kansas City, Kansas, from 1931 to April 1, 1935. Also memorandum of fees received from American Conservation Company by William R. Baker, attorney, Kansas City, Kansas, from April 1, 1935 to December 18, 1939. Introduced in substitution for Exhibit 1348-67.		7093
2262. Letter, dated February 6, 1940, from E. H. Henning, vice president, Illinois Bankers Life Assurance Company, to Gerhard A. Gesell, special counsel, Securities and Exchange Commission, Washington, D. C., listing the officers and directors of the Illinois Bankers Life Association who converted, or failed to convert, their assessment policies to legal reserve policies.		7095
2263. Affidavit of R. R. Haffner, actuary, Illinois Insurance Department, denying knowledge of certain checks and moneys alleged to have been paid to him by the American Conservation Company, and stating that he has performed no services of any kind for the American Conservation Company since becoming actuary of the Illinois Insurance Department.		7096

INVESTIGATION OF CONCENTRATION OF ECONOMIC POWER

MONDAY, SEPTEMBER 11, 1939

UNITED STATES SENATE,
SUBCOMMITTEE OF THE TEMPORARY
NATIONAL ECONOMIC COMMITTEE,
Washington, D. C.

The subcommittee met at 10:45 o'clock a. m., pursuant to adjournment on Thursday, September 7, 1939, in the Caucus Room, Senate Office Building. Subcommittee members: Garland S. Ferguson (chairman), Joseph J. O'Connell; and Representative Joseph E. Casey of Massachusetts, requested by the committee to sit on the subcommittee as acting vice chairman. Ewin L. Davis, Commissioner, Federal Trade Commission, presiding.

Present: Commissioner Davis, acting chairman; Messrs. O'Connell and Brackett.

Present also: Gerhard A. Gesell, special counsel, H. A. Blomquist, Arthur J. Leary and George C. Jenkins, Securities and Exchange Commission.

Acting Chairman DAVIS. The committee will come to order and Mr. Gesell, you may call your first witness, if you will.

Mr. GESELL. There are one or two matters first which I would like to mention for the record.

At the time that we were presenting testimony with respect to the Monumental Life Insurance Co. we agreed to submit for the record a schedule containing information on collateral loans made to Irene T. Reaney, secretary to the president of that company.¹ Such a schedule has been prepared and I wish to offer it for the record at this time.

Acting Chairman DAVIS. It may be admitted.

(The schedule referred to was marked "Exhibit No. 1089" and appears in Hearings, Part XII, appendix, p. 6352.)

Mr. GESELL. On that occasion, too, some question arose as to the date when the Monumental Life Insurance Co., then the Mutual Life Insurance Co. of Baltimore, first issued an industrial insurance policy.² I have in my hand a photostatic copy of a policy issued in March 1873, in the amount of \$1,000 on a weekly premium basis. This policy was made available to me by counsel for the Monumental, and it is my understanding that similar policies were issued in that year for amounts less than \$1,000. I would like to offer this to be filed. I don't think it is necessary for it to be printed.

Acting Chairman DAVIS. That may be filed as part of the record, but is not to be printed.

¹ See Hearings, Part XII, p. 5684.

² *Ibid.*, p. 5598.

(The policy referred to was marked "Exhibit No. 1090" and is on file with the committee.)

Mr. GESELL. When Mr. Call was on the stand the committee requested that he furnish us with a copy of the agents' contract presently in use in his company for agents of the Life Insurance Co. of Virginia.¹ I have a copy of the contract in use by that company, and a recent amendment dated November 1, 1938, made thereto, which I would like to offer for the record to be printed.

Acting Chairman DAVIS. It is ordered printed in the record.

(The contract referred to was marked "Exhibit No. 1091" and appears in Hearings, Part XII, appendix, p. 6353.)

Mr. GESELL. In the course of the testimony of Dr. Davenport a question was raised by the committee as to the percentage of industrial insurance measured in terms of amounts of insurance and number of policies in force in the three largest companies as compared to all of the companies writing that type of business.² I have such a schedule in my hand, prepared from the annual statements of some 67 companies from the Spectator Year Book, which, I believe, sets forth the information the Committee was interested in, and I wish to have this printed in the record.

Acting Chairman DAVIS. It may be so ordered.

(The schedule referred to was marked "Exhibit No. 1092" and appears in Hearings, Part XII, appendix, p. 6356.)

Mr. GESELL. Last week the hearings on industrial insurance were completed. Today we commence presentation of testimony with respect to Travelers Insurance Co. of Hartford, Conn. Mr. L. Edmund Zacher, president of the Travelers Insurance Co., will be the first witness.

Acting Chairman DAVIS. Mr. Zacher, will you hold up your right hand and be sworn, please?

Do you solemnly swear the statements you will make in this inquiry shall be the truth, the whole truth, and nothing but the truth, so help you God?

Mr. ZACHER. I do.

TESTIMONY OF LOUIS EDMUND ZACHER, PRESIDENT, TRAVELERS INSURANCE CO., HARTFORD, CONN.

TRAVELERS INSURANCE COMPANY

Mr. GESELL. Will you state your full name for the record, please, sir?

Mr. ZACHER. Louis Edmund Zacher.

Mr. GESELL. You are president of the Travelers Insurance Co., are you not?

Mr. ZACHER. Yes.

Mr. GESELL. Travelers Insurance Co.'s main offices are at Hartford, Conn., is that correct?

Mr. ZACHER. Yes, sir.

Mr. GESELL. Am I correct in saying that that company writes both life insurance and casualty insurance directly?

Mr. ZACHER. Certain lines of casualty.

¹ See Hearings, Part XII, p. 6030.

² See Hearings, Part XII, p. 5603.

Mr. GESELL. Can you tell us something of the history of the Travelers Insurance Co.?

Mr. ZACHER. It was chartered, I believe, in 1863, commenced business in 1864; it wrote first accident and health insurance. One of its first lines of insurance was tickets that they sell on railroads for accident insurance. Then they went into what was called commercial accident insurance and health insurance, and then later, I think in 1866, formed a life department to conduct life insurance generally. When liability insurance came into being they undertook that, insurance against loss of lives, insurance on injury to lives. When compensation came into being they undertook that. I think those are the lines that are covered by the business of the Travelers Insurance Co.

Mr. GESELL. The company is a Connecticut corporation, is it?

Mr. ZACHER. Yes, sir.

Mr. GESELL. Now, do I understand that all these various lines of insurance are written directly by Travelers Insurance Co. itself, or is it not rather the fact that some of them are written by subsidiaries?

Mr. ZACHER. Those lines are written by the Travelers Insurance Co.

Mr. GESELL. Those that you mentioned?

Mr. ZACHER. Those lines are written by the Travelers Insurance Co. Other casualty lines are written by the Travelers Indemnity Co., and fire insurance is written by the Travelers Fire Insurance Co. The main company, the Travelers Insurance Co., insures only against loss of life and injury to life, while the two subsidiaries were formed to take care of property insurance.

Mr. GESELL. Well, now, the casualty department of the Travelers Insurance Co. has as its subsidiary the Travelers Indemnity Co., has it not?

Mr. ZACHER. Yes, sir.

Mr. GESELL. That, except for directors' qualifying shares, is owned 100 per cent?

Mr. ZACHER. Yes, sir.

Mr. GESELL. Travelers Indemnity Co. has a subsidiary, the Travelers Fire Insurance Co., which again, except for directors' qualifying shares, is owned 100 percent?

Mr. ZACHER. Yes, sir.

Mr. GESELL. And the Travelers Insurance Co., in turn, has a subsidiary, the Charter Oak Fire Insurance Co., which is also owned a hundred percent except for directors' qualifying shares?

Mr. ZACHER. Yes, sir.

Mr. GESELL. Is your company interested in the Travelers Broadcasting Service Corporation?

Mr. ZACHER. Yes, sir.

Mr. GESELL. That is a broadcasting company in Hartford?

Mr. ZACHER. A broadcasting company in Hartford owned by the Travelers Indemnity Co.

Mr. GESELL. What station is that?

Mr. ZACHER. WTIC.

Mr. GESELL. That is owned 100 percent by the Travelers Co., is that correct?

Mr. ZACHER. Yes, sir.

Mr. GESELL. Your company is also interested, is it not, in the Connecticut River Banking Co.?

Mr. ZACHER. Yes.

Mr. GESELL. Is that a bank in Hartford, Conn.?

Mr. ZACHER. Yes, sir.

Mr. GESELL. And similarly your company is interested in the Travelers Bank & Trust Co., another bank in Hartford?

Mr. ZACHER. Yes, sir.

Mr. GESELL. Am I correct in saying that the Travelers own approximately 71 percent of the outstanding shares of the Connecticut River Banking Co.?

Mr. ZACHER. I don't recall, but it is over 50 percent.

Mr. GESELL. And a hundred percent of Travelers Bank & Trust Co.?

Mr. ZACHER. Yes, sir.

Mr. GESELL. Your company is also interested in a company known as the Prospect Co., is it not?

Mr. ZACHER. Yes, sir.

Mr. GESELL. That is a land company owned 100 percent by Travelers Insurance Co., is it not?

Mr. ZACHER. I wouldn't call it a land company, I would call it a corporation that is authorized to do a number of things according to the charter, I think you have a copy.

Mr. GESELL. Briefly, what is the nature of its business?

Mr. ZACHER. At the present time, it holds title to certain property rights and has investments in certain securities.

Mr. GESELL. Those are held for Travelers Insurance Co.?

Mr. ZACHER. Held for the benefit of the Travelers Insurance Co.

Mr. GESELL. I will come back to Prospect as the examination proceeds.

Now, your company has in the past been interested in corporations known as the Nebraska Securities Corporation, the Omaha Land Co., and Colorado Valley Land Co., has it not?

Mr. ZACHER. Yes, sir.

Mr. GESELL. I should like to offer for the record at this time a chart which shows the relationships of the various corporations which we have been discussing and which was prepared in accordance with the testimony Mr. Zacher has just given. I believe it will make it a little clearer for the committee.

Acting Chairman DAVIS. Let that be inserted in the record.

(The chart referred to was marked "Exhibit No. 1093" and is included in the appendix on p. 6951.)

Mr. COLE.¹ May we see a copy of it?

Mr. GESELL. Yes; he is getting a copy for you now.

Now, I would like to have your connection with these various companies clarified for the record, Mr. Zacher. You are president and director of the Travelers Insurance Co., I believe you said.

Mr. ZACHER. Yes, sir.

Mr. GESELL. You are also president and director of the Travelers Indemnity Co.

Mr. ZACHER. Yes, sir.

Mr. GESELL. And president and director of the Travelers Fire Insurance Co.?

Mr. ZACHER. Yes, sir.

Mr. GESELL. President and director of the Charter Oak Fire Insurance Co.?

¹ Francis W. Cole, director and general counsel, Travelers Insurance Co.

Mr. ZACHER. Yes, sir.

Mr. GESELL. Vice president and director of Travelers Bank & Trust Co.?

Mr. ZACHER. Yes, sir.

Mr. GESELL. President, treasurer, and director of the broadcasting company?

Mr. ZACHER. Yes, sir.

Mr. GESELL. And you are also connected with the Prospect Co.?

Mr. ZACHER. Yes, sir.

Mr. GESELL. As president, treasurer, and director?

Mr. ZACHER. I think so. I think I am president; director, at least.

Mr. GESELL. You are active in the affairs of all these companies; are you not?

Mr. ZACHER. Yes, sir.

Mr. GESELL. How long have you been with Travelers Insurance Co.?

Mr. ZACHER. Since October 1904.

Mr. GESELL. Can you give us some idea of the various positions you have held in the Travelers Insurance Co. since that time?

Mr. ZACHER. Clerk, assistant treasurer, treasurer, vice president and treasurer, director, president.

Mr. GESELL. When did you become president?

Mr. ZACHER. In the latter part of 1929.

Mr. GESELL. Now, am I correct in saying that in the case of all these various corporations which we have been discussing the boards of directors and officers interlock with Travelers Insurance Co.?

Mr. ZACHER. Yes, sir.

Mr. GESELL. Do you recognize this as a schedule prepared for us by your company showing the various connections between the several companies, both as to directors and officers?

Mr. ZACHER. Without examining it thoroughly, I should say, yes.

Mr. GESELL. I should like to offer this schedule for the record.

Acting Chairman DAVIS. Let it be printed in the record.

(The schedule referred to was marked "Exhibit No. 1094" and is included in the appendix on p. 6952.)

Mr. GESELL. How much life insurance has the Travelers Insurance Co. in force at the present time, approximately?

Mr. ZACHER. Four billion.

Mr. GESELL. \$4,000,000,000?

Mr. ZACHER. Yes, sir.

Mr. GESELL. Is that sold in all of the various States of the United States?

Mr. ZACHER. Yes, sir.

Mr. GESELL. What are the assets of the Travelers Insurance Co.?

Mr. ZACHER. About now?

Mr. GESELL. Yes.

Mr. ZACHER. A little over a billion dollars.

Mr. GESELL. Can you tell us what the combined assets of these various corporations shown on that chart as offered a moment ago would amount to?

Mr. ZACHER. No, sir.

Mr. GESELL. It would be somewhere in excess of \$1,000,000,000?

Mr. ZACHER. Yes; it would be somewhere around one billion fifty million, I should say.

Mr. GESELL. The assets of the Indemnity Company are around 12 million; is that correct?

Mr. ZACHER. More than that; I think the assets are around 28 million, aren't they?

Mr. GESELL. Around 28 million? Yes; I believe as of December 31, 1938, they were \$28,494,000.

And approximately what are the assets of the Fire Insurance Co., 26 million?

Mr. ZACHER. Yes; about 26 million.

Mr. GESELL. Your statement as of December 31 showed \$26,283,630. The assets of the Charter Oak Fire Insurance Co. are a little over a million, are they not?

Mr. ZACHER. That is correct.

Acting Chairman DAVIS. What is the difference in the character of the insurance written by the Charter Oak and the Travelers Fire Insurance?

Mr. ZACHER. No difference. All the business written by the Charter Oak Fire Insurance Co. is reinsured in the Travelers Fire Insurance Co.

Mr. GESELL. You mean the business is originally written by the Charter Oak?

Mr. ZACHER. Yes.

Mr. GESELL. And then reinsured in the Travelers Fire?

Mr. ZACHER. Reinsured in the Travelers Fire.

Mr. GESELL. Was there any reason for having that type of organization?

Mr. ZACHER. To expand the agency representation.

Mr. GESELL. In that way you were able to give large commissions to the agents writing fire insurance?

Mr. ZACHER. We were able to get more agents getting the top commissions.

Mr. GESELL. In other words, you could pay top commissions to more agents, is that correct?

Mr. ZACHER. No; it is the other way around. On account of these local agency laws, you could only pay the top commissions on the volume of business to a limited number. In order to expand the business and get more agents of that character, it required another organization to comply with those rules.

Mr. GESELL. So that there were a greater number of agents receiving this top commission as a result?

Mr. ZACHER. Yes.

Mr. GESELL. Now, I believe you said that the Travelers Insurance Co. has two departments; the life department and the casualty department.

Mr. ZACHER. Yes, sir.

Mr. GESELL. I take it as those names indicate, one department handles the life business and the other the casualty business.

Mr. ZACHER. Yes, sir.

Mr. GESELL. It is all one corporation, however, is it not?

Mr. ZACHER. Yes, sir.

Mr. GESELL. Is it correct to say that all classes of policies issued by the Travelers Insurance Co. are secured by the entire assets of that company? There is no segregation of the assets as against either, are there?

Mr. ZACHER. The assets are segregated and always have been. The company makes two statements, one for the life department and the other for the accident and casualty department, with a separate list of assets.

Mr. GESELL. That is as a matter of accounting, is it not?

Mr. ZACHER. Yes; it is a matter of accounting, and may go further, I don't know. Nobody knows.

Mr. GESELL. You mean nobody knows quite what the effect of setting up these departments is?

Mr. ZACHER. No; nobody knows whether the entire assets are applicable to any specific department, because that couldn't be determined unless you sold out the company or liquidated it.

Mr. GESELL. I had in mind a phrase that I noticed in the report of the New York Superintendent of Insurance, part 2, for 1938, page 619, in which they state with respect to Travelers:

The Company states that all classes of policies are secured by the entire assets of the Company.

Mr. ZACHER. Yes.

Mr. GESELL. The same directors are responsible for the management of both departments, are they not?

Mr. ZACHER. It is only one company.

Mr. GESELL. One charter and one set of directors?

Mr. ZACHER. One charter.

Mr. GESELL. Is that correct?

Mr. ZACHER. We haven't a separate life company and a separate casualty company. It is one charter, which includes both, and the directors represent that company.

Mr. GESELL. There is only one class of stock outstanding for Travelers Insurance Co.?

Mr. ZACHER. Yes, sir.

Mr. GESELL. Now, can you tell me in which States your company does its principal business? In other words, what are the most important States in terms of the Travelers' operations?

Mr. ZACHER. I should say, offhand, New York, New Jersey, Pennsylvania, Connecticut, Illinois, perhaps California; I don't know.

Mr. GESELL. New York is by far the most important State?

Mr. ZACHER. I should think so.

Mr. GESELL. I noticed from your yearbook for 1939 that during 1938 the insurance company—the indemnity company and the fire company combined—paid out \$29,706,501 in the State of New York, out of a total of \$102,830,000, and that, I believe, the next largest State receiving payments was the State of Pennsylvania, with some \$7,000,000.

Mr. ZACHER. I should think that would be correct.

Mr. GESELL. Do you think it would be correct to say that about a third of your business is in the State of New York?

Mr. ZACHER. I haven't any idea.

Mr. GESELL. Do you think that is a fair approximation, or is it less or more?

Mr. ZACHER. I haven't any figures in my head at all on that.

Mr. GESELL. Now, the company has what type of stock outstanding?

Mr. ZACHER. Common stock, so-called; common capital stock.

Mr. GESELL. How many shares are outstanding?

Mr. ZACHER. At the present time, 200,000.

Mr. GESELL. The capital has been increased from time to time, has it?

Mr. ZACHER. Yes, sir.

Mr. GESELL. Does the company sell any participating business?

Mr. ZACHER. Not now.

Mr. GESELL. There is some participating life insurance on its books?

Mr. ZACHER. I think about \$1,200,000 left over from past years.

Mr. GESELL. Do the policyholders have any voice in the management of the company?

Mr. ZACHER. None.

Mr. GESELL. It is controlled by the stockholders entirely?

Mr. ZACHER. Yes, sir.

Mr. GESELL. Does the company send any report to its life-policy holders?

Mr. ZACHER. Occasionally, but not regularly.

Mr. GESELL. Not as a regular matter?

Mr. ZACHER. Not as a regular practice; no.

Mr. GESELL. Approximately how many stockholders has the company? I realize it would have to be an estimate.

Mr. ZACHER. About 7,000, I should say.

Mr. GESELL. Seven to eight thousand; in that neighborhood?

Mr. ZACHER. Yes; somewhere in there.

Mr. GESELL. Have you figures which will indicate the number of shares which are held by officers, the number held by employees of the company?

Mr. ZACHER. It seems to me it is about 10,000.

Mr. GESELL. I have here figures which indicate that the officers of the company hold 2,419 shares, that the branch-office employees hold 928 shares, and the home-office employees, other than officers, hold 870 shares, or a total of 4,750 shares.

Mr. ZACHER. I was thinking of some trusts and one thing and another.

Mr. GESELL. Those are the direct holdings of officers and employees; is that, to your best knowledge, correct?

Mr. ZACHER. I should think so.

Mr. GESELL. There are some shares held, are there not, by the Travelers Bank & Trust Co. in a fiduciary capacity?

Mr. ZACHER. Yes, sir.

Mr. GESELL. Is it correct that those shares total 5,515 shares?

Mr. ZACHER. Approximately.

Mr. GESELL. Are those shares voted by the Travelers Bank & Trust Co. at the annual meetings of the company?

Mr. ZACHER. I don't know definitely, but I should think so.

Mr. GESELL. Travelers Bank & Trust Co. has the right to vote the shares, has it, if it chooses to exercise it?

Mr. ZACHER. That I don't know; but they do it.

Mr. GESELL. In addition there are some shares held by the directors of the company, are there not, who are not officers?

Mr. ZACHER. Yes, sir.

Mr. GESELL. Do you know what the total of those holdings is?

Mr. ZACHER. I think that is included in the figures. I haven't the number in mind. If you suggest the number—

Mr. GESELL (interposing). The figure that shows 2,419 shares for officers include directors as well as executive officers?

Mr. COLE. I thought it did, Mr. Gesell.

Mr. ZACHER. I should think so, offhand. That would be approximately correct.

Mr. GESELL. It was my impression that those figures included only such persons as were both officers and directors, and that some who were simply directors held additional shares. Is there anyone here you could consult with to determine that fact before we go on?

Mr. ZACHER. I don't know of anybody.

Mr. GESELL. I show you a schedule of stock holdings by officers and ask you whether or not it is not a fact that there are certain directors not officers whose names are not included on that list.

Mr. ZACHER. Yes; there are some directors whose names are not on this list.

Mr. GESELL. The records furnished us would indicate that Mr. Ensworth, one of your directors, holds 121 shares. His name is not on that list?

Mr. ZACHER. No, sir.

Mr. GESELL. Mr. Thomas Farnam holds 40 shares. His name is not on that list, is it?

Mr. ZACHER. No, sir.

Mr. GESELL. The figures we have indicate that the directors who are not officers hold in addition to the 2,419 figure, 3,084 shares.

Mr. ZACHER. I should think that would be approximately correct.

Mr. GESELL. Well, now, the total of the holdings of the officers and directors, then, must be somewhat less than 10 percent of the outstanding stock.

Mr. ZACHER. It would be 5 percent, wouldn't it?

Mr. GESELL. It would be about 5 percent held by the officers and directors?

Mr. ZACHER. Yes.

Mr. GESELL. And might get as high as 7 if we included those shares held in a fiduciary capacity at the Travelers Bank?

Mr. ZACHER. Possibly.

Mr. GESELL. How many stockholders vote? Approximately how many vote by proxy or otherwise at the meetings? I should say, how many shares are voted?

Mr. ZACHER. According to my recollection we generally get somewhere between 60 to 66 percent.

Mr. GESELL. Most of those persons vote by proxy?

Mr. ZACHER. By proxy.

Mr. GESELL. And the proxies are solicited by the management of the company, are they not?

Mr. ZACHER. No, sir.

Mr. GESELL. Who solicits the proxies?

Mr. ZACHER. No one. The proxies are sent out with a notice of the annual meeting, with a request that if the stockholder can't attend the meeting he will do us a favor by signing the enclosed proxy and returning it to the company. The proxies are to the members of the finance committee, which number, generally, four, and they are named in there to act as their attorneys in voting the proxies at the annual meeting.

Mr. GESELL. Perhaps "solicited" was the wrong word. What I meant was that the Travelers Insurance Co. management sends out the proxies each year to the stockholders.

Mr. ZACHER. Oh, yes; surely.

Mr. GESELL. Do you recall any time in recent years when any group or body of persons have sought to gather proxies sufficient to enable them to place their representatives on the board?

Mr. ZACHER. Not within my recollection.

Mr. GESELL. There has been no contest in any sense of the word?

Mr. ZACHER. No, sir.

Mr. GESELL. Turning specifically to the Connecticut River Banking Co. and some of the other banks in which your company is interested, I notice from the annual yearbook, that your company has owned shares in some 21 different banks.

Mr. ZACHER. That may be so, I haven't counted them.

Mr. GESELL. Am I correct in saying that the Travelers has a controlling interest only in two of those banks?

Mr. ZACHER. Yes, sir.

Mr. GESELL. That would be the Connecticut River Banking Co. and the Travelers Bank & Trust Co.?

Mr. ZACHER. Yes; that is right.

Mr. GESELL. What kind of a bank is the Connecticut River Banking Co.?

Mr. ZACHER. Commonly known as a commercial bank.

Mr. GESELL. It has offices in Hartford?

Mr. ZACHER. In the building of the Travelers Insurance Co.

Mr. GESELL. The bank was organized, was it not, about 1825?

Mr. ZACHER. Yes, sir.

Mr. GESELL. It was not organized by Travelers, was it?

Mr. ZACHER. That was before the Travelers existed.

Mr. GESELL. The Travelers Insurance Co., by its charter, is qualified to purchase and invest in common stocks, is it not?

Mr. ZACHER. I don't recall, but I assume so, otherwise they wouldn't, but they are qualified to do so by the insurance laws of the State of Connecticut.

TRAVELERS—INTEREST IN CONNECTICUT RIVER BANKING CO. AND TRAVELERS BANK AND TRUST CO.

Mr. GESELL. At what time did the company start to acquire an interest in the Connecticut River Banking Co.?

Mr. ZACHER. I believe it was 1912.

Mr. GESELL. Now can you tell us why the Travelers wanted an interest in that bank?

Mr. ZACHER. From hearsay, because I didn't create the idea—

Mr. GESELL (interposing). If I may interrupt a moment, what was your connection with the company at that time? You were treasurer, were you?

Mr. ZACHER. I think I was assistant treasurer, I would have to refer to the record. The company at that time, as I recall it, had about five to six hundred clerks. The banking accommodations that were being received from the banks with which the company did business were not satisfactory. The arrangement that the company had for taking care of petty cash, cash accounts, checks, and one thing

and another, was not satisfactory. We were told that this institution was for sale. We figured that it would be highly beneficial if we had this public institution to carry on our banking business. That is to say, by bringing it into the building we were enabled to pay our clerks in checks; they could get them cashed very conveniently. Any cash that we needed we could get by check so that we didn't have to have any cash in the office.

This bank was a member of the Hartford Clearing House Association. On account of our casualty business we issued innumerable drafts to adjustors all over the country and most of those were made payable through the Connecticut River Banking Co. The drafts would come through the clearing house, then over to our office, were immediately audited and so permitted us to get a service which we couldn't get from any other banking institution.

Mr. GESELL. You are talking now about the condition prior to the time you acquired control?

Mr. ZACHER. At the time.

Mr. GESELL. You didn't have any banking relations with them prior to the acquisition of the bank?

Mr. ZACHER. No. And, of course, since the number of clearings has grown that bank has become extremely useful. I might say that we solicited no outside accounts. It was there for the convenience of the company, primarily for its use, and if anybody wanted to use it for banking purposes we were very glad to talk to them about it.

Mr. GESELL. You say you heard the bank was for sale. How did you acquire control of the bank?

Mr. ZACHER. It was bought—most of it was bought from the previous owner who, I think, held practically 50 percent of the stock. I believe you have a copy of some agreement that covers that.

Mr. GESELL. Well, now, at the time of acquisition the capital stock of the company was 5,000 shares outstanding, par value \$30 a share, is that correct?

Mr. ZACHER. \$150,000.

Mr. GESELL. There were 5,000 shares outstanding?

Mr. ZACHER. Yes, sir.

Mr. GESELL. The records I have would indicate that in the period from May 14, 1912, to May 31, 1912, your company purchased a total of 1,731 shares from many different persons through Richter & Co., is that correct?

Mr. ZACHER. I should say it is approximately correct.

Mr. GESELL. Richter & Co. was a local brokerage firm, was it not?

Mr. ZACHER. Yes, sir.

Mr. GESELL. None of those shares were acquired from the owner, were they?

Mr. ZACHER. No; these were scattered stockholders.

Mr. GESELL. The records I have also indicate that during the period from May 24, 1912, to May 29, 1912, you purchased of Martin Wellés 452 shares.

Mr. ZACHER. That is not strictly correct. He simply acted as a convenient means of delivering the stock to us and delivering the checks to the owners.

Mr. GESELL. He picked up the stock on your behalf, is that what you mean?

Mr. ZACHER. No; they came in and asked him to turn it over to us.

Mr. GESELL. Who was Mr. Welles?

Mr. ZACHER. Mr. Welles was either vice president or—I think he was vice president of the Connecticut River Banking Co. at that time.

Mr. GESELL. What was his connection with Travelers Insurance Co. at that time? He was a director, was he not?

Mr. ZACHER. No; he was never a director; he may have been an auditor, I don't know.

Mr. GESELL. He was connected with the bank?

Mr. ZACHER. He was vice president, as I recall it.

Mr. GESELL. Well, now, these shares that were purchased from him were shares which persons had voluntarily indicated to him they were desirous of selling to you?

Mr. ZACHER. Yes, sir.

Mr. GESELL. He received no commission or compensation in this connection?

Mr. ZACHER. Not that I know of.

Mr. GESELL. The records that I have indicate that from May 13 to June 5, additional shares were acquired in various blocks which brought the total of shares acquired by June 5 to 3,107 shares. Can you tell us, from these records, just how many of these shares were purchased from this previous owner to whom you refer?

Mr. ZACHER. I can't tell, I haven't that knowledge.

Mr. GESELL. What was his name?

Mr. ZACHER. I think it was Samuel Elmore, acting through his son, Samuel D. Elmore.

Mr. GESELL. It is true, isn't it, Mr. Zacher, that a majority of these shares were acquired by purchases of small amounts from various individual stockholders and that the control was not purchased as a block from any one individual?

Mr. ZACHER. It may be, I would have to look at the record for that. But so far as working control is concerned, it was through this individual Elmore. He was the president of the company at that time.

Mr. GESELL. These records would indicate that out of those 3,107 shares, only 608 came from him or his family.

Mr. ZACHER. Yes.

Mr. GESELL. By June 5, however, you had over the majority of the control, did you not?

Mr. ZACHER. I think so.

Mr. GESELL. Thirty-one hundred and seven shares out of 5,000 brings it up around 62 percent.

Mr. ZACHER. Yes.

Mr. GESELL. And that majority control then, as opposed to working control, was acquired, by and large, through market purchases, was it not?

Mr. ZACHER. Yes, sir.

Mr. GESELL. How much of an investment did these purchases make for the Travelers Insurance Co.? Am I correct that it is an investment of some \$388,544?

Mr. ZACHER. Yes, sir.

Mr. GESELL. Has the Travelers Insurance Co. always owned over 50 percent of the outstanding stock of the Connecticut River Banking Co. since 1912?

Mr. ZACHER. Since those purchases were made.

Mr. GESELL. It is now approximately 71 percent, is it not?

Mr. ZACHER. Yes; I guess so.

Mr. GESELL. Following the acquisition of this stock, am I correct in saying that certain representatives of the Travelers went on to the finance committee of the Connecticut River Bank?

Mr. ZACHER. Yes, sir.

Mr. GESELL. You were among those who went on at that time?

Mr. ZACHER. Yes, sir.

Mr. GESELL. Is it correct to say that at all times since the acquisition of this majority stock, Travelers Insurance Co. has had the active control and the majority on the finance committee and the board of directors?

Mr. ZACHER. Yes; I would say yes.

Mr. GESELL. At the present time is it correct to say that the finance committee has the majority of persons who are also connected with Travelers Insurance Co.?

Mr. ZACHER. Yes, sir.

Mr. GESELL. And that the board of directors similarly had such a majority?

Mr. ZACHER. Yes, sir.

Mr. GESELL. Do you recognize this statement which I show you now as a statement of condition of the bank as of December 31, 1938?

Mr. ZACHER. Yes, sir.

Mr. GESELL. This statement indicates that the bank, as of December 31, 1938, had total resources and liabilities of \$9,200,047.78. I should like to offer the statement for the record.

Acting Chairman DAVIS. This will be put into the record.

(The statement referred to was marked "Exhibit No. 1095" and is included in the appendix on p. 6954.)

Mr. GESELL. Connecticut River Banking Co. has only one class of stock outstanding, has it not?

Mr. ZACHER. Yes, sir.

Mr. GESELL. Now coming for a moment to Travelers Bank & Trust Co., was the Travelers Bank & Trust Co. another bank which your company bought an interest in, or was it a bank created by your company?

Mr. ZACHER. It was created by the company.

Mr. GESELL. When was that Mr. Zacher?

Mr. ZACHER. I think it was in 1912.

Mr. GESELL. Will you tell us why the bank was created and the circumstances relating to its creation?

Mr. ZACHER. The Travelers Insurance Co. was interested in salvaging one of its old investments and it appointed one of the officers of the Travelers Insurance Co. as trustee for the benefit of the stockholders. He was not in good health and he wished to transfer his responsibilities to a corporate trustee. The nature of the enterprise was rather complicated and rather than select one of the other trust companies in Hartford, they organized this company under the name of the Union Trust Co., originally principally to handle these two or three trusts. The Connecticut River Banking Co., we found, did not have any trust privileges.

Mr. GESELL. The bank, then, was organized solely for the purpose of handling these trust accounts which involved interests of your company?

Mr. ZACHER. That was the only business we had at that time, but the charter was a special charter and covered banking business generally.

Mr. GESELL. You say it was called the Union Trust Co. when it was organized, is that correct?

Mr. ZACHER. Yes, sir.

Mr. GESELL. Does it now bank in the same building as the Travelers Insurance Co.?

Mr. ZACHER. Yes, sir.

Mr. GESELL. I believe you said that was organized in 1912. My records indicate that it was chartered April 8, 1913.

Mr. ZACHER. Then that is correct.

Mr. GESELL. When was its name changed to Travelers Bank & Trust Co. as you best recall, some time in 1915?

Mr. ZACHER. I should think so.

Mr. GESELL. This bank is wholly owned by Travelers Insurance Co., is it?

Mr. ZACHER. Yes.

Mr. GESELL. Do you recognize this statement which I show you as a statement of condition of the Travelers Bank & Trust Co. as of December 31, 1938?

Mr. ZACHER. Yes.

Mr. GESELL. This is a statement of condition which shows that the resources and liabilities of the bank as of that date were \$12,527,791.99. I submit it for the record.

Acting Chairman DAVIS. It is ordered inserted in the record.

(The schedule referred to was marked. "Exhibit No. 1096" and is included in the appendix on p. 6954.)

Mr. GESELL. That statement would indicate that subsequent to the formation of the bank its activities were expanded from those originally contemplated?

Mr. ZACHER. Yes, sir.

Mr. GESELL. Will you tell us from what direction that expansion took place?

Mr. ZACHER. They opened up a savings department and opened its trust department to the public. I think those are the only two functions.

Mr. GESELL. In other words, as the bank went along it became a public institution?

Mr. ZACHER. Yes, sir.

Mr. GESELL. Am I correct in saying that the Travelers Insurance Co. has received dividends from both these banks from time to time since their organization?

Mr. ZACHER. Yes, sir.

Mr. GESELL. Do you recognize this as a schedule prepared in your office showing the amount of those dividends and the dates when they were paid?

Mr. ZACHER. Yes, sir.

Mr. GESELL. This schedule indicates that the Travelers Bank & Trust Co. paid, from the period 1924 to 1938, dividends to Travelers Insurance Co. totaling \$391,000, and that the Connecticut River Banking Co., in the period from 1912 to 1938, paid dividends to Travelers Insurance Co. totaling \$866,230.80. I should like to offer this for the record.

Acting Chairman DAVIS. Let it be inserted in the record.

(The schedule referred to was marked "Exhibit No. 1097" and is included in the appendix on p. 6954.)

Mr. GESELL. Who is the president of the Travelers Bank & Trust Co. at the present time?

Mr. ZACHER. L. M. Hubbard.

Mr. GESELL. Is he also president of the Connecticut River Banking Co.?

Mr. ZACHER. Yes, sir.

Mr. GESELL. What is his connection with the Travelers Insurance Co.?

Mr. ZACHER. Director.

Mr. GESELL. Similarly, are there any other officials who have connections with both banks and with the insurance company?

Mr. ZACHER. Yes.

Mr. GESELL. Can you name some of those for us and tell us what their connections are?

Mr. ZACHER. The Travelers Bank and the Travelers Insurance Co.? Or the Connecticut River?

Mr. GESELL. I had in mind men who were connected with all three institutions in the manner that Mr. Hubbard is connected.

Mr. ZACHER. Well, they are very common to all institutions.

Mr. GESELL. I believe we have the details in the record.¹ The two banks are by and large run by the same individuals, are they not?

Mr. ZACHER. As I remember, the Connecticut River Banking Co. has about 9 directors, of which 5 are connected with the Travelers Insurance Co. The Travelers Bank & Trust Co., I believe, has 15 directors, all but 1 or 2 are connected with the Travelers Insurance Co. either as directors or officers.

Mr. GESELL. Then there are some persons who are connected with both banks?

Mr. ZACHER. The other two, I think, are⁴ connected with the Connecticut River Banking Co., so that you might say it is one representation for all practical purposes.

Mr. GESELL. Yes. Mr. Welles, for example, is vice president of both banks, is he not?

Mr. ZACHER. I believe so.

Mr. GESELL. And Mr. Fisher is treasurer of one bank and cashier of the other?

Mr. ZACHER. Yes.

Mr. GESELL. Returning to the Connecticut River Banking Co., I believe you said that prior to the acquisition of this stock interest your company had no banking relations with the Connecticut River Banking Co., that amounted to anything substantial.

Mr. ZACHER. I think we had none.

Mr. GESELL. A schedule which I have would indicate that since that time your company has carried bank balances at the Connecticut River Banking Co.

Mr. ZACHER. Yes, sir.

Mr. GESELL. Those bank balances have been carried in a regular account and a special account, have they not?

¹ See "Exhibit No. 1094," appendix, p. 6952.

Mr. ZACHER. Yes, sir.

Mr. GESELL. Do you recognize these schedules which I show you as schedules reflecting the year-end amounts of the balances in those two particular accounts?

Mr. ZACHER. I presume they are correct, to my recollection.

Mr. GESELL. You recognize Mr. Pease's initials, of your office, do you not?

Mr. ZACHER. Yes.

Mr. GESELL. These schedules indicate that in 1911, December 31, the Travelers Insurance Co. had no bank balance in the Connecticut River Banking Co. and that since that time the account has increased from \$37,384.55 at the year end of 1912 to \$3,345,293.85 at the year end of 1938, the maximum year-end balance shown on this schedule being in 1936, \$4,023,482.65. That is for the regular account.

And that in the special account a balance of some \$400,000 has been carried steadily since 1918.

I should like to offer those two schedules for the record.

(The schedules referred to were marked "Exhibits Nos. 1098 and 1099" and are included in the appendix on pp. 6955 and 6956.)

Acting Chairman DAVIS. They will be entered in the record. I would like to ask a question. How do the rates of interest that these banks paid to the Travelers Insurance Co. compare with the rate paid other depositors in the same status?

Mr. ZACHER. I can't tell you that, sir. It would depend upon the nature of the account. If the account was of the same nature—I don't mean so large, but I mean substantial, and involved no more labor, the outside account of the public got as much interest as the Travelers' account, and the Travelers' account got the current rate of interest that was prevalent amongst all the institutions in the city. Is that what you wanted to know?

Acting Chairman DAVIS. Yes, sir.

Mr. GESELL. The rates of interest are shown for both those accounts on the schedules, I believe.

What is the nature of this special account of \$400,000?

Mr. ZACHER. Just a deposit, originally in the form of a time deposit which commanded a little larger rate of interest than that paid on the regular checking account.

Mr. GESELL. At the present time it is a demand deposit, is it not?

Mr. ZACHER. It has been merged. It overstayed its welcome and we should have taken care of it 2 or 3 years ago when they changed the interest rates all around.

Mr. GESELL. So at the present time there is no working or basic distinction between the regular account and the special account?

Mr. ZACHER. No, sir.

Mr. GESELL. Do you recall when the first deposit was made in the Connecticut River Banking Co.?

Mr. ZACHER. No, sir.

Mr. GESELL. It was immediately following the acquisition of the stock, was it not?

Mr. ZACHER. I should think so; yes.

Mr. GESELL. Our records would indicate a \$50,000 deposit on August 29, 1912. Would you agree that that was correct?

Mr. ZACHER. I think so.

Mr. GESELL. Am I correct in saying, Mr. Zacher, that from time to time the Connecticut River Banking Co. has loaned money on collateral to officers and directors of Travelers Insurance Co.?

Mr. ZACHER. Yes, sir.

Mr. GESELL. Was such a loan made to yourself?

Mr. ZACHER. Yes, sir; two or three of them.

Mr. GESELL. Do you recall that you borrowed on May 11, 1915, \$1,011.89, and that you borrowed \$600 on July 1, 1915; \$800 on October 18, 1915; \$52,527.11 in 1916; \$500 January 14, 1918; \$10,000, July 15, 1929; and \$1,100, July 22, 1931, or a total of a little over \$66,000?

Mr. ZACHER. Oh, no, no. You have got that wrong. I paid it off in 1929 and 1931.

Mr. GESELL. You made no loans since 1918?

Mr. ZACHER. Why, yes; I think I made a loan in 1923 or '24. Those loans I don't think aggregate entirely more than \$56,000, and that 10 and 8 that you have just read are payments.

Mr. GESELL. Payments and not loans? Can you confirm that by reference to the records of the bank which I show you?

Mr. ZACHER. There is another statement that you took showing that thing more concisely, just exactly what happened. I think that we ought to be particular to get that in right.

Mr. GESELL. I am very anxious, Mr. Zacher, to have it right, and that is why I am asking you.

Mr. ZACHER. According to this record, I think it is correct, \$1,011.89, which was paid June 2, 1915. July 1, 1915, I borrowed \$600 and paid it July 29 of the same year, 28 days later. On October 18, 1915, I borrowed \$800, and paid it off the next day, apparently, October 19, 1915. February 29, 1916, I borrowed \$52,527.11. I paid off \$320 on April 3, 1916, \$9,368.62, May 24, 1916, \$2,838.49, June 1, 1916; \$10,000, December 31, 1929; \$5,000, March 31, 1931, and \$25,000 on June 30, 1931, and I haven't borrowed any money there since.

Mr. GESELL. So that by 1931 you had paid off the \$52,000 loan in 1916?

Mr. ZACHER. Correct.

Mr. GESELL. That schedule which you have just been reading, Mr. Zacher, covers loans only from 1912 to 1917, does it not? I refer you to the heading.

Mr. ZACHER. Yes, sir.

Mr. GESELL. Are you quite certain that you haven't borrowed any money subsequent to the \$52,527 loan?

Mr. ZACHER. According to my recollection, I haven't. I may be mistaken, because 1917 is 22 years ago.

Mr. GESELL. In the interest of accuracy, I wish you would refresh your recollection by referring to the record of the bank which I handed to you, and which your counsel now has, so that we can determine one way or another. I have no objection to your having Mr. Fisher up here, who is familiar with these records, to point that out to you. I understand—

Mr. ZACHER (interposing). I can't read these records. These are not our records, they are bank records. They want to know if I borrowed any money since 1917. That 40 is part of the 52.

According to this record, I paid that 52 down to 40, and then on July 15, 1929, I borrowed \$10,000 more, which I paid off August 7, 1929. That is from July 15 to August 7, that was paid off. Then

those other payments went on, as I read them. On July 22, 1931, I borrowed \$1,100, and I paid it off August 4.

Mr. GESELL. That agrees with the records I originally read. Now, these loans were collateralized, were they, Mr. Zacher?

Mr. ZACHER. Yes, sir.

Mr. GESELL. At the time these loans were made, you were a member of the board of directors and the finance committee of the bank as well as a director and officer of the insurance company, were you not?

Mr. ZACHER. Yes, sir.

Mr. GESELL. When these loans came before the finance committee for approval, is it not a fact that you were in attendance at those meetings and approved the loans involving advances of credit to yourself?

Mr. ZACHER. I think, if the records show I was at the meeting, I probably said "yes."

Mr. GESELL. Do you recall those instances, Mr. Zacher?

Mr. ZACHER. No, sir. I think you have the record showing whether or not I was there at the meeting; if you had the record, I probably voted in favor of it.

Mr. GESELL. Well, now, this \$52,527 loan was approved at a meeting of the finance committee held March 7, 1916, was it not? And were you not present? Was that loan not brought before the committee at that time?

Mr. ZACHER. This record shows that I was there on that date, and that the loans as read from a note register February 28 to March 7 were approved, also a renewal from March 7 to March 14.

Mr. GESELL. That would include, would it not, the loan of fifty-two-odd thousand dollars to yourself?

Mr. ZACHER. That was on the register; yes.

Mr. GESELL. No doubt about it being on the register, is there?

Mr. ZACHER. I don't know. These are all pretty old records. I don't recall these things except in a general way.

Mr. GESELL. Am I correct in saying it is your best judgment you did attend the finance committee meetings and on occasion pass on loans, including loans to yourself?

Mr. ZACHER. Yes, sir.

Mr. GESELL. Can you tell us whether or not these loans were secured to some considerable extent by Travelers Insurance stock?

Mr. ZACHER. Yes, sir; they were.

Mr. GESELL. Directing your attention specifically to the \$52,527 loan, can you tell us whether or not it is a fact that that loan was secured almost entirely by Travelers Insurance Co. stock?

Mr. ZACHER. I should say so; yes.

Mr. GESELL. Was that loan made for the purpose of enabling you to purchase that stock?

Mr. ZACHER. I don't know.

Mr. GESELL. Do you know any of the circumstances surrounding the borrowing of that money?

Mr. ZACHER. No, sir.

Mr. GESELL. You have no recollection with respect to it at all?

Mr. ZACHER. Not a bit.

Mr. GESELL. You don't know for what purpose you borrowed the money?

Mr. ZACHER. No, sir. What date was that?

Mr. GESELL. February 29, 1916, \$52,527.11.

Mr. ZACHER. It is 23 years ago. No, sir; I don't recall that at all.

Mr. GESELL. That is just 2 weeks before you became a director of Travelers Insurance Co.; do you recall that?

Mr. ZACHER. No.

Mr. GESELL. Would you say that this loan was made to enable you to purchase the stock; is that your best recollection?

Mr. ZACHER. I don't know.

Mr. GESELL. Now, how long a period was it, Mr. Zacher, before there was any payment of principal on that loan?

Mr. ZACHER. The record shows that. I will tell you in a minute if you will let me borrow it. According to this memorandum which is made up by Mr. Fisher, taken from the bank records, this \$52,000 was made February 29, 1916. April 3 I made a small payment of \$320, and May 23 paid off \$9,368, and on June 1 that year \$2,838. Then there were no further payments until 1929.

Mr. GESELL. So that from 1916 to 1929 there were no payments of principal on the loan.

Mr. ZACHER. That isn't exactly correct. I paid off \$12,527.11 in 1916, bringing the loan to \$40,000. Then there were no payments until 1929.

Mr. GESELL. Now at the time this loan was made, was any question raised as to the propriety of your borrowing from this bank?

Mr. ZACHER. No, sir.

Mr. GESELL. Any discussion of it at all one way or the other?

Mr. ZACHER. I don't recall. I don't see why there should be.

Mr. GESELL. I am asking you whether there was any discussion of it. I think the "why" should be apparent. Did you have any discussion of it?

Mr. ZACHER. Well, I am sorry, but this happened 23 years ago.

Mr. GESELL. There have been many officers who have borrowed money from the bank, have there not?

Mr. ZACHER. I should say there was no discussion on that account, for that reason.

Mr. GESELL. From time to time officers and directors of Travelers Insurance Co. have borrowed money from this bank, have they not?

Mr. ZACHER. Yes, sir.

Mr. GESELL. And you recall no discussions at any time with respect to the propriety of those loans?

Mr. ZACHER. No, sir.

Mr. GESELL. Now at this time, if the committee please, I would like to ask Mr. Zacher to step down in order to call Mr. Sherwood, another witness.

Acting Chairman DAVIS. Just stand aside for the time being, Mr. Zacher.

Mr. GESELL. Mr. Sherwood.

Acting Chairman DAVIS. Do you solemnly swear that the statements you are about to make in this inquiry shall be the truth, the whole truth, and nothing but the truth, so help you God?

Mr. SHERWOOD. I do.

TESTIMONY OF WILBUR S. SHERWOOD, CASHIER, THE TRAVELERS
INSURANCE CO., HARTFORD, CONN.

Mr. GESELL. Will you state your full name, please, Mr. Sherwood?

Mr. SHERWOOD. Wilbur S. Sherwood.

Mr. GESELL. Are you connected with Travelers Insurance Co.?

Mr. SHERWOOD. I am.

Mr. GESELL. What is your position there?

Mr. SHERWOOD. I am cashier of the Travelers Insurance Co.

Mr. GESELL. Cashier of the Travelers Insurance Co.?

Mr. SHERWOOD. Exactly.

Mr. GESELL. Does that include the two banks?

Mr. SHERWOOD. No, sir.

Mr. GESELL. You have no connection with the banks?

Mr. SHERWOOD. I have no connection with the banks other than the Travelers Bank & Trust Co., and there I am one of the two auditors appointed by the stockholders.

Mr. GESELL. How long have you been with the Travelers Insurance Co. Mr. Sherwood?

Mr. SHERWOOD. Since February 1918.

Mr. GESELL. Am I correct in saying that from time to time you have borrowed money from the Connecticut River Banking Co.?

Mr. SHERWOOD. That is correct.

Mr. GESELL. Do you recall the number of loans which you have made and the amount of those loans, or have you any information with respect to them here?

Mr. SHERWOOD. I have no information here.

Mr. GESELL. This may help you refresh your recollection with respect to them.

Your loans commenced as early as 1919, did they not?

Mr. SHERWOOD. According to this record, they did.

Mr. GESELL. And they have continued from time to time up to as late as 1931, is that correct?

Mr. SHERWOOD. I think so.

Mr. GESELL. Are there loans outstanding at the present time?

Mr. SHERWOOD. Yes, sir.

Mr. GESELL. What is your obligation to the bank at the present time?

Mr. SHERWOOD. Slightly in excess of \$50,000.

Mr. GESELL. Are those loans secured?

Mr. SHERWOOD. I think they are; yes, sir.

Mr. GESELL. Were those loans, loans which you negotiated in each instance in your own capacity for your own benefit?

Mr. SHERWOOD. My own benefit.

Mr. GESELL. They were made for yourself?

Mr. SHERWOOD. Yes, sir.

Mr. GESELL. No one else?

Mr. SHERWOOD. No one else.

Mr. GESELL. Were some of those loans to assist you to purchase Travelers stock?

Mr. SHERWOOD. That may be correct. I am not exactly sure.

Mr. GESELL. Well, I would be glad to have you refresh your recollection by looking at the collateral sheets in those loans.

Mr. SHERWOOD. The collateral doesn't always give that answer, Mr. Gesell.

Mr. GESELL. But it might help you recall.

Mr. SHERWOOD. Well, I would say I could say yes, partially. I am not sure about it being entirely right.

Mr. GESELL. You mean in some cases these loans were made in order to enable you to purchase stock in Travelers Insurance Co.?

Mr. SHERWOOD. I think that is correct; yes, sir.

Mr. GESELL. How were these loans, the mechanics of these loans worked out when you went to borrow? How would they be handled?

Mr. SHERWOOD. Perhaps it is best described as being identical with anybody's request for a collateral loan in any bank. I have had a number of years' experience in the banking business myself where loans were made, and I think my application was no different from any other application for a collateral loan.

Mr. GESELL. Why did you happen to go to the Connecticut River Banking Co. to borrow money?

Mr. SHERWOOD. Well, I was well known there, carried an account there. The natural place for a man to go for his loans is where he banks and where he does business.

Mr. GESELL. No other extenuating circumstances of any sort in connection with your going to that particular bank for these loans?

Mr. SHERWOOD. None whatever.

Mr. GESELL. Do you feel you paid the going rate of interest on those loans?

Mr. SHERWOOD. I certainly do.

Mr. GESELL. Reading from the schedules in front of us, can you tell us the dates of the loans and the amounts of them, please? My records would indicate that the first loan was on December 9, 1919, for \$1,000.

Mr. SHERWOOD. There is a record here that shows a loan was made of \$1,000 December 9, 1919.

Mr. GESELL. Well now, you say there is a record there. You don't have any recollection as to that loan?

Mr. SHERWOOD. I haven't these dates in mind, if that is what you are after.

Mr. GESELL. And you are not certain of the amounts?

Mr. SHERWOOD. I am not certain, but I have no reason to say they are not as indicated in the schedule.

Mr. GESELL. Well I have no objection to putting Mr. Fisher up with respect to that.

Can you tell us before concluding your testimony on this occasion—you said you owed approximately \$50,000 at the present time?

Mr. SHERWOOD. That is correct.

Mr. GESELL. How is that obligation secured?

Mr. SHERWOOD. On demand notes.

Mr. GESELL. Is there any collateral?

Mr. SHERWOOD. Yes, sir.

Mr. GESELL. The collateral is mostly Travelers Insurance securities; is that correct?

Mr. SHERWOOD. That is correct.

Mr. GESELL. Is there also an insurance policy securing that obligation?

Mr. SHERWOOD. I believe there is more than one. There are insurance policies.

Mr. GESELL. Is it the proceeds of the policy or the cash surrender value of the policy which is the security?

Mr. SHERWOOD. Well, I don't know how I would best describe the word "security." The collateral would be the Travelers Insurance stock and the slowly increasing cash surrender value of the policies.

Mr. GESELL. Those are not term policies?

Mr. SHERWOOD. I think they are not term policies.

Mr. GESELL. I have no further questions of this witness at this time.

Acting Chairman DAVIS. You are excused.

Mr. GESELL. I want Mr. Sherwood back at some future date.

Mr. FISHER, will you take the stand, please?

Acting Chairman DAVIS. Hold up your right hand. Do you solemnly swear the testimony you are about to give in this inquiry will be the truth, the whole truth, and nothing but the truth, so help you God?

Mr. FISHER. I do.

**TESTIMONY OF FREDERICK FRANCIS FISHER, CASHIER,
CONNECTICUT RIVER BANKING CO., HARTFORD, CONN.**

Mr. GESELL. What is your full name, please, sir?

Mr. FISHER. Frederick Francis Fisher.

Mr. GESELL. Are you connected with the Connecticut River Banking Co.?

Mr. FISHER. I am.

Mr. GESELL. How long have you been with that bank?

Mr. FISHER. Since 1895.

Mr. GESELL. Since it was organized?

Mr. FISHER. No.

Mr. GESELL. No; that was in 1825, wasn't it? You don't look that old.

Referring to these loan records of Mr. Sherwood, can you tell us the dates of the loans made to him and the amounts thereof? I take it you are familiar with these records.

Mr. FISHER. I am.

Mr. GESELL. And have general supervision over their maintenance?

Mr. FISHER. General supervision; yes. These loans started in 1922, apparently.

Mr. GESELL. Do you find no loan December 9, 1919?

Mr. FISHER. Yes; 1919, a demand loan of \$1,000.

Mr. GESELL. Will you tell us the loans which were made subsequently thereto?

Mr. FISHER. Well, of course, any loans—\$6,880 on September 1, 1922; \$5,000 on May 10, 1923; \$4,500 on July 18, 1923; \$500 on July 19, 1923; \$500 on November 30, 1923; \$1,285.50 on January 4, 1924; \$9,060 on January 30, 1924; \$2,989 on February 20, 1924; \$1,499.50 February 26, 1924; \$452.10 February 28, 1924; \$1,060.15 on February 29, 1924; \$9,575 July 24, 1924; \$6,050 September 24, 1924; \$3,700 September 25, 1924; \$3,800 September 25, 1924; \$54,000 October 1, 1924.

Mr. GESELL. That is a balancing figure, I believe.

Mr. FISHER. I was going to call your attention to that. You asked the loans made. These loans may be paid off or consolidated and therefore show as new loans.

Mr. GESELL. I was going to ask you the largest amount outstanding at any one time. Proceed.

Mr. FISHER. \$4,312.50 November 18, 1924; \$1,000 December 2, 1924; \$17,850 February 25, 1925; \$3,090 March 2, 1925; \$1,500 July 25, 1925; \$5,560 September 28, 1925; \$2,000 November 25, 1925.

Then on another sheet here is merely a consolidation of the previous loans, which aggregate \$50,000; and then on January 16, \$6,660; September 16, 1929, \$15,000; \$12,000 on November 9, 1929; \$11,500 February 1, 1930; \$11,000—

Mr. GESELL (interposing). I think you are reading renewals, are you not?

Mr. FISHER. Undoubtedly.

Mr. GESELL. I was trying to confine your testimony to loans which were new loans.

Mr. FISHER. I can't tell that without analyzing the sheets.

Mr. GESELL. Can you tell us what the greatest amount outstanding at any one time was, and what the date of that amount was? My records would indicate it is September 16, 1929.

Mr. FISHER. Right; \$65,000.

Mr. GESELL. \$65,000 on that date?

Mr. FISHER. That's right.

Mr. GESELL. Were any of the loans that are shown on that schedule made without collateral?

Mr. FISHER. No; there were some collateral loans that were made, and then the loan was split into a collateral and noncollateral. It was merely a splitting of the loan into two parts.

Mr. GESELL. In other words, there was part of the loan not secured.

Mr. FISHER. It was secured by the collateral that was on the collateral loan.

Mr. GESELL. Explain that to me. Wouldn't you put against each loan collateral sufficiently to fully collateralize that?

Mr. FISHER. Not necessarily. Loans are made without collateral.

Mr. GESELL. Were there any loans made without collateral here?

Mr. FISHER. Not in itself.

Mr. GESELL. There were loans that had no collateral after them following the split?

Mr. FISHER. Collateral applied to both loans.

Mr. GESELL. Was the collateral sufficient to fully secure both loans?

Mr. FISHER. No.

Mr. GESELL. There we are. How many loans were there of that kind?

Mr. FISHER. One that I recall.

Mr. GESELL. What was the amount of that loan, and when was it?

Mr. FISHER. I should say \$15,000, on October 2, 1931.

Mr. GESELL. Any other instances of that kind?

Mr. FISHER. Not that I know of. It was merely a split-up of the original collateral loan.

Mr. GESELL. I believe you said the security was not sufficient to cover both loans.

Mr. FISHER. Not with the usual margin.

Acting Chairman DAVIS. Was that loan later paid in full?

Mr. FISHER. No, sir; it is still in force.

Mr. GESELL. That is included, is it not, in the fifty-odd thousand dollars?

Mr. FISHER. That's right.

Mr. GESELL. Has any portion of it been written off at the direction of the bank examiner?

Mr. FISHER. No, sir.

Mr. GESELL. What did the bank examiner have to say in classifying that loan? Am I correct in saying it was put under "slow and doubtful paper"?

Mr. FISHER. Undoubtedly; the same as some others.

Mr. GESELL. Reading from the report on the condition of the bank by the banking department March 8, 1932, it states:

Wilbur S. Sherwood, Assistant Cashier, Travelers Insurance Co.—
referring to the \$15,000 loan—

also has collateral loan for \$39,500, present value of collateral \$42,800, margin loan. Carries small average balance. Bank holds life insurance policies for \$30,000 to protect. It is classified under "slow and doubtful paper and losses."

(The witness nodded in the affirmative.)

Mr. GESELL. Mr. Fisher, do you recognize this schedule which I show you now?

Mr. FISHER. Yes, sir.

Mr. GESELL. Will you state what that schedule is?

Mr. FISHER. A list of the directors of the Connecticut River Banking Co. and of the Travelers Bank & Trust Co.

Mr. GESELL. You are also connected with the Travelers Bank & Trust Co., are you not?

Mr. FISHER. I am.

Mr. GESELL. In what capacity?

Mr. FISHER. Treasurer.

Mr. GESELL. How long have you been with that bank?

Mr. FISHER. 1925.

Mr. GESELL. That record shows the directors of both those banks—

Mr. FISHER (interposing). Yes, sir.

Mr. GESELL. Does it not, and their membership on the Finance Committee of those banks?

Mr. FISHER. Yes.

Mr. GESELL. Am I correct in saying that on this schedule the first column of dates shows the date each of the men indicated became a director of the respective banks, the second column of dates indicates the date he resigned, died, or went off the board?

Mr. FISHER. Right.

Mr. GESELL. And under the heading, "Finance Committee," the dates of the membership of each of those gentlemen on the finance committee is shown?

Mr. FISHER. That is correct.

Mr. GESELL. I wish to offer this schedule for the record.

Acting Chairman DAVIS. It may be printed in the record.

(The schedule referred to was marked "Exhibit No. 1100" and is included in the appendix on p. 6956.)

Mr. GESELL. Now, Mr. Fisher, am I correct in saying that the Connecticut River Banking Co. loaned money to Mr. Arthur L. Shipman?

Mr. FISHER. Yes.

Mr. GESELL. Those loans were collateralized, were they not?

Mr. FISHER. Yes.

Mr. GESELL. Who was Mr. Shipman?

Mr. FISHER. An attorney—Shipman & Goodman.

Mr. GESELL. He was a director of Travelers Insurance Co., was he not?

Mr. FISHER. Right.

Mr. GESELL. Was he not for a while a director of the Connecticut River Banking Co.?

Mr. FISHER. He was.

Mr. GESELL. This schedule, which was introduced a moment ago, indicated he became a director of the Connecticut River Banking Co. on January 1, 1907, and that he remained a director until October 16, 1937, when he died.¹

Mr. FISHER. Right.

Mr. GESELL. During that time various loans were made to him; is that correct?

Mr. FISHER. Yes.

Mr. GESELL. Do you recognize these sheets which I show you as containing a record of his account with the bank?

Mr. FISHER. Yes, sir.

Mr. GESELL. Can you tell us the date of the first loan to Mr. Shipman?

Mr. FISHER. The first loan indicated here is in 1910.

Mr. GESELL. The first loan after the Travelers Insurance Co. became interested in the Connecticut River Banking Co. There was a loan on October 3, 1912, was there not?

Mr. FISHER. There was a loan on which he was endorser in August 1912.

Mr. GESELL. Of \$3,000?

Mr. FISHER. \$3,000.

Mr. GESELL. Then on October 3, 1912, of \$2,250?

Mr. FISHER. Of \$2,250.

Mr. GESELL. When was the account cleared up, finally—all of his transactions?

Mr. FISHER. Without analyzing the sheets—

Mr. GESELL (interposing). Let me ask you this, then, Mr. Fisher. He borrowed money in 1912, 1913, 1914, 1915, 1916, 1918, 1919, 1920, 1922, 1923, 1926, 1927, 1928, 1929, and 1930, did he not?

Mr. FISHER. Very likely.

Mr. GESELL. Well, let's go back through it. Did he borrow money in 1912?

Mr. FISHER. Yes.

Mr. GESELL. Did he borrow money in 1913?

Mr. FISHER. Yes.

Mr. GESELL. Did he borrow money in 1914?

Mr. FISHER. He did. If you notice on your schedule those loans in both cases were reduced to \$40 before he increased the loans.

¹ See "Exhibit No. 1100," appendix, p. 6956.

Mr. GESELL. Did he borrow money in 1914?

Mr. FISHER. He did.

Mr. GESELL. Did he borrow money in 1915?

Mr. FISHER. He did.

Mr. GESELL. 1916?

Mr. FISHER. He did.

Mr. GESELL. 1918?

Mr. FISHER. He did.

Mr. GESELL. 1919?

Mr. FISHER. Yes.

Mr. GESELL. 1920?

Mr. FISHER. Yes.

Mr. GESELL. 1922?

Mr. FISHER. Yes.

Mr. GESELL. 1923?

Mr. FISHER. Yes.

Mr. GESELL. 1926?

Mr. FISHER. Yes, sir.

Mr. GESELL. 1927?

Mr. FISHER. Yes, sir.

Mr. GESELL. 1928?

Mr. FISHER. I don't see a 1928 here. Yes; in 1928.

Mr. GESELL. 1929?

Mr. FISHER. Yes, sir.

Mr. GESELL. And in 1930?

Mr. FISHER. Right.

Mr. GESELL. Now, what was the peak amount of his loans and the date that peak amount was outstanding? My records indicate December 16, 1930, \$38,700. Is that correct?

Mr. FISHER. What date now?

Mr. GESELL. Thirty-eight thousand seven hundred, December 16, 1930.

Mr. FISHER. That is correct.

Mr. GESELL. That is the greatest amount he was obligated at any one time?

Mr. FISHER. That is right.

Mr. GESELL. Were his loans secured in many cases by Travelers Insurance stock?

Mr. FISHER. In some cases.

Mr. GESELL. Now, am I correct in saying that the Connecticut River Banking Co. loaned money to Louis F. Butler?

Mr. FISHER. Yes, sir.

Mr. GESELL. He was a director and president of the Travelers Insurance Co., was he not?

Mr. FISHER. Yes, sir.

Mr. GESELL. He was also a director and member of the finance committee of Connecticut River Banking Co., was he not?

Mr. FISHER. Yes, sir.

Mr. GESELL. The schedule introduced a moment ago indicates that he was a director from January 1, 1926, to October 23, 1929, when he died?¹

Mr. FISHER. That is correct.

¹ See "Exhibit No. 1100," appendix, p. 6956.

- Mr. GESELL. Do you recall during what period of time he was connected with Travelers Insurance Co.?
- Mr. FISHER. No; I don't know that.
- Mr. GESELL. He was president up until his death, was he?
- Mr. FISHER. He was president when he died.
- Mr. GESELL. The answer is "yes," then?
- Mr. FISHER. Yes.
- Mr. GESELL. Well, now, can you tell us when he made his first loan from Connecticut River Banking Co.?
- Mr. FISHER. I have no recollection of it. You have the information—1914.
- Mr. GESELL. That was a loan of \$23,500, April 15, 1914?
- Mr. FISHER. Yes, sir.
- Mr. GESELL. Am I correct in saying that he borrowed money every year thereafter, with the exception of 1921 and 1922 and 1924 and 1927, up until his death?
- Mr. FISHER. I couldn't tell without analyzing the sheet.
- Mr. GESELL. Then, let's go down through it, Mr. Fisher. Did he borrow money in 1915?
- Mr. FISHER. Yes.
- Mr. GESELL. Did he borrow money in 1916?
- Mr. FISHER. Yes, sir.
- Mr. GESELL. In 1917?
- Mr. FISHER. Yes, sir.
- Mr. GESELL. 1918?
- Mr. FISHER. If you will bear in mind, where those appear as borrowing, it might be a renewal of the previous loan.
- Mr. GESELL. Did he borrow money in 1918?
- Mr. FISHER. Yes, sir.
- Mr. GESELL. Was that a renewal?
- Mr. FISHER. No; the first one was.
- Mr. GESELL. Did he borrow money in 1919?
- Mr. FISHER. Yes, sir.
- Mr. GESELL. Was that new money or renewal money?
- Mr. FISHER. That was new.
- Mr. GESELL. Did he borrow money in 1920?
- Mr. FISHER. Yes.
- Mr. GESELL. Was that new money or renewal money?
- Mr. FISHER. Part new and part renewal.
- Mr. GESELL. Did he borrow new money in 1923?
- Mr. FISHER. Yes, sir.
- Mr. GESELL. Did he borrow new money in 1925?
- Mr. FISHER. Yes, sir.
- Mr. GESELL. That was \$54,500 there, was it not?
- Mr. FISHER. That is right.
- Mr. GESELL. Did he borrow new money in 1926?
- Mr. FISHER. Yes, sir.
- Mr. GESELL. Again new money in 1928?
- Mr. FISHER. Not to my knowledge.
- Mr. GESELL. You show a loan of \$18,000 in 9/5/28.
- Mr. FISHER. That is continued on a new sheet; that is right.
- Mr. GESELL. He borrowed new money in 1928?
- Mr. FISHER. Yes; that is right.

Mr. GESELL. Now he borrowed again in 1929, did he not, the same year he died?

Mr. FISHER. That is right; yes, sir.

Mr. GESELL. What was the peak amount of the loans outstanding? My records indicate that was August 15, 1925, \$74,000; is that correct?

Mr. FISHER. \$76,000.

Mr. GESELL. \$76,000.

If the committee please, we can take our usual 12:30 recess at this time. I hope to be able to speed this up a little this afternoon.

Acting Chairman DAVIS. The committee will stand in adjournment until 2 o'clock. Those of you who are summoned will be back.

(Whereupon, at 12:30 p. m., a recess was taken until 2 o'clock of the same day.)

AFTERNOON SESSION

The hearing was resumed at 2:10 p. m. upon the expiration of the recess.

Acting Chairman DAVIS. Are you ready to resume, Mr. Gesell?

Mr. GESELL. Yes; I am.

Acting Chairman DAVIS. The committee will come to order and make what progress we can. Call your next witness.

Mr. GESELL. Mr. Fisher, will you resume the stand, please?

TESTIMONY OF FREDERICK FRANCIS FISHER, CASHIER, CONNECTICUT RIVER BANKING CO., HARTFORD, CONN.—Resumed

Mr. GESELL. I was about to discuss with you, Mr. Fisher, whether or not Mr. Flynn borrowed money from the Connecticut River Banking Co.

Mr. FISHER. Yes, sir.

Mr. GESELL. That is Mr. Benedict D. Flynn, is it?

Mr. FISHER. Correct.

Mr. GESELL. He is vice president and actuary of the Travelers Insurance Co.?

Mr. FISHER. He is.

Mr. GESELL. Have you the paper before you that contains the information concerning Mr. Flynn's loan?

Mr. FISHER. Yes, sir.

Mr. GESELL. When did he first borrow money from the bank?

Mr. FISHER. 1913.

Mr. GESELL. At the present time, is he still obligated to the bank?

Mr. FISHER. Yes, sir.

Mr. GESELL. In what amount?

Mr. FISHER. \$31,000.

Mr. GESELL. How much did he borrow in the first loan, in 1913?

Mr. FISHER. I don't find that on this sheet here. Apparently, about \$14,100, but that sheet is not here.

Mr. GESELL. Referring you to the minutes, does that not indicate that the loan was made on July 8, 1913, for \$17,500?

Mr. FISHER. Yes, sir.

Mr. GESELL. Now, did Mr. Flynn borrow new money in 1915?

Mr. FISHER. No, sir.

Mr. GESELL. You find no loans in 1915?

Mr. FISHER. No, sir; not new money.

Mr. GESELL. Did he borrow new money in 1916?

Mr. FISHER. No, sir.

Mr. GESELL. When did he next borrow new money?

Mr. FISHER. In 1922.

Mr. GESELL. Then when did he next borrow?

Mr. FISHER. 1924.

Mr. GESELL. And then again in 1925; is that correct?

Mr. FISHER. 1925.

Mr. GESELL. And when was the last loan made to Mr. Flynn?

Mr. FISHER. 1931.

Mr. GESELL. Are my records correct in showing that the greatest amount owed by Mr. Flynn at any time was on October 2, 1931, the amount owed being fifty-three thousand five hundred?

Mr. FISHER. Correct.

Mr. GESELL. How much did you say Mr. Flynn owed at the present time?

Mr. FISHER. \$31,000.

Mr. GESELL. Is all of that secured?

Mr. FISHER. Partially on a collateral note and partially on what we call a "white" note.

Mr. GESELL. A white note?

Mr. FISHER. Yes, sir.

Mr. GESELL. That would be a noncollateral note?

Mr. FISHER. A noncollateral note.

Mr. GESELL. Twelve thousand noncollateral, nineteen thousand collateral; is that correct?

Mr. FISHER. That is correct.

Mr. GESELL. I notice from those schedules that on September 14, 1926, loans amounting to \$40,000 were transferred to the Travelers Bank & Trust Co. savings department. Is that correct?

Mr. FISHER. I don't get it from this schedule, but I assume it might be.

Mr. GESELL. You see no record of transfer of a loan to the Travelers Bank & Trust Co.?

Mr. FISHER. No record here that indicates it.

Mr. GESELL. Can you tell us at what date this loan was split into a collateral and noncollateral obligation?

Mr. FISHER. I say it was October 2.

Acting Chairman DAVIS. Was there any personal security on the white note?

Mr. FISHER. The excess collateral on the collateral note applies to it. Whatever collateral there is applies to all obligations.

Mr. GESELL. That wouldn't be sufficient to cover the obligation on the white note, would it?

Mr. FISHER. Not necessarily. It might be.

Mr. GESELL. It wasn't at the time?

Mr. FISHER. It wasn't at the time; that is correct.

Mr. GESELL. Now, on October 2, 1931, when this loan was split, it was split into \$25,000 noncollateral and \$28,500 collateral, was it not?

Mr. FISHER. That is right.

Mr. GESELL. And there has been at all times since October 2, 1931, a noncollateral obligation of Mr. Flynn to the Connecticut River Banking Co.?

Mr. FISHER. Yes, sir. If you will notice, it has been reduced to \$12,000.

Mr. GESELL. Yes; I think we brought that out.

Now, Mr. Fisher, have you made computations to show what percentage of all the loans of the Connecticut River Banking Co. at certain dates were loans to officers, employees and directors of Travelers Insurance Co.?

Mr. FISHER. Yes, sir.

Mr. GESELL. Am I correct in saying that those computations have been made as of January 1, 1929, January 1, 1933, January 1, 1935, and January 1, 1939?

Mr. FISHER. I assume so; you have the information.

Mr. GESELL. Can you give us what percentage of the loans on those dates were outstanding to officers, directors, and employees of the Travelers Insurance Co.?

Mr. FISHER. On January 1, 1929, 22.3; on January 1, 1933, 28.85; on January 1, 1935, 26.21; on January 1, 1939, 39.43.

Mr. GESELL. Am I correct in saying that as of December 15, 1931, the loan to Travelers' directors, officers, and employees totaled 26.61 percent of all of the loans then outstanding in the Connecticut River Bank?

Mr. FISHER. That is correct.

Mr. GESELL. What was the total amount of loans to officers, directors, and employees of Travelers at that time?

Mr. FISHER. Nine hundred and ninety-five thousand nine hundred and ninety-four dollars and twenty-six cents.

Mr. GESELL. Am I correct in saying that many of those loans were secured by Travelers stock?

Mr. FISHER. Yes; a good many of them were.

Mr. GESELL. Showing you a schedule which was prepared by you, I want to ask you whether or not you can tell us how many shares of Travelers stock were contained in the collateral against those loans on December 15, 1931?

Mr. FISHER. Two thousand and forty-three.

Mr. GESELL. Two thousand and forty-three shares?

Mr. FISHER. That is right.

Mr. GESELL. Were in collateral?

Mr. FISHER. That is right.

Mr. GESELL. That includes directors, officers, and employees' loans?

Mr. FISHER. That is correct.

Mr. GESELL. Did the bank also hold at that time additional shares as collateral against loans for persons other than directors, officers, and employees?

Mr. FISHER. Yes, sir.

Mr. GESELL. Am I correct in saying there were 65 such loans as of that date, December 15, 1931, against which 1,472 shares were held?

Mr. FISHER. That is correct.

Mr. GESELL. So that as of December 15, 1931, the Connecticut River Bank held at collateral against various loans some 3,515 shares of Travelers stock, did it not?

Mr. FISHER. That is correct.

Mr. GESELL. Prior to the time that the Travelers Insurance Co. became interested in the Connecticut River Banking Co., am I correct in saying that there were very few shares of Travelers stock held as collateral against the loans in that bank?

Mr. FISHER. Yes; that is correct.

Mr. GESELL. Did you make an examination of the note register starting January 3, 1911, to determine that fact?

Mr. FISHER. Yes, sir.

Mr. GESELL. Will you tell us what you found as the result of that examination?

Mr. FISHER. You say January 3, 1911. The first entry of Travelers' stock as collateral was in September 1911, and the next entry is June 19, 1912. There were other loans during that period on which the collateral was not detailed, and there may have been Travelers' stock in there.

Mr. GESELL. Do you believe it would be correct to state that with the Travelers Insurance Co.'s actual interest in the affairs of the Connecticut River Banking Co., the shares of Travelers' stock pledged as collateral against loans at that time increased greatly?

Mr. FISHER. Naturally.

Mr. GESELL. They increased greatly, did they not, whether it was natural or not?

Mr. FISHER. They increased, certainly.

Mr. GESELL. Am I correct in saying that at about this time the market price of Travelers' stock declined rather precipitously?

Mr. FISHER. What date was that?

Mr. GESELL. December 15, 1931.

Mr. FISHER. I can't answer that question.

Mr. GESELL. Calling your attention to the records of the Connecticut River Banking Co. showing purchases and sales of Travelers Insurance stock as agent from December 15, 1929, to December 31, 1932, which I understand you prepared, did you not, Mr. Fisher?

Mr. FISHER. That is right, with assistance.

Mr. GESELL. Can you tell us what the price of the stock was in April 1930?

Mr. FISHER. Approximately \$1,570.

Mr. GESELL. About \$1,570. Now, by April 1931, a year later, to what price had the stock fallen?

Mr. FISHER. Around \$950.

Mr. GESELL. To about \$950 a share.

Mr. FISHER. Nine hundred fifty.

Mr. GESELL. By July 11, 1932, what was the price of the stock?

Mr. FISHER. Around \$175 was apparently the low point.

Mr. GESELL. That was the low point, was it not, \$175 a share?

Mr. FISHER. As far as my records indicate.

Mr. GESELL. At that time were the loans of the officers and directors and employees of the Travelers Insurance Co. which had been made at the Connecticut River Bank "under water" in many cases?

Mr. FISHER. In some cases.

Mr. GESELL. Can you tell us just what the condition of the bank was at that time, with particular reference to the loans to which I have referred?

Mr. FISHER. I can't, from recollection.

Mr. GESELL. May I refer you to the minutes of the finance committee of the Connecticut River Banking Co., held July 12, 1932, signed by yourself, to refresh your recollection with respect to what this condition was? You recognize those minutes, do you not?

Mr. FISHER. Yes; apparently a deficiency of \$360,000.

Mr. GESELL. A deficiency of approximately \$360,000?

Mr. FISHER. That is right.

Mr. GESELL. It states \$370,000.

Mr. FISHER. Yes.

Mr. GESELL. Would you read that minute for us, please, Mr. Fisher?

Mr. FISHER. The full minutes?

Mr. GESELL. Yes; if you would.

Mr. FISHER. Just this paragraph?

Mr. GESELL. The paragraph relating to the deficiency.

Mr. FISHER (reading):

In discussing the loans that were not fully secured by collateral the president reported that taking June 25 values, the aggregate deficiency, being the difference between the face of the note and the value of the collateral pledged thereunder, amounted to \$367,000, but wherever possible steps had been taken to cover this deficiency by the pledge of life insurance or mortgages or by regular payments on principal. This matter has had the continuous attention of the officers and the finance committee for some time and the course that has been and is being taken is believed to be the best for the interests of the bank and depositors under the present circumstances.

Mr. GESELL. I have no further questions of Mr. Fisher at this time, but we want to recall him later.

Acting Chairman DAVIS. You are excused for the time being, Mr. Fisher.

Mr. GESELL. Mr. Zacher, will you resume the stand, please, sir.

TESTIMONY OF LOUIS EDMUND ZACHER, PRESIDENT, TRAVELERS INSURANCE CO., HARTFORD, CONN.—Resumed

Mr. GESELL. Mr. Zacher, will you identify this schedule which I show you as a schedule showing the list of directors of the Travelers Insurance Co. from January 1, 1912, to July 1, 1939, prepared by the assistant secretary of your company?

Mr. ZACHER. I should say that was correct.

Mr. GESELL. I should like to offer this schedule for the record.

Acting Chairman DAVIS. It may be inserted in the record.

(The schedule referred to was marked "Exhibit No. 1101" and is included in the appendix on p. 6957.)

Mr. GESELL. Turning to a slightly a ferent subject for a moment, Mr. Zacher, am I correct in understanding that from time to time the Connecticut River Banking Co. loaned money to agents or agencies representing the Travelers Insurance Co., such loans being secured in whole or in part by assignments of renewal commissions on life policies?

Mr. ZACHER. Yes, sir.

Mr. GESELL. Were you familiar with the fact that such loans were being made?

Mr. ZACHER. Yes, sir; as a member of the finance committee I was informed.

Mr. GESELL. Can you tell us the circumstances under which some of those loans were made, and the factors which prompted the company to make them?

Mr. ZACHER. I think you have in your files there at least three communications which indicate that these agents were unable to get the usual accommodations from the banks in their home towns; they needed the money for working capital to continue their business. They were very responsible agents of the company, and applied to us—when I say us, either the Travelers Insurance Co. or the Connecticut River Banking Co.—to give them the accommodation that they couldn't get elsewhere. In those several cases of which you have correspondence, we indicated to the bank that we considered these men responsible and valuable agents of the company and urged that they do something to give them the proper accommodation. The bank acted independently and with such information as we could give them about the value of their collateral, they undertook that obligation. Most of these loans were made as I recall it, in 1931 and '32, when business conditions were very severe.

I might add to that information that had they not been able to have gotten those loans anywhere they probably would have sought us to buy their renewal account, which would probably have happened, and they would have been put out of business, and I say that to indicate that we thought we were doing a very helpful thing considering the conditions under which everybody was laboring at the time.

Mr. GESELL. You say the bank acted independently. These requests for loans came in many cases to officers of the Travelers, did they not?

Mr. ZACHER. Yes, sir.

Mr. GESELL. And frequently the mechanics of the transactions, so far as the borrower was concerned, were handled for him by the Travelers?

Mr. ZACHER. I don't recall. I shouldn't be at all surprised.

Mr. GESELL. You say the bank acted independently. I suppose in some cases it is rather difficult to divorce the bank from the insurance company's operations.

Mr. ZACHER. It is difficult to understand that, but if the collateral had not been satisfactory to the bank, and if the officers of the bank, acting independently, had turned it down, that would have been the end of the matter so far as the officers of the insurance company were concerned.

Mr. GESELL. Yes. You mean by that, the bank made its own business judgment of the value of the collateral?

Mr. ZACHER. It seemed so to me.

Mr. GESELL. The men who made that judgment were in the majority of cases also officers of the insurance company, weren't they?

Mr. ZACHER. No, sir. They were directors.

Mr. GESELL. I thought the finance committee had that responsibility in the bank.

Mr. ZACHER. The officers of the bank made the loans and the loans were generally put up to the finance committee for approval, so when they made these loans on their own judgment and put it to the finance committee for approval, they naturally approved it.

Mr. GESELL. I understood you to say, I believe, earlier in your testimony, a majority of the finance committee of the bank were persons connected with the Travelers Insurance Company.

Mr. ZACHER. That is true.

Mr. GESELL. So these men were, to look at it one way, insurance men, sitting as representatives of the bank.

Mr. ZACHER. Exactly, but sometimes there are people who can act in both positions independently of each so far as their business judgment goes.

Mr. GESELL. Now, do you believe that there was any case that the Connecticut River Bank made such an advance without consulting Travelers?

Mr. ZACHER. I should say they consulted the Travelers in most cases because they wanted to know who these people were; they didn't know.

Mr. GESELL. As a matter of fact, the Connecticut River Bank, as a general proposition, is a local bank, isn't it?

Mr. ZACHER. Yes.

Mr. GESELL. It services the interests of that little community in Hartford, Conn.

Mr. ZACHER. Yes.

Mr. GESELL. These men who were borrowing money were people outside of Hartford, except in one instance, I believe.

Mr. ZACHER. Yes; I think there was one instance where this chap borrowed from half a dozen banks at different times. It is quite a customary transaction.

Mr. GESELL. These men came, after all, did they not, from States away from Connecticut and the bank would have no knowledge or interest in their account, were it not for Travelers' connection with them?

Mr. ZACHER. They would have to ask us about the moral hazard and if the value of the collateral was sufficient in our judgment to warrant the loan. In other words, they came to us for a credit report.

Mr. GESELL. It was a little more than that, wasn't it? They were, after all, loaning to people outside of the ordinary course of business. That must have been to some extent due to the fact that these men have Travelers' connections and that Travelers was interested in them.

Mr. ZACHER. Yes; at least that is the way the borrower looked at the picture, he couldn't get the money anywhere else.

Mr. GESELL. I imagine it was also a little from the lender's point of view.

Mr. ZACHER. He was up against it.

Mr. GESELL. Do you recognize this letter which I show you as a letter from the files of your company written by Mr. Alexander Sobel, one of the men who borrowed money under these circumstances?

Mr. ZACHER. Yes; in a general way I know he did.

Mr. GESELL. Would you feel that this letter represents the typical kind of situation as it came to you or represented its case?

Mr. ZACHER. I don't know what it says.

Mr. GESELL. Let me read it to you. It is addressed to Mr. E. Dudley, manager in Chicago, dated November 17, 1930 [reading "Exhibit No. 1102"]:

DEAR MR. DUDLEY: In the brief discussion I have had with you a few days ago, I have given you a general resume of the unusual situation I happen to find myself in owing to a condition over which I have very little control.

The current year has been one of my most active ones. I have done a whale of a business and a good deal of it, as in former years, was due to the fact that I have taken it upon myself to finance no small portion of my running accounts.

Because of the serious business depression which we are just going through, a good many of my customers have slowed down on premium payments. This has tapped my financial resources quite heavily. My ledger is clogged with all sorts of premiums, which from all past indications, I will be unable to collect by the end of this year. The way collections have been this last six months, I judge it will take me another six months at least before I have collected some of my long past dues.

You are well aware of the fact that I have done a considerable business, particularly so in the accident line. I am most anxious to pay for all written premiums before the year closes, as I wish to rank amongst the leading accident producers of the Company. All this will entail additional funds, which, owing to general conditions, I am not able to muster at this time.

The general clean-up insisted upon by almost every company makes December a tough month for every agent and broker. In ordinary times I have enjoyed a fair size personal credit with the bank I have been dealing with these last ten years because of the business depression the bank has been taken over by another institution and their policy of retrenchment curtailed my personal credit. My various investments, accumulated during the last fifteen years, have shrunk to such levels as to make them useless from the standpoint of collateral.

Because of all this I find myself under the necessity of having to apply for an advance against my renewal account. This, as you well know from your records, runs over \$5,000 annually with the Travelers Insurance Company. This renewal account constitutes one of my greatest assets, while it serves as the safest collateral for the Company.

As explained to you during our recent conversation on the subject, the minimum amount I must have at this time is \$2,500 to be repaid in ten or twelve monthly installments, commencing with January 1, 1931, both capital as well as interest included.

In making this request to the Travelers Insurance Company and engaging your good offices in my behalf, you may rest assured I am acting after very serious and mature deliberation. It is a step I resort to with but the greatest reluctance. In all the eighteen years I have been in business I have always been able to finance my business with ease and never had to call on any of the companies for any advance drawing account.

We are separated but by a few weeks from the close of the year and so it becomes necessary to have this request of mine acted upon without much delay. I will need the money around the 10th of December and it is my earnest hope that you will put all your influence behind my request so as to have it acted upon promptly and favorably.

Thanking you in advance for your good offices and with kindest personal regards, I am.

Mr. ZACHER. Yes; that is a typical case. Do you mind telling me the date of that letter?

Mr. GESELL. That was November 17, 1930.

Mr. ZACHER. It was about that time.

Mr. GESELL. I should like to offer this letter to be filed.

(The letter referred to was marked "Exhibit No. 1102" and appears in full in the text on pp. 6396-6397.)

Mr. GESELL. Just so we can fill out the picture on this case and see how it was handled, do you recognize this as a letter from the files of your company written by E. B. Dudley, manager, to whom the last letter was addressed, your agency secretary in Hartford?

Mr. ZACHER. That looks all right.

Mr. GESELL. You mean that looks like the letter?

Mr. ZACHER. Yes.

Mr. GESELL. That letter, dated November 18, 1930, states—It is addressed to Mr. Walter A. Mallory, agency secretary, Hartford, Conn., and marked private [reading "Exhibit No. 1103"]:

Alexander Sobel is one of our real, substantial, solid agency connections in the city of Chicago. His integrity, honesty, and loyalty to the Travelers is unquestioned.

tioned and the appeal he makes in the attached letter comes to us as a last resort. I say last resort because Sobel makes the plea with fear and trembling because of his intense friendly feeling towards the Travelers.

The renewal account of Mr. Sobel—particularly Life—certainly is a sufficient guarantee of the \$2,500. Mr. Sobel will pay for approximately \$5,000 new Accident premiums during the current year.

I should like very much to honor the request if at all consistent. Will appreciate the favor if you will give favorable consideration to my recommendation that \$2,500 be loaned Mr. Sobel upon the signing of sufficient paper, carrying his promise to repay the amount in ten equal monthly installments in addition to a monthly payment of interest due.

Thanking you for early advice, I am.

I should like to file that with the committee.

(The letter referred to was marked "Exhibit No. 1103" and appears in full in the text on pp. 6397-6398.)

Mr. GESELL. Do you recognize this memorandum as a memorandum written by Mr. Dudley Gray to the agency secretary concerning the Sobel account? It is dated November 22, 1930.

Mr. ZACHER. Of course, I haven't seen these, but if you took it from the file it belongs to the agency.

Mr. GESELL. I want to call your attention to this one specifically. It is dated November 22, 1930, and marked "Strictly personal and confidential" [reading "Exhibit No. 1104"]:

Supplementing other papers attached which are in reply to your letter of November 18, the only way in which we can be of any assistance to Mr. Sobel is as illustrated in the attached file—through the Connecticut River Banking Company.

We appreciate all that you have to say about Mr. Sobel and the business that he has placed with the Company, but Amended Section 97 of the New York Law under which we operate reads in part as follows: "No such corporation, nor any person, firm, or corporation, on its behalf or under any agreement with it, shall make any loan or advance to any person, firm, or corporation soliciting or undertaking to solicit applications for insurance without adequate collateral security, nor shall any such loan or advance be made upon the security of renewal commissions, or of other compensation earned or to be earned by the borrower except advances against compensation for the first year of insurance."

You will appreciate that this is strictly a banking proposition, and in order to try and assist Mr. Sobel, we took this matter up with the Connecticut River Banking Company. I think that you will understand that local banks have their local clientele to take care of and they cannot be expected to make outside loans.

We are going to ask you to please see that this transaction is treated as strictly personal and confidential by all interested parties, and further not to ask for any other assistance of this kind. I think you will readily understand our position.

I should like to file this for the record.

(The letter referred to was marked "Exhibit No. 1104" and appears in full in the text on this page.)

Mr. GESELL. The net effect of this transaction, Mr. Zacher, is, is it not, that the company is able to procure, for one of its agents, through its banks, a loan which it would not have been able lawfully to make directly itself?

Mr. ZACHER. When you say that, we could have arranged it with some other bank just as well.

Mr. GESELL. Yes.

Mr. ZACHER. It was more convenient to go to this bank because it was right in the building.

Mr. GESELL. You could have arranged a loan with this man for, let's say, the Chase National Bank.

Mr. ZACHER. Possibly. Possibly we could have written to Chicago.

Mr. GESELL. But this is a loan which you would have been penalized for if you had made it directly yourself.

Mr. ZACHER. But we didn't make it directly ourselves.

Mr. GESELL. Were you familiar with the fact that this kind of loan was being made through the Connecticut River Banking Co.?

Mr. ZACHER. Oh, yes.

Mr. GESELL. And was it a matter of policy of the company that it would permit this type of credit to be advanced through the bank?

Mr. ZACHER. No; until this situation came along in 1930 we wouldn't take the chance of somebody saying that this might have been something that was done indirectly. In 1930 or 1931, when these loans came up, we made them on the advice of counsel, that they were not indirect within the meaning of the New York law, and knowing nothing about the law but having a great deal of faith and confidence in his judgment, we made the loans. We made them with the understanding that they would be paid off as rapidly as possible.

Mr. GESELL. Whose advice did you have?

Mr. ZACHER. William Brosmith.

Mr. GESELL. He is dead, is he not? Did you seek the advice of any insurance department?

Mr. ZACHER. I wouldn't.

Mr. GESELL. I take it then you didn't.

Mr. ZACHER. This is a banking matter.

Mr. GESELL. Well, it did involve, to some extent—

Mr. ZACHER (interposing). It went out of my hands. I was simply a member of the board and left it up to the officers who were running the bank to say whether they would make it or not. We furnished the credit report and standing of these people and suggested to them it was a good loan, and the circumstances seemed to warrant an earnest consideration of some of these peculiar situations; but we were careful to ask the advice of counsel, and he said he thought it was all right to do it that way; so we did and it has proven to have been a very good thing to have done, and legal so far as we know.

Mr. GESELL. I am just interested in the fact that here seems to be a transaction which in effect you handled and controlled through your bank when you couldn't have done it directly through the insurance company.

Mr. ZACHER. If he had said, "I think you had better not do it," I would have made it my business to go to some other of my banking connections to get the necessary consideration; but so long as he said it was proper, we went ahead and did it.

Mr. GESELL. On the point as to how the mechanics of such a loan is handled, do you recognize that as a memorandum from the files of your company?

Mr. ZACHER. I should say so; yes, sir.

Mr. GESELL. This is a memorandum dated November 22, 1930, to E. B. Dudley, manager, in Chicago. I will read only the second paragraph for the record [reading from "Exhibit No. 1105"]:

We are enclosing a form of note for this amount with the date left blank. We are also enclosing in triplicate a collateral assignment in favor of The Connecticut River Banking Company against Mr. Sobel's Life renewals applying to business now to his credit and also future Life business. Under this assignment you will note the Company is authorized to hold such commissions and disburse them to the order of The Connecticut River Banking Company until satisfaction in full under the assignment shall have been received by the bank.

That would indicate that the mechanics were at least in this instance handled directly by the insurance company, so far as the borrower was concerned.

Mr. ZACHER. Yes; you see, these people know each other very well and they do it the most convenient way so the other fellow will understand it, and have confidence in going ahead with the transaction.

Mr. GESELL. I should like to file this memorandum, to be printed.

Acting Chairman DAVIS. Let it be filed and printed.

(The memorandum referred to was marked "Exhibit No. 1105" and is included in the appendix on p. 6958.)

Mr. GESELL. For a moment I would like to look at just one more of these transactions.

A similar loan by the Connecticut River Banking Co., secured by life renewals, was made to the Leonard Agency Co., of Canton, Ohio, was it not?

Mr. ZACHER. Yes, sir.

Mr. GESELL. You were familiar with that transaction at the time it took place, were you not?

Mr. ZACHER. Yes, sir.

Mr. GESELL. Can you tell us a little about it, Mr. Zacher?

Mr. ZACHER. Well, the Leonard Agency owed about \$28,000 which they had to pay to the companies, these insurance companies. They are a very substantial agency in Canton, Ohio, and as I recall the figures, their production showed in 1 year, 1930 or '31, about \$250,000 in premiums. We regarded them as a very valuable agency so far as the Travelers was concerned. They owed a good deal of this money to the Travelers. They owed some of it to other companies. It is our custom to have them pay up within a certain time. They made every effort to pay up. In ordinary times they went to their bank in Canton and borrowed such money as they needed to make the payments, and asked for no outside help.

They were unable to borrow this money either in Canton or anywhere else and, similar to Sobel, they made an application to one of the officers of the Travelers—I think it was the controller. The controller told me the whole story and suggested that possibly the Connecticut River Banking Co. might furnish the funds, secured by the renewal commissions. We applied to the Connecticut River Banking Co., arranged the loan for them, and loaned them, I have forgotten, I think it was \$28,000, to be paid off in monthly installments, and those monthly installments varied. I think the loan now amounts to about \$4,400, and they were able to make their payments clean up and are still going as a good concern.

Mr. GESELL. Do you recognize these three memoranda which I show you now as memoranda from the files of your company relating to that transaction?

Mr. ZACHER. Yes, sir.

Mr. GESELL. There is one portion of the memorandum addressed to you dated November 12, 1931, from the controller. Under the statement, "I recommend the loan," do I understand that you signed your name, saying "I concur"?¹

Mr. ZACHER. I concurred. I signed it.

¹ Entered later as "Exhibit No. 1108." See appendix, p. 6961.

Mr. GESELL. I can't quite read the proceedings.

Mr. ZACHER. It is on here.

Mr. GESELL. The Leonard agency had in effect overextended itself, had it not?

Mr. ZACHER. I don't know.

Mr. GESELL. I notice this first memorandum from your vice president and the superintendent of agencies says, in one paragraph [reading from "Exhibit No. 1106"]:

Assuming further that they must have collected some current items, it is probable that they have in their possession from \$30,000 to \$35,000 of premiums that belong to us and which they appear to be unable to remit.

Now that would indicate—

Mr. ZACHER (interposing). They probably advanced premiums for some of their clients and couldn't collect, and that was the trouble with the whole situation. On renewal business a lot of agents advance the money for their clients and take a chance on collecting it. If they can't collect it, they are in trouble.

Mr. GESELL. That is what I meant by the word "overextended."

Mr. ZACHER. Yes; it is not unusual.

Mr. GESELL. They had anticipated that they would collect more than they had.

Mr. ZACHER. One hundred cents on the dollar; and they were disappointed.

Mr. GESELL. This is another paragraph in this memorandum which you identified which interested me. It says [reading from "Exhibit No. 1106"]:

The Leonard Agency, as you well know, is an important and productive one and I hope that no effort will be spared to bring their situation into line. Their loss as a producing factor would be a serious one to The Travelers Insurance Company.

Mr. ZACHER. Yes.

Mr. GESELL. Do I understand properly from that sentence one of the motivating factors back of these loans is to keep good producers contented and with the company?

Mr. ZACHER. No; it is to keep them in the business.

Mr. GESELL. Your reference, if I may interrupt a moment, is to the fact that they are a producing factor and that their loss would be serious to Travelers.

Mr. ZACHER. Yes.

Mr. GESELL. The interest seems to be that they are producing business for Travelers—not just to keep them in the business.

Mr. ZACHER. Well, that can be taken two ways. They were friendly with us and we had done business with them a good many years, and they brought us in 1930, in various lines of premiums, according to the memorandum, \$450,000. If they go through bankruptcy we lose \$450,000. We have to go out and establish a new agency and try to recapture that business, which we have to do through an agent. We can't do it directly.

Mr. GESELL. I understand.

Mr. ZACHER. The other picture is if we hadn't advanced the money, some other fellow would have said, "We will lend you twenty-eight or thirty thousand dollars if you will turn the premiums over to us."

Mr. GESELL. So in a way it was an attempt to keep a good agency in the company.

Mr. ZACHER. To keep them in business and keep them off the town. If they had gone out of business they would have gotten a bad reputation and they are people of fine repute.

Mr. GESELL. This is again a loan, was it not, where the arrangements were made by the superintendent of agencies dealing with the Connecticut River Bank for the borrower?

Mr. ZACHER. It doesn't make any difference whether he was in the agency department or any other department, these fellows write to the best friend they have in the company when they want to borrow money.

Mr. GESELL. My point is they come to Travelers rather than the Connecticut River Banking Co.

Mr. ZACHER. Oh, yes; surely.

Mr. GESELL. There is just one other item that interested me. Reading from the memorandum to you from the Comptroller, the memorandum dated November 12, 1931, on the second page, I find this paragraph [reading from "Exhibit No. 1108"]:

I learned this week for the first time that the Leonard Agency represents another Casualty Company, and I dare say they represent a number of Fire Companies. The suggestion has been made that we take this opportunity to insist that the agency give us exclusive Casualty representation. I have talked with Mr. Tracy Smith about this angle of the situation today and he does not look favorably upon any such plan. Mr. Smith says that every large agency today finds it necessary to represent more than one Casualty Company. Furthermore, he feels, as I am inclined to feel, that the officers of the Leonard Agency will be grateful to the Travelers for this assistance at this critical time and will probably give us voluntarily considerably more business than they have in the past. As a matter of fact, I understand that Mr. Leonard and Mr. Shafer offered such assurances when they were here last week seeking a loan.

From that I gather that your ability to make this loan through the Connecticut River Banking Co. gave you, if anything, an added assurance of additional business in the future.

Mr. ZACHER. I am sorry, Mr. Gesell, but that is just conversation.

Mr. GESELL. You mean on my part or in the memorandum.

Mr. ZACHER. On the part of the man who wrote this thing. He was simply making a little venture in his mind. Of course, things don't work that way.

Mr. GESELL. You could say that is not one of the factors in making such a loan?

Mr. ZACHER. No, sir.

Mr. GESELL. I should like to file these memoranda which have been identified by the witness.

Acting Chairman DAVIS. They may be inserted in the record.

(The memoranda referred to were marked "Exhibit Nos. 1106, 1107, and 1108," and are included in the appendix on pp. 6959, 6960, and 6961.)

Mr. GESELL. You are aware, are you not, Mr. Zacher, that the loaning of money, quite apart from the New York law, to agents secured by renewal commissions, has been a subject of some criticism by many different people interested in the insurance business, for the reason that it increases the acquisition cost if the loans do not pan out?

Mr. ZACHER. Yes; I don't think so much attention is paid to it now, but it was, as I recall it, a very prominent argument in the 1906 investigation, and that is why the law was passed.

Mr. GESELL. Yes; I notice references to it in the Armstrong report.

Mr. ZACHER. Yes; the way it was run, it was wicked.

Mr. GESELL. Some of these loans are still outstanding in your case, are they not?

Mr. ZACHER. Yes; I think so, probably ten or twelve thousand dollars. They have nearly all been paid off.

Mr. GESELL. Just as a matter of conjecture, if under any of these cases of these loans the loan was written off at a loss to the bank, that would indirectly be a loss to the insurance company, would it not?

Mr. ZACHER. Well, none of them have been. We only loaned about \$86,000 in the aggregate to these people, and I think practically all of them have been paid off, and I don't think there is more than ten or twelve thousand outstanding, and there can't be a loss because the renewal commissions will pay them under any circumstances.

Mr. GESELL. As a matter of conjecture, however, even the renewal commissions are not an assured thing, because we don't know what the lapse experience of the policyholder is going to be.

Mr. ZACHER. These loans are down so low that they are very well covered.

Mr. GESELL. But there is a danger, is there not—it may not have been realized in this case, but there is a danger in making this type of loan, in that if the loan doesn't pan out, the bank would suffer a loss, and indirectly the insurance company itself.

Mr. ZACHER. That is perfectly true, but there have been some requests for loans which have been denied, and you have no record of them so far as I know. We don't make loans to everybody, and we don't make them for any amount they ask. It is a pure banking proposition—any more than if a man comes in and wants to borrow a lot of money on collateral, we don't always give him what he asks. Even if he has good collateral, we don't always make the loan.

Mr. O'CONNELL. Mr. Zacher, as a practical proposition, the effect of the arrangement was to defeat the purpose of the New York State insurance law.

Mr. ZACHER. No; as a practical matter, it was to help people out of a difficult situation. You see, if they had been able to get the money in their home town, they wouldn't have asked us. If our counsel had told us we couldn't do this thing through the Connecticut River Banking Co., I would have been able to negotiate those loans elsewhere.

Mr. O'CONNELL. I say, though, again that as a practical matter, the effect of the transaction, your insurance company owning the bank, was to defeat the purpose of the provision in the insurance law, whatever the purpose may have been; isn't that so?

Mr. ZACHER. I wouldn't say that. It was simply to help these people.

Mr. O'CONNELL. But the effect of it was exactly the one I have indicated, was it not?

Mr. ZACHER. That is the way the interpretation is made; but if we had known that that interpretation would be put on it from any side, we would have gone to some other bank in which we had practically no interest at all and asked them to loan the money.

Mr. O'CONNELL. Even at that time, I take it, you weren't entirely clear as to whether it was a doubtful type of transaction.

Mr. ZACHER. We thought somebody might say something, and we didn't want to argue. This wouldn't have increased the cost of insurance, making these loans.

Mr. O'CONNELL. Any losses taken by the bank on this type of loan would be losses to the insurance company which owned the bank.

Mr. ZACHER. That would follow through.

Mr. O'CONNELL. You have two separate entities, but as a matter of fact the ownership is the same.

Mr. ZACHER. We were careful to see that the collateral was sufficient.

Mr. O'CONNELL. You could have done it as an insurance company, had it not been for the insurance law.

Mr. ZACHER. You see, if they couldn't have gotten the money and had said, "We have to have the money," we would have bought those accounts, just figured them out and made an outright purchase, which the law permits in the insurance company.

Mr. GESELL. I would like to ask Mr. Zacher to step down once again for a moment while I call another witness.

Mr. Jenkins, please.

Acting Chairman DAVIS. Do you solemnly swear you will tell the truth, the whole truth, and nothing but the truth, so help you God?

Mr. JENKINS. I do.

TESTIMONY OF GEORGE C. JENKINS, ANALYST, INSURANCE SECTION, SECURITIES AND EXCHANGE COMMISSION

Mr. GESELL. What is your full name?

Mr. JENKINS. George C. Jenkins.

Mr. GESELL. Are you an analyst on the staff of the insurance section of the Commission?

Mr. JENKINS. I am.

Mr. GESELL. Did you have occasion to examine the books and records of the Connecticut River Banking Co. at Hartford, Conn.?

Mr. JENKINS. I did.

Mr. GESELL. Were those books and records made available to you by the bank?

Mr. JENKINS. They were.

Mr. GESELL. From those records did you prepare information indicating the number of loans made to agents or agencies of Travelers Insurance Co. by the Connecticut River Banking Co., where such loans were secured in whole or in part by assignments of life renewal commissions?

Mr. JENKINS. Yes, sir; I did.

Mr. GESELL. How many such loans did you find?

Mr. JENKINS. Twelve such loans.

Mr. GESELL. How many borrowers, I meant to say? Twelve borrowers?

Mr. JENKINS. Twelve borrowers.

Mr. GESELL. How many loans did those 12 borrowers make?

Mr. JENKINS. Twenty-three loans.

Mr. GESELL. Were those loans exclusive of renewal loans of any kind?

Mr. JENKINS. Yes, sir; they were.

Mr. GESELL. What was the total amount of the loans made?

Mr. JENKINS. \$150,686.94.

Mr. GESELL. \$150,686.94, is that correct?

Mr. JENKINS. Yes, sir.

Mr. GESELL. What was the smallest loan made?

Mr. JENKINS. \$700.

Mr. GESELL. What was the largest?

Mr. JENKINS. \$60,000.

Mr. GESELL. Will you tell us where the agent or agencies were located to whom these loans were made?

Mr. JENKINS. The Leonard Agency, Canton, Ohio; Alexander Sobel, Chicago, Ill.; Alvin E. Wolf, Philadelphia; W. H. Webling (Webling, Ltd.), Brantford, Ontario; Daniel J. Frazier, Hartford, Conn.; Alfred E. Carpenter, Columbus, Ohio; John A. Fitzsimmons, Philadelphia, Pa.; Harry V. German, McKeesport, Pa.; Henry Garrett Hanby, Wilmington, Del.; Otto A. Hendrian, New York City; The Rockwood Co., Chicago, Ill.; Edward J. Sisley, New York City.

Mr. GESELL. Are any of the loans outstanding at the present time?

Mr. JENKINS. Yes, sir; they are.

Mr. GESELL. Which loans are outstanding?

Mr. JENKINS. The W. H. Webling loan and the Leonard Agency loan.

Mr. GESELL. During what period of time were these loans made?

Mr. JENKINS. From 1926, the Webling loan, through to 1939, again on the Webling loan.

Mr. GESELL. Was that not one loan to Frazier in 1925, September 16?

Mr. JENKINS. Yes; I beg your pardon. September 16, 1925, to Daniel Frazier, Hartford, Conn.

Mr. GESELL. Mr. Jenkins, did you examine the records of the Connecticut River Banking Co. to determine the amount of money which that bank had loaned to officers and directors of the Travelers group between 1912 and 1939?

Mr. JENKINS. Yes, sir; I did.

Mr. GESELL. Did you exclude from that amount loaned all renewal loans?

Mr. JENKINS. Yes, sir; I did.

Mr. GESELL. What was the total amount loaned from 1912 to 1939 to officers and directors of the Travelers group by Connecticut River Banking Co.?

Mr. JENKINS. \$3,047,664.92.

Mr. GESELL. How many officers and directors have borrowed money from the bank?

Mr. JENKINS. Fifty-three such officers and directors.

Mr. GESELL. What was the total number of loans made by those 53 officers?

Mr. JENKINS. Five hundred and six loans.

Mr. GESELL. What was the largest loan made?

Mr. JENKINS. Francis T. Maxwell, \$110,000.

Mr. GESELL. What was the smallest loan made?

Mr. JENKINS. C. W. VanBeynum, \$150.

Mr. GESELL. These loans were, I understand, in most instances, collateral loans?

Mr. JENKINS. Yes, sir; with few exceptions.

Mr. GESELL. Did you also examine the record of the Connecticut River Banking Co. to determine the amount of money loaned to employees of the Travelers group from 1912 to 1939?

Mr. JENKINS. Yes, sir; I did.

Mr. GESELL. What was that amount?

Mr. JENKINS. \$605,833.51.

Mr. GESELL. How many employees borrowed?

Mr. JENKINS. One hundred eighty-three.

Mr. GESELL. What were the total number of loans made to them?

Mr. JENKINS. Four hundred thirty.

Mr. GESELL. What was the largest loan?

Mr. JENKINS. Approximately \$10,000.

Mr. GESELL. What was the smallest loan?

Mr. JENKINS. Twenty-five dollars.

Mr. GESELL. What was the total combined amount of loans made by the banks to officers, directors, and employees of the Travelers group for this period 1912 to 1939?

Mr. JENKINS. \$3,804,185.37.

Mr. GESELL. Are any of these loans outstanding at the present time?

Mr. JENKINS. Yes, sir.

Mr. GESELL. How much is outstanding at the present time?

Mr. JENKINS. Approximately \$493,758.04.

Mr. GESELL. That includes loans to officers, directors, and employees?

Mr. JENKINS. Yes, sir; and former employees.

Mr. GESELL. By former employees, you mean persons who were employees at the time the loan was made but who may not be employees now?

Mr. JENKINS. Yes, sir.

Mr. GESELL. What did you say was the total of the loans now outstanding?

Mr. JENKINS. \$493,758.04. That is of employees' and officers' and former employees' loans.

Mr. GESELL. As of what date is that?

Mr. JENKINS. That is of, I believe July 30, 1939.

Mr. GESELL. July 20, 1939?

Mr. JENKINS. July 20, 1939, that is right.

Mr. GESELL. Did you examine the individual loan records of the various officers and directors that borrowed from the bank?

Mr. JENKINS. Yes, sir; I did.

Mr. GESELL. Is it correct that in many cases you found that the officer or director commenced his transactions by borrowing a small amount of money from the bank, that over a period of time the amount of his loans increased?

Mr. JENKINS. Yes, sir.

Mr. GESELL. Can you say how prevalent that was?

Mr. JENKINS. From my examination, I would state that in most instances, loans started with a very modest beginning and gradually grew into larger proportions.

Mr. GESELL. Can you give us an illustration?

Mr. JENKINS. For example, I think the greatest illustration is the John H. White loan.

Mr. GESELL. Who was John H. White?

Mr. JENKINS. John H. White at the time of making the loan, I believe, was an assistant secretary in the Travelers Insurance Co., and later retired sometime around 1927, in June. He started in on Decem-

ber 20, 1914, with a \$750 loan, and he borrowed in 1914, '16, '17, '18, '19, '21, '23, '24, '25, '27, '28, and 1930.

Mr. GESELL. Are some of his loans still outstanding now?

Mr. JENKINS. Yes; he has approximately \$65,000 outstanding today.

Mr. GESELL. What was the peak amount of his obligations to the bank?

Mr. JENKINS. \$122,132.50.

Mr. GESELL. What is the largest amount that he borrowed at any one time?

Mr. JENKINS. \$40,000, on January 19, 1928.

Mr. GESELL. What is the total amount that he borrowed exclusive of renewals?

Mr. JENKINS. \$638,476.61.

Mr. GESELL. Those were collateral loans, were they?

Mr. JENKINS. Those were collateral loans.

Mr. GESELL. Did you make an examination of the deposits of the Connecticut River Banking Co. as of December 31, 1938, to determine the total deposits and what percentage of those deposits were deposits attributable to Travelers Insurance Co. or other companies in the Travelers' group?

Mr. JENKINS. Yes, sir; I did.

Mr. GESELL. What were the total deposits of the bank as of December 31, '38?

Mr. JENKINS. The Connecticut River Banking Co., the total deposits as of December 31, 1938, were \$7,605,124.69.

Mr. GESELL. Am I correct in saying that the Travelers Insurance Co., the Travelers Fire Insurance Co., the Charter Oak Fire Insurance Co., the Travelers Broadcasting Service Corporation, the Prospect Co., and the Travelers Broadcasting Co. all maintained accounts at the bank as of December 31, 1938?

Mr. JENKINS. Yes, sir; they did.

Mr. GESELL. To what did those accounts total?

Mr. JENKINS. Those accounts totaled \$4,298,256.19.

Mr. GESELL. What percentage is that of the total deposits in the bank?

Mr. JENKINS. That is 56.5 percent of the deposits.

Mr. GESELL. I have no further questions of this witness at this time.

Acting Chairman DAVIS. You are excused.

Mr. GESELL. Mr. Fisher, will you resume the stand, please?

TESTIMONY OF FREDERICK FRANCIS FISHER, CASHIER, CONNECTICUT RIVER BANKING CO., HARTFORD, CONN.—

Resumed

Mr. GESELL. Mr. Fisher, I believe you said you were also connected with the Travelers Bank & Trust Co.?

Mr. FISHER. Yes, sir.

Mr. GESELL. You are treasurer of that bank, are you?

Mr. FISHER. Yes, sir.

Mr. GESELL. The bank was organized April 9, 1913, as the Union Trust Co., was it not?

Mr. FISHER. It was.

Mr. GESELL. The first directors were appointed, according to the schedule we introduced some while back, on October 6, 1913, were they not? ¹

Mr. FISHER. The bank was chartered in April and organized in October.

Mr. GESELL. Is it correct to say that on October 8, 1913, certain loans were transferred to the bank from the Travelers Insurance Co.?

Mr. FISHER. There might have been certain mortgage loans.

Mr. GESELL. Yes; certain mortgage loans.

Mr. FISHER. Yes.

Mr. GESELL. Do you recognize this schedule as a schedule showing those mortgage loans and their amounts?

Mr. FISHER. No; I haven't that information.

Mr. GESELL. You have no information of that kind at all?

Mr. FISHER. No, sir.

Mr. GESELL. Do you recognize the signature on this schedule?

Mr. FISHER. Yes.

Mr. GESELL. Whose is that?

Mr. FISHER. Mr. Spencer, of the mortgage-loan department of the Travelers Insurance Co.

Mr. GESELL. Do you know anything about those loans that were transferred?

Mr. FISHER. No; I was not connected with the bank at that time.

Mr. GESELL. Is it correct to state that the Travelers Bank & Trust Co. made mortgage loans to persons who were officers or directors of the Travelers Insurance Co.?

Mr. FISHER. Yes, sir.

Mr. GESELL. Do you recall that a loan was made to Mr. Louis F. Butler, president of the Travelers Insurance Co.?

Mr. FISHER. I know he had a loan at one time. That was before my time.

Mr. GESELL. Do you recognize that record that I hand you as a record of the Travelers Bank & Trust Co.

Mr. FISHER. I recognize it as a record of the bank; yes, sir.

Mr. GESELL. It is a record of the mortgage loans, is it not?

Mr. FISHER. It is.

Mr. GESELL. You have responsibility for the records of mortgage loans of that bank, do you not?

Mr. FISHER. Not at that time.

Mr. GESELL. I didn't ask you that, Mr. Fisher. I asked you whether you had responsibility for the records of the mortgage loans of the bank.

Mr. FISHER. All right; I have.

Mr. GESELL. Who did at that time?

Mr. FISHER. Mr. Welles.

Mr. GESELL. When he left that particular job you were given responsibility over the record he had kept, were you not?

Mr. FISHER. Yes; I assume that is correct. I thought you were talking of this.

Mr. GESELL. Very well. What does that record which you have in your hands show?

Mr. FISHER. Application for a mortgage loan.

¹ See "Exhibit No. 1100," appendix, p. 6956.

Mr. GESELL. To Mr. Louis F. Butler?

Mr. FISHER. To Mr. Louis F. Butler for \$35,000.

Mr. GESELL. Was that loan made?

Mr. FISHER. It was.

Mr. GESELL. What was the date of the loan?

Mr. FISHER. It was approved in February 1926 for \$35,000.

Mr. GESELL. Now, Mr. Butler, at that time, was also a director of the Travelers Bank & Trust Co., was he not?

Mr. FISHER. I can't tell without referring to your records here. Yes; he was.

Mr. GESELL. Who appraised the collateral against that mortgage loan?

Mr. FISHER. In this particular instance Mr. Zacher and Mr. Slocum.

Mr. GESELL. Who is Mr. Slocum?

Mr. FISHER. Mr. Slocum was the cashier of the Travelers Insurance Co. at that time.

Mr. GESELL. And Mr. Zacher at that time was a director of the Travelers Bank & Trust Co., was he not?

Mr. FISHER. I presume he was.

Mr. GESELL. I think Mr. Slocum was also, was he not?

Mr. FISHER. Yes; he was, too. They were both directors.

Mr. GESELL. Do you have charge of the minutes books of the Travelers Bank & Trust Co.?

Mr. FISHER. I do now.

Mr. GESELL. Do you recognize—

Mr. FISHER (interposing). Partially. May I modify that?

Mr. GESELL. Certainly.

Mr. FISHER. Mr. Welles is the secretary, and that really belongs in his part of his duties.

Mr. GESELL. You have partial charge of them, do you?

Mr. FISHER. I have something to do with them.

Mr. GESELL. Do you have any responsibility for the minutes of the finance committee?

Mr. FISHER. No, sir; Mr. Welles has that. I fill in.

Mr. GESELL. Do you recall furnishing us with these minutes of the finance committee of the bank held February 16, 1926?

Mr. FISHER. Yes, sir.

Mr. GESELL. And those minutes record, do they not, that Mr. Butler was present, and at that time his mortgage loan came up for approval, and that he voted to approve the loan.

Mr. FISHER. Apparently.

Mr. GESELL. That is what they show, is it not?

Mr. FISHER. It shows he was present. There is no exception made in the minutes.

Mr. GESELL. In fact, there is an affirmative statement, is there not: "The undersigned concur in the actions set forth in the foregoing minutes," and Mr. Butler's signature appears thereunder?

Mr. FISHER. That's right; yes, sir.

Mr. GESELL. Do you recall that the Travelers Bank & Trust Co. made a loan to Mr. Zacher of \$2,500 on October 17, 1916, secured by five shares of Travelers stock?

Mr. FISHER. I don't recall it. It is a matter of the minutes.

Mr. GESELL. Let's go through the formalities here. Do you recognize that as a correct and authentic copy of the minutes books?

Mr. FISHER. Yes, sir.

Mr. GESELL. Do you recognize Mr. Welles' signature?

Mr. FISHER. I do.

Mr. GESELL. Do you recall furnishing us with this document?

Mr. FISHER. I do.

Mr. GESELL. This document states that a loan of \$2,500 was made to L. Edmund Zacher on five shares of Travelers Insurance Co. stock and was approved by the committee at that meeting on October 17, 1916, does it not?

Mr. FISHER. Yes.

Mr. GESELL. That indicates Mr. Zacher was present at that meeting, does it not?

Mr. FISHER. Yes.

Mr. GESELL. Have you any reason to believe that that record is untrue or incorrect?

Mr. FISHER. That is correct as far as I know.

Mr. GESELL. So you would say there was such a loan made to Mr. Zacher?

Mr. FISHER. True.

Mr. GESELL. Thank you.

Do you recall that another loan was made on December 20, 1916, to Mr. Zacher for \$7,500, secured by 10 shares of Travelers Insurance stock?

Mr. FISHER. I should say it was correct.

Mr. GESELL. Do your records show that loans were also made to Mr. Shipman, Mr. Batterson, Mr. Brosmith, and Mr. Lacy, all persons connected as officer or official of the Travelers Insurance Co.? Do they not?

Mr. FISHER. I should say so. I don't recall.

Mr. GESELL. Which one don't you recall?

Mr. FISHER. Will you read that again, please, sir?

Mr. FISHER. Mr. Shipman, Mr. Batterson, Mr. Brosmith, and Mr. Lacy.

Mr. FISHER. I don't happen to recall Mr. Shipman. It might be there. That was before my immediate connection.

Mr. GESELL. What was the amount of that loan?

Mr. FISHER. \$30,000.

Mr. GESELL. Was there any collateral against the loan?

Mr. FISHER. That was made in 1916, before my connection, and at that time our records were not as complete. I should say that there was collateral. I never knew the bank to make a loan without collateral.

Mr. GESELL. Do the records show any collateral?

Mr. FISHER. No.

Mr. GESELL. Do you remember with respect to Mr. Lacy's what the amount of that loan was?

Mr. FISHER. No; I have no recollection.

Mr. GESELL. He was assistant secretary of the Travelers Insurance Co., was he not?

Mr. FISHER. He is; I don't know whether he was at that time.

Mr. GESELL. Do you recall that he made a first-mortgage loan of \$10,000 on April 27, 1920?

Mr. FISHER. I presume he did. I don't recall it. If you have the record, I will identify it.

Yes; that's right.

Mr. GESELL. That property was located at 241 Laurel Street, Hartford, Conn., was it not?

Mr. FISHER. Yes, sir.

Mr. GESELL. What was the appraised value of the property?

Mr. FISHER. \$15,000.

Mr. GESELL. Who were the appraisers?

Mr. FISHER. Mr. Slocum and Mr. Welles.

Mr. GESELL. Do you recall that a second mortgage was made against the property to Mr. Lacy?

Mr. FISHER. Yes, sir.

Mr. GESELL. The date of that loan was March 25, 1924, was it?

Mr. FISHER. Twenty-four.

Mr. GESELL. And the first loan was April 27, 1920?

Mr. FISHER. That's right.

Mr. GESELL. What was the appraised value of the property for the purposes of the second mortgage?

Mr. FISHER. \$20,500.

Mr. GESELL. The first appraisal had been fifteen, had it not?

Mr. FISHER. That's right.

Mr. GESELL. The same people appraising it both times?

Mr. FISHER. Yes, sir.

Mr. GESELL. Do you recognize this schedule which I show you as a schedule of the mortgage loans outstanding at the Travelers Bank & Trust Co. commercial department as of July 27, 1939?

Mr. FISHER. Yes, sir.

Mr. GESELL. What is the total amount of loans outstanding as of that date?

Mr. FISHER. \$86,164.67.

Mr. GESELL. With the exception of a \$3,000 loan to a Rocco Pallotti, a \$5,188.49 loan to Hector O. Provost, and a loan to Bertrand A. Page of \$7,336, all of those loans now outstanding as of that date were to persons connected with the Travelers Insurance Co., were they not?

Mr. FISHER. Yes, sir.

Mr. GESELL. Have you computed what percentage of the loans are outstanding to people connected with Travelers Insurance Co.?

Mr. FISHER. I have not.

Mr. GESELL. It would be a very high percentage, would it not?

Mr. FISHER. Yes; but that is in our commercial department.

Mr. GESELL. I understand that. So the caption reads.

I should like to offer this schedule for the record.

Acting Chairman DAVIS. Let it be inserted in the record.

(The schedule referred to was marked "Exhibit No. 1109" and is included in the appendix on p. 6962.)

Mr. GESELL. Does that schedule include some second mortgages?

Mr. FISHER. Those are all first mortgages except two.

Mr. GESELL. Which two are second mortgages?

Mr. FISHER. I can't tell you. I haven't that here.

Mr. GESELL. Lacy and Spencer are the two second-mortgage loans, are they not?

Mr. FISHER. There are only two or three seconds. I checked that before I came down. I don't recall which ones. The rest of them are all first mortgages.

Mr. GESELL. Have you a recollection that a mortgage loan of \$10,000 was made to Emma G. Slocum?

Mr. FISHER. May I see that? I recognize the document.

Mr. GESELL. What was the amount of the loan?

Mr. FISHER. \$10,000.

Mr. GESELL. Who appraised the collateral behind that loan?

Mr. FISHER. Mr. Zacher and Mr. Welles appraised it at \$22,000.

Mr. GESELL. I notice that Mr. Slocum first appraised it and then he struck his name out. Is that correct?

Mr. FISHER. That is on a reappraisal.

Mr. GESELL. Have you prepared a record which will show the total of all loans of Travelers Bank & Trust Co. outstanding on January 1, '29, '33, '35, and '39, and the percentage of those loans which have been made to directors, officers, and employees of Travelers Insurance Co.?

Mr. FISHER. Yes, sir.

Mr. GESELL. Will you tell us the amount, the percentage of those amounts outstanding to officers and directors on those various dates?

Mr. FISHER. The percentage of loans to officers, directors, and employees on January 1, '29, was 11.92; January 1, '33, 15.46; January 1, '35, 15.66; and January 1, '39, 17.06.

Mr. GESELL. What were the total loans outstanding on that last day?

Mr. FISHER. \$4,277,940.25.

Mr. GESELL. And how many of those were to officers and directors? What amount?

Mr. FISHER. \$729,971.55 to officers, directors, and employees.

Mr. GESELL. On the appraisals of the collateral behind these various loans, Mr. Fisher, does Mr. Zacher go out and personally appraise the property when his name appears as appraiser?

Mr. FISHER. Where his name appears, which is exceptional. It is not the rule.

Mr. GESELL. It is a personal appraisal by him?

Mr. FISHER. It is a personal appraisal.

Mr. GESELL. Would you say that in all cases there was an actual personal appraisal by those whose names appear as appraiser?

Mr. FISHER. Oh, yes.

Mr. GESELL. Those percentages which you just gave us on the loans by Travelers Bank & Trust Co. were mortgage loans. were they not?

Mr. FISHER. Mortgage loans; yes, sir.

Mr. GESELL. Is it correct that if you take all loans, not just mortgage loans but all loans of Travelers Bank & Trust Co., and all loans to directors, officers, and employees of Travelers, the percentage was 25.11 in January 1, '33; 30.04 January 1, '35; and 36.17 January 1, 1939?

Mr. FISHER. That is the total of other loans, other than mortgage loans.

Mr. GESELL. Then let's see if I understand this correctly. As of January 1, '39, officers, directors, and employees of Travelers had 17.06 percent of the mortgage loans?

Mr. FISHER. That's right.

Mr. GESELL. And 36.17 percent of the other loans?

Mr. FISHER. Other loans, that's right.

At that point, in 1939, the Travelers' Bank was not making other loans. Such collateral loans as we had been accustomed to make had been transferred to the Connecticut River Bank, and therefore the percentage was unusually high.

Mr. GESELL. You show, in 1939, under "Other loans," \$50,575 outstanding.

Mr. FISHER. That is right.

Mr. GESELL. Fifty thousand of that is a loan to a single person, is it not?

Mr. FISHER. That's right.

Mr. GESELL. He was Mr. Walter Roberts, assistant cashier of the company?

Mr. FISHER. That's right.

Mr. GESELL. Referring to his loan card, can you tell us how long that obligation has been outstanding?

Mr. FISHER. October 17, 1930.

Mr. GESELL. When was the last payment of principal made on that loan?

Mr. FISHER. There has been no payment of principal on that.

Mr. GESELL. When did you say the last principal payment was?

Mr. FISHER. I said there has been no payment of principal on it.

Mr. GESELL. Since the date of the loan?

Mr. FISHER. That's right.

Mr. GESELL. What is the security? In a general way—I don't want the specific description of each share of stock.

Mr. FISHER. One hundred and sixty-one shares of Travelers Insurance Co. and two life-insurance policies.

Mr. GESELL. Have you included in that figure of the amount of loans outstanding, the obligations of Mr. John H. White?

Mr. FISHER. In the total; yes, sir.

Mr. GESELL. But in the percentage attributable to officers and directors you have not, have you?

Mr. FISHER. We have not. He was not an officer or director or employee with Travelers at that time.

Mr. GESELL. As of June 1, 1939?

Mr. FISHER. That is correct.

Mr. GESELL. He was, however, at the time the loan was made, was he not?

Mr. FISHER. I don't think so.

Mr. GESELL. He was not assistant secretary of the company at that time?

Mr. FISHER. No.

Mr. GESELL. What is the amount of his obligations?

Mr. FISHER. \$70,000.

Mr. GESELL. And when was the loan made?

Mr. FISHER. In 1929, I should say, or, rather, in 1927.

Mr. GESELL. You said you didn't recall whether he was connected. I notice that in the yearbook of 1926, Mr. John H. White appears as assistant secretary of the group department of the company.

Mr. FISHER. But this loan was not made until 1927.

Mr. GESELL. Is it your recollection that he left?

Mr. FISHER. I furnished that information to one of your investigators.

Mr. GESELL. I was asking you not what you did, but what your recollection is, sir. I wish you would answer the questions specifically. You don't know about 1927?

Mr. FISHER. I do not know.

Mr. GESELL. Now, Mr. Fisher, have you prepared schedules which show the names of all officers and directors of Travelers Insurance Co. who have borrowed either from the Connecticut River Banking Co. or the Travelers Bank & Trust Co., and the greatest amount of the combined obligations of each individual to both of those banks at any time during the last 10-year period?

Mr. FISHER. No; it has been prepared on four specific dates, as of January 1, 1929; January 1, 1933; January 1, 1935; and January 1, 1939, giving the maximum borrowed at any time in that period—combined maximum.

Mr. GESELL. Yes; so that you have on those schedules before you the greatest amount—

Mr. FISHER (interposing). Borrowed between those periods.

Mr. GESELL. Is that the amount borrowed or the amount owed?

Mr. FISHER. The amount owed.

Mr. GESELL. The greatest amount owed?

Mr. FISHER. Yes; in that period.

Mr. GESELL. In the 10-year period?

Mr. FISHER. Yes.

Mr. GESELL. Will you refer to those schedules and state whether or not Mr. H. H. Armstrong, vice president of the Travelers Insurance Co., borrowed money?

Mr. FISHER. Yes, sir.

Mr. GESELL. Did he borrow it from both banks or only one bank?

Mr. FISHER. Only one bank.

Mr. GESELL. What was the greatest amount of obligation?

Mr. FISHER. \$36,450.62.

Mr. GESELL. That was on February 6, 1932?

Mr. FISHER. That is correct.

Mr. GESELL. Will you give us similar information on the others shown on those schedules?

Mr. FISHER. William B. Bailey, from the Connecticut River Banking Co. The largest amount was \$15,000 on October 17, 1935.

Mr. GESELL. He is an economist for the Travelers Insurance Co?

Mr. FISHER. Do you want the titles?

Mr. GESELL. If you would, please.

Mr. FISHER. Gladden W. Baker, treasurer of the Travelers Insurance Co. Largest amount borrowed was \$20,100 on October 5, 1931.

Mr. GESELL. Will you indicate in each case whether he borrowed from both banks?

Mr. FISHER. From both banks.

Percy V. Baldwin, assistant secretary, borrowed from both banks, largest amount was \$17,421.29 on January 1, 1929.

Walter E. Batterson, who was with the Travelers Insurance Co., borrowed from both banks. The largest amount was \$48,526.20 on January 1, 1929.

Mr. Allan E. Brosmith, attorney, borrowed from both banks, largest amount was \$25,890, February 14, 1930.

William Brosmith, director, largest amount borrowed was \$6,000 on November 9, 1929, Connecticut River Bank.

Louis F. Butler, president, both banks, largest amount \$52,000, May 6, 1929.

James H. Coburn, vice president, both banks, largest amount, \$18,000, March 28, 1938.

H. H. Ellsworth, director, from the Connecticut River Bank, largest amount \$26,000, November 26, 1929.

Charles E. Ferree, assistant agency secretary, both banks, largest amount \$11,122.03, January 1, 1929.

B. D. Flynn, vice president, both banks, largest amount \$80,450, May 26, 1931.

Howard A. Giddings, vice president, from the Travelers Bank, \$7,500, January 1, 1929.

Frank B. Goudy, director of the Nebraska Securities Corporation, Connecticut River Bank, largest amount \$10,600, June 2, 1931.

Frank P. Hayden, assistant secretary, both banks, largest amount \$24,000, July 26, 1930.

James L. Howard, director, Connecticut River Bank, largest amount \$58,500, October 1, 1930.

Mr. GESELL. He is also vice president, is he not?

Mr. FISHER. Yes, sir.

Joseph D. Leahy, assistant secretary, both banks, largest amount \$13,700, April 30, 1929.

Walter E. Mallory, agency secretary, both banks, largest amount \$46,000, September 30, 1931.

Francis T. Maxwell, director, Connecticut River Bank, \$110,000, September 20, 1930.

John McGinley, vice president, Connecticut River Bank, \$25,000, January 1, 1929.

Bertrand A. Page, vice president, both banks, largest amount \$100,000, November 30, 1929.

Jesse W. Randall, vice president, both banks, largest amount \$29,276, January 1, 1929.

C. Donald Rarey, both banks, largest amount \$15,541.06, November 5, 1929.

Daniel A. Read, secretary, both banks, \$25,315, October 15, 1929.

Walter Roberts, assistant cashier, both banks, \$70,500, October 31, 1929.

Robert D. Safford, vice president, both banks, \$8,500, August 25, 1933.

Wilbur S. Sherwood, assistant cashier, both banks, \$65,000, September 16, 1929.

Arthur L. Shipman, director, Connecticut River Bank, \$42,658.87, December 16, 1930.

Wellington R. Slocum, cashier, both banks, \$17,500, January 1, 1929.

C. Luther Spencer, Jr., director, Connecticut River Bank, \$19,000, December 5, 1930.

R. J. Sullivan, vice president, Connecticut River Bank, \$17,500, January 1, 1929.

C. W. VanBeynum, manager of publicity department, both banks, \$13,069.84, September 16, 1936.

John L. Way, director, Connecticut River Bank, \$10,000, January 1, 1929.

Robert H. Williams, vice president, \$41,500, January 8, 1932.

L. E. Zacher, president, Connecticut River Bank, \$50,000, July 15, 1929.

Bartlett T. Bent, assistant secretary, both banks, \$15,357, March 14, 1932.

Edmund J. Buckley, agent, Travelers Bank, \$10,531.20, February 6, 1929.

Thomas J. Butler, superintendent of agencies, Connecticut River Bank, \$8,500, November 13, 1929.

Joseph T. Cabaniss, medical department, both banks, \$11,000, January 1, 1929.

John J. Cusick, traveling auditor, Connecticut River Bank, \$10,613.75, June 23, 1930.

Charles Deckelman, manager, claim department, Connecticut River Bank, \$7,078.24, March 4, 1929.

Everett S. Fallow, actuary, both banks, \$8,473, July 15, 1929.

James C. Graves, surgical director, Connecticut River Bank, \$32,400, January 1, 1929.

F. L. Grosvenor, medical director, \$37,000, October 4, 1932.

H. Pierson Hammond, actuary, both banks, \$35,000, November 5, 1929.

John J. Hart, superintendent automobile division, both banks, \$18,520, May 14, 1929.

James E. Hoskins, assistant actuary, both banks, \$14,300, September 15, 1930.

Joseph R. Lacy, assistant secretary, both banks, \$22,220.48, January 1, 1929.

Charles E. Perry, medical department, \$11,020.58, both banks, June 25, 1930.

Fred E. R. Piper, assistant manager, casualty claim, both banks, \$8,500, September 11, 1929.

Walter R. Rearick, superintendent, both banks, \$13,699.80, October 31, 1929.

James E. Rhodes, attorney, both banks, \$29,300, April 29, 1930.

Lewis M. Robotham, secretary, both banks, \$40,000, March 19, 1929.

George M. Smith, assistant surgical director, Connecticut River Bank, \$8,300, January 1, 1929.

Howard R. Sullivan, assistant manager, casualty claim, both banks, \$47,150, November 21, 1930.

Roger W. Wight, superintendent of agencies, Connecticut River Bank, \$10,150, May 31, 1932.

This, of course, includes mortgage loans.

Mr. GESELL. Yes; these are mortgage loans, collateral loans, and occasionally a noncollateral loan.

Mr. FISHER. Yes.

Mr. GESELL. And they are all loans made to persons who were connected as officers or directors or, in some other capacity, that you indicated were in the Travelers groups.

Mr. FISHER. That is right.

Mr. GESELL. Thank you, Mr. Fisher. There are no further questions of this witness at this time.

Acting Chairman DAVIS. You are excused Mr. Fisher.

Mr. GESELL. Mr. Jenkins, will you take the stand again, please?

TESTIMONY OF GEORGE C. JENKINS, ANALYST, INSURANCE SECTION, SECURITIES AND EXCHANGE COMMISSION—Resumed

Mr. GESELL. Mr. Jenkins, did you have occasion to examine the records of the Travelers Bank & Trust Co.?

Mr. JENKINS. I did, sir.

Mr. GESELL. Have you prepared figures which will show the total amount loaned by Travelers Bank & Trust Co., exclusive of mortgage loans to officers and directors of the Travelers group?

Mr. JENKINS. Yes, sir.

Mr. GESELL. How many officers and directors and employees of the Travelers group borrowed from the Travelers Bank & Trust Co. other than on mortgage loans?

Mr. JENKINS. Twenty.

Mr. GESELL. Was that during the period of 1930 to 1939?

Mr. JENKINS. Yes, sir.

Mr. GESELL. What was the amount of the loans made to them?

Mr. JENKINS. \$347,442.77.

Mr. GESELL. Then taking that figure and adding to it the amount of money loaned by the Connecticut River Bank to officers and directors of Travelers Insurance Co., what is the grand total?

Mr. JENKINS. The grand total of combined bank loans is \$4,217,628.04.

Mr. GESELL. Now, does the Travelers Insurance Co. maintain an account at the Travelers Bank & Trust Co.?

Mr. JENKINS. Yes, sir; they do.

Mr. GESELL. That is \$450,000, is it?

Mr. JENKINS. Yes, sir.

Mr. GESELL. What other companies within the Travelers group or affiliates keep accounts there?

Mr. JENKINS. Travelers Broadcasting Service Corporation.

Mr. GESELL. What is the amount of that account as of December 31, 1938?

Mr. JENKINS. \$20,715.95.

Mr. GESELL. What percentage of the total deposits in that bank do the insurance company and broadcasting company deposits amount to?

Mr. JENKINS. Seventy-six percent of the commercial deposits are from the broadcasting company or other affiliates.

Mr. GESELL. There are savings deposits not included?

Mr. JENKINS. That is right, sir.

Mr. GESELL. I have no further questions.

Acting Chairman DAVIS. You are excused.

(The witness, Mr. Jenkins, was excused.)

Mr. GESELL. Mr. Zacher, please.

TESTIMONY OF LOUIS EDMUND ZACHER, PRESIDENT, TRAVELERS INSURANCE CO., HARTFORD, CONN.—Resumed

Mr. GESELL. Mr. Zacher, for a moment I want to ask you about a topic I touched upon with Mr. Fisher. At the time the Travelers Insurance Co. organized the Travelers Bank & Trust Co., then the Union Trust Co., were certain loans transferred to that bank?

Mr. ZACHER. Yes, sir.

Mr. GESELL. Can you tell us what the nature of those loans were? They were mortgage loans, I believe.

Mr. ZACHER. I think there were about four or five mortgage loans, and as I recall the circumstances three of them were to employees of the company. It has always been the practice in Hartford for the insurance companies to keep out of the mortgage-loan field except upon very large loans and leave the field for residence loans free to the mutual savings banks. In a way it was embarrassing for the company, although it legally could do so, to lend direct to its employees on account of the personal relationship: regarding the bank as a separate enterprise, we felt the loans would be made more in accordance with the general custom of the community if we shifted all those loans to the trust company. That is the reason we did it, and that is the way it was continued from then on.

Mr. GESELL. Is it correct that those loans at that time were in the principal amount of the neighborhood of \$36,000?

Mr. ZACHER. I should say so.

Mr. GESELL. Now, you are connected in one way or another with both the Connecticut River Banking Co. and the Travelers Bank & Trust Co., aren't you?

Mr. ZACHER. Yes, sir.

Mr. GESELL. Did those banks loan money to officers and directors of Travelers Insurance Co. at the same rate of interest as they loaned money to persons not so affiliated?

Mr. ZACHER. Well, I can't answer that exactly, but I know we made a special rate, particularly on mortgage loans, to employees, whether they were officers or clerks, probably a half of 1 percent under what we charged the general public.

Mr. GESELL. That would be at both banks?

Mr. ZACHER. I imagine so, although I can't swear to it because I don't know, but that was the general idea.

Mr. GESELL. Was there any kind of special rate to officers and directors of Travelers Insurance Co.?

Mr. ZACHER. No; they were to enjoy the same advantage the clerks were to enjoy, so far as I know.

Mr. GESELL. Now, I would like just to make clear how that runs, particularly since this is the subject Judge Davis mentioned early this morning. I would like you to run through some of these minutes with me and see if my understanding is correct.

Now, the first set of minutes is of the finance committee of Travelers Bank & Trust Co. for December 5, 1922, and as I read those minutes, three new loans and two renewals were approved, four of the loans being at 6 percent and the fifth, to John H. White, being at 5½ percent.

Mr. ZACHER. Yes, sir.

Mr. GESELL. He was connected as a junior officer with Travelers Insurance Co., was he not?

Mr. ZACHER. I think he was in 1922.

Mr. GESELL. Now, on the next set of minutes, being the finance minutes for March 6, 1928, I note 46 new and renewed collateral loans, 4 of those loans being at the rate of 6 percent and a loan to E. J. Buckley, whom I believe is one of your agents, and a loan to James E. Rhodes, attorney in the legal department, being at 5½ percent and 5, respectively.

Mr. ZACHER. Yes, sir.

Mr. GESELL. Now, in the case of Mr. Rhodes, his reduction in interest rate was a whole point as opposed to half a point for Mr. Buckley.

Mr. ZACHER. Yes.

Mr. GESELL. That would indicate that there was no set amount of interest preference in each case.

Mr. ZACHER. Well, it may be he just wanted—wait a minute. It may be he just wanted it for 90 days; it is a 90-day note, and that might have made some difference.

Mr. GESELL. Then I noticed there were mortgage loans approved at that time, 12 new or continued mortgage loans, all at 6 percent except for 2 loans each at $5\frac{1}{2}$, 1 to an actuary, Mr. Morris, and 1 to Mr. Hammond, assistant actuary.

Mr. ZACHER. Yes; that is correct.

Mr. GESELL. Then at the meeting of October 18, 1927, contained in the next set of minutes that you have before you, I notice a loan to Allan Brosmith, attorney in the mortgage loan, at $5\frac{1}{2}$ percent, when the interest rate on the other loan is shown at 6.

Mr. ZACHER. Yes. The first mortgage is at $5\frac{1}{2}$ and the second at 6.

Mr. GESELL. If you will refer to the minutes of the finance committee of December 2, 1930—I think that is about two down—have you that before you?

Mr. ZACHER. Yes, sir.

Mr. GESELL. That is the finance committee of the Travelers Bank & Trust Co.; is that correct?

Mr. ZACHER. Yes, sir.

Mr. GESELL. Now I notice that there are 10 renewals of mortgage loans shown as coming before the finance committee on that date, 7 of those loans being at 6-percent rate, a loan to Matilda Pittman at $5\frac{1}{2}$ percent, with a notation, "Walter Pittman is with Travelers."

Mr. ZACHER. Yes; that is right.

Mr. GESELL. And a loan to William C. Riddle at $5\frac{1}{2}$ percent, with the notation, "Mr. Riddle is with Travelers Insurance Co."

Mr. ZACHER. Yes, sir.

Mr. GESELL. And a loan to Elizabeth Dow Shaw at $5\frac{1}{2}$ percent, with a notation, "Dr. Shaw of Travelers is husband of Elizabeth Dow Shaw."

Mr. ZACHER. Yes, sir.

Mr. GESELL. That would indicate this preference on interest rates extended to the families of persons connected with Travelers, as well as to the officials and employees themselves.

Mr. ZACHER. Well, these men's wives—they put the house in the name of their wife but they were responsible for the note.

Mr. GESELL. If you will now refer to the next set of minutes, September 26, 1922, I notice that there were some 21 loans approved, 18 of them at 6 percent; that there was a loan to Charles B. Miller at $5\frac{1}{2}$ percent. He was an employee of the Connecticut River Banking Co.; was he not?

Mr. ZACHER. I believe so; yes.

Mr. GESELL. A loan to Mr. Dickerman, an employee of Travelers Insurance Co. at $5\frac{1}{2}$ percent.

Mr. ZACHER. Yes, sir.

Mr. GESELL. And then a loan to yourself at 5 percent.

Mr. ZACHER. Yes, sir.

Mr. GESELL. That would indicate that in the case of senior officers, the preference was a little stronger.

Mr. ZACHER. Oh, not entirely. If you go down below, Francis R. Cooley borrowed \$17,000 at 5 percent.

Mr. GESELL. Who? What is the man's name?

Mr. ZACHER. Francis R. Cooley. He was a broker and he borrowed 17,000 at 5 percent.

Mr. GESELL. The great majority of loans on that date—

Mr. ZACHER (interposing). It may be just loans for a temporary period. I think I paid that off in a month.

Mr. GESELL. Then let's continue with this a moment. If you refer to the next set of minutes, June 5, 1923, I notice six new or renewed mortgage applications, all at 6 percent, except for one of Bertrand A. Page for 5 percent. Mr. Page was vice president of the Travelers and connected with the bank; was he not?

Mr. ZACHER. Yes; I think he was.

Mr. GESELL. And he received 5-percent interest as against 6 for the others who borrowed on that date.

Mr. ZACHER. Yes, sir.

Mr. GESELL. Now, continuing one step further to the next set of minutes, November 6, 1923, I notice that on that date, November 6, '23, the finance committee approved six first mortgages at 6 percent, and one second mortgage at 6 percent, and one second mortgage at 5 percent, that one at 5 percent being to Mr. Daniel A. Read, whom I understand was assistant secretary of Travelers, and who is now connected with the company. That is correct?

Mr. ZACHER. Yes, sir.

Mr. GESELL. There again it would appear to me that there was a preference of a point in interest rate.

Mr. ZACHER. Yes, sir.

Mr. GESELL. Not to take you through all of them before you, if you go to the next to the last sheet you have, May 17, 1927, I note that the finance committee approved seven mortgage loan applications, five of them at a rate of 6 percent, one to Harry C. Bean, whom I understand is a junior officer of the Travelers, at 5½, and one to Mabel H. Howard, wife of James L. Howard, the vice president and director of the Travelers Insurance Co., at 5 percent.

Mr. ZACHER. Yes, sir.

Mr. GESELL. Just with that last one before you, Mr. Zacher, that indicates to me that junior officers and employees got an interest preference of half a point by and large in the interest rate, and that some of the senior officers received a whole point. Does that refresh your recollection?

Mr. ZACHER. Well, apparently in these three or four cases they did get a half of 1 percent better. Why they got it, I can't tell you, whether it was a general policy, or whether it was just a negotiation at that time, or what it was.

Mr. GESELL. There are other cases before you that I didn't bother to burden the record with.

Mr. ZACHER. The number of people involved in that compared with the number of officers is not very large.

Mr. GESELL. Well, I was just trying to understand upon what basis, even granting it might not be in every case, any preference would be granted to persons connected with Travelers Insurance Co.

Mr. ZACHER. I think that that would be correct.

Mr. GESELL. To grant such a preference?

Mr. ZACHER. To grant a preference in rate, because we knew all about them, the moral hazard and everything else, and it was to our advantage, particularly when they wanted to buy a house, to help them buy that house. I would much rather have them come to our company and borrow the money, and watch how it was coming out, than to have them go somewhere else and have to bail them out later on.

Mr. GESELL. You looked at it as a sort of matter of personal policy, in a way?

Mr. ZACHER. Yes; I thought it was a good thing, and I still think so.

Mr. GESELL. That, to my mind, indicates that you didn't always have before you as your primary consideration the corporate distinction between the bank and the insurance company. In many respects they were one and the same, weren't they?

Mr. ZACHER. Mr. Gesell, you see we could have made these loans in the Travelers Insurance Co. to all these people legally. There is no bar to that at all.

Mr. GESELL. No bar against your making loans to officers and directors?

Mr. ZACHER. Not on mortgages.

Mr. GESELL. Well, there are other loans besides mortgages.

Mr. ZACHER. Of course, collateral loans are a different matter, but the mortgage loans could have gone through the company, and if they had gone through the company they might have been made at a still lower rate.

Mr. GESELL. My understanding is you placed the mortgage loans through the banks because of that situation in Hartford to which you referred.

Mr. ZACHER. It was a peculiar situation.

Mr. GESELL. The collateral loans—the company could not have made those itself?

Mr. ZACHER. It would have been very easy to have gotten them.

Mr. GESELL. It would have been lawful for the company to make them directly?

Mr. ZACHER. Oh, yes; except in this case, on its own stock. I think the law permits loans to be made on collateral. That is, we can take any collateral that is legal and lend on it to any officer or any employee.

Mr. GESELL. We will get into a long discussion as to what law we are talking about. Connecticut law might be one thing and New York law might be another.

Mr. ZACHER. Connecticut law is what governs on that stuff, and always has.

Mr. GESELL. You don't feel you are subject to the requirements of the New York law in that respect at all?

Mr. ZACHER. No, sir.

Mr. O'CONNELL. When you were referring to a section of the New York law a little while ago, section 97—

Mr. GESELL (interposing). There was a reference in that memorandum to that with respect to agents' loans.

Mr. ZACHER. Loans on renewal commissions, which is quite a different matter.

Mr. O'CONNELL. You mean you are subject to the New York laws in some respects and not in others?

Mr. ZACHER. Yes.

Mr. O'CONNELL. What is the line of demarcation?

Mr. ZACHER. Custom.

Mr. O'CONNELL. Just custom? Or convenience?

Mr. ZACHER. Well, no; it is more or less governed. I think, by reciprocal laws, isn't it? A loan on agents' renewals is involved in what they call acquisition cost, and all companies doing business in New York have to conform to it on that account, but it concerns mutual companies more than it does concerns that are doing nonparticipating business, as Travelers is.

Mr. O'CONNELL. On the particular point we are discussing, it is your understanding you are not bound to follow the New York law in connection with making loans to your officers and directors. Is that right? The New York law on that point is not binding?

Mr. ZACHER. I don't know the New York law on that point, but they have never questioned it. There is an inquiry in the annual statement, total amount of loans to officers and total amount loaned to stockholders, and that is always answered, so I presume that that is permissible under the New York law.

Mr. O'CONNELL. What is the Connecticut law?

Mr. ZACHER. The Connecticut law permits you to lend on securities the companies can buy for investment.

Mr. O'CONNELL. You can make a security loan to an officer or director, but you can't make an unsecured loan?

Mr. ZACHER. No, sir.

Mr. O'CONNELL. Can you make an unsecured loan to an employee?

Mr. ZACHER. No, sir.

Mr. GESELL. In lots of cases these collateral loans that you made to officers and directors contained collateral which the company couldn't have invested in itself.

Mr. ZACHER. They change that law from time to time. I haven't followed it. But we are very careful to see the collateral is legal. As I say, we don't make any collateral loans now, and that is a matter that is not a law, it is the action of the finance committee.

Mr. GESELL. In the annual convention form statement and general interrogatories where the company is asked to report loans to officers and directors, do you report the loans through the banks?

Mr. ZACHER. No, sir.

Mr. GESELL. Coming back to this question of interest for a moment, there is one other factor involved in it, it seems to me, Mr. Zacher, and that is that in some cases, at least, we have seen that the officers and directors whose loans were involved were present as members of the finance committee of the bank and voted approval on their own loans. That is correct, isn't it?

Mr. ZACHER. That is the way the records read.

Mr. GESELL. And such a vote of approval in a case where a loan was at a preferential interest rate seems to me to open the transac-

tion even to greater question, since the man, after all, is getting some personal benefit apart from the loan through the transaction.

Mr. ZACHER. Well, I don't know. There are various opinions about that, but as a practical matter these loans are not made by the finance committee. They are made by the officers and they are reported to the finance committee, and if the finance committee disapproves them they call the loans and have to be negotiated elsewhere.

Mr. GESELL. So far as responsibility is concerned, that rests with the finance committee and the Board, doesn't it?

Mr. ZACHER. I suppose really if a director makes an application for a loan and he knows it is coming up for consideration or approval the next week he had better stay away from the meeting altogether.

Mr. GESELL. Of course he didn't, did he?

Mr. ZACHER (interposing). So as to let them act as they will, but the fact that he presents this loan and gives adequate collateral seems to me to indicate he approves the loan and might well share the responsibility of the other directors, although I see lately it has become the custom for a man to say "I want to be recorded as not voting," but he is there just the same.

Mr. GESELL. There was one case here where Mr. Baker stepped out of the room when his loan came before the finance committee, but as a matter of practice that didn't seem to be what was done in your case.

Mr. ZACHER. It wasn't done in my case because that wasn't the fashion. That hadn't come in.

Mr. GESELL. And the fashion in most of these loans was for the men to vote on the loans along with the rest of them?

Mr. ZACHER. Oh, yes; I wouldn't put up a loan unless I thought it was pretty good.

Mr. GESELL. Coming to one other angle of this situation, let me ask you this: Can the Travelers Insurance Co. directly loan money on call?

Mr. ZACHER. That is rather difficult to answer, because I don't know the rules or the mechanics of the thing now. Yes, it can loan—we can loan—directly on demand on collateral to brokers, bankers, anybody, I guess, as long as the collateral is good and we are satisfied with it, either for 1 day or 2 or more days. Yes, I should say I think it can be done.

Mr. GESELL. That would be a loan where the amount of money loaned was not commingled with other persons' money, would it not? That would be a distinct loan?

Mr. ZACHER. It would be an out-and-out loan directly to some broker in New York.

Mr. GESELL. My understanding is that usually when money is loaned on call it becomes mingled with other persons' funds who are also being loaned on call. Is that correct?

Mr. ZACHER. Not if the negotiations are between the two parties. We loan John Jones & Co., of New York \$200,000 on call at 5 or 6 or 7 percent. Our money is not mingled with anybody else's money.

Mr. GESELL. I suppose you are familiar with the ruling of the attorney general of the State of New York with respect to his interpretation of a section of the law with respect to investments of capital and surplus. My understanding is that he ruled that an insur-

ance company has no power to deposit certain of its funds with a bank to be loaned by it on call with the money or other parties, on the ground that that sort of transaction is not one of the investments described in section 16. Is your understanding to the contrary, that it was perfectly legal for your company to loan money on call?

Mr. ZACHER. Yes; directly with the borrower.

Mr. GESELL. Has your company made such loans directly?

Mr. ZACHER. Not in recent years.

Mr. GESELL. You have in recent years made loans on call through the Travelers Bank & Trust Co., have you not?

Mr. ZACHER. Yes.

Mr. GESELL. Why were the loans made through the Travelers Bank & Trust Co. if you could make them directly yourself?

Mr. ZACHER. Well, if you will examine the annual statements you will find there you have to put down in great detail how much you lend, to whom you lend it, the rate of interest, collateral, all collateral changes, when it was discharged and renewed; and if you make 15 to 20 of them you spend most of your time setting up type and printing all that information. There is only one time I recall when it seemed desirable to put out money on call, and I think that was in 1929, and we put it out through the Travelers Bank & Trust Co. because the mechanics were very simple and because we received an extra rate of interest on call over what they paid us, and we received the benefit of it as the holder of all the stock of that company.

Mr. GESELL. I think it is rather succinctly stated in a memorandum from you to Mr. Hubbard dated September 11, 1929, which states [reading "Exhibit No. 1110"]:

I have arranged with Mr. Butler that while I am gone the money not needed for investment and above the amounts normally required for our business should go in The Travelers Bank and Trust Company.

If you will be kind enough to put this out on call, we will receive due benefit from it.

Please keep in mind that the balance of the Travelers Insurance Company in The Connecticut River Banking Company should be around \$3,000,000.

Do you recall that memorandum?

Mr. ZACHER. Yes, sir.

Mr. GESELL. That was at the time that you first decided to loan money on call through the Travelers Bank?

Mr. ZACHER. Yes, sir.

Mr. GESELL. I should like to file that memorandum.

(The memorandum referred to was marked "Exhibit No. 1110" and is included in the appendix on page 6963.)

Mr. GESELL. You recognize this as a schedule showing the balance of your company in the Travelers Bank & Trust Co. at the times indicated thereon?

Mr. ZACHER. I should say this is right.

Mr. GESELL. I notice a rather sharp increase in the balances in 1928-29. That is as a result of these call-money loans?

Mr. ZACHER. I am sure it was in 1929. I should say so.

Mr. GESELL. I should like to offer this schedule for the record.

(The schedule referred to was marked "Exhibit No. 1111" and is included in the appendix on p. 6963.)

Acting Chairman DAVIS. It will be put into the record.

Mr. GESELL. Can you tell us just how much was loaned on call and the various dates those loans were made?

Mr. ZACHER. No, sir.

Mr. GESELL. Referring to this schedule, if you would, please, does that indicate that the Travelers Insurance Co. deposit in the Bank & Trust Co. was \$950,000 from May 27, 1928, until September 20, 1929?

Mr. ZACHER. Yes, sir.

Mr. GESELL. And on that latter date the Travelers Insurance Co. deposited \$400,000 in the bank?

Mr. ZACHER. What date was that?

Mr. GESELL. That would be September 20, 1929.

Mr. ZACHER. Yes, sir.

Mr. GESELL. On that same date the bank loaned \$400,000 on call at 8 percent, did it not, to Toerge & Schiffer?

Mr. ZACHER. Yes, sir; apparently.

Mr. GESELL. Next I read from those records that on September 23, 1929, Travelers Insurance Co. increased its deposit by \$500,000.

Mr. ZACHER. Yes, sir.

Mr. GESELL. And another \$300,000 on September 25, 1929.

Mr. ZACHER. Yes, sir.

Mr. GESELL. And another \$800,000 on October 3, 1929?

Mr. ZACHER. Yes, sir.

Mr. GESELL. And \$200,000 more on October 7, 1929?

Mr. ZACHER. Yes, sir.

Mr. GESELL. \$200,000 on October 15, 1929?

Mr. ZACHER. Yes, sir.

Mr. GESELL. And \$400,000 on October 18, 1929?

Mr. ZACHER. Yes, sir.

Mr. GESELL. If you would look on cards four and five of the records before you, am I correct in saying that coincident with the increase in the insurance company balance at the bank the bank increased the amount of money that it put out on call from \$850,000 on September 25, 1929, to a peak of \$3,250,000 on October 22, 1929?

Mr. ZACHER. Yes; I should say so.

Mr. GESELL. That is an increase of \$2,400,000 which the bank had out on call?

Mr. ZACHER. Yes, sir.

Mr. GESELL. I notice that right at the year end, December 30, or between November 20 and December 30, 1929, the insurance company withdrew \$2,650,000 from the bank and the bank correspondingly reduced the amount of money it had on call. That is correct, is it not?

Mr. ZACHER. Yes, sir.

Mr. GESELL. And then after the year end, commencing on February 20, the insurance company again deposited money in the bank amounting to \$2,150,000; that was on February 20, 1930, and the bank put two million out on call at 4½ percent. Can you tell me why, at the year end, the money was brought in and then put out again? Was there some special reason for that?

Mr. ZACHER. None that I can think of.

Mr. GESELL. Didn't have any relation to balance-sheet items of any sort for the year end?

Mr. ZACHER. No; it simply would have shown that we had the money on deposit in the Travelers Bank. I don't know of any reason why we should hide it in any way; it may have been that the rate was down; it may have been that some choice investments came along at that time.

Mr. GESELL. Of course, the money went right back out again about a couple of months later.

Mr. ZACHER. That may have been a large amount of money that came in from our agents' balances at the end of the year. You see, after the first of January money comes in very freely.

Mr. GESELL. You deposited the money on February 20; the records indicate that on several additional occasions money was placed with the bank, the bank put that money out on call. Is that not correct?

Mr. ZACHER. Yes, sir.

Mr. GESELL. And starting about March 1930, the amount of money on call and the amount of the insurance company's deposit decreased, did it not?

Mr. ZACHER. Yes, sir.

Mr. GESELL. And by the end of 1930 you were back to a balance of \$450,000 in the bank?

Mr. ZACHER. Yes, sir. I think that was due to the decrease in interest rate.

Mr. GESELL. Now, this money that was loaned on call was loaned at what interest rate?

Mr. ZACHER. At the interest rates indicated here—7, 7½, 8, 8½, 7½, 9¼—it depended upon the period. Well, in that bad period there, at the end of 1929 and part of 1930, I think interest rates got down to 5 percent, November 22, 1929, according to this statement here.

Mr. GESELL. And do I understand correctly that the only reason why this money was loaned out through the bank, instead of being loaned by the insurance company directly itself, was because the insurance company wished to avoid the cumbersome detail which would be necessary in reporting this information on schedule C of the convention form?

Mr. ZACHER. Yes; that was the entire reason.

Mr. GESELL. I think this might be a good time to adjourn until tomorrow and complete the execution of the banking transactions. I would like to ask—

Mr. O'CONNELL (interposing). I was interested in your apparent reaction to some of Mr. Gesell's questions relative to the propriety of having officers pass on loans to themselves. Do I understand it is your general belief that a condition of that sort is not one that is at least in danger of being misused or abused by the officers?

Mr. ZACHER. Well, it depends on the character of your institution, more on the character of an institution. If it is a banking company organized in most States, in the East or an insurance company, you have the protection of the laws for the bank and the insurance company. I don't know how they are in other States.

Mr. O'CONNELL. In that situation, though if harm is done, it is done before the banking commissioner or the superintendent of insurance is in a position to do anything about it; isn't that so? I mean, if the loan is made, it is made.

MR. ZACHER. I think the great trouble is a good many institutions make loans on slow collateral and no collateral, and that is where the trouble comes, you see; where the collateral that you offer is acceptable to any banking institution in the city—

MR. O'CONNELL (interposing). Don't you think it is entirely possible that in some circumstances it is rather dangerous from the point of view of the depositors or in the case of mutual insurance companies, let us say the policy holders, to have the position that the officers and directors of the bank or of the insurance company are empowered and in a position to make loans to themselves and be the persons who pass on the value of the collateral and the collateral loans? Take a mortgage loan; you and some other individual representing a bank or insurance company have an application from one of you for a \$21,000 loan for mortgage on real estate. You make the appraisal and approve the loan to yourself. Isn't that a situation which is fraught with the possibility of a least bad judgment or a little colored judgment on the part of those in that position?

MR. ZACHER. Well sir, you can't legislate honesty and capability.

MR. O'CONNELL. There have been attempts, I think you will admit. What do you think is the basis for legislation which forbids an officer or a member of the board of directors of an insurance company to make a loan direct to himself? There is some such legislation in some States, isn't there?

MR. ZACHER. I think there is, but I don't think it makes the situation any healthier.

MR. O'CONNELL. You don't?

MR. ZACHER. No; I think if you have regulation within the State and have a good bank commissioner or a good insurance commissioner, that takes care of itself.

MR. O'CONNELL. It is true, as I pointed out, that the regulation you are talking about is not a regulation that would prevent a bad loan of that type.

MR. ZACHER. You can't make those loans any better by passing legislation prohibiting officers from borrowing money, because if they don't borrow it directly, they will borrow it indirectly; if they want it they will get it.

MR. O'CONNELL. You don't think it is possible to prevent an officer from taking advantage of that situation?

MR. ZACHER. I wouldn't do it. In Connecticut, I think, I don't know but what it is a national law, directors can borrow from their own banks.

MR. O'CONNELL. They can't in the national banking system.

MR. ZACHER. Then they go across the street.

MR. O'CONNELL. Possibly we can do something about that too.

MR. COLE. If you will excuse me, directors do borrow from national banks.

Acting Chairman DAVIS. Yes; they can do that.

MR. ZACHER. But officers can't.

MR. COLE. That is different.

MR. ZACHER. That is just a common precaution against these small banks.

Mr. GESELL. I think in view of your questions, Mr. O'Connell, you might be interested in a portion of the Armstrong Committee Record, reading from volume 10, pages 389 and 390, the language of the report states as follows:

Investments in stock should be prohibited. They are fundamentally objectionable, as the corporation, instead of holding a secured obligation, acquires a proprietary interest in another business with rights subject to all indebtedness which may be created in the conduct of it and often direct liabilities as stockholders. This interest must be nourished and supported. Instead of being a creditor with adequate security, to which upon default the corporation may resort, it assumes the responsibilities of proprietorship and must contribute from the accumulations provided by the policyholders in order to sustain the enterprise. If the stock holdings constitute a small minority, the investment is at the mercy of administrators chosen by the majority stockholders. If the stock interest be a large one, it is frequently found advisable to increase it until a substantial control is effected, and the insurance corporation is not only engaged in a different enterprise, but directly undertakes its management. Such relations afford ready opportunities to conceal irregular transactions and to hide the malversation of funds.

Mr. ZACHER. May I comment on that? That was in 1906 and that was just as foolish as a lot of other things that were passed at that time, because when you analyze the situation, you will find the people that bought bonds, particularly the bonds of the railways, are in worse position than the people who bought stocks of certain kinds that had no indebtedness ahead of them.

Mr. O'CONNELL. That comment doesn't go to the validity of the statement there, I don't believe. I understood the statement there was to the effect that acquisition of stock interest by the insurance company or bank would tend to put the bank or insurance company in the particular business. There is a tendency to acquire more and more stock. As a matter of fact, I think that is what happened to the Travelers Insurance Co. They acquired some stock and are now in the banking business.

Mr. ZACHER. Some of these companies in New York that bought these railroad bonds bought the bonds and couldn't buy the stock—they are in the stock business. Now they own the railroads in a good many cases. So you see it doesn't always work out that way. It is very hard to make an investment law today that is good 5 years or 10 years from today when legislation is being passed on unusual circumstances. It is very difficult indeed.

Mr. GESELL. Have any of the insurance commissioners inquired of you concerning your ownership of these banks?

Mr. ZACHER. It is very well known in Hartford. The insurance commissioner knows all about it. He is friendly with the bank commissioner. The bank commissioner knows about the ramifications. The books are open to all of them and whenever they want to know anything, we tell them all we know.

Mr. GESELL. What about outside the State of Connecticut? Have you had any correspondence from the department in New York, for example?

Mr. ZACHER. Not about the banks. The bank stocks in Connecticut have always been a favorite investment, even before railroad bonds were considered acceptable and put on the legal list.

Mr. GESELL. Now as a matter of fact, no member of the New York department has ever examined your company, has it?

Mr. ZACHER. Not that I know of.

Mr. GESELL. Under the system of regional examinations which the insurance commissioners have worked out, the commissioner in Connecticut would examine for Massachusetts and New York as well, would he not?

Mr. ZACHER. Yes; they invite each other to join in the examination.

Mr. GESELL. There is no one from New York who ever comes to look at your company, is there?

Mr. ZACHER. They haven't had a chance yet. They didn't agree on that until after our last examination took place. When we are examined they will probably have two or three representatives from other States, provided they still agree on this scheme.

Mr. GESELL. But on the system to date, Connecticut has represented the zone which includes New York and Massachusetts, has it not?

Mr. ZACHER. Yes; and no Connecticut examiner has had a look-in on any New York companies.

Mr. GESELL. Yes; I understand it is a hot point both ways, but as we saw this morning, maybe a third of your business is in New York State. Representatives of the department there have not had a look-in on your business.

Mr. ZACHER. When you say a third of the business that combines all the business. It isn't a third of the business in the life department.

Mr. GESELL. It is a substantial amount of the life business, though, isn't it?

Mr. ZACHER. Our casualty business is quite considerable in New York, on account of the liability and compensation business. It is very considerable.

Mr. GESELL. But you do have life business in the State of New York.

Mr. ZACHER. Oh, surely.

Mr. GESELL. Now, let me discuss just one other phase of it with you. In reporting the operations of your life department on the annual convention form statement, I take it there are many phases of the business of Travelers Insurance Co. that aren't disclosed on these reports. You make no reports as to the operation of the casualty department of your corporation, do you?

Mr. ZACHER. Yes; we fill out the two reports simultaneously and we put in the assets of the life department; that is, the balancing item, assets, and liabilities of the casualty department, and vice versa in the casualty statement; and at the same time we file a statement of the indemnity company and we file a statement of the two fire-insurance companies and we show in those statements the relationship that one has to the other.

Mr. GESELL. Let's take, though, some other schedules. I have in mind, for instance, the salary schedule. You report only the salary you receive from the life department, do you not?

Mr. ZACHER. Yes.

Mr. GESELL. There is no way a man can go to a public record and find out what your total salary is from all of this enterprise?

Mr. ZACHER. I don't know, but I should think not. There are only one or two States that require the filing of that salary schedule. We make it up specially. I think New York is one.

Mr. GESELL. And there are other special schedules applicable to the life department of your business which you don't file to show similar operations in the casualty department business.

Mr. ZACHER. We file what each State requires.

Mr. GESELL. I realize that, that that is the result of the requirements, isn't it?

Mr. ZACHER. That is all.

Mr. GESELL. I have no further questions. We will continue tomorrow morning.

Acting Chairman DAVIS. The committee will adjourn until 10:30 a. m. tomorrow.

(Whereupon, at 4:40 p. m., a recess was taken until Tuesday, September 12, 1939, at 10:30 a. m.)

INVESTIGATION OF CONCENTRATION OF ECONOMIC POWER

TUESDAY, SEPTEMBER 12, 1939

UNITED STATES SENATE,
SUBCOMMITTEE OF THE TEMPORARY
NATIONAL ECONOMIC COMMITTEE.
Washington, D. C.

The subcommittee met at 10:35 a. m., pursuant to adjournment on Monday September 11, 1939, in the Caucus Room, Senate Office Building, Joseph J. O'Connell, Jr., Department of the Treasury, presiding.

Present: Joseph J. O'Connell, acting chairman; and Mr. Brackett.

Present also: Messrs. Lubin, Gerhard A. Gesell, special counsel; H. A. Blomquist, Arthur Leary, and George C. Jenkins, investigators, Securities and Exchange Commission.

Acting Chairman O'CONNELL. The hearing will please come to order. Mr. Gesell, are you ready to proceed?

Mr. GESELL. I am. Mr. Zacher, will you resume the stand, please, sir?

TESTIMONY OF LOUIS EDMUND ZACHER, PRESIDENT, TRAVELERS INSURANCE CO., HARTFORD, CONN.—Resumed

TRAVELERS—INTEREST IN NEBRASKA SECURITIES CORPORATION

Mr. GESELL. Yesterday, Mr. Zacher, we discussed some portions and activities of the companies shown on this chart of corporate relations which was introduced in the record.¹ I want to discuss with you today the Nebraska Securities Corporation. I understand that that corporation has been dissolved as of March 1936. Is that correct?

Mr. ZACHER. Yes, sir.

Mr. GESELL. It was a corporation which, exclusive of directors' shares, was owned 100 percent by the life department of the Travelers Insurance Co., was it not?

Mr. ZACHER. Yes, sir.

Mr. GESELL. Can you tell us when the corporation was organized?

Mr. ZACHER. Not from memory.

Mr. GESELL. I have here a letter from your counsel in Omaha, dated December 18, 1926, in which it states:

Incorporation of Nebraska Securities Corporation, filed with County Clerk of Douglas County. First meeting of stockholders has been held. Corporation may now function as such. Other formalities of completing incorporation will be proceeded with.

It must have been some time in December of 1926.

Mr. ZACHER. The latter part of 1926.

¹ See "Exhibit No. 1093," appendix, p. 6951.

Mr. GESELL. That was a corporation organized under the laws of what State?

Mr. ZACHER. Nebraska.

Mr. GESELL. Can you tell us the circumstances which led up to the incorporation and organization of that company?

Mr. ZACHER. We had some difficulty with our mortgage-loan account out there and found it necessary to take over his agency and also a number of the foreclosed properties, and in order to work them out so that we would know definitely how much we were making and losing there, both in principal and in operation, we threw all that into the Nebraska Securities Co.

Mr. GESELL. Well now, this mortgage-loan agent's name was Sibbersen, was it?

Mr. ZACHER. Yes, sir.

Mr. GESELL. He had been a mortgage-loan agent of your company for some time?

Mr. ZACHER. Quite a few years; yes, sir.

Mr. GESELL. Do you recognize this letter which I show you as a copy of a letter which he wrote you about that time describing the condition of his accounts?

Mr. ZACHER. Yes, sir.

Mr. GESELL. I should like to offer this letter for the record.

Acting Chairman O'CONNELL. It may be admitted.

(The letter referred to was marked "Exhibit No. 1112" and is included in the appendix on p. 6964.)

Mr. GESELL. I wanted to review with you, Mr. Zacher, what the condition of the accounts of Mr. Sibbersen was as shown after you had an opportunity to analyze the same. Do you recognize this document which I show you as a document showing the condition of accounts and how the corporation, the Nebraska Securities Corporation, was organized?¹

Mr. ZACHER. Yes, sir.

Mr. GESELL. If you will keep that before you, Mr. Zacher, that indicates that Mr. Sibbersen owed the Travelers Insurance Co. \$1,467,700, is that correct?

Mr. ZACHER. Yes, sir.

Mr. GESELL. \$1,215,500 of that amount was on account of spurious mortgages?

Mr. ZACHER. Yes, sir.

Mr. GESELL. What do you mean by "on account of spurious mortgages"?

Mr. ZACHER. Mortgages that didn't exist.

Mr. GESELL. Those were instances where the Travelers Insurance Co. had advanced money to Sibbersen to make mortgage loans and he had failed to make these loans?

Mr. ZACHER. And furnished papers that were not valid.

Mr. GESELL. Furnished papers indicating that they had been made?

Mr. ZACHER. Yes.

Mr. GESELL. He owned \$55,100 on account of partial payments on principal collected and withheld?

Mr. ZACHER. Yes.

Mr. GESELL. And \$161,100 on account of money paid to him for loans which did not reach the borrowers?

¹ Entered later as "Exhibit No. 1113." See appendix, p. 6967.

Mr. ZACHER. Yes, sir.

Mr. GESELL. I take it the \$55,100 involved money on which the Travelers had not received any paper of any kind?

Mr. ZACHER. Yes, sir.

Mr. GESELL. In settlement of that indebtedness of \$1,467,700, am I correct in saying that Mr. Sibbernson turned over to Travelers his interest in 116 farms?

Mr. ZACHER. Yes, sir.

Mr. GESELL. He had taken title to those farms, had he not?

Mr. ZACHER. Yes, sir.

Mr. GESELL. And it was figured that the equity in those farms in excess of the mortgages held by Travelers amounted to \$583,566.76?

Mr. ZACHER. Yes, sir.

Mr. GESELL. In addition there were some 44 farms in process of foreclosure? Is that correct?

Mr. ZACHER. Yes, sir.

Mr. GESELL. And Mr. Sibbernson turned over on those farms his equity in such farms amounting to \$83,375.43, is that correct?

Mr. ZACHER. Yes, sir.

Mr. GESELL. He also turned over tax certificates on properties in which the Travelers had a first mortgage amounting to \$7,801.10?

Mr. ZACHER. Yes, sir.

Mr. GESELL. And he was credited with \$42,360.37 for interest which he had advanced on interest coupons sent him for collection?

Mr. ZACHER. Yes, sir.

Mr. GESELL. Also credited with \$65,167.27 against interest which he had paid to the Travelers on these fictitious loans which he had made. Is that correct?

Mr. ZACHER. Yes, sir.

Mr. GESELL. That totals \$782,270.93, and left his obligation to Travelers at \$685,429.07. Is that correct?

Mr. ZACHER. Yes, sir.

Mr. GESELL. Is my understanding correct that he gave his note in the amount of \$685,429.07?

Mr. ZACHER. Yes, sir.

Mr. GESELL. And that the note was secured by the various items shown on the schedule before you?

Mr. ZACHER. Yes, sir.

Mr. GESELL. He turned over to the company his interest in the 116 farms and the 44 farms in process of foreclosure; did he not?

Mr. ZACHER. Yes, sir.

Mr. GESELL. And the Travelers, then, sold those farms back to the Nebraska Securities Corporation?

Mr. ZACHER. Yes.

Mr. GESELL. For what amount were they sold, Mr. Zacher?

Mr. ZACHER. The unpaid amount, plus the equity allowed. As far as I know they were turned over at the figures that are one item here, \$583,000, the other \$83,000.

Mr. GESELL. And the note of Sibbernson for \$685,429.07 was also turned over to the Nebraska Securities Corporation; is that correct?

Mr. ZACHER. I think that was the next step; yes.

Mr. GESELL. It is my understanding that Travelers sold both the mortgages on these 116 and 44 farms, plus Sibbernson's equity in those properties, to the Nebraska Securities Corporation.

Mr. ZACHER. Yes.

Mr. GESELL. And then Travelers put in \$117,228.74 in working capital; did it not?

Mr. ZACHER. Yes.

Mr. GESELL. And it was on the basis that the Nebraska Securities Corporation commenced business.

Mr. ZACHER. Yes.

Mr. GESELL. I should like to offer this in evidence.

(The schedule referred to was marked "Exhibit No. 1113" and is included in the appendix on p. 6967.)

Mr. GESELL. The original purpose then, of the Nebraska Securities Corporation, was to liquidate and work out the account of Sibbernson which had gotten into difficulties?

Mr. ZACHER. Yes, sir.

Mr. GESELL. What did Travelers Insurance Co. take in return for the mortgage interest and other interest in these farm properties and notes which it transferred to the Nebraska Securities Corporation, what did it receive back?

Mr. ZACHER. The note and stock of the Nebraska Securities Corporation.

Mr. GESELL. How many shares of stock did it receive?

Mr. ZACHER. Well, as I recall it, they paid in \$2,300,000 in stock and originally \$1,100,000 in notes.

Mr. GESELL. Those were 5-percent demand notes; were they not?

Mr. ZACHER. I believe so.

Mr. GESELL. How were they carried in the accounts of the Travelers Insurance Co.? In the bond account?

Mr. ZACHER. In the bond account.

Mr. GESELL. There was no particular security against these notes?

Mr. ZACHER. No.

Mr. GESELL. Then, am I correct in saying that following this entire transaction, Travelers Insurance Co. held \$1,100,000 of Nebraska Security Corporation's 5-percent notes? It held \$2,299,700 of Nebraska Security Corporation's capital stock?

Mr. ZACHER. Yes, sir.

Mr. GESELL. And it had made an investment in Nebraska Security Corporation in cash of \$117,228.74?

Mr. ZACHER. No; that was what was left over after paying the Travelers Insurance Co. for 116 farms, plus the equity, plus the 44 farms in process of foreclosure, and the amount expended thereon, and the I. Sibbernson note for \$685,429.07.

Mr. GESELL. So the Nebraska Securities Corporation had \$117,228.74 working capital?

Mr. ZACHER. Yes, sir.

Mr. GESELL. And that money was money which had been made available to it from Travelers through the purchase of this capital stock?

Mr. ZACHER. And notes; yes, sir.

Mr. GESELL. Now, did the Travelers Insurance Co. take any action against Mr. Sibbernson of any sort?

Mr. ZACHER. No, sir.

Mr. GESELL. What disclosure was made by Travelers Insurance of the transactions which had resulted in the creation of the Nebraska Securities Corporation?

Mr. ZACHER. I don't recall exactly, except that the whole affair was reported to the finance committee and the directors.

Mr. GESELL. Was there any disclosure in the reports of the company to its stockholders?

Mr. ZACHER. No, sir.

Mr. GESELL. Was there any disclosure of the matter to the State insurance departments?

Mr. ZACHER. Yes, sir; completely.

Mr. GESELL. In what form was that disclosure made?

Mr. ZACHER. I don't recall, but I think it was oral.

Mr. GESELL. What departments were advised of the circumstances?

Mr. ZACHER. The insurance commissioner himself.

Mr. GESELL. In Connecticut?

Mr. ZACHER. In Connecticut.

Mr. GESELL. Was that at the time it occurred, in 1926?

Mr. ZACHER. Yes, sir.

Mr. GESELL. Do I understand that there was no such oral communication to commissioners of any other States?

Mr. ZACHER. No, sir; I think there was an inquiry from New York State and we gave them what they asked for.

Mr. GESELL. Several States inquired for a balance sheet of Nebraska Securities Corporation, did they not?

Mr. ZACHER. I believe so.

Mr. GESELL. Do you recognize this as the form of balance sheet which was submitted in response to the request?

Mr. ZACHER. Yes, sir.

Mr. GESELL. This was the balance sheet which you furnished the department of the State of Connecticut. Was it not, as indicated by this letter which I hand you?

Mr. ZACHER. Yes, sir.

Mr. GESELL. This balance sheet shows that the assets of the Nebraska Securities Corporation as of December 31, 1926, were \$3,400,000. There is no disclosure on this balance sheet of the nature of the properties held by the Nebraska Securities Corporation.

Mr. ZACHER. No, sir.

Mr. GESELL. Or the fact that those properties were involved in questionable transactions?

Mr. ZACHER. No, sir.

Mr. GESELL. That disclosure, you say, was made orally?

Mr. ZACHER. So far as I know to our own commissioner in Connecticut.

Mr. GESELL. To the Connecticut commissioner. I should like to offer this balance sheet for the record.

Acting Chairman O'CONNELL. It may be admitted.

(The balance sheet referred to was marked "Exhibit No. 1114" and is included in the appendix on p. 6968.)

Mr. GESELL. To make that clear, that balance sheet is the balance sheet which was furnished to the State Department in response to their letter of April 20, 1927, asking for a balance sheet of the corporation as of December 31, '26?

Mr. ZACHER. Yes, sir.

Mr. GESELL. Now, so far the Nebraska Securities Corporation held only Nebraska farm properties, did it not?

Mr. ZACHER. And the note of I. Sibbernson.

Mr. GESELL. I mean as far as any properties or mortgages were concerned, they all were on Nebraska properties?

Mr. ZACHER. Yes, sir.

Mr. GESELL. Now, am I correct in saying that thereafter Travelers transferred to Nebraska mortgages which were not in any way involved in Mr. Sibbernson's account, or in the transactions which held to the formation of the company?

Mr. ZACHER. Yes; I think later there were bona fide mortgages which had gone to foreclosures and in order to work out the situation we kept transferring them and taking Nebraska Securities Co. notes in exchange.

Mr. GESELL. Those were bona fide mortgages which had been made by Travelers Insurance Co?

Mr. ZACHER. Through Sibbernson, but they were bona fide.

Mr. GESELL. Were they all Sibbernson mortgages, or were there not mortgages from surrounding States as well?

Mr. ZACHER. I don't recall. There might have been a few Iowa mortgages in there, possibly, but I think they were all Nebraska mortgages.

Mr. GESELL. I have here a record of a memorandum from the mortgage loan division of your company, dated March 1, '32, which indicated that as of December 31, '31, Nebraska Securities Corporation held 469 Nebraska farm properties, 2 Nebraska city properties, 11 Iowa farm properties, and 1 Kansas farm property.

Mr. ZACHER. Yes.

Mr. GESELL. That would indicate there were some mortgages other than Sibbernson mortgages?

Mr. ZACHER. Evidently the Iowa mortgages were some that were taken over from his account, because he at one time was making loans for us in Iowa, and the Kansas property, I think, came out of his own personal holdings. And the city property in Nebraska came out of his own personal holdings, which he turned over to us.

Mr. GESELL. So there were no mortgages that went into Nebraska Securities Corporation other than mortgages which had been made by Sibbernson?

Mr. ZACHER. Yes.

Mr. GESELL. Some of those were good mortgages and some of them bad.

Mr. ZACHER. Yes.

Mr. GESELL. You say you transferred these additional Sibbernson bona fide mortgages to the Nebraska Securities Corporation when they were in process of foreclosure.

Mr. ZACHER. Or when we received title to them.

Mr. GESELL. They were then mortgages that were in default.

Mr. ZACHER. Yes, sir.

Mr. GESELL. Do you recall when the first exchange of mortgages for notes was made?

Mr. ZACHER. At the time the organization was completed.

Mr. GESELL. Yes; that would be in 1926.

Mr. ZACHER. Yes, sir.

Mr. GESELL. Then thereafter do you recall when the first was made, was it not in 1929 that \$2,500,000 of notes were issued in return for mortgages transferred?

Mr. ZACHER. From time to time as we took title to those lands we transferred them to the Nebraska Securities Co. and took Nebraska

Securities notes in exchange, as I recall it at the face value plus expenses minus income.

Mr. GESELL. At the face value of the mortgage.

Mr. ZACHER. The unpaid balance.

Mr. GESELL. Plus the expenses.

Mr. ZACHER. Plus expenses, taxes, foreclosures, less income received while the properties were being foreclosed.

Mr. GESELL. Referring you to a memorandum which I hand you, does that not indicate that in November of 1929 two and a half million of demand notes were issued to Travelers in exchange for real estate?

Mr. ZACHER. Yes, sir; and mortgages.

Mr. GESELL. It was authorized in November, was it not?

Mr. ZACHER. I should say so; yes.

Mr. GESELL. And the transfer actually took place in December.

Mr. ZACHER. In December; yes.

Mr. GESELL. There was some cash involved in that transaction, is that correct, namely, \$136,215.90?

Mr. ZACHER. Yes, sir.

Mr. GESELL. So there would be real estate, mortgages, and cash?

Mr. ZACHER. That is right.

Mr. GESELL. Then in December of 1930, \$2,000,000 additional notes of Nebraska Securities Corporation were acquired in exchange for real estate, mortgages, and cash, in the amount of \$271,000, is that correct?

Mr. ZACHER. \$271,000; yes.

Mr. GESELL. Then on December 26, 1931, there was authorized an additional million dollars of notes to be issued to Travelers in return for mortgages and real estate, is that correct?

Mr. ZACHER. Yes, sir.

Mr. GESELL. And pursuant to that authorization, am I correct in saying that on April 28, 1932, Travelers paid \$100,000 in cash to Nebraska in return for notes in that amount?

Mr. ZACHER. Yes, sir.

Mr. GESELL. And on June 14, 1932, \$700,000 of notes were issued for real estate and mortgage loans, and a balancing cash item of \$31,933.42.

Mr. ZACHER. Yes, sir.

Mr. GESELL. And on June 16, 1932, \$200,000 of notes were issued in return for mortgage loans and a balancing cash item of \$17,724.61.

Mr. ZACHER. Yes, sir.

Mr. GESELL. Then on December 9, 1932, an additional \$700,000 of Nebraska notes were issued in return for mortgage loans and a balancing cash item of \$70,737.34.

Mr. ZACHER. Yes, sir.

Mr. GESELL. That resulted in the Travelers Insurance Co. holding by the end of 1932 notes of Nebraska Securities Corporation in the amount of \$9,600,000 stock and notes.

Mr. ZACHER. Notes and stock.

Mr. GESELL. Of \$9,600,000. Now in all cases the mortgages on real estate which had been taken in by Nebraska and against which these notes had been issued were mortgages which were in default or real estate which might be difficult to move, is that a correct statement?

Mr. ZACHER. Yes, sir.

Mr. GESELL. Now, you carried these notes, did you not, in the annual statements of your company at par?

Mr. ZACHER. Yes, sir.

Mr. GESELL. That resulted, did it not, in the annual statement failing to disclose the extent of the doubtful mortgages and real estate held by Travelers Insurance Co.?

Mr. ZACHER. As I recall it, the slack was taken up by revaluing the stock. The stock was paid in at \$100 a share in order to take up these things and then at the end of the year it was reduced in value to whatever the statement says—\$960,000, I think, and that offset the reasonable depreciation that we might have considered on that transaction.

Mr. GESELL. Yes; but as far as schedule B, part III, of your annual convention form statement was concerned, by reading that schedule, which is the schedule which sets forth real estate in distress condition, a person could not have the true picture of the amount of such real estate in which Travelers had an interest directly.

Mr. ZACHER. No; that was not only true of that but true of the whole mortgage loan schedule and real estate schedule, not only of this company but every company.

Mr. GESELL. It is certainly true with respect to your company, is it not? In other words, you were carrying here notes which you did not show in default, and actually those notes were secured by real estate and mortgages in a distressed condition which were held in a subsidiary corporation.

Mr. ZACHER. They were held in a subsidiary corporation, but I don't believe that you would regard that as a secured note literally. It was a note of the Nebraska Securities Co., whose entire assets would eventually be used for the liquidation of that note. The value would depend entirely on how those lands could be disposed of when the time came. In other words, there was no intent there to mislead anybody. To satisfy the possible loss that we thought might be possible, we depreciated the value of that stock which we carried in the statement so that the assets would not be overstated.

Mr. GESELL. You depreciated that stock from what amount to what amount?

Mr. ZACHER. As I recall it that year, from \$2,300,000 to \$960,000. I may be in error about that; I think you have the figures.

Mr. GESELL. At the dissolution of the Nebraska a serious loss resulted, did it not?

Mr. ZACHER. Yes; I think so.

Mr. GESELL. Referring you to a memorandum of the treasurer of your company to the auditor, dated November 30, 1934, does that not show that there was charged \$904,393.83 to the profit-and-loss account as a loss for adjustment of real-estate value?

Mr. ZACHER. Yes, sir.

Mr. GESELL. Was it about this time that the liquidation of the company started, the dissolution of the Nebraska started?

Mr. ZACHER. Yes, sir.

Mr. GESELL. On December 28, 1934, there was a loss of an additional \$800,000 from the sale of stock, was there not?

Mr. ZACHER. Yes, sir.

Mr. GESELL. And at that same time there was a loss, an additional loss, from the sale of stock of \$35,880.43 charged to the life department, and \$563,619.57 charged to the casualty department. Is that correct?

Mr. ZACHER. Yes, sir.

Mr. GESELL. That brought the total losses of the company from this Nebraska Securities operation to \$2,303,893, did it not?

Mr. ZACHER. The sum of those three amounts, I should say.

Mr. GESELL. I was interested in that last charge to the profit-and-loss account; only some \$35,000, was it, went to the life department—yes; only \$35,880 went to the life department, and \$563,619 went to the casualty department.

Mr. ZACHER. Yes, sir.

Mr. GESELL. This entire transaction up to this time had been a life-department transaction, had it not?

Mr. ZACHER. Yes, sir.

Mr. GESELL. What was the reason for charging the half-million-dollar loss to the casualty department?

Mr. ZACHER. I think in one of those years, possibly in 1932—I am not sure, 1931 or 1932—there were some stocks that were acquired by the Nebraska Securities Co. and the accident department bought those stocks from the life department and charged them off, either directly or through a holding company.

Mr. GESELL. How did that justify charging the casualty department with this loss?

Mr. ZACHER. We didn't want to carry them in our assets. We charged it off as a possible loss, the same way that you charge off any investment at the end of the year.

Mr. GESELL. The fact is that you didn't want the life department to have this loss reflected in its surplus account for that year, isn't that true?

Mr. ZACHER. No; I wouldn't say that that was so.

Mr. GESELL. Well, why should the casualty department suffer the loss?

Mr. ZACHER. It hasn't.

Mr. GESELL. It did at this time. It was charged with the loss.

Mr. ZACHER. It was charged off the same as you might charge off an investment that had gone sour and you didn't want to count it in your assets.

Mr. GESELL. But this was an investment of the life department, not the casualty department, so I don't see why it should be charged against the casualty department.

Mr. ZACHER. The casualty department bought it from the life department and then charged it off.

Mr. GESELL. That was really just one transaction, wasn't it?

Mr. ZACHER. No; it is two transactions, because it might have been put in the assets of the accident department.

Mr. GESELL. Was the purchase of the securities and the charge-off made the same day? It was just one transaction, wasn't it?

Mr. ZACHER. I don't know; I don't think so. I think it would show on the statement.

Mr. GESELL. I think that is exactly what the statement shows.

Mr. ZACHER. That may be so.

Dr. LUBIN. Why weren't those charged off to the account of the original owner, namely the life department? Why did you sell them to the casualty department and write them off then?

Mr. ZACHER. The securities might have been considered illegal for the life department. They were legal for the casualty department.

Dr. LUBIN. How long had you held them in the life department?

Mr. ZACHER. Two or three years, I think. We didn't hold them in the life department. We held them in this corporation, the Nebraska Securities Corporation.

Mr. GESELL. And on the liquidation they came into the life department, did they not, because the life department held the notes?

Mr. ZACHER. I don't recall just exactly how the transaction went through.

Mr. GESELL. Would Mr. Baker have been the man who handled that?

Mr. ZACHER. I think perhaps he would have a clearer memory.

Mr. GESELL. Can I ask him to come to the stand then? He may remember that.

Acting Chairman O'CONNELL. Do you solemnly swear the testimony you are about to give in this proceeding will be the truth, the whole truth, and nothing but the truth, so help you God?

Mr. BAKER. I do.

TESTIMONY OF GLADDEN W. BAKER, TREASURER, TRAVELERS INSURANCE CO., HARTFORD, CONN.

Mr. GESELL. What is your full name, please?

Mr. BAKER. Gladden W. Baker.

Mr. GESELL. You are treasurer of the Travelers Insurance Co., are you?

Mr. BAKER. Yes.

Mr. GESELL. You were in December 1934?

Mr. BAKER. I think so; yes.

Mr. GESELL. Do you recognize this as a memorandum which was made at that time with respect to charging off certain losses resulting from the Nebraska Securities Corporation's operation to the life and casualty departments of the company?

Mr. BAKER. Yes.

Mr. GESELL. Will you explain the transactions which resulted in a charge of \$563,619.57 to the profit-and-loss account of the casualty department?

Mr. BAKER. The stock of the Nebraska Securities Corporation remaining outstanding at that time after retirements that had been made amounted to 5,995 shares, \$100 par. That stock was sold by the life department to the casualty department at a price equal to the book value of the assets remaining in the Nebraska Securities Corporation. The casualty department paid that amount for the stock of the Nebraska Securities Corporation and then charged off that investment to what is known as schedule X.

Mr. GESELL. They purchased the stock from the life department and made the charge-off on the same day, did they not?

Mr. BAKER. Yes, sir.

Mr. GESELL. Well, now, do you recall why the transaction was handled in that manner?

Mr. BAKER. Well, the stocks that were held as remaining assets were stocks which the casualty department could perhaps more properly hold than the life department. So far as the company as a whole is concerned, it didn't make any difference in which department they were held, so far as the accounts went. You could have charged it off to the life department or you could have charged it off to the casualty.

Mr. GESELL. The surplus account of the casualty department was in a better position to take this loss, was it not, than the surplus account of the life department?

Mr. BAKER. I think there was a larger surplus at that time; yes.

Mr. GESELL. And that was one of the factors in handling the transaction that way, was it not?

Mr. BAKER. I presume it was.

Dr. LUBIN. How long were those securities held by the life department after they got hold of them before being transferred to the casualty department?

Mr. BAKER. It was the same day. The securities were never held by the life department. The securities were held by the Nebraska Securities Corporation and the stock of that was held by the life department, and then was transferred to the casualty department. The life department itself never had title to the securities.

Acting Chairman O'CONNELL. I understood you to say it was the stock of the Securities Corporation that was transferred to the casualty department. How long did the life department hold that stock?

Mr. BAKER. The stock that was transferred was the remainder of the stock after various redemptions in partial liquidation.

Acting Chairman O'CONNELL. Will you explain what you mean by saying that that stock could be more properly held by the casualty department than by the life department?

Mr. BAKER. Well, some of these stocks that were owned were stocks which were of industrial nature.

Acting Chairman O'CONNELL. You are speaking now of stocks held by the Securities Corporation?

Mr. BAKER. The Nebraska Securities Corporation; yes, sir; in the casualty or accident department, which is the same thing, there is no question at all about their authority to hold stocks of that kind, and the situation was not entirely clear as to the life department.

Acting Chairman O'CONNELL. You mean there was some doubt as to the legal propriety of having the life department ultimately own the stocks which were behind the stock of the life department?

Mr. BAKER. On advice of counsel it seemed there was that partial question.

Mr. GESELL. Some of those securities were actually Travelers Insurance Co. stock, and there was some strong feeling that the life department couldn't invest in the securities of itself, so to speak.

Mr. BAKER. Right.

Acting Chairman O'CONNELL. Other than that legal possibility, I take it, the only advantage in having the transaction handled that way was in order to have the loss reflected in the surplus of the casualty company rather than in the surplus of the life department.

Mr. BAKER. That is right.

Mr. GESELL. Mr. Baker, while you are on the stand there is one point I intended to cover with you a little later, but I will do it now.

With respect to the accounting methods adopted in reporting the transactions between Travelers and Nebraska, prior to dissolution, am I correct in saying that at no time did the Nebraska Securities Corporation pay the interest on the notes held by Travelers Insurance Co.?

Mr. BAKER. There was some interest paid, a small amount. I have forgotten the amount now, but there was some interest paid; it wasn't a very large amount.

Mr. GESELL. By and large, the interest went by default, did it not?

Mr. BAKER. Yes, sir; the interest was not paid by and large.

Mr. GESELL. If I may ask you to examine the statements before you, will you turn to the 1927 statement please? Am I correct that that statement shows on line 14, page 4, an asset of \$55,000 in the statement of condition?

Mr. BAKER. What was the exact reference?

Mr. GESELL. Line 14, page 4. What does that record?

Mr. BAKER. Interest due, \$55,000.

Mr. GESELL. If you will refer to schedule D, part 1, on page 37 of the statement, that indicates, does it not, that that \$55,000 interest is the interest on the notes of Nebraska Securities Corporation then held by Travelers?

Mr. BAKER. It does.

Mr. GESELL. Is it true that that \$55,000 is also included in the company's report of gains from interest in the gain and loss exhibit on line 16, page 8?

Mr. BAKER. Yes, sir.

Mr. GESELL. So the net effect of that is that the company shows both in its gains from interest and in its assets an increase of \$55,000 which was money owing to it by the Nebraska Securities Corporation but which was never paid. Is that correct?

Mr. BAKER. Well, that \$55,000 was not paid in cash. Gain and loss exhibit was not paid in cash; it is simply an increase in the accrual of interest; it did not go into income.

Mr. GESELL. It went into the gains from interest, did it not, on the gain and loss exhibit?

Mr. BAKER. It does not go on the income of the company; it does go into the increase in assets.

Mr. GESELL. It goes into the surplus.

Mr. BAKER. Right; but not in the income.

Mr. GESELL. As a result you show an operating gain of \$55,000, do you not?

Mr. BAKER. Yes; gain in surplus; that is right.

Mr. GESELL. And that is money which you did not receive.

Mr. BAKER. Right.

Mr. GESELL. Now, turning to 1928, does not the same situation exist, the amount now having increased to \$110,000?

Mr. BAKER. I'm sorry.

Mr. GESELL. I will repeat that. Turning to 1928, does not the same situation exist, the amount having increased to \$110,000?

Mr. BAKER. Yes, sir.

Mr. GESELL. And by 1929 does not the same situation exist, the amount having increased to \$165,000?

Mr. BAKER. Yes, sir.

Mr. GESELL. And in 1930 does not the same situation exist, the amount having increased to \$345,000?

Mr. BAKER. Yes, sir.

Mr. GESELL. By 1931 it had increased to \$625,000, had it not?

Mr. BAKER. That is right.

Mr. GESELL. And by 1932 the amount had increased to \$905,000?

Mr. BAKER. Yes.

Mr. GESELL. In each of those years is it not correct that the surplus recorded the operating gains from interest of \$55,000 in 1926, \$55,000 in 1929, \$180,000 in 1930, \$260,000 in 1931, and \$280,000 in 1932?

Mr. BAKER. Yes. A good many things can go into the gain and loss exhibit which are not, of course, received in cash.

Mr. GESELL. But the result of this type of accounting, is it not, is to show an increase in surplus from interest which had accrued but had not been taken in?

Mr. BAKER. That is true, but we offset by marking down the stock price to \$60 a share, \$800,000, which will also show in the schedules for the same year, schedule D 1927.

Mr. GESELL. That mark-down offsets only your principal account; it doesn't have anything to do with your earning account.

Mr. BAKER. Well, this increased interest due did not go into the income account.

Mr. GESELL. It is shown as a gain from interest.

Mr. BAKER. That is not the income page.

Mr. GESELL. From there it goes into the surplus account, doesn't it?

Mr. BAKER. Yes; that is right. In the same way, for instance, if you have an increase in the market value of stocks, it doesn't go into the income account; it does go into your surplus account.

Mr. GESELL. The result of it is to inflate your surplus by the amount of this interest, which was not received.

Mr. BAKER. The same as any other item of the same kind; it is not a thing peculiar to itself.

Acting Chairman O'CONNELL. You mean you can inflate your surplus account in other ways, too?

Mr. BAKER. I wouldn't say inflate it; I would say there are various transactions which occur. If you have a stock that you paid a hundred for and the market value is 150, that \$50 goes into your surplus account. It is increased by adjustment in asset value and therefore the surplus account.

Acting Chairman O'CONNELL. I can see quite a distinction between some stock that went up in price and accrued income or interest that you never received and in all probability never had any expectation of receiving.

Mr. BAKER. Well, on that side we didn't know whether we would receive it or not; we were hopeful; it was 1932 and we hoped for the best.

Mr. GESELL. What was finally done with respect to this account to adjust it?

Mr. BAKER. Do you mean at the time of dissolution—at the time the assets were taken over?

Mr. GESELL. No; I think that happened before that, did it not, in 1933, if you will refer to the 1933 statement?

Mr. BAKER. Oh, I see; you mean what was done in the annual statements.

Mr. GESELL. Yes.

Mr. BAKER. Well, the 1933 annual statement shows interest due of \$547,313.62, which is about \$400,000 less than the year before, approximately.

Mr. GESELL. You show at that time only interest accrued in 1933, do you not?

Mr. BAKER. I think that was what that reflected; yes.

Mr. GESELL. And the end of 1932 it was \$946,875?

Mr. BAKER. I think that was the figure.

Mr. GESELL. So you discontinued the practice of reporting this interest in the manner it had been reported previously; is that correct?

Mr. BAKER. That is true.

Mr. GESELL. Why was that practice discontinued at that time?

Mr. BAKER. By that time it was apparent that a good many mortgage loans would not pay their interest as we had hoped that they would and the same thing was true of mortgages in the Nebraska Securities Corporation, and in the interest of charging off we gave a more conservative statement. One year's interest was accrued instead of all of it due.

Mr. GESELL. And you charged off, did you not, the previous accruals of \$946,875?

Mr. BAKER. That would be the effect.

Mr. GESELL. They weren't collected, were they?

Mr. BAKER. Oh, no. You get at that through having a smaller item of accrued interest in 1933 than you had in 1932, and therefore the accrual that you take into your gain-and-loss exhibit is smaller and that automatically drops out then.

Mr. GESELL. And that in effect is a charge off of that \$946,000 item?

Mr. BAKER. It is a loss of surplus; yes.

Mr. GESELL. At the same time you charged that off you did set up \$538,000 being the accruals of interest for the year's operations in 1933.

Mr. BAKER. That is right, 1 year's interest.

Mr. GESELL. You felt then, I take it, that though the company couldn't pay the back interest over those previous years and that item should be charged off, there was still reasonable expectation that it would be able to pay the interest of that year's operations?

Mr. BAKER. We hoped so; yes.

Mr. GESELL. These mortgages on real estate that had been going into this company from time to time had been doubtful right from the start, had it not? That was the reason for transferring it?

Mr. BAKER. No. Of course, during the years until transfers were made, values were unsettled. It was, as much as anything, an effort to keep a separate account of the transactions that grew out of those Nebraska mortgages to see what their ultimate result was in gain or loss, in a separate pot, and not simply to transfer them because they were possibly bad mortgages and might ultimately result in loss.

Mr. GESELL. They were in many cases mortgages in process of foreclosure?

Mr. BAKER. Yes.

Mr. GESELL. And certainly it was questionable whether you would be able to move the property and get a full return of the amount of money which had been invested, wasn't that true?

Mr. BAKER. Yes.

Mr. GESELL. It seems to me there was some basis for not being quite as optimistic as your reporting indicated with respect to this interest

during the entire period it was allowed to accrue and accumulate to this amount of over \$900,000.

Mr. BAKER. Of course, that was entirely offset by the decrease in the value at which we carried the capital stock.

Mr. GESELL. The decrease in value of the capital stock was not a sufficient decrease to take account of both the interest adjustment and the fluctuations of the value of the properties themselves, which resulted in this ultimate loss of over \$2,000,000.

Mr. BAKER. It wasn't large enough to offset the accrual of interest to carry.

Mr. GESELL. I believe Mr. Zacher stated, when he was on the stand, that the offset was also to adjust for the fact that the property was not up to the face amount of the mortgage.

Mr. BAKER. Well, during this time the stock was carried at about \$20 a share, about \$460,000, and par value about \$2,400,000, so we had at that point written the value of the whole enterprise down by about \$2,000,000, which was more than enough to take care of the accumulation of the interest being made at that time in our statement.

Mr. GESELL. Well, now, just to pull in the loose ends, it is true, is it not, that in addition to this loss of \$2,300,000, which we discussed with Mr. Zacher—it was a loss of principal—the company lost about \$1,300,000 interest which it had set up, but which was never paid?

Mr. BAKER. They lost substantially all the accumulation of interest that was put into the account.

Mr. GESELL. And that amounted to about \$1,300,000, did it not?

Mr. BAKER. I should think that is right.

Mr. GESELL. Do I understand that the charge-off of this interest was done purely at the volition of the company itself; and not because of any extraneous factor? Isn't it true that the State Department of Connecticut requested the write-off?

Mr. BAKER. I don't recall.

Mr. GESELL. The report of the examination of the company dated December 31, 1932, by the Connecticut Insurance Department, on page 22, reads:

The company owns the Nebraska Securities Corporation, which serves as a holding company for foreclosed real estate situated principally in Nebraska. In its 1932 annual statement the life department carried 22,995 shares of this corporation at \$20 per share; also its demand note to the extent of \$7,300,000, together with due and accrued interest thereon of \$946,875.01. After a careful examination of the balance sheets of this corporation, we have adjusted the value of certain assets and eliminated costs of foreclosure and taxes which have been capitalized, and have also deducted from the liabilities of this corporation and the assets of the life department the above-mentioned \$946,875.01 of interest due and accrued on the demand note. Our revised value of the stock of this corporation is \$12 a share, which has been used in this report.

That would indicate they had some discussion with you in regard to this matter.

Mr. BAKER. I don't know what discussion, if any, was had. Their report was not issued until after our statement for 1933 was prepared. Whether there was any discussion about the content of our 1933 statement with the department in advance of their issuing their report, I don't know.

Mr. GESELL. They had written you about this interest from time to time, had they not? I notice here a letter of April 22 from the department and it says:

You have included as due interest in line 16, page 4, the amount of two years' interest on the Nebraska Securities note.

That is in 1929.

We believe the interest of \$55,000 due in December 1927 should not have been reported as a good asset. This amount of interest is obviously in default.

To which your company replied:

The Nebraska Securities Corporation notes are demand notes and interest on the same cannot very well be in default inasmuch as the interest to which you refer has not been demanded.

And then in 1930 they again wrote you about this interest, which had increased to some extent, and the company advised them as follows:

You ask in connection with the account of interest due, page 4, line 16, for some indication as to how long in the future this due interest is going to be accumulated before demand is made. That is a question that we cannot answer at the present time. That will depend upon conditions as they develop.

Mr. BAKER. May I see the file?

Mr. GESELL. Certainly.

Mr. BAKER. These were papers of which I had no personal knowledge. I didn't know there was any interchange. That was before I was treasurer and I didn't happen to know about it. It is quite true what you say but I didn't happen to know about it.

Mr. GESELL. Strictly, as a matter of good accounting practice, it would be better to consider that interest in default and charge it off and not allow it to accumulate in the assets; is that not correct?

Mr. BAKER. Looking back, it would be.

Mr. GESELL. And this is what we might call to a certain extent poetic accounting, the way it was handled.

Mr. BAKER. I don't know what you mean by that.

Mr. GESELL. I have no further question of this witness.

(The witness, Mr. Baker, was excused.)

Mr. GESELL. Mr. Zacher, will you resume the stand, please, sir.

TESTIMONY OF LOUIS EDMUND ZACHER, PRESIDENT, TRAVELERS INSURANCE CO., HARTFORD, CONN.—Resumed

Mr. GESELL. Now, Nebraska Securities Corporation, Mr. Zacher, acquired shares of Travelers stock from time to time during the period from 1930 to 1932, did it not?

Mr. ZACHER. I don't recall, but if the record states so, we did.

Mr. GESELL. You have no recollection with respect to those acquisitions at all?

Mr. ZACHER. No detailed recollection.

Mr. GESELL. You have no recollection as to whether they even acquired stock?

Mr. ZACHER. I think they did, but I don't remember when it was done, or how much was acquired.

Mr. GESELL. Was that at your direction that they acquired the stock?

Mr. ZACHER. It was at the direction of the board of directors.

Mr. GESELL. What was the purpose in having the Nebraska Securities Corporation acquire stock in Travelers Insurance Co.?

Mr. ZACHER. To make a little money.

Mr. GESELL. Purely a matter of trading in your account shares for profit; that was the whole thing?

Mr. ZACHER. Furnishing money to people who were obliged to sell, to pay up their loans and one thing and another, when the brokers were not buying it.

Mr. GESELL. You say "when the brokers were not buying it"?

Mr. ZACHER. Yes, sir.

Mr. GESELL. The price of the stock was falling during this period, was it not?

Mr. ZACHER. I believe so.

Mr. GESELL. I believe yesterday Mr. Fisher's testimony indicated that it fell rather rapidly during this period.

Mr. ZACHER. Yes, sir.

Mr. GESELL. Were not these purchases designed to support the market?

Mr. ZACHER. No, sir.

Mr. GESELL. Do you recall this correspondence which I show you?

Mr. ZACHER. Yes, sir.

Mr. GESELL. It is a letter you wrote, is it not?

Mr. ZACHER. Yes, sir.

Mr. GESELL. On December 18, 1930, to Mr. Mount—E. B. Mount—in Minneapolis, Minn. Who is he, sir?

Mr. ZACHER. He was our mortgage-loan correspondent in Minneapolis

Mr. GESELL. Your letter states [reading from "Exhibit No. 1115"]:

Last year you wanted to buy ten shares of Travelers stock. As I remember, I told you it would be best to buy five shares and take a chance on picking up the other five shares cheaper.

Due to the liquidation of several brokerage houses and the general scare, certain distressed stock has been thrown on the market during the last month and it has declined from 1500 to as low as 830. In this process we acquired a few shares—more to steady the market than otherwise and there is no particular reason for holding it.

If, therefore, you have some cash and want to average down you may have 5 or 10 shares of this stock at \$850.

I would like to offer this letter and two related telegrams for the record.

Acting Chairman O'CONNELL. It may be admitted.

(The correspondence referred to was marked "Exhibit No. 1115" and is included in the appendix on p. 6969.)

Mr. GESELL. Does that refresh your recollection as to why some of these purchases were made?

Mr. ZACHER. Yes; I think the language I used there was careless because you can't steady the market very well with the purchase of a moderate number of shares of stock. I think what I meant there was by disclosing that some of the people in the office were buying a little might steady the market. That is, people might hesitate to dump their shares on the market, individuals that were scared by the action of the broker.

Mr. GESELL. You mean if your company, through some of its various subsidiaries, purchased stock in the market, and that became known, it would result in steadying the price, because it would show that the officers had confidence.

Mr. ZACHER. It was more through the officers rather than through the subsidiaries, or yes, any employee—if he were buying it, the public might get the idea there is nothing wrong anyway and desist from selling some stock which they probably wanted to throw on the market.

Mr. GESELL. In this case, this letter was written December 18, 1930; was it not?

Mr. ZACHER. Yes.

Mr. GESELL. Through whom and when had you acquired the stock that you were selling on this occasion?

Mr. ZACHER. I don't know. Probably one of the local brokers.

Mr. GESELL. The records of the Nebraska Securities Corporation indicate that on the day before, Nebraska Securities Corporation had purchased some of the stock from one of your own officers, Mr. Flynn, which is quite the reverse of what you have been describing to us. That was not stock that one of your officers had gone out and acquired personally?

Mr. ZACHER. I think that supplements it. The stock that was bought from him was bought without the knowledge of the brokers. The stock that we purchased otherwise, was purchased from the brokers. One supplements the other.

Mr. GESELL. In other words, it was your practice to go out openly, some of your officers to go out openly into the market and purchase stock so that the brokerage trade would know that the officers had confidence in the company?

Mr. ZACHER. Yes, sir.

Mr. GESELL. Then, if some of the officers had to sell their stock, you sold that stock to your own companies in an indirect manner so that the brokerage trade would not know the officers were disposing of stock?

Mr. ZACHER. Only in distressed circumstances.

Mr. GESELL. Yes; but when it happened, that is the way it happened?

Mr. ZACHER. But it only happened a few times, to my recollection.

Mr. GESELL. But may I have a direct answer to the question so the record will be clear? When officers did sell stock they were sold in this indirect manner in order that the fact they were disposing of their securities would not be known in the brokerage trade?

Mr. ZACHER. As I recall it, sir; I think that was about the only case that I know of. Were there any others?

Mr. GESELL. I should like to ask you whether there were any others. There were a few more.

Mr. ZACHER. This happened sometime ago and I can't keep my head full of these details.

Mr. GESELL. I see here several purchases by C. D. Rarey.

Mr. ZACHER. He was another officer and it happened about the same time?

Mr. GESELL. First was in December. This was now in April and May of 1931, about 4 or 5 months later.

Mr. ZACHER. Yes; and the price was about the same, was it?

Mr. GESELL. Nine hundred fifty to eight hundred and fifteen, the price range was.

Mr. ZACHER. It had probably gone up.

Mr. GESELL. Then I notice also there is a purchase from John H. White. He had been connected with the company, had he not?

Mr. ZACHER. Yes; he had been. I don't know whether he was at that date or not. He was not at that time. The Rarey purchase, I think, was for quite a different purpose.

Mr. GESELL. The Colorado Valley Land Co. also purchased some from Mr. Piper.

Mr. ZACHER. Well, I don't recall that transaction. How many shares was it; does it say there?

Mr. GESELL. You have no recollection about it? We haven't the records.

Mr. ZACHER. Not of Mr. Piper, no; nor of White.

Mr. GESELL. Were there any other officers you know of who disposed of their stock in this manner during this period?

Mr. ZACHER. Not that I know of; no, sir.

Acting Chairman O'CONNELL. Was the Travelers Insurance Co. legally authorized to deal in its own stock?

Mr. ZACHER. I don't know. I never did.

Acting Chairman O'CONNELL. Directly. You did it through subsidiary corporations organized for other purposes?

Mr. ZACHER. Yes.

Mr. GESELL. Who handled this trading, Mr. Sherwood, the details of the trading?

Mr. ZACHER. Yes. You mean the mechanical end of it? I believe so.

Mr. GESELL. During this time there were purchases of securities through Connecticut River Banking, and for Nebraska?

Mr. ZACHER. I should think so; if he was there he attended to the mechanical details of the thing.

Mr. GESELL. Perhaps we might ask him to come to the stand to question him concerning this.

Mr. Sherwood.

TESTIMONY OF WILBUR S. SHERWOOD, CASHIER, TRAVELERS INSURANCE CO., HARTFORD, CONN.—Resumed

Mr. GESELL. You have already been sworn, haven't you?

Mr. SHERWOOD. I have, sir.

Mr. GESELL. What was your position with the company during this period from 1930 to '32?

Mr. SHERWOOD. Assistant cashier at that time.

Mr. GESELL. Did you have some responsibility for trading in Travelers stock at that time?

Mr. SHERWOOD. I had responsibility, of course.

Mr. GESELL. Will you tell us what you did, what the nature of your work was in connection with trading in Travelers stock?

Mr. SHERWOOD. My responsibility was administrative, and I suppose that means to you that I carried out, to the best of my ability, instructions that were perhaps handed to me by superiors.

Mr. GESELL. You would receive orders to buy and sell Travelers stock for various accounts, and you would handle the execution of those orders?

Mr. SHERWOOD. Yes, sir.

Mr. GESELL. From whom did you receive the orders?

Mr. SHERWOOD. Well, there was no one source. There were many employees from our branches buying stocks. We had a very large organization at that time which reached throughout the breadth of the United States. Obviously many of our people, trained and

brought up at the home office, were remotely located, where they had no access whatsoever to the market price of Travelers shares. Many of them desired an interest in their business, in their company—very naturally desired it.

Without local information, it was frequently their practice to write to the home office. Many of these people we knew intimately and if they instructed us in their letters to buy a few shares of Travelers for them at a price we took care of that matter to the best of our ability. Usually I executed those orders if I was there.

Mr. GESELL. If they asked you to sell the stock for them you would try to place it in the most favorable market you could find?

Mr. SHERWOOD. Yes; I think that the only difference between our interest in that market and their direct interest with a broker, was that they did not know which broker to turn to and we were reluctant to advise any particular broker for that transaction.

Mr. GESELL. You kept yourself acquainted with the price that all the various brokers were quoting on it and how thin the market was?

Mr. SHERWOOD. My job at that time in the department was to know these things. I had to know the market price of many stocks and many bonds, and the trends.

Mr. GESELL. And you did that in Travelers stock as well?

Mr. SHERWOOD. Travelers stock was just incidental to the whole performance.

Mr. GESELL. But you did have such knowledge with respect to Travelers stock?

Mr. SHERWOOD. I certainly did.

Mr. GESELL. And do I understand that you gave the instructions for purchases of Travelers stock, let's say, by Connecticut River Banking Co., by Nebraska Securities Corporation, by Colorado Valley Land Co., and the other companies in which Travelers was interested?

Mr. SHERWOOD. I didn't quite understand that question.

Mr. GESELL. Did you give the order? Let's say Connecticut River Banking Co. was to pick up 10 shares on the market. Did you give the order?

Mr. SHERWOOD. Not exclusively. They may have bought much Travelers stock that I knew nothing about, but some I did.

Mr. GESELL. You would sometimes acquire the stock through Connecticut River Banking Co.?

Mr. SHERWOOD. Yes, sir.

Mr. GESELL. Why was it done that way instead of your acquiring it directly through Travelers?

Mr. SHERWOOD. I don't know of any insurance company that ever had a department that traded in its own stock. We certainly did not, so far as paying for it and receiving money for it and clearance of it, if you speak of the Travelers Insurance Co.

Mr. GESELL. That was all handled through Connecticut River Banking Co.?

Mr. SHERWOOD. Not all. It may have been handled through another bank, if the order that came to me requested that.

Mr. GESELL. But a large amount of the purchases and sales were handled through Connecticut River Banking Co., were they not?

Mr. SHERWOOD. Yes, sir; that is a function of the banking business.

Mr. GESELL. And you gave those orders to the bank to execute for you? Is that correct?

Mr. SHERWOOD. It isn't exactly correct, unless I misunderstand you.

Mr. GESELL. Let's get at it this way. I just want to find out exactly how you did and how you handled it, so you go ahead and tell us. I won't interrupt with questions.

Mr. SHERWOOD. All right. Suppose John Jones, in Seattle, Wash., asked to buy five shares of Travelers at 600. We didn't treat John Jones just as an individual. He was one of our family. He had a right to ask his home office for some help. If he wanted to send flowers to a funeral he had a right to telegraph in and ask for an accommodation. At least we thought so. It was a matter of service.

Therefore, if the records which we had in our office showed that John Jones was a substantial member of our staff, and by that I mean there was no risk involved that we could see, we would endeavor to fulfill his request to the best of our ability. We didn't always buy our stock at any one place. We purchased it where it could be bought cheapest and we had a fair knowledge of where that place was from day to day, we usually asked the broker to confirm to the Connecticut River Banking Co., and instructed our man to make payment there.

Mr. GESELL. Do you recognize this letter?

Mr. SHERWOOD. Yes, sir.

Mr. GESELL. Is that the form of letter which was used?

Mr. SHERWOOD. There was no form, necessarily.

Mr. GESELL. That was the form that was frequently used, was it?

Mr. SHERWOOD. I think it was.

Mr. GESELL. Well, now, this is a letter written by you, is it not?

Mr. SHERWOOD. Yes, sir.

Mr. GESELL. It is on the stationery of the Travelers Insurance Co., Treasurer's office, May 24, 1932, addressed to Stevenson Gregory & Co., Hartford, Conn. It says, "We confirm purchase from you of 50 shares Travelers Insurance stock at 266 net."

If I was Stevenson Gregory and got that letter, I would think the Travelers' Insurance Co. was buying some stock, wouldn't I?

Mr. SHERWOOD. Of course you would.

Mr. GESELL. On the bottom there is this notation: "This purchase is for the account of the Colorado Valley Land Co."

Those are instructions to the Connecticut Valley Banking Co. that you typed on the carbon, isn't it, so you instruct Stevenson Gregory to deliver the certificates to Connecticut River Banking Co. and Connecticut River Banking Co. is instructed that the purchase is for Colorado Valley Land, but so far as the broker is concerned, he believes that Travelers itself is buying the stock, does he not?

Mr. SHERWOOD. I can't say that he does believe that, because so many of those transactions took place, and I am sure, for one thing, that many times they knew it was for our people.

Mr. GESELL. Well, then, on the sell side, too, you confirm on the stationery of Travelers' Insurance Co., did you not?

Mr. SHERWOOD. Oh, yes.

Mr. GESELL. So that your dealings with the brokers on behalf of these peoples or subsidiary companies of the Travelers were in the name of Travelers Insurance Co.?

Mr. SHERWOOD. They might have been just as well confined to telephone conversations, Mr. Gesell, and not confirmed at all.

Mr. GESELL. The fact is they weren't, were they?

Mr. SHERWOOD. They were confirmed as a matter of courtesy.

Mr. GESELL. Always on the stationery of the Travelers Insurance Co. and signed by yourself as an officer of Travelers Insurance Co.; isn't that correct?

Mr. SHERWOOD. Yes, sir. We use that stationery for all of our correspondence.

Mr. GESELL. When an officer of Travelers sold Travelers' stock, was it your practice to put that stock in the name of a nominee before it came out on the market, in order to conceal the fact that he was disposing of some shares?

Mr. SHERWOOD. Only if that transaction came through our office.

Mr. GESELL. Yes. Now; how many of those transactions did come through your office, Mr. Sherwood?

Mr. SHERWOOD. I would say in a period of many years perhaps half a dozen.

Mr. GESELL. And that was the practice adopted in those cases?

Mr. SHERWOOD. I think so.

Mr. GESELL. When you purchased securities and sold securities you handled most of those transactions through the Connecticut River Banking Co., I believe you said.

Mr. SHERWOOD. Yes, sir.

Mr. GESELL. Was there any particular reason for handling it through that bank other than that the bank offered banking facilities?

Mr. SHERWOOD. I think if any other bank were located where that bank was, located as conveniently, we might have used that other bank.

Mr. GESELL. It is purely a matter of facility, it had nothing to do with your desire to keep from being revealed the source of the buying?

Mr. SHERWOOD. Oh, no.

Mr. GESELL. If the bank bought, however, from the various brokerage concerns there would be no way that the brokers could tell that these purchases came from Travelers Insurance Co., or one of its subsidiaries.

Mr. SHERWOOD. That was a common practice in all that business.

Mr. GESELL. Apart from what was common practice, that was the fact in this case, was it not?

Mr. SHERWOOD. We followed that practice.

Mr. GESELL. That was one of the factors involved in handling it directly through the bank?

Mr. SHERWOOD. Through some bank.

Mr. GESELL. In order that the buying interest of the particular purchaser wouldn't be disclosed?

Mr. SHERWOOD. Yes, sir.

Dr. LUBIN. Is that your general practice in purchasing securities for your investment account?

Mr. SHERWOOD. No, sir.

Dr. LUBIN. You buy those directly?

Mr. SHERWOOD. When you are speaking about the Travelers Insurance Co., we buy them directly.

Dr. LUBIN. You don't use the bank as the instrument, so that the source from which the purchase is coming is not revealed?

Mr. SHERWOOD. You are speaking now of Travelers Insurance Co. purchases? We buy direct in our own name.

Dr. LUBIN. But when you purchase stock of your own company for one of your employees or officers you don't buy it; you buy it through a bank so nobody will know where the source of the purchase lay.

Mr. SHERWOOD. Well, if I get the meaning of your question, these purchases which were written on Travelers Insurance Co.'s stationery might just as well have been written on any stationery. They were in no way Travelers Insurance Co. transactions other than that one of us did it.

Dr. LUBIN. Let me put my question this way, if I may: When you want to buy certain securities for your own investment account, do you have the bank buy them for you or do you go to a broker and have the broker buy them directly for the company?

Mr. SHERWOOD. We buy them directly.

Dr. LUBIN. Do you ever use brokerage accounts in the purchase of securities, investments? Do you ever use a broker for the purchase of securities for investment?

Mr. SHERWOOD. Certainly we do. We buy from brokers or securities dealers.

Dr. LUBIN. But when it came to purchase that of your own company you had the bank do it for you, and then went to the broker—

Mr. SHERWOOD (interposing). No, we confirmed the transaction as a matter of courtesy for somebody.

Dr. LUBIN. I think you have just said you always used the Connecticut River Banking Co.

Mr. SHERWOOD. I did not say that, sir.

Dr. LUBIN. I am sorry; I beg your pardon. I thought you said you used the bank as a means of purchase.

Mr. GESELL. I think the confusion rests in this: When you purchased for the Nebraska Securities Corporation, one of your subsidiaries, or for Colorado Valley Land, you purchased through the Connecticut River Banking Co.

Mr. SHERWOOD. The stock was confirmed to a broker; instructions were given to the broker to deliver to the bank, usually the Connecticut River Banking Co.; the bank paid for the stock. At that time that was one side of the transaction. I may not have known exactly to whom that stock was ultimately to belong. It may have been that the decision was known by others, but my instructions were to buy the stock. So far so good.

Mr. GESELL. Just one question there. So far as the broker is concerned, those purchases were by Connecticut River Banking Co.; weren't they?

Mr. SHERWOOD. I don't wish to be technical about saying the Connecticut River Banking Co. to the exclusion of all banks. I don't want to magnify this too much.

Mr. GESELL. In that instance?

Mr. SHERWOOD. Yes; in that instance it would be that bank.

Mr. GESELL. You were about to continue?

Mr. SHERWOOD. When it was finally determined exactly the name and so forth that the stock was to be registered in, sometimes it came from one of our employees, sometimes it came from one of our corporations that was buying some stock, and at that time instructions would be given to the bank to sell to the corporation and transfer accordingly, and the bank would be reimbursed.

Mr. GESELL. Well now, let me see. Here, from the records of the Connecticut River Bank, I read that on October 2, 1931, Connecticut River Banking Co. bought for the account of Nebraska Securities Corporation 5 shares at 540 from Andrews, 10 shares at \$570 a share from S. G. & Co.; 9 shares from S. G. & Co. at 575; 10 shares from Putnam at 550; 15 shares from Putnam at 543; 2 shares from Andrews at 510; 30 shares from Cooley at 510; 15 shares from Cooley at 490; 7 shares from Bissel at 473, all on that day.

Those were, considering the size of the Travelers security market, rather heavy purchases, on a declining market, were they not, made by Connecticut River Banking Co. from these various brokers?

Mr. SHERWOOD. You may know that. I don't know whether it was a heavy day or not.

Mr. GESELL. What is the average amount of shares traded per day in Travelers stock?

Mr. SHERWOOD. There is no average that I can speak of.

Mr. GESELL. It is pretty small, isn't it?

Mr. SHERWOOD. It is a matter that fluctuates.

Mr. GESELL. You have only about 8,000 stockholders, haven't you?

Mr. SHERWOOD. About that.

Mr. GESELL. They are scattered all over the country?

Mr. SHERWOOD. Yes, sir.

Mr. GESELL. The number of shares bought and sold in Hartford, Conn., per day doesn't run over a couple of hundred shares; does it—the average market?

Mr. SHERWOOD. I don't know.

Mr. GESELL. It is not over three to five hundred shares, at the most, a day.

Mr. SHERWOOD. I can't say.

Mr. GESELL. Although you testified that you were completely familiar with this market, just what was going on?

Mr. SHERWOOD. Will you confine yourself to today or yesterday?

Mr. GESELL. Let's say during 1931. What was the average?

Mr. SHERWOOD. I can't tell you the average. I don't know anybody else that can without calculating the figures.

Mr. GESELL. What is the unit of trading?

Mr. SHERWOOD. There is no unit of trading—one share.

Mr. GESELL. Then there is a unit of one share.

Mr. SHERWOOD. It isn't necessarily confined to that. You can buy one share of stock, sir.

Mr. GESELL. And that indicates that very few shares are traded a day when you can buy one share a day. Isn't that correct, in any over-the-counter market you handle?

Mr. SHERWOOD. It may go a great many days with no shares; there may be some days with a thousand shares.

Mr. GESELL. Have you had many thousand-share days?

Mr. SHERWOOD. You are talking about me.

Mr. GESELL. But you are familiar with the market and what is being bid and asked.

Mr. SHERWOOD. I haven't had offers for a thousand shares; no, sir.

Mr. GESELL. Are you familiar with the transfer records of the company?

Mr. SHERWOOD. Yes, sir.

Mr. GESELL. You have some idea then from those transfer records what the turn-over is, haven't you?

Mr. SHERWOOD. Many thousand shares may be turned over in a day and only two shares of the lot sold.

Mr. GESELL. Well, this is a rather heavy bunch of purchases for one day, 5, plus 10, plus 9, plus 10, plus 15, plus 30, plus 15, plus 7. It must run over 50 shares of stock purchased in that way by Nebraska Securities Corporation.

Mr. SHERWOOD. I can only answer you one way, and that is if a man wants 100 shares he has got to buy it. It may be 100 transactions of 1 share each.

Mr. GESELL. In the case of those purchasers, would the brokers have known the shares were for a subsidiary of Travelers Insurance Co.?

Mr. SHERWOOD. They would not have known who the ultimate purchaser was to be.

Mr. GESELL. And similarly, in the same year, over in December, I note that Connecticut River Bank Co. bought in the period from December 11 to December 14 for Colorado Valley Land, another subsidiary, 10 shares, 3 shares, 5 shares, 2 shares, 10 shares, 4 shares, 15 shares, 20 shares, 4 shares, 7 shares, 5 shares, 5 shares, 5 shares, 10 shares, all through various brokers. Again those brokers would not know where the buying interest came from.

Mr. SHERWOOD. That is right.

Mr. GESELL. Have you anything to do with maintaining the records of the Nebraska Securities Corporation?

Mr. SHERWOOD. I have nothing to do with them now.

Mr. GESELL. Are you familiar with that record which I show you, a record of stock purchases by Nebraska Securities Co.?

Mr. SHERWOOD. Those entries are not mine, sir.

Mr. GESELL. You notice that first transaction, do you not, shown on that sheet, the purchase of shares of Travelers' stock from Mr. B. D. Flynn?

Mr. SHERWOOD. Yes, sir.

Mr. GESELL. He was an officer of Travelers at the time, wasn't he?

Mr. SHERWOOD. Yes, sir.

Mr. GESELL. Was that purchase made through Nebraska Securities Corporation on your instructions?

Mr. SHERWOOD. I think it was bought through the Nebraska Securities Corporation.

Mr. GESELL. Did you give instructions at that time that those shares be bought for that company?

Mr. SHERWOOD. I probably bought the shares for that company—is that what you mean?

Mr. GESELL. On whose instructions did you act?

Mr. SHERWOOD. I don't recall, but I would assume they were instructions from Mr. Zacher.

Mr. GESELL. I have no further questions for this witness.

Acting Chairman O'CONNELL. Earlier in your testimony you said you operated in an administrative capacity and you were responsible to, presumably, and took orders from a superior. Do you want us to understand you don't know whom you were responsible to in making purchases of the stock?

Mr. SHERWOOD. No; I do not.

Acting Chairman O'CONNELL. Whom were you responsible to?

Mr. SHERWOOD. I was always responsible to Mr. Zacher.

Acting Chairman O'CONNELL. Was it from Mr. Zacher you received instructions to buy the stock in these instances which we have referred to?

Mr. SHERWOOD. With those exceptions of authorized orders which may have come from individuals, I think it perhaps would be correct to say that Mr. Zacher gave me my instructions.

Acting Chairman O'CONNELL. You spoke rather feelingly about the service that you rendered for the employees of the company in the field who might want to buy stock in the Travelers. Do you know whether, in these transactions consummated through the Nebraska company, they were transactions which had as a basis a desire of an employee or other official to buy the stock, or were they bought for the account of the company?

Mr. SHERWOOD. As far as I know, anything bought for the Nebraska Securities Corporation, or any of our subsidiary corporations, was bought for themselves, because it was an advantageous time to buy, with the thought, perhaps, of selling later when others desired it more than we did.

Acting Chairman O'CONNELL. So, generally speaking, they were bought for the account of the company and without any present intention of reselling to people in the organization?

Mr. SHERWOOD. Oh, I had no thought whatever of selling to people in the organization.

Acting Chairman O'CONNELL. Do you know whether or not the company or you made a practice or at any time solicited your people to buy stock which was held by your subsidiary companies?

Mr. SHERWOOD. I know of no general plan at all. There may have been an instance, but I don't recall it.

Acting Chairman O'CONNELL. And you referred to the fact that Travelers Insurance Co. never bought its own stock for its own account. Do you know what the basis of that policy was? Is there any legal impediment to having Travelers Insurance Co. deal in its own stock?

Mr. SHERWOOD. There is in our State.

Acting Chairman O'CONNELL. You are not permitted to deal in your stock?

Mr. SHERWOOD. No, sir.

Acting Chairman O'CONNELL. The effect of these transactions was an evasion of that rule, was it not?

Mr. SHERWOOD. No, sir.

Acting Chairman O'CONNELL. You owned the Nebraska Securities Corporation.

Mr. SHERWOOD. That doesn't matter.

Acting Chairman O'CONNELL. Do you now own the Nebraska Securities Corporation?

Mr. SHERWOOD. The Travelers Insurance Co. owns the Nebraska Securities Corporation.

Acting Chairman O'CONNELL. And the Nebraska Securities Corporation bought stock in the Travelers Insurance Co. which the Travelers Insurance Co. could not buy itself.

Mr. SHERWOOD. Correct.

Acting Chairman O'CONNELL. And you say you don't think that is an evasion of the rule which prohibits the Travelers Insurance Co. from buying its stock.

Mr. SHERWOOD. That is exactly what I say, sir.

Mr. GESELL. I have no further questions.

Acting Chairman O'CONNELL. I have none.

Mr. GESELL. I want Mr. Zacher back for about 10 minutes, and then I think we are through. I notice he stepped out a minute.

TESTIMONY OF LOUIS EDMUND ZACHER, PRESIDENT, TRAVELERS INSURANCE CO., HARTFORD, CONN.—Resumed

Mr. GESELL. We are almost through, Mr. Zacher. I refer you to the minutes of the finance committee of the Travelers Bank & Trust Co., held December 15, 1931. You were present at that meeting, were you not?

Mr. ZACHER. Yes, sir.

Mr. GESELL. And at that meeting, as shown on the next to the last page of the minutes, the Travelers Bank & Trust Co. authorized the sale of various-described securities, including some Alabama Power Co. securities, American Hardware Corporation securities, Pacific Gas & Electric securities, Scoville Manufacturing securities, United States Steel Corporation stock, and other securities of that type; is that true?

Mr. ZACHER. Yes, sir.

Mr. GESELL. To whom were those securities sold?

Mr. ZACHER. I think the Nebraska Securities Co.

Mr. GESELL. This letter which I now show you indicates, does it not, that all of those securities were purchased by the Nebraska Securities Corporation, with the exception of 325 shares of Hartford Electric Light common stock?

Mr. ZACHER. Yes, sir.

Mr. GESELL. That records the purchase price of those securities, does it not?

Mr. ZACHER. Yes, sir.

Mr. GESELL. This shows that securities were purchased by Nebraska Securities Corporation on December 24, 1931, from the Travelers Bank & Trust Co. for a price of \$221,720.58. I wish to offer this for the record.

(The letter referred to was marked "Exhibit No. 1116" and is included in the appendix on p. 6970.)

Mr. GESELL. You recognize this file which I show you, Mr. Zacher, as correspondence which you had with Mr. G. Y. Thompson, of the Nebraska Securities Corporation?

Mr. ZACHER. Yes, sir.

Mr. GESELL. He is vice president of the corporation, is he not?

Mr. ZACHER. Thompson? No; I think he was auditor.

Mr. GESELL. Yes, auditor. He wrote your assistant cashier, A. H. Steidel, on December 28, 1931, stating [reading "Exhibit No. 1117"]:

Your letter of the 24th, addressed to Mr. Goudy, has been received, in which you list a number of stocks purchased for the Nebraska Securities Corporation.

In looking over the number of shares purchased and comparing with the prices, there seems to be a wide variation in some of the stocks that we are able to check between the present market value and the amount that has been

paid according to your letter. For example, you show 25 shares of Travelers Insurance Company stock at \$38,654.94 which would figure something over \$1.500 a share.

No doubt there is a good reason for all of this, but at any rate I am calling it to your attention in case there has been some error made in listing these transactions.

And you reply to him on the date of December 30, 1931 [continuing to read "Exhibit No. 1117"]:

The transaction referred to in your letter of December 28 at the price stated has been carried out for special reasons—all of which has the approval of the Board of Directors of both companies.

I am obliged to you for writing.

I should like to offer that correspondence for the record.

(The letters referred to were marked "Exhibit No. 1117" and appear in full in the text on pp. 6457-6458.)

Mr. GESELL. Is it not a fact, Mr. Zacher, that the market value of the securities sold by your bank, the Travelers Bank & Trust Co. to the Nebraska Securities Corporation, was greatly below the price which was paid for them?

Mr. ZACHER. Would you mind stating that again?

Mr. GESELL. You sold these securities from your bank to the Nebraska Securities Corporation at a price greatly in excess of the market price.

Mr. ZACHER. Yes, sir.

Mr. GESELL. Do you know what the precise differential is? Our records, prepared from the Wall Street Journal and Commercial and Financial Chronicle, would indicate that the market value of the securities as of December 24, 1931, was \$80,413.50, and there was paid to those securities \$221,720.58, or a difference of \$141,307.08.

Mr. ZACHER. That is approximately correct; yes.

Mr. GESELL. These valuations have published sources and I would like to offer them for the record.

(The schedule referred to was marked "Exhibit No. 1118" and is included in the appendix on p. 6970.)

Mr. GESELL. Can you explain this transaction to us, Mr. Zacher?

Mr. ZACHER. This transaction, according to my recollection of what little information I have, took place, I think, on the 24th of December, or the 25th, or 26th, I have forgotten which, but along in there, in 1931. The Travelers Bank & Trust Co.'s, banking business, is mainly in savings deposits. On January 2, 1932, there was an official closing of a bank in Hartford which did a similar business. My recollection is that about a week or 10 days before that one of the directors summoned a number of insurance men to a meeting to ask if they could bail it out. I was one of those invited. The market price on securities was dropping very fast, it was necessary to make a statement on the 31st of December.

There was not sufficient time for us to pay in more capital surplus to offset—particular surplus—a loss that might come in those securities, if it hadn't already arrived. It was therefore decided that the same result could be accomplished by selling those stocks which had a considerable depreciation, \$140,000, to the Nebraska Securities Co., which had the cash, at the cost price, which would result in the bank being relieved of that mark-down and the result to the Travelers Insurance Co. would be exactly the same because they owned the entire stock of both companies.

On January 2 another bank was closed—a bank in East Hartford was closed. The resources of the first bank were \$25,000,000 deposits of about \$20,000,000. They had 40,000 savings depositors. The closing of this bank caused an immediate run on all banks in Hartford and vicinity and the 90-day withdrawal rule was put into effect by banks of the Clearing House Association.

Did I make that clear all the way through?

Mr. GESELL. I believe so. There are one or two questions I want to ask you about it. There was another bank in Hartford which was having difficulties?

Mr. ZACHER. Yes.

Mr. GESELL. And you cite that to illustrate that there was a very serious banking condition at the time?

Mr. ZACHER. Yes.

Mr. GESELL. In the case of the Travelers Bank & Trust Co., which your company owned, it was felt that it needed additional cash?

Mr. ZACHER. Surplus.

Mr. GESELL. Yes; surplus. And to provide that surplus you could have done it, I take it, in two ways, either by issuing additional stock, purchasing that stock, offering the stock to the public, or in the manner of transactions such as you handled, by paying more for securities than they were worth.

Mr. ZACHER. Yes.

Mr. GESELL. It was determined not to issue stock to the insurance company or to make any public offering of securities, I presume, because of the serious banking condition at the time and that would indicate the bank needed credit and you didn't want that publicly known.

Mr. ZACHER. And the difficulty in accomplishing it in such a short time between the 24th of December and the 2nd of January, because public notice of any additional issues would have had to be made.

Mr. GESELL. There was the element, however, of the desirability of keeping the necessity of financial support of this bank from becoming a matter of public knowledge.

Mr. ZACHER. I should say that that was quite a factor.

Mr. GESELL. And since you owned both the Nebraska Securities Corporation and the bank 100 percent, you in effect simply gave the bank cash from Nebraska Securities and gave Nebraska Securities the securities which had depreciated so much in market value.

Mr. ZACHER. Yes. To refer back to the reduction in the Nebraska Securities stock after we got it down to \$500,000, we were talking about it in that connection, I have just been reminded that another reason, and a very substantial reason for the transfer to the casualty department, was so that the casualty department could take either the profits or loss on what was left on the securities bought from the bank, the bank stock being held in the casualty department as an asset.

Mr. GESELL. So that since the Nebraska Securities Co. had to, in effect, assume a loss of the bank, since the bank was owned by the casualty department, in the final wind-up of the Nebraska Securities you felt it proper to charge some of that loss to the casualty department, which was the owner of the bank.

Mr. ZACHER. They deserved the profit or loss, whichever way it might turn out in the end. I didn't think of that at the time you made the inquiry.

Mr. GESELL. Now, the Nebraska Securities has transferred some of these securities which it acquired from the bank, to Prospect Company.

Mr. ZACHER. Yes.

Mr. GESELL. And Prospect Company is still holding those securities?

Mr. ZACHER. Yes, sir.

Mr. GESELL. And the market price is still below what was paid for it.

Mr. ZACHER. I think so.

Mr. GESELL. I have no further questions.

Acting Chairman O'CONNELL. Mr. Zacher, while you were out of the room Mr. Sherwood testified to the effect that in making purchases of Travelers Insurance Co. stock in behalf of one or the other of your subsidiary companies during this period of 1932-33, he was acting under your instructions. I was curious to know whether, in making purchases of that type of stock or that stock for your subsidiary companies, you purchased them anticipating a sale to persons connected with your company or otherwise?

Mr. ZACHER. Or back to brokers.

Acting Chairman O'CONNELL. You purchased them, I take it, to hold up the market on the stock.

Mr. ZACHER. I wanted to get the stock off the market, but I didn't want to climb to get that stock and I didn't want to keep it, I just wanted to buy it until the brokers could steady the market by using their funds. You see, those brokers used to buy for their own accounts and sometimes they would get a little bit overloaded and then they would want to liquidate their loans among the banks, and they would say, don't you want to buy 5 shares here, 10 shares there, I knew a great many of them, and careful not to pay an excessive price, we occasionally bought 5, 10, 15, or 20 shares. Sometimes we would go along for months and not deal in a share, but always with the idea that sometime or other we would get rid of that stock and, if possible, also try to make a little money to pay for the trouble that we took. There was never any intention at any time to accumulate any stock. If there was any accumulation it was our misfortune and being caught in a dropping market, we kept the stock as an investment.

Acting Chairman O'CONNELL. Would it be fair to say that you were purchasing stock during this distress period to help out the brokers and other persons who either held or ordinarily purchased the stock, and at the same time you hoped you would ultimately be able to liquidate the stock without taking the loss?

Mr. ZACHER. Or stockholders that had a pledge with the banks and the banks which had to liquidate part of those holdings.

Acting Chairman O'CONNELL. That is just exactly the point I am interested in. Wouldn't it be a fact that a number of your stockholders who had substantial blocks of stock would be in danger of losing their stock if it were pledged as collateral with the price of the stock not maintained?

Mr. ZACHER. Yes.

Acting Chairman O'CONNELL. Wasn't that one of the motives in buying the stock, to maintain the price?

Mr. ZACHER. Yes. It would have hurt the stockholders and indirectly the bank would have lost money and the insurance companies

would have lost money, because they are all considerably interested in those bank stocks up there.

Mr. GESELL. And particularly your two banks, the Connecticut River Bank especially, would have lost a great deal of money since, as we saw at this period, there were over 2,000 shares of Travelers stock pledged as collateral against loans, many of those loans being made to officers and directors of your company.

Mr. ZACHER. Yes; but that didn't bother us so much because we knew the character of the borrowers, we knew what kind of job they had, we knew eventually without collateral they would make every effort to pay out.

Acting Chairman O'CONNELL. As a matter of fact, I think it was developed that many of the loans were under water and it didn't apparently bother you very much.

Mr. ZACHER. There was a short period, sir, where the market value went to nothing. There wasn't any market value in that particular time, but after the market steadied and we were able to get to these borrowers and call their attention to it, we finally got margins or had the loans paid off, so there were only a very few loans that were what you might call under water so far as their collateral was concerned, and in each case we got insurance; so if they died before their loan was paid we would be protected.

Acting Chairman O'CONNELL. At any event, it seems pretty clear, doesn't it, that one of the primary purposes of the purchase of this stock during the period was to maintain the market price of the stock so as not to have the depreciated price of the stock result in the sacrifice of the stock by officers or other persons who had substantial stock interests.

Mr. ZACHER. It wasn't so much the price as to keep the stuff moving, not to have it get stagnant.

Acting Chairman O'CONNELL. Why is it important to the company that it be kept moving?

Mr. ZACHER. So that it won't sink out of sight overnight.

Acting Chairman O'CONNELL. When you say "keep moving" you mean keep moving upward?

Mr. ZACHER. No; keep moving back and forth to steady.

Mr. GESELL. In other words, when too much supply and too little demand existed you wanted to dry up some of the supply.

Mr. ZACHER. That's it.

Acting Chairman O'CONNELL. When you were on the stand you weren't quite clear as to whether the Travelers Insurance Co. could deal in its own stock, Mr. Sherwood testified to the fact that the Travelers Insurance Co. could not legally under the laws of the State of Connecticut deal in its own stock. What do you apprehend to be the difference between dealing in your own stock and having a wholly owned subsidiary deal in your own stock?

Mr. ZACHER. I don't know.

Acting Chairman O'CONNELL. Do you think there is any difference?

Mr. ZACHER. It is just a matter of the way the law reads, whatever the law is. If the law says you can't do it, you can't do it, but if the law says you can buy a stock in another institution, you buy the stock in the other institution. If the other institution by law can buy any stock there is, they can buy it.

Acting Chairman O'CONNELL. Would it be fair to say what you did was, let us say, a legal way of evading the purpose of the law which prevents the Travelers Insurance Co. from dealing in its own stock?

Mr. ZACHER. No; I don't think that is so, sir. We didn't intend to evade the law. We simply intended to carry on business in our security, with which we were familiar.

Acting Chairman O'CONNELL. Then let's forget the purpose and say the effect of the transaction was—

Mr. ZACHER (interposing). It might be so.

Acting Chairman O'CONNELL. Legally evading the purpose in the Massachusetts law.

Mr. ZACHER. Connecticut law.

Acting Chairman O'CONNELL. Connecticut law, I mean.

Mr. ZACHER. I am not sufficiently familiar with the Connecticut law.

Acting Chairman O'CONNELL. It isn't a very difficult proposition. As I understand it, the law forbids the Travelers Insurance Co. from dealing in its own stock, and as a practical matter, it seems to me (and I should think you would agree), to have a wholly-owned subsidiary deal in the stock, the wholly owned subsidiary being under the control of the people who run the Travelers Insurance Co., is an evasion, legally—probably legally, of the prohibition of the Connecticut law.

Mr. ZACHER. Well, sir, I am not a lawyer and I didn't know about that, so I sought the advice of counsel, who is on the board and saw all these transactions, and if he was satisfied then I was.

Acting Chairman O'CONNELL. You recall I said I was going to concede it probably was legal. I was merely indicating, in my judgment—and I should think you would agree—the effect of the transaction was, let us say, a legal evasion of that provision.

Mr. ZACHER. Of course, you see, that is an over-the-counter market that is almost, you might say, between individuals. There isn't a great amount sold, from time to time, except when somebody dies and they have to settle up the estate.

Acting Chairman O'CONNELL. My position would be just as clear if only one share of stock were handled that way. I say the extent to which it is done doesn't seem to me to make any difference in the question I have raised. It would be just as much an evasion if one share were handled that way as if a thousand were. It is a matter of degree.

Mr. ZACHER. It is rather hard to answer.

Acting Chairman O'CONNELL. Apparently.

Mr. COLE. I don't want to interrupt the conversation, but I think the question you have asked is a good deal more complicated than the simple way you have stated it.

Acting Chairman O'CONNELL. All right; we will let it go at that.

Mr. COLE. I don't want to get drawn into a long discussion.

Mr. GESELL. That concludes the presentation of testimony today. We will have about an hour and a half tomorrow morning and that will complete this set of hearings.

Acting Chairman O'CONNELL. The committee will stand in recess until 10:30 tomorrow morning.

(Whereupon, at 12:35 p. m., a recess was taken until 10:30 a. m. Wednesday, September 13, 1939.)

INVESTIGATION OF CONCENTRATION OF ECONOMIC POWER

WEDNESDAY, SEPTEMBER 13, 1939

UNITED STATES SENATE,
SUBCOMMITTEE OF THE TEMPORARY
NATIONAL ECONOMIC COMMITTEE,
Washington, D. C.

The subcommittee met at 10:35 a. m., pursuant to adjournment on Tuesday, September 12, 1939, in the Caucus Room, Senate Office Building, Mr. Joseph J. O'Connell, Jr., Department of the Treasury, presiding.

Present: Mr. O'Connell, acting chairman, and Representative Casey.

Present also: Gerhard A. Gesell, special counsel, Paul MacDonald, attorney, Securities and Exchange Commission.

Acting Chairman O'CONNELL. The hearing will please come to order.

Mr. GESELL. Before calling the first witness this morning I would like to offer for the record a letter I received from Mr. C. M. Corey, manager of the agency department of the John Hancock Life Insurance Co. The committee will recall that when Mr. Corey was on the stand he agreed to furnish us with certain information which was not readily available at that time.¹ That information is contained in this letter.

Acting Chairman O'CONNELL. It may be admitted.

(The letter referred to was marked "Exhibit No. 1119" and appears in Hearings, Part XII, appendix, p. 6356.)

Mr. GESELL. The first witness this morning will be Mr. Saul.

Acting Chairman O'CONNELL. Do you solemnly swear the testimony you are about to give in this proceeding will be the truth, the whole truth, and nothing but the truth, so help you God?

Mr. SAUL. I do.

TESTIMONY OF JOHN PETER SAUL, JR., EXECUTIVE VICE PRESIDENT, SHENANDOAH LIFE INSURANCE CO., ROANOKE, VA.

SHENANDOAH LIFE INSURANCE COMPANY

Mr. GESELL. Will you state your full name for the record, please, sir?

Mr. SAUL. John Peter Saul, Jr.

Mr. GESELL. You are from Roanoke, Va.?

Mr. SAUL. Yes, sir.

¹ See Hearings, Part XII, pp. 6122 and 6131.

Mr. GESELL. Are you connected with the Shenandoah Life Insurance Co.?

Mr. SAUL. I am. I am executive vice president.

Mr. GESELL. The company's home offices are at Roanoke, are they?

Mr. SAUL. Yes, sir.

Mr. GESELL. Will you tell us a little about the company, when it was organized? In 1914—is that correct?

Mr. SAUL. It was organized in 1914 and '15, during the period in which the stock was placed, and began business in 1916.

Mr. GESELL. It is a Virginia corporation?

Mr. SAUL. Yes, sir.

Mr. GESELL. At the time it was organized it had authorized capital of \$500,000, did it not?

Mr. SAUL. Yes, sir.

Mr. GESELL. Value of shares, par value being \$10 a share?

Mr. SAUL. Yes, sir.

Mr. GESELL. What was the original paid-in capital?

Mr. SAUL. \$500,000.

Mr. GESELL. Was that all paid in by 1916?

Mr. SAUL. No; that was completed about 1921.

Mr. GESELL. The company began business with the paid-in capital of around \$121,000; did it not?

Mr. SAUL. Something like that, when it first began operation; yes sir.

Mr. GESELL. Who organized the company, Mr. Saul?

Mr. SAUL. You mean the names of the original officers?

Mr. GESELL. Yes.

Mr. SAUL. R. H. Angell of Roanoke was the founder and president of the company until his death in 1933. Senator W. Andrews was the secretary-treasurer of the company from its organization until 1932. Those two were the guiding spirits of the corporation from its inception.

Mr. GESELL. When did you come with the company?

Mr. SAUL. I was elected vice president and general counsel in March 1930.

Mr. GESELL. Were you associated with the company before that time?

Mr. SAUL. I was a director of the company for several years prior to that time.

Mr. GESELL. Is my understanding correct that the company writes only ordinary insurance?

Mr. SAUL. It writes only ordinary insurance including in that designation group insurance. We do not have any industrial insurance.

Mr. GESELL. What was the premium income of the company last year. Do you have that in mind?

Mr. SAUL. I do not, Mr. Gesell.

Mr. GESELL. Was it about \$2,797,000?

Mr. SAUL. Yes; that is approximately the figure I recall.

Mr. GESELL. How much ordinary life insurance, exclusive of group, has the company in force at the present time?

Mr. SAUL. Approximately 60 millions of dollars.

Mr. GESELL. And about 17 of that is life and about 29 endowment; is that correct?

Mr. SAUL. Yes sir; I think that is correct.

Mr. GESELL. How much group insurance has the company in force at the present time?

Mr. SAUL. Approximately 115 to 120 millions.

Mr. GESELL. The group insurance of the company is its biggest single line of business; is that correct?

Mr. SAUL. Yes, sir.

Mr. GESELL. In how many States does the company do business?

Mr. SAUL. Fourteen.

Mr. GESELL. Can you name the principal States in which it is active?

Mr. SAUL. Yes. Beginning in the east, Massachusetts, Maryland, the District of Columbia, Virginia, North and South Carolina, Georgia, Alabama, Tennessee, West Virginia, and Florida.

Mr. GESELL. Is it correct to say that your activities are greatest in the District of Columbia?

Mr. SAUL. No; except that the District is considered the headquarters of the group association welfare organization where we carry the master policy. Ordinary business is gathered from Virginia, West Virginia, Tennessee, and North Carolina.

Mr. GESELL. And your group business is written mostly on the lives of employees of the Federal Government; is that correct?

Mr. SAUL. Yes, sir; that is right.

Mr. GESELL. Am I right in saying that your company now insures approximately 16 associations of Federal employees covering about 84,000 lives?

Mr. SAUL. That is right.

Mr. GESELL. Can you tell us a little of what kind of group policy it is that your company writes on these associations of Federal employees?

Mr. SAUL. It is an association of voluntary organizations of Federal employees in the different governmental departments. They elect their own officers and board of directors and membership in the associations is paid monthly in dues. The association applied to the Shenandoah Life for a master group policy, which was issued, and individual certificates issued to the members of the association—that is, such members as are insurable according to the generally established practice of group insurance. We now obtain evidence of insurability on all members coming into the association which are included in the group policy.

Mr. GESELL. Do you recognize this statement, which I hand you, as statement of the various Federal associations insured with your company as of the date indicated on that schedule?

Mr. SAUL. Yes, sir; this was prepared by Mr. Henry E. Thomas, vice president, in charge of group insurance.

Mr. GESELL. I should like to offer this for the record.

Acting Chairman O'CONNELL. To be inserted for the record.

(The statement referred to was marked "Exhibit No. 1120" and is included in the appendix on p. 6971.)

Mr. GESELL. My understanding is that the Shenandoah Life Insurance Co. was a stock company up until what date?

Mr. SAUL. May 1934.

Mr. GESELL. And in May 1934 the company undertook steps to mutualize?

Mr. SAUL. That is right.

Mr. GESELL. Prior to May 1934, in the years immediately prior thereto, can you tell us who the principal executive officers of the company were?

Mr. SAUL. They were R. H. Angell, president, until his death in November 1933, succeeding him former Gov. E. Lee Trinkle was elected president. I was elected executive vice president and general counsel. Mr. A. G. Decker was treasurer, succeeding Senator W. O. Andrews, who was secretary-treasurer from the inception of the company until 1932. The medical director was, and has always been the same individual, Dr. J. H. Dunkley; agency manager and vice president in charge of agency is Charles Edward, who has been such since 1928.

SHENANDOAH—LOANS TO OFFICERS AND DIRECTORS

Mr. GESELL. Am I correct in saying that from time to time during the history of the company the company loaned money on collateral to some of its officers and directors or to companies in which the officers and directors were interested?

Mr. SAUL. It did.

Mr. GESELL. My understanding is that the Virginia law did not prohibit such loans until what date?

Mr. SAUL. Until March 1934; since which date, of course, no loans have been made to officers or directors.

Mr. GESELL. Do you recognize this schedule, which I show you, as a schedule of collateral loans made to officers, directors, or corporations in which officers and directors were interested commencing January 1929?¹

Mr. SAUL. That is right; it was gotten up by our accounting department.

Mr. GESELL. I would like to run down with you now, if I may, the connection of the various individuals shown on this schedule with the Shenandoah Life Insurance Co. I notice your own name there. You borrowed money on several occasions, did you not?

Mr. SAUL. Yes, sir.

Mr. GESELL. Angell, whose name appears there, was president and director; is that correct?

Mr. SAUL. Yes, sir.

Mr. GESELL. Mr. Andrews, whose name appears on that list as borrowing on occasion, was secretary, treasurer, and director?

Mr. SAUL. That is right.

Mr. GESELL. Mr. Dunkley, whose name appears on the list, was medical director and director; is that correct?

Mr. SAUL. That is right.

Mr. GESELL. Mr. Henson?

Mr. SAUL. He was director and general counsel.

Mr. GESELL. I notice Mr. Hughes T. Angell. Is he the son of Mr. R. H. Angell, the president?

Mr. SAUL. Yes, sir.

Mr. GESELL. I notice that there is shown on that schedule a loan to the Oakland Corporation. Am I correct in saying that Mr. Dunkley was interested in that corporation as an officer and director?

¹ Entered later as "Exhibit No. 1121." See appendix, p. 6971.

MR. SAUL. I don't know that he was an officer. He was interested in it. It was a real-estate company in Roanoke owned principally by a man named Collier and some others, but Dr. Dunkley had some interest in it and that is the reason it is set out here.

MR. GESELL. Were any other officers or directors of the Shenandoah Co. interested in that?

MR. SAUL. Yes, sir; T. J. Hughes.

MR. GESELL. Now, I notice also several loans here to Dunkley and Saul. Those names are the names of yourself and Dr. Dunkley; is that correct?

MR. SAUL. That is right.

MR. GESELL. Was that a partnership?

MR. SAUL. No; just some trade we were making at the time.

MR. GESELL. Making it together?

MR. SAUL. Yes, sir.

MR. GESELL. And those loans were made jointly to you two gentlemen in those cases?

MR. SAUL. That is right; all of which were fully paid.

MR. GESELL. Now, I notice a loan to Mr. Rieves S. Brown. He was a director, was he?

MR. SAUL. Yes, sir.

MR. GESELL. I notice a loan to the Central Manufacturing Co. Am I correct in saying that Mr. Angell was connected with that company?

MR. SAUL. That is right; he owned the whole company.

MR. GESELL. What kind of a company was that?

MR. SAUL. Lumber, mill work.

MR. GESELL. And that was his company?

MR. SAUL. Yes, sir.

MR. GESELL. I notice a loan to Mr. L. S. Davis. Was he a director?

MR. SAUL. He was a director; yes, sir; and treasurer of Roanoke City at the time.

MR. GESELL. I notice a loan to Mrs. Mary J. Andrews. Am I correct that she was the wife of Mr. W. L. Andrews, the director of the company?

MR. SAUL. That is correct.

MR. GESELL. Mr. T. J. Hughes you have already mentioned, have you not, as being a director?

MR. SAUL. Yes, sir.

MR. GESELL. I notice a loan to the Foundation Finance Corporation.

MR. SAUL. Yes, sir.

MR. GESELL. Can you tell us who are the officers?

MR. SAUL. Mr. Angell, Governor Trinkle, and Dr. Dunkley.

MR. GESELL. What kind of company was that?

MR. SAUL. It was a little holding company that bought and sold stock and some real estate and things of that sort.

MR. GESELL. It was interested in real-estate ventures in Roanoke; is that correct?

MR. SAUL. It is hardly correct to say it was interested in real-estate ventures. It really acquired only one piece of property, which it still owns.

MR. GESELL. This loan was made to the corporation to help it finance that piece of property; is that correct?

MR. SAUL. No; it was in connection with some other matters, not the real-estate item.

Mr. GESELL. What other business was the finance company in?

Mr. SAUL. It bought some stock of the Shenandoah Life Insurance Co. I think that is the principal stock that it ever owned.

Mr. GESELL. Was the loan to the corporation to assist it in purchasing that stock?

Mr. SAUL. That is my recollection; yes, sir.

Mr. GESELL. Do you remember how much stock was involved?

Mr. SAUL. No, I don't, Mr. Gesell.

Mr. GESELL. Mr. Charles E. Ward—was he an officer and director of the company?

Mr. SAUL. Yes, sir.

Mr. GESELL. I notice the name Elizabeth H. Saul. Is that your wife, Mr. Saul?

Mr. SAUL. That is correct.

Mr. GESELL. I notice a loan to M. F. Weaver et al. Is that a company?

Mr. SAUL. No, sir; that is an individual in Roanoke. Mr. Weaver worked for Mr. Angell.

Mr. GESELL. Was the loan made to Mr. Weaver or to Mr. Angell?

Mr. SAUL. The loan was originally made entirely for the benefit of Mr. Angell, whose collateral was pledged in payment of the debt.

Mr. GESELL. Did Mr. Weaver's name appear as being the actual borrower of that money?

Mr. SAUL. His name originally did not appear as the original maker.

Mr. GESELL. You mean Mr. Angell's name did not appear?

Mr. SAUL. Mr. Angell's name never appeared except on the stock certificates which were placed as collateral.

Mr. GESELL. Why was this loan to Mr. Angell carried in the name of Mr. Weaver?

Mr. SAUL. To prevent it being in Mr. Angell's name.

Representative CASEY. Prevent it from what?

Mr. SAUL. From being in Mr. Angell's name.

Mr. GESELL. You mean Mr. Angell didn't want it known that he was borrowing from the company on this particular occasion, when the \$5,000 loan was made?

Mr. SAUL. I think that is true.

Mr. GESELL. And for that reason it was made in Mr. Weaver's name?

Mr. SAUL. It was made in another name; yes, sir.

Mr. GESELL. I notice a loan here to Mr. Rieves S. Brown. He is a director?

Mr. SAUL. Yes, sir.

Mr. GESELL. Mr. L. S. Davis—I think we have covered him. He is a director?

Mr. SAUL. Yes.

Mr. GESELL. A loan to Helen S. Trinkle. Is she the wife of Mr. Ely Trinkle, president and director of the company?

Mr. SAUL. Yes, sir.

Mr. GESELL. Now, I notice a loan to the Virginia Lumber Manufacturing Co. Was any officer or director interested in the Virginia Lumber Manufacturing Co.?

Mr. SAUL. Mr. Angell owned the entire company.

Mr. GESELL. I notice a loan to R. S. Brown, Jr., Inc. Is that the company owned by Mr. Brown, the director?

Mr. SAUL. Yes, sir.

Mr. GESELL. Now, I notice another loan here of \$5,000 in 1932 to Mr. M. F. Weaver. Was that again a loan which was made in Mr. Weaver's name for the sole benefit of Mr. Angell?

Mr. SAUL. I will have to look at the exhibit I gave you this morning to see what the collateral is.

Yes, sir; that loan was made to Mr. Weaver, with mortgage notes as collateral, but for the benefit of Mr. Angell.

Mr. GESELL. Was that loan made, as the other loan was made, to conceal the fact that Mr. Angell was borrowing from the company?

Mr. SAUL. I think it was; yes, sir.

Mr. GESELL. I believe you said the Central Manufacturing Co. was a company in which Mr. Angell was interested?

Mr. SAUL. He owned the entire company.

Mr. GESELL. Coming down a little lower on the schedule, I notice three additional loans to Mr. M. F. Weaver, one for \$1,500, one for \$1,871.21, and one for \$1,000, made during 1933, Nos. 318, 319, and 320 on the schedule before you, were those again loans which were carried in Mr. Weaver's name, but made for the benefit, solely, of Mr. Angell?

Mr. SAUL. Yes, sir; for Mr. Angell or his company, the Central Manufacturing Co.

Mr. GESELL. Again I notice a loan, No. 322, of \$2,000, to Mr. Weaver. Is that again a loan which was in reality made for Mr. Angell and for his benefit?

Mr. SAUL. Yes, sir.

Mr. GESELL. And the one of \$1,000 which appears right below that was also made in the same manner; is that correct?

Mr. SAUL. That is right.

Mr. GESELL. Now, if you will refer to the schedule which I hand you, I would like to discuss some of the collateral against these loans. I notice in the case of loan No. 193, which was made to yourself, what was the amount of that loan?

Mr. SAUL. \$4,750.

Mr. GESELL. I notice that the security for that was a life-insurance policy. That was the only collateral; was it?

Mr. SAUL. The record shows life-insurance policies.

Mr. GESELL. Policies were the only collateral?

Mr. SAUL. Yes. I don't recall now—it was made 10 years ago—why it was not made as a policy loan on the policies, but if you will observe it ran just a few months. It was got on January 4 and paid off on August 24 of the same year.

Mr. GESELL. Were those term policies taken out to cover the loan?

Mr. SAUL. Oh, no; they were policies that I held on which the cash-surrender value exceeded the amount of the loan.

Mr. GESELL. Were they policies in the Shenandoah?

Mr. SAUL. I don't recall, Mr. Gesell, whether they were or not, but I can say to you that the cash-surrender value of the policies exceeded the amount of the loan at the time it was made. As I say, I don't recall why policy loans weren't made on the policies, instead of making collateral loans. In any event, it was discharged.

Mr. GESELL. I notice another loan, No. 195, to yourself. What is the amount of that loan?

Mr. SAUL. \$3,500.

Mr. GESELL. The security shown is negotiable notes?

Mr. SAUL. They were mortgage notes amounting to \$4,722.64 against a loan of \$3,500.

Mr. GESELL. And the loan to Mr. Andrews, shown as No. 214½ on the schedule, where the collateral is shown as negotiable notes; was again mortgage notes; was it?

Mr. SAUL. They were mortgage notes, because we could take nothing but mortgage notes and never did. Which loan was that, Mr. Gesell?

Mr. GESELL. No. 214½.

Mr. SAUL. Yes; they were mortgage notes; I am sure.

Mr. GESELL. I notice in several cases that the securities of three local banks in Roanoke appear to have been pledged as collateral against these various loans of the officers and directors. Were the officers and directors interested in those banks in any way other than as stockholders?

Mr. SAUL. Yes, sir. Mr. Angell was the president of the Colonial American Bank, in which he owned a very large interest. He was also president of the Liberty Trust Co., in which he owned a very large interest, and the Shenandoah Life Insurance Co. itself owned a large interest in the Liberty Trust Co. and did own a substantial block of the stock in the Colonial American Bank.

Mr. GESELL. Do you believe it is correct that, by and large, on these collateral loans the collateral was either stocks on local companies in and around Roanoke, Va., or notes or bonds covering real estate in that area?

Mr. SAUL. That is correct.

Mr. GESELL. But very rarely did you find any collateral which could be classified as New York Stock Exchange collateral or anything of that sort?

Mr. SAUL. No, sir; very little of that floats around in the small cities.

Mr. GESELL. In several cases the collateral against the loans was securities of companies in which the officers and directors were interested; is that not true?

Mr. SAUL. Yes, sir.

Mr. GESELL. I notice one loan there of yours, No. 268, was partially secured by some stock in a cemetery. Do you notice that loan?

Mr. SAUL. Yes, sir.

Mr. GESELL. Were those cemetery lots or was that cemetery stock?

Mr. SAUL. That was stock in a cemetery at Martinsville, Va.

Mr. GESELL. At the time these loans were made, Mr. Saul, who valued the collateral?

Mr. SAUL. The managing committee.

Mr. GESELL. Who were the members of the managing committee during this period we are discussing?

Mr. SAUL. The managing committee was composed of Mr. Angell, the president; Mr. Andrews, the secretary-treasurer; Dr. Dunkley, the medical director; Governor Trinkle, vice president; Judge W. J. Henson, general counsel.

Mr. GESELL. Were you on the committee?

Mr. SAUL. I will get to that in a moment; and one member of the board of directors designated to sit with the managing committee, who, until 1930 or 1931, was a director named J. T. Bannady—a local director. After I was elected an officer and vice president and general counsel, I became a member of the managing committee.

Mr. GESELL. So that the managing committee was made up, in all but one case at least, of persons who themselves were borrowing money from the company?

Mr. SAUL. Among others; yes, sir.

Mr. GESELL. And you say these loans were approved by the managing committee and the collateral valued by them?

Mr. SAUL. Well, yes.

Mr. GESELL. What was the procedure in a case where a loan was to be made to a member of the managing committee? Did he participate in the discussions leading up to the loan?

Mr. SAUL. No. The stock were pretty well known, bank stocks and things of that sort. There was a local market for them and those values were used.

Mr. GESELL. Did the directors—let's say in the case of Mr. Angell, when he was sitting on the managing committee and a loan was made to him would he participate in the discussions of the managing committee leading up to that loan?

Mr. SAUL. He never participated in any vote or question of passing upon them, and all of the loans made by the managing committee between sessions of the board were read and approved by the board of directors at the next ensuing meeting of the board.

Mr. GESELL. Were there also mortgage loans made to some of the officers and directors?

Mr. SAUL. Yes, sir.

Mr. GESELL. Can you tell us from this sheet to whom the mortgage loans were made and the amounts of such loans?

Mr. SAUL. I will be glad to. Shall I read them seriatim?

Mr. GESELL. If you would; please, sir.

Mr. SAUL. Covington Home Building Corporation, made in July 1929, \$150,000. It was paid in May 1936 in full. The relationship of that loan to an officer or director was that it was owned by R. H. Angell.

An apartment house in Martinsville, Va., amount of loan \$5,000, made in 1929, paid in full in 1936, which was owned principally by R. S. Brown, a director.

Central Manufacturing Co., \$2,500, made in 1930, discharged in 1939, in which R. H. Angell was interested.

Mr. T. J. Hughes, mortgage loan on his residence, amount \$7,000, still in force, with a reduction of principal. Dr. Hughes is a director.

R. S. Brown, \$25,000, made in 1930, paid in 1933 in full. Mr. Brown is a director.

R. S. Brown, Jr., Inc., a mortgage on property in Martinsville, Va., amount \$20,000, made in 1930, discharged in 1933 in part, and a portion thereof is still outstanding.

Mr. GESELL. How much is still outstanding?

Mr. SAUL. The loan was originally \$20,000. The balance is now \$15,918. The security is three times the amount of the loan. Mr. Brown is a director.

W. J. Henson, on a dwelling in Roanoke, made in 1930, discharged in 1934 except as to \$1,300. Judge Henson was general counsel and director.

Mrs. E. H. Saul, dwelling, \$3,500, made in 1931, discharged in 1934 in full. She is the wife of the speaker.

J. H. Dunkley, \$2,250, made in 1931, still in force. Dr. Dunkley is medical director.

Ethel K. Spence, mortgage loan of \$17,500, made in 1932, still in force as to a portion of the principal. She is a sister-in-law of Governor Trinkle who is the president of the company.

Central Manufacturing Co., \$1,500, made in 1933, discharged in 1939 except as to \$90. Central Manufacturing Co. is owned by R. H. Angell. Another one to the Central Manufacturing Co., \$1,800, made in 1933, discharged in 1939 in full; the relationship is that R. H. Angell owned that company.

George C. Moomaw, owner of dwelling at Dublin, Va., \$1,000, made in 1933, discharged in full in 1936. Mr. Moomaw is a director.

L. S. Davis, \$2,000 on dwelling made in 1933, discharged 3 months thereafter in, 1934, in full. Mr. Davis was a director.

R. S. Brown, \$6,000, made in 1933, discharged in full in 1936. Mr. Brown is a director.

J. P. Saul, Jr., mortgage, \$3,000, made in 1934, discharged in full in 1937. I am an officer and director. I would like in respect to that loan to mention that that was not a new loan, but I gave a mortgage on my residence, my home, to secure an unsecured indebtedness held by the company, and I secured it by a mortgage on my home and discharged that mortgage in 1937.

D. A. Dunkley, \$3,750, made in 1935, discharged in full in 1938. D. A. Dunkley is not an officer or a director, but is a brother of Dr. Dunkley, the medical director.

Mr. GESELL. May I have the schedule of the collateral loans?

Mr. SAUL. Yes, sir.

Mr. GESELL. Both of the schedules which we were discussing.

Mr. SAUL. This is the carbon that you had. This is the original from which the photostat was made.

Mr. GESELL. I would like to offer at this time for the record the schedule setting forth various collateral loans which have been discussed with the witness.- This schedule contains a total of 95 loans and shows, with respect to each, the date made, the date paid, and the amount thereof.

Acting Chairman O'CONNELL. It will be inserted in the record.

(The schedule referred to was marked "Exhibit No. 1121" and is included in the appendix on p. 6971.)

Mr. GESELL. I should also like to file with the committee, but not for printing, a more detailed schedule with respect to those loans, indicating some information with respect to interest payments and the nature of the collateral behind such loans. That schedule was prepared from your records, was it not?

Mr. SAUL. Yes, sir.

Mr. GESELL. This is not for printing but will be filed with the committee.

Acting Chairman O'CONNELL. It will be filed with the committee.

(The schedule referred to was marked "Exhibit 1122" and is on file with the committee.)

The VICE CHAIRMAN. How much were the loans?

Mr. GESELL. I believe they totaled in excess of \$114,000. I was about to question the witness with respect to the greatest amount outstanding at any time. That, of course, would not be the greatest amount. Mr. Saul, can you tell us what approximately the greatest amount of collateral obligations to Shenandoah by its officers and directors and corporations, in which officers and directors were interested, amounted to?

Mr. SAUL. At any one time?

Mr. GESELL. What the peak was.

Mr. SAUL. I cannot. May I ask the treasurer?

Mr. DECKER. Mr. Saul, I don't believe so. The statement does not show those loans where they were made to companies in which they were interested. It would have to have considerable bearing on that. One other thing, Mr. Gesell, in that schedule, those loans were made for a 23-month period, and we knew they were new loans, so those loans reappeared time after time. They might have been increased slightly, but those loans, while you said they totaled several hundred thousand dollars, the total outstanding at any one time was never that much.

The VICE CHAIRMAN. What was the title, please?

Mr. DECKER. Treasurer.

Mr. GESELL. Our computations from the schedule which was introduced, Mr. Saul, would indicate that the greatest amount of loans outstanding as shown on that schedule was some time during March of 1933, when those loans totaled as high as \$330,000. Would you say that was approximately correct?

Mr. SAUL. Yes, sir; I would say that March 1933 was the peak time of the collateral loans in force.

Mr. GESELL. And, at that time there were about \$330,000 of loans outstanding?

Mr. SAUL. On December 31, 1933, the abbreviated financial statement of the company shows a collateral loan account total of \$399,516.68. Probably that may have been increased a little by March, as you suggest. No; I believe you said March 1933. This December 1933. Undoubtedly, 1933 was the peak time.

Mr. GESELL. Most of the loans at all times have been loans to persons interested in the company as directors or officers?

Mr. SAUL. Most of the loans have, though not exclusively, of course.

The VICE CHAIRMAN. Were there some loans direct to these various companies in which directors and officers were interested?

Mr. SAUL. Yes, sir.

The VICE CHAIRMAN. Would your figure of three-hundred-odd thousand dollars include loans to companies direct in which officers and directors are interested?

Mr. SAUL. Yes, sir.

Mr. GESELL. Those loans are shown on the schedule which was introduced and the figures you are reading, those are all loans?

Mr. SAUL. Yes; which, of course, is in excess to loans of directors and companies in which they were interested.

Mr. GESELL. You would agree, would you not, Mr. Saul, that in 1933 the collateral loans to officers and directors and their companies exceeded \$300,000?

Mr. SAUL. I suspect it did, sir.

Mr. GESELL. That is a computation easily made from the schedules.

Mr. SAUL. Yes.

Mr. GESELL. Those schedules indicate that as of November 15, 1933, the outstanding loans totaled \$330,946.58.

Mr. SAUL. A large majority, whatever the computation shows as to percentages.

Mr. GESELL. Now, am I correct in saying that since that time the company has reduced the amount of such loans substantially?

Mr. SAUL. Oh, very materially.

Mr. GESELL. What is the total amount of loans now outstanding to officers and directors or their companies?

Mr. SAUL. May I speak to the treasurer a minute for that?

Mr. GESELL. Here is a schedule which may help you.

Mr. SAUL. As of December 31, 1938, the collateral loan account to officers and directors amounted to the following: Direct, \$6,679.53; indirect, which, of course, covers the corporations and brothers- and sisters-in-law and so on, \$36,668.67, making a total direct and indirect, of only \$43,348.20.

Mr. GESELL. Now, in the liquidation of these various loans, how many loans, or rather what amount of loans was written off?

Mr. SAUL. None of the direct loans have been charged off, and only \$2,656.71 of the indirect loans have been charged to profit and loss. In all cases where the collateral has been exhausted, and a deficiency remains, notes of the officers and directors have been taken on which monthly payments are received, except in one case which is a corporation, that amount involves only \$1,700.

Mr. GESELL. Then there were, as of December 31, 1938, in addition to these direct and indirect loans outstanding, certain notes receivable held by the company against the obligations of its officers and directors?

Mr. SAUL. That is right, which, however, have been of course deducted from the admitted assets of the company.

Mr. GESELL. Those notes are carried in the nonadmitted assets?

Mr. SAUL. That is right.

Mr. GESELL. Unsecured?

Mr. SAUL. That is right.

Mr. GESELL. What did they total as of December 31, 1938?

Mr. SAUL. I am sorry, Mr. Gesell, I can't answer that at present. The annual statement shows bills received, deducted from the admitted assets in the sum of \$79,069.16, which includes all of the notes in question, officers and directors, and deficiencies, but it also includes agents' balances evidenced by notes, so I don't know what percent.¹

Mr. GESELL. You don't know what percentage of that \$78,000 represents notes from officers and directors of the companies?

Mr. SAUL. I do not, but I would make a guess that probably \$15,000 of it.

Mr. DECKER. No; I don't think that is right.

¹ Subsequently submitted and entered in the record as "Exhibit No. 1133." See appendix, p. 6979.

MR. GESELL. Can you furnish us with a statement which will show exactly how many notes receivable and the amounts thereof are now held in the nonadmitted assets, which were held as of the dates we have been talking about? ¹

MR. SAUL. I will be glad to.

MR. GESELL. Now, during the time that these loans were being made to the officers and directors, were there any discussions as to the propriety of the company loaning its funds to its officers and directors?

MR. SAUL. No; for the reason that Virginia had no statute regulating the investment of life-insurance company funds, the loans were amply secured when made, and, as I say, legal investments and with the collateral being good, the loans were considered first-class investments. Of course, the stocks went down; you know the story about those years, but every loan made by the company to its officers and directors was amply secured when made.

MR. GESELL. And there was no discussion as to the propriety of the company loaning to its officers and directors?

MR. SAUL. No; never.

MR. GESELL. By and large, can you tell us what the purpose of these loans was? Was it to further other ventures in which the officers and directors were interested?

MR. SAUL. I don't think so, except as each individual may have been carrying on his own business or activities. There was no concerted design or purpose in them, they were made through the years.

MR. GESELL. At the time the loans were made did the managing committee inquire of the officer or director who was borrowing as to why he wanted to borrow the money and for what purpose?

MR. SAUL. I think not. Ample security was placed with the note for the loan, and I don't believe that any particular inquiry was made. It is like you go down to the bank and put up sufficient collateral and the bank will loan you the money.

MR. GESELL. There were cases, of course, where you are quite clear, are you not, that the loans were made to further some venture in which the particular officer or director was interested outside such as the Central Manufacturing Co. in which Angell was interested?

MR. SAUL. Oh, yes; we knew it was for the general purposes of his business; that was a very large, and at that time, building supply house, and it manufactured lumber. It was a very rich corporation during those years.

MR. GESELL. In your own case, what was the purpose of borrowing money from the company? I notice from the schedule that has been introduced, some 18 loans which were made from the company during this period of 1929 in varying amounts.

MR. SAUL. I couldn't tell you, to save my life, the purpose of them now. Just in the regular order of things I had occasion to want some money. I had the collateral to put up, and I put it up.

MR. GESELL. Those loans were for personal purposes, then; they didn't have anything to do with business ventures you were in outside of the company?

MR. SAUL. No; I used to be interested in a great many corporations there and directed quite a few banks, and I was quite active and had occasion to need money; and frequently I borrowed from banks and

¹ Subsequently submitted and entered in the record as "Exhibit No. 1133." See appendix, p. 6979.

sometimes from insurance companies, but I placed collateral that was sufficient at the time the loan was made.

Mr. GESELL. Have you any notes receivable from the company now?

Mr. SAUL. Yes, sir.

Mr. GESELL. In what amount?

Mr. SAUL. Approximately ten or eleven thousand dollars, which represents the deficiency of the collateral when it was sold in recent years, bank stock, and things of that sort.

Mr. GESELL. Those are notes receivable now held in the nonadmitted assets of the company?

Mr. SAUL. That is right, on which I pay the interest each month and make small payments on the principal.

Mr. GESELL. You say that these loans were personal, lawful in the State of Virginia, and we have already covered the fact that there was no law prohibiting them. The State of Virginia did, however, criticize these loans, did they not, from time to time, at the time the conventional form reports were made to the company?¹

Mr. SAUL. Yes, sir; they criticized the collateral on them after 1932. I think that was the first criticism.

Mr. GESELL. There was also criticism of the mortgage loans, was there not? I notice from the report in 1932 on the company, with respect to mortgage loans, the report states:

There are a number of loans included in this amount to officers, directors, members of their families, or business enterprises in which they are interested. While loans appear to be well secured, the practice of making such loans is open to criticism. There are too many examples of the hazard of this practice when carried to extremes for our examiners to fail to recommend that such loans now held to be substantially curtailed from time to time and that the granting of further loans of this type be materially restricted.

And with respect to collateral loans they again state:

Loans or obligations of officers or directors or of companies in which officers and directors are interested, and notwithstanding the fact the loans are secured by sufficient collateral, we feel such investments are not for the best interest of the company. Therefore, we suggest the company make every effort to correct the condition set forth above and in the future care be taken to conform to more conservative principles in this class of investment.

Was it in 1932 the State Department first criticized the making of such loans?

Mr. SAUL. That is my recollection. Wasn't that the 1932 report?

Mr. GESELL. Yes. Our schedule covered loans only since 1929. There were loans made from time to time to officers and directors prior to 1929, were there not?

Mr. SAUL. Yes, sir.

Mr. GESELL. The company had been making collateral loans to officers and directors of its company from the time of its organization, almost, had it not?

Mr. SAUL. That is right.

Mr. GESELL. What action was taken as the result of the criticism of the departments in 1932?

Mr. SAUL. There was a more careful examination of the loans that were subsequently made, I think, as to the value of the securities, if it was a collateral loan or mortgage loan. There have been very few, with the exception of those matters which Mr. Angell was interested, made since that time, in 1933.

¹ In this connection see also correspondence between the State Corporation Commission of Virginia and officers of the Shenandoah, entered later as "Exhibits Nos. 1134 and 1135," appendix, pp. 6980 and 6984.

Mr. GESELL. I gather there was not a vigorous effort to liquidate the loans made immediately.

Mr. SAUL. Well, Mr. Gesell, if you recall, in 1932 and 1933 it was pretty hard to get much action on anything.

Mr. GESELL. I am reading from the report of 1935. I notice the report states:

Included in the collateral loans account are seventeen loans totalling \$289,405.09, in which officers or directors were interested either directly or indirectly. This amount represents approximately 83 percent of the total collateral loans.

It wasn't until later than 1935 that any liquidation of the loans was possible; is that correct?

Mr. SAUL. That is right.

Mr. GESELL. That was because the directors and officers of the Company, like many other people at that time, found themselves pressed financially.

Mr. SAUL. That is right; and the stocks, being local stocks, had gone down to such a point that there was practically no market for them.

Mr. GESELL. Most of those stocks weren't listed on any exchange, were they?

Mr. SAUL. No, sir.

Mr. GESELL. They were traded locally there in the over-the-counter market.

Mr. SAUL. Most of them were bank stocks of local banks.

SHENANDOAH—MUTUALIZATION

Mr. GESELL. I would like to discuss with you, Mr. Saul, the activities of the company leading up to and following the mutualization which I believe you said was completed in May of 1934.

Mr. SAUL. Yes, sir.

Mr. GESELL. During the time prior to '34, did the management in control of the company rest with Mr. Angell, Mr. Trinkle, yourself, and Dr. Dunkley?

Mr. SAUL. Very largely; yes, sir.

Mr. GESELL. What stock interest do you have, what percentage stock interest of the total do you have, approximately, you four gentlemen?

Mr. SAUL. I imagine we had in the aggregate 15,000 of the 50,000 shares.

Mr. GESELL. About 15,000 of the 50,000 shares.

Mr. SAUL. I would say approximately 12,500 to 15,000.

Mr. GESELL. Are you including Mr. Andrews' holdings in that?

Mr. SAUL. Yes, sir.

Mr. GESELL. There were really five officers, then, who had that block that you have mentioned, were there not?

Mr. SAUL. Yes, sir.

Mr. GESELL. Mr. Andrews, Mr. Trinkle, Mr. Angell, Mr. Dunkley, and yourself.

Mr. SAUL. That is right.

Mr. GESELL. With respect to the other shares outstanding, there were 50,000 shares outstanding in all, were there not?

Mr. SAUL. That is right.

Mr. GESELL. How were the other 35,000 shares held, widely?

Mr. SAUL. Widely, among about eight to nine hundred stockholders.

Mr. GESELL. About eight to nine hundred stockholders. Now, there

was a block of 20,000 shares, was there not, which had for some time prior to the mutualization of the company been held in a single place?

Mr. SAUL. That is right.

Mr. GESELL. Will you tell us a little about that block of 20,000 shares? Am I correct that Associated Life Companies, Inc., a company organized by Rogers Caldwell and associates, of Tennessee, as a life-insurance holding company; had acquired 20,000 shares?

Mr. SAUL. That is correct.

Mr. GESELL. As of what date did they acquire those shares?

Mr. SAUL. As of January 1, 1930.

Mr. GESELL. And am I correct that none of the officers or directors of Shenandoah Life Insurance Co. had any interest in Associated Life Cos., Inc.?

Mr. SAUL. That is right; none whatever.

Mr. GESELL. So that in 1930, about, Associated Life Cos., Inc., held 20,000 shares, and you five officers held in the neighborhood of 15,000 shares?

Mr. SAUL. No, sir; I misunderstood your question, or else I didn't make myself clear. The shares owned by the five individuals you mentioned awhile ago were included with various other shares which were acquired in 1929, in part, and the balance January 1, 1930, which constituted the block of 20,000 shares which Rogers Caldwell and his associates in the Associated Life Cos., Inc., owned.

Mr. GESELL. Well, then, the five officers that we have been discussing had no stock interest in the company in 1930 except for a few scattered shares.

Mr. SAUL. That is right.

Mr. GESELL. The shares were held by Associated Life Cos., Inc.

Mr. SAUL. That is right.

The VICE CHAIRMAN. You mean the 15,000 shares that you testified previously were owned by the five officers of the company were included in the 20,000 shares acquired by the Associated Life Cos.?

Mr. SAUL. That is right.

Mr. GESELL. So that this control we were talking about rested not with the five officers but with Associated Life Cos., Inc., did it not?

Mr. SAUL. No, sir. The 20,000 shares were 40 percent of the capital, but when the stock was acquired by Associated Life Cos. it was with the understanding that the management would continue the same, because it had been successful, and Rogers Caldwell acquired an interest in several other insurance companies—Southern, the Missouri Life, and several other life-insurance companies—and put all of those stock holdings into Associated Life Cos., Inc., with the general idea of each company feeding to the other company its reinsurance, and for other purposes.

Mr. GESELL. So that Rogers Caldwell and his associates, through the Associated Life Cos., Inc., made it clear that you five gentlemen would remain in active charge of the management of the company, though the stock interest was held apart from yourselves.

Mr. SAUL. Yes, sir; but that stock interest was not a majority.

Mr. GESELL. It was about 40 percent.

Mr. SAUL. It was 20 out of 50,000 shares; yes, sir.

Mr. GESELL. And you five gentlemen still had at your disposal the list of stockholders and were in the position to solicit proxies at the regular stockholders' meetings.

Mr. SAUL. That is right.

Mr. GESELL. Am I correct in saying that these 20,000 shares held by Associated Life Cos., Inc., for Rogers Caldwell and associates was pledged by them with Lehman Brothers in New York?

Mr. SAUL. That is right.

Mr. GESELL. As collateral against loans from Lehman Bros. to Associated Life Cos., Inc.?

Mr. SAUL. That is right.

Mr. GESELL. Did that loan go into default?

Mr. SAUL. Yes, sir.

Mr. GESELL. When?

Mr. SAUL. About February 1930 or thereabouts, the crash began in October 1929, and Caldwell's far-flung financial interest collapsed shortly thereafter, right after the beginning of 1930.

Mr. GESELL. So that in the early part of 1930 these 20,000 shares rested with Lehman Bros. in New York.

Mr. SAUL. That is right.

Mr. GESELL. At that time did you and your four associated officers undertake to purchase these 20,000 shares from Lehman Bros.?

Mr. SAUL. Yes; after Lehman Bros. had foreclosed under their collateral note and acquired the shares themselves.

Mr. GESELL. And what was your interest in desiring to purchase these 20,000 shares?

Mr. SAUL. It was to insure the maintenance and continuance of the company in Roanoke and all of the people there involved in positions, hundreds of them, and so on. We didn't want that block of stock to get into the hands of some interest which might not be friendly.

Mr. GESELL. You wanted to keep the control of the company in the Shenandoah Valley, so to speak?

Mr. SAUL. Yes, sir.

Mr. GESELL. Were you interested in that connection with making sure that your position as officers in this company continued?

Mr. SAUL. That would be a very natural interest, I think, and, of course, it was present in our case.

Mr. GESELL. Had Lehman Bros. threatened to put a different management into the company?

Mr. SAUL. No; they made no suggestion of that sort.

Mr. GESELL. It was just your feeling that you wanted to prevent that occurring in the future?

Mr. SAUL. Yes, sir.

Mr. GESELL. Did you enter into an agreement—I mean yourself and these four others—to purchase the shares from Lehman Bros.?

Mr. SAUL. Yes, sir; on February 25, 1931, that was the Wisconsin meeting.

Mr. GESELL. Am I correct in understanding that the purchase price of the stock was \$40 a share?

Mr. SAUL. That is correct.

Mr. GESELL. That made a total purchase price of \$800,000, is that correct?

Mr. SAUL. Yes, sir.

Mr. GESELL. Do I understand that \$200,000 was payable down and \$125,000 payable on or before February 25 of each year, 1932, 1933, 1934, and 1935?

Mr. SAUL. That is right.

Mr. GESELL. And an additional \$100,000 on or before February 25, 1936?

Mr. SAUL. That is right.

Mr. GESELL. You and your associates were obligated to pay 2½ percent interest on the unpaid balance, is that correct?

Mr. SAUL. Yes; semiannually.

Mr. GESELL. Did you execute your joint and several notes to Lehman Brothers for this \$600,000 after the original \$200,000 amount had been paid?

Mr. SAUL. Yes, sir.

Mr. GESELL. So that each of you five gentlemen became obligated individually and jointly for \$600,000?

Mr. SAUL. That is right.

Mr. GESELL. That was set out in the terms of the agreement with Lehman Brothers to read as follows, was it not—

Mr. SAUL (interposing). We executed our own individual joint and several obligations for the balance of the purchase price and secured the payment thereof by the deposit of the stock under a collateral deposit agreement with Lehman Brothers. Is that what you mean, Mr. Gesell?

Mr. GESELL. You left the stock with them?

Mr. SAUL. Yes, sir.

Mr. GESELL. Who had the right to vote the stock?

Mr. SAUL. They had the right to vote it if they so desired. They never exercised the right during the 1 year that it was outstanding. That is, the year from March 1931—our annual stockholders' meeting is in March—and 1932. A lot of things happened before 1933.

Mr. GESELL. We will come to that.

Mr. SAUL. Yes, sir.

Mr. GESELL. You say Lehman Brothers had a right to vote the stock even when your obligation was not in default?

Mr. SAUL. My recollection is that under the terms of the deposit agreement they had the right to do it, but my recollection is they never exercised it.

Mr. GESELL. Am I correct in understanding that if the obligation went into default and Lehman Brothers sold the collateral, namely, the 20,000 shares, that you and your four associates still remained jointly and severally liable for any deficiencies?

Mr. SAUL. Yes, sir.

The VICE CHAIRMAN. Were the notes similar to mortgage notes? After the collateral had been liquidated you would still remain liable for the balance of the note?

Mr. SAUL. Yes, sir.

Mr. GESELL. Now, after the discussion of this contract, which you said was, when?

Mr. SAUL. February 25, 1932.

Mr. GESELL. Did you and your fellow officers create the Shenandoah Holding Corporation?

Mr. SAUL. Yes. We formed that corporation for the sole and express purpose of acquiring this block of 20,000 shares.

Mr. GESELL. You assigned to that corporation your rights in the contract of purchase with Lehman Bros.?

Mr. SAUL. That is right.

Mr. GESELL. Was there any public interest in the Shenandoah Holding Corporation or was it owned entirely by you five gentlemen?

Mr. SAUL. It was organized and owned entirely by six of us, Mr. W. W. Boxley, of Roanoke city, took some small interest in it, but practically speaking, it was owned entirely by the five of us until after probably 1 year it had been formed and we offered to let any other stockholders of the Shenandoah Life Insurance Co. turn their Shenandoah Life stock into the holding company and receive stock of the holding company therefor on a certain basis, which I think was $2\frac{1}{2}$ shares of Shenandoah Life, based on \$40 a share, for \$100 par value of the Shenandoah holding stock.

Mr. GESELL. During the first days of its existence—

Mr. SAUL (interposing). For practical purposes it was owned exclusively by the five of us.

Mr. GESELL. In the contract to the Shenandoah Holding Corporation you and your fellow officers were not relieved in any way from your personal obligations on the notes to Lehman Bros.?

Mr. SAUL. Not at all; we were not released or relieved.

Mr. GESELL. So that even after this assignment, if there had been a default on the obligation to Lehman Bros. and a deficiency following the sale of the collateral, you gentlemen would still have been personally liable?

Mr. SAUL. Yes, sir.

Mr. GESELL. Can you tell us what interest each of you had in the Shenandoah?

Mr. SAUL. Yes, sir. I subscribed to one-fifth, and Andrews, Trinkle, and Dunkley likewise to one-fifth, and Mr. Angell to one-fifth. But before the matter went along very far, Senator Andrews asked Mr. Angell to take over his fifth, which gave Mr. Angell two-fifths, which Angell did.

Mr. GESELL. In the payment of this original cash payment of \$200,000, did any of you, in making your percentage contribution to that amount, borrow money from the company?

Mr. SAUL. I don't think there was a dime borrowed from the company in making up the \$200,000 cash payment.

Mr. GESELL. I notice from the schedule which we introduced previously that as of February 25, 1931, there were over \$132,000 in collateral loans outstanding to the officers and directors, including loans by some of you gentlemen interested in this particular enterprise. None of those loans were for the purpose of helping finance the purchase of this 20,000 shares of stock?

Mr. SAUL. Not as I recall; I think they were loans previously outstanding, Mr. Gesell.

Mr. GESELL. Then do I understand that the holding company was in a position and did meet the \$125,000 payment required of it under the terms of the agreement on February 25, 1932?

Mr. SAUL. That is right.

Mr. GESELL. So that as of that time you paid for this block of 20,000 shares \$325,000?

Mr. SAUL. That is right, plus interest.

Mr. GESELL. In making that payment of \$125,000 on February 25, 1932, did you or any of your associates borrow money from the Shenandoah Life Insurance Co.?

Mr. SAUL. I couldn't say; we probably did; I will have to refer to the analysis of the collateral loan account.

Mr. GESELL. You have one before you, have you not?

Mr. SAUL. Yes.

Mr. GESELL. From examination of that can you tell us whether you borrowed some money at that time to meet that payment?

Mr. SAUL. There were only two loans made at about that time.

Mr. GESELL. We are talking about the payment—

Mr. SAUL (interposing). Yes; I beg your pardon.

Mr. GESELL. We are talking about \$125,000 on February 25, 1932.

Mr. SAUL. Yes. There were some loans made at that time in January and February of 1932 which were doubtlessly in part in connection with that. There were three of them according to this schedule.

Mr. GESELL. To whom were the loans made and what were the amounts.

Mr. SAUL. The one to Dr. Dunkley was made—no; that wouldn't be it, that was discharged the next 2 months after it was made. There was one to me, \$10,000, made January 8, 1932, which I repaid March 12, 2 months thereafter. That couldn't have been it. I don't know what that was; that wasn't used in connection with this payment. There is a Shenandoah Holding Corporation collateral loan No. 274 for \$2,500 paid 2 days before the maturity of that note, made on February 23, 1932, repaid in September of that year. That may have been used for that purpose; I don't recall, Mr. Gesell.

Mr. GESELL. I notice from the schedule of the computations we have made that there were about \$163,000 of collateral loans outstanding to officers and directors, including you five gentlemen, at that time. Is it your recollection that any of those loans were made to assist the purchase, the meeting of this payment of \$125,000?

Mr. SAUL. As I stated, I don't think so.

Mr. GESELL. After that payment had been made, Mr. Saul, am I correct in saying that the Shenandoah Holding Corporation sold its interest in the contract to Insurance Equities Corporation?

Mr. SAUL. Yes, sir.

Mr. GESELL. Was Insurance Equities, Inc., another insurance holding company which was organized and operated by two men from New York, a Mr. Barnes and a Mr. Cohen?

Mr. SAUL. That is correct; they acquired interest in several different companies.

Mr. GESELL. You sold your interest to them for \$365,000? Is that correct?

Mr. SAUL. In notes, plus the assumption of the balance due Lehman Bros.

Mr. GESELL. They assumed the obligation on the balance due?

Mr. SAUL. That is right.

Mr. GESELL. Namely, \$800,000, less \$325,000?

Mr. SAUL. That is right.

Mr. GESELL. And gave in addition notes for \$365,000?

Mr. SAUL. That is right.

Mr. GESELL. Am I correct in saying that none of the officers or directors of Shenandoah were interested in this venture of Mr. Barnes and Mr. Cohen?

Mr. SAUL. None whatever.

Mr. GESELL. None of the notes were paid, were they?

Mr. SAUL. Not a dime.

Mr. GESELL. At what point, then, did Shenandoah foreclose on the notes and take back—that is, Shenandoah Holding Corporation—its interest in this contract with Lehman Bros.?

Mr. SAUL. After Insurance Equities defaulted in February '33, the Shenandoah Holding Corporation foreclosed under its collateral agreement with them by sale of the equity in the contract of sale at public auction in New York, and my recollection is that after the proper advertising, and so on, had been made, the date was in April 1933.

Mr. GESELL. So that by the spring of 1933 Shenandoah Holding Corporation again held the contract with Lehman Bros.?

Mr. SAUL. I didn't understand.

Mr. GESELL. By spring of 1933 Shenandoah Holding Corporation again held the contract with Lehman Bros. to purchase this 20,000 shares?

Mr. SAUL. That is right.

Mr. GESELL. There was a payment due, was there not, on February 25, 1933?

Mr. SAUL. Yes, sir.

Mr. GESELL. Of \$125,000?

Mr. SAUL. That is right.

Mr. GESELL. How was that payment financed?

Mr. SAUL. It was financed in part by loan from the Shenandoah Life Insurance Co.

Mr. GESELL. You mean to say that the Shenandoah Holding Corporation borrowed money from the Shenandoah Life Insurance Co. in order to meet its obligation to Lehman Bros.?

Mr. SAUL. That is right.

Mr. GESELL. How much money did it borrow from the life-insurance company?

Mr. SAUL. \$116,000.

Mr. GESELL. What security did it give for that money?

Mr. SAUL. It gave the \$365,000 of notes of the Insurance Equities Corporation, plus the personal endorsement of the four of us.

Mr. GESELL. You gentlemen gave your personal endorsement, plus this \$365,000 note?

Mr. SAUL. Yes, sir.

Mr. GESELL. That note was worthless, wasn't it?

Mr. SAUL. It was afterward proved so, but we didn't know it at the time.

Mr. GESELL. They had defaulted to you, had they not?

Mr. SAUL. No, sir; we were afraid they were going to default when we got the loan because we couldn't take any chance on our default to Lehman Bros., but Insurance Equities had repeatedly assured us up until February 25 that they were going to be in a position to make the payment.

The VICE CHAIRMAN. They never paid a dime on it?

Mr. SAUL. No, sir.

Acting Chairman O'CONNELL. Had there ever been any interest on the note?

Mr. SAUL. No; there had not been any interest due.

Acting Chairman O'CONNELL. What kind of note was it?

Mr. SAUL. It was a perfectly good note. Interest was payable semiannually. The sale to Insurance Equities was dated August 31, 1932, so that the first semiannual interest had not matured on February 25.

Acting Chairman O'CONNELL. It didn't mature until February 25?

Mr. SAUL. That is right; but we had heard rumors of the predicament Insurance Equities was getting in, and notwithstanding their statement they would be in a position to meet the payment, we were afraid they wouldn't, so we made arrangements to have the cash, and we waited until about 2 o'clock in the afternoon and Insurance Equities didn't pay and we went down and made the payment.

Mr. GESELL. So that you had pretty great suspicions right from the start, didn't you, that this \$365,000 obligation was a worthless obligation, as far as Insurance Equities was concerned?

Mr. SAUL. From the start? No.

Mr. GESELL. From the time that you again took back your interest in the contract, I mean?

Mr. SAUL. When we actually took back our interest in the contract, Insurance Equities had collapsed, but at the time we sold to them and took their notes they were in very good circumstances.

Mr. GESELL. How soon after that did you find out the \$365,000 note was worthless?

Mr. SAUL. I would say about the 1st of January; not worthless, but that they were getting in a rather precarious financial condition.

Acting Chairman O'CONNELL. Mr. Saul, at the time you placed the note with the insurance company, the maker of this note, this corporation in New York, was actually in default of its obligation to you people; was it not?

Mr. SAUL. I am sorry, I didn't quite get your question.

Acting Chairman O'CONNELL. At the time you pledged the \$365,000 note as your security for a loan from the life-insurance company, the maker of the note was actually in default of its obligation to you people.

Mr. SAUL. No, sir; that is what I undertook to make clear just now. We felt they were going to be in default.

Acting Chairman O'CONNELL. But was it not one of the obligations of the maker of the note to make the \$125,000 payment on the 25th of February that you actually made with the funds of the insurance company? I understood you to say they assumed the obligation.

Mr. SAUL. They did.

Acting Chairman O'CONNELL. They were in default of that obligation, were they not?

Mr. SAUL. Not at the time it was made.

Acting Chairman O'CONNELL. But the loan was made for the purpose of making that payment.

Mr. SAUL. If they did not make it; yes, sir.

Mr. GESELL. What was the date of the loan?

Mr. SAUL. It was February 22 or 23.

Mr. GESELL. Just a couple of days before the payment was due?

Mr. SAUL. Yes, sir.

Mr. GESELL. How did you get back your interest in this contract which you had assigned to Insurance Equities if Insurance Equities hadn't in some way defaulted on the obligation to you?

Mr. SAUL. After February 25, when they actually did default, we then took steps to foreclose under our deposit agreement.

Mr. GESELL. When did they default?

Mr. SAUL. February 25.

Mr. GESELL. So you actually worked out this arrangement to meet the payment to Lehman Bros. before there had been any default, knowing there was to be one on February 25, 1933.

Mr. SAUL. Not knowing, but suspecting very greatly.

Mr. GESELL. So you also suspected very greatly that the \$365,000 note which you had pledged with the life-insurance company as collateral for a loan of \$116,000 was also going to be in default?

Mr. SAUL. But we considered the stock well worth what was behind it at that time.

Mr. GESELL. Who considered the stock worth what?

Mr. SAUL. We did; we considered the stock worth what we were obligated to pay thereagainst.

Mr. GESELL. Oh, I can see the advantage of the obligation from the point of view of the holding corporation. I was thinking of the point of view of the policyholders in the insurance company. What did they get when they advanced \$116,000 to you gentlemen to enable you to acquire in your personal capacities stock interest in the company? They got a worthless note.

Mr. SAUL. As of December 31, 1938, they have gotten all of it, except \$1,700.

Mr. GESELL. But we are going to show how that took place, but at this time they made a loan of \$116,000 to enable you gentlemen to buy a stock interest in the company and got in return a \$365,000 note of doubtful value, plus the signatures of the officers.

Mr. SAUL. Plus the stock of the Shenandoah Life Insurance Co. as the security above the balance due.

Mr. GESELL. You mean you made an assignment of the 20,000 shares of stock to the insurance company at this time?

Mr. SAUL. No, sir; but I think upon the payment of the balance due by the holding company agreement on the stock in payment of the stock, that was the asset of the maker of the note, the Shenandoah Holding Corporation.

Mr. GESELL. But you had still other payments to make before you acquired the stock.

Mr. SAUL. Yes, sir.

Mr. GESELL. So you didn't have it at the time the loan was made.

Mr. SAUL. No, sir.

Mr. GESELL. And no prospect that you would be able to acquire it through the making of a payment.

Mr. SAUL. We had only the equity in it.

Mr. GESELL. What was the condition of the company at the time this \$116,000 loan was made? Was it not a fact that the disbursements were greater than the income at this time?

Mr. SAUL. I don't think so.

Mr. GESELL. May I call your attention to a letter from Mr. Guertin, actuary of the New Jersey State Department, to Mr. Angell, president of the company, under date of August 3, 1933. He said [reading from "Exhibit No. 1123"]:

We are in receipt of the semi-annual statement of your company for the six months' ending June 30th, 1933. It is noted from this statement that during a

period when disbursements continued to exceed income and your company was operating under restrictions for the benefit of conserving its liquid position, your company increased its outstanding collateral loans by approximately \$100,000 which increase was caused by a loan of \$116,675.58 to the Shenandoah Holding Corporation on the security of certain notes of Insurance Equities Corporation.

Does that refresh your recollection as to the condition of the company at that time?

Mr. SAUL. Mr. Guertin says the statement for the first 6 months of 1933 shows disbursements exceeded income and he doubtless is correct because he got the information from the treasurer of the company, but I wasn't under the impression that for any year the disbursements exceeded the income. Now when that loan was charged off, that is, taken out of the admitted assets of the company, I just don't recall whether in any year, for the year, there has ever been an excess of disbursements over income.

Mr. GESELL. He points out rather sharply here that at the time you made this loan your company required a very liquid condition because its disbursements were greater than income; did he not?

Mr. SAUL. For the first 6 months.

Mr. GESELL. His letter goes on to say [reading further from "Exhibit No. 1123"]:

It is noted that other collateral loans have been made and that certain others, although overdue, have not been paid. Please furnish us with a complete list of borrowers who have any connection with your company whatsoever by way of stockholdings, directorships, or executive office holding. In view of the fact that the income of your company continues to be less than its disbursements it does not appear entitled to use Convention values in the valuation of securities.

I gather from that letter that the company was in rather serious financial condition at the time this \$116,000 loan was made.

Mr. SAUL. It was not so considered by either us or the Virginia Insurance Department. There has never been any question about the solvency of the company.

Mr. GESELL. You recognize that as a letter which was received; do you not?

Mr. SAUL. Yes.

Mr. GESELL. I should like to offer it for the record.

Acting Chairman O'CONNELL. It may be admitted.

(The letter referred to was marked "Exhibit No. 1123" and is included in the appendix on p. 6973.)

Mr. GESELL. What happened in New Jersey, did you withdraw from New Jersey?

Mr. SAUL. Yes, sir.

Mr. GESELL. When?

Mr. SAUL. At the end of '33.

Mr. GESELL. At the end of that year you withdrew from doing business in New Jersey?

Mr. SAUL. Yes, sir.

Mr. GESELL. What was the surplus of the company at or about the time this loan of \$116,000 was made?

Mr. SAUL. As at December 31, 1932, which is 2 months prior to the time the loan was made, the capital of the company was \$500,000, the surplus was \$500,000, and a special reserve for all other liabilities of \$86,000.

Mr. GESELL. The next payment came due in February of 1934; did it not?

Mr. SAUL. Yes, sir.

Mr. GESELL. Was the Shenandoah Holding Corporation in a position to meet that payment?

Mr. SAUL. No, sir.

Mr. GESELL. If the payment had not been made you and your five fellow officers would have been obligated; would you not, personally?

Mr. SAUL. Yes, sir.

Mr. GESELL. In what amount?

Mr. SAUL. In the unpaid balance of \$350,000.

Mr. GESELL. Each of you would have had that as a personal obligation?

Mr. SAUL. Yes, sir.

Mr. GESELL. Was it at this time that it was decided to change the company from a stock company to a mutual company?

Mr. SAUL. That suggestion was made to us in January '34. The Virginia legislature was in session and with the aid and sponsorship of the Virginia Insurance Department and the State Corporation Commissioner, it was decided to enact in Virginia a statute for conversion of a stock insurance company into a mutual life insurance company, based on the similar statutes in the State of New York and New Jersey.

Mr. GESELL. That was section 4251a of the Virginia Code, entitled "Conversion of a Stock Life Insurance Corporation into a Mutual Life Insurance Corporation," was it not?¹

Mr. SAUL. Yes, sir.

Mr. GESELL. What was the date that this section was enacted?

Mr. SAUL. It was enacted at the '34 session and became effective, I think, about March of that year.

Mr. GESELL. About March of 1934?

Mr. SAUL. Yes, sir.

Mr. GESELL. Did you have anything to do with the drafting of this section?

Mr. SAUL. I had something to do with it; yes, sir.

Mr. GESELL. Will you tell us what you did have to do with the drafting of this section?

Mr. SAUL. I conferred with the insurance department in Richmond several times in reference to it. The act was drawn really by the regular draftsmen of the legislature who prepare bills. I conferred several times with the examiner of the insurance department and the superintendent of the department in connection with it.

Mr. GESELL. Was this an act which was passed primarily to meet the situation of your company?

Mr. SAUL. It was a very helpful act to our company and we received from the legislature the entire cooperation in the passage of it.

Mr. GESELL. So that it was passed for the benefit of your company primarily?

Mr. SAUL. I think it was passed with that view in mind, though it was not a special act for our benefit in any sense.

Mr. GESELL. Who initiated the passage of any such act as this? Was it your company?

¹ Entered later as "Exhibit No. 1124." See appendix, p. 6974.

Mr. SAUL. As I stated, I didn't hear of the consideration by the insurance department of such a statute in Virginia until it was called to my attention by the superintendent of insurance, and it immediately seemed to be a statute that would be helpful to us, and immediately we began to do all we could to have it enacted as promptly as possible.

Mr. GESELL. You mean that the insurance commissioner was considering, in a more or less general way, the possible advisability of having some such section that would enable stock companies to mutualize?

Mr. SAUL. Yes, sir.

Mr. GESELL. And when you heard he had that idea in mind you told him how desirable it would be from the point of view of your company?

Mr. SAUL. Yes, sir.

Mr. GESELL. And thereafter you did what you could to encourage the immediate passage of the act?

Mr. SAUL. That is right. He knew that also before I told him, and he was very helpful and cooperative in the matter.

Mr. GESELL. You recognize this as a copy of the statute which was enacted at that time?

Mr. SAUL. I do. I have a carbon here, Mr. Gesell, I haven't read it all, but glancing at it, I imagine it is a correct copy.

Mr. GESELL. I would like to offer it for the record.

Acting Chairman O'CONNELL. It may be printed.

(The statute referred to was marked "Exhibit No. 1124" and is included in the appendix on p. 6974.)

Mr. GESELL. Now, the statute provides, does it not, that first of all the directors of a company, the majority of the directors, must approve the plan to change from stock to mutual company?

Mr. SAUL. Yes, sir.

Mr. GESELL. And then the stockholders must meet and a majority of the stockholders must so approve?

Mr. SAUL. Yes, sir.

Mr. GESELL. Following that, the policyholders have a meeting?

Mr. SAUL. That is right.

Mr. GESELL. And the majority of those present—not the majority of the policyholders but the majority of those present and voting must approve; is that correct?

Mr. SAUL. I have forgotten whether it says a majority or a majority of those present.

Mr. GESELL. I believe you will find it on the first page.

Mr. SAUL. In any event, there was no opposition anywhere to it. It was practically 99.44 unanimous, both the stockholders and policyholders.

Mr. GESELL. The statute reads, does it not, "the majority of those policyholders who are present and voting must approve?"

Mr. SAUL. I am just looking for it. If you say it does, I am quite sure it does. Where is it?

Acting Chairman O'CONNELL. It reads [reading from "Exhibit No. 1124"]:

Approved by a majority vote of the policyholders voting at a meeting called for that purpose, at which meeting only such policyholders whose insurance shall then be in force.

Mr. SAUL. Yes.

Mr. GESELL. I notice in the statute a special reference to group insurance. Is that a special situation that you were anxious to have written into the section?

Mr. SAUL. Yes, sir. It would have been rather impractical to send ballots to all certificate holders under master policies, and so we provided that the vote of the association holding the master policy should cast that ballot.

Mr. GESELL. Well, now, let me see if I can reconstruct what happened in some kind of sequence. Prior to undertaking the mutualization you and your associates owed \$350,000 to Lehman Bros. Your corporation, the holding company, was also obligated in the amount of \$116,000, was it not, to the insurance company?

Mr. SAUL. That's right.

Mr. GESELL. You were unable to meet the payment of \$125,000 which fell due in February of 1934?

Mr. SAUL. That's right.

Mr. GESELL. Did you then, therefore, obtain an extension from Lehman Bros.?

Mr. SAUL. We did—an extension until May 15, 1934.

Mr. GESELL. Then, prior to the time that that extension ran out, the act was enacted and became law?

Mr. SAUL. That's right.

Mr. GESELL. And steps were undertaken pursuant thereto to mutualize the company?

Mr. SAUL. That's right.

Mr. GESELL. Am I correct in saying that the directors of the insurance company met specially on March 8, 1934, and approved the plan of mutualization which was then referred to the stockholders?

Mr. SAUL. That is correct.

Mr. GESELL. And that following that the stockholders held a meeting?

Mr. SAUL. And approved it.

Mr. GESELL. And approved it, and thereafter there was a meeting of policyholders?

Mr. SAUL. Yes, sir.

Mr. GESELL. And policyholder approval obtained?

Mr. SAUL. Yes, sir.

The VICE CHAIRMAN. How many policyholders were at that meeting?

Mr. GESELL. There were 777 policyholders present, were there not?

Mr. SAUL. I don't recall. There was a notice and proxy sent to every policyholder. I don't recall how many proxies were returned and how many voted.

Mr. GESELL. In favor of the resolution for approval, 770; against the resolution for approval, 7; total votes cast, 777.

We will come back to that meeting in a moment.

Now the plan of mutualization was set out in detail, was it not, in the notice sent to both the policyholders and the stockholders?

Mr. SAUL. Yes, sir; it was.

Mr. GESELL. Do you recognize this document which I show you as the notice of plan sent to the policyholders and the stockholders?

Mr. SAUL. Yes, sir; it was.

Mr. GESELL. Do you recognize this document which I show you as the notice of plan sent to the policyholders?

Mr. SAUL. Yes, sir.

Mr. GESELL. A similar notice was sent to the stockholders, was it not?

Mr. SAUL. Yes, sir; except that in the notice to the stockholders there was special attention called to the fact that the Shenandoah Holding Corporation owed this \$116,000 to the life-insurance company and that the Shenandoah Holding Corporation was largely owned and controlled by officers of the Shenandoah Life. We put that in the notice, right out in the open, as it went to every stockholder.

Mr. GESELL. Did you not also advise the policyholders of that fact?

Mr. SAUL. I don't recall.

Mr. GESELL. It is set forth in the plan of mutualization, I believe.

Mr. SAUL. Yes; with reference to the plan of mutualization, it is.

Mr. GESELL. In the notice itself?

Mr. SAUL. In the notice to the stockholders we went into more detail about it.

Mr. GESELL. Will you tell us what the plan of mutualization provided for in a general way? I will insert the entire plan in the record and you just give us a general idea of how it was to work.

Mr. SAUL. The general plan of mutualization was that the capital of the company being \$500,000 and the surplus \$500,000, a total of a million dollars—I am just using round figures—and the par value of the stock being \$10 a share, therefore the book value was \$20 per share. It was proposed to acquire shares of the company from its stockholders at the price of \$20 a share payable \$15 in cash and a contingent \$5 at such time as the board of directors, with the approval of the State Corporation Commission, which in Virginia has charge of insurance matters and banking and so on—and the dividends thereafter declared by the board of directors for a period of 15 years.

Mr. GESELL. Let me see if I understand that before we go on. The stockholders were to receive \$20 a share, \$15 immediately, and \$5 at a subsequent time?

Mr. SAUL. Yes, sir.

Mr. GESELL. And they were to receive in addition dividends declared by the insurance company for a period of 15 years?

Mr. SAUL. Yes, sir.

Mr. GESELL. The mutualization, then, would not really be completed until 15 years from 1934?

Mr. SAUL. It would not if all of the stock had been acquired simultaneously.

Mr. GESELL. Do I understand that there was a provision that the block of 20,000 shares which would be held by Shenandoah Holding Co. would be the first block of shares purchased pursuant to the plan of mutualization?

Mr. SAUL. That's right; and provided that the purchase should be consummated before May 15, otherwise the plan would not become operative. That date of May 15, I explained a while ago, is the extension date which we received from Lehman Bros.

Mr. GESELL. In other words, you provided that the plan would go by the board entirely unless these 20,000 shares were purchased from the holding corporation at the time the holding corporation became obligated to Lehman Bros.

Mr. SAUL. That is correct.

Shall I go on?

Mr. GESELL. Certainly.

Mr. SAUL. Then it further provided that the company could purchase stock outright, on the open market, at the prevailing market price. It provided further that if a stockholder wanted to sell his stock to the company, the company could buy it and commute the estimated 15-year dividends to accrue to the stockholder; and it provided that after the acquisition of the initial block of 20,000 shares from the Shenandoah Holding Corporation that thereafter, except as stock might be acquired on the open market under section F of article I, the stock would be drawn by lot by the trustees, and, of course, the same price paid to each stockholder.

Mr. GESELL. I would like to offer for the record at this time the notice to the policyholders and a complete statement of the plan contained therein.

Acting Chairman O'CONNELL. It may be inserted in the record.

(The document referred to was marked "Exhibit No. 1125" and is included in the appendix on p. 6975.)

Mr. GESELL. In that notice to policyholders, Mr. Saul, you did not advise them, did you, that the execution and carrying out of this mutualization plan would result in relieving the officers of this personal obligation which they had of some \$300,000?

Mr. SAUL. No; I think there is no mention of that made.

Mr. GESELL. Do I understand that Lehman Bros. agreed to settle for \$300,000?

Mr. SAUL. They agreed to and did.

Mr. GESELL. And \$300,000 was exactly the purchase price of the 20,000 shares arranged between the holding corporation and the insurance company?

Mr. SAUL. That is correct.

Mr. GESELL. What was the market price of the stock at the time it was agreed to purchase the stock at \$20 a share?

Mr. SAUL. The market price was approximately \$6 a share, but there were very few shares trading hands. The \$20 value was fixed, as I explained before, because that was the book value of the capital and surplus divided into the 50,000 shares.

Mr. GESELL. Now, in order to get the majority of the stockholders necessary to approve this plan, am I correct in saying that you needed only approximately 2,001 shares to be obtained by proxy, the management owning or controlling approximately 23,239 shares?

Mr. SAUL. That is about correct; yes, sir.

Mr. GESELL. Were the proxies obtained at this meeting of stockholders solicited by the agents?

Mr. SAUL. No, sir.

Mr. GESELL. They were mailed out to the stockholders?

Mr. SAUL. Mailed out to the stockholders.

Mr. GESELL. Did you gentlemen vote the shares of this company at this meeting?

Mr. SAUL. No, sir.

Mr. GESELL. Who voted the 20,000 shares?

Mr. SAUL. Lehman Bros., gave their proxy to the chief examiner of the State insurance department of the State of Virginia, for 20,000 shares.

Mr. GESELL. And he voted the 20,000 shares?

Mr. SAUL. Yes, sir.

Mr. GESELL. You were quite certain that Lehman Bros. had the right to vote this stock?

Mr. SAUL. Yes, sir.

Mr. GESELL. It was my understanding that usually in some such pledge agreement as this the right to vote the stock remained with the pledgor, not the pledgee.

Mr. SAUL. We were in default at that time.

Mr. GESELL. I thought you had obtained an extension.

Mr. SAUL. We had; nevertheless we were in default, and they said they wouldn't sell us out prior to May 15.

Mr. GESELL. In the soliciting of proxies for the policyholders' meeting were they solicited by the agents?

Mr. SAUL. No, sir.

Mr. GESELL. How were they distributed?

Mr. SAUL. They were mailed to each stockholder, to his address as shown by our books.

Mr. GESELL. I said "policyholders."

Mr. SAUL. I meant policyholders.

Mr. GESELL. They were mailed to each policyholder?

Mr. SAUL. Yes, sir.

Mr. GESELL. The agent had nothing to do with the solicitation?

Mr. SAUL. Not a thing. There was no solicitation made.

Mr. GESELL. You simply mailed out the proxies to them?

Mr. SAUL. We mailed out the notice and the plan of mutualization, with a proxy.

Mr. GESELL. Were you present at the policyholders' meeting?

Mr. SAUL. Yes, sir.

Mr. GESELL. What type of objection was raised by these seven policyholders who were against the resolution approving the plan of mutualization? Who were they and what were their objections?

Mr. SAUL. As I recall, none of them was in person. They had just marked on their proxies, "Vote against the plan!"

Mr. GESELL. Did you tell the policyholders generally in this notice to them that they had a right to disapprove the plan?

Mr. SAUL. Certainly; I think so. That was the purpose of it.

Mr. GESELL. Will you show us where you told them that?

Mr. SAUL. The notice is dated March 26, 1934, addressed to the policyholders [reading from "Exhibit No. 1125"]:

After mature consideration, the Officers and Board of Directors of Shenandoah Life Insurance Company decided to convert this stock company into a mutual life-insurance company under the Virginia laws in accordance with the Plan set out below. This Plan has been submitted to and approved by the Bureau of Insurance and Banking of the State Corporation Commission of Virginia, and has been approved by more than two-thirds of the Stockholders of this Company. It is herewith submitted to our Policyholders for their approval, as required by law.

This Plan will not change the terms and conditions of your policy.

This movement is in keeping with the modern trend in the insurance world and is similar to the action taken by other progressive stock companies in recent years whereby the stock companies became mutual life companies and are now owned by their policyholders. In excess of 75 percent of all life insurance today is in mutual companies.

A meeting of the Policyholders of this Company is hereby called for Monday, April 30, 1934, at 10:30 A. M. o'clock, at the Home Office of the Shenandoah Life Insurance Company in Roanoke, Virginia, for the purpose of passing upon this Plan to mutualize the Company.

Mr. GESELL. You didn't tell them there that they had any right to vote in disapproval of the plan.

Mr. SAUL. And the concluding paragraph is [reading further from "Exhibit No. 1125"]:

You, as a Policyholder, are entitled to vote in person, by proxy, or by mail. If inconvenient for you to attend the meeting in person and you do not desire to vote by mail, you may sign and return the attached proxy.

Mr. GESELL. The proxy is a proxy in favor of the plan, is it not?

Mr. SAUL. The proxy is attached.

Mr. GESELL. The proxy is a proxy in favor of the plan?

Mr. SAUL. I will read the proxy. [Reading further from "Exhibit No. 1125":]

KNOW ALL MEN BY THESE PRESENTS: That the undersigned holder of Policy No. _____ issued by the Shenandoah Life Insurance Company of Roanoke, Virginia, does hereby constitute and appoint E. Lee Trinkle, J. P. Saul, Jr., and Charles E. Ward, or either of them, or _____ my true and lawful proxy to vote upon the Plan to Mutualize said Shenandoah Life Insurance Company at the meeting of the Policyholders to be held for that purpose at the Home Office of said Shenandoah Life Insurance Company in Roanoke, Virginia, at 10:30 A. M. o'clock, on Monday, April 30, 1934, or at any adjourned meeting thereof, hereby ratifying and confirming all lawful acts my said proxy may do by reason of this appointment.

The point you raise I have never considered. Every notice of a stockholders' meeting of any kind, or a policyholders' meeting, stating the purpose of it and inviting them to attend and vote to pass upon the matter to be passed upon, is all I have ever heard of being put in a notice.

Mr. GESELL. You didn't send them two proxies, one to vote for and one to vote against the plan of mutualization?

Mr. SAUL. No; just the regular proxy.

The VICE CHAIRMAN. In the notice to the policyholders you first set forth that after due deliberation you had come to the conclusion that that was the thing to be done and was in keeping with modern trends of insurance companies?

Mr. SAUL. That is right, and that it had to be approved by the policyholders to become effective.

The VICE CHAIRMAN. And you didn't say to vote for or against, or to approve or disapprove, but just to pass upon this plan.

Mr. SAUL. That's right.

The VICE CHAIRMAN. This mutualization bailed you and your associates out of some \$300,000 obligations?

Mr. SAUL. That's right.

Mr. GESELL. I take it that after the approval of the policyholders and stockholders and directors and the State commission had been obtained it was then necessary for the company to make arrangements to pay the \$300,000 to the Shenandoah Holding Corporation.

Mr. SAUL. How did the question start? I didn't hear you, Mr. Gesell.

Mr. GESELL. After the approval had been obtained from policyholders, stockholders, directors, and the insurance commission, the insurance company then had to make arrangements to pay \$300,000 to the holding corporation.

Mr. SAUL. It did. It paid it to the holding company and the holding company then transmitted it to Lehman Bros.

Mr. GESELL. Was it necessary for the holding company to borrow money in order to pay this \$300,000 obligation?

Mr. SAUL. The holding company or the insurance company?

Mr. GESELL. The insurance company.

Mr. SAUL. I think they borrowed probably a small part of it, rather than take it all out of cash.

Mr. GESELL. They borrowed \$150,000, did they not, from three banks in Roanoke?

Mr. SAUL. I think that was the amount, a temporary loan repaid a month or two afterwards.

Might I say this to the committeeman: You said, and I agree, they did bail us out of payment of \$350,000 in one sense, but in another sense it would have been no trouble on earth for Lehman Bros. to have sold that block of 20,000 shares for more than the amount against it. We had reduced the price from \$800,000 to \$350,000 and there was only \$350,000 against it, and they could readily have sold, as they knew and we knew, the block of 20,000 shares for more than that against it.

Acting Chairman O'CONNELL. I understood you to say the market price on that stock was \$6 a share.

Mr. SAUL. That is true, but a financial statement of an insurance company doesn't reflect the value of the millions of dollars it has in force on its books, which is a large factor.

The VICE CHAIRMAN. You would have lost control had Lehman Bros. done that?

Mr. SAUL. We would have lost the 40 percent of the control.

Mr. GESELL. At the time the insurance company paid this \$300,000 to the holding company the holding company was obligated to the insurance company in the amount of \$116,000, was it not?

Mr. SAUL. Yes, sir.

Mr. GESELL. In spite of that fact the payment of \$300,000 was taken by the holding company and paid to Lehman Bros. for the stock, instead of being used in part to liquidate the indebtedness of \$116,000. Is that not correct?

Mr. SAUL. It is correct in one sense, but it is not right.

Mr. GESELL. What is wrong about it?

Mr. SAUL. The purpose of the clean-up by the insurance company of \$300,000 at \$20 per share was, as stated in the plan of mutualization, to go to the discharge of the balance due against the stock. It couldn't have been used for any other purpose.

Mr. GESELL. Did the plan specifically provide that the money would have to be used for that purpose?

Mr. SAUL. I think so. It was with no other thought. I don't recall—I might ask the treasurer whether a check was ever drawn to the Shenandoah Holding Corporation and by it endorsed to Lehman Brothers, or whether the Shenandoah Life's check was payable directly to Lehman Brothers.

This line, Mr. Gesell, in paragraph (d) of Article I [reading from "Exhibit No. 1125"]:

After the cash payment for said 20,000 shares shall have been made and used in the discharge of the amount due against said shares, all future payments—and so on. It is right in the plan.

Mr. GESELL. So that the plan was drawn in such a manner that there would at no time have attached any right to the insurance com-

pany to attempt to collect the obligation of the holding company out of the money it paid to the holding company?

Mr. SAUL. No; it paid exactly the amount necessary to discharge the balance due Lehman Brothers.

Mr. GESELL. There had been some pressure put upon you by the Insurance Department to liquidate that \$116,000 indebtedness, had there not?

Mr. SAUL. Yes, sir; they asked us to pay it.

Mr. GESELL. I notice in their '35 report the statement that under date of March 17, 1933, the Virginia Insurance Department requested the payment of this loan be demanded, and in a letter of the same date assurance was given that the loan would be promptly repaid.

When was this \$116,000 loan finally repaid?

Mr. SAUL. \$100,000 of it, which represents the contingent \$5 per share on the 20,000 shares, was paid by the insurance company to the holding company by a credit, a ledger, a bookkeeping entry, on or about December 30, 1936.

Mr. GESELL. In other words, the extra \$5 on the purchase price was credited against the note.

Mr. SAUL. The note; that's it.

Mr. GESELL. What happened to the \$16,000?

Mr. SAUL. The \$16,000 has been reduced by the application of dividends on the stock. The plan provides that all dividends on the 20,000 shares for the period of 15 years, or rather, within the period of 15 years, shall be applied by the insurance company to the liquidation of that note or any other indebtedness due by the Shenandoah Holding to the Shenandoah Life.

Mr. GESELL. So that the sixteen thousand is being reduced by dividends which the insurance company is paying. These are being credited in the case of the stock owned by the holding company against the sixteen thousand obligation?

Mr. SAUL. The owners of the Shenandoah Holding Corporation have never received one cent from the total investment put in there and will not, of course, until the full balance of that \$16,000, the residue of the \$116,000 note, shall have been paid in full.

Mr. GESELL. Do the policyholders yet have any vote in this company?

Mr. SAUL. No, sir.

Mr. GESELL. The stock is held by trustees; is that correct?

Mr. SAUL. That is correct. As provided in the plan, the stock is held by five trustees; two of them are elected by the stockholders, two of whom are elected by the policyholders, and one of whom is appointed by the State corporation commission.

Mr. GESELL. Do the policyholders elect their representative or is it not rather that they are appointed representatives of the policyholders?

Mr. SAUL. That is true. I meant that there are two trustees representing policyholders.

Mr. GESELL. They are not appointed by the policyholders?

Mr. SAUL. No; they are elected to represent them and are policyholders and are not stockholders.

Mr. GESELL. Who appoints them?

Mr. SAUL. They were elected at the meeting of the stockholders held in 1934, except the representative appointed by the State Corporation commission.

Mr. GESELL. In other words, there are five trustees, one appointed by the State commission, four appointed by the stockholders, two to represent the stockholders, and two to represent policyholders.

Mr. SAUL. The two policyholders are not stockholders. They are large policyholders.

The VICE CHAIRMAN. How many policyholders are there in your company, approximately?

Mr. SAUL. Including certificate holders under master policies, there is in excess of 100,000.

Mr. DECKER.¹ Twenty-one thousand, I believe, ordinary policyholders.

The VICE CHAIRMAN. Twenty-one thousand ordinary policyholders?

Mr. DECKER. That is, exclusive of group.

Mr. SAUL. There are approximately 90,000 group-certificate holders under master policies.

The VICE CHAIRMAN. That would be a master policy covering a group?

Mr. SAUL. Yes, sir. That is divided, however, into about 16 master policies. I think you have a list of them. But the aggregate under the 16 master policies, I would say, is about ninety to a hundred thousand.

Mr. GESELL. Then the trustees appointed by the stockholders to represent the policyholders were whom—Mr. Malcolm Kerlin?

Mr. SAUL. Mr. Malcolm Kerlin is one, and Mr. Robert Lee Lynn, of Roanoke, is the other.

Mr. GESELL. Who are those two individuals?

Mr. SAUL. Mr. Malcolm Kerlin is executive assistant to the Secretary of Commerce here in Washington. He is a very fine, able man. He is on the board of directors of the master group policy issued to the Employees' Beneficial Association in the Department of Commerce.

Mr. GESELL. Has he had any connection with the company in a monetary sense at all?

Mr. SAUL. None whatever, not in any way, shape, or form.

Mr. GESELL. He received no commissions of any kind?

Mr. SAUL. Not a dime of any kind or character.

Mr. GESELL. Who is Mr. Lynn?

Mr. SAUL. Mr. Lynn is a businessman in Roanoke, president of S. F. Heirsimons Co., the largest department store, probably, between Richmond and Knoxville, Tenn., and a very fine, outstanding man in our section of the country.

Mr. GESELL. Has he had any connection with the company in any way other than as a policyholder?

Mr. SAUL. Not in any way, shape, or form.

Mr. GESELL. The trustees vote, do they, in accordance with directions given them by the stockholders, or how does that work?

Mr. SAUL. No; they vote just as any stockholder would vote for the election of directors.

Mr. GESELL. They solicit proxies, do they?

Mr. SAUL. No, sir; they do not.

Mr. GESELL. How does that work?

Mr. SAUL. The first initial block of 20,000 shares, when it was paid for by the company, was transferred from the name in which it

¹ A. G. Decker, treasurer, Shenandoah Life Insurance Company.

then stood, Shenandoah Holding Corporation, to these names—not itemizing, particularizing, but trustees under the plan of mutualization. Then, as stock has been acquired on the open market—and we now have acquired approximately a little over 15,000 shares in addition to the original 20,000, making the total already purchased and brought in by the company under the plan of mutualization slightly over 35,000 of the total of 50,000—as those shares are acquired they are canceled and reissued in the name of the trustees under the plan of mutualization, and the trustees now vote, as I say, some 35,000 of the shares.

Mr. GESELL. I have no further questions of this witness.

Acting Chairman O'CONNELL. You say the company has acquired about 35,000 of the original 50,000 shares?

Mr. SAUL. Yes, sir.

Acting Chairman O'CONNELL. Are you proceeding as rapidly as you can, in view of your available cash, to acquire stock? Is that the thing that keeps you from acquiring it all?

Mr. SAUL. Yes, sir. We are prosecuting the plan with all of the energy we can. The stock is widely scattered in small blocks, and it has been difficult—the stockholders haven't cared especially to sell. It has been coming in slowly. We would like to have completed it by now, but there is no way to compel a stockholder to sell his stock, and we have made every reasonable legitimate effort to induce them to sell it to the company under the plan of mutualization.

Acting Chairman O'CONNELL. And under the plan each stockholder gets \$20 for each share of his stock, and dividends for 15 years. Is that applicable to all of the stock?

Mr. SAUL. All of the provisions are applicable to all of the stock. That is, when we begin drawing by lot, when we have exhausted every reasonable means of acquiring it on the open market, we will begin drawing it by lot.

Mr. GESELL. What are you paying for the stock you are acquiring on the open market?

Mr. SAUL. Now?

Mr. GESELL. Yes.

Mr. SAUL. We are paying about \$17.50 at the moment. The average, however, on all the stock that we have acquired, because when we first began acquiring it—as soon as this plan of mutualization was adopted, within 30 days the price jumped from about \$6 to par, which was \$10. The original order of the State Corporation Commission authorizing us to purchase it provided for purchase at par, but with the company growing as it has, the stockholders wouldn't sell because they thought the stock would come back, like other insurance companies and bank stocks have to a certain extent. On the 35,000 shares acquired, eliminating the original block of 20,000, our average cost, I figured up the other day, was \$14.49, including commissions to the brokers. A large part of that, I may add, was purchased several years ago at figures ranging from ten to twelve and thirteen dollars, along in there.

Mr. GESELL. The rise in the price of the stock, I imagine, is not attributable to the fact that the company has changed from a stock to a mutual plan so much as it has from the fact that the plan provides that any stockholder who holds out stands a chance of getting \$20 a share.

Mr. SAUL. Both of those things combine, I think, to raise the price. The company has had remarkable success; it is in fine circumstances now, and the stockholders know if they hold on to the stock they will get a minimum under the plan of mutualization of \$20.

Acting Chairman O'CONNELL. You say you recently bought stock at \$17.50. Is there still a liability of \$5 a share?

Mr. SAUL. No, sir; that was bought under section (f) of the plan, article I, where the stockholder voluntarily sells it through a broker to the company and it is extinguished, there are no further rights that the stockholder has. The stockholder would rather have \$17.50 now than wait an indefinite time in the hope his name among 800 will be drawn and he will get \$20 a share.

Acting Chairman O'CONNELL. Of the stock so far acquired, the only stock that has been acquired at the original cost of \$15 a share, plus the contingent item of five, are the 20,000 shares acquired from the holding company.

Mr. SAUL. That is right. This year we have, I would say, 5,000 shares and as soon as we buy stock at say \$17 a share, or \$17.50, we immediately charge out of our surplus the difference between the \$17.50 and the par value of 10. In other words, the \$17.50 comes out of our surplus account and, of course, we don't want to buy too fast but we have been buying as fast as we could.

The VICE CHAIRMAN. The change from the stock company to a mutual company hasn't altered the fact that you and your associates are still the guiding and controlling figures.

Mr. SAUL. That is right. We are still there.

The VICE CHAIRMAN. Have you available a list of policyholders?

Mr. SAUL. No, sir; I haven't it with me. I can, of course, provide it.

The VICE CHAIRMAN. Have you at your office an available list of policyholders?

Mr. DECKER. It could be run from our premium plates.

The VICE CHAIRMAN. It hasn't been done as yet?

Mr. SAUL. No, sir.

Mr. GESELL. Have you and the other officers sold all of your personal holdings in this stock pursuant to the plan to change to a mutual company?

Mr. SAUL. Most of our personal holdings were sold in 1929, that is in this company, and since that time we have practically sold the rest of our personal holdings to meet those payments we were speaking of.

Mr. GESELL. Did you sell any of your personal holdings pursuant to mutualization?

Mr. SAUL. No; we have a distinct agreement among the officers that we would not buy any stock, and not a share has been bought by any officer.

Mr. GESELL. From yourselves?

Mr. SAUL. From ourselves or anybody else since the plan was adopted because we didn't think it was the proper thing for the officers to be buying it and bidding for it against the company. We are trying to get it in for the company and we think we could have bought it for \$10 or seven or eight dollars after the plan was adopted but not one share has been bought by any officer, and will not be.

Acting Chairman O'CONNELL. Do any of you own any stock?

Mr. SAUL. Yes; we own some; we don't own a great deal. We are hopeful our equity in this 20,000 shares will come in one of these days.

Acting Chairman O'CONNELL. You don't own the 20,000 shares, do you?

Mr. SAUL. No, sir; we don't; but after the indebtedness to the Shenandoah Holding Corporation is fully paid with interest to the Shenandoah Life Insurance Co., then the dividends for the remainder of the 15-year period will come to the Shenandoah Holding Corporation and, therefore, to us as stockholders.

Acting Chairman O'CONNELL. In addition, other than the 20,000 shares, you officers do own some shares?

Mr. SAUL. Oh, yes; we have some shares.

Acting Chairman O'CONNELL. Did any of the officers sell any shares pursuant to the plan of mutualization?

Mr. SAUL. No, sir.

Acting Chairman O'CONNELL. So all the shares you owned at the time of mutualization, you still own?

Mr. SAUL. Yes, sir. None have been acquired since the plan of mutualization by any officer. As far as I know none of the officers have sold their individual holdings.

Acting Chairman O'CONNELL. Stock that you acquire on the open market at a price of \$17.50, the owner of that stock is entitled to dividends for the 15 years.

Mr. SAUL. No, sir.

Acting Chairman O'CONNELL. Of the stock you have so far acquired, as I understand it, only the holding company is entitled to dividends for the next 15 years. Is that correct?

Mr. SAUL. That is right.

Acting Chairman O'CONNELL. And when you complete your acquisition of stock, assuming you continue to acquire it in the way you have been acquiring it heretofore, the holders, that is, the owners of the holding company, you five gentlemen, will be entitled to all the dividends declared by the insurance company for the next 15 years?

Mr. SAUL. That is right, but it hasn't been brought out—and I would like for it to be brought out—that the holding company pays, or is charged with, with the life-insurance company, interest at the rate of 4 percent on that \$300,000, their initial payment, and now since that other \$100,000 was credited with interest on \$400,000, that has to be paid by the dividends before anything can ever go to the stockholders. In other words, it wouldn't have been fair for the insurance company to have purchased that block of stock from the holding company and paid out \$300,000 of money in 1934 when other stockholders having the same stock did not sell, and then for the holding company to get the dividends as well as the other stockholders. So the plan provided that whenever any stock is acquired by the company under the first section, as was the first block acquired, that the seller shall be charged with 4-percent interest on the purchase price before any dividends go to him.

Do I make myself clear?

Acting Chairman O'CONNELL. Yes.

Mr. SAUL. Because the seller, in such case, has gotten his money and used it, whereas the stockholder who hasn't sold, hasn't gotten his money, and it wouldn't be fair not to make any distinction between them.

Acting Chairman O'CONNELL. The only stock ever acquired under section 1, was that it?

Mr. SAUL. That was all acquired so.

Acting Chairman O'CONNELL. Out of 35,000 shares so far?

Mr. SAUL. Yes, sir.

Acting Chairman O'CONNELL. And those are the only shares upon which dividends would be paid, if any, within the next 15 years?

Mr. SAUL. I didn't catch the last.

Acting Chairman O'CONNELL. Of the stock so far acquired, the stock acquired from the holding company is the only stock that can get dividends during the next 15 years?

Mr. SAUL. That is right.

Acting Chairman O'CONNELL. And the amount of dividends it will get may be to some extent diminished by the fact that there are 4 percent interest charges?

Mr. SAUL. It will be diminished by that and the amount of dividends will depend on what the future brings.

Mr. GESELL. I have no further questions.

(The witness, Mr. Saul, was excused.)

Mr. GESELL. That completes the presentation of any testimony during this set of hearings.

Acting Chairman O'CONNELL. Thank you, Mr. Gesell, it has been very good, and the subcommittee will stand in recess subject to call.

(Whereupon, at 12:45 p. m., an adjournment was taken subject to call of the chairman.)

INVESTIGATION OF CONCENTRATION OF ECONOMIC POWER

FRIDAY, SEPTEMBER 22, 1939

UNITED STATES SENATE,
SUBCOMMITTEE OF THE TEMPORARY
NATIONAL ECONOMIC COMMITTEE,
Washington, D. C.

The subcommittee met at 10:35 a. m., pursuant to call of the chairman of the subcommittee, in the Caucus Room, Senate Office Building, Garland S. Ferguson presiding.

Present: Garland S. Ferguson, chairman, and Joseph J. O'Connell, Jr.

Present also: Gerhard A. Gesell, special counsel, Securities and Exchange Commission.

The CHAIRMAN. The committee will come to order.

MR. GESELL. I requested the committee to convene this morning in order that we could complete the record of the hearings held to date. I wish today to submit various schedules and exhibits for the record which have been submitted to us by persons who previously testified on the stand in accordance with the requests made of them while they were testifying.

First, I have a schedule submitted to us by the New York Life Insurance Co. in accordance with a request made to Mr. Buckner, chairman of the Board.¹ This schedule reflects the various bank deposits of the New York Life Insurance Co. in its principal bank accounts and distinguishes between those accounts in banks where directors have some interlocking affiliation and those accounts where no such affiliation exists.

The CHAIRMAN. It may be received in evidence and inserted in the record.

(The schedule referred to was marked "Exhibit No. 1126" and is included in the appendix facing p. 6978.)

MR. GESELL. When Mr. Chubb was on the stand, a question arose as to the amount of premiums received by the Federal Insurance Co. on business of the Prudential Insurance Co., and in accordance with a request made by the committee,² Mr. Chubb has submitted to us a schedule showing the amount of those premiums and the distribution of those premiums as between direct insurance and reinsurance.

The CHAIRMAN. It may be received in evidence and inserted in the record.

(The schedule referred to was marked "Exhibit No. 1127" and is included in the appendix on p. 6979.)

¹ See Hearings, Part IV, p. 1431.

² *Ibid.*, pp. 1481-1483.

Mr. GESELL. In the course of the testimony of Mr. Roberts, of the Monumental Life Insurance Co.,¹ a question arose as to the amount of money which the Monumental Life Insurance Co. had loaned to the Real Estate Trust Co. Mr. Roberts stated that he would provide the committee with an explanation of those loans, and the circumstances which prompted them. I have to offer for the record two letters from Mr. Roberts with respect to this matter, together with a letter from myself to Mr. Roberts requesting the additional information contained in the letter.

The CHAIRMAN. It may be received in evidence and inserted in the record.

(The letters referred to were marked "Exhibit No. 1128" and appear in Hearings, Part XII, appendix, p. 6357.)

Mr. GESELL. In the course of Mr. Leroy A. Lincoln's testimony on August 29,² he stated that he would provide the committee with information as to the number of agents in his company who were chartered life underwriters, and I have here a statement which I have received from Mr. Madden, of the Metropolitan, showing the number of agents who are enrolled for the chartered life underwriters' course and the number of agents who have passed that course to date.

The CHAIRMAN. It may be received in evidence and inserted in the record.

(The statement referred to was marked "Exhibit No. 1129" and appears in Hearings, Part XII, appendix, p. 6359.)

Mr. GESELL. On the same day and on the following date, Mr. Lincoln was asked questions with respect to the agency turn-over in his company.³ In accordance with his statements made at that time and an arrangement which I made with the Metropolitan subsequently, figures and information have been submitted to us by the Metropolitan showing the agency turn-over of that company and further explaining the testimony of Mr. Lincoln.

The CHAIRMAN. It may be received in evidence and inserted in the record.

(The document referred to was marked "Exhibit No. 1130" and appears in Hearings, Part XII, appendix, p. 6359.)

Mr. GESELL. In the course of the testimony of Mr. George L. Ward, of the Home Friendly Insurance Co., taken on September 6, 1939,⁴ Mr. Ward called the committee's attention to the fact that a schedule of agency turn-over previously submitted by him had been found to contain some inaccuracies, and at the request of the committee he agreed to submit a corrected schedule showing the agency turn-over of his company. I have received such a schedule from him and wish to offer it.

The CHAIRMAN. It may be received in evidence and inserted in the record.

(The schedule referred to was marked "Exhibit No. 1131" and appears in Hearings, Part XII, appendix, p. 6360.)

Mr. GESELL. On September 7, 1939, in the course of the testimony of Mr. F. F. Leith, vice president of the People's Life Insurance Co.,⁵ he agreed to submit for the record a schedule showing the

¹ See Hearings, Part XII, p. 5708.

² *Ibid.*, p. 5848.

³ *Ibid.*, pp. 5849 and 5856.

⁴ *Ibid.*, p. 6095.

⁵ *Ibid.*, p. 6149.

agency turn-over of his company. Such a schedule has been prepared by Mr. Leith and submitted, and I would like to offer it for the record.

The CHAIRMAN. It may be received in evidence and inserted in the record.

(The schedule referred to was marked "Exhibit No. 1132" and appears in Hearings, Part XII, appendix, p. 6361.)

Mr. GESELL. On the last day of the hearing, September 13, 1939, in connection with testimony relating to the activities of the Shenandoah Life Insurance Co., Mr. J. P. Saul, the witness, testified that \$79,069.16 of bills receivable were contained in the nonadmitted assets of his company's statement as of December 31, 1938.¹ Mr. Saul was unable to tell us at that time what amount of that \$79,000 figure was attributable to loans of officers and directors which have been placed in the nonadmitted assets by reason of deficiencies in collateral. He has, in accordance with his agreement, submitted a schedule which reflects that \$38,142.10 of the \$79,000 figure are attributable to such loans. I would like to offer that schedule for the record.

The CHAIRMAN. It may be received in evidence and inserted in the record.

(The schedule referred to was marked "Exhibit No. 1133" and is included in the appendix on p. 6979.)

Mr. GESELL. After Mr. Saul's testimony was concluded, the Commission learned of the existence of correspondence between Mr. Trinkle, of the Shenandoah, and the State Corporation Commission of the Commonwealth of Virginia. This correspondence was requested from the Shenandoah and has been submitted to the Commission by Mr. Saul. It relates to certain activities of officers and directors in the period immediately prior to the conversion of the company from a stock to mutual form, and particularly relates to some collateral loan transactions which were considered in the course of Mr. Saul's testimony.²

I should like to offer this correspondence for the record in further explanation and amplification of the testimony: First, a letter dated April 14, 1934, addressed to Hon. E. A. Trinkle, president of the Shenandoah Life Insurance Co., signed by the chairman and two commissioners of the State Corporation Commission of Virginia.

The CHAIRMAN. It may be received in evidence and inserted in the record.

(The letter referred to was marked "Exhibit No. 1134" and is included in the appendix on p. 6980.)

Mr. GESELL. And, second, a letter in reply thereto addressed to the State corporation commission by J. P. Saul, Jr., general counsel of the company.

The CHAIRMAN. It may be received in evidence and inserted in the record.

(The letter referred to was marked "Exhibit No. 1135" and is included in the appendix on p. 6984.)

Mr. GESELL. That completes the material which I wish to insert in the record.

The CHAIRMAN. The subcommittee may be adjourned.

(Whereupon, at 11:45 a. m., the subcommittee adjourned.)³

¹ See supra, p. 6474.

² See supra, p. 6466.

³ Hearings on the Petroleum Industry were held September 25 through October 25 and appear in Parts 14, 15, 16, and 17.

TEMPORARY NATIONAL ECONOMIC COMMITTEE

(Created pursuant to Public Res. 113, 75th Cong.)

JOSEPH C. O'MAHONEY, Senator from Wyoming, Chairman
HATTON W. SUMNERS, Representative from Texas, Vice Chairman
WILLIAM E. BORAH, Senator from Idaho
WILLIAM H. KING, Senator from Utah
B. CARROLL REECE, Representative from Tennessee
CLYDE WILLIAMS, Representative from Missouri
THURMAN W. ARNOLD, Assistant Attorney General
*WENDELL BERGE, Special Assistant to the Attorney General
Representing the Department of Justice
JEROME N. FRANK, Chairman
*LEON HENDERSON, Commissioner
Representing the Securities and Exchange Commission
GARLAND S. FERGUSON, Commissioner
*LEWIN L. DAVIS, Commissioner, Representing the Federal Trade Commission
ISADOR LUBIN, Commissioner of Labor Statistics
*A. FORD HINRICHS, Chief Economist, Bureau of Labor Statistics
Representing the Department of Labor
JOSEPH J. O'CONNELL, JR., Special Assistant to the General Counsel
Representing the Department of the Treasury
CLARENCE AVILDSEN, Special Adviser to the Secretary of Commerce
Representing the Department of Commerce
JAMES R. BRACKETT, Executive Secretary

*Alternates.

INVESTIGATION OF CONCENTRATION OF ECONOMIC POWER

THURSDAY, OCTOBER 26, 1939

UNITED STATES SENATE,
TEMPORARY NATIONAL ECONOMIC COMMITTEE,
Washington, D. C.

The committee met at 10:45 a. m., pursuant to adjournment on Wednesday, October 24, 1939, in the Caucus Room, Senate Office Building, Representative B. Carroll Reece presiding.

Present: Representative Reece, acting chairman; Senators O'Mahoney and King; Messrs. Frank, Lubin, Henderson, O'Connell, and Brackett.

Present also: Representative Wesley E. Disney, of Oklahoma; Gerhard A. Gesell, special counsel and Douglas Orr, attorney, Securities and Exchange Commission.

Acting Chairman REECE. The committee will come to order, please.

The committee is to continue with another phase of the insurance companies study. Are you ready to proceed, Mr. Gesell?

Mr. GESELL. Mr. Thomas I. Parkinson is the first witness this morning. Mr. Parkinson.

Acting Chairman REECE. Do you solemnly swear that the testimony you shall give in this procedure shall be the truth, the whole truth, and nothing but the truth, so help you God?

Mr. PARKINSON. I do.

TESTIMONY OF THOMAS I. PARKINSON, PRESIDENT, EQUITABLE LIFE ASSURANCE SOCIETY, NEW YORK, N. Y.

SALES AND AGENCY PRACTICES—EQUITABLE LIFE ASSURANCE SOCIETY

Acting Chairman REECE. What shall be the manner of procedure? Does Mr. Parkinson have a statement that you have in mind that he shall make first?

Mr. GESELL. No. He is to be interrogated, Mr. Chairman. We are considering this morning agency and sales practices in the distribution of ordinary insurance. I want to review with Mr. Parkinson some of the activities of the company in respect to the operation of its agency department.

Acting Chairman REECE. You may proceed.

Senator KING. Have you submitted interrogatories, as has been the case in many of these investigations or studies, to Mr. Parkinson's company, or to the others with respect to the matters to be asked about?

Mr. GESELL. The matters to be covered this morning have been reviewed in great detail with representatives of Mr. Parkinson's com-

pany, and I believe Mr. Parkinson is fully acquainted with the nature of the inquiry. We have also here this morning Mr. Graham, the vice president of the Equitable, who is in direct charge of agency practices, and it is our purpose to call upon him if the inquiry gets into areas where Mr. Parkinson is not in a position to give us the information requested.

Your full name is Mr. Thomas I. Parkinson, is it not?

Mr. PARKINSON. Yes.

Mr. GESELL. You are president of the Equitable Life Assurance Society of New York.

Mr. PARKINSON. Yes.

Mr. GESELL. How long have you been president, Mr. Parkinson?

Mr. PARKINSON. Since October 1927.

Mr. GESELL. How long have you been with the company?

Mr. PARKINSON. Since June of 1920.

Mr. GESELL. You came first in the capacity of vice president; is that correct?

Mr. PARKINSON. As second vice president.

Mr. GESELL. Before you became the senior officer of the company, what were your particular duties?

Mr. PARKINSON. Before I became vice president I was a sort of advisor on various questions, with particular responsibility for the liquidation of the European business and some other offices.

Mr. GESELL. When you became vice president?

Mr. PARKINSON. I then expanded a bit into the investment field; finally, in 1926, I became executive vice president.

Mr. GESELL. You are the senior executive officer of the Equitable, are you not?

Mr. PARKINSON. I am.

Mr. GESELL. Can you tell us a little about the Equitable, Mr. Parkinson? When was it organized?

Mr. PARKINSON. 1859.

Mr. GESELL. It is a mutual company; is it?

Mr. PARKINSON. Yes.

Mr. GESELL. What are its assets at the present time?

Mr. PARKINSON. A little over 2,300 millions.

Mr. GESELL. Does it operate in every State of the Union?

Mr. PARKINSON. It does.

Mr. GESELL. How much insurance has it in force?

Mr. PARKINSON. About 6¾ billions.

Mr. GESELL. Your company does not sell industrial insurance?

Mr. PARKINSON. No.

Mr. GESELL. Am I correct in saying your principal lines are ordinary insurance, group insurance, and annuities?

Mr. PARKINSON. That is right.

Mr. GESELL. Of those three lines which is foremost?

Mr. PARKINSON. The ordinary.

Mr. GESELL. And second?

Mr. PARKINSON. It is difficult to estimate exactly the relationship between group and annuities. I should think that group was second.

Mr. GESELL. Have you any idea of what your annual premium income is? It is in the neighborhood of \$279,000,000 is it not?

Mr. PARKINSON. I should be surprised if it wasn't somewhere near 300 millions.

Mr. GESELL. That was the 1938 figure, and your total income was in the neighborhood of half a million, was it not?

Mr. PARKINSON. Yes.

Mr. O'CONNELL. Half a billion.

Mr. GESELL. Yes. Can you tell us something of the growth of your company in recent years?

Mr. PARKINSON. I find myself a bit in doubt as to what you mean by that question. I would like very much to answer it as you would like to have it answered.

Mr. GESELL. Let me tell you this: Your assets have increased continuously since 1906, have they not?

Mr. PARKINSON. Our assets have increased since the time that I became president, let us say, at the end of 1927 from a little over 800 million to the present figure of over 2,300 million.

(Conference off the record between Senator King and Mr. Gesell.)

Mr. GESELL. Insurance in force has also grown rapidly, has it not?

Mr. PARKINSON. Yes; and then receded.

Mr. GESELL. When did it reach the peak?

Mr. PARKINSON. I think about 1931 or '32, when it was in the neighborhood of 7 billions.

Mr. GESELL. And to what degree has it receded?

Mr. PARKINSON. The present total is about 6¾ billions. It was a little lower than that when group insurance went off during the period of the depression.

Mr. GESELL. And in the days of the Armstrong committee in 1906 your company had just a little over \$1,000,000,000 of insurance in force, did it not?

Mr. PARKINSON. I don't know.

Mr. GESELL. Our figures would indicate \$1,376,000,000.

Mr. PARKINSON. Your figure is unquestionably right.

Mr. GESELL. You have had a considerable growth in your annuity business, have you not, in recent years?

Mr. PARKINSON. Yes.

Mr. GESELL. Can you tell us a little about that line of business, when you first started writing it, what your experience has been with respect to growth?

Mr. PARKINSON. Its beginnings, of course, were before my time. That would be history with me, and I don't think I could give you any accurate story of its beginnings. We did develop what was called the retirement annuity, which was intended to serve the needs of those who wanted not to provide alone for their dependents upon their death but for their own retirement at a fixed age, and it provided for annual payments accumulating the purchase price of an annuity for retirement at a fixed year. That was very popular for a long time, and developed a large volume.

Mr. GESELL. Has it, as a matter of management policy in each of these departments of your business which we have been discussing, been your policy to grow and to encourage the writing of new business?

Mr. PARKINSON. It has been the policy to encourage the writing of new business.

Mr. GESELL. In an amount sufficient to bring about growth?

Mr. PARKINSON. Yes; growth in membership and also growth, almost necessarily, in the assets held for the members.

Mr. GESELL. Has some of the growth in assets in recent years been the result of policyholders leaving dividends on deposit with your company rather than drawing them down?

Mr. PARKINSON. Some. I wouldn't undertake to say just how much.

Mr. GESELL. Has the development of various forms of settlement-option provisions—

Mr. PARKINSON (interposing). Yes; it is the same thing.

Mr. GESELL. Had the same effect?

Mr. PARKINSON. It is the same thing. Policyholders have seen the possibilities of getting a little better return on their money at times by leaving it with the company than by putting it somewhere at interest.

Mr. GESELL. And with that situation it would be possible, even if you didn't write any new business sufficient to increase your insurance in force—there would be some growth through the accretion of these other factors?

Mr. PARKINSON. In assets; yes.

Mr. GESELL. I want to consider with you this morning particularly, Mr. Parkinson, the operation and activities of your agency department and the methods pursued by your company in obtaining insurance, training agents, and so forth. I think as a starting point we might consider the organization of your company agencywise. In the home office you have a vice president, do you not, who is in charge of an agency department?

Mr. PARKINSON. That is right.

Mr. GESELL. What is his name?

Mr. PARKINSON. William J. Graham.

Mr. GESELL. And he has immediately under him four second vice presidents, has he not?

Mr. PARKINSON. Yes.

Mr. GESELL. They are, respectively, in charge of production, field organization, agents' training, and sales promotion?

Mr. PARKINSON. Yes.

Mr. GESELL. Have you any idea what the total home-office staff of your agency department is?

Mr. PARKINSON. I should think about 150.

Mr. GESELL. Our figures would indicate that the agency department has about 150 employees, and the group department has an additional 173.

Mr. PARKINSON. I was thinking only of the agency department. The group department would account for the other employees.

Mr. GESELL. And those employees in the group department are also responsible to Mr. Graham?

Mr. PARKINSON. Yes; they are.

Mr. GESELL. Now, you have an agency committee of the board of directors, do you not?

Mr. PARKINSON. Yes.

Mr. GESELL. Will you tell us a little about that committee—how often it meets, who are its members, what its particular functions are?

Mr. PARKINSON. It meets once a month, with occasional special meetings. It consists of five members of the board. The chairman is Henry Alexander. The other four members are Reuben Clark, of Salt Lake City; Frederick Keppel, of New York; J. J. Pelley, who is now in the District of Columbia; and Robert C. Hill, of New York.

Mr. GESELL. Those men, I notice, are either lawyers or coal officials or steel officials or railroad officials. Have you anyone on the committee that has had agency experience, who has had any experience directly with the sale of insurance?

Mr. PARKINSON. None of these men has had direct experience in the sale of life insurance.

Mr. GESELL. Do you have any such man on your board of directors?

Mr. PARKINSON. We had on the board until a few months ago a partially retired general agent, William J. Roddey, of South Carolina, but he retired from the board a short time ago. Mr. Graham, of course, is on the board, and he has had experience; and Seward Prosser, who is chairman of the Bankers Trust Co. in New York, is on our board, not because he is chairman of the Bankers Trust Co. but because he was in years gone by a general agent of the Equitable, and he is still the Prosser who lends his name to our principal general agency in New York, Prosser & Homans.

Mr. GESELL. I was interested in the fact that none of these men were members of the agency committee. Is there any particular reason for that?

Mr. PARKINSON. Yes; in the case of Mr. Roddey, who had had the experience as a general agent, we thought it best that he should not be on the agency committee since it was dealing all the time with agency problems, many of which affected the personal interests of the agents and their managers. Mr. Prosser we haven't asked to give the time that would be involved, and I think, though I have never up to this moment expressed an idea on the subject, that we would prefer to have men who did not have any relationships with the agents and their managers.

Mr. GESELL. And you prefer men who had no knowledge of the agency problems of the company in an intimate, practical way?

Mr. PARKINSON. No; I wouldn't say that. I would prefer to have men who had knowledge of the agency problems if they didn't have connection with the agency forces. Mr. Graham, of course, is always present at the meetings of the agency committee; he is a member of our board, and I think provides all the detailed information with respect to agency operations that the committee needs.

Mr. GESELL. Will you tell us a little what the functions of the committee are, what purpose they are supposed to fulfill?

Senator KING. You are speaking of the agency committee?

Mr. GESELL. Yes.

Mr. PARKINSON. It determines the kind of contract we make with our general agents and agency managers; it determines the method of compensation; it determines the contracts with the soliciting agents, and their compensation. It fixes the arrangements, the compensation, the rules and regulations under which the agency force is employed and operates.

Mr. GESELL. Those are pretty technical matters, it strikes me, Mr. Parkinson.

Mr. PARKINSON. Yes.

Mr. GESELL. The committee must in large part depend upon the recommendations of your agency officers.

Mr. PARKINSON. I think that is true.

Mr. GESELL. Then if the committee has any important function, it must be in the realm of policy more than anywhere else, must it not?

Mr. PARKINSON. Policy and supervision of the recommendations of the officers with respect to these details.

Mr. GESELL. Certainly, a check on those matters. Now in the realm of policy, what type of authority and discretion do they have?

Mr. PARKINSON. They have power under the bylaws—I do not have the provision on the end of my tongue—to control the organization, compensation, and functions of the agency force.

Mr. GESELL. To whom are they responsible?

Mr. PARKINSON. To the board.

Mr. GESELL. Is there any intervening group to which they are responsible, an executive committee or anything of that sort?

Mr. PARKINSON. Their report goes through the executive committee.

Mr. GESELL. Are you a member of the agency committee?

Mr. PARKINSON. Ex officio I am.

Mr. GESELL. Do you attend the meetings?

Mr. PARKINSON. Seldom.

Mr. GESELL. Would it be fair to say that the determination of the broad questions of agency policy are considered by the whole board and determined upon by them?

Mr. PARKINSON. Yes; ultimately a broad question of agency policy would be determined by the board.

Mr. GESELL. And this smaller working committee, I suppose, then, has as its principal functions the checking on the technical information.

Mr. PARKINSON. The supervision of administration.

Mr. GESELL. From the point of view of the field, how does the home office keep in contact with the salesmen in the field? Do you have special traveling supervisors or anything of that sort?

Mr. PARKINSON. We do not now have superintendents who travel about the field; but these second vice presidents—to whom you have referred—do keep in contact with the agencies by visitation and, of course, there are many contacts through managers and agents coming to the home office for conference.

Mr. GESELL. How do you keep up with the problems of the field yourself, Mr. Parkinson?

Mr. PARKINSON. It is a difficult thing to do. I manage to visit various agencies each year. I see a good deal of the managers, the general agents, and even the soliciting agents when they come to the home office. It is a matter of great interest to me—

Mr. GESELL (interposing). But rather difficult to keep up with it.

Mr. PARKINSON. Yes; it is difficult.

Mr. GESELL. Is it fair to say that in an organization such as yours, operating as it does in all of the States, that it is rather difficult to keep any detailed supervision over the agents and the managers in the field from the point of view of the home office? You must depend to a large extent upon their discretion and good judgment, must you not?

Mr. PARKINSON. It is difficult for me, but it is not difficult for the agency department.

Mr. GESELL. These agency vice presidents, you believe, can keep a very close supervision of the details of your agencies' operations in all these various States?

Mr. PARKINSON. They know very well that I think they ought to.

Mr. GESELL. I am sure you believe that, Mr. Parkinson, but I wondered how successful you thought they were. It seems to me like a tremendous undertaking.

Mr. PARKINSON. Well, anything that is country-wide is a tremendous undertaking in this big country today, but it is of course a matter of organization, a matter of enthusiastic interest, a matter of visitation, a matter of intelligent examination of available information rather than merely compiling statistics. I should think my criticism of them, whenever I do express it, is that they give more consideration to what the facts mean than merely to accumulating the facts.

Mr. GESELL. Now, we had Mr. Lincoln here some while ago on the stand. He indicated that for him to cover his organization, which I imagine is about as large as yours from the point of view of territory, that it took him something like 18 months.¹ You have how many different branch offices in the field?

Mr. PARKINSON. About 110, I think.

Mr. GESELL. You have over 6,000 agents; do you not?

Mr. PARKINSON. Yes.

Mr. GESELL. So it is a rather difficult problem of supervision to keep in intimate touch with them.

Mr. PARKINSON. Yes; it is.

Mr. GESELL. Especially when you have only four second vice presidents to undertake that job, in addition to carrying on their functions at the home office.

Mr. PARKINSON. Of course, I should add to that the fact that we have in Mr. Gottschall, in Chicago, a subordinate officer whose immediate function is to supervise the Chicago and Central West agencies; and then we have another manager in Kansas City, who has similar supervisory duties with respect to other agencies in that territory; and we have an officer in New York who has similar duties for the Metropolitan New York area.

Mr. GESELL. Do you use the general-agency system, or do you use the agency-manager system?

Mr. PARKINSON. Both.

Mr. GESELL. You have the dual system?

Mr. PARKINSON. We have the dual system.

Mr. GESELL. Will you tell us a little about what the differences between the agency-manager and general-agency system are, and give us your ideas as to some of the advantages and disadvantages of those two types of systems?

Mr. PARKINSON. Of course, they are both managers of a local office. They both select, hire, train, supervise agents who are solicitors. The one whom we call the general agent operates as an independent contractor. The other operates as an employee. The agency manager is employed to perform these services of organizing and supervising an agency force in a given territory. The general agent makes a contract under which he engages to hire, supervise, an agency force for the same purpose. The principal difference is that the one is an inde-

¹ See Hearings, Part XII, p. 5876.

pendent contractor to do a job, and the other is an employee to do a similar job.

Mr. GESELL. Your agency manager receives, does he not, a guaranteed salary, I think it is \$4,200?

Mr. PARKINSON. The agency manager receives a minimum salary as an employee.

Mr. GESELL. And then he receives commissions based on his own production and that of his men.

Mr. PARKINSON. That is true.

Mr. GESELL. Your general agent, on the other hand, receives no salary, does he?

Mr. PARKINSON. No salary.

Mr. GESELL. And he has complete charge over the administration of the funds of his agency, does he not?

Mr. PARKINSON. Of the funds?

Mr. GESELL. Yes. How is he financed?

Mr. PARKINSON. I am afraid I don't know just what you mean.

Mr. GESELL. How is he financed?

Mr. PARKINSON. He finances himself.

Mr. GESELL. And the avenues in which he directs that financing are not subject to the control of your company, are they?

Mr. PARKINSON. No; except as we have a very wide power of termination of his contract.

Senator KING. Does he make reports to you from time to time?

Mr. PARKINSON. Oh, yes.

Senator KING. And your vice presidents visit him?

Mr. PARKINSON. Yes, indeed; almost the same as we supervise the agency manager.

Senator KING. Are his books and accounts available to scrutiny by your vice presidents?

Mr. PARKINSON. Yes, sir.

Senator KING. And are they so scrutinized?

Mr. PARKINSON. They are, sir.

Mr. GESELL. Your general agent has greater rights and renewal commissions, does he not, than your agency manager?

Mr. PARKINSON. Yes.

Mr. GESELL. What is the distinction there?

Mr. PARKINSON. The general agent, speaking generally, derives very little of profit for himself from the first year's commission; he makes his compensation principally from the renewal commissions, and his renewal commissions run always for 9 years, and under our contracts usually for 5 succeeding years; and the agency manager, on the contrary, has only a limited interest in renewal commissions, deriving his compensation largely from his guaranty and from his performance of the various functions assigned to him; but we have in recent years varied our agency-manager contract to increase his interest in the renewal commissions and thereby have tended to remove the distinctions between the agency-manager contract and the general-agent contract.

Mr. HENDERSON. May I interrupt there? The members over here are a little bit puzzled about the renewal commission. Does it actually mean a stated renewal each time on which a commission is paid?

Mr. GESELL. My understanding is—you will check me, Mr. Parkinson—that it is a commission lower than the first-year commission,

based upon the premiums received from a policyholder each year that he continues with the company.

Mr. PARKINSON. Yes.

Mr. HENDERSON. Does that involve a renewal of the original contract or is it merely its continuance in force?

Mr. GESELL. It is continuance in force of the same contract, is it not?

Mr. PARKINSON. It is a commission on the premium paid, if I understand the question.

Mr. GESELL. There is no new contract?

Mr. PARKINSON. There is no commission paid, if there is no premium paid.

Mr. HENDERSON. But is there each year a renewal of each of the contracts in force?

Mr. PARKINSON. Oh, no; except the payment of the premium for the recurring years continues the contract in force. It is the same piece of paper. The renewal commission is paid if and when the policyholder pays a premium for the continuance of the contract for future years, but there is no commission paid if the premium isn't paid.

Mr. O'CONNELL. The word "renewal" is probably something of a misnomer?

Mr. PARKINSON. It is the renewal of the premium.

Mr. O'CONNELL. It isn't renewal of either insurance policies or of the contract or the agency contract?

Mr. PARKINSON. Well, I think the lawyers say that the continuance of the contractual rights of the policyholder is dependent upon his paying the premium. So in a sense it is a renewal of the contract.

Mr. GESELL. The general agent receives in your company, doesn't he, 55 percent of the first-year premium and 5 percent of the so-called renewal premium?

Mr. PARKINSON. The general agent?

Mr. GESELL. Yes.

Mr. PARKINSON. Receives 55 percent of the first-year premium and 7½ percent.¹

Mr. GESELL. Seven and a half percent of the renewal?

Mr. PARKINSON. For 9 years, and then 5 percent of the renewals for 5 years.

Mr. GESELL. How many general agents do you have?

Mr. PARKINSON. We have about 30; 20, or thereabouts, of whom are really active.

Mr. GESELL. How many agency managers do you have?

Mr. PARKINSON. About 75, 78.

Mr. GESELL. Am I correct in saying that the development in your company has in recent years been toward the development of the agency-manager system?

Mr. PARKINSON. If by recent years you are willing to go back 30 years, yes; but I should say that in the immediately recent years we have been more interested in the possibilities of developing the general agency.

Mr. GESELL. You are, then, still struggling with this dual problem?

¹ In this connection see also later testimony by Mr. Parkinson concerning commission paid to the general agent, *infra*, p. 6534.

Mr. PARKINSON. Still struggling with the problem of which is the better way to get the best results on the whole.

Mr. GESELL. Has there been any time in the last 30 years when your company has operated entirely on the agency system or entirely on the agency-manager system?

Mr. PARKINSON. Not since 1915.

Mr. GESELL. How many agents do you have, Mr. Parkinson?

Mr. PARKINSON. How many agents?

Mr. GESELL. My figures would indicate that as of December 31, 1938, you had 6,908.

Mr. PARKINSON. Yes; and the surety bond contract that went through our finance committee a few days ago reminds me that we now have 6,000 agents under bond.

Mr. GESELL. And am I correct in saying that about 2,000 of those agents are part-time agents?

Mr. PARKINSON. I should think that would be reasonably accurate.

Mr. GESELL. As of December 31, 1938, the figures we were given indicate that you had 2,081 part-time agents. That ratio is still about the same in your company?

Mr. PARKINSON. I should think so; yes.

Mr. O'CONNELL. Are you going to draw out what a part-time agent is? Is a part-time agent an agent who has other means of earning a livelihood, too?

Mr. PARKINSON. Yes; like a real-estate man who writes some insurance, or a lawyer who isn't making a living out of the practice of the law. In other words, it is a man who has a side line which includes life insurance.

Mr. O'CONNELL. From your standpoint, might he not be a part-time agent merely because he is working part time for you, though he might have no other means of livelihood?

Mr. PARKINSON. I think that we would call that fellow a full-time agent, who ought to be terminated as soon as possible.

Mr. GESELL. Your part-time agents are all men who have some other occupation?

Mr. PARKINSON. I think so.

Mr. GESELL. By and large, is it correct to say that they are men in the small towns and communities, or do you have them in the large metropolitan areas?

Mr. PARKINSON. By and large, they are in the sparsely settled communities. We have some in the larger cities.

Mr. GESELL. Those would be communities where you wouldn't feel that it was justifiable for you to maintain a full-time agency force, towns of less than 5,000 people, we will say?

Mr. PARKINSON. I wouldn't fix the population, but it would be a sparsely settled community where we would not expect to get a really good representative who could make a living out of his life-insurance work alone.

Mr. GESELL. Well, now, I can understand why you might feel the need of part-time agents in that part of your territory, but you say you also have them in metropolitan areas. I wonder why you need them there.

Mr. PARKINSON. There are some. Generally speaking, our policy calls for full-time agents, but we realize that especially during a probationary period it is hard to ask a man to commit himself entirely and

full time to life insurance, and therefore we have in recent years changed our policy to permit some part-time agents during a probationary period. That may be extended for longer than 6 months sometimes, but the general idea is that for a period of trial, both for us and the agent, we permit of a part-time man even in the metropolitan area.

Mr. GESELL. I notice your ratio of part-time to full-time agents, even in the eastern and Greater New York divisions, still runs about one-third of your total agency forces.

Mr. PARKINSON. Yes.

Mr. GESELL. In the sparsely settled areas, Mr. Parkinson, have you ever thought of taking advantage of the provision of the Federal Reserve Act which permits life insurance companies to sell insurance through national banks in towns of less than 5,000 population?

Mr. PARKINSON. Well, as I mentioned a good many of our part-time agents are officers and employees of these very banks in these sparsely settled communities, but institutionally I do not think the member banks represent us.

Mr. GESELL. You find that in a sparsely settled community if you have a cashier or a teller or some man who meets the public, he makes a good part-time agent?

Mr. PARKINSON. Yes.

Mr. GESELL. Well, now, this provision of the Federal Reserve Act, which has been in effect since 1916, goes beyond that. It provides, as I read it, that the national banks may act as the selling and soliciting agents for any insurance company which is licensed to do business in that State and qualified in other ways. You are familiar with that provision, are you not?

Mr. PARKINSON. I have heard of that provision. I won't say that I am very familiar with it. I would not be inclined to make use of such agencies for modern life-insurance service.

Mr. GESELL. Have you ever explored the possibility of using that provision as a means of selling insurance in these sparsely settled areas?

Mr. PARKINSON. Some years ago the suggestion came before me at about the same time that it was suggested that we use Montgomery Ward, Sears, Roebuck, and various other agencies to distribute our protection, and we decided then that it would be a very rare instance in which such a corporation could do, under our control and supervision, what we more and more expect of our agents and try to get from them.

Mr. HENDERSON. May I be permitted a question there, Mr. Gesell? Does the law to which you refer contain any limitation on the type of insurance which might be sold by a national bank authorized by the company?

Mr. GESELL. As to form of insurance, it refers to both fire and life insurance; as to industrial or group type of insurance, there is no limitation whatsoever in the statute.

Mr. LUBIN. Mr. Parkinson, I would be interested in your elaborating why you think that these national banks in these smaller communities couldn't render the service that you think should be rendered by modern, aggressive life-insurance companies.

Mr. PARKINSON. We are not selling a commodity. We are not merely taking a policyholder's funds and investing and accumulating them against an eventuality. We are rather attempting to place our se-

curity protective power at the disposal of those people who have the need for it. We are trying to adjust it to the need of the particular individual. We are trying to keep it adjusted to his need as his need changes, and all of those services are personal, and they require a high order of sympathetic interest in the individuals who have the need, and they require continuing personal contact, and therefore I should not want to farm out the service that we have in mind to perform to such corporate agencies as those either of the Reserve banks or the great retail mail-order houses.

Mr. LUBIN. Well, Mr. Parkinson, if I were a teller in a bank and I was one of your agents as a part-time agent, why would you expect that I would give better service that way than I would if I were representing the bank for which I worked? It is the same individual who might be doing the job.

Mr. PARKINSON. The same individual, but his relationship to us is individual in one instance and in the other instances he is a subordinate of a corporation which has the relation to us.

Mr. LUBIN. But in terms of service, why would you expect less service in one instance than in the other?

Mr. PARKINSON. It would be personal service over which we had control, and if it wasn't rendered it would be a simple matter for us to terminate the authority of the individual who represented us. If we got tied up with the banks to perform similar services, I would not feel that we were without embarrassment so free to mold our organization and compel the personal service by exercise of the power of termination.

Mr. LUBIN. You can always terminate your contract with a national bank as easily as you can with the teller who works there?

Mr. PARKINSON. You can sitting here in this room, but there are times when you cannot in the actual affairs of daily business life.

Senator KING. Moreover, before you designated some teller in a bank, you would want to know whether it was agreeable to the directors; and secondly, whether the charter of that bank permitted it to function as a representative of the life-insurance company?

Mr. PARKINSON. Yes; of course.

Senator KING. Perhaps while the Federal Reserve Act might authorize it, that wouldn't determine the authority of a bank under a charter given by the State or under a national charter.

Mr. PARKINSON. I should regard it as decidedly a step backward in the development of the agencies of a life insurance company if it turned to such corporations to intervene between the life insurance company and its policyholders or its prospects.

Mr. GESELL. And I take it, then, that because of these big, broad, general considerations which you have just voiced, you have made no study of the problem on a strictly operating basis to determine the practicability of it, and whether or not it would work?

Mr. PARKINSON. Now, by study, I understand you to mean a research into the facts and statistics. And if that is what the question means, the answer is "No." But if by study you mean giving consideration to the desirability or the undesirability from a practical point of view of the use of these banks, I should say "Yes," we have given it study and rejected the idea.

Mr. GESELL. You never tried it, did you?

Mr. PARKINSON. We never have tried it, but you agree, I think, that there are some things that we are supposed, in the practical affairs of the world, to diagnose without trying and not submit everything to trial and error. This is one of the things I should be content to decide without actual trial.

Mr. GESELL. And yet, Mr. Parkinson, just think how unfortunate that would have been in the State of Massachusetts¹ if those who had an opinion such as yours had won out and savings-bank life insurance hadn't come into effect. There, because some were willing to try it, we have a cheap form of insurance which is fulfilling a service and which some people, at least, find fairly satisfactory, because they take policies in it. Even insurance people take policies in it.

Mr. PARKINSON. It is fulfilling a service, but it is not fulfilling the service of a modern life insurance company such as our Equitable Society. If I may add to that a word, it began, as I remember, in 1908, and there are now \$150,000,000 of it in force in Massachusetts. It covers varied types of people, some wage earners and many who are just shrewd New Englanders who sharpen their pencils and get that kind of insurance protection at a little less than is charged by the regular line companies.

Mr. GESELL. Yes; the difference, I think, between \$2.70 of premium and \$8.35 premium, a pretty good difference.

Mr. PARKINSON. Is that the difference?

Mr. GESELL. In some instances; yes.

Mr. PARKINSON. Isn't that the difference of getting out, not the difference of staying in?

Mr. GESELL. I think not.

Mr. PARKINSON. What I wanted to add by way of contrast to emphasize what I mean by service, at about the same time that Massachusetts savings bank insurance was developed, the Equitable developed group insurance, and there are now in force 13 billions of group insurance covering the wage earners of the country and providing for their families. Now we are interested in the social service of life insurance, and I submit that that indicates the difference between active, energetic solicitation of an opportunity to serve the insurance needs of the country and just sitting back waiting for those who have the initiative and other means of coming and paying the cash and getting it and carrying it away.

Mr. GESELL. We are in agreement, I think, as to what your position is. You would feel that to connect your company with a national bank in this fashion provided for in the act would make it impossible for you to drive for new business, to keep up your production standards, and to carry insurance to a greater number of the people.

Mr. PARKINSON. I should say that it would prevent our reaching the folks in the community who have need of our services, interpreting it to them, adjusting it to their needs, and persuading them to take it. I think you must realize that we would hardly be able to have all of the reserve banks in any community act as our agent, and I think you must realize that if we selected any one such bank to act for us, we would be narrowing the field of our service decidedly as to those with whom the other reserve banks did business.

¹ See Hearings, Part X, for discussion of savings bank life insurance in the State of Massachusetts.

Mr. GESELL. Of course, you understand we were discussing this matter from the point of view of the small community and the part-time agent. We weren't talking about the Equitable, country-wide.

Mr. PARKINSON. Yes.

Mr. GESELL. Let me ask you this in that connection: Can I buy life insurance in the Equitable without paying commission to one of your agents?

Mr. PARKINSON. Yes.

Mr. GESELL. How do I do it.

Mr. PARKINSON. Just come into the company and you will be directed to an office where you will learn the essentials of the policy in which you are interested, but you will be told that if you want real protection and service you ought to have an agent interested in you and in your case and continue his interest in you that you may continue your protection.

Mr. GESELL. And I can buy in that fashion insurance cheaper than if you sold it to me?

Mr. PARKINSON. No, no. There simply is no commission paid on the policy.

Mr. GESELL. But the commission is charged to the policyholder, is it not?

Mr. PARKINSON. The premium is charged to the policyholder.

Mr. GESELL. The premium is the same as if the commission was included?

Mr. FRANK. Mr. Parkinson, I would like to inquire about that. I assumed that part of the premium that I paid was to pay the agent's commission. Now if in a particular agency no commission is paid to the agent, why should that sum be collected?

Mr. PARKINSON. There are very specific laws in most of the States under which we operate which prohibit rebating and prohibit discrimination.

Mr. FRANK. Well, would that be rebating if I went to you directly, as you say I may, and the company was not required to pay any commission for the procuring of the insurance, would that be discrimination, leaving out the question of statutory obligation for a moment? Do you think, to put it differently, that the statute that prohibits that is a wise statute?

Mr. PARKINSON. Well, if I answered the first part of your question, Commissioner, I must say that as long as a criminal penalty attaches to either discrimination between those who buy our policies or to rebating any portion of the premium, I should certainly not see anyone who comes to get his policy have a lower premium than if he were coming through an agent.

Mr. GESELL. May I interject a moment, Mr. Parkinson?

Mr. PARKINSON. That was only a part of the Commissioner's question.

Mr. FRANK. I want to say most emphatically that I would urge you to adhere to any statutes that exist.

Mr. GESELL. I would like to interject, if I might, however, here to point to the Metropolitan which is right in the same city as you, which sells this insurance at 10 percent cheaper for those who come to its offices and have been doing that for years, so the statutory prohibition can't be such a serious thing.

Mr. PARKINSON. Who does that?

Mr. GESELL. The Metropolitan Life Insurance Co. of New York.

Mr. PARKINSON. I did not know it.

Mr. GESELL. So I don't believe the statutory question is one of any importance, Mr. Parkinson, at all.

Mr. PARKINSON. Oh, it is of great importance to me. I must insist I have no desire, however, to violate the statute of New York providing for a criminal penalty.

Mr. FRANK. Mr. Parkinson, I quite agree with you that if there is such a statute and you as an able lawyer or your lawyer interpret the statute to prevent you from engaging in any such contribution, that you do not violate the statute. I now ask you whether you think a statute which would prevent such conduct is a wise statute? In other words, I understand you say there is a criminal statute which would forbid you selling me insurance cheaper where I came direct and no agent was employed than where an agent was employed, although presumably the large amount of commission that I pay out of my premium where an agent is employed is being collected by way of payment to an agent as commission.

Mr. PARKINSON. You, of course, appreciate that my whole point of view is that what you pay when you come through an agent includes a service by that agent that is well worth what he gets in the way of commission, and in many instances worth much more than he gets.

Mr. FRANK. I understand that, but supposing I don't want that service and therefore am not paying for it, should that sum be collected from me? That is, should there be a statute which would compel your company to exact that payment from me for which I got nothing, on your statement?

Mr. PARKINSON. The question goes to the fundamentals of our whole policy and our whole purpose in the life-insurance business. I should say that if we are to maintain the kind of agency force that we are trying to develop, competent, able men of integrity, as well as industry, and making a living out of the business, we should not encourage and I would not encourage a kind of business which I do not believe would give the service to the person who came that he ought to have, and which would in a measure take the cream off the business and make it more and more difficult for us to develop and keep the continuous service of competent income-earning agents, so I would not be in favor of changing the statute nor to make it possible to sell life insurance over the counter for less than we sell it through the agent who is giving the agent's service to those who buy it.

Mr. HENDERSON. Mr. Parkinson, may I ask a question? That is a very fine statement of your attitude, but I have been insured for 43 years and have several policies outstanding now, on which I am paying for service. I think I can say very frankly that I can't recall, since my memory runneth not to the contrary, any service I ever got from an agent. Now, suppose that I want to go to your company for a policy and go along as I have these 43 years without that service, is it good policy that I should not be allowed to do that?

Mr. PARKINSON. Well, of course, I don't know.

Mr. HENDERSON. Aren't there many such as I who have not had that service?

Mr. PARKINSON. I don't know what companies you are in, Commissioner. Maybe you have a wrong company.

MR. HENDERSON. That was a subject of speculation before, Mr. Parkinson, and I got a little behind the eight-ball on it and I am not going to let it out now.

MR. PARKINSON. Every good life-insurance man tries to find out such things, if he can. I would like to answer Mr. Henderson's question. I think it may be due to the fact, which is certainly current in our operations, that there are certain men, Commissioner, like yourself of whom the agents are just a little bit afraid. That is true of all the lawyers. They approach them with hesitation to sell them in the first instance, and they approach with even more fear and hesitation to render them the service that they do so well render to so many people.

MR. HENDERSON. For which they charge me?

MR. GESELL. I had three agents descend on me at once the other day to sell me a juvenile policy on my son, so I don't know that they are entirely afraid of lawyers.

MR. FRANK. Perhaps they didn't know you were a lawyer. Mr. Parkinson, I happen to be a lawyer, so I am interested. Would you suggest, then, that since out of this fear of their stupidity or acumen the agents do not render lawyers any services that the lawyers should be permitted to get their policies without paying an agent's commission? I think it would be a very interesting suggestion.

MR. PARKINSON. No, Commissioner, the difficulty with the lawyer—and I am very serious about it because I used to be a kind of lawyer myself—is that they love nothing better, and especially those of them who need the protection most, than to argue hour after hour to try to demonstrate to the poor life insurance agent that he doesn't know what he is talking about.

MR. FRANK. My arguments have proved so futile and I have been so supine that I think I have substantial policies in your company, Mr. Parkinson—

MR. PARKINSON (interposing). I know that.

MR. FRANK. I think my experience has been—perhaps I am in the sucker list of lawyers and they don't do much arguing with me. But, to be serious, I think that I represent a very substantial part of the community who feel that insurance is imperative, who need very little education as to the necessity or desirability of procuring insurance. I think that I am not a bit above the average of intelligence in analyzing my needs, or in being able to study the different types of insurance that are presented to me. Now I have never endeavored to procure insurance directly. I was too stupid to have it occur to me until the questions were asked this morning, but if I had—assuming that I were moderately intelligent—figured out what my needs were; and had come to your company and asked for insurance, why should I have to pay for services which were not being rendered to me? It is difficult for me to understand.

MR. PARKINSON. Commissioner, as long as I have any influence over the policy of my company it will not encourage that kind of life insurance. I do not want to run a company which simply sells you a policy and lets you do with it what you please from that point on.

MR. FRANK. Well, let us assume that I came in and asked for a certain type of insurance which you thought unwise. That is, I went to you or someone—and you reviewed it briefly and said, "That man ought not to have that," and then you discouraged me and en-

couraged me to take some other type of insurance, I could see why a charge should be made to me for negating my idiocy in selecting some other kind of insurance, the wrong kind. But assuming that what I select is correct, and is just what I need, why should I have to pay—what is the premium on the first? Mr. Lubin has figured out what I would pay.

Mr. LUBIN. Well, 55 percent the first year.

Senator KING. Of the premium?

Mr. LUBIN. Seven and a half for the next 9, and 5 percent for the next 5; totals 147½ percent of 1 year's premium, which on a 10-year policy would be about 25 percent.

Mr. FRANK. Now the question is, Why should I have to pay somebody for performing that service, if without such service, if I made the correct choice?

Mr. PARKINSON. My answer is, Commissioner, that it is so desirable to have people who are competent to render those services and so necessary to have them make a living in the business as full-time agents and permanent agents, if they are to be competent, that I should prefer as a matter of policy not to encourage anybody to take our policies the way you suggest, so that they could save that portion of a premium.

Mr. FRANK. That is to say if I save that cost then there wouldn't be a large enough fund to pay agents who were performing the services for people who wanted the services?

Mr. PARKINSON. No. Rather, I should say, that if the number of you developed to a large number we would be rendering less service to you and we would be discouraging the development of that permanency and competency of agency force that we have been putting so much of effort into for several years, and while you are on the subject may I not say that it occurs to me as the Commissioner speaks that our service is very much like the service performed by doctors, very much like the service performed by lawyers, and you know how inadequate both of those services are, and you know how often the lawyer and the doctor work hard and get no return—gets his general compensation out of the one case where the particular client may feel that under all the circumstances he paid too much for the service rendered. Since I have ceased to be a lawyer and rather an employer of lawyers, that is my point of view.

Mr. FRANK. I have never been paid as a lawyer for serving a client for whom I did absolutely nothing. I mean I would very much enjoy being in the position of being able to exact tolls as fees from clients whom I never saw.

Mr. PARKINSON. Commissioner, you are an exceptional man in many ways, and I have no doubt you are an exceptional lawyer.

Mr. FRANK. That is why I am not able to collect fees from people I don't serve.

Senator KING. I don't think that is a fair assumption, that the life-insurance company doesn't serve. There are two reasons or two suggestions that come to my mind in justifying your position—I will not say that I approve of it or disapprove. One is that if you abandon the idea of serving the people by having your agents contact them, you would have to convert your office there in New York into a selling office, rather than an administrative office, and you

would have to have thousands—if you expected any large number of your clients to come there—of your agents there in New York, which would be increasing the expense.

Mr. PARKINSON. Unfortunately, Senator, we wouldn't; only a few days ago the manager of our Pittsburgh office, which is certainly the biggest life-insurance agency in the world, had the longest experience of service—its managers have been better known in the community for all kinds of civic work, as well as life-insurance work, for a long period of years; and yet when I asked the question of the manager the other day, How many people come into the office and ask for insurance?, he said "Almost none. Never." We would not render the service that we are rendering today and it is the service expanded, not restricted, that I am interested in.

Senator KING. Would there not be the charge—I am merely suggesting this, I don't mean that it is a fact—Would there not be a feeling that there is discrimination if I went to your office and got a policy without paying that 45 percent and B got it from your agent and had to pay 45 percent more? Would there not be some complaint that there was discrimination?

Mr. PARKINSON. Senator, I have suggested—and I think it is true—that it would be discrimination, contrary to the laws of every State in the Union, but Commissioner Frank asked me to forget those statutes for a moment and discuss the policy.

Mr. GESELL. Now, Mr. Parkinson, in this connection—

Mr. PARKINSON (interposing). May I add to the explanation? Our counsel suggests to me that the exceptional operation of the Metropolitan in New York is in virtue of a special provision of the New York statute.

Mr. GESELL. I don't have any doubt that other special provisions could be obtained if you saw fit to desire them in your case.

Mr. PARKINSON. I am not so sure about that. If we tried to get any such thing through the New York Legislature I should expect an avalanche of insurance agents down on Albany in a way that would make it exceedingly difficult to pass such legislation.

Mr. GESELL. We agree on that.

Mr. HENDERSON. Similar to the one that went down when they were trying to install the savings-bank plan?¹

Mr. PARKINSON. Very similar, I should say; yes.

Mr. GESELL. Mr. Parkinson, you have a great desire, do you not, that your agents service the policyholder in selling him insurance and direct their activities toward meeting his needs? I believe that is true.

Mr. PARKINSON. Very decidedly.

Mr. GESELL. You have a training course for your agents which is intended to show them the type of practices they should pursue in the sale of insurance, do you not?

Mr. PARKINSON. Yes.

Mr. GESELL. Do you recognize this vol. V, "Simplified selling," as one of the aids in that course?

Mr. PARKINSON. Yes; but I have never taken the course.

¹ See Hearings, Part X, for discussion of savings bank life insurance in the State of New York and opposition of insurance agents.

MR. GESELL. I was interested in some sections of it. Let me read you this one under "Signals" on page 21:

If a prospect says, "I will take \$5,000" and you are trying to sell him \$25,000, stop right there and write the application for \$5,000. The reason you didn't sell him \$25,000 was due probably to your proposal. Close him for five thousand, order out twenty thousand, and try to deliver it when you deliver the five thousand.

That would indicate to me that you are very vigorously encouraging a loading up of insurance on an individual in excess of his needs.

MR. PARKINSON. No, Mr. Gesell, that would indicate simply in a practical way, rather get the man convinced to have some insurance protection when he is agreeable to taking \$5,000 than to waste an effort and perhaps lose the opportunity to cover him by pressing for an amount that he isn't willing at that moment to take, and then after you have got his application for the smaller amount that he is persuaded to take, ask for a policy for the greater amount indicating that the society is willing to cover him for the larger amount, and try to persuade him that he has a need for the larger amount. I see nothing inconsistent at all in that practical suggestion.

MR. GESELL. That is, provided that his preliminary signing of the \$5,000 policy is with full consciousness of what he is undertaking.

MR. PARKINSON. With full consciousness. I have so many cases coming to my desk of folks who have been persuaded, sometimes when they were reluctant, to take life-insurance coverage, sometimes as the result of annoyance which they have written to me complaining about, only to have their policy mature within a few weeks or a few months to provide for a widow and children who otherwise would be unprovided for, that I always hesitate to be very critical of the agent who presses in his persuasion on the man who seems to have the need. That is my every-day experience.

MR. GESELL. You, in fact, encourage your agents to press in your training.

MR. PARKINSON. I encourage every agent to press, to cover every individual who has the need, for the amount of the need, but I press, not because I have any interest in the volume of the results, for I haven't.

MR. GESELL. Let me read your recommendations here as to how the agent shall get a man to sign a policy. It is entitled, "Getting Action From the Prospect."

The weighing part of the brain, the brain cells that perform the act of deciding, are not the cells that need to be actuated now. The motor part of the brain must be set to work and these cells will perform the act of signing on the dotted line much more quickly if some sort of action is previously requested of the prospect in order to rouse them into activity. It is for this reason that many salesmen hand the prospect a pen and ask him to do some figuring or write some data before asking him to sign his name. When you ask for the signature, a good way to make the request is to say, "Write your name here as I have written it above." You note in this statement we have put two ideas forward, writing a name and writing it as written above. Since you give the prospect two ideas to think about, he doesn't give all his attention to the question of signing his name.

MR. PARKINSON. Mr. Gesell, no matter what our ideals, when we get down to the practical affairs of men and try to persuade a man to come in and take some insurance to cover his wife and children, we are pretty apt, pretty apt, to deal with phraseology that is understood by the common, average man, and those words are no doubt

the practical psychologist's condensation of the right approach, even to render service.

Mr. GESELL. You do want, though, do you not, in servicing your policyholders, to discuss with them the problems they raise with the agent concerning their needs?

Mr. PARKINSON. Yes; if the amount is large enough and the need is complicated enough. Many men have no complicated situation that needs great analysis, and they have a certain need for some life-insurance protection. We talk of this analysis of needs and adaptation of our service to the needs, but in actual practice, we realize that we must be reasonable, we can't discuss all of these details with the man who can only afford to pay for two thousand or twenty-five hundred dollars.

Mr. GESELL. You do, however, if he raises some objection or some query with respect to his insurance problem, you want to answer it and discuss it with him.

Mr. PARKINSON. Yes, indeed.

Mr. GESELL. That is part of the service the agent renders.

Mr. PARKINSON. Yes, indeed.

Mr. GESELL. Then why in your sales training course do you go to some length to explain to the salesman the four methods of meeting an objection: the "boomerang method"; the "admission, but," method; the "head-on method"; and the "passing-up method"? It doesn't seem to me that is directed toward discussing with the prospective policyholder the objections which he raises and considers sincere, but which your agent may not.

Mr. PARKINSON. But I suppose, Mr. Gesell, that in the Chautauqua, in various kinds of religious work, as I know in various kinds of educational work, when a leader who thinks he has analyzed the situation and the problem sits down to write out suggestions for some beginner or some practical operator, he would in the field of education, in the field of religion, in the field of lecturing, persuasion, do just about that sort of thing, and it wouldn't mean his ideals were any less than those I have just expressed.

Mr. GESELL. Of course, it has a much more direct bearing on the public's pocketbook and the whole question of the standard of living.

Mr. PARKINSON. The only boast we make in the life-insurance business is that we don't give the policyholder anything that he doesn't give to us but we do give him what he gives to us.

Mr. HENDERSON. I would like to pursue, Mr. Gesell, the reply which Mr. Parkinson gave concerning overselling, referring to the letters that came to his desk indicating that people were grateful for being persuaded to take larger policies. That group represents those who have won, you might say, in the actuarial experience. That is just a small number who have won because of the law of large numbers. If everybody, however, were oversold, or if any large group were oversold and cashed in on their policies quickly, the whole actuarial experience would be changed, wouldn't it?

Mr. PARKINSON. No.

Mr. HENDERSON. Why not? Suppose everybody were oversold and then there was a large death rate. There would be a severe loss because the insurance company would not have collected a sufficient amount of premiums.

Mr. PARKINSON. The overselling is important only insofar as it may involve self-selection against the company and therefore involve a greater mortality. The overselling simply produces a larger premium. We are concerned about overselling because it means a dissatisfied policyholder or it means that he has a reason for buying more than he ought to have, and, therefore, there will be a bad mortality resulting from having him for that amount in our fund. But the amount that he takes is met by the premiums that he pays per thousand.

Mr. HENDERSON. That is right, and this group who writes to you represents those who have paid a small number of premiums and have collected the full amount of their policies.

Mr. PARKINSON. May I say, Commissioner, that we know through our actuarial tables pretty accurately how many of any group of people will die in a particular year. We charge all who share in the fund the cost of paying those who die. We don't know who will die. Therefore, it is important that everybody pay for the protection, but those who do die draw out of the funds the amount that is theirs. I don't like the word "won." The whole group have provided a fund to pay the amount we know will be necessary to pay those who do die, and those who die take the payment from the fund. Everybody in the fund has had the benefit of the protection which comes to him, and if he were one of the ones we know will die he would take his share from the funds, but as long as our actuarial tables are right, there won't be so many die that the funds will be overdrawn.

Mr. HENDERSON. Turning that around means what I said in the first place, that there is a small number whom you know through your correspondence who are very grateful they were persuaded to take the larger amount, because they cash in early on their policy. But taking it on the actuarial table, that must mean, then, that many, many times that number have been sold and persuaded to take a larger amount than they thought necessary.

Mr. PARKINSON. I don't see that that follows at all.

Mr. HENDERSON. Why not? The actuarial table itself proves that; the very argument you gave that only a few of those oversold in any one year are going to collect the full amount of their premium.

Mr. PARKINSON. They have paid for what you call the overselling per thousand. They haven't paid per individual; their premium has been paid per thousand.

Mr. HENDERSON. I pay a premium of \$100 on a policy for \$5,000, and in the second year I collect that \$5,000. By actuarial experience, I must have been one of many who took out a \$5,000 policy. So that the group who comes to you is only a small number of those who have been persuaded to take higher amounts than they had originally determined upon.

Mr. PARKINSON. I would never pose as an expert on the actuarial table, but I must say it is the first time I have ever heard it described in any such terms as that. A few people come to me to express their satisfaction that a deceased father or husband did finally take insurance after much persuasion, after much overcoming of his reluctance, and a very large number of people—not a few—have come to me since 1929 expressing their gratification that an agency system cornered them, pressed them up against the wall, almost put a gun to their ribs

to take life insurance instead of investing their money elsewhere—not a few.

Mr. HENDERSON. But up to this time only a few could have realized on policies sold in those years, and therefore could have written you as you said.

Mr. PARKINSON. I don't know what you mean, Commissioner?

Mr. GESELL. Perhaps I can help. What about all the policyholders who were high-pressured into buying more insurance than they wanted and were unable to keep up the premiums and it lapsed? They don't come into your office thanking you for the activities of your agents, and there are a very great number of them.

Mr. PARKINSON. Yes; unfortunately, there are a very large number who are persuaded to take their policies, pay for them for a time, and then let them drop.

Mr. GESELL. It is pretty hard to tell what the social advantage of this situation is, whether the people who come in and were able to keep up their payments until they died, whether they and their families have reaped more or less benefit than those who were required to pay for something they never got.

Mr. PARKINSON. Mr. Gesell, I know from my own experience, if I may use the words of Mr. Shakespeare, that I have plenty of evidence to show it is better to have been insured for a while than never to have been insured at all.

Mr. FRANK. Mr. Parkinson, I think the difference between you and Commissioner Henderson is due to the fact you were talking about two different subjects. You were discussing the general operations of insurance and, of course, we all know that out of any given group that are insured, some die at an early age and some at an advanced age, and those who die at an advanced age have paid in more than those who have died at an early age. That is a platitude and so obvious a truism we can take it for granted. What Commissioner Henderson was asking about was this: As to those persons who have been sold more insurance than they can afford as indicated by the fact that they lapse, a large number of them lapse, as to that group, of those who die early, before a time has elapsed when they failed to pay their premiums, you will, of course, have a great number of families who will write laudatory letters to your company.

The question Mr. Henderson was asking you and Mr. Gesell was pointing up, was this: Is it fair to point to those few laudatory letters and not to point to the letters never sent to you, that is, to the disgruntled feelings of those persons who have, assuming that there are such persons, and I think there are, have been high-pressured into buying more insurance than they could afford? Is it fair to say that because you don't hear from that great multitude, and their name is legion, that you should think it is a gratifying situation because you heard from the few who, to use Mr. Henderson's phraseology, have won in that gamble?

Mr. PARKINSON. But I know, as a matter of experience, that those who have been members of the fund have enjoyed its protection during that time, and any one of them might have been the one who died.

Mr. FRANK. Exactly.

Mr. PARKINSON. That is the whole business. We maintain a fund. We know how much we have to have to pay for those who will suffer

death and a loss but we don't know who they are, and all we say, if I may finish, is that our fund is and always has been protected by underwriting so that it doesn't get in the position where too many die too young. If they did, we wouldn't be solvent. We have a whole underwriting department to prevent too many people being insured for too much.

Mr. FRANK. Of course, there is no need to discuss that obvious proposition, namely, that your actuarial tables must be so constructed that, as you put it, too many persons insured by you do not die too young, because, otherwise, obviously you would not be in business. There is no need to repeat that proposition since obviously your actuarial tables would be wrong, if that were the result.

But the problem now being discussed is a different one. You seemed to be saying the following: It would be desirable that all persons should always insure for more than they can afford to pay—in which event most of them would be forced, for lack of ability to pay, to allow their policies to lapse—merely because the families of those few of the overinsured who died before their policies lapsed would be lucky—all of which I am sure you don't mean.

Mr. PARKINSON. Which I am sure we wouldn't permit. Our underwriting department prevents that.

Mr. FRANK. No; it has nothing to do with actuarial problems.

Suppose that everybody in the United States took out twice as much insurance as he could afford to pay for over a period of years. You wouldn't think that was desirable, would you?

Mr. PARKINSON. No; certainly not.

Mr. FRANK. That is what Mr. Henderson is talking about.

Mr. PARKINSON. Our underwriting department would try to prevent that.

Mr. FRANK. Have you prevented it? Doesn't it appear to be so that there are a very large number of persons who have taken out more insurance than they can afford or should?

Mr. PARKINSON. The fact that they have let it lapse by not paying the subsequent premiums does not prove that point at all.

Mr. FRANK. I agree with you.

Mr. PARKINSON. This is a situation in which men are being urged to provide by self-sacrifice and thrift for their families. You can persuade them that they ought to do it today. You may be able to persuade them next year that they ought to continue to do it, but it is an exceedingly difficult job to persuade them that they ought to continue to do it. That is our problem.

Mr. FRANK. Obviously some of the people who allow their policies to lapse do that foolishly and unwisely. We know that. But the question is, if you find a very large volume of lapses, isn't that some indication, particularly when you inquire into the low incomes of the persons who are lapsing, and doesn't it raise a question whether there has been overselling?

Mr. PARKINSON. It does raise the question and we are confronted with such questions all the time.

Senator KING. I don't understand your position, Mr. Commissioner, to be that we are attacking life insurance.

Mr. FRANK. Oh, indeed not. I think if I were to reveal off the record the amount of insurance that I carry it would be obvious that I believe in it.

Mr. HENDERSON. A further indication of the importance of life insurance is the fact that the most potent agency in the world within my time compelled me to take some insurance during the war period, and I still have it.

Senator KING. It would seem to me it would be a little difficult to determine just where to draw the line, and, of course, if you have reputable insurance companies and reputable agents, and they have met the requirements of the State under which they are organized, there is a presumption that they are not brigands, that they are not pirates, but they are doing a legitimate business.

Mr. GESELL. Senator, may I say that I think the next sections of the testimony will assist the committee in considering where the line should be drawn. That is the broad purpose we are addressing ourselves to today.

Senator KING. I, as a lawyer, a person who has made a little money in mines and lost a great deal, know there is a great deal of difficulty in drawing the line of where you should make a proper investment. I suppose it is common knowledge that in the mining game, a legitimate one, where there is one mine discovered there are hundreds and hundreds of prospects that fail and millions and millions of dollars are lost by the investors.

Mr. GESELL. Now, Mr. Parkinson, I have mentioned only one part of your training course. I don't want to leave it rest with the inference that those portions I read are the only portions of the training course. You do have material which you distribute to your agents which acquaints them with the forms of policies, the theory of insurance, the history of the society, and all those other factors you believe he should be equipped with when he goes out to meet a policyholder, do you not?

Mr. PARKINSON. We do. We have a sort of preliminary training, then we have correspondence courses which go into great detail in trying to give to the agent practical instruction that will enable him to deal with the estate business, domestic taxation, and like situations of individuals or his prospects. It is a very long, systematic, and detailed process of education provided we can hold onto them long enough to give it to them.

Mr. GESELL. The first training a man gets, this basic training—when he comes with you, how long does it take?

Mr. PARKINSON. I think about 2 weeks or a month is the basic training.

Mr. GESELL. How much does it cost?

Mr. PARKINSON. I do not know.

Mr. GESELL. We have received figures from your company and perhaps you didn't have an opportunity to acquaint yourself with them.

Mr. PARKINSON. I heard of a figure which I was told was given in desperation because some figure was wanted so badly, but I wasn't persuaded that it was very accurate, and neither were those, I think, who gave it.

Mr. GESELL. You mean to say that you haven't available in your office any figures which you feel you could rely upon as a reasonable estimate of what it costs you to train or maintain a new agent?

Mr. PARKINSON. I have many figures which deal with many of the factors involved, but I should hesitate to say what was any reasonable estimate of the cost of giving what we call training to an agent.

because some of it is practical, some of it is through taking him by the hand and having him participate in actual solicitation and writing, some of it is by lecture, some of it is by study and correction of his correspondence reports, and so forth.

Mr. GESELL. All you have focused there is the problem of cost accounting. I take it the answer to my question is "No."

Mr. PARKINSON. The answer is not "No"; the answer is that we have figures that relate to some of the factors, but I should not have much confidence in figures which undertook definitely to portray the cost of training an agent, because the process goes on.

Mr. GESELL. I am talking, if I may interrupt, about the basic training. An agent comes in, and I am talking about the amount that is necessary to maintain him in the business during the first year that he is with you. I am not talking about all of the fancy courses that come along. Your big, basic-training job—

Mr. PARKINSON (interposing). Oh, I think we could give you a figure on that. I do not know the figure, but I think we could give you some figure on that.

Mr. GESELL. Your office submitted this, and I take it you are in accord with it. The statement reads:

On the basis of the estimates we have reached, we have reached the conclusion that an average of about \$300 for instruction and training and about \$25 a month thereafter for maintenance might reasonably be used.

That gives us a \$600 figure for the first year.

In giving these figures, however, we do not mean to infer that we save \$300 per agent if no new agents were employed, nor would we double the maintenance cost if the number of agents were double.

It costs you then, on your best estimates, allowing for the factors indicated in the statement, about \$600 a year to train him and keep him with you; does it not?

Mr. PARKINSON. According to that statement. I accept that estimate if you got it from our organization. I don't know who made it; I couldn't make one myself so I accept that.

Senator KING. For my own information, would that mean \$600 a year supposing he was an agent for 20 or 30 or 40 years?

Mr. GESELL. This is the first year only. I meant to say the first year.

Now, approaching this problem from a slightly different point of view, can you tell us what the average earnings of your agents are?

Mr. PARKINSON. The average earnings of all of our agents?

Mr. GESELL. Yes; how much do they make a year?

Mr. PARKINSON. I think it is a figure of about \$1,500 for all agents.

Mr. GESELL. Well now, I have a memorandum here dated September 15, 1937, written to your Mr. Graham by Mr. Arthur M. Spalding, assistant to the agency vice president.¹ The memorandum states as follows [reading from "Exhibit No. 1332"]:

Based on a life-insurance-sales-research study of a large number of agents, they report that out of 100 new full-time agents in the United States without previous experience, 27 are left at the end of 2 years. Only two pay for as much as \$100,000 in their first and second years. The average annual produc-

¹ Entered later as "Exhibit No. 1332." See appendix, p. 6990.

tion of the 27 agents who stay at least 2 years is \$56,000 which, translated into earnings at the rate of \$12 per thousand means about \$672 a year, or \$56 a month.

Comparing this with the studies made of new full-time Equitable agents, they find that only 20.2 percent of the agents were left at the end of 2 years. The average annual production of those who stay—

that is, the successful ones—

is \$67,000, and translating that into actual earnings on the same basis as above means that these Equitable agents earn about \$804 a year, or \$67 a month.

That memorandum would indicate to me that your previous statement was very high.

Mr. FRANK. Who prepared this memorandum?

Mr. GESELL. Mr. Spalding, assistant to the agency vice president.

Mr. PARKINSON. Well, it is an exceedingly difficult thing to fix the average earnings of life-insurance agents or, Commissioner, if I may come back again to the legal profession, lawyers.

Mr. GESELL. If I may interrupt, Mr. Parkinson, in order that we may be very clear on this, we received a special study made of the earnings of the agents of your company in the metropolitan area for the year 1937, and that study would indicate specifically that 49.1 percent of your agents earn \$1,250 or less; that 40 percent earn \$1,000 or less; that 31.4 percent, or almost one-third of your agents, earn \$750 or less, so there—

Mr. PARKINSON (interposing). Mr. Gesell, they certainly don't earn enough, and the one great thing I am interested in in the agency force is that we should train them to the point and give them the opportunities which will justify and enable them to earn more; but that, after all, is again the position of the bar in the administration of justice as well as it is in life insurance in the administration of our security production.

Mr. GESELL. We are considering the specific problem.

Mr. PARKINSON. May I put it this way: It is perfectly futile for me to assemble a mass of hearsay from those who know and come here and try to give you an answer to a question like that, but I will be delighted, if the committee wants to know the answer to that question for our institution, not for the business generally, to get for you an estimate.

Mr. GESELL. You misunderstood me. This is your own estimate.

Mr. PARKINSON. And when I ask for that estimate, I shall not ask the agency department, which is engaged in agency practice, but I shall ask the actuarial department, and Mr. Spalding is an assistant in the agency department. I wouldn't ask Mr. Spalding for those figures if the committee really wants them.

Mr. FRANK. Are you suggesting that Mr. Spalding is in error?

Mr. PARKINSON. I am suggesting that Mr. Spalding is not the man to whom I would go for that figure.

Mr. LUBIN. Are you suggesting we shouldn't accept Mr. Spalding's estimate?

Mr. PARKINSON. I am saying to you, if you regard the figure as important let me get it for you from our technical officials who certainly can make it accurate, and I don't know whether it is accurate or not.

Mr. GESELL. Let us have very clear on the record what has happened. I have read you this letter from Mr. Spalding. We asked

your company for this information. They supplied us with this study. It is not Mr. Spalding's, it is a special study of your own company prepared at our specific request. It is just the kind of study you are talking about in your testimony, and it shows the figures which I previously related to you.

Mr. PARKINSON. You mean the figures you just read, not the Spalding figures of a moment ago?

Mr. GESELL. The figures showing that almost a third of your agents in the metropolitan area earn \$750 or less.

Mr. PARKINSON. That schedule is prepared by our technical officers and is, I think, as good as anything I could give you.

Mr. GESELL. I wish to offer this for the record, if I may.

Mr. PARKINSON. Unsatisfactory, if I may say so, but it is something we are working with and making slow progress on.

Acting Chairman REECE. It may be admitted.

(The statement referred to was marked "Exhibit No. 1329" and is included in the appendix on p. 6986.)

Mr. GESELL. Our purpose here is to consider with you this very problem which is posed by this very low average earning for your agents. It is one of the problems that we are considering here. In that connection, may I ask you whether you give any guaranteed earning or wage to your agents when they come with you?

Mr. PARKINSON. No; except for a few who come into a special training class.

Mr. GESELL. But for the bulk of your agents you give no guaranty?

Mr. PARKINSON. They work fully on commission.

Mr. GESELL. Even for the first year?

Mr. PARKINSON. Even for the first year.

Mr. GESELL. How large is this proportion which doesn't fall into that general group?

Mr. PARKINSON. We select annually about 100 college graduates who are put in what we call the cashier's training class. They are paid, I think, \$100 a month in all instances. They are trained in the practical daily operations of the cashier's office with the idea that, having learned about the details of the business, they will have the best foundation upon which to build a successful selling career. Many of them do not develop into salesmen. We take them into the administrative end of our work. Those who do show sales interest go into sales work.

Mr. GESELL. You say that is about 100 men?

Mr. PARKINSON. One hundred a year.

Mr. GESELL. How many new agents do you employ each year?

Mr. PARKINSON. That, of course, depends on the year. We have been for years trying to reduce the number and to increase the number of permanent agents.

Mr. GESELL. I have figures here which indicate that for the year 1938 you had at the beginning of the year 5,894 direct agents under contract; that during that year you appointed 2,045 new agents; that during the year 1,721 agents were terminated. Do you believe that is close to your experience year in and year out?

Mr. PARKINSON. Yes.

Mr. GESELL. So that you have about 2,000 new agents a year?

Mr. PARKINSON. Yes.

Mr. GESELL. In some years more?

Mr. GESELL. And you say that of those 2,000 there are 100 which receive this special training salary guarantee and detailed experience?

Mr. PARKINSON. That is right.

Mr. GESELL. I would like to offer for the record this memorandum showing in greater detail the agency turn-over experience of the company for 1938.

Acting Chairman REECE. That may be admitted.

(The memorandum referred to was marked "Exhibit No. 1330" and is included in the appendix on p. 6987.)

Mr. GESELL. The turn-over problem is a very serious one, is it not, in business.

Mr. PARKINSON. It is serious from our point of view insofar as we are trying earnestly to interpret our services accurately and broadly throughout the country, and with specific reference to their application to the individual's needs. We know that we cannot have the kind of service that we want on the part of our institution or of our agents unless we have agents who are not only well trained, but happy, continuous in their service, rendering a continuing service to continuing policyholders—oh, I am not making a speech. That is all right.

Mr. GESELL. Well, the thing that concerns me, Mr. Parkinson, being familiar, as I am, with the principles which you have just stated, is how it is possible to have the kind of experience your company is having. Here I have before me an analysis of the agents appointed during 1936. In that year you appointed 3,165 agents. At the end of 1937 there were only 1,094 left and at the end of 1938 there were only 682 agents with you of the 3,165 appointed in 1936. Now that is a very, very bad experience.

Mr. PARKINSON. The experience is unsatisfactory, but there are factors in it which the mere figures do not at all suggest.

Mr. GESELL. That is what I want to ask you. Will you give us those factors?

Mr. PARKINSON. Everyone who comes to us and seeks the opportunity to act as a life-insurance agent, and who enters our preliminary classes, must be licensed before he can even have the training, because part of the training is participation in solicitation, and he must have a license for that. Therefore everyone who comes and offers to act as an agent, who seeks an opportunity in a field where men are not peculiarly trained for the job, in a field which is open to those who haven't professional training for other particular work, or experience, which fits them for other particular work, everyone who comes must first be licensed before he can be trained, be tried out or appraised.

Mr. GESELL. May I ask what the point is? Assuming they have to be licensed.

Mr. PARKINSON. The point is they are all included in those terminations. If they don't like the work or if we don't like them as the training progresses. May I use another legal illustration?

Mr. GESELL. Well—

Mr. PARKINSON (interposing). May I finish? Suppose that every entrant in the Harvard law school in the first-year class had to have a license in the Massachusetts bar before he could be trained in Harvard, the turn-over in the Massachusetts bar would be terrific, as I

understand the figures of the Harvard law school's experience in the dropping out of the thousands of freshmen before you come to the third-year graduation. It is the same situation exactly.

Senator KING. You may answer the question of Mr. Gesell's and then make your explanation.

Mr. GESELL. I think we would go faster. Thank you, Senator. Do I understand that included in these agents who were terminated were agents who had their licenses taken away? Is that the point?

Mr. PARKINSON. That is what termination means. The point I am trying to make is that you have the figures for agents whose licenses were terminated.

Senator KING. What is the license?

Mr. PARKINSON. Everybody has to have the license.

Senator KING. From whom?

Mr. PARKINSON. From the State insurance department. Everybody has to have a license before he can participate in the training.

Mr. GESELL. Those licenses were terminated by yourselves, Mr. Parkinson, so it isn't the result of the operations of any licensing system.

Mr. PARKINSON. No, no. I am only trying to point out that the very beginner whom we have had no opportunity to appraise, who comes in to try this business, seeking employment in these days when employment isn't easy to get, we do not shut the doors; we let them come in and try, but we have to give them a license before they can have training or try, and the figures that you have there are the terminations of those licenses. I am only trying to point out that they include everybody who has sought to try out the opportunity to make a living in the life-insurance business.

Mr. GESELL. They include everyone whom you and your associates selected as a man who would be suitable to represent the Equitable as an agent?

Mr. PARKINSON. That is right, temporarily subject to training and decision; you understand what I have said.

Acting Chairman REECE. It is now almost 12:30. Do you hope to finish with this witness this morning?

Mr. GESELL. No; we will have to run this afternoon. I indicated to Mr. Parkinson that I would try to finish with him today and would appreciate our reconvening at 2 o'clock in order that we have time to do it, if that is satisfactory with the committee.

Mr. LUBIN. Mr. Chairman, just before you adjourn for lunch, may I ask a question of Mr. Parkinson? Does every State in the United States require every insurance solicitor to have a license?

Mr. PARKINSON. I couldn't answer that question. I think it is so, but I could get you the answer to that question readily.

Mr. LUBIN. I infer from what you say that everybody who wants a job of you must have a license first before he gets his training, and that these requirements are made by the various States, and I was just wondering whether all the States require licenses.

Mr. PARKINSON. I think they do.

Senator KING. Let me ask one question. In this period of depression have there been more applicants for positions with your company?

Mr. PARKINSON. Yes, Senator.

Senator KING. Many of them young men?

Mr. PARKINSON. Yes.

Senator KING. Some of them going to school who try to earn a little by selling life insurance?

Mr. PARKINSON. A few, but most of the men who had lost their jobs in some phase of the financial world, which is somewhat related to our activities.

Mr. FRANK. That gave you a larger range for selection, then, didn't it?

Mr. PARKINSON. Gave us a larger range for selection, but also gave us the necessity over a long period of years of deciding whether we were going to close our doors and say, "No; we won't give you a chance even to try."

Senator KING. What proportion of those whom you have employed during the past 3 or 4 years during the depression were men or women, or both, out of employment, who had lost their jobs?

Mr. PARKINSON. Most of them, Senator; I couldn't give you the figures.

Acting Chairman REECE. The committee will stand in recess until 2 o'clock.

(Whereupon at 12:30 o'clock, the committee recessed to reconvene at 2 p. m. of the same day.)

AFTERNOON SESSION

The hearing was resumed at 2:20 p. m., upon the expiration of the recess, Representative B. Carroll Reece presiding.

Acting Chairman REECE. The committee will please come to order. Are you ready to proceed, Mr. Gesell?

Mr. PARKINSON. Mr. Chairman, before you resume, may I say that in my testimony this morning, in answer to one of Mr. Gesell's questions, I said yes, that the commission, the first-year commission paid to a general agent is 55 percent.¹ That is true. However, I made the answer with the expectation that other questions would develop an opportunity to state what is also true, and that is that 50 percent of the total of 55 percent is paid by the general agent to his subagent, the solicitor. Fifty-five percent is payable under the general agent's contract for business, but 50 percent, not of the 55, but of the premium, goes to the subagent who solicits the business, and only 5 percent of the premium goes to the general agent, and then also it is true that those percentages apply only to ordinary life insurance; varying percentages, most of them lower, are paid for various kinds of insurance. In other words, there is a schedule of commissions which we can readily file with the committee. I merely wanted to correct an impression that might have misled anyone.

Mr. GESELL. I think we might offer for the record a statement of the basic commission which is paid to the general agents, managers, and subagents, and other employees. That is set forth on this material, is it not, Mr. Parkinson?

Mr. PARKINSON. I recognize this as a digest of our rules and regulations and contracts that we place before the members of our agency committee and our board every month.

Mr. GESELL. This would be a complete statement of the matter that you refer to?

¹ Supra, p. 6513.

Mr. PARKINSON. It is an accurate digest. It is not the exact provisions.

Mr. GESELL. I should like to offer it for the record.

Acting Chairman REECE. It may be admitted.

(The document referred to was marked "Exhibit No. 1331" and is included in the appendix on p. 6988.)

Mr. PARKINSON. We would, of course, if the committee desire, give you the actual contract which contains the exact provisions.

Acting Chairman REECE. For one, I didn't get the impression that the general agent got 55 percent of the first year's premiums unless it was on business which he himself had written.

Mr. PARKINSON. That is exactly right.

Mr. GESELL. I neglected to offer for the record the memorandum of Mr. Spalding to Mr. Graham, under date of September 15, 1937, with respect to the average annual production and compensation of agents for the first 2 years with the companies who stay that long,¹ and I would like to offer it now.

Acting Chairman REECE. It may be admitted.

(The memorandum referred to was marked "Exhibit No. 1322" and is included in the appendix on p. 6990.)

Mr. GESELL. Prior to recess, Mr. Parkinson, we were discussing reasons for agency turn-over, and you called our attention to the fact that these figures which were introduced take account of every agent whom you hired and who succeeded in being licensed, indicating to us that, of course, some of them stayed a very negligible period of time with the company.² Now are there any other factors bearing on the causes for agency turn-over that you would like to bring to the committee's attention at this time?

Mr. PARKINSON. Well, it is a very difficult business, a very discouraging business, and we all recognize that the actual solicitation of life insurance, especially of substantial amounts of life insurance, which means contact with substantial people, is and is growing more and more difficult, and not all men can do the job well, or maintain the necessary enthusiasm for it, because it is not alone a matter of training in these details to which our training refers that makes a successful and permanent agent. A very great deal depends upon the personality of the man, whether he has the missionary spirit, whether he has those things that make a good educator, for example. All of that is involved in his maintaining the courage, the inspiration that is essential to maintain these contacts and against great discouragement go on trying to sell.

Mr. GESELL. And your present methods of selection and recruiting are not of such a character as to enable you to differentiate that type of individual whom you desire to have from the person who is not a successful agent?

Mr. PARKINSON. We try; we use sometimes the psychologist's methods of determining the possession of the requisite quality, but notwithstanding our effort, we don't do as good a job as we would like to in determining at the outset who is going to be successful.

Mr. GESELL. Now have you given consideration to paying your agents a guaranteed minimum salary, let us say for the first year

¹ See supra, p. 6529.

² Supra, p. 6532, et seq.

they are with the company, and putting greater emphasis upon training and education of the man? In other words, you have a man who has an assured income of this minimum guaranteed amount and he is spending his first year not seeking commissions to maintain his livelihood but is to some extent more interested in learning the business.

Mr. PARKINSON. I couldn't very well combine those two matters of training and compensation for purposes of answering accurately your question. As to training, we are giving constant consideration to improving the service of the agent and helping him not only to do a good job for his prospect and policyholder, but to be successful and make a living out of the business, because we know we won't have permanent and satisfactory agents unless they are making a living.

But when you come to the matter of compensation, I can only say, as I did this morning, that we do take a limited group annually into what we call the cashier's training course.

Mr. GESELL. We saw that was only 100 out of 2,000 agents.

Mr. PARKINSON. Yes; and most of them, I should add, or about half of them, go into the administrative work rather than the agency.

Mr. GESELL. What about the other 1,900?

Mr. PARKINSON. We have in the past tried in a limited field the payment of salaries, wages. It was not satisfactory, and we have, I think, pretty definitely determined that the desirable way of compensating the man who performs this service of modern life insurance is in accordance with what he does.

Mr. GESELL. You understand, I am talking only about the first year. I am not talking about any longer period than that. You think even for the first year you should keep this commission on new business incentive in front of him?

Mr. PARKINSON. Yes; because it is the best way to determine whether he does have the qualities which will ultimately succeed.

Mr. GESELL. What are the principal reasons for dismissing these agents who are let go each year in such large quantities from your company?

Mr. PARKINSON. That I could not say.

Mr. GESELL. I have here a schedule entitled "Causes of Termination (Direct Agents and Subagents) for the year 1938." This schedule indicates that of the agents terminated, 1,088 were terminated for insufficient production; 409 for nonproduction; 227 for failure to meet your 10-case rule, making approximately 1,724 agents who were fired or terminated because of not meeting your production standards, and that is by all odds the greatest percentage of the dismissals.

Mr. PARKINSON. I am not familiar with that statement, but if you got it from our office, I am quite sure—

Mr. GESELL (interposing). It was prepared for us by your staff.

Mr. PARKINSON. I have no doubt it is an accurate statement of causes of termination.

Mr. GESELL. Your principal causes, then, are the failure of a man to produce business?

Mr. PARKINSON. Yes; but you must realize that it isn't because he hasn't added to our volume; it is because, by his failure to produce, he has indicated a lack of the quality that will ultimately make him a successful, income-earning representative. At least, I think that is so.

Mr. GESELL. That is because of the method of compensation you use, isn't it? If you had a different compensation method a man could have different qualities and still remain on.

Mr. PARKINSON. We certainly wouldn't continue to pay a salary to a man whose production indicated he was not successfully contacting a large number of people and placing either additional insurance on our existing members or bringing new members into our society.

Mr. GESELL. When you talk, then, about service, as you did with Commissioner Frank this morning at some length, you have principally in mind the selling of insurance to new people or to old policyholders in greater amounts.

Mr. PARKINSON. No, indeed. I have in mind the placing of insurance protection, practical security to the amounts indicated, but when I speak of the service that Commissioner Frank was discussing, I mean the adaptation of our general service to the peculiar needs of the particular individual, both at the time of service and continuously thereafter. I think you would get a very much better picture of the whole thing if you would let us give you the kind of work that a really successful Equitable agent performs both before and after the policy is put in force, and perhaps I should add on this very point that you have in your papers, I think, the statement that 54 percent of all our agents have been with us for more than 5 years. You are speaking about the difficulty of selecting new permanent agents. Fifty-four percent of our agents have been with us for more than 5 years.

Mr. GESELL. Your average period of service for the agents who are with the business is about exactly 5 years, is it not?

Mr. PARKINSON. I don't know what the average is.

Mr. GESELL. A statement here, dated October 22, 1937, from Second Vice President Borden states:

I think I made a statement to you the other day that the average length of service of our agents was something under five years. I find, however, that I should have said it was somewhat over five years. The actual figures show that 4,062 agents, or 51 percent of the total, have five or more years of service—

So your average is about 5 years.

Mr. PARKINSON. If that is stated in the memorandum, I accept that, except that I do not know.

Mr. GESELL. I would like to offer at this time the schedule of terminations that we have been discussing.

Acting Chairman REECE. It may be admitted to the record.

(The schedule referred to was marked "Exhibit No. 1333" and is included in the appendix on p. 6990.)

Acting Chairman REECE. Do you have an idea as to how your agency mortality, and also your production, in the metropolitan area compares with those in the more sparsely settled areas?

Mr. PARKINSON. I could give you some figures on that, Mr. Chairman, but I don't have them.

Acting Chairman REECE. Is the agency mortality higher in the metropolitan areas?

Mr. PARKINSON. I should expect it to be.

Mr. GESELL. You mean, by mortality, turn-over, terminations of agents, not deaths.

Acting Chairman REECE. Yes.

Mr. PARKINSON. I mean terminations within a year.

Mr. GESELL. You referred, I believe, Mr. Parkinson, to the Woods Agency in Pittsburgh this morning as being the largest and the outstanding agency of your company, did you not?

Mr. PARKINSON. Yes.

Mr. GESELL. Do you recognize this as a letter from Mr. Duff, the general agent in charge of that agency?

Mr. PARKINSON. Yes.

Mr. GESELL. Would you say that he had an outstandingly successful agency?

Mr. PARKINSON. Yes; I would say that the Woods Agency beyond any doubt is the outstanding life-insurance agency in the country, not merely in the Equitable.

Mr. GESELL. Well, now, I wanted to read a portion of this letter, dated June 10, 1938, as the basis for subsequent questioning. He says, in part, as follows [reading from "Exhibit No. 1334"]:

Compliments to the Woods Company are at times embarrassing to the Manager when such a situation as the following is true:

On May thirty-first we had under contract 296 whole-time agents and 119 part-time agents, a total of 415.

By December next I hope that we will have not over 300 agents and with this number most of them substantial.

Making a study of our records divulges the fact that 116 agents last year produced less than \$50,000 apiece; therefore, earned not even a fair living. This 116—25% of our force then—produced 10% of our business and consumed, I would say, at least 50% of our time.

If the Lord lets me live, I expect to see to it that a very large percentage of those who remain under contract are substantial agents, selling substantial amounts of insurance to substantial people. What is the use of talking about Life Insurance as a career when one-fourth of our people are not making a decent living, and when year in and year out we hire and fire about ten people a month!

I can see he, too, is concerned with the problem we have been discussing here today.

Mr. PARKINSON. We are all concerned with it.

Mr. GESELL. May I offer this letter for the record?

Acting Chairman REECE. It may be received.

(The letter referred to was marked "Exhibit No. 1334" and is included in the appendix on p. 6991.)

Mr. GESELL. Isn't it true, Mr. Parkinson, that the great bulk of your business is written by a very small number of your agents?

Mr. PARKINSON. It is written by the small percentage I should say, but not the very smallest.

Mr. GESELL. Now here in 1937 your records would indicate that about 36 percent of your agents were club members and yet those who qualified for the clubs produced 64 percent of the volume written. In other words, 36 percent of your men are writing about 64 percent of the volume. That would indicate to me that you could maintain a successful company by relying only on these outstanding men, and to some extent obviate the necessity for bringing in so many new recruits who are unsuccessful and who, of course, cost the existing policyholders a great deal of money.

Mr. PARKINSON. The club members are those who write \$100,000 of business a year. That we regard as about a minimum of business that will produce earnings sufficient for a man to be a full-time agent. Therefore, all of the part-time agents, or mostly all of them, are in this other percentage who produce the balance of the business.

Mr. GESELL. I misread this; it is 25 percent of your agents who produce 64 percent of the business.

Mr. PARKINSON. Yes; I think that would be more nearly accurate.

Mr. GESELL. Well, now shouldn't it be good management—

Mr. PARKINSON (interposing). Pardon me, Mr. Gesell, a lot of your question remains unanswered and I would like to answer it. May I have it read?

The REPORTER (reading): (Question beginning, "Now here in 1937 your records would indicate," etc.)

Mr. PARKINSON. Now in the first place everything depends on what you mean by a successful company. A company that would be sound financially; yes. A company that it would be very much easier for the chief executive to administer, yes; but a company that would be extending its service deliberately and earnestly to those people throughout the country who we think need it, no; we couldn't run a successful company, because we would be missing a very large number of people with whom these agents unfortunately who stay with us only a short time, or these part-time agents, bring us in contact, and I must remind you in answer to the final part of your question that the whole theory of our business is that the newcomers into the business pay their way in. They do not come in at the cost of the existing policyholders, except where through the misfortune of early loss some part of the cost of bringing them in is left to be borne by our surplus, but the theory is, and it almost works out in practice, that the newcomers pay their way in.

Mr. GESELL. Of course it is true the cost of your insurance goes up as you have increasing expenses in recruiting agents—may I have an answer to that question, please, first? It is true, is it not?

Mr. PARKINSON. Yes; it is, but as I said this morning, we are not running a company for the purpose of making money for stockholders, or to keep our net costs down to the lowest possible. We are rather trying to expand than to restrict our service. I could immediately, even with my little knowledge of the life-insurance business, so restrict our activities territorially, occupationally, and otherwise that we could easily score a very much lower net cost. What we are trying to do is to give the widest possible and the fullest possible coverage to the greatest number of people at a cost which they will stand.

Mr. GESELL. So that though your company now is over the two-billion-dollar mark in the point of view of size, and could maintain that position through the efforts of this 25 percent of the agency force who write 64 percent of the business, you feel that you have a mission to carry the service of your company to persons who are not yet policyholders?

Mr. PARKINSON. That is a question that I can answer happily and enthusiastically, yes.

Mr. GESELL. So that if you are entirely successful from the point of view of your present management policies, you will still continue to increase at the same rate you have been going, both from the point of view of assets and insurance in force?

Mr. PARKINSON. I think that is true.

Mr. GESELL. It would look as though if you succeed in your present program that your company may reach the five, six, seven, eight, ten billion dollar mark in time?

Mr. PARKINSON. That is possible.

Mr. GESELL. Now there is a point here somewhere, is there not, where the Society must consider whether the advantages to the new policyholders who are brought into the business are equal to the disadvantages which may accrue to the existing policyholders because of the increase in size and the other complexities which arise?

Mr. PARKINSON. Yes.

Mr. GESELL. You feel you have not yet reached that point?

Mr. PARKINSON. By no means. May I add—

Mr. GESELL. Have you any idea as to what the ceiling will be?

Mr. PARKINSON. We have about a million and a half, a little less, members.

Mr. GESELL. You mean policyholders?

Mr. PARKINSON. Policyholders, but I don't like to forget that they are members. I spend a lot of my time impressing on them, the entire administrative organization of the institution, that the policyholders are in our case in law and in fact members of an institution and we must always remember we have only one million and a half. You know the population of the country. In assets we have, it is true, \$2,300,000,000, but when you think of that in terms of each policyholder or member it is \$1,500.

Mr. GESELL. You see you have likened your activities, and I am sure of your sincerity, to an educational or religious program.

Mr. PARKINSON. Yes.

Mr. GESELL. You take even, though, a minister or a preacher or anyone else who is interested in putting forward an idea, there must be at some stage where he stops and works with the group who are subject to his influence. Your continual desire to bring more and more people into your Society would indicate that to some extent you have no confidence in the fact that those people will be taken care of by other companies writing insurance, preaching the same gospel, and working in other areas?

Mr. PARKINSON. No; that is not so. I should dislike nothing more than that all of the life insurance should be in my company.

Mr. GESELL. Where are you going to stop?

Mr. PARKINSON. That is an exceedingly difficult question. As you have indicated, if we did not take another member into our organization; that is, did not sell another policy to a nonmember, if we did not allow an existing member to take any additional interest; that is, did not sell any additional policy to an existing member, the development, assuming that the existing policyholders remained in the institution, would necessarily add to our assets, add to them even faster, I am told by the actuaries, for the next few years than if we do go on doing business.

Mr. GESELL. And we have then, don't we, both in the very nature of your business and from the point of view of the management policy which you have just expressed, the very present possibility of your company continuing to grow larger and larger and larger, accumulating more and more of the assets and investments of the country.

Mr. PARKINSON. And it gives us a continuing problem which varies as other things about us, population and other factors grow in this great country.

Mr. GESELL. Have you set any ceiling as to your size from the point of view of assets or insurance in force?

Mr. PARKINSON. No; because it is so difficult to do it without using a dollar value, and who can say what dollar value used today would be a reasonable estimate in the future?

Mr. GESELL. Let's take number of policyholders. They stay a pretty stable commodity. How many policyholders do you want?

Mr. PARKINSON. I have never thought of it.

Senator KING. I would like, without desiring to inquire into the purpose of the examination, to ask, is the thesis of the organization represented by you, Mr. Gesell—and I am not complaining, if that is the thesis—to reach a conclusion or to announce as a policy that the life-insurance companies shall not increase in size or in the number of policyholders? Is the examination for the purpose of tearing them down or restricting their activities or restricting their capital or restricting the number of policyholders which they shall have within their organization? Or is it merely a factual presentation to show the size and what they are doing?

Mr. GESELL. Senator, it is the latter. I have never attempted to put my personal opinions into the problems that we have here. It seems to me that if the committee is interested in concentration of economic power, it is interested in knowing what the possibilities of growth of the insurance business are. Those are simply the questions I am considering. Since they involve to some extent not just the operation of the business but matters of management policy as well, I have been considering those as part of the study.

Senator KING. I think that is within the legitimate scope of the activities and authority of this committee, but I did not know whether it was the purpose of your organization to contend that when they reached a ceiling, to use your expression, they must go no further, or if they have 1,000,000 policyholders, they should have no more, or whether your purpose was to get facts.

Mr. GESELL. Just get at the facts; that is all.

Senator KING. So if legislation is necessary by the State of New York or other States in which they are operating, or if there is authority, legislation by the Federal Government, it may take these facts into consideration.

Mr. GESELL. Having all these facts in mind.

Mr. PARKINSON. May I contribute at this moment, in view of the Senator's suggestion, that we have in New York a statute which is applicable to all of our business throughout the country, a limitation on the amount of new business that we can do in any 1 year.

Senator KING. What is that limitation?

Mr. PARKINSON. That is 10 percent of the amount done in the preceding year.

Mr. O'CONNELL. You mean 10 percent in excess of the amount done.

Mr. PARKINSON. Yes.

Mr. O'CONNELL. You can't do more than 10 percent more this year than you did last year?

Mr. PARKINSON. Yes; and I am sorry to say, from the point of view of our poor agents, we have had no trouble with that limitation in the past years.

Mr. O'CONNELL. It hasn't operated as a restriction.

Senator KING. I suppose you submit annual reports to the proper officials of the State of New York?

Mr. PARKINSON. Not only annual but thoroughly complete, Senator.

Senator KING. They have an insurance commissioner who scrutinizes your accounts, your reports, and you have to conform to the law and conform to such regulations as he under the law may formulate?

Mr. PARKINSON. We do, sir.

Mr. O'CONNELL. Have you in mind in general what the public policy behind that restriction in New York is?

Mr. PARKINSON. It was the outgrowth of the Hughes investigation, which determined that there was at that time too much emphasis on a desire to grow quickly, and it was the best that they could work out and the best that we have been able to work out, and the best that experts representing the New York Legislative Commission, which recently recodified the New York insurance law under the guidance of Professor Patterson, of Columbia Law School, could work out to put a practical limit on annual growth.

Mr. GESELL. Of course, there are many officials, are there not, insurance officials, who put their own limitation upon how large they should grow? We have had some of them before this committee.

Mr. PARKINSON. Yes; I think that when they do, they do it with a view to earning dividends for stock rather than extending under the best possible conditions the service they have to offer to an expanding number of people. That is the difference between our mutual companies and those who, while operating a business which is essentially mutual, nevertheless have the problem of earning dividends for stocks.

Mr. GESELL. You see what occurs to me immediately, I am sure. Here are these stock companies, competing on an equal basis with the mutual companies from the point of view of cost, and still taking these tremendous profits. Just think what a mutual company could do if it had the same operating efficiency and plowed those profits back to policyholders. You would have cheaper insurance; you would have many advantages.

Mr. PARKINSON. But, Mr. Gesell, it wouldn't be doing what we are doing every day in our medical bureau and elsewhere, trying to see if it would be possible for us to include in the number whom we accept as eligible risks those who have heretofore been absolutely precluded from coming in.

Mr. GESELL. Oh, yes; but there is still that flexibility, and you still put your territorial restrictions, your other types of restrictions, on the scope of your operations.

Mr. PARKINSON. Yes; we could; but we are trying to do the opposite; that is, to extend our service to cover the entire country as a national institution should, and to cover the great number of risks.

Mr. GESELL. You say as a national institution should. It has been your management policy that has made you a national institution. You have no other cause for saying you are one, have you?

Mr. PARKINSON. No.

Senator KING. You used the word "national" in the sense of territorial rather than an organization of the Federal Government?

Mr. PARKINSON. Yes.

Senator KING. I want to discriminate between what is national and what is territorial.

Mr. GESELL. One way which your company has adopted of carrying this service and this message that you have to policyholders is the use of sale campaigns, is it not?

Mr. PARKINSON. Yes.

Mr. GESELL. Will you tell us what the policy of your company is with respect to sales campaigns? You do encourage them, do you not?

Mr. PARKINSON. Yes; we encourage them. That is a big question and pretty hard to make a little answer to it.

Mr. GESELL. Let me whittle away at it a little and if you have any further explanation we can put it in. There are three types of campaigns in your company, am I not right, those sponsored by the company itself on a Nation-wide basis, those conducted by one department of your company for a certain area, either the New York area or the central area, whatever area it is, and third, contests conducted by your local managers or general agents for the purpose of stimulating the agents immediately under their supervision. You have three different types of contests.

Mr. PARKINSON. I am always suspicious of any classification which results in three divisions. I am sure there are those three, but I suspect there might be some others but they wouldn't be as important as those three.

Mr. GESELL. Could we say those are three principal kinds?

Mr. PARKINSON. They are the three principal ones, I am sure.

Mr. GESELL. Could you tell us about the company-sponsored campaigns that you have, that is, the Nation-wide campaign? You have every year, do you not, some kind of a convention anniversary celebration at which you give recognition to your substantial producers.

Mr. PARKINSON. Not necessarily every year. We have in the last 15 or 20 years had a Nation-wide convention on the occasion of the anniversary of our organization, that is the fifth year, 1929 the first, and recently in 1939, and then we do have from time to time additional, but not necessarily annual, gatherings of selected agents, which are organized and supervised by the home office.

Mr. GESELL. Now in 1939, in July, you had your Eightieth Anniversary Educational Conference, as it was called, did you not?

Mr. PARKINSON. Yes.

Mr. GESELL. And to that you brought your top 800 producers.

Mr. PARKINSON. Yes.

Mr. GESELL. The year before you had a Miami Educational Conference in January, did you not, in Florida?

Mr. PARKINSON. Yes.

Mr. GESELL. And to that conference you brought all agents who had written \$200,000 in volume, \$6,400 in paid-in premiums, and 12 lives for the year 1937.

Mr. PARKINSON. Yes.

Mr. GESELL. Those are typical of the type of Nation-wide conferences you have?

Mr. PARKINSON. Yes.

Mr. GESELL. Now, are you familiar with the departmental campaigns that I have talked about, those that are limited to some particular region of the country?

Mr. PARKINSON. Yes; in a general way. I am not sure I am familiar with all of them.

Mr. GESELL. Can you tell us about some of them that have come to your attention?

Mr. PARKINSON. Well, there is an annual campaign in the Middle West, in what we call the central department, which is organized by the managers and general agents of that territory.

Mr. GESELL. Is that the Par for Parkinson campaign?

Mr. PARKINSON. That is the Par for Parkinson campaign.

Mr. GESELL. They are the standards of production, are they not?

Mr. PARKINSON. Yes; production and certain activity which is supposed to differentiate the successful and worth-while agent from the others.

Mr. GESELL. Generally these departmental campaigns, then, are much on the order of the company-wide campaign, only restricted to an area; is that correct, do you think?

Mr. PARKINSON. They are different in that the home office has nothing to do with them and doesn't pay the expense of them.

Mr. GESELL. The home office does pay some little expense.

Mr. PARKINSON. Very little.

Mr. GESELL. Covers the printing expense.

Mr. PARKINSON. It is a very infinitesimal proportion.

Mr. GESELL. I am sure it is. But it does pay it, does it not?

Mr. PARKINSON. It does pay it.

Mr. GESELL. Does the home office supervise those contests in any way?

Mr. PARKINSON. No; I think not, except that I suppose there is an occasional suggestion as to what might make the effort more successful than less; but generally speaking, that particular campaign, which is illustrative of our field campaigns, is in the hands of the management.

It is a little difficult for me to portray, if I may suggest, in general language here just what such a campaign is and what it does. We, and I am among them, who know only a little about what actually goes on in the work of the office and in the work of the agent in the field, must use very general language as I sit here and try to describe what that campaign is like and what happens. But that campaign at its conclusion results in a meeting in Chicago which is attended by the two leading agents of each of the agencies from Oklahoma to Detroit, and from St. Paul to Columbus, Ohio, and all the territory in between. There the agents who have participated and been successful enough to win the right to attend that Chicago meeting have a chance not merely to enjoy and get the encouragement that comes from the fact that they have done a good job as measured by volume—yes; that is our best measurement—but they also have a chance to see others who have succeeded even better than they, and the encouragement and the example is the benefit that we derive from those campaigns.

And may I just add that the man who usually leads that campaign sells life insurance for us in northeastern Iowa, and he usually comes to meetings because he has sold within the period of the campaign anywhere from \$175,000 to 200,000 of life insurance, and the average policy is somewhere around \$1,500 to \$2,000. And he almost always has the first premium tacked on the application. There is no doubt about its being good business, and the example of that man in what he has done, and the way he has done it, is of so much value to us in this very process of training, encouraging to success, these agents who do not make such a good showing.

Mr. GESELL. I suppose in a modified way the campaigns in the local offices of the individual agency managers and general agents have the same purpose.

Mr. PARKINSON. They have the same purpose; not always so successfully conducted.

Mr. GESELL. And I take it in those cases the home office has even less supervision over what goes on.

Mr. PARKINSON. Yes.

Mr. GESELL. It is true, is it not, that sometimes there may be as many as 10 or 15 campaigns in a local office within a single year?

Mr. PARKINSON. I do not know. You see, you are carrying a little bit into a field that is beyond my daily contact and responsibility.

Mr. GESELL. We dropped in at the Ott agency and asked for a list of their campaigns. I noticed that in the period from June 1, 1937, to June 1, 1939, a period of a couple of years, they had a national educational conference—that is the big company campaign—a turkey campaign, a scrimmage campaign, a loyalty day campaign, an eightieth anniversary campaign, an Ott eighth anniversary campaign, traffic court, life-insurance week, another turkey, world series, a scrimmage, another loyalty day, a 5-and-10 club, and a ninth anniversary of the Ott agency campaign. You must have the agents stirred up into a continuous state of emotion.

Mr. PARKINSON. You know the extraordinary thing about it is that they like it and they expect it. They like us to indicate, the agents and the managers, what we expect of them. They like us to put a little bit of a goal beyond what they might otherwise obtain. And they will stand more talking than any group of human beings that I have ever come across, and that is because the work they do is missionary and it is a drain not only on the nervous system but on the emotions. They need to be constantly made to feel that somebody thinks well of their work, that somebody thinks they are doing very important work. They need it.

Senator KING. Do they regard these meetings as holidays?

Mr. PARKINSON. No, indeed; they do not, Senator.

Senator KING. They are working meetings?

Mr. PARKINSON. They are decidedly working meetings. They don't know any holidays.

Mr. GESELL. We had Mr. Lincoln on the stand, president of the Metropolitan. My questions to you are prompted somewhat by what he said at that time. May I read a short portion of that transcript of August 30, 1939? I said:¹

I gather from what you said that your company is as a matter of policy opposed to sales campaigns.

Decidedly. I want to make that clear. But I did want to have these descriptions so I wouldn't be misunderstood.

And I asked him why they were opposed, and he stated:²

Because there would be a human tendency toward an effort to produce a class of business which we wouldn't want on the books. We don't want business that will not persist. We don't want business which is written without regard to the family requirements and the family ability to pay, and we believe that those contests may have that effect. Insofar as it is possible to discourage them, we are doing it.

You feel it is bad business from the standpoint of profit and loss?

Yes, sir.

¹ See Hearings, Part XII, p. 5872.

² Ibid.

Now I take it you are sharp disagreement with Mr. Lincoln.

Mr. PARKINSON. I have no interest in profit and loss, except in the broadest sense.

Mr. GESELL. That is the sense he was speaking of since he also is a mutual company.

Senator KING. Do you approve of the position taken by this witness who testified as I have just read?

Mr. PARKINSON. I approve of practically all of it as I recall the reading of it, except the conclusion that we don't want campaigns. I believe that there are all of the difficulties and dangers that are suggested by Mr. Lincoln, but I believe we are in a way to control that in our company. I believe they can be controlled and I believe on the whole the advantages of campaigns, if they are properly handled, are greater than the disadvantages. That is my position.

Mr. GESELL. Do you know Mr. A. M. Embry, your general manager in Kansas City?

Mr. PARKINSON. Everybody knows Mr. Embry.

Mr. GESELL. He is one of your outstanding men, is he not?

Mr. PARKINSON. He is, indeed.

Mr. GESELL. Here I have a letter that he wrote to Mr. Welch, your second vice president, in March of this year, quite current, and he says in one paragraph:

Before I left for Hot Springs, I wrote the assistant manager in charge of this past campaign a letter which he, in turn, mimeographed or rather placed in the announcement of the campaign, expressing my views relative to this "hooley" business subject.

Previously he said:

I am convinced we are getting quite a percentage of this lapse business in what I term in slang language as "hooley" business. That "hooley" business was developed largely through pressure from unit district managers during campaigns.

Now that would indicate to me that at least Mr. Embry, an experienced man, felt your campaigns had just the wrong tendency rather than the right tendency.

Mr. PARKINSON. I am amazed that letter didn't contain some language which would have prevented your reading it in this presence.

Mr. GESELL. It may be in there. I will offer the whole letter if you like, for the record.

Mr. PARKINSON. "Pick" Embry has about the choicest vocabulary of anybody this side of the Rocky Mountains.

Mr. GESELL. That doesn't answer my question.

Mr. PARKINSON. I beg your pardon. I merely wanted to say that the particular word, which doesn't sound well just at this moment, is the word of a man of vivid language.

Senator KING. You object to the word "hooley."

Mr. PARKINSON. I don't object to it, I just want to be sure that it is understood—

Senator KING (interposing). It is expressive, isn't it?

Mr. PARKINSON. To be the word of a man who uses expressive language.

Senator KING. Do you not interpret it as meaning—

Mr. PARKINSON (interposing). Undesirable business.

Senator KING. He was not quite in accord with some of the practices.

Mr. PARKINSON. Undesirable business that we don't want, that is it. We know there are, have been, some agents in these campaigns who, in order to qualify, who in order to be outstanding in the organization, go to their relatives, go to their friends, go to somebody and put business on the books for a few months, for no purpose except to qualify, to distinguish themselves.

Mr. GESELL. Then why do you want sales campaigns if that is the fact?

Mr. PARKINSON. Because we can eliminate those defects in the campaigns and the campaigns have advantages that we don't want to eliminate.

Mr. GESELL. You mean they increase your volume.

Mr. PARKINSON. No; we think we have moved to eliminate the very situation that Mr. "Pick" Embry refers to.

Mr. GESELL. Well, now, you made an analysis——

Mr. PARKINSON (interposing). That letter, by the way, was that 19——?

Senator KING. March, of this year.

Mr. GESELL. March 9, 1939.

You made an analysis of your Miami business, did you not?

Mr. PARKINSON. I didn't.

Mr. GESELL. There was such an analysis made at your request, was there not?

Mr. PARKINSON. Not at my request.

Mr. GESELL. Did you see the analysis?

Mr. PARKINSON. No; I did not see the analysis. I am familiar with some figures that indicated the sort of thing we have been talking about.

Mr. GESELL. Well, now, that campaign came to a close December 31, 1938, did it not?

Mr. PARKINSON. 1937.

Mr. GESELL. 1937, and your production requirement was \$200,000 of business.

Mr. PARKINSON. Yes.

Mr. GESELL. Now, this analysis——

Senator KING (interposing). Per man?

Mr. GESELL. Per man. This analysis which I have contains this tab:

The total, \$1,790,000, probably represents the total amount of phoney business written in November or December '37, and lapsing in December 1937 or January '38.

There is business that lapsed within 2 months of the time it was written, and you had \$1,790,000 worth of it, did you not?

Mr. PARKINSON. Yes.

Mr. GESELL. Well, now on the work tables, Mr. Parkinson, that were prepared in the compilation of that figure you can run down and find case after case after case where a policy in the amount of \$10,000, \$20,000, \$15,000, or more was written and lapsed within 2 or 3 months.

Mr. PARKINSON. Yes.

Mr. GESELL. That is not in the interests of the Society?

Mr. PARKINSON. It certainly is not, and we are doing everything we can to stop it. As I said a moment ago, that is business which is not written for the benefit of the policyholder; it is not written for the benefit of the institution; it is written for the purpose of enabling the agent to qualify for a class or to get some other distinction out of his effort.

Mr. GESELL. Why don't you cut out the campaign? It seems to me that is the way to solve this problem.

Mr. PARKINSON. I think I ought to explain to you—

Senator KING (interposing). Let me ask one question, please. Would the full amount of the policy be paid on those policies that were lapsed within 2 or 3 months?

Mr. PARKINSON. Ah, Senator, it would, and I could give you case after case, but of course it would only be a few cases of just such policies written for a purpose and in circumstances which we could never approve of, and which have matured and the beneficiaries have had the benefit.

Mr. GESELL. That wasn't your question, was it, Senator?

Senator KING. My question was whether on policies which lapsed within 2 to 5 months the full premium was paid?

Mr. PARKINSON. Only for that period. The premium was paid.

Senator KING. But if a man took a \$20,000 policy the full premium was paid for the first year?

Mr. PARKINSON. Oh, no.

Mr. GESELL. Monthly or quarterly.

Mr. PARKINSON. What Embry means by "phoney business"—

Senator KING (interposing). I was asking about these particular policies to which Mr. Gesell referred where there were such a large number of them lapsed within a short time. I was wondering if the full premium was paid upon those policies.

Mr. PARKINSON. The full premium to the date of lapse.

Mr. GESELL. I might call attention to several of those cases to illustrate, Senator. Here is a man who wrote a \$20,000 policy on a monthly premium basis; the first premium was paid on the 29th of December '37, and lapsed when the second premium became due. There are many of that type of case in here.

Mr. PARKINSON. Of course, there is no suggestion of any harm except that those who would not otherwise have qualified do qualify by having added that particular business to their other written business.

Senator KING. It is a reasonable assumption that some of those policies were written under the pressure of agents and they did that because they were trying to establish themselves as important factors in your organization, and they did not understand that the policy was to be continued for an indefinite period?

Mr. PARKINSON. And we say very frankly, Senator, that we do not want that kind of business. We do not want that kind of effort, but human beings are human beings and despite our efforts to control it we cannot promise entirely to eliminate it.

Mr. GESELL. Many forward-looking managements have eliminated sales contests, Mr. Parkinson. That seems to me one way to eliminate it, not to play on human nature the way you do by such contests.

Mr. PARKINSON. I think I have made clear that the work of these

agents to require the encouragement and the example which the convention, the group, the campaign provides—

Mr. O'CONNELL (interposing). Mr. Parkinson, it is also clear, is it not, from your testimony that this particular undesirable business to which reference has been made was brought about or put on your books by reason of or because of the sales contest we are talking about?

Mr. PARKINSON. Yes.

Mr. O'CONNELL. I understood you to say that.

Mr. PARKINSON. That is true.

Mr. O'CONNELL. So there is definitely one undesirable result of sales contests and that is the writing of an undesirable class of business which the agents write because of the pressure of the sales contest?

Mr. PARKINSON. Yes; undesirable from our point of view but again I must say not undesirable from the point of view of those beneficiaries whose policyholder happens to die within the period for which the premium is paid.

Mr. O'CONNELL. As you said this morning, that obviously is a very small percentage and it is undesirable, I take it, from the point of view of the company, from the point of view of the insured whose policy lapses, and desirable only from the point of view of the agent?

Mr. PARKINSON. One of the reasons that it is undesirable from the company's point of view—

Mr. O'CONNELL (interposing). Would you mind telling me whether I have stated it correctly what the situation is?

Mr. PARKINSON. I will have to ask to have it read.

Mr. O'CONNELL. I can restate it. As I understand that type of business is undesirable from the point of view of the company and from the point of view of the insured whose policy lapsed after 2 or 3 or 4 months, and only desirable from the point of view of the monetary interest of the agent?

Mr. PARKINSON. Yes; we think that is so.

Mr. GESELL. Now some of these contests have the element of a lottery in them, do they not, Mr. Parkinson? The agents and the managers contribute to a pool and the winning agent draws down the kitty?

Mr. PARKINSON. I couldn't say that is true, though I wouldn't be surprised at something of that kind.

Mr. GESELL. It seems to me when you put up a monetary incentive of that sort it is particularly conducive to high-pressure selling, wouldn't you agree?

Mr. PARKINSON. Well, I have the difficulty—I don't know exactly what is high-pressure selling. All life insurance selling is overcoming of resistance, and a good deal of reluctance, and then again I don't know whether these little self-constituted pots that are divided in accordance with effort are conducive to detriment or not.

Mr. O'CONNELL. Well, Mr. Parkinson—

Mr. PARKINSON (interposing). We do not provide the pot.

Mr. O'CONNELL. Obviously the type of contest to which we referred before to your mind produced undesirable business. It seems to me the answer to Mr. Gesell's question as to the effect of a different type of reward, definite monetary reward, the result of that type would be the same, would it not, at least?

Mr. PARKINSON. No; Commissioner, because——

Mr. O'CONNELL (interposing). I am not a commissioner.

Mr. PARKINSON. I beg your pardon; that is my New York training. The case that you now suggest, the prospect may have been urged, but he does finally buy. In the other case I wanted to make it perfectly clear that the policyholder and the agent have more or less conspired to put on our books a policy that is not intended to endure. It is put on merely for the purpose of carrying over the period at which some decision can be made as to who qualifies. Now there is a real distinction between the two.

Mr. O'CONNELL. In the contest the winner of which gets the monetary reward, wouldn't that same situation exactly exist?

Mr. PARKINSON. If it does, then I agree that the business is undesirable; that is, the business that is intended not to endure.

Mr. O'CONNELL. And the tendency to write that type of business is at least present where the reward is a monetary reward as in the other type of sales contest?

Mr. PARKINSON. The tendency is there, but if you will look at the figures I think you will find that the amount is not large compared with the amounts of real business.

Senator KING. Haven't you attempted—I don't mean to imply that you have—but haven't you attempted to follow the policies of some of the commercial companies in pushing their commodities in various sections? They will have their active agents who will sell silk coverlets and sell quilts and sell all sorts of gadgets for your automobile, and for your kitchen utensils, and so on, and they will carry on a very active campaign and offer inducements to the housewife and automobile owner to buy, and they get rewards according to the amount of sales which they make. Haven't you sort of adopted some of the commercial policies that are adopted in businesses, some of which are very worthy and some of which are not so worthy?

Mr. PARKINSON. I don't know whether we have adopted them, Senator, or not; but it is a fact that we do have some of these little encouragements, some of these little human methods of inspiring a little better effort.

Mr. GESELL. How much did your Miami contest cost? It was \$142,000, was it not?

Mr. PARKINSON. I do not remember the figures exactly.

Mr. GESELL. Can you consult with your associates?

Mr. PARKINSON. Yes; \$142,000.

Mr. GESELL. That was cost to the company?

Mr. PARKINSON. Yes.

Mr. GESELL. I might just for the purpose of the record offer the literature on one of these local campaigns, of one agency of the Equitable Life Assurance Society.

Acting Chairman REECE. It may be admitted.

(The document referred to was marked "Exhibit No. 1335" and is included in the appendix on p. 6992.)

Mr. PARKINSON. May I add just one little fact, that that so-called undesirable business in the Miami Convention was less than 1 percent of the total business written by the agents who qualified to attend that conference?

Mr. GESELL. Yes; a million seven hundred-odd thousand dollars of business.

Mr. Parkinson, have you made studies as to the persistency of this campaign business other than in the case of the Miami campaign?

Mr. PARKINSON. There have been some studies, more or less systematic.

Mr. GESELL. You keep no careful check on the persistency of that kind of business?

Mr. PARKINSON. No, I think not; no.

Mr. GESELL. I have here a document from your files which starts off with this idea: "Sales Ideas from the Field."

We wrote to a number of agents in various sections of our territory asking them to give us sales ideas they were using which had proved successful. Here are a few we have received which we think all agents in the Woods Company can use to advantage.

That is the Woods agency again. I want to call your attention just to one and see if you approve of this type of tactics.

Jack James—

Evidently he is one of the agents there—

says that when a policyholder borrows he covers the loan with a term insurance policy on the annual premium plan and then he presents his client a policy with a monthly premium equal to the annual, and has frequently got away with this larger sale.

Do you approve of that type of selling tactics?

Mr. PARKINSON. No; I should say that there was in that phraseology a total lack of concern about that which is of most importance to me; that is, placing the coverage that the individual needs.

Mr. GESELL. Yet that is the leading argument of this evidently prominent salesman in your company, that he will sell a man a policy on a low annual premium and then order down a policy which has a monthly premium equal to the annual premium. It seems to me that that is strictly not in the interests of good selling practice.

Mr. PARKINSON. Well, I wouldn't want to say "yes" to that, but it isn't in its tone and its phraseology consistent with what I should like to see and am trying to bring about as the ideals of our institution.

Senator KING. The phraseology isn't so important as the spirit and the thought behind it, is it? You don't approve of the phraseology. What about the policy?

Mr. PARKINSON. Well, if what was meant there was that you sell the man a policy and then teach him that if he borrows on the policy he should cover his loan with a term policy to pay it off, that might not be reprehensible or undesirable, Senator.

Mr. GESELL. There is also other literature from your files which I would like to call to your attention. Do you recognize this document?

Mr. PARKINSON. No; I do not.

Mr. GESELL. It came from the files of your company and it would indicate it was the type of literature which was used in one of the campaigns, would it not?

Mr. PARKINSON. I don't know. The fact that it was in our files, the fact that it was in my files, would not indicate any use had ever been made of it, and wouldn't even indicate—I haven't read it; I just don't recognize it.

Mr. GESELL. On the second page it says, "What to sell under item 19: "If money is not available, borrow old policies to pay for new insurance."

Do you approve of that type of selling methods?

Mr. PARKINSON. No.

Mr. GESELL. Can you tell us what standards you set for the amount of insurance a person shall carry? Do you have any set standards?

Mr. PARKINSON. We have rules in the underwriting department which are intended to hold the amount of insurance to what the underwriters think is a fair percentage of income.

Mr. GESELL. How does that run? What percentage of the income do you permit?

Mr. PARKINSON. I would rather not attempt to give you those percentages, but to file them with you.

Mr. GESELL. Is Mr. Graham here? We can ask him that.

Mr. PARKINSON. That is actuarial; that is the underwriting department. I should think he wouldn't know that. That is a very important element of underwriting on the economic as distinguished from the medical side.

Mr. GESELL. How about it, Mr. Graham? Do you know those figures?

Mr. GRAHAM.¹ My answer would be that of the president. That is an underwriting question which receives very careful attention. The amount of insurance is sold or granted to an individual only with reference as being reasonable with regard to individuals. There are rules that the underwriters have to govern them, but in passing on that question—

Mr. GESELL (interposing). May we ask, Mr. Parkinson, that you submit for the record, if it is the pleasure of the committee, a specific statement of what your underwriting rules are as to amounts of insurance which can be sold to families with specified incomes?²

Acting Chairman REECE. Will you do that?

Mr. PARKINSON. Yes.

Mr. O'CONNELL. Do I understand that the amount of insurance they carry is not a matter of concern alone to your agency force or the people selling insurance for you?

Mr. PARKINSON. Oh, yes; it is very difficult for all phases of this matter to be reduced to the space of time allowable here. We put upon our agents in the field a real responsibility for assisting us in selecting the right risks and also in keeping the insurance on them at the right levels.

Mr. O'CONNELL. Do you tell your agency force and your agents how much insurance, or do you give them any standards of the amount of insurance as related to income that a particular prospect should carry?

Mr. PARKINSON. Except as they learn it through the operation of the underwriting department on the risks submitted.

Mr. O'CONNELL. The agency force knows nothing about the amount of insurance a man should carry, but if they write too much on a particular life, the underwriting department will turn the application down. Is that what you mean?

Mr. PARKINSON. Yes.

¹ William J. Graham, vice president, Equitable Life Assurance Society.

² Submitted subsequently and entered in the record on December 8, 1939, as "Exhibit No. 1348-6." See appendix, p. 7018.

Mr. O'CONNELL. So the agency force doesn't render that particular service. You were discussing this morning the services rendered by a good agent. However good the agent was, he couldn't advise me how much insurance I should have as related to my income. Is that correct?

Mr. PARKINSON. Oh, yes; he does.

Mr. GESELL. On what basis does he do it? I understood you to say that was an underwriting proposition. Do you tell him how he can advise me how much insurance I can carry or should carry?

Mr. PARKINSON. We do not tell him.

Mr. O'CONNELL. How will he know?

Mr. PARKINSON. In working out his service to you he must analyze your situation and recommend an amount of insurance that is suited to your situation.

Mr. O'CONNELL. But, as I understand it, his training and the information you make available to him when he starts selling insurance does not include information that would enable him to advise me on that subject?

Mr. PARKINSON. I would not say it would not include any information, but the limit on the amount would be applied by the underwriters when the case reaches them.

Mr. GESELL. Believing as you do in insurance, you set pretty high standards as to the amount of insurance you are willing to place on a single family or single individual, do you? I have here before me a special study made of a number of cases:

Here is a case of a man 22 years old, a factory worker who receives from \$75 to \$100 a month. He has \$1,000 of insurance; he is a young married man. Your analysis says, "Circumstances would warrant total of at least \$5,000 of insurance."

Here is another, a wood-mill worker, age 29, who makes \$70 a month. He is single. "Finances would warrant from 3 to 5 thousand dollars of insurance."

Here is another, of a shipping clerk, 21 years old, who makes \$70 a month, single, lives at home. "Would qualify up to \$5,000."

Here is a filling-station operator, age 23, makes \$80 a month, lives at home, is single: "No apparent objection to \$3,000 to \$5,000 of insurance."

Here is a man who is married, age 23, makes \$85 a month. You say, "He would easily qualify for \$5,000."

Here is a stock clerk who makes \$100 a month, \$25 a week, married: "Would qualify for \$5,000 to \$10,000 of insurance."

Would you say that those were a fair statement of the standards which you set for placing insurance in families of that particular condition and class?

Mr. PARKINSON. I should say that the amounts of insurance which you have named are not too high for the folks whose domestic relationships you have described. Now, whether they can afford to pay the amount of premium that is involved is, of course, first, their business; and second, it depends on their age and other social and economic situations.

Mr. GESELL. But this was an analysis of your underwriting department as to the amount that these families could handle, and it seems to me you must admit that it is representative of the type of underwriting standards which have been set by that department.

Mr. PARKINSON. In the matter of amounts of insurance?

Mr. GESELL. As relating to income and age and occupation.

Mr. PARKINSON. I must say that, very frankly, I have myself taken the position with our whole agency force that it is desirable that where the individual can afford it, he ought to be persuaded to take a substantial amount of insurance in these days, rather than a nominal amount. If this study, which I have not before seen, means that our underwriters were taking some cases that would indicate that our agents might have placed, in the interest of the beneficiaries of the prospect or the policyholder, a larger amount of insurance, then I should think it was a very desirable thing.

Now, as to what amount of insurance a young man of 24 with \$100 a month salary should take, I must say I have no fixed ideas, and with most of the people whom we serve throughout the country, it is a matter for them to decide, and they are people who are accustomed to making their decisions for themselves. We do not really have too much to say about it, except as we persuade them to take a little more.

Mr. O'CONNELL. Apparently even your underwriting department in view of what you have just said, has no function to determine the amount of insurance as related to income.

Mr. PARKINSON. Ah, no; the underwriting department in all of these instances—because we have learned in the business that over-insurance means self-selection and a higher mortality, and the actuaries will have to explain that in detail—

Mr. GESELL (interposing). Yet you say, in your training course, "If the prospect says, 'I will take \$5,000,' and you are trying to sell him \$25,000, stop right there and write him for \$5,000. Close him for \$5,000 and order out \$25,000."

You are not abiding by the individual wishes of the purchaser. I think we ought to frankly admit that.

Mr. PARKINSON. I admit that the phraseology of much of our literature and our letters produced in a great institution like ours is not always consistent with the ideals, and will you pardon me for saying that even the phraseology that I hear here is not always consistent with Mr. Chase's very carefully prepared indication of what your phraseology should be.

Mr. GESELL. Who is Mr. Chase?

Mr. PARKINSON. Oh, you don't know?

Mr. GESELL. What is the lapse rate of your company?

Mr. HENDERSON. Just a minute, Mr. Gesell. I would like to have that again.

Mr. PARKINSON. I understood that Mr. Stuart Chase had prepared for the use of this group—

Mr. HENDERSON (interposing). I get what you mean. I think you have been badly misinformed. If you are referring to a memorandum which Mr. Chase prepared, no member of this committee saw that memorandum in advance of its publication in the press.

Mr. GESELL. I am sure I don't know what memorandum you refer to.

Mr. O'CONNELL. I know now. I recall reading it, as you probably read it, in one of the columns of one of the New York papers.

Mr. HENDERSON. Mr. Chase wrote a book and has long been interested in what he calls semantics.

Mr. PARKINSON. Yes; I couldn't think of the word.

Mr. HENDERSON. And he undertook, in connection with some work he was doing, to write a suggestion on semantics, but it has nothing at all to do with questioning by this committee, or any terminology which we use.

Mr. PARKINSON. But it seems to me that I read it in the record of these proceedings.

Mr. HENDERSON. I think again you are entirely incorrect. That was never a matter of record in these proceedings—

Mr. PARKINSON (interposing). Well, I had only in mind to suggest pleasantly, not contentiously, that this matter of suggesting the approach and the phraseology, in order to be diplomatic and successful and persuasive and get by, is not limited to the instructions that we pass out to our men.

Mr. HENDERSON. That is certainly correct, but you need never apologize for contentiousness so long as you are on good and factual ground. You will never have any difficulty, as I see it, with members of this committee.

Mr. GESELL. What is the lapse rate of your company as compared to comparable companies?

Mr. PARKINSON. By lapse rate, now, I assume you mean lapse within the first year?

Mr. GESELL. Lapse within the first two policy years, based on the computations of the Sales Research Bureau, which this committee has considered before and which are, I understand, customarily used in the business. How does your lapse rate compare?

Mr. PARKINSON. In the business I have lapse in mind frequently, and first it is the general lapse rate, which is irrespective of the period of life of the policy. The other way in which I constantly have lapse in mind is lapse of policies which have endured the first year but not the second year.

Mr. GESELL. You are familiar with the Sales Research Bureau's figures?

Mr. PARKINSON. Generally.

Mr. GESELL. They relate to 20 A companies, of which you are one?

Mr. PARKINSON. Yes.

Mr. GESELL. Now, I want to know how your lapse rate compares with the average lapse rate of those 20 companies. You may refresh your recollection from this memorandum, if you wish.

Mr. PARKINSON. I think the memorandum relates only to the lapse in the first and second years.

Mr. GESELL. You are right.

Mr. PARKINSON. Including general lapse.

Mr. GESELL. You are right.

Mr. PARKINSON. My recollection is that the Equitable's lapse rate for the first year is worse than the lapse rate for these companies during the first year. My recollection is that the rate of the Equitable is about the same for the second year, though I am not sure.

Mr. GESELL. This memorandum from your files—you recognize it, do you not?

Mr. PARKINSON. I don't recognize it, but I am sure it is from our files.

Mr. GESELL. Shows that the average for your agency department in the year 1938, the fourth quarter of that year, was 157 percent of the average for the 20 A companies, that only 3 of your agencies

had a lapse rate lower than the average, and that all of the other agencies, of which there are a great number, were in excess to a considerable amount of the average, running as high as 203 percent in the case of one agency. That would seem to indicate to me that your company is in a far inferior position from the point of view of lapse.

Mr. PARKINSON. For that period it was, and there are several reasons for it. In the first place, we are territorially a national institution. We are covering not only all parts of the country and all types of people, but we are trying constantly to expand the groups that we do cover. Many of these A companies whose records made this average of the Bureau to which you refer are not national companies. They are doing business in restricted areas, they are doing restricted business as to occupations and risks, they are carefully selecting their risks with a view to the greatest possible advantage for the group of whatever form that may be, and all those things affect the lapse rate.

I am reminded here that you have in your records a statement from the Bureau, I think, which shows that the lapse rate in different parts of the country varies as much as 50 percent, indicating that if you do business in one part of the country with a narrow and restricted risk, you have a lapse rate that may be 50 percent better.

Mr. GESELL. But with your knowledge, your intimate knowledge, of the record of these proceedings, I am certain you recognize that the majority of the 20 companies whose records are compared with yours are, likewise, national institutions operating in all of these areas.

Mr. PARKINSON. They are not like us in every respect, I am quite sure. I don't remember what they are.

Mr. GESELL. Here is a memorandum to Mr. Graham from Mr. Spalding, dated December 1, 1938, in which he said that he had been talking with a representative of the Sales Research Bureau, and he says:

During our discussion he brought up the question of the business going off the books in the cases of the big companies comparable to ours.

Comparable to yours—you notice that.

Although I don't know the exact figures for the New York Life and the Mutual Life and that group of companies comparable to us, he did indicate that ours was about the worst, and was on the average about 1% greater than the companies with which we are usually compared. This means that each year forty or fifty million more of our business goes off the books than in the case of these other companies.

So there must be some basis for this comparison.

Mr. PARKINSON. I am quite prepared to admit that we have had a bad lapse, which we are very much improving, as the figures for the current year show, but I do want to make clear that the standard you have referred to, and which we make use of for testing our results, the standard of the Research Bureau's A companies, is made up from the experience of a number of companies, more than half of which do not operate in the territories in which the lapse rate is highest, by the institution's own tables.

Mr. GESELL. May I offer this memorandum, comparing lapse rates, which we have been discussing for the record?

Acting Chairman REECE. It may be admitted.

(The memorandum referred to was marked "Exhibit No. 1336" and is included in the appendix on p. 6994.)

Mr. O'CONNELL. I take it from what Mr. Gesell said, reading from the figures, it is also true that in only three of your agencies—and I take it your agencies represent the subdivisions of your national business—was your lapse rate below the average, so that the difference in lapse rates in different sections of the country would not in and of itself go very far to explain the difference in lapse rate?

Mr. PARKINSON. It would not be eliminated. The admission that I am quite ready to make here and the assertion that I make within our organization is that our lapse rate is too high, and the only way we can improve it is to get more and more of the agents who are giving their full time to real service, to keep the policies in force after they put them in force. Now we are doing that.

Mr. GESELL. You say that adherence to a principle which eliminates the part-time agent is one of the bases upon which this problem can be approached?

Mr. PARKINSON. Part-time agent in the populated territory.

Mr. GESELL. Now, what do you think of the causes for this lapse? Would you say that agency turn-over is responsible for it to some extent?

Mr. PARKINSON. Some of it; yes.

Mr. GESELL. Would you say that campaign selling is responsible for it to some extent?

Mr. PARKINSON. Some of it; yes.

Mr. GESELL. Are there any other factors which you think are responsible, other than those human factors which we are all conscious of?

Mr. PARKINSON. Oh, yes. The personal situation of the folks who once persuaded decide not to go on; concern on the part of many people as to whether, on the whole, life insurance is desirable at this particular period of the country's history.

Mr. GESELL. I am talking about factors which your company, differently than any other company, is subject to. All companies must meet those problems, of the fact of our economic conditions, of war, whatever else we are talking about. I am talking about management problems, executive management problems with which you are concerned; your contests, your agencies' turnover; what else?

Mr. PARKINSON. I think that some of the lapse that our company has suffered has been due to the provisions of our agency managers' contracts which up to a few years ago put too much emphasis on first-year premiums in determining the compensation of the manager.

Mr. GESELL. You think you are placing too much emphasis on new production?

Mr. PARKINSON. I do. Now we have changed all that and have made the managers' compensation dependent not on the volume but on the commissions paid in their agencies, and that, if you will follow it, you will see will take out all of the incentive to undesirable business, to add to volume.

Mr. GESELL. Well, your manager still benefits by the production in his agency, does he not?

Mr. PARKINSON. Not financially.

Mr. GESELL. No; none whatsoever?

Mr. PARKINSON. In a minute way, if any.

Mr. GESELL. But there still is that factor there?

Mr. PARKINSON. I think there is one factor which is minutely effective, but it is only minutely. We think we have eliminated that from the conditions which made for lapsation and we have also in fixing the compensation and the credit and the qualifications and the eligibilities of our agents so changed the tests that hereafter it won't be volume of business written, but it will be earnings, which means commissions.

Mr. GESELL. Now your company has a very low average-sized policy, does it not, compared to other companies?

Mr. PARKINSON. Well, that surprises me. I had thought we had a large average-size policy. I realize that it has been going lower in the last 10 years, but I had thought that our average policy was still large.

Mr. GESELL. How does your company rank in size?

Mr. PARKINSON. In size of assets, I presume you mean; fourth.

Mr. GESELL. This memorandum here from your files would indicate that it ranks somewhere around in the middle 30's in terms of average size of policies.

Mr. PARKINSON. Well, I do not know what type of policyholder the other companies have, but while I would like to see a higher average policy from the point of view of costs of operation, especially costs of overhead, I must say that I like also to see both for purposes of mortality and for purposes of service, a large sprinkling of the smaller policies. For example, we do business in the agricultural area of the Middle West. We do large business in Iowa, Kansas, Wisconsin, Minnesota, and much of that business is necessarily in the smaller size policies.

Mr. GESELL. The small size of the policy does have an effect upon persistency, does it not?

Mr. PARKINSON. No; I shouldn't say necessarily that it would have any effect on persistency, except in the sense—

Mr. GESELL (interposing). Mr. Carroll wrote a memorandum to you under date of September 16, 1938, in which he says:

More indirectly the subject of average size of our policies deserves attention because many studies have proved conclusively that the persistency of life insurance increases as the amount of the policy increases within normal limits.

That would indicate that at least Mr. Carroll thought there was some relation?

Mr. PARKINSON. Yes; it would; and even with knowledge that Mr. Carroll is in the room, I have to say that Mr. Carroll is one of those young men in our organization whose business it is to put his finger on anything which he thinks can be improved. We don't necessarily accept everything that Mr. Carroll suggests. We don't do everything he suggests; but he is an exceedingly helpful young man who puts his fingers on the possibilities. You have some idea.

Mr. GESELL. Do I gather, then, that you disagree that there is any relation between persistency and size of policy?

Mr. PARKINSON. I am not necessarily persuaded by the fact that Mr. Carroll sent me that memorandum.

Mr. GESELL. Do you have any convictions of your own?

Mr. PARKINSON. I have.

Mr. GESELL. Has it been your effort to increase the size of your average policy?

Mr. PARKINSON. Yes.

Mr. GESELL. For what reason, to lower your acquisition cost?

Mr. PARKINSON. No; rather to be sure that an institution that is capable of rendering a full life-insurance service to people who need it is not being used, quoting my own language at the Miami conference, for picayune purposes. I am not popular with all sections of my agencies for having made that statement at the Miami conference, but that represents my position.

Mr. HENDERSON. I have a question. Mr. Parkinson, I want it understood that in asking this question I am not making a suggestion as to how you should run your business. I have asked this question in different forms of other presidents here. If you had in mind merely the question of making a record, shall we say, on lapsation, size of policy, and on the highest rate of payment to your personnel, would it be possible for your company to achieve these by what you might call a selection of risks? That is, suppose life insurance were not sold on an aggressive basis but on an admittedly more intensive basis, and that you made a very rigid selection of risks. That would amount to a change in policy which would probably mean a reduction in the annual volume of business written, but would it not be possible to make that kind of a record without the aggressive selling of policies?

Mr. PARKINSON. Yes, Commissioner; it would, as I indicated this morning; that if that should happen in my institution I would return to the Government service; I would have no interest in administering that kind of a so-called life-insurance company.

Mr. HENDERSON. Well, that leads up to what I am interested in. Let me say that, as you probably know, some of the other presidents testified approximately as you have, feeling that there must be a dynamics in the growth of an institution such as yours, that it must be growing all the time in order for it to meet the test that you apply to it.

Mr. PARKINSON. But I have also in mind, Commissioner, that ours is an institution grown up now over a long period of years, the results of efforts and contributions of various people, not a few, which at this moment has the power to render a service to a very large number of people in this country in practical security provided for themselves by themselves, and I think that instead of closing our doors to them so that that power to render service of security is available only to those who have the occasion and the opportunity to come and get it, we should widen the service we have to render and the only way we can do it is with a good agency force.

Mr. HENDERSON. My question did not suggest closing the doors, nor was there a suggestion of not going after business. What I had in mind is that if you said at the end of this year, for example, you would inaugurate a more selective basis of risk, there is no doubt that the business would carry itself. Undoubtedly there would be a higher rate of return; there would be less lapsation, less cost, and the like; also the premiums on business already written would carry for your company and any solvent company what has already been written. But it would mean that over a period of time you would either stay static, or you would go down hill in the volume of assets. I would like to have your opinion whether, in terms of your financial strength

and your ability to meet the obligations to your policyholders, you would be in any worse position.

Mr. PARKINSON. We would not for a few years until the period arrived when the failure to grow set in a decay, and then we would have a pretty serious problem, which might work out all right, but which nevertheless would be a problem due to the fact that our mortality was not being sweetened by the addition of new members.

Mr. HENDERSON. Well, each group carries itself, does it not? What would be the decay you have in mind? The lack of dynamics in the personnel or the like?

Mr. PARKINSON. Yes; that is part of it.

Mr. HENDERSON. And you think that you might get to a place where—

Mr. PARKINSON. I would hate to name names, but it would be possible to indicate that that has already happened in some institutions.

Mr. HENDERSON. In other words, what is called a bureaucracy in complaisance takes place and the companies fail to make enough to meet their obligations?

Mr. PARKINSON. The decay that affects the investment, affects the performance in every way.

Mr. HENDERSON. And you think that the companies would be less efficient? That their personnel would be less efficient?

Mr. PARKINSON. I feel quite sure the whole institution would be less efficient.

Mr. HENDERSON. Then, so far as the individual units of the industry are concerned, you feel that the maintenance of a sound life-insurance system is bound up with an ever-increasing amount of assets in the existing institutions?

Mr. PARKINSON. I should say rather it is bound up with a continuing alert, alive management fund because I must give you this to supplement what you yourself have said, Commissioner. Many small companies which are in trouble can be taken over and reinsured by a strong company and administered without any loss to the policyholders who are already in the company reinsured.

Mr. HENDERSON. Yes; but in your case you have enough business so that you would not get down to a place where your overhead was a serious problem?

Mr. PARKINSON. That is true. It would be a long time before the condition that I suggest would set in, but it would set in.

Mr. HENDERSON. Then the intimation which I gave—I want to be quite clear about this—is that in your informed opinion, there must be growth for the individual large institutions that now exist in order to have the most vigorous and sound policy?

Mr. PARKINSON. That is true.

Mr. HENDERSON. And independent of that you have also a feeling that the aggressiveness which has been mentioned here at several times in these hearings is necessary in order to give this width of service which you have emphasized?

Mr. PARKINSON. I think without what you call aggressiveness the management and the board of directors of our institution couldn't hope to give the service that they are, that we are, trying to give to people generally.

Mr. O'CONNELL. I am not entirely clear that I understand what was meant by the use of the term "growth." To be specific, would

it be your opinion that if your company were to adopt a policy which would be calculated to keep a constant level of a million and a half policyholders that that would be a policy which would ultimately result in a species of decay for the management?

Mr. PARKINSON. Well, not if to keep that number static we still had to work hard. In other words, if we still had to run to stay where we were. Of course, if Mr. Gesell's suggestions as to our lapse rate were to continue indefinitely we would be perhaps in just that position, but they are not going to continue, Mr. Gesell.

Mr. GESELL. You could, I suppose, in time develop new energies and interests; instead of everyone beating the tub for new insurance you would start beating the tub for investment return or start emphasizing some other area of your business and perhaps by that redirection accomplish the same result you now have of having an alert personnel?

Mr. PARKINSON. But I don't want to leave this group, if you will pardon me, without emphasizing again and again that I have no interest and I think the Equitable management has no interest in mere hunting for business or in mere volume. We honestly and earnestly have nothing else in mind, except to make the protective power of our institution available to those who need it and to do that on as low cost as possible with as high an order of service as possible. I hope you will believe me.

Mr. GESELL. Well, now, on this question of cost, your company is far from being the cheapest company on a net-cost basis, is it not?

Mr. PARKINSON. Decidedly.

Mr. GESELL. And you have a rather high acquisition cost, do you not? Your lapse rate, agency turn-over, and other factors have given you a high acquisition cost?

Mr. PARKINSON. Yes.

Mr. GESELL. Then, possibly if you were willing to leave a little of this service to someone else to perform, some other person equally interested as you are in the broad objectives, and concentrated more on quality and type of business, you would, to your present policyholders, over a million of our population, be rendering a better service, in that you would have a cheaper and more efficient management.

Mr. PARKINSON. I think, Mr. Gesell, you have just about stated what we are trying to do, except that I want to add that in actually doing this we have to have regard for a great agency organization all over the country with a very large number of men and women who have made this business their career. We cannot destroy their jobs.

Mr. GESELL. Oh, I know, Mr. Parkinson, but out of 3,000 agents hired in 1936, at the end of 1938 you had 600. You wouldn't have to harm your agency force to reduce your sales emphasis.

Mr. PARKINSON. That is true. We can do it gradually and we are doing it. For example, we reduced our agency force during the early months of this year by 800 terminations.

Mr. GESELL. There was an effort in this direction, was there not, by several companies which got together in an agreement called the "Agency practices agreement," or "Guiding principles agreement," as I believe its technical term is. Some 68 of the principal companies joined that agreement, did they not?

Mr. PARKINSON. I should think so.

Mr. GESELL. Your company was a member of that agreement?

Mr. PARKINSON. Yes.

Mr. GESELL. Do you recognize these documents which I now show you as the announcement made by your company of the plan to its agency force, the agreement signed by yourself at the time your company entered, and a list of the membership as of 1938?

Mr. PARKINSON. Yes.

Mr. GESELL. I wish to offer this material for the record.

Acting Chairman REECE. It may be admitted.

(The documents referred to were marked "Exhibits Nos. 1337 and 1338" and are included in the appendix on pp. 6995 and 6997.)

Mr. GESELL. This plan for improving agency practices had as one of its guiding principles the elimination of part-time agents in cities of 50,000 persons or more, did it not?

Mr. PARKINSON. Yes.

Mr. GESELL. It also was intended to eliminate contracts for the so-called one-case man, and set up, did it not, agreements with respect to transfers of agency personnel as between companies.

Mr. PARKINSON. Yes, sir.

Mr. GESELL. Those appear to me to be rather laudable objectives; forgetting the method by which they are to be obtained, the objectives of the agreement appear desirable, do they not, in the interests of the agency management?

Mr. PARKINSON. Yes.

Mr. GESELL. Why did your company withdraw from the agreement?

Mr. PARKINSON. Because some of the companies that were in our same class never did join up with the agreement, and because we felt that what I said this morning with respect to a probationary period of 6 months or thereabouts was desirable. What we did was to announce to our managers that notwithstanding the agreement, they might, for probationary periods, take on part-time agents even in the larger centers of population, but with the understanding that if they didn't turn into full-time agents, they would not be kept permanently as part-time agents.

Mr. GESELL. And that position, which you announced in October of 1937, was not agreeable to the persons responsible for the administration of the agreement.

Mr. PARKINSON. Was not agreeable to the committee of the National Underwriters.

Mr. GESELL. And you then withdrew, did you not, entirely from the agreement?

Mr. PARKINSON. We then gave notice that under all the circumstances, to work out what we believed to be this reasonable variation of the effort that we were all making to get more full-time agents, it would be better for us to withdraw from the agreement entirely.

Mr. GESELL. And that was in December of 1937 that you withdrew, was it not?

Mr. PARKINSON. I think so; yes. That I may say I agreed to, as I agreed to the entering and signing of the arrangement, upon the recommendation of the rest of our agency department.

Mr. GESELL. Many of your well-known agents and representatives were very much opposed to the move you took, were they not?

Mr. PARKINSON. Yes; they were, partly because, I suppose, of professional interests in their own group and in the confining of the solicitation to their own group. Nevertheless, I do not mean to suggest that it was not the right general trend.

Mr. GESELL. One of your very well-known agents was Mr. Theodore Riehle, was it not?

Mr. PARKINSON. Very well known.

Mr. GESELL. I have here a letter which he wrote you under date of October 22, in which he said [reading from "Exhibit No. 1339"]:

Vice President Graham just paid me the courtesy of a telephone call, wherein he stated that the Equitable was about to file a notice with the Agency Practices Committee of the Life Agency Officers' Association that hereafter they would employ part-time agents on a six months' probationary basis, etc., in cities of 50,000 or over.

Our conversation was a very lengthy one, and I do not wish to burden you with all the details thereof. I asked him for permission, in effect, to address these few lines to you so that my conscience will be clear. I have always told you my primary loyalty is to the Equitable and to you.

It is my considered conclusion that this act is extremely unwise. It will wreck the Agency Practices Agreement, because the exclusion of probationary part-time agents is the main point upon which the Agreement rests. In spite of violations by signatory companies, including the Equitable, much good has been done by the Agreement, and much more than meets the eye. I am positive it will not increase production. It will have, in my judgment, a very bad effect on the morale of the whole-time agents of the Equitable, who produce the vast bulk of its business. I believe the repercussions of this act will be far-reaching. It seems contrary to every one of your public utterances about field problems.

I do not wish to leave the impression that I know it all, but, thinking institutionally, I am sorry that I was not called into the meeting of the Executive Committee at the time this matter was discussed.

You remember that, do you not?

Mr. PARKINSON. Very well.

Mr. GESELL. May I enter it as an exhibit?

Acting Chairman REECE. It may be admitted.

(The letter referred to was marked "Exhibit No. 1339" and is included in the appendix on p. 6998.)

Mr. GESELL. I have here also similar expressions of several other of your well-known agents.

Is it not a fact, Mr. Parkinson, that your withdrawal from the agreement was directly related to your entrance into the State of Texas and the desirability of your employing part-time agents to develop that territory?

Mr. PARKINSON. No. The Equitable is known to the life-insurance business as the agents' company. That means that we welcome suggestions from our agents in the field and managers and give a high degree of attention to their suggestions and recommendations. But, of course, we are not guided by them. We had at that time the recommendation that we withdraw from that particular agreement from some of our chief managers and general agents in the country; and the executive committee to which Ted Riehle referred in that letter is not the executive committee of the society; it is the executive committee of what is known as the "Old Guard" in the Equitable agency organization, and it was this executive committee of the field managers and general agents of the Equitable which had recommended that we withdraw. Ted was in a decided minority. As far as I recall, it had nothing whatever to do with Texas.

Mr. HENDERSON. Mr. Parkinson, you might want to consider whether you said exactly what you meant as to recommendations from the agents. You said you were not guided by them. You might want to amplify that.

Mr. PARKINSON. I would like to substitute "control."

Mr. HENDERSON. "Control"—that is what I thought you meant.

Mr. PARKINSON. Thanks; that is exactly what I meant.

Mr. HENDERSON. Some of the agents may be reading this record. [Laughter.]

Mr. PARKINSON. That is a real help.

Mr. GESELL. These probationary, part-time agents are the kind of fellows who come in and write their centers of influence, as you call them, their friends and relatives and people who are friendly to them, and then drop out, aren't they?

Mr. PARKINSON. No; they are not, not the ones we mean.

Mr. GESELL. Isn't that the basis upon which the agreement was framed?

Mr. PARKINSON. The agreement was framed to exclude that kind of person.

Mr. GESELL. That was one of the reasons.

Mr. PARKINSON. That was one of the reasons but I assure you our variation will still exclude that kind of person. We couldn't live with our agents if we didn't.

Mr. GESELL. It must be pretty difficult, however, to prevent that from happening.

Mr. PARKINSON. Well, of course, if it does happen, it will be through somebody in the agency organization permitting it to happen. It won't happen otherwise.

Mr. GESELL. Exactly, but it is pretty difficult for them not to permit it to happen. An agent comes in on a probationary basis, he naturally goes to his friends and relatives and if he is not successful, he is through, and in that way the permanent agents are injured over a long period of time, are they not?

Mr. PARKINSON. If our managers use the variation we have given them for any such purpose as that, you may be very sure we have the means of correcting the practice that will develop. We have the power to terminate their contracts quickly.

Mr. GESELL. Will you tell me if there are any agreements which you have on this agency level with the other principal companies? Do you have agreements with respect to employing their agents?

Mr. PARKINSON. Yes; we do.

Mr. GESELL. Will you tell us the nature of those agreements?

Mr. PARKINSON. I am sorry, I couldn't give you even a reasonably accurate statement of that. In general I have in mind that we had a sort of gentlemen's agreement that we wouldn't take an agent from another company without notifying the other company, and various other procedures to prevent the raiding of another agency force.

Mr. GESELL. Those are agreements which you have particularly with some of the larger companies, like Metropolitan, the Mutual, and the Prudential, are they not?

Mr. PARKINSON. Well, we have the agreement, I don't know with what companies, but pretty generally, and even if we haven't an agreement under which they reciprocate, it is our practice not to do it.

Mr. GESELL. But there is a gentlemen's understanding among the principal companies with respect to raiding the other agencies.

Mr. PARKINSON. Yes.

Mr. GESELL. Is there also such an agreement with some of the large companies that you will not take business from their agents until you have consulted the company?

Mr. PARKINSON. Take business away from them?

Mr. GESELL. No; take business from their agents. For example, if I am an agent of the Mutual and I have a policyholder who wants a form of policy my company doesn't have and I turn to the Equitable in order to satisfy that person, you will not take that policy until you consult with the Mutual, will you?

Mr. PARKINSON. I am not sure about that.

Mr. GESELL. I have here a memorandum to you dated March 19, 1936, from Mr. Borden, in which he says:

Supplementing my memorandum of this afternoon, we have a cooperative understanding in effect with the Mutual Life, New York Life, and the Prudential by which business from the others' agents is not taken without consultation with the home office of the other company in each case.

Mr. PARKINSON. That was probably in answer to my inquiry as to whether it is true that Equitable agents were placing business with other companies, my point being to discover whether we were paying the expenses of equipping agents and training them, and they were then exercising a discretion to place business in other companies contrary to the provisions of their contract.

Mr. GESELL. And there is some agreement to prevent that, is there not?

Mr. PARKINSON. There evidently is.

Mr. GESELL. Now we are down to the last folder, Mr. Parkinson. I want to discuss with you your reentry into the State of Texas, and perhaps as a starting point it would be best if you explained to us in a general way when you first went into Texas, why you withdrew, and the factors which prompted you to go back in.

Mr. PARKINSON. As to the history so far as when we went in, I have no idea when or under what circumstances. I do know the history of our going out. It was a part of the protest of the eastern companies against what is known as the Robertson law which was passed in Texas about 1906, I think, which required all companies doing business in Texas to invest in Texas mortgages or other restricted investments, the full amount of the reserve on all Texas business.

Mr. GESELL. Seventy-five percent.

Mr. PARKINSON. Seventy-five percent; I beg your pardon, that is right. That was regarded as an unwise restriction on life-insurance investments and most of the eastern companies, including the Equitable, withdrew.

Mr. GESELL. That was about in 1906?

Mr. PARKINSON. Yes.

Mr. GESELL. When did you reenter, Mr. Parkinson?

Mr. PARKINSON. We reentered in 1937.

Mr. GESELL. What prompted you to reenter Texas?

Mr. PARKINSON. Well, that is another big question. The laws of Texas had been changed to some extent. In or about—well, I don't know the date, at some time before 1920, the list of permitted invest-

ments had been widened; along about 1935 a statute was passed more or less inviting the companies that had withdrawn to return by providing that taxes for the intervening years would not include interest or penalties, but might be satisfied by the payment of the actual amount of the taxes set for each of those years.

In addition to that, and much more specifically, the Texas from which we withdrew was not the Texas to which we returned.

Mr. GESELL. That isn't very specific. What do you mean by that?

Mr. PARKINSON. I mean that Texas had grown to be a very important part of this country in an economic way, in a population way, and in many other ways. There was growing wealth there. There was growing population. It was a population and an economic situation that offered us opportunities for investment and that offered us opportunities to add very desirable risks to our insurance schemes.

And then may I be more specific, because it is more specific. We had during all of these years a number of Texas policyholders who continued to pay their premiums but to whom we could render no service at all.

Mr. GESELL. They were people to whom you had sold in other States and who had moved to Texas and had been on the books prior to their going there?

Mr. PARKINSON. You are adding to the list. First, there was the group that were in Texas when we removed, and still remained there. Then there were the folks that we sold in other States who moved to Texas. And then there were the folks, increasing in number, who came across the Texas border to our agencies in other States and took new insurance. And then there were the still more important situation in the development of group insurance. We had placed group insurance on large industrial organizations which had subsidiaries or part of their organizations working and resident in Texas, and on the whole, we had a situation which had developed an actual assertion on the part of the lawyers in Texas, sometimes representing a group claimant and sometimes representing the State, that notwithstanding our withdrawal, we were still in Texas. We had actually reached the point of litigation against one of our group patrons which was very embarrassing to him and threatened to bring us in to help explain away the charge that we were actually doing business there and were subject to supervision.

Mr. GESELL. And then about the same time you were attempting to write a policy on a Texas corporation whose officials had told you that you would not be eligible for participation in the group unless you did business in Texas.

Mr. PARKINSON. That is true; the Texas Corporation was during the latter part of 1936 negotiating with us for a group pension, and we had been advised by our lawyers prior to that time that it was all right for us to do group insurance which covered employees living and working in Texas, but that it was a little different for us to write any kind of annuity business in Texas, group or individual. Just why that distinction, I do not have in mind, but we were hesitant under all the circumstances to go on with the negotiation of a group pension case which the Texas Corporation was negotiating for at that time.

Mr. GESELL. And in fact the company said they wouldn't unless you came in, did they not?

MR. PARKINSON. I don't recall that, but we had been getting ready to go back to Texas for several years.

MR. GESELL. Oh, I am not trying to indicate that was the sole factor.

MR. PARKINSON. No; indeed, it wasn't.

MR. GESELL. But I believe it is correct that they did indicate to you that they would not accept you on the risk unless you did business there. Mr. Keith Morgan handled that transaction for you in part, did he not?

MR. PARKINSON. My good friend and our agent, Keith Morgan, was on my back with respect to that particular case, and we decided under all the circumstances, since we had so long considered going back into Texas, that now the time had arrived.

MR. GESELL. He wrote to your agency department in '37 and said, referring to the Texas Corporation:

They deemed it most unwise to ask the Equitable to be administrator on their Group Policy and Group Pension proposal, especially with several other well-established companies recognized in Texas and paying taxes in the State of Texas and complying with the insurance requirements of that state. He was very determined on this point and emphatically stated he doubted whether any consideration would be obtained by us to reverse this decision.

Subsequently he makes specific reference to the necessity of your company going back in to have any participation in that contract.

Before you went back, did you make a survey of the territory?

MR. PARKINSON. A survey? I do not know, but our agency officers had been down there, both the agency department officers and Mr. Graham, who was then in charge of the group department. We had an increasing respect for the desirability of Texas as a territory in which to do a moderate life-insurance and group business.

MR. GESELL. Our records indicate there were some, at that time, approximately 42 companies in Texas with their home office there, and around 141 or 142 companies doing business in the State of Texas. You were familiar with those facts, I have no doubt.

MR. PARKINSON. Yes.

MR. GESELL. That would mean about one company to every 43,000 people. I am advised that at the present time there are some 8,000 life-insurance agents in the State of Texas. Under all those circumstances, it is difficult for me to see why it would be necessary for another company to bring its services into the territory.

MR. PARKINSON. We considered all of that; you are quite right, it should have been considered, but we thought that in view of the demand which we had encountered for both group insurance and for individual annuity and life-insurance service from a larger mutual company, there was in Texas, notwithstanding the excellent services that were being rendered by the Texas companies, an opportunity for the Equitable to render a supplementary service.

MR. GESELL. There was no question in your mind that you were going into a pretty stiff market, with one hundred and thirty-odd companies there.

MR. PARKINSON. Well, we knew that it was a life-insurance-minded State, and we thought that there was a large population there who would be glad to make use of the services of our institution, notwithstanding all the use they were making of the smaller Texas companies.

Mr. GESELL. Now, in response to my question, I take it you did anticipate competition of a very serious nature in setting up the business.

Mr. PARKINSON. Yes.

Mr. GESELL. And, therefore, you must have anticipated that it would be necessary to spend perhaps a greater amount of money than would otherwise be necessary in opening up virgin territory, let us say.

Mr. PARKINSON. Yes; unless we opened up very slowly, and we decided not to open too slowly.

Mr. GESELL. What were your estimates as to the cost of setting up operation in the State of Texas?

Mr. PARKINSON. I don't remember the exact figures.

Mr. GESELL. You must have a general idea, Mr. Parkinson.

Mr. PARKINSON. I think that the actuaries' estimate over the period of the first 2 or 3 years was 38 percent. I am not sure of it. I see it is not in percentage. The actuaries' estimate for the first 4 years was \$432,000. That, I am told, was on a general-agency basis.

Mr. GESELL. And you adopted the general-agency basis?

Mr. PARKINSON. No; we adopted the agency management basis.

Mr. GESELL. What was the estimate there?

Mr. PARKINSON. \$406,000.

Mr. GESELL. For 4 years or per year for 4 years?

Mr. PARKINSON. That is for 4 years.

Mr. GESELL. You had to pay immediately, did you not, rather sizeable taxes?

Mr. PARKINSON. Yes; we did; \$417,000 as I remember were the back taxes for the period from our withdrawal up to the year of reentry. Those were taxes on premiums that we had collected during that time from Texas policyholders and on which we had paid no premium tax either in Texas or anywhere else.

Mr. GESELL. Our figures which you furnished us would indicate that, including this tax, it cost you for the first 3 months of 1937, \$486,055; and for the first 9 months of 1938 an additional \$182,969; or a total of \$669,024 for the first year of operations in the State.

Mr. PARKINSON. That is including the tax.

Mr. GESELL. Including the tax; yes.

Mr. PARKINSON. These other figures did not include the tax. And may I say, with respect to the tax, that a computation made by our actuaries showed that if we had taken the rate of interest earned on our assets for each of the years during the time we were out of Texas and applied it as earnings on the taxes we didn't pay to Texas, the taxes plus the earnings would have amounted at the time we reentered Texas to \$925,000. Now, I hope Texas doesn't get onto that, but the truth is that the earnings on the taxes which we held in our hand and invested during the period that we were out of Texas more than paid the entire tax bill for the period.

Mr. GESELL. It did, of course, involve an outlay of money to go in.

Mr. PARKINSON. It did involve an outlay of money.

Mr. GESELL. For what period of time did you anticipate it would be necessary for you to subsidize this new manager office there until it was on a paying basis of its own?

Mr. PARKINSON. Three or four years. I should say we contemplated we would have to pay a greater portion of the annual premiums than

we pay on the average for such business in other States. I don't like the word "subsidize."

Mr. GESELL. Your bogey is now \$24,000 for every \$100,000 of first-year premiums collected.

Mr. PARKINSON. That is about right, sir.

Mr. GESELL. And you anticipated that that bogey, which is about the average for your society generally, would amount in Texas to around 35 to 38 thousand dollars per \$100,000 of first-year premiums.

Mr. PARKINSON. I think that is about right.

Mr. GESELL. And that would be for a period of 3 or 4 years.

Mr. PARKINSON. That is what I had in mind.

Mr. GESELL. Who was put in charge of Texas?

Mr. PARKINSON. W. W. Klingman was made manager.

Mr. GESELL. Mr. Klingman had been a vice president in charge of agencies in your company, had he not?

Mr. PARKINSON. Yes; he was at that time. No; I beg your pardon, he had ceased a few months before he went to Texas.

Mr. GESELL. He went to Texas, am I correct, at a salary of \$25,000?

Mr. PARKINSON. Yes; as manager.

Mr. GESELL. Your customary manager's salary is \$4,200, is it not?

Mr. PARKINSON. Yes; but Klingman did not go under the usual agency-manager contract.

Mr. GESELL. That is just what I am trying to point out. Now, he set up three branches, did he not?

Mr. PARKINSON. Yes.

Mr. GESELL. One in which he was in charge.

Mr. PARKINSON. No.

Mr. GESELL. Three in addition to the main branch?

Mr. PARKINSON. No; he was not in charge of any branch. There were three branch offices of which he was the general manager.

Mr. GESELL. I understand. Who was placed in charge of each of the three branch offices?

Mr. PARKINSON. Lloyd Klingman was placed in charge of the Dallas office.

Mr. GESELL. What relation is he of W. W. Klingman?

Mr. PARKINSON. A son.

Mr. GESELL. Had he been with the company prior to that?

Mr. PARKINSON. Yes.

Mr. GESELL. In what capacity?

Mr. PARKINSON. He was at that time head of our salary savings division in the home office.

Mr. GESELL. Had he had any experience as a manager?

Mr. PARKINSON. He had been an agent in the field, and he had been associated with his father's managerial work, but he had had no actual responsibility as a manager.

Mr. GESELL. Who was placed in charge of the other branches?

Mr. PARKINSON. Harold Rossman was placed in charge of Houston and Chester Klingman in charge of San Antonio.

Mr. GESELL. What relation is he to W. W. Klingman?

Mr. PARKINSON. He is a younger son.

Mr. GESELL. Had he been in the company prior to that?

Mr. PARKINSON. Yes; from the days of his graduation from college.

Mr. GESELL. In what capacity?

Mr. PARKINSON. He had been for some years in the group department, doing supervisory and service work in group, and then had been a soliciting agent with the Miner Agency in New York City.

Mr. GESELL. He likewise had no managerial experience?

Mr. PARKINSON. I would rather use the word managerial "responsibility." He had had none.

Mr. GESELL. What were the salaries allotted to the Klingman sons?

Mr. PARKINSON. Lloyd Klingman, \$10,000; Rossman, \$10,000; and Chester Klingman, first at \$5,000 and then \$6,000. These were the guaranteed.

Mr. GESELL. They had commissions?

Mr. PARKINSON. In place of the \$4,200 which is the usual guaranty.

Mr. GESELL. They each received a more generous guaranty?

Mr. PARKINSON. They did; yes.

Mr. GESELL. Did those guaranties amount to more than the salaries that the two men had been receiving with your organization before they were placed in those positions?

Mr. PARKINSON. I don't recall that. I think Harold Rossman had been receiving up to 12,000.

Mr. GESELL. I am talking about the two Klingmans.

Mr. PARKINSON. Lloyd Klingman's salary I do not exactly remember. It was somewhere near \$10,000, and the younger Klingman was then a soliciting agent.

Mr. GESELL. What accounted for the selection of Mr. Klingman's sons to accompany him on this venture?

Mr. PARKINSON. Well, it was a difficult job we had, after deciding to reenter Texas, to determine who should go there. At the time of our decision and reentry in January, and finally in March of 1937, Klingman, the elder Klingman, was vice president in charge of the agency department. He had had a very remarkable history in our institution and in the life-insurance world.

Mr. GESELL. Then you left the selection to him as to who should accompany him on this venture?

Mr. PARKINSON. You are a little ahead of me. I was about to say that he had been manager at St. Paul and built up a great agency in the Northwest. He had come to the home office to do a particular job in the days of great difficulty for me, having just been made the president of the institution, in dealing with an emergency in our agency organization. He came to do that job; he did it and he wasn't wholly happy in New York or in the home office. But the administration of his return to the field was not an easy matter, either for him or for me. But he wanted to return to the field.

Mr. GESELL. I suppose there was the fear that it would have the appearance of a demotion when in fact you didn't consider it as such.

Mr. PARKINSON. I certainly did not consider it as such.

Mr. GESELL. That was the concern, was it, with respect to the problem?

Mr. PARKINSON. That was my concern. He made some recommendations to me in response to my suggestion that the time had come for us to organize in Texas along about May of 1937. There was a certain amount of demand at our offices. People were coming in indicating they wanted to buy Equitable insurance. We hadn't been organized. We felt we might be under criticism from the insurance authorities, having taken out our license, and not having

provided anybody to sell insurance there. So I urged him to proceed with an organization there. He gave me recommendations for the appointment of three managers. One of them was Lloyd Klingman. The other two, one was Taylor, our manager in Louisville, and the other was Kirby, our assistant manager in New Mexico. I did not approve of the suggestions at that time, and one of my reasons was that I was afraid that these younger men, especially, would not fit into a very difficult situation, because in going back into Texas, I had in mind, and all of us at the home office had in mind, that we didn't want to disturb business of the existing companies there. We wanted to be as friendly in our supplementary services as possible. But on the other hand—

Mr. GESELL (interposing). What do you mean by supplementary service?

Mr. PARKINSON. The offering of our service in addition to their own.

On the other hand, we didn't want to go down there and be so darned polite that we wouldn't do any business at all and I was anxious to get managers who would combine a realization of the desirability of the highest ethics in handling our business there and at the same time be practical in offering our services.

Now, nothing came of that suggestion until after the 1st of July, and meanwhile we had decided, both for the institution's good and for Klingman's good, the agency department and the group department should be combined and Mr. Graham, who was in charge of the group department, should be in charge of both the combined departments.

Thereupon Klingman had definitely severed his connection with the home office from the point of view of permanently remaining there and he, himself, proposed that he be sent to Texas. But that was long after we reentered Texas. And then very quickly his recommendations of these two boys, whom he had brought into the business and Rossman, who had long been associated with him, were made to Graham, negotiated with Graham, approved by Graham, recommended to me and approved by me as a solution of our entire problem in reentering Texas.

Mr. GESELL. I have Mr. Graham's memorandum to you approving the plan but it seems to me that the subject has some rather important qualifications. It is dated September 16 and I will read a portion to you.

The attached memorandum headed "Texas Organization" outlines the discussions with Mr. W. W. Klingman and was, in fact, dictated in his presence in an endeavor to reach a conclusion after a number of pleasant discussions. On reflection, however, I feel I should say to you that while willing to support the recommendations in this memorandum I think better conclusions could be reached on behalf of the Society as also on behalf of Mr. Klingman. As the recommendations stand I think they leave Mr. Klingman and in fact the entire set-up open to the suspicion of nepotism not untainted by selfishness, which is exactly the reverse of what I think Mr. Klingman would want to have appear or would want the Society to seem open to.

To criticize my own recommendations, I would point out the weakness of having three men appointed to the three agency managerships, two of whom are sons of the man selected to be the "supermanager" under some title to be fixed upon, and the third manager a man who has always been extremely close to Mr. W. W. Klingman and who has been recommended previously by Mr. Klingman for advancement.

In the recommendations of the attached memorandum I had in mind the designation of Mr. W. W. Klingman as General Manager which appointment would leave him free to receive commissions and renewals on personal business, inclusive of such business as would come to him thru brokers.

I am not here questioning the soundness of the procedure of putting Mr. W. W. Klingman in charge of Texas and under him appointing these three fine young men who, while lacking in any experience as managers or unit managers, are yet well equipped, insurance wise, and leaning on the superior experience of Mr. W. W. Klingman in the managerial field might be confidently expected to meet all requirements as managers. I merely question the advisability of the set-up. I have questioned this to Mr. W. W. Klingman recently, but he did not agree with me, and his opinion, of course, I respect.

There is in Mr. Graham's memorandum the impression at least that these selections were not based entirely on merit. I take it you were aware of that in selecting these particular people, or were anxious to work out an arrangement which would be most satisfactory to Mr. W. W. Klingman, who would have the responsibility in the territory?

Mr. PARKINSON. No; my concern was to work out an arrangement which would be most satisfactory for the society, and this is one of those occasions when the president has to take the responsibility of not following the recommendation of the head of the department involved, or, I should say, following the recommendation, but not paying too much attention to the accompanying memorandum which went into the agency department records and into my records to increase my responsibility. I am sure Billie Graham didn't mean to do that, but that is what happened. However, I don't object to taking the full responsibility for deciding that W. W. Klingman and all that he had done for the Equitable and all the power and ability that he had shown in bringing himself up from absolutely nowhere in the world to a position of great influence and power in our business was the best possible man to represent the Equitable in dealing with the difficult business situation in Texas, and I have no doubt at all that I was absolutely right in saying that. These men are young; they are men who have been in our business; they are men we can lean on; they are men we can get the best results out of; and I think the events have shown that we were right, notwithstanding the implications of nepotism. What is it? I see no nepotism in a situation where young boys just out of college have followed an employment like life insurance and in an institution like the Equitable, and when they do I will see that they get the chance to go on, but that is all.

Mr. GESELL. Now, on this whole problem of recruiting, how many agents did you employ in Texas? Ran into around 90 or 100 agents, did it?

Mr. PARKINSON. I don't know,

Mr. GESELL. Have you some general idea?

Mr. PARKINSON. I should think it probably was more than that; I was down in Texas last March and went over the ground and saw these agencies and I should say there must be 150 Equitable agents in these three agencies.

Mr. GESELL. When you set up a big organization like that, where do you get your agents?

Mr. PARKINSON. Well, it wasn't so difficult to get agents as it was to avoid employing too many. I am told by our managers in Texas that they were flooded with applications of folks who wanted to be agents.

Mr. GESELL. I take it you would need experienced men. You can't recruit an entirely inexperienced force to develop a territory?

Mr. PARKINSON. Oh, that is not the truth. May I say right here that, with respect to these young and inexperienced men, some of the best managers we have today were appointed managers or general agents when they were under 25, and, indeed, one of them, one of the best general agents we have, got his contract before he was 21. So I don't admit at all that the fact that a man is young and has had no previous responsibility means that he can't make good as an effective life-insurance manager, and I won't admit at all that a young man who has the right qualities will not make a successful and good life-insurance agent, though he has had no previous experience as a solicitor. We have two or three of them.

Mr. GESELL. I would be the last fellow to question you about youth, Mr. Parkinson. What I was asking you was can you put all inexperienced men into a new agency set-up like that?

Mr. PARKINSON. Well, we had to. We had to take what men were available and build under these men who had the experience.

Mr. GESELL. Your records furnished to us indicate that there were at least 30 of these agents who came from other life-insurance companies.

Mr. PARKINSON. Came from other life-insurance companies?

Mr. GESELL. Exactly.

Mr. PARKINSON. What does that mean?

Mr. GESELL. Who left positions with other life-insurance companies to join yours at this time.

Mr. PARKINSON. I should be surprised if at the time they were engaged by us they were licensed to act for or were employed by any other agent, because that is the one thing that Wash Klingman has made an earnest effort to avoid.

Mr. GESELL. You think there was no—to use the phrase of the business—proselyting basis?

Mr. PARKINSON. I am almost certain; we have endured that sort of thing so much in our own agency organization that we try our best to eliminate it entirely from the business.

Mr. GESELL. Do you remember this correspondence which I hand you now?

Mr. PARKINSON. Yes; a letter from the Life Insurance Co. of Virginia.

Mr. GESELL. The chief officer of that company called your attention to one effort made by Mr. Klingman to employ an agent of his company?

Mr. PARKINSON. Yes; that case, I think, is still under consideration, and there are factors in it which explain the cases consistently with what I have stated to be our rule and Klingman's practice.

Mr. GESELL. Were there any other cases of that character which came to your attention?

Mr. PARKINSON. I think there was another one of a general agent for some company who moved to California, but still had technically his contract in force, but his agent remained behind him in Texas and he wanted a job with a live and running company, but other than that I do not know of any instance in which—I would be glad to get a definite statement from Klingman with respect to the matter, but I think he has observed strictly the rule that we want our own agents and we do not want to take any agents from any other company.

Mr. GESELL. Certainly; I gather from your firmness that that has been a matter of your policy and your desire?

Mr. PARKINSON. Yes; and it is the policy that I shall impose on him.

Mr. GESELL. To the extent that you are familiar with his practice, you think he will pursue it?

Mr. PARKINSON. I do.

Mr. GESELL. Now may I ask whether in building up the territory you made certain concessions to your agents which you wouldn't ordinarily make, such as the waiver of the ten case rule?

Mr. PARKINSON. Yes; we do.

Mr. GESELL. You also liberalize your rules with respect to the employment of part-time agents, do you not?

Mr. PARKINSON. I think we did.

Mr. GESELL. You also relax rules with respect to writing of non-medical applications?

Mr. PARKINSON. That I do not know.

Mr. GESELL. You remember that you approved some extraordinary advertising expenditures?

Mr. PARKINSON. Yes; I did.

Mr. GESELL. I take it—

Mr. PARKINSON. They were small items.

Mr. GESELL. I take it that the special salary arrangements to the managers down there was again a concession determined upon because of the unusual situation of building up new business?

Mr. PARKINSON. That is true.

Mr. GESELL. Did you also not agree to take brokerage business in the State of Texas, when as a general proposition you don't like to take that type of business?

Mr. PARKINSON. I don't remember that.

Mr. GESELL. Now may I ask in that connection what your policy is with respect to establishing bank connections in a new territory, when you open up one?

Mr. PARKINSON. Well, our first consideration is whether we have a lot of cash that has to be banked. The second is whether the bank is a good and safe institution in which to put some of it and that involves the territory, and—oh, there are many other factors.

Mr. GESELL. Well, I assume that you opened up—in fact, your records indicate that you opened up in several banks home-office accounts?

Mr. PARKINSON. Yes; we did.

Mr. GESELL. Was that done for the purpose of winning the good will of those banks?

Mr. PARKINSON. Well, we had a very great deal of cash laying up in the New York banks that we couldn't invest on a satisfactory basis. We were putting it around the country in various places, not merely in Texas, and we were going into new territory, we were asking a good deal of Klingman in the building up of our business, and of goodwill, and I think it is true that when I came to recommending to our finance committee that they authorize a bank account in Texas I did give some consideration to the desirability of maintaining friendly relations with folks of influence in the State to a degree that I would not have done in other States where our organizations were built and our institution well known.

Mr. GESELL. You opened bank accounts, did you not, in the American National Bank in Beaumont, First National Bank of Dallas, the Republic National Bank of Dallas, the First National Bank of Houston, the Second National Bank of Houston, the First National Bank of San Antonio, and the National Bank of Commerce, San Antonio? Those accounts ranging from \$25,000 to \$45,000; in that neighborhood.

Mr. PARKINSON. But our general policy in these years in which we have had so much cash which has not been invested has been to have two bank accounts in any city where we are doing business, which is about the population of that.

Mr. GESELL. You did open accounts in those banks?

Mr. PARKINSON. We did; yes.

Mr. GESELL. Now do I understand that one of the factors which motivated the opening of those accounts was the desire to win friendly support from bank interests in helping you to develop the insurance business in the State?

Mr. PARKINSON. Well, I hesitate to say "Yes" to that and yet I have already said that we did take into consideration in recommending one or two of those bank accounts the fact that it was new territory in which we were trying to move quickly to get our organization established, and to exercise the franchise the State had given us.

Mr. GESELL. You said it was to be friendly with banking interests. I take it one of the reasons you wanted the friendship was because you wanted this assistance in obtaining new business?

Mr. PARKINSON. Oh, I wouldn't say assistance, because I think the Equitable is absolutely clear over a long period of years from any attempt to make use of its bank accounts anywhere for the purpose of getting life-insurance business. That is true in Texas as well as every other part of the country.

Mr. O'CONNELL. May I ask a question? It didn't have anything to do with the investment policy of your company, did it?

Mr. PARKINSON. Not the slightest.

Mr. O'CONNELL. I mean you had money which was in the New York banks and not enjoying much of any return and you gained nothing at all in the way of return by putting it in these places?

Mr. PARKINSON. No different from what we did in Portland, Oreg., and Seattle, and other cities where we established two bank accounts where previously one would have been enough.

Mr. O'CONNELL. What I wanted to make clear was that whatever the reason, it was not a reason having to do with the investment of your funds?

Mr. PARKINSON. Not the slightest.

Mr. GESELL. May I call your attention to a memorandum from the files written by Mr. Vance L. Bushnell, second vice president, to Mr. Graham under date of February 17, 1938? [Reading from "Exhibit No. 1340"]:

I would recommend that careful consideration be given to Mr. Klingman's letter of recent date regarding the placing of bank deposits in certain key cities throughout Texas.

While I appreciate the soundness of the policy of the Society in conducting our business on an impersonal basis and avoiding at all times the appearance of buying business, Texas would seem to be one State that should prove an exception to this rule. Reviewing the chaotic condition of the commercial banking field in 1932 which occasioned the bank holiday, you will observe that

Texas was the outstanding State in banking strength. As a result, Texas bankers are still the leaders of their community and their recommendations carry considerable weight with the business men and people of substantial income brackets in the community.

The majority of the forty-two Life Insurance Companies in Texas have banking affiliations. Since we have considerable idle funds for which we cannot find investment at the present time, I am sure that if a certain amount were deposited in certain key banks in Texas, it would aid Mr. Klingman in his sales program. It would not call for any violation of our present policy by any of Mr. Klingman's men using the bank directly in the sale of Equitable services. But the mere fact that we have deposits in certain of the key banks will automatically give us intangible support through officers of these banks.

In other words, at the present time, the citizens of the State are inclined to go to banks for endorsement of anything they buy and I fear that we are being damned by faint praise on the part of banks throughout the State of Texas.

Did that memorandum ever come to your attention?

Mr. PARKINSON. I don't remember.

Mr. GESELL. You think it is a fairly accurate statement of the condition which prompted those Texas deposits?

Mr. PARKINSON. I think it is what we know in the business world as "literature."

Mr. GESELL. Well, we seem to be getting an unusual amount of literature from your files, Mr. Parkinson.

Mr. PARKINSON. I am sorry to say that the business world is full of too much of that kind of literature. Now let me say one word more about that letter. Vance Bushnell is one of our very vigorous, able, and much respected second vice presidents whom we took in directly from the Continental Bank & Trust Co. in New York where he was a vice president up to about 3 or 4 years ago. Now if you think that life insurance agents are pests in hunting down opportunities to sell new life insurance, just let me tell you that the worst pest is a bank official looking for banking; and ever since Vance Bushnell came into our organization he has been necessarily and properly the entering wedge for every banker in the country who wants an Equitable bank account, and what could Vance do for his banking friends except write just that kind of a letter? I assure you I paid no attention whatever to the letter.

Mr. GESELL. May I offer the letter?

Acting Chairman REECE. It may be admitted.

(The letter referred to was marked "Exhibit No. 1340" and is included in the appendix on p. 6999.)

Mr. O'CONNELL. Mr. Gesell has given up hope of getting a direct answer to his question; possibly I won't be more successful, but I ask you, Mr. Parkinson, whether in your opinion that letter portrayed any consideration to placing bank accounts in Texas?

Mr. PARKINSON. That letter?

Mr. O'CONNELL. Could you tell me whether that letter accurately states—

Mr. PARKINSON (interposing). I just said "No."

Mr. O'CONNELL. I didn't understand you said "No."

Mr. PARKINSON. It is exceedingly difficult, sir, under oath to reply directly to general questions.

Mr. O'CONNELL. Well, your answer is "No." Is that correct?

Mr. PARKINSON. To that question; yes.

Mr. HENDERSON. But in the preface which you made you again indicated—and I think for the fifth time and for the fifth person since I have been here—a general overriding of assistants and subordinates, isn't that about true?

Mr. PARKINSON. That happens from time to time. That is one of my most serious responsibilities.

Mr. HENDERSON. I am not making anything invidious out of this but certainly I think you have established an all-time record before this committee. I am merely indicating that this is the fifth time to my knowledge when something having to do with policy making has come up in a fairly discrete and concrete form, you have indicated that you didn't entertain the same thoughts as your subordinate.

Mr. PARKINSON. Well, sir, may I say that this was a second vice president in charge of agency promotion who had nothing whatever to do with investments or bank accounts?

Mr. HENDERSON. You think it is due to the tendency of businessmen to write "literature"; is that it? Is that the way you explain it?

Mr. PARKINSON. Well, it is also due partially to the tendency of all of us to respond in some way to a friendly approach of folks who had previously had some friendly association with us. This was not—

Mr. HENDERSON. As you probably know, that happens in government once in a while.

Mr. PARKINSON. I suspect that is so, but the point I want to make is that this particular letter was written by a subordinate officer in the agency department. We very seldom pay very much attention to suggestions from agency quarters as to bank accounts. They go generally to the treasurer's office and the recommendation comes from there, but we are polite.

Mr. O'CONNELL. If I understood—I may miss a point here—Mr. Henderson correctly, he was merely pointing out the fact that on five occasions this afternoon we were presented with a statement which borders on policy from one or another of the officials of your company; you have felt it necessary to repudiate the statement in the particular memorandum. That is probably a correct statement of what you have found it necessary to do; is it not? I take it you repudiate that as being an authoritative statement of the considerations that led to the placing of the bank accounts in Texas?

Mr. PARKINSON. Entirely.

Mr. GESELL. Who made the decision with respect to placing those bank accounts?

Mr. PARKINSON. The decision as to making a recommendation to the Finance Committee, which has control, had to be made by me.

Mr. GESELL. You made the recommendation?

Mr. PARKINSON. I made the recommendation to the Finance Committee but the Finance Committee made the decision.

Mr. GESELL. Will you tell us what factor prompted your recommendation?

Mr. PARKINSON. The fact that we had a large amount of cash, that in practically all cities in which we have branch offices and cashiers we have bank accounts because all the folks who pay their premiums and receive their death-payment checks like to have checks on their

local banks; because our local agency likes to deal in checks on their local banks; and because this, during the days of our large volumes of cash, became normal with us to have two bank accounts in cities of the size of Dallas.

Mr. GESELL. Of course, you do understand we are talking about home-office accounts, not the accounts that are obviously necessary for the conduct of business.

Mr. PARKINSON. So am I. We have home-office accounts in all of these cities for the purpose of paying death claims and then we have a very small cashier's account for dealing with minute items.

Mr. GESELL. I have here a letter which was written by the president of the Republic National Bank of Dallas to Mr. Graham under date of October 1, 1937, and I think the letter pretty well demonstrates what at least this banker thought was one of the factors in connection with the deposit. He says [reading from "Exhibit No. 1341"]:

We are delighted today to receive a letter from Mr. Greaves, Treasurer of your Company, enclosing a check in the amount of \$25,000.00 as the initial deposit to the credit of your Home Office Account with our bank, and I wish to take this opportunity to express to you my personal appreciation of your cooperation in connection.

I want you to know that we are especially pleased to have this connection with your splendid Company, and are going to do everything possible to make it most pleasant and satisfactory to you and your associates. You will find that we are in a position to be most helpful in the development of your business in Dallas and throughout Texas, and as we are exceedingly anxious to further develop and cement the relationship, we are going to be watchful of any opportunity we may have to promote your interests.

I won't read the rest of the letter not related to this point. I would like to offer it for the record.

Acting Chairman REECE. It may be admitted.

(The letter referred to was marked "Exhibit No. 1341" and is included in the appendix on p. 6999.)

Mr. GESELL. I gather that in that instance, at least, the deposit did have the result of getting banking assistance in the right direction.

Mr. PARKINSON. It had the result of drawing a typically banking letter.

Mr. HENDERSON. More "literature"? There is nothing essentially wrong, Mr. Parkinson, in going out and trying to create a friendly interest in your company when you go into a new territory.

Mr. PARKINSON. I had not thought so, sir.

Mr. HENDERSON. I mean, if we want to get on technical ground, it is part of a general aggressive policy which manifests itself every now and then, does it not?

You don't care to comment on that, I take it?

Mr. PARKINSON. No.

Mr. HENDERSON. Just so the record is complete.

Mr. GESELL. Do you recognize this material as material which was used in connection with a sales campaign in the State of Texas?

Mr. PARKINSON. No; I never saw it.

Mr. GESELL. Is there anyone here who can tell us whether they will vouch for the accuracy of this information?

Have you been advised that this is material which was used in connection with the campaign in Texas?

Mr. PARKINSON, Yes.

Mr. GESELL. I wish to offer the material for the record.

Acting Chairman REECE. It may be admitted.

(The literature referred to was marked "Exhibit No. 1342" and is included in the appendix on p. 7000.)

Mr. GESELL. I have no further questions of this witness.

Mr. HENDERSON. The accuracy of the document admitted, however, was vouched for?

Mr. GESELL. Mr. Parkinson conferred with his associates.

Acting Chairman REECE. Are there any questions?

We appreciate your appearance and thank you very kindly for the time you have given us.

(The witness, Mr. Parkinson, was excused.)

Acting Chairman REECE. If there are no further questions, the committee will stand in recess until 10:30 tomorrow morning, at which time the vice president of the Southwestern Insurance Co. will be called.

(Whereupon, at 5 p. m., a recess was taken until 10:30 a. m. of the following day, Friday, October 27, 1939.)

INVESTIGATION OF CONCENTRATION OF ECONOMIC POWER

FRIDAY, OCTOBER 27, 1939

UNITED STATES SENATE,
TEMPORARY NATIONAL ECONOMIC COMMITTEE,
Washington, D. C.

The committee met at 10:50 a. m., pursuant to adjournment on Thursday, October 26, 1939, in the Caucus Room, Senate Office Building, Representative Hatton W. Sumners presiding.

Present: Representative Sumners, vice chairman; Senator King and Representative Reece; Messrs. O'Connell and Brackett.

Present also: Gerhard A. Gesell, special counsel, and Douglas Orr, attorney, Securities and Exchange Commission.

The VICE CHAIRMAN. The committee will please come to order. Mr. Coburn is testifying this morning.

Mr. GESELL. That is correct.

The VICE CHAIRMAN. Do you solemnly swear the statement you are about to make will be the truth, the whole truth, and nothing but the truth, so help you God?

Mr. COBURN. I do, sir.

TESTIMONY OF ARTHUR COBURN, VICE PRESIDENT, SOUTHWESTERN LIFE INSURANCE CO., DALLAS, TEX.

SALES AND AGENCY PRACTICES—SOUTHWESTERN LIFE INSURANCE CO.

Mr. GESELL. Mr. Coburn, will you state your full name and residence for the record?

Mr. COBURN. Arthur Coburn, 3910 Gillon, Dallas, Tex.

Mr. GESELL. You are an officer of the Southwestern Life Insurance Co. of Dallas, Tex., are you not?

Mr. COBURN. Yes, sir.

Mr. GESELL. You are vice president of that company?

Mr. COBURN. Yes, sir.

Mr. GESELL. What department of the company are you particularly responsible for?

Mr. COBURN. I am more particularly connected with the distribution end of the business.

Mr. GESELL. The agency and sales end of the business.

Mr. COBURN. That is right.

Mr. GESELL. When did you come with the company, Mr. Coburn?

Mr. COBURN. The 13th of March 1934.

Mr. GESELL. Did you come as an officer at that time?

Mr. COBURN. Yes, sir.

Mr. GESELL. What had been your previous insurance experience?

Mr. COBURN. I went to work for the life-insurance business in Scotland when I was 16 at \$1 a week. I qualified as an actuary when I was 20. I was hired by the New York Life to work in their home office when I was 23; I became an officer of the Northwestern Mutual Life Insurance Co. when I was 29; I was elected president of the American Institute of Actuaries when I was 39; I was vice president of the North American Reassurance Co. of New York City up until the time I resigned to accept the position with the company I now represent.

Mr. GESELL. Am I correct in saying that in addition you have from time to time been an insurance consultant for the R. F. C.?

Mr. COBURN. Yes, sir.

Mr. GESELL. The Southwestern Life Insurance Co., Mr. Coburn, confines its activities entirely to the State of Texas, does it not?

Mr. COBURN. Yes, sir.

Mr. GESELL. It is incorporated in Texas and has its home office in Dallas, Tex.; is that correct?

Mr. COBURN. Yes, sir.

Mr. GESELL. What kind of insurance does it sell?

Mr. COBURN. It sells regular life insurance and group life insurance.

Mr. GESELL. You sell no industrial insurance?

Mr. COBURN. No, sir.

Mr. GESELL. What is the amount of insurance now in force in the company?

Mr. COBURN. \$358,000,000

Mr. GESELL. And what are the assets of the company at the present time?

Mr. COBURN. \$65,000,000.

Mr. GESELL. How long has the company been in existence?

Mr. COBURN. Thirty-six years.

Mr. GESELL. Is it the largest life-insurance company incorporated in the State of Texas?

Mr. COBURN. No, sir.

Mr. GESELL. What is the largest company there?

Mr. COBURN. American National of Galveston.

Mr. GESELL. How does the Southwestern rank in point of size?

Mr. COBURN. Well, it is among the first 35 companies in this country doing a regular life business.

Mr. GESELL. And of the Texas companies?

Mr. COBURN. Second.

Mr. GESELL. Has the company had in recent years a consistent and steady growth?

Mr. COBURN. Yes, sir.

Mr. GESELL. Can you give us some idea of the rate of that growth?

Mr. COBURN. On the 1st of January 1934 the company had in force \$258,000,000 of life insurance and had at that time \$39,000,000 of assets. The life insurance in force in the company is now larger by \$100,000,000 and the assets are larger by \$26,000,000.

Mr. GESELL. The company is a stock company, is it not?

Mr. COBURN. Yes, sir.

Mr. GESELL. It sells entirely nonparticipating insurance?

Mr. COBURN. Yes, sir.

Mr. GESELL. What is the capital of the company?

Mr. COBURN. \$4,000,000.

Mr. GESELL. Is that stock distributed amongst residents of the State of Texas, principally?

Mr. COBURN. Yes, sir.

Mr. GESELL. Now, when you came to the company in 1934, can you tell us something about the conditions which you found existing at that time in the agency department and distribution facilities of the company?

Mr. COBURN. The company at that time had 759 salesmen, and in the year 1933 had hired 265 salesmen, indicating an excessive turnover of salesmen.

Mr. GESELL. Were there any other conditions that you wish to bring to our attention at that time?

Mr. COBURN. Rather low compensation of salesmen.

Mr. GESELL. Was the lapse rate of the company fairly high at that time?

Mr. COBURN. It was excessive.

Mr. GESELL. Now, will you tell us what have been the objectives of your company since 1934 when you came there, agency-wise? What have you tried to do? What are your goals?

Mr. COBURN. We endeavor to increase the life insurance in force of the company by between 15 and 20 million dollars a year by writing the smallest amount of life insurance that will accomplish that purpose.

The VICE CHAIRMAN. That is an interesting statement. Will he explain that?

Mr. GESELL. You mean by that, that first of all you have no unlimited desire to write any amount of business that you can get on your books?

Mr. COBURN. In the first place, we want to maintain friendly relationships with other local reserve life-insurance companies. We don't want to grow too fast, and we think we are growing fast enough.

Mr. GESELL. You are particularly interested, I take it, in the character of the business you write.

Mr. COBURN. We are, sir.

Mr. GESELL. And you would rather write a smaller volume of persistent business than a greater volume of what is sometimes referred to as hit-and-run business.

Mr. COBURN. That is correct.

Mr. GESELL. Now, how much do you say you wished to write a year?

Mr. COBURN. The smallest amount of new business each year that will enable us to accomplish our objective.

Mr. GESELL. And that is what?

Mr. COBURN. To increase the life insurance in force of the company between 15 and 20 million dollars a year.

The VICE CHAIRMAN. I don't understand what is meant by the statement they "want to write the smallest amount of insurance they can write" in order to give 15 million increase.

Mr. GESELL. You are taking into account the fact that inevitably some business must lapse; is that not correct, Mr. Coburn?

Mr. COBURN. Yes, sir.

Mr. GESELL. So you must write somewhat more than 15 million in order to make that much increase, because there would be some business that would go off the books, of the business you write.

Mr. COBURN. Judge, we desire as far as possible to avoid the writing of high-pressure business. We view with considerable measure of regret the fact that some Texas citizens buy life insurance from us and are unable to keep it in force. It is the policy of the management of the Southwestern Life to have that type of business restricted to a minimum, as far as the matter is within our control.

The VICE CHAIRMAN. You want the policy written to be a policy which the person who is insured can continue.

Mr. COBURN. Yes, sir.

Mr. GESELL. Now, do you think, Mr. Coburn, that it would be possible for your company to double the size of the amount of business which it writes?

Mr. COBURN. No, sir.

Mr. GESELL. You think, then, that this objective which you set is about the maximum which you could under any possible circumstances write?

Mr. COBURN. We could write substantially more than we are now writing. At the present time the people of the State of Texas buy 12 percent of their life insurance from us. I think it is entirely probable that we could increase that figure from 12 percent to 15 percent. However, I would not consider that desirable.

Mr. GESELL. And that I take it would be because in making that increase you would bring onto the books of your company a less desirable type of business, with a shorter persistency and greater lapse rate.

Mr. COBURN. I think that is unquestionably correct.

Representative REECE. Why would that be the case?

Mr. COBURN. I believe, sir, that there is a natural amount of life insurance for every company to sell. For many years the people of the State of Texas have been in the habit of buying about 12 percent of their life insurance from the Southwestern Life. That has been their custom. We could, by the adoption of aggressive sales methods and by pressure selling, probably increase that percentage from 12 to 15 percent, but I believe that the additional \$10,000,000 of life insurance that we would sell would be subject to an excessive lapse rate.

Senator KING. Do you object to competition in the life-insurance field in Texas and the Southern States?

Mr. COBURN. No, sir.

Senator KING. You wouldn't object to your company—by the way, where is your company incorporated?

Mr. COBURN. In Texas.

Senator KING. You don't feel that you should be limited to writing policies in Texas, do you?

Mr. COBURN. That is a matter of policy of the directors of the company I represent, sir.

Senator KING. So you sell in Texas alone?

Mr. COBURN. We elect to operate in Texas alone.

Senator KING. Undoubtedly you have that right. I am not saying it is not a proper policy for your company, but the point I am trying to get at is whether or not you want Texas to be insulated and im-

immune from invasion by insurance companies from other parts of the United States.

Mr. COBURN. I have no such feeling, sir.

Mr. GESELL. As a matter of fact, Mr. Coburn, there is no reason, is there, that you can think of why a company from outside the State of Texas shouldn't come in to the State of Texas, provided its agency practices and its general method of doing business are in the best interest of the citizens of that State?

Mr. COBURN. That is my private view, sir.

Senator KING. I presume the Texas insurance laws have restrictions and provisions which must be observed by your company as well as by any other company.

Mr. COBURN. That is correct, sir.

Senator KING. And reports have to be made of their policies and their general business.

Mr. COBURN. That is also true, sir. That is correct, sir.

Mr. GESELL. Now, I want to discuss with you, Mr. Coburn, some of the methods which you have adopted in your company in an effort to reach this objective which you have just called to the committee's attention. First of all, however, may I have some idea of your sales organization? You operate on the general-agency basis or on the agency-manager basis?

Mr. COBURN. Agency manager.

Mr. GESELL. How many agency managers do you have?

Mr. COBURN. Ten.

Mr. GESELL. How many agents do you have?

Mr. COBURN. Three hundred ninety-six.

Mr. GESELL. Do you have in the home office an agency committee of the board of directors?

Mr. COBURN. No, sir.

Mr. GESELL. You yourself, as the officer in charge of agency activities, are directly responsible to the board itself?

Mr. COBURN. No; I am responsible to the president of the company, Judge O'Donnell.

Mr. GESELL. And he in turn is responsible to the board?

Mr. COBURN. Yes, sir.

Mr. GESELL. Are you in close contact with the problems of the field?

Mr. COBURN. I think so, sir.

Mr. GESELL. Will you tell us in what manner you do supervise the field, how you keep this close contact?

Mr. COBURN. I visit the different offices of the company, and I visit the different agencies.

Mr. GESELL. Do you know most of the agents yourself, personally?

Mr. COBURN. I think I know 70 percent of them personally.

Mr. GESELL. And how frequently do you go to the district offices?

Mr. COBURN. I try to cover each territory of the company once a year.

Mr. GESELL. I imagine that is quite a trip in a State as large as Texas.

Mr. COBURN. It means driving an automobile a little over 12,000 miles.

Mr. GESELL. Starting off at the beginning of this problem, Mr. Coburn, what do you do to recruit your agents? How do you recruit them; where do you get them from; what standards do you set?

Mr. COBURN. We endeavor to limit our appointment of agents to people more than 21 years of age and less than 35, with at least a high-school education, capable of passing medical examination to determine their physical condition. The type of man that rates superior or very superior on the Dr. Verne Steward's selection system.

Mr. GESELL. That, I take it, is a system of appraising the possibilities of the men for this type of work.

Mr. COBURN. It is a system of appraising vocational ability.

Mr. GESELL. Aptitude test, you might call it.

Mr. COBURN. Yes, sir.

Mr. GESELL. Do you discourage the employment of men who have been unsuccessful in other lines?

Mr. COBURN. As far as possible we try to discourage men that haven't shown an aptitude in some other line of endeavor, and as far as possible we try to restrict our selection of recruits to men that have been known well and favorably to us for a period of 1 year.

Mr. GESELL. Then, unlike the instance of the company we were considering yesterday, you don't consider your recruiting as sort of in the nature of an unemployment-relief center, or anything of that sort?

Mr. COBURN. We do our recruiting purely on the basis that we think would be profitable to ourselves.

Mr. GESELL. And you are keenly interested in this whole problem of service to your policyholders, are you not?

Mr. COBURN. We think we are doing a reasonably good job.

Mr. GESELL. You feel, do you not, that this recruiting is one of the important elements in bringing about the highest type of service to the policyholder, in that careful selection of the type of agent will have some influence on the type of service rendered?

Mr. COBURN. We think it is fundamental.

Mr. GESELL. Well, now, once you have selected your recruit, I take it that he is subject to some type of training course?

Mr. COBURN. We have three training courses.

Mr. GESELL. How many recruits do you take in a year on the average now?

Mr. COBURN. We have at present time 45 first-year recruits.

Mr. GESELL. When they come on with the company, do they immediately take a training course?

Mr. COBURN. They are permitted to sell after 2 weeks' training.

Mr. GESELL. Must they take any training after that 2 weeks?

Mr. COBURN. It is mandatory.

Mr. GESELL. For what period of time?

Mr. COBURN. One year is mandatory.

Mr. GESELL. There is a 1-year mandatory training course.

Mr. COBURN. One-year mandatory training course.

Mr. GESELL. When you bring this man into your company do you make him dependent upon his commissions for his livelihood?

Mr. COBURN. We started in June 1935 to experiment with a salary basis for recruits during the first year of their employment.

Mr. GESELL. That was, if I may interject, quite a departure from the customary agency practices.

Mr. COBURN. Yes, sir. We met with some measure of success, and beginning in 1941 all of our recruiting will be done on a salary basis.

Mr. GESELL. Do I understand that now some recruits are on a salary basis, and some are on a commission basis?

Mr. COBURN. That is right, sir.

Mr. GESELL. What proportion are on a salary basis at the present time, roughly speaking?

Mr. COBURN. A little over 40 percent are on a salary basis.

Mr. GESELL. When you say a salary basis, do I understand that you have a minimum guaranteed salary which you give the recruit for the first year that he is with your company?

Mr. COBURN. Yes, sir.

Mr. GESELL. What is that minimum guarantee?

Mr. COBURN. Depending upon the recruit, and not less in any event than \$100 a month.

Mr. GESELL. He gets at a minimum \$1,200 a year?

Mr. COBURN. Yes, sir.

Mr. GESELL. And does he get that regardless of whether or not he sells any insurance?

Mr. COBURN. Regardless.

Mr. GESELL. If he sells insurance sufficient to warrant his receiving commissions on a commission basis in excess of his guaranteed salary, does he receive that benefit?

Mr. COBURN. We pay him the excess. The salary is merely a floor below which his earnings cannot fall.

Mr. GESELL. Will you tell us, if you are able, what comparison can be made between recruits taken in on the commission basis and recruits taken in on this guaranteed-salary basis?

The VICE CHAIRMAN. Will you develop in that connection the reason for the difference in the classifications and different methods of employment?

Mr. GESELL. I gather the witness has said that this was in the process of experimentation and in 1941 all of his agents are going to be on a salary basis.

Mr. COBURN. Judge, the reason we adopted the salary basis was the belief of Judge O'Donnell and the belief on my part that that would lead to a more careful selection of recruits by our managers. We felt that our managers had a feeling of responsibility to the corporation, and if they knew that they were investing the corporation's funds in each case they hired a recruit, they would hire the recruits more carefully.

Mr. GESELL. I also take it another factor would be the factor that a man who had some guaranteed salary would be, while he was untrained and new to the business, less apt to engage in unsatisfactory or objectionable sales methods in an attempt to make a living.

Mr. COBURN. If we think he is going to be objectionable at all, we don't guarantee him a salary.

The previous question: In the calendar year 1937 we hired 74 recruits that we did not guarantee a salary to. Out of these 74 recruits, 16 of these men are now salesmen for the company; a little better than 20 percent have survived.

In 1937 we hired 19 recruits on a salary. Thirteen of them are now successful life-insurance salesmen, a little better than 60 percent sur-

vival. Our experience to date has been that we have done 3 times better with recruits that hired on salary.

The VICE CHAIRMAN. And probably you had a superior type of man, as you have indicated, to begin with when you took men to whom you advanced a salary.

Mr. COBURN. Definitely so, sir.

Mr. GESELL. So that your solution of this problem of turn-over, which is so troubling the insurance industry, is to give some kind of a guaranteed salary in the first year, carefully recruit your agents, and train them well.

Mr. COBURN. Yes, sir.

Mr. GESELL. Now, what effect from a strictly operating point of view has this new program of recruiting, training, and salary, had upon your business?

Mr. COBURN. We have increased by \$75,000 a year our expenditure in the selection and training of agents. We believe by virtue of that investment of \$75,000 a year we have increased our cash earnings \$300,000 a year.

Mr. GESELL. In other words, by expending more money on this selection and training program you have had a very beneficial return profitwise?

Mr. COBURN. It has been very gratifying to our board of directors.

Mr. GESELL. Now, let's take it from another basis, Mr. Coburn. Before you started this system we have been talking about, how much did it cost you to train an agent?

Mr. COBURN. I think in 1933 we were spending, the first year, about \$500 training a recruit.

Mr. GESELL. For each recruit?

Mr. COBURN. Yes, sir.

Mr. GESELL. And out of 10 recruits how many stayed?

Mr. COBURN. One.

Mr. GESELL. So that it really cost you \$5,000 to train a man?

Mr. COBURN. Yes, sir.

Mr. GESELL. Under this new program how much does it cost you to train a man and recruit him?

Mr. COBURN. \$1,597.

Mr. GESELL. How many men out of 10 stay, did you say?

Mr. COBURN. Six out of ten.

Mr. GESELL. So that your over-all costs for training per man who stays are much less, are they not?

Mr. COBURN. You have omitted one factor. We are expending \$1,597 to train a first-year recruit. We also incur a loss in the salary of about \$300, so that the total investment in the recruit is about \$1,900, and we get 6 salesmen out of each 10 recruits.

Mr. GESELL. And on a man-who-stays basis, does it cost you more or less to train a man?

Mr. COBURN. Less.

The VICE CHAIRMAN. I don't know exactly your objective, but wouldn't it be well to indicate how this money expended in training recruits is expended? What do they do? How do they expend it?

Mr. GESELL. That is the next question, Judge.

Will you tell us the nature of your training course?

Mr. COBURN. I believe I can answer your question more conveniently for the committee by submitting an outline of our training program, sir.

The VICE CHAIRMAN. It seems to be brief. I don't see why it shouldn't be incorporated.

Mr. GESELL. I think it should be incorporated in the record, by all means.

(The document referred to was marked "Exhibit No. 1343" and is included in the appendix on p. 7003.)

Mr. GESELL. Mr. Coburn, from the point of view of agents' compensation, has it been your endeavor to raise the average earnings of your salesmen?

Mr. COBURN. Yes, sir.

Mr. GESELL. May I ask what success you have had in that connection?

Mr. COBURN. Our average salesman in the year 1933 was paid \$1,002. In 1938 we paid our average salesman \$2,643.

Mr. GESELL. You mean to say that in this period of 6 years you were able to increase the average earnings of your agents by over \$1,600?

Mr. COBURN. Yes, sir.

Mr. GESELL. How was that done? Was it done primarily by having fewer agents?

Mr. COBURN. We increased, during the period referred to, the number of dollars of commission paid to salesmen from about \$700,000 to \$1,100,000.

Mr. GESELL. Did you change your commission basis to do that?

Mr. COBURN. No, sir.

Mr. GESELL. How did you do it?

Mr. COBURN. They sold more business.

Mr. GESELL. Sold more business, or sold more business which stayed on the books?

Mr. COBURN. Both, sir.

Mr. GESELL. Is one of the factors which contributed to this increase in average earnings of the agents the fact that there has been, since you came with the company, a very definite emphasis upon eliminating lapse?

Mr. COBURN. I believe so.

Mr. GESELL. You feel that the more persistent business an agent writes, the better his compensation?

Mr. COBURN. That has been my experience.

Mr. GESELL. And then in your effort to raise the agents' average earnings you have emphasized the desirability of eliminating lapse?

Mr. COBURN. We have insisted on it.

Mr. GESELL. Well, now, first may I offer this schedule of the average annual earnings of the agents of the Southwestern for the record?

The VICE CHAIRMAN. Yes.

(The schedule referred to was marked "Exhibit No. 1344" and is included in the appendix on p. 7005.)

Mr. GESELL. You say you have insisted on eliminating lapse. Will you tell us how you have insisted, what you have done to bring about these results?

Mr. COBURN. We keep a record of every salesman showing his lapse for each year. I would like to submit the record of a good agent, Mr. Pittard, of Cisco, and the record of a bad agent, Mr. Cannon, of Mission, and direct your attention to the respective lapse rates on these two cards.

Mr. GESELL. Now let me see. Mr. Pittard, of Cisco, Tex., seems to have a very good lapse ratio record.

Mr. COBURN. Excellent.

Mr. GESELL. What kind of town is Cisco, Tex., insurancewise?

Mr. COBURN. Unfavorable.

Mr. GESELL. Mr. Cannon, of Mission, Tex., seems to have had a very high lapse ratio. What kind of town is Mission, Tex., insurancewise?

Mr. COBURN. More prosperous than Cisco.

Mr. GESELL. Are both of these towns or cities of the same population?

Mr. COBURN. Cisco has a population of 6,000; Mission has a population of 5,100.

Mr. GESELL. Are you familiar with the cases of these two agents?

Mr. COBURN. I know them both personally.

Mr. GESELL. Can you tell us what factors you believe are responsible for the more favorable record of Mr. Pittard?

Mr. COBURN. Mr. Pittard is a very respected citizen, I might say a leading citizen of Cisco. He never approaches anyone for life insurance without first of all obtaining a report from the local Retail Merchants Association. He endeavors to write no business that will ever lapse. Mr. Cannon has a contrary point of view.

Mr. GESELL. I notice that Mr. Pittard's record in 1937 and 1938 shows a lapse ratio of 4 to 5 percent.

Mr. COBURN. That is right.

Mr. GESELL. And in contrast, Mr. Cannon's record shows a lapse ratio from 23 to 32 percent.

Mr. COBURN. That is right.

Mr. GESELL. Now what is the purpose of keeping these detailed records on the agent's individual lapse record?

Mr. COBURN. We require every agent of the company to bring his lapses below 30 percent.

Mr. GESELL. In the case of Mr. Cannon, who I notice has been over 30 percent almost without fail since 1927, what action is taken in a case of that character?

Mr. COBURN. At the beginning of 1939 we gave Mr. Cannon 1 year's notice. We gave him an opportunity for 12 months to improve the class of business written by him. If he fails to do so, we will terminate our relationship with Mr. Cannon.

Mr. GESELL. And you keep a very definite check in this manner on all of the agents employed in your company, do you not?

Mr. COBURN. We furnish them with information in regard to their own lapses.

Mr. GESELL. You distribute to the agency force the list of agents by territory showing the good persistency records and the bad persistency records of all of them?

Mr. COBURN. We let the facts speak for themselves.

Mr. GESELL. Is this that you just handed me such a pamphlet as you distribute?

Mr. COBURN. Yes, sir.

Mr. GESELL. I notice one or two cases where agents have shown a persistency record of 100 percent.

Mr. COBURN. That is so, sir.

Mr. GESELL. And a great number of cases where agents have shown persistency records of 90 percent or better.

Mr. COBURN. A great number, sir.

Mr. GESELL. Do you find that this problem of lapse can be met by a conscientious effort of the management to watch closely the individual activities of each agent?

Mr. COBURN. We believe that is essential.

Mr. GESELL. Will you tell us from the point of view of training, or from any other point of view, what particular things you have done in addition to these we have considered, to impress upon the agent the desirability of writing persistent business?

Mr. COBURN. We offer no recognition to an agent unless his lapses are below 25 percent. We run a contest in July and August—a cash contest. That is only open to agents who have a lapse rate of less than 25 percent.

Mr. GESELL. That is very interesting, Mr. Coburn. You don't have but one contest a year, is that correct?

Mr. COBURN. One contest.

Mr. GESELL. And you open that contest only to those agents who have shown a good persistency record.

Mr. COBURN. Yes, sir.

Mr. GESELL. Do you believe in the usual type of high-pressure contests such as we considered yesterday?

Mr. COBURN. I am absolutely unalterably opposed to high-pressure selling.

Mr. GESELL. Do you believe that sales contests generally promote that kind of selling?

Mr. COBURN. Highly detrimental.

Mr. GESELL. Will you tell us why?

Mr. COBURN. Well, if you will refer to the record of Mr. Cannon, he won a contest in 1931. He had a lapse rate of 90 percent.

Mr. GESELL. That is the highest lapse rate he has had since 1927, isn't it?

Mr. COBURN. Yes, sir.

Mr. GESELL. It is your experience, I take it, that any efforts to emotionalize the salesmen or artificially stimulate them into production results in writing a poor form of business.

Mr. COBURN. I am definitely opposed to them.

Mr. GESELL. And it is your experience that it results in this bad type of business.

Mr. COBURN. It does.

Mr. GESELL. By the way, why do you have this one contest at all? Was that something you inherited when you came there?

Mr. COBURN. That was a compromise between Judge O'Donnell and myself. The Judge wanted to keep it and I wanted to do away with it, and we compromised on keeping it with a 75 percent persistency requirement. I may say Judge O'Donnell wanted to keep it for sentimental reasons.

Mr. GESELL. What has been the over-all record of your company from the point of view of its lapse record in recent years? Has it steadily declined?

Mr. COBURN. It has been reduced 50 percent in the last 10 years.

Mr. GESELL. Are you able to say whether a great deal of that reduction has occurred in the years since you put this new program into effect?

Mr. COBURN. Since the 1st of January 1934, our life-insurance account has gained \$100,000,000. Of that figure, \$64,000,000 was brought about by a reduction in lapses.

Mr. GESELL. You mean to say that if you had looked at your present insurance account and applied thereto the lapse rate which was prevalent before this program went into effect, you would find that, instead of increasing \$100,000,000, you had increased only \$36,000,000?

Mr. COBURN. Yes, sir.

Mr. GESELL. Then you don't feel, I take it, Mr. Coburn, that this problem of lapse is inherent in the business as something that we could pass off with a shrug of our shoulders by referring to human nature.

Mr. COBURN. I think the problem of lapse must be considered in connection with various other problems, because I believe they are intimately associated. The problem of compensation: Better-paid salesmen do a better job. The problem of turn-over; Reduce your turn-over and you inevitably reduce your lapses. Select a better class of citizen and they do a better job. Train them more thoroughly and they render a better public service, and in turn the public appreciates that service. All are intimately associated with one another.

Mr. GESELL. I suppose you anticipate there is a certain amount of lapse which will inevitably come in your company or any other company. Am I correct in saying that you try to encourage that lapse to take place at the earliest possible time?

Mr. COBURN. We do.

Mr. GESELL. Will you tell us how you do that?

Mr. COBURN. Our point of view about that is this: Suppose Judge Sumners was working in the First National Bank in the city of Dallas and he was 37 years of age; he was a prospect for 20-payment life insurance in the amount of \$1,500, and I was a salesman. I might take Judge Sumners' application with an annual premium of \$48. Now, I am not suggesting that Judge Sumners would lapse the policy. This is a merely hypothetical case; but if Judge Sumners did lapse that policy, I would have done Judge Sumners an ill service, because the judge would have had coverage for one policy year worth \$15, but I would have charged him \$48 for it, and Judge Sumners through my efforts would have incurred a loss of \$33. I would have done Judge Sumners a \$33 injustice.

But if I wrote Judge Sumners' application on a monthly basis, \$4, and Judge Sumners lapsed that policy, at the end of 1 month, he would have had life-insurance protection worth \$1.25, and Judge Sumners' association with me would have cost Judge Sumners only \$2.75.

Mr. GESELL. In other words, by writing the business on a monthly basis those policyholders who are lapsing, or apt to lapse, get out much easier.

Mr. COBURN. Yes, sir.

Mr. GESELL. How much of your business is on a monthly basis?

Mr. COBURN. Forty-seven percent.

Mr. GESELL. Now, let's suppose that Judge Sumners took a monthly policy from you and did lapse, and then got a raise next year, as I am sure he would. Would you be able to reinstate his policy and take into account in any way the fact that he had been with your company before and paid some money to you?

Mr. COBURN. I would collect 10 cents from Judge Sumners and give him a credit on the new policy of \$4.10.

Mr. GESELL. In other words, you would first of all date the policy back to take into account the amount of time the previous policy had been in force.

Mr. COBURN. That is what I would do.

Mr. GESELL. Thus giving him immediately a greater reserve.

Mr. COBURN. Yes, sir.

Mr. GESELL. And similarly giving him some advantages from the point of view of age, so he might get his policy at a lower age rate.

Mr. COBURN. That is possible.

Mr. GESELL. From the point of view of public relations, and this whole question of service which we heard so much discussion about yesterday, do you feel that adopting this type of approach is more in the public interest?

Mr. COBURN. I believe it would be utterly impossible for me to take \$4 away from Judge Sumners and then go back to Judge Sumners a year from now without offering Judge Sumners some credit for the \$4 he had paid me, because I think Judge Sumners would decline to do business with me unless I gave him some kind of credit.

Mr. GESELL. Then you think that the writing of policies on a high-pressure basis, and the consequent lapse and continual turn-over of policies, creates ill will among the people?

Mr. COBURN. Oh, definitely so.

Mr. GESELL. And from a strictly operating, realistic approach to the conduct of the business on a profit-and-loss basis, it is desirable to keep policyholders contented and not to trick them out of too much money.

Mr. COBURN. I think that is correct.

Mr. GESELL. Now, you think your procedure in this connection is entirely actuarially sound? There is no joker in it of any kind?

Mr. COBURN. I know it is profitable.

Mr. GESELL. It doesn't involve your company undertaking any great risks or subject your company to any more serious hazards?

Mr. COBURN. I do not think so, sir.

Mr. GESELL. Have you ever given any consideration to going outside of the State of Texas and doing business in the surrounding states?

Mr. COBURN. We have.

Mr. GESELL. Why have you decided not to do so?

Mr. COBURN. Because we were writing so much business in Texas.

Mr. GESELL. Well, I take it you could write more if you went outside.

Mr. COBURN. We think it would be unwise to write more business than we are now writing.

Mr. GESELL. I take it, then, that you do feel that there is some advantage to a company which keeps its operations from growing too extensive.

Mr. COBURN. It is more profitable not to grow too fast. You make more money.

Mr. GESELL. What about it from the point of view of the policyholder?

Mr. COBURN. I don't feel that we are under any obligation to the citizens of Oklahoma. We have never undertaken to render

them any service. I don't think that Oklahoma is in any way jeopardized by the fact that we have not entered Oklahoma.

Mr. GESELL. We heard considerable yesterday about the missionary spirit in life insurance and the desirability of carrying its message throughout the land as a public service. I take it you are not in accord with that.

Mr. COBURN. Our Board of Directors does not have a missionary spirit.

Mr. GESELL. Do you feel that you can better service a smaller group of policyholders than you can a large group of policyholders?

Mr. COBURN. I believe you secure maximum efficiency in the life insurance business with a regular company that has \$500,000,000 of life insurance in force. I believe any growth, any substantial growth, orderly growth up to \$500,000,000, is definitely advantageous from an operating point of view.

Mr. GESELL. Beyond that, you have serious doubts?

Mr. COBURN. Beyond a billion dollars of life insurance in force, to maintain the same efficiency becomes a problem. It has been done, but nevertheless it is a problem to be solved. You have in this country one notable example of a company that has solved it.

Mr. GESELL. Only one, however?

Mr. COBURN. I know of one that has solved it.

Mr. GESELL. By and large companies have had great difficulty in solving that problem?

Mr. COBURN. They have.

Mr. GESELL. Now, approaching this agency problem from a little more general point of view, not simply from the point of view of your own company, let's say looking at the State of Texas as a whole, how many companies are operating there now?

Mr. COBURN. One hundred thirty-nine.

Mr. GESELL. One hundred thirty-nine companies? How many agents do they have, Mr. Coburn?

Mr. COBURN. Eight thousand.

Mr. GESELL. Eight thousand agents selling ordinary insurance?

Mr. COBURN. Yes, sir; that excludes agents selling burial and industrial insurance. We have a number of burial associations in the State.

Mr. GESELL. Now, do you believe that these 8,000 agents are a large enough group to service the interests of the policyholder?

Mr. COBURN. Oh, they are far too large.

Mr. GESELL. They are far too large. Why do you say that?

Mr. COBURN. Because 7,000 of them are utterly incompetent.

Mr. GESELL. You mean untrained?

Mr. COBURN. Unqualified and untrained, incapable of rendering a satisfactory public service.

Mr. GESELL. Then, I take it, your feeling would be that it would be desirable in the interests of life insurance and the public for there to be fewer and better trained agents.

Mr. COBURN. I believe the best interests of Texas would be served if Texas had 3,000 carefully selected, thoroughly trained salesmen. They could get the job done, too.

Mr. GESELL. Well, I suppose Texas is not any different in that respect from the country at large.

Mr. COBURN. I am more familiar with the conditions in Texas but I assume the conditions in other States are somewhat comparable.

Mr. GESELL. By the way, what function does the State play in this question of selection and training and recruiting of a desirable form of agent?

Mr. COBURN. In the State of Texas there are certain exemptions that disqualify you to be a life-insurance agent. I am not sufficiently familiar with the law to tell you what all these exemptions are.

Mr. GESELL. Do you believe they are sufficient to meet the problem?

Mr. COBURN. Oh, definitely no!

Mr. GESELL. It is, then, a management problem?

Mr. COBURN. Definitely yes.

Mr. GESELL. Not a licensing problem?

Mr. COBURN. I believe you cannot look to the State to run your business for you. I think that would be unduly burdensome on the State officials. I think the State officials have a perfect right to look to us for reasonable and efficient cooperation, cooperation with the objectives of the State.

Mr. GESELL. And the fact, then, that there are these 7,000 agents in Texas whom you believe not adequately qualified is to some extent a criticism of agency management?

Mr. COBURN. Definitely yes.

Mr. O'CONNELL. May I ask a question? Is it necessary to obtain a license from the State of Texas in order to sell insurance in the State—for an individual, I mean?

Mr. COBURN. For an individual other than a director or an officer of a legal reserve life-insurance company. I am not licensed. I can sell, but I may not accept a commission. All others must secure a license.

Mr. O'CONNELL. Do you happen to know, in a general way, whether the purpose of that legislation is to provide a set of standards, or is the purpose of the legislation a tax purpose, to yield revenue to the States?

Mr. COBURN. It is not for the purpose of securing revenue for the State of Texas. All of the funds secured by the State are employed by the State for the purpose of having salaried representatives of the insurance department investigate complaints. The law has been beneficial.

Mr. O'CONNELL. You don't know whether the law has standards or whether it is necessary to take an examination to get a license?

Mr. COBURN. No examination.

Mr. O'CONNELL. If I wanted to get a license to sell insurance in Texas, what would I have to do, merely apply for a license and it would be granted me?

Mr. COBURN. I believe you would qualify, sir.

Mr. O'CONNELL. Well, then, there are standards?

Mr. COBURN. I am not sufficiently familiar with the law to say. One disqualification is that you leave a company owing it money. There are certain infractions of the Penal Code that would also be a disqualification, but I am not sufficiently familiar to tell you which infractions of the Penal Code would disqualify.

Mr. GESELL. There is no examination?

Mr. COBURN. No examination.

Mr. GESELL. On this question, looking over my notes I notice I failed to mention one thing. In better recruiting, developing a better recruiting system and training of agents, have you found in terms of internal operation it has had a beneficial effect?

Mr. COBURN. Before I came to Washington I had a count made of letters dictated by the agency department for various years. In the year 1933 the agency department dictated 11,554 letters. In the year 1938 the agency department dictated 2,392 letters, an 80-percent reduction in the number of letters.

Mr. GESELL. During that time your insurance in force increased, did it not?

Mr. COBURN. About 100,000,000.

Mr. GESELL. Did you find also that you were able to reduce the number of employees per million of insurance in force?

Mr. COBURN. Very much.

Mr. GESELL. From 1.07 to 0.85 persons per million?

Mr. COBURN. Yes, sir.

Mr. GESELL. Now, just one further question. Looking to the future, Mr. Coburn, what are your agency objectives? Have you any additional plans with respect to the operations of the agency department of your company?

Mr. COBURN. We are going to increase the amount of money spent on the training of agents. Our board of directors has authorized us to increase by \$20,000 a year the amount of money spent in training agents how to sell.

Mr. GESELL. Your work so far has been pretty much pioneer work; has it not?

Mr. COBURN. We think so.

Mr. GESELL. What reference material have you had to guide you in assessing the operations of your company and weighing them against the operations of other companies? There is very little; is there not?

Mr. COBURN. We have had this basis of comparison: For the purpose of more efficient operation we divide the State of Texas, sir, into 10 territories. We watch these 10 territories closely. We have come to certain conclusions. One territory has a low compensation of salesmen, a heavy turn-over of salesmen. That territory has a high lapse rate. Another territory has a high compensation of salesmen and a very low turn-over of agents. That territory has a very low lapse rate.

The picture seems to be an entirely consistent picture.

Mr. GESELL. That is within your own company.

Mr. COBURN. Yes, sir.

Mr. GESELL. It is rather difficult to compare your company's operations agency-wise with other experiments and efforts made in other companies; is it not?

Mr. COBURN. I believe so.

Mr. GESELL. There is very little exchange of information of that character as between the companies, available in public sources.

Mr. COBURN. There is a great deal of exchange of information between companies. I personally in the last 6 months must have received letters from six other companies asking me to give them our

agency results to date. We gladly furnish any information we have to another company.

Mr. GESELL. I am just somewhat surprised that this apparent sort of horse-sense approach to the thing hasn't been adopted by other companies, particularly in view of the results.

Mr. COBURN. The experiment is still young. It is only 4 years old.

Mr. GESELL. I have no further questions of this witness.

The VICE CHAIRMAN. Have the members of the committee any questions?

Mr. O'CONNELL. Mr. Coburn, at the risk of duplicating something that may be very apparent from your testimony, as I understand it, the moves that you have made in improving your various techniques for recruiting selection and training of agents, and so forth—as I understand you, that is primarily because you feel that those improvements will be profitable to your company.

Mr. COBURN. Definitely.

Mr. O'CONNELL. Your primary interest as I would understand you is to your board of directors and your stockholders.

Mr. COBURN. It must be so.

Mr. O'CONNELL. And you believe that the best interests of your stockholders and of your board of directors in this case, at least, coincides with the best interests of the general public in that, in the supplying of the service which you perform.

Mr. COBURN. I wouldn't want to suggest to this committee that our board of directors are wholly lacking in a public interest.

Mr. O'CONNELL. Nor did I.

Mr. COBURN. I think they are very worthy citizens. Judge Sumners knows them all. But they are hard-headed businessmen.

Mr. O'CONNELL. Exactly.

Mr. GESELL. What Mr. O'Connell perhaps means to say, Mr. Coburn, is that you can meet the demands of hard-headed businessmen and still conduct your business in the public interest.

Mr. COBURN. That is my belief.

Mr. GESELL. The net cost of your insurance has not increased as the result of these efforts, has it?

Mr. COBURN. No, sir. As the result of these efforts we are selling life insurance at a lower cost than we would otherwise charge.

Mr. GESELL. Substantially lower, is it not?

Mr. COBURN. One dollar a thousand.

Mr. GESELL. And, in addition to that, you have fewer disappointed policyholders in the State with lapsed policies in their drawers.

Mr. COBURN. Definitely so.

Mr. O'CONNELL. And I understand you to say that the compensation of your agents has increased in the past 5 or 6 years from \$1,000 to \$2,600 an agent, or something of that sort.

Mr. COBURN. We will this year pay our salesmen a little over \$1,100,000, and we have 396 salesmen, so our average compensation this year will be a little in excess of \$2,750.

Mr. O'CONNELL. And, in spite of that increase in compensation per agent by virtue of better selection of agents, a lower turn-over in agents, and a higher persistency record of the policies put on your books, the net cost to you of selling insurance is getting less and less, or at least it is less than it was 5 or 6 years ago?

Mr. COBURN. Yes, sir.

Mr. O'CONNELL. Your direct compensation was substantially lower?

Mr. COBURN. Yes, sir.

Mr. O'CONNELL. So it is just good business?

Mr. COBURN. It is good business, sir.

The VICE CHAIRMAN. Are there any further questions?

We are very much obliged to you, Mr. Coburn. You have given us a great deal of interesting and valuable testimony.

Mr. GESELL. May I, before we close today, Judge Sumners, offer one or two documents which have been prepared by the staff of the Commission? First, I should like to offer some material with respect to interlocking directorships as between the five largest insurance companies and commercial banks, savings banks, industrial corporations, other insurance companies, and ask that this information be printed in the record.

The VICE CHAIRMAN. There is no objection.

(The document referred to was marked "Exhibit No. 1345" and is included in the appendix on p. 7006.)

Mr. GESELL. It is based upon material supplied to us by the companies and upon material obtained from recognized public sources.

We have also prepared two schedules showing the salary structures of the five largest companies, in addition to presenting the salaries of the chief executives of these five companies and the average earnings of the members of their board of directors. We have also prepared from the annual statements of the companies an analysis of salaries in various groupings and amounts for the employees of those companies. I believe this information will be of value to the committee.

(The documents referred to were marked "Exhibits Nos. 1346 and 1347" and are included in the appendix on pp. 7011 and 7012.)

Mr. GESELL. I have one other schedule, Judge Sumners. We introduced this summer before the committee a study of profits of companies which were primarily industrial companies. At that time the committee indicated an interest in receiving similar information with respect to the profitability of companies selling ordinary insurance primarily, and we have such a study of 19 companies which I would like to offer for the record. The sources of the information are indicated.

(The tabulation referred to was marked "Exhibit No. 1348" and is included in the appendix on p. 7013.)

Mr. GESELL. This completes the insurance testimony.

The VICE CHAIRMAN. The committee stands in adjournment until 10:30 Wednesday morning.

(Whereupon, at 12 noon, the hearing was adjourned, to reconvene at 10:30 a. m. Wednesday, November 1, 1939.)¹

¹Hearings on the steel industry were held in November and appear in Hearings, Parts 18, 19, and 20. A hearing on prices, held in December, appears in Part 21. Simultaneously with the December subcommittee hearings on insurance, investment banking hearings were held before the full Committee, and appear in Parts 22, 23, and 24.

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(Seventy-fifth Congress)

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INVESTIGATION OF CONCENTRATION OF ECONOMIC POWER

THURSDAY, DECEMBER 7, 1939

UNITED STATES SENATE,
SUBCOMMITTEE OF THE TEMPORARY
NATIONAL ECONOMIC COMMITTEE,
Washington, D. C.

The subcommittee met at 10:40 a. m., pursuant to call of the chair, in room 357, Senate Office Building. Subcommittee members: Representative B. Carroll Reece, chairman, and Joseph J. O'Connell, Jr., vice chairman. Representative Reece, presiding.

Present: Representative Reece (chairman), Messrs. O'Connell (vice chairman), and Brackett.

Present also: Harry J. Daniels, representing the Department of Commerce; Gerhard A. Gesell, special counsel, Helmer Johnson and Erik G. Peterson, attorneys, Securities and Exchange Commission.

The CHAIRMAN. The committee will come to order, please.

The subcommittee of the Temporary National Economic Committee has met this morning for the purpose of taking additional evidence in connection with the insurance study.

Are you ready to proceed, Mr. Gesell?

Mr. GESELL. Yes, I am, Congressman Reece.

During this series of hearings the Commission will present testimony with respect to methods pursued in the promotion and consolidation of life-insurance companies. Reinsurance and rewriting activities will be given particular attention. This is a field which would require months of hearings to cover in all its ramifications and aspects. At this time we present special illustrations of the practices involved. The testimony today will be concerned with a study of the Federal Reserve Life Insurance Co., formerly of Kansas City, Kans.

The CHAIRMAN. Do you solemnly swear that the testimony you are about to give in this proceeding shall be the truth, the whole truth, and nothing but the truth, so help you God?

Mr. HOLT. I do.

TESTIMONY OF VERNON B. HOLT, FORMER SECRETARY AND TREASURER, FEDERAL RESERVE LIFE INSURANCE CO., KANSAS CITY, KANS.

REINSURANCE AND REWRITING—FEDERAL RESERVE LIFE INSURANCE
COMPANY

Mr. GESELL. State your full name.

Mr. HOLT. Vernon Boyd Holt.

Mr. GESELL. That is H-o-l-t?

Mr. HOLT. Yes.

Mr. GESELL. And you live in Kansas City, Kans.?

Mr. HOLT. Yes.

Mr. GESELL. What is your present occupation?

Mr. HOLT. I am an auditor.

Mr. GESELL. Were you formerly an officer of the Federal Reserve Life Insurance Co.?

Mr. HOLT. Yes.

Mr. GESELL. Will you tell us when you first became connected with that company?

Mr. HOLT. In the year 1923.

Mr. GESELL. Was that a company operating on the legal reserve basis with principal offices in Kansas City, Kans.?

Mr. HOLT. That is right.

Mr. GESELL. And at that time did the company operate entirely in the State of Kansas?

Mr. HOLT. Yes, sir.

Mr. GESELL. How long had it been in operation?

Mr. HOLT. It began business on February 12, 1920.

Mr. GESELL. Was the company organized by your father, Mr. D. H. Holt, and a gentleman by the name of Gregory?

Mr. HOLT. That is right. Wesley Hall Gregory.

Mr. GESELL. Are both your father and Mr. Gregory dead?

Mr. HOLT. No, sir.

Mr. GESELL. Is Mr. Gregory dead?

Mr. HOLT. Mr. Gregory is dead.

Mr. GESELL. Your father is still alive?

Mr. HOLT. Yes.

Mr. GESELL. Mr. Holt, can you tell us what office you had in the Federal Reserve when you first went there?

Mr. HOLT. I was bookkeeper—no; I withdraw that, I was a salesman. My first office was assistant secretary.

Mr. GESELL. When did you become assistant secretary?

Mr. HOLT. In 1923, I believe.

Mr. GESELL. Subsequently did you become secretary and treasurer of the company?

Mr. HOLT. Yes.

Mr. GESELL. When was that?

Mr. HOLT. In 1927.

Mr. GESELL. And when did you withdraw from the company?

Mr. HOLT. December 31, 1929.

Mr. GESELL. Were you a director of the company?

Mr. HOLT. I was a director from 1923 until my withdrawal.

Mr. GESELL. Were you a stockholder in the company during that period?

Mr. HOLT. Oh, yes; I was a stockholder.

Mr. GESELL. How many shares did you hold?

Mr. HOLT. I think I had five.

Mr. GESELL. These were shares that qualified you as a director?

Mr. HOLT. That is right.

Mr. GESELL. Did you buy those shares?

Mr. HOLT. No.

Mr. GESELL. Did you actually hold them or were they just issued in your name?

Mr. HOLT. Just issued in my name.

Mr. GESELL. Whose shares were they?

Mr. HOLT. They were issued originally in the name of D. H. Holt, trustee, and he used certain of his trustee shares for qualifying shares.

Mr. GESELL. What was your salary when you were secretary and treasurer?

Mr. HOLT. While I was secretary and treasurer my salary was \$6,000 a year. I don't know whether it was that all of the year and a half I was in that office, but that was the salary when I retired.

Mr. GESELL. Are you familiar with the facts and circumstances surrounding the organization of the company?

Mr. HOLT. Yes.

Mr. GESELL. I presume while you were an officer you had access to its books and records.

Mr. HOLT. That is right.

Mr. GESELL. Will you tell us in what manner the company was organized?

Mr. HOLT. The company was organized on what is known as stock-with-policy plan. The original capitalization was to trustees for the purpose of being redistributed in connection with the sale of policies.

Mr. GESELL. Now, let's see if I understand that. The original capital of the company, as I recall, was \$100,000, was it not?

Mr. HOLT. That is right.

Mr. GESELL. And the original paid-in surplus was \$50,000.

Mr. HOLT. That is right.

Mr. GESELL. The company issued 100,000 shares when it was organized.

Mr. HOLT. Ten thousand shares.

Mr. GESELL. Those shares were purchased primarily by D. H. Holt and Mr. Gregory; is that correct?

Mr. HOLT. No; that is not correct. They were purchased by Mr. Gregory and Mr. Holt, and a group of southeastern Kansas farmers and businessmen.

Mr. GESELL. Did Mr. Gregory and Mr. Holt own the largest single block of shares?

Mr. HOLT. I don't recall that; I don't know.

Mr. GESELL. They were substantial stockholders, were they not, in the original company?

Mr. HOLT. That is right.

Mr. GESELL. Those shares were then placed with a trustee?

Mr. HOLT. That is right.

Mr. GESELL. With Mr. D. H. Holt?

Mr. HOLT. Yes; that is right.

Mr. GESELL. And they were to be sold to policyholders of the Federal Reserve and paid for by policyholders from their dividends?

Mr. HOLT. That is right.

Mr. GESELL. Now, as they were sold, I take it, the subscribers got back the money they had paid in?

Mr. HOLT. That is right.

Mr. GESELL. Plus 6 percent interest?

Mr. HOLT. They were supposed to get 6 percent interest.

Mr. GESELL. At what price were the shares sold to the policyholders?

Mr. HOLT. Of that first \$100,000 issue the shares were sold to the policyholders for \$25 a share.

Mr. GESELL. Well, now, they had originally cost \$15, had they not?

Mr. HOLT. That is right.

Mr. GESELL. Did that pay something to the surplus of the company?

Mr. HOLT. Yes.

Mr. GESELL. That was under the plan, was it not?

Mr. HOLT. Yes.

Mr. GESELL. Now, Mr. D. H. Holt was a banker, was he not, at this time?

Mr. HOLT. Yes.

Mr. GESELL. And Mr. W. H. Gregory was a salesman, wasn't he? An insurance salesman?

Mr. HOLT. Yes.

Mr. GESELL. Did Mr. Gregory have a contract with the company with respect to the agency work of the company?

Mr. HOLT. Yes.

Mr. GESELL. Tell us what that contract was.

Mr. HOLT. The contract provided for certain first-year commissions and certain renewal commissions. The first-year commissions were graded from 90 percent of the first-year premiums downward. The bulk of the business written was on the 25-pay life, and the ordinary-life plan, and that commission was 90 percent. The renewal commission was 10 percent, or perhaps it was 15 percent for the first year and 10 percent over the next 9. I don't remember that. The contract from the minutes would have to show that.

Mr. GESELL. Did he have an exclusive-agency contract with the company?

Mr. HOLT. Yes.

Mr. GESELL. In other words, he had the right to sell and be the only person who sold insurance for the company?

Mr. HOLT. In the State of Kansas.

Mr. GESELL. Was this contract subsequently expanded to include other States in which the company operated?

Mr. HOLT. Yes.

Mr. GESELL. And he received on this 25-pay-life business, and whole-life business, 90 percent of the first-year commissions under that contract of the first-year premiums?

Mr. HOLT. That is right.

Mr. GESELL. And he received 15 or 10 percent of the renewal premiums for how many years?

Mr. HOLT. For 9 or 10 years.

Mr. GESELL. Did he place this contract in an agency company of his own?

Mr. HOLT. Yes; he organized a corporation.

Mr. GESELL. And then he would employ salesmen to that corporation?

Mr. HOLT. Yes; that is right.

Mr. GESELL. Working for him under this agency contract?

Mr. HOLT. That is right.

Mr. GESELL. That was a very lucrative contract, was it not?

Mr. HOLT. Yes.

Mr. GESELL. How long did it remain in effect?

Mr. HOLT. It remained in effect with the changes, such as the increase in the territory, until 1928, when Mr. W. H. Gregory retired from any connection with the company.

Mr. GESELL. And this corporation which he created and assigned the contract to was known as the Federal Agency Investment Corporation, was it not?

Mr. HOLT. The Federal Agency Investment Co., I believe.

Mr. GESELL. Do I understand that during this entire period, from the formation of the company until Mr. Gregory left, he had this exclusive agency contract?

Mr. HOLT. That is right.

Mr. GESELL. Now, you say that the company originally started in Kansas?

Mr. HOLT. Yes.

Mr. GESELL. Into what other States did it expand?

Mr. HOLT. At one time it entered Oklahoma, I believe it was in 1924. However, it only remained in Oklahoma for a short period. At a later time the contract was amended to include many States. I have no idea how many States. But in 1928 the company entered, I believe, five other States, including Missouri, Illinois, Indiana, Ohio, and Florida. That is to the best of my recollection. I am sorry I can't be more definite.

Mr. GESELL. And Mr. Gregory had the exclusive agency rights in those States as the company expanded into them?

Mr. HOLT. No. That expansion came after Mr. Gregory's withdrawal from the company.

Mr. GESELL. Well, now, may I refresh your recollection by calling your attention to the minutes of the company under date of October 17, 1922, wherein a contract with Mr. Gregory is set forth, and calling your attention to page 177, is it not correct that Mr. Gregory was given the general agency in Washington, Oregon, California, Arizona, Colorado, Texas, Nebraska, Missouri, Georgia, Florida, Illinois, and Arkansas?

Mr. HOLT. That is right.

Mr. GESELL. So your recollection was wrong, was it not?

Mr. HOLT. Yes; I—

Mr. GESELL. Now, the Federal Reserve from time to time grew through the reinsurance of other companies, did it not?

Mr. HOLT. That is right.

Mr. GESELL. And when those companies were reinsured in the Federal Reserve, am I correct in saying that Mr. Gregory's agency contract then applied as against the premiums paid to the Federal Reserve by policyholders of the companies which were reinsured?

Mr. HOLT. I can't answer that question. If they rewrote the policies and issued policies under the name of the Federal Reserve, his agency contract applied. If they did not rewrite the policies, if the policies remained under the name of the company that was reinsured, his contract did not apply. However, I believe that during the time that he was in control of the company, that they rewrote the policies of all the companies that were reinsured, and in that event his agency contract would have applied and he would have received the renewal commissions.

The VICE CHAIRMAN. If the policies were rewritten, would he receive merely a renewal commission, or the 90 percent?

Mr. HOLT. He received the 90 percent if the policy was rewritten on the basis which provided for a new first-year premium.

The VICE CHAIRMAN. You mean, a different first-year premium?

Mr. HOLT. Yes; a new first-year premium. The basis that was asked assumed that a man had a policy in the company which was reinsured with a cash value of \$100. We would rewrite that policy under a separate, under a different plan, and use that \$100 cash value to pay one first-year premium plus, perhaps, a number of renewal premiums for him. In that event, the first-year premium, the commission on the first-year premium, would go to this agency contract.

The CHAIRMAN. Was the State insurance department advised of this sales contract?

Mr. HOLT. Yes.

Mr. GESELL. Now, so that we will understand, Mr. Holt, will you tell us what is meant by "reinsurance"? What happens when one company reinsures another?

Mr. HOLT. The reinsuring company assumes the policy liabilities of the company that is reinsured.

Mr. GESELL. A contract is entered into, is it not?

Mr. HOLT. That is right.

Mr. GESELL. In this case, it would be between Federal Reserve and whatever company was being reinsured?

Mr. HOLT. That is right.

Mr. GESELL. And under that contract, the Federal Reserve would assume the policy liabilities of the company being reinsured?

Mr. HOLT. That is right.

Mr. GESELL. Now, when you talk about rewriting, will you tell us what you mean?

Mr. HOLT. A new policy is issued to the old policyholder of the reinsured company.

Mr. GESELL. In other words, after the reinsurance agreement is signed, persons representing the Federal Reserve would approach the policyholders of the company reinsured, and switch them from the policies they held in the company which was being reinsured, into policies in the Federal Reserve.

Mr. HOLT. That is right.

Mr. GESELL. And that operation of switching the policyholders is termed "rewriting;" or "transfer work," is it not?

Mr. HOLT. Transfer work.

The VICE CHAIRMAN. At the time that the contract is entered into for reinsurance between your company and the company originally writing the insurance, that contract does not in itself change its obligation of the original insuring company to the insurance, does it?

Mr. HOLT. Not at all. In every case, we furnish them with riders to attach to their old policies in which we assume the liabilities of that policy. We assume the promises, we assume the contract.

Mr. GESELL. That is on the reinsurance?

Mr. HOLT. At the time of reinsurance.

The VICE CHAIRMAN. But that does not change the obligation of the original insuring company to the reinsured, does it?

Mr. HOLT. The original insuring company is out of business after it is reinsured.

The VICE CHAIRMAN. It is out of business?

Mr. HOLT. Yes. The original company that wrote the insurance. That is a little different type of reinsurance, perhaps, than what you are thinking of. You are thinking of where a portion of the

risks are reinsured. This insurance or reinsurance that we are talking about is where all of the risks are reinsured, and the original insuring company, the one who may have been in business for 10 or 15 years, in every case that I know of is liquidated.

Mr. GESELL. It is really a way of merging two companies, is it not, for all intents and purposes?

Mr. HOLT. It merges the insurance.

The VICE CHAIRMAN. Do you merge the assets?

Mr. HOLT. It merges the assets to the extent that the assets cover the legally required reserve of those policies that are merged.

Mr. GESELL. In other words, the reserves against the policies which are reinsured are transferred to the reinsuring company?

Mr. HOLT. That is right. If there are any assets for the capital stock. In that case it would have to be a merger if the assets were all merged. Otherwise it would be a liquidation.

Mr. GESELL. In other words, the stockholders of the company which was reinsured may still have some capital which they distribute in the liquidation of that company?

Mr. HOLT. That is right.

Mr. GESELL. Now, on the rewrite, Mr. Holt, it is true that usually the policyholders' rights are changed through the switch from the reinsured company to the reinsuring company?

Mr. HOLT. That is right, they are changed, otherwise there would be no purpose in making the rewrite.

The VICE CHAIRMAN. It is a fact that the whole purpose of the rewrite, is it not, is to relieve the company which is reinsured from the liabilities assumed under the reinsurance contract?

Mr. HOLT. That is right. The policies are changed.

Mr. GESELL. And to put the policies on the basis which the reinsuring company feels it can carry?

Mr. HOLT. That is right.

FEDERAL RESERVE—REINSURANCE CONTRACTS AND CAUSES OF FAILURE

Mr. GESELL. Now, we will come to the details of some of these contracts in a minute. I want to first run over briefly with you the various companies which were reinsured by Federal Reserve. The first one that you reinsured was the Providers Life Insurance Co. of Chicago, Ill., was it not? The first life-insurance company?

Mr. HOLT. Was that before the Union National? Yes; that's right. That was.

Mr. GESELL. Our records would indicate that it was on April 30, 1926, and that the Union National was not until November 9, 1926.

Mr. HOLT. That is right.

Mr. GESELL. Do you recall that it was sometime in April 1926?

Mr. HOLT. Yes. I recall that now.

Mr. GESELL. That was a company that had about 89½ million dollars of insurance in force and assets of around a million dollars?

Mr. HOLT. That is right.

Mr. GESELL. It did business out of Chicago, Ill., did it not?

Mr. HOLT. The bulk of its business was in Chicago. However, its home office was in East St. Louis, Ill.

Mr. GESELL. And did it sell policies to persons other than in the State of Illinois?

Mr. HOLT. The Providers Life sold policies in Michigan, I believe.

Mr. GESELL. In surrounding States?

Mr. HOLT. Yes.

Mr. GESELL. Now, the Union National Life Insurance Co., according to our records, was reinsured on November 9, 1926; is that your recollection?

Mr. HOLT. That is right.

Mr. GESELL. Where was that company doing business?

Mr. HOLT. In Kansas.

Mr. GESELL. It was a small company with assets of \$100,000, was it not?

Mr. HOLT. Yes.

Mr. GESELL. Now, in April, on April 30 of 1928, our records indicate that the Federal Reserve reinsured the United States Reserve Life Insurance Corporation; is that correct?

Mr. HOLT. Yes.

Mr. GESELL. Do you recall that that company had about five million insurance in force and assets of around \$333,000?

Mr. HOLT. That is quite right.

Mr. GESELL. Where did that company operate?

Mr. HOLT. In Missouri.

Mr. GESELL. Did it operate in any other State?

Mr. HOLT. I don't believe it did.

Mr. GESELL. Where were its offices?

Mr. HOLT. In Kansas City, Mo.

Mr. GESELL. Now, on that same date, our records indicate that the Federal Reserve reinsured the Reserve Life & Accident Co. of Kansas City, Kans.

Mr. HOLT. That is Arkansas City.

Mr. GESELL. Oh, Arkansas City.

Mr. HOLT. That is right; Arkansas City, Kans.

Mr. GESELL. That is a little town outside of Kansas City?

Mr. HOLT. That is a little town outside of Wichita. It is in southern Kansas some place.

Mr. GESELL. That was the Reserve Life & Accident Co. of Arkansas City, Kans.?

Mr. HOLT. That is right.

Mr. GESELL. Did it have policies of about 136,000 in force?

Mr. HOLT. Yes; it did.

Mr. GESELL. Now, do your records also indicate that on November 30, 1928, the Federal Reserve reinsured the Farmers National Life Insurance Co.?

Mr. HOLT. I didn't recall the date. I know it was in 1928.

Mr. GESELL. It was in 1928. Have we something to refresh Mr. Holt's recollection on that? We'll check that date with you in a moment, Mr. Holt. Where did that company operate?

Mr. HOLT. That company operated in five States. Its home office was in Huntington, Ind. Its main office was in Chicago, Ill.

Mr. GESELL. It operated, you say, in five States?

Mr. HOLT. Five or seven.

Mr. GESELL. Can you name us the States that you recollect it operated in?

Mr. HOLT. Illinois, Ohio, Indiana, Michigan, and Florida.

Mr. GESELL. It was the largest company that the Federal Reserve ever reinsured, was it not?

Mr. HOLT. That is right.

Mr. GESELL. Do you recall that it had about 42 million of insurance in force, and assets in the neighborhood of 3 million?

Mr. HOLT. That is right. That is my recollection.

Mr. GESELL. Turning to the minutes of October 30, 1928, of the Federal Reserve, which appear to have been signed by yourself, do you now recall that the contract of reinsurance of the Farmers National was approved on October 30, 1928?

Mr. HOLT. Yes.

Mr. GESELL. That was the Farmers National Life Insurance Co., was it not?

Mr. HOLT. Yes.

Mr. GESELL. So that makes in all five companies which were reinsured, the Providers Life Assurance Co. of Chicago, the Union National Life Insurance Co., the United States Reserve Life Insurance Co., the Reserve Life and Accident Co., and the Farmers National Life Insurance Co.?

Mr. HOLT. That is right.

Mr. GESELL. By the time the reinsurance had been completed, how big a company was Federal Reserve?

Mr. HOLT. To the best of my recollection it had about \$28,000,000 of insurance in force. I may be way off.

Mr. GESELL. And had assets of around \$7,000,000, did it not?

Mr. HOLT. After the reinsurance; yes. I thought you asked me about before the reinsurance.

Mr. GESELL. No; after the last reinsurance how large was it?

Mr. HOLT. About \$70,000,000 as I recollect.

Mr. GESELL. Of insurance in force?

Mr. HOLT. Yes.

Mr. GESELL. And assets?

Mr. HOLT. Of seven or eight million dollars.

Mr. GESELL. It operated in how many States?

Mr. HOLT. Seven.

Mr. GESELL. Can you name those States?

Mr. HOLT. Kansas, Missouri, Illinois, Indiana, Ohio; I don't know whether they ever entered Florida or not.

Mr. GESELL. Six or seven States?

Mr. HOLT. They entered several States.

(Mr. O'Connell assumed the chair.)

Mr. GESELL. Calling your attention to a report by the Kansas department on the affairs of the company dated January 7, 1929, which was right after that last reinsurance, is it not correct that the company did operate in Florida?

Mr. HOLT. That is right.

Mr. GESELL. Kansas, Missouri, Illinois, Michigan, Florida, and Indiana.

Mr. HOLT. That is right.

Mr. GESELL. Now, during this period which we have been considering, that would be from around 1919 until 1928, your company was under the immediate supervision of the Kansas Insurance Department, I take it.

Mr. HOLT. Yes.

Mr. GESELL. How frequently was it examined, Mr. Holt?

Mr. HOLT. Very frequently, I couldn't answer that.

Mr. GESELL. Calling your attention to some examination reports on your company issued by the Kansas department, can you tell us the dates that the company was examined? The first one was January 17, 1921, was it not?

Mr. HOLT. That is right.

Mr. GESELL. And who signed that report?

Mr. HOLT. Charles F. Hobbs, special examiner.

Mr. GESELL. He is now insurance commissioner?

Mr. HOLT. That is right.

Mr. GESELL. And then it was next examined April 7, 1922, was it not?

Mr. HOLT. Yes, sir.

Mr. GESELL. Who signed that report?

Mr. HOLT. W. K. Herndon, special examiner, and Edwin H. Fritz, special examiner.

Mr. GESELL. Who was Mr. W. K. Herndon?¹

Mr. HOLT. He was chief examiner for the insurance department of the State of Kansas during the terms of Frank L. Travis, superintendent of insurance and William R. Baker, superintendent of insurance.

Mr. GESELL. That is H-e-r-n-d-o-n, is it?

Mr. HOLT. That is right.

Mr. GESELL. And am I correct in saying that from this date, April 7, 1922, Mr. Herndon always participated and was in charge of the examinations of your company up until the time you left?

Mr. HOLT. No; you are not quite correct; he didn't participate in the last examination in April of 1929, and I didn't leave until December of 1929.

Mr. GESELL. He participated in all examinations made up until April 1929?

Mr. HOLT. That is right.

Mr. GESELL. Now will you give us the dates of the other examinations made? We have had now two; one in January of '21 and one in April of '22.

Mr. HOLT. July 21, 1923, January 24, 1925, February 24, 1926, February 28, 1927, February 24, 1928.

Mr. GESELL. Do you recall that there was also an examination made in 1924? We haven't any copy of it there.

Mr. HOLT. Was that at the time Mr. Gregory was elected president of the company?

Mr. GESELL. It was at about that time, Mr. Holt yes.

Mr. HOLT. Yes there was an examination made at that time.

Mr. GESELL. How long did these examinations generally take, about 3 weeks?

Mr. HOLT. Quite often they took 3 weeks.

Mr. GESELL. Would you say it would be fair to say from 2 to 3 weeks?

Mr. HOLT. Two to three to four weeks.

Mr. GESELL. Now, have you any information as to what the cost of the examination was to your company?

Mr. HOLT. No.

¹ Mr. Herndon subsequently testified before the Committee. See infra, pp. 6707-6734.

Mr. GESELL. Did it run into the thousands of dollars?

Mr. HOLT. Yes.

Mr. GESELL. Have you any idea of how much?

Mr. HOLT. No.

Mr. GESELL. I take it it was the practice as in other States to pay the per-diem expenses of the examiner.

Mr. HOLT. That is right. It is set by statute in Kansas.

Mr. GESELL. Now, did this Mr. Herndon have any interest in the company?

Mr. HOLT. None.

Mr. GESELL. Was he a stockholder?

Mr. HOLT. No not in his own name.

Mr. GESELL. Stock was issued to him at one time, was it not?

Mr. HOLT. In his name; no.

Mr. GESELL. Was he interested in any way in the Gregory agency contract?

Mr. HOLT. Yes.

Mr. GESELL. What was his interest in that contract?

Mr. HOLT. For some period of time he received part of the first year's commission that Gregory received.

Mr. GESELL. It was 2½ percent of the commission Gregory received, was it not?

Mr. HOLT. At one time it was 2½ percent, and I believe at another time was 5 percent.

The VICE CHAIRMAN. I would like to ask a question about this connection between Mr. Herndon and the agency contract. Did Mr. Herndon sell insurance?

Mr. HOLT. No.

Mr. GESELL. What was the quid pro quo? What was the value to the agency?¹

Mr. HOLT. I don't know.

Mr. GESELL. We will come to a discussion of that in a moment.

During what period of time did he have this 2½ percent interest in the Gregory agency commissions?

Mr. HOLT. I don't know, I don't remember what period of time. I remember some of the circumstances leading to it, but as to the time I wouldn't recall.

Mr. GESELL. We will come to those circumstances in a moment.

Now, may I ask who was the first president of the company?

Mr. HOLT. Walter Payne.

Mr. GESELL. Who was Mr. Payne?

Mr. HOLT. He at one time was State Treasurer of the State of Kansas.

Mr. GESELL. How long was he president?

Mr. HOLT. He was president of the company from its inception until sometime in 1924.

Mr. GESELL. That would be for a period of about four years.

Mr. HOLT. Less, perhaps, than 4 years, between 3 and 4 years.

Mr. GESELL. Calling your attention to the minutes of the directors' meeting of the Federal Reserve, page 225, I should like to ask you if you can tell us the circumstances under which Mr. Payne ceased being president of the company. Can you tell us the circumstances under which he resigned?

¹ In this connection see also Mr. Holt's later testimony, *infra*, p. 6632.

Mr. HOLT. He resigned as a result of criticism on the part of W. K. Herndon who was completing an examination of the insurance company.

Mr. GESELL. What was the nature of Mr. Herndon's criticism?

Mr. HOLT. Mr. Herndon's criticism was that the insurance company had \$1,000 deficit in its reserve deposit, that the president of the company was receiving too great a salary, that the company paid his secretary \$43.431½ per month, whereas she lived in Topeka, and was an employee in the statehouse at a salary of \$100 a month.

Mr. GESELL. What was Mr. Payne doing for his services?

Mr. HOLT. The criticism of Mr. Herndon was, if I may read from the minutes.

Mr. GESELL. Certainly.

Mr. HOLT. The stenographic notes taken on the board of directors' meeting in January 1924 indicates that he is employed and paid \$5,000 per annum because of his influence with the insurance department.

Mr. GESELL. What is that again? Mr. Payne was receiving \$5,000 a year as president of the company because of his influence with the insurance company?

Mr. HOLT. From these minutes, that is what Mr. Herndon's report contained.

Mr. GESELL. And after that report was made Mr. Payne resigned, did he not?

Mr. HOLT. That is right.

Mr. GESELL. And his salary was \$5,000 a year, was it not?

Mr. HOLT. I presume so; to the best of my recollection it was.

Mr. GESELL. Was he active there in the affairs of the company? You were there then. Was he around the office and busy with the affairs of the company?

Mr. HOLT. No.

Mr. GESELL. What was he doing?

Mr. HOLT. He was president of a bank at Topeka, Kans.

Mr. GESELL. And he didn't really have hardly anything to do with the Federal Reserve, did he?

Mr. HOLT. No.

Mr. GESELL. You said "No"?

Mr. HOLT. No; he didn't have hardly anything to do.

Mr. GESELL. And this secretary of his who was receiving some pay from the Federal Reserve and working at the statehouse, she wasn't doing anything for the Federal Reserve either, was she?

Mr. HOLT. Nothing that I know of.

Mr. GESELL. You were there then.

Mr. HOLT. I never saw her. She never was in Kansas City, Kans.

Mr. GESELL. I think that explains it.

Who became president after Mr. Payne?

Mr. HOLT. W. H. Gregory.

Mr. GESELL. What had been Mr. Gregory's office before that?

Mr. HOLT. He had had no office.

Mr. GESELL. How long did Mr. Gregory remain president, do you recall?

Mr. HOLT. He remained president until January or February of 1928.

The VICE CHAIRMAN. May I ask a question? During what period or during what years was Mr. Herndon the chief examiner for the insurance department of the State?

Mr. HOLT. I might be wrong in calling him chief examiner. I was always under that assumption. He signed all of these reports as special examiner.

Mr. GESELL. How long was he special examiner, Mr. Holt?

Mr. HOLT. He was special examiner for the insurance department from the inception of the company until the first Monday after the first Tuesday in January 1929, when there was a change in insurance commissioners.

Mr. GESELL. Well, now, also on this question of Mr. Payne, do you recall anything that Mr. Payne did to earn this \$5,000 a year he was getting; what type of influence did he exert on the insurance department for his salary?

Mr. HOLT. I don't recall any. I am not certain about any influence.

Mr. GESELL. You have no information about that?

Mr. HOLT. No information about that at all.

Mr. GESELL. Now, when Mr. Gregory ceased being president of the company who became president?

Mr. HOLT. Massey Wilson, I believe.

Mr. GESELL. That is M-a-s-s-e-y Wilson?¹

Mr. HOLT. Yes.

Mr. GESELL. And who else came into the management at that time?

Mr. HOLT. E. W. Merritt, Jr.

Mr. GESELL. Will you tell us who Mr. Massey Wilson and Mr. E. W. Merritt were?

Mr. HOLT. Mr. Massey Wilson is an insurance capitalist from St. Louis, Mo.

Mr. GESELL. He had bought into the company, had he not?

Mr. HOLT. Yes.

Mr. GESELL. Who was Mr. Merritt?

Mr. HOLT. Mr. E. W. Merritt, Jr., was a transfer man who had transferred our Provider's policies and was an associate of Mr. Wilson.

Mr. GESELL. He was a rewrite man?

Mr. HOLT. Yes.

Mr. GESELL. How many years had he been in the rewrite business, do you recall?

Mr. HOLT. I don't know.

Mr. GESELL. Some 20 years, wasn't it?

Mr. HOLT. I expect.

The CHAIRMAN. During the period that Mr. Gregory was president of the company, did he continue to hold his sales contract with the company?

Mr. HOLT. Yes.

The VICE CHAIRMAN. And that contract continued after he ceased as president of the company?

Mr. HOLT. The renewals continued for some time after that. The renewals continued until some time after I had severed my connections with the company. However, the first-year commissions ceased upon his retirement from the company.

¹ Mr. Wilson subsequently testified before the committee. See, infra, pp. 6688-6701.

Mr. GESELL. Now, Mr. Holt, who were the directors during this period?

Mr. HOLT. They were a bunch of the original subscribers to the capital stock.

Mr. GESELL. Were they active in the affairs of the company?

Mr. HOLT. No.

Mr. GESELL. They were simply figureheads.

Mr. HOLT. That is right.

Mr. GESELL. I believe your father once said they were like parsley to the steak; is that right?

Mr. HOLT. I don't recall his saying that.

Mr. GESELL. Did they meet regularly?

Mr. HOLT. Yes.

Mr. GESELL. Simply pass upon minutes that had been arranged for before they got there; is that correct?

Mr. HOLT. No; their meetings were quite lengthy. They passed upon questions that were presented to them.

Mr. GESELL. What did you mean when you said they were dummy directors?

Mr. HOLT. Well, they always passed on them the way the management wanted them to pass on them.

Mr. GESELL. Did they own any shares in their own right?

Mr. HOLT. As I said, they were original subscribers. However, the original stock that had been issued in connection with their subscriptions to the original stock had all been assigned to the trustee. The shares that they owned in their own right might have been a few shares that they had purchased as a result of the redistribution.

Mr. GESELL. As policyholders?

Mr. HOLT. Yes. If they didn't own any of that type of stock, then their shares were purely qualifying.

Mr. GESELL. Now, how many directors were there?

Mr. HOLT. The figure ranged from 10 to 25.

Mr. GESELL. It is true that the charter or bylaws of the company provided there should be only five directors.

Mr. HOLT. The original; yes.

Mr. GESELL. That was never amended, was it?

Mr. HOLT. I thought it was.

Mr. GESELL. When?

Mr. HOLT. I don't know. I am pretty sure it was.

Mr. GESELL. Well, we will come back to that.

Mr. HOLT. There were a number of amendments to that.

Mr. GESELL. Now, during this period there were three different persons as superintendents of insurance, were there not?

Mr. HOLT. That is right.

Mr. GESELL. First you said Mr. Travis, I believe.

Mr. HOLT. Yes.

Mr. GESELL. What was his full name?

Mr. HOLT. Frank L. Travis.

Mr. GESELL. That is T-r-a-v-i-s?

Mr. HOLT. That is right.

Mr. GESELL. And who succeeded him?

Mr. HOLT. William R. Baker.

Mr. GESELL. And who succeeded him?

Mr. HOLT. Charles F. Hobbs.

Mr. GESELL. Now Mr. Travis, after he had ceased being commissioner, became an officer of your company, did he not?

Mr. HOLT. Long after.

Mr. GESELL. What were the circumstances of his becoming an officer?

Mr. HOLT. Upon Mr. Travis' retirement from the insurance department, he promoted, organized, and sold stock in a fire-insurance company, the name of which escapes me at the moment; Commonwealth, I believe, was the name of it.

I think they sold about a million dollars worth of stock; however, I don't know.

In 1928, control of the Commonwealth was purchased by Massey Wilson and E. W. Merritt, Jr., and as the result of that trade or plan, or whatever, I don't know anything about it, Travis then in 1928 came with the Federal Reserve Life. That was 8 years after he was insurance commissioner.

Mr. GESELL. He was made an officer at the suggestion of Mr. Wilson and Mr. Merritt?

Mr. HOLT. That is right.

Mr. GESELL. He had a 10-year contract, providing that he would receive an increased amount, beginning at \$5,000 and running to \$10,000.

Mr. HOLT. That is right.

Mr. GESELL. Did he do any work?

Mr. HOLT. Yes.

Mr. GESELL. He was active in the affairs of the company?

Mr. HOLT. Yes; he was active.

Mr. GESELL. Let me ask you this just in passing: Was it the practice of the Federal Reserve to campaign for insurance commissioners, and to assist them in their political activities?

Mr. HOLT. It was not the practice of the Federal Reserve Life Insurance Co. to campaign. However, I am of the opinion that the Federal Agency Investment Co. took active part in campaigns.

Mr. GESELL. You know that, do you not?

Mr. HOLT. Yes.

Mr. GESELL. Well, now, will you tell us what you know about it? How did they do it? Whom did they campaign for?

Mr. HOLT. According to the best of my recollections, they first campaigned for William R. Baker, who ran for office in 1922, was elected, and took office as insurance commissioner in January of 1923. Thereafter, as long as William R. Baker was a candidate for office, if any campaigning was done, it was for him. Occasionally there would be someone else at the primary-contesting Mr. Baker's ambition to return as insurance commissioner.

In 1928 William R. Baker announced that he would not run for office, and his assistant, the first assistant or the first deputy, whatever his title may be, John B. Smith, was a candidate for the Republican nomination, and William R. Baker's actuary, Charles Hobbs, was a candidate. In that campaign, according to the best of my recollection, the new regime—that is, the Wilson-Merritt regime—supported the candidacy of John B. Smith, who was not successful.

Mr. GESELL. Now, when you say they campaigned, I take it that you mean they used the agents of the agency company to drive automobiles,

and send out stickers and things like that?

Mr. HOLT. Oh, I don't know.

Mr. GESELL. You don't know the details?

Mr. HOLT. No; I don't.

Mr. GESELL. I want to call your attention to the letter addressed to Maj. W. E. Baker, datéd August 5, 1926, signed by W. H. Gregory, and ask you if you have ever seen that letter and know its contents? You may read it, if you wish.

Mr. HOLT. You mean aloud?

Mr. GESELL. Oh, no; read it to yourself and see if you have ever seen that letter before.

Mr. HOLT. Yes; I have.

Mr. GESELL. You know that is a letter Gregory wrote to Mr. Baker?

Mr. HOLT. Yes.

Mr. GESELL. Does that in your best recollection state the facts?

Mr. HOLT. Well, I didn't read it. I just looked at it.

Mr. GESELL. Suppose you read it out loud, if you recognize it as a letter Mr. Gregory wrote to Mr. Baker. You do recognize it?

Mr. HOLT. That is right.

Mr. GESELL. Then you read the letter.

Mr. HOLT (reading from "Exhibit No. 1348-1"):

It is my pleasure to make these suggestions; you may or may not think well of them:

1st—During the campaign some bad news was collected; it will be sent to you in due course. Don't worry about it because people who do things surely will be criticized.

No bad news was sent you during the campaign as you seemed to be somewhat worried and it was my wish to relieve you as much as possible, and it will only be sent now in order to keep you posted.

2nd—It seems to me that one of the most important things now is for you to write the people here in Wyandotte County a letter of appreciation—thank them for their good work.

For instance: When a judge on the bench lays aside judicial matters and goes out to work for you, that should be acknowledged in a letter that shows feeling.

If you are too busy to do this, send us your stationery, and we will have the proper letters written for each and every one; send them back, and you can sign them, or you can make such changes as you like. Rest assured that they will be written in the proper spirit, and they will be written to fit the case.

3rd—We do not know what your ambition is—no one has told us—but a great secret has been discovered by me. If you should like to continue as superintendent of insurance for the fourth, fifth, sixth, or seventh term, and so on, this secret will enable you to do it. It is not necessary to talk about it now, but in a short time plans should be laid.

However, the work would be done so unobtrusively that no one would realize your ambition or the point at which you were driving, until the proper time.

Think the matter over, and if at any time in the future you are in a receptive mood we could discuss my plan.

In this campaign something was learned by me about politics; it seems that there are four essentials: (a) some money; (b) some brains; (c) hard work, and (d) friends.

It requires some money to acquire ammunition and guns and then to plant them in the right spot; it requires brains to know what to do, how to do it, and to know what your opponent is doing, and then to out-general him; it requires hard work, because nothing worth while can be accomplished without hard work; it requires friends—friends with whom one can trade and with whom one may work—friends who can turn the trick for one.

Perhaps we did not do everything exactly and precisely as you ordered, because we were enthusiastic and determined to win; we used our judgment, but, in looking back over the ground over which we traveled; no errors can be seen by us.

We spent money—it was necessary to do it—but you will never know what we spent; in fact, we do not know ourselves, and that is the way it will rest if anything comes up in the future. But, in my opinion, nothing will come up in the future, because there would be too much to investigate.

It is our impression that more money was spent in this campaign than probably any other campaign in Kansas; it rolled as freely as water running down stream.

Sometime, if you wish me to do so, it will be a pleasure to write you something of the intricacies of this last campaign, and you would acknowledge that we played the game to win.

My ambition in life is to win every time—the goal always is in sight, with a steady tramp to that goal—never allowing myself to be deflected from a path that leads directly to the goal.

It seems to me that you are in position now to get anything you wish along political lines, although it is our impression that some fight will be made on you at the next session of the legislature; but we can find out in advance what they wish to do and Senator Vincent, if you will pardon a slang expression, will have the “low down” on it.

You must take off your hat to him when it comes to politics. He knows a great deal about the game. And he will place the cards on the table in a manner that everything will move along satisfactorily to all concerned; he will smooth the rough edges.

Senator Vincent has been in politics for a quarter of a century and six years, and he loves to smile at the other fellow. He has an attractive smile that sinks deeply into the heart of his opponent.

Mr. GESELL. I would like to offer this for the record.

(The letter referred to was marked “Exhibit No. 1348-1” and is included in the appendix on p. 7014.)

Mr. GESELL. Now, by the way, what was Senator Vincent’s connection with the Federal Reserve at this time?

Mr. HOLT. He was one of the vice presidents, an active vice president—

Mr. GESELL. An active vice president?

Mr. HOLT. And a member of the board of directors.

Mr. GESELL. Now, getting down to the Providers deal, Mr. Holt, will you tell us from whom Federal Reserve purchased the Providers Life Insurance Co.?

Mr. HOLT. From J. D. De Buchananne.

Mr. GESELL. That is D-e B-u-c-h-a-n-a-n-n-e?

Mr. HOLT. That is right.

Mr. GESELL. Now, who is Mr. J. D. De Buchananne?¹

Mr. HOLT. He was the man that had the controlling interest in the Providers Life Insurance Co.

Mr. GESELL. Was he an officer of that company?

Mr. HOLT. I don’t know.

Mr. GESELL. Now, about when did they purchase it?

Mr. HOLT. In 1926, April the 5th.

Mr. GESELL. April of 1926. Will you tell us—first, are you familiar with how that transaction was handled?

Mr. HOLT. Yes.

Mr. GESELL. Did you talk to the people involved at the time?

Mr. HOLT. At the time the agreement was made as to the purchase of the Providers?

Mr. GESELL. Beg pardon?

Mr. HOLT. You mean at the time the agreement for purchase was made?

¹ For subsequent testimony of Mr. De Buchananne, see, *infra*, pp. 6661-6688.

Mr. GESELL. At or about that time.

Mr. HOLT. Yes; I was very familiar with it.

Mr. GESELL. You were?

Mr. HOLT. Yes.

Mr. GESELL. Will you tell us just how the deal was handled?

Mr. HOLT. W. K. Herndon came to our office.

Mr. GESELL. Now, that is the Mr. Herndon who was the special examiner of the Kansas department?

Mr. HOLT. That is right.

Mr. GESELL. Was he then examiner?

Mr. HOLT. As far as I know he was.

Mr. GESELL. He signed reports on your company at that time, did he not? Those reports are before you.

Mr. HOLT. He signed a report February 24, 1926.

Mr. GESELL. He signed the '26 report?

Mr. HOLT. February 24, 1926.

Mr. GESELL. Now, you say he came to you?

Mr. HOLT. Yes; he came to our office.

Mr. GESELL. What did he say?

Mr. HOLT. He told us he had an insurance company we could buy.

Mr. GESELL. He had an insurance company you could buy?

Mr. HOLT. Yes.

Mr. GESELL. Was he in the insurance business?

Mr. HOLT. I don't know. He must have been.

Mr. GESELL. Weren't you people a little surprised to have the special examiner of the Kansas department say he had an insurance company for you to buy?

Mr. HOLT. No.

Mr. GESELL. You weren't? Why is that?

Mr. HOLT. Because he had often told us about engineering deals for the Royal Union Life of De Moines, Iowa.

Mr. GESELL. He was then brokering insurance companies, as the expression goes?

Mr. HOLT. (Nodding his head.)

Mr. GESELL. I beg your pardon. Did you answer that?

Mr. HOLT. I suppose so, because he certainly brokered this one to us.

Mr. GESELL. Well, now, Mr. Holt, will you tell us what happened after he came to you?

Mr. HOLT. To the best of my recollection, there were a number of conferences. Mr. Gregory was home ill. A number of trips were made between Kansas City and St. Louis on the part of my father. The deal was eventually made, and I went to St. Louis to assist in bundling up of the records and in the taking over of the assets of the Provider's Life.

Mr. GESELL. Now, who else was in on these conferences?

Mr. HOLT. Mr. E. W. Merritt. My first connection with Mr. Merritt, as I recall it, was in St. Louis, when I went down there, but I am not clear.

Mr. GESELL. On whether he was there or not?

Mr. HOLT. In Kansas City with reference to the original dealings with each other. The original effort to make a trade.

Mr. GESELL. Well, now, Mr. Herndon said he could get you the

stock of that company; is that correct?

Mr. HOLT. No.

Mr. GESELL. What did he say he would do?

Mr. HOLT. He said he could get us that company's insurance under a reinsurance contract; that the stockholders of that company would sell us their insurance.

Mr. GESELL. How much were you going to have to pay for it?

Mr. HOLT. \$20 a thousand. Was that right? I don't know.

Mr. GESELL. Let us get his deposition on that. Do you recall how much it cost—how much the company cost?

Mr. HOLT. Do you mean with reference to the reinsurance contract?

Mr. GESELL. Yes.

Mr. HOLT. No, I don't recall. However, it should be in one of these books.

Mr. GESELL. Well, while we are looking for that exact price—Mr. Holt, can you tell us what Mr. Herndon got for brokering this deal, if anything?

Mr. HOLT. He got a dollar a thousand from us.

Mr. GESELL. He got a dollar a thousand from you?

Mr. HOLT. A dollar a thousand from us.

Mr. GESELL. That is, a dollar per thousand insurance in force?

Mr. HOLT. Yes.

Mr. GESELL. How much was in force?

Mr. HOLT. Nine and a half million of insurance in force. A dollar a thousand would be approximately \$9,500.

Mr. GESELL. He got about \$9,500?

Mr. HOLT. Something like that.

Mr. GESELL. How was that paid to him?

Mr. HOLT. It was paid to him by check.

Mr. GESELL. Was that check drawn to his order?

Mr. HOLT. No.

Mr. GESELL. Was that check drawn on the Federal Reserve Life Insurance Co. funds?

Mr. HOLT. Yes.

Mr. GESELL. To whose order was it drawn?

Mr. HOLT. Carl Willbrand.

Mr. GESELL. W-i-l-l-b-r-a-n-d?

Mr. HOLT. That is right.

Mr. GESELL. Who is Mr. Carl Willbrand?

Mr. HOLT. An attorney in Kansas City, Mo.

Mr. GESELL. Now, why was the check drawn to Mr. Willbrand's order?

Mr. HOLT. Mr. Herndon didn't want the records of the company to show that he received a commission in this reinsurance matter.

Mr. GESELL. Did he so state that to you?

Mr. HOLT. He stated that in a directors' meeting.

Mr. GESELL. And accordingly the check was made payable to this attorney?

Mr. HOLT. That is right.

Mr. GESELL. Did the directors approve of that procedure?

Mr. HOLT. Yes.

Mr. GESELL. How did that transaction appear on the books of the company?

Mr. HOLT. I don't recall. I imagine it was charged to the legal expense.

Mr. GESELL. Well, now, look at Mr. Herndon's examination and see how he reported when he examined the company. Perhaps I can help you. Page 11, I believe it is. "Legal expense," right?

Mr. HOLT (examining report). That is right.

Mr. GESELL. Now, he says "\$9,573 of this amount covers attorney fees and expenses in connection with the reinsurance of the Providers Life Assurance Co.," is that right?

Mr. HOLT. That is right.

Mr. GESELL. And that was the amount of the check made to the order of this attorney, Mr. Willbrand? Is that right?

Mr. HOLT. That is right.

Mr. GESELL. And that is the way Mr. Herndon reported to the Kansas department?

Acting Chairman O'CONNELL. Was that also carried in the insurance company as legal expense?

Mr. HOLT. Legal expense.

Mr. GESELL. Legal expense?

Mr. HOLT. That is right.

Mr. GESELL. Now, who also got commissions on this transaction?

Mr. HOLT. The Federal Agency Investment Co. got commissions on the rewrite.

Mr. GESELL. Well, before we come to the rewrite, Mr. Holt, do you recall anyone else receiving commissions on the reinsurance contract?

Mr. HOLT. No.

Mr. GESELL. You, of course, are not familiar with what commissions were paid by the people who were selling the company to you?

Mr. HOLT. No.

Mr. GESELL. Now, you say you went up and got the assets of this company?

Mr. HOLT. That is right. That is, the papers representing the assets of the company such as mortgages—

Mr. GESELL. Mortgages and securities and such like that?

Mr. HOLT. Yes.

Mr. GESELL. Where did you go?

Mr. HOLT. East St. Louis, Ill.

Mr. GESELL. That was from Kansas City?

Mr. HOLT. Yes.

Mr. GESELL. Tell us what procedure you followed.

Mr. HOLT. We had a young lady there from our office who was assisting in the valuing of the policies as of the date of reinsurance and after the policies were valued, after the stockholders meeting of the Providers had approved the sale, the assets of the Providers to cover the value of the policies, that is, the reserve value, were turned over to me and I took them back to Kansas City.

Mr. GESELL. You gave a receipt for them? counted them up?

Mr. HOLT. Yes.

Mr. GESELL. You turned back, did you, the same amount you got back from the company?

Mr. HOLT. That is right.

Mr. GESELL. It was subsequently found, was it not, that there were \$124,000 shy?

Mr. HOLT. That is what I was informed, at one time, that the reserves had not been calculated properly.

Mr. GESELL. Was anyone ever able to determine what happened to that \$124,000 of reserves?

Mr. HOLT. I don't know. That was in 1931 or 1932.

Mr. GESELL. Now, after the business of the Providers was reinsured in Federal Reserve, was it rewritten?

Mr. HOLT. Yes; many of the policies were rewritten, not 100 percent, but a large majority of them were rewritten.

Mr. GESELL. Now, who did the rewriting?

Mr. HOLT. The contract was with the Federal Agency Investment Co., which in turn had a contract with E. W. Merritt, Jr., whose organization of rewrite men did the actual field work in connection with the rewriting. The work in the office was, of course, done by office employees.

Mr. GESELL. Of the Federal Reserve?

Mr. HOLT. Of the Federal Reserve.

Mr. GESELL. The rewrite contract was between Gregory's agency company and Mr. Merritt?

Mr. HOLT. That is right.

Mr. GESELL. Do you know whether or not Mr. De Buchananne had any participation in Mr. Merritt's commissions on that deal?

Mr. HOLT. I don't know anything about the way they arrange that at all.

Mr. GESELL. Do you know what Mr. Merritt's contract with Mr. Gregory was?

Mr. HOLT. Yes.

Mr. GESELL. What did that provide?

Mr. HOLT. Eighty-five percent of the first-year premium.

Mr. GESELL. On all the business?

Mr. HOLT. That was rewritten.

Mr. GESELL. Rewritten?

Mr. HOLT. That is right.

Mr. GESELL. Now, were you at that time familiar with all the details of the rewriting operation?

Mr. HOLT. Yes; to quite an extent.

Mr. GESELL. Tell me this, Mr. Holt. How do you go about rewriting a company?

Mr. HOLT. Your men go to the policyholders and submit to them new policies, a policy with the name of the company which has the risk, and encourages them to exchange the cash values of the old policy for the new policy, whatever it may provide.

Mr. GESELL. And did Mr. Merritt come into this operation with a staff and personnel of his own to handle this?

Mr. HOLT. Yes.

Mr. GESELL. Is that a special type of profession in itself, this business of rewriting or transferring of policies?

Mr. HOLT. Well, in years past, it has taken special staffs to do that.

Mr. GESELL. There are men who have had special experience in that field?

Mr. HOLT. That is right.

Mr. GESELL. Did you have any difficulty transferring these policyholders?

Mr. HOLT. You always have some difficulty.

Mr. GESELL. What do you mean, "you have some difficulty"?

Mr. HOLT. In that they all won't; they all don't transfer their policies, of course, and, as in any line of selling, you have high-pressure men who go out, mislead them, don't tell them the entire facts of it, and there are what we call kick-backs.

Mr. GESELL. You mean squawks or complaints?

Mr. HOLT. Yes. People who want their old policies back.

Mr. GESELL. Oh, I see. But is this rewriting operation the kind of operation that always brings forward these kick-backs?

Mr. HOLT. Oh, I'm not familiar enough with it; I couldn't say. We had some kick-backs in all of ours. I don't know about any other rewriting contracts.

Mr. GESELL. But you always had difficulty?

Mr. HOLT. Some difficulty; yes.

The VICE CHAIRMAN. A little earlier, I understood you to say that, in connection with the reinsurance trade such as you have just discussed, in order to have it worth while it was always necessary to have it accompanied by a rewriting of the insurance. Is that substantially correct?

Mr. HOLT. Yes; that is right.

The VICE CHAIRMAN. It had to be reinsured? You contemplate reinsurance? In order to have the whole deal successful, it would become necessary to rewrite?

Mr. HOLT. We contemplated it in our reinsurance deals, that is, the management of our company contemplated that it would be.

The VICE CHAIRMAN. You wouldn't reinsure except when having the proposition of rewriting in contemplation?

Mr. HOLT. That is right.

The VICE CHAIRMAN. Well, does it follow from that that generally speaking, rewriting involves a writing of insurance or substitution of insurance policies more favorable to the company than those purchased?

Mr. HOLT. Yes; in my opinion any rewritten policy is more favorable or the company wouldn't rewrite it.

The VICE CHAIRMAN. I should think so.

Mr. GESELL. I believe you said that it was the whole purpose of rewriting to get a contract more favorable to the company; is that right?

Mr. HOLT. Yes.

Mr. GESELL. By the way, I forgot to ask you, what participation did Mr. Herndon have in this rewriting operation?

Mr. HOLT. I am of the opinion that he received 5 percent of the first year premiums.

Mr. GESELL. Now, you remember at one time being examined and giving a deposition with respect to this matter, do you not?

Mr. HOLT. Yes.

Mr. GESELL. May I call your attention to refresh your recollection, to the testimony appearing before you over on the next page, and see whether you don't have a definite recollection with respect to what Mr. Herndon got in this transaction?

Mr. HOLT (examining testimony). Mr. Herndon received 5 percent of the first-year premium and according to my best recollection, it amounted to approximately \$5,000.

Mr. GESELL. That \$5,000 was in addition to the nine-thousand-five-hundred-odd dollars he got through the Wilbrand transaction, was it not?

Mr. HOLT. Yes.

Mr. GESELL. Now, what did Mr. Herndon do to earn this \$5,000?

Mr. HOLT. He got the insurance department of Kansas to approve the rewrite contract.

Mr. GESELL. That was the quid pro quo?

Mr. HOLT. Yes, sir.

Mr. GESELL. How do you know that, Mr. Holt?

Mr. HOLT. Well, I was active, with Mr. Gregory, in the management of the company and I had a thorough knowledge of that 5 percent.

Mr. GESELL. Were you present when the bargain was made? Did you hear Mr. Herndon say that that was what he would do for this quid pro quo?

Mr. HOLT. No; I don't recollect being present. It was just common knowledge between Mr. Gregory and myself.

Mr. GESELL. Did Mr. Gregory tell you that?

Mr. HOLT. Yes.

Mr. GESELL. Did you talk to Mr. Herndon about it?

Mr. HOLT. I even gave him some checks from the agency on part of that commission.

Mr. GESELL. You remember giving him the checks?

Mr. HOLT. Yes.

Mr. GESELL. But did you talk to him about why he was getting it?

Mr. HOLT. Yes.

Mr. GESELL. What did he say?

Mr. HOLT. I don't remember. I know I talked to him, of course, but I can't remember any conversation like that.

Mr. GESELL. And you know from your acquaintance and transactions with Mr. Gregory and Mr. Herndon at that time that was the reason why he received this 5-percent participation.

Mr. HOLT. That is right.

Mr. GESELL. Do you recall that the total commissions paid to the transfer of these Provider's policies was \$108,420?

Mr. HOLT. No; I don't recall that.

Mr. GESELL. Are you familiar with the books of the company and would you recognize it if I showed you a ledger? Calling your attention to this general ledger, the account entitled "Commissions on the tsf. of Provider's Policies," that is the figure, is it not?

Mr. HOLT. That is right.

Mr. GESELL. Those were paid to Gregory?

Mr. HOLT. To the Federal Agency Investment Co.

The VICE CHAIRMAN. Will you repeat the figure?

Mr. HOLT. \$108,420.

The VICE CHAIRMAN. That amount was paid to the agency?

Mr. HOLT. Yes, sir.

The VICE CHAIRMAN. Where did it come from?

Mr. HOLT. It came from the policyholders of the Provider's Life.

Mr. GESELL. Exactly, and how was it split up? Just so we will have it clear, 85 percent of that I believe you said went to Mr. Merritt.

Mr. HOLT. Eighty-five percent of the 100 percent of which this is 90 percent, if you follow me.

Mr. GESELL. That states it exactly. And Mr. Herndon got in effect \$5,000 of this.

Mr. HOLT. Yes.

The VICE CHAIRMAN. As I understand then Mr. Merritt's outfit got substantially all other than the \$5,000 which Mr. Herndon got, plus a very small percentage received by the agency.

Mr. HOLT. That was not received by the agency as the first year commission, it was all distributed by the agency.

Mr. GESELL. The agency, in other words, stood to get its profit on the renewal commissions on this business after it was transferred.

Mr. HOLT. That is right.

Mr. GESELL. In other words, 10 or 15 percent of the renewal commissions for 9 years.

Mr. HOLT. That is right.

Mr. GESELL. Now I wish to show you, Mr. Holt, two letters dated July 14 and July 15, 1926, and ask you if you recognize these as copies of the letters from the files of the Federal Reserve Co. of correspondence between Mr. D. H. Holt and Mr. Merritt with respect to certain conditions arising in connection with the transfer of the Provider's business—the rewriting, I should say.

Mr. HOLT. Yes; I recognize those.

Mr. GESELL. There is no question in your mind about it, is there, Mr. Holt?

Mr. HOLT. Well, I would like to say this: These letters were written from Chicago, and I can't identify them definitely. I recognize some of my father's expressions in there and the way he underlines some words.

Mr. GESELL. We have another witness who can identify them, Mr. Holt, and I won't offer them at this time.¹

Now, the next transaction which we have to examine is the reinsurance of the Union National deal. That was the second reinsurance, was it not?

Mr. HOLT. Yes, sir.

Mr. GESELL. Will you just in your own words, Mr. Holt, tell us what you remember with respect to that reinsurance?

Mr. HOLT. Do you want me to go into detail, or do you want me to make it very brief?

Mr. GESELL. You give us as much information as you think necessary in order for us to understand the circumstances.

Mr. HOLT. The Union National Life Insurance Co. of Kansas City, Kans., was organized by W. H. Gregory.

Mr. GESELL. I will have to interrupt once in a while. Is Mr. W. H. Gregory the man who had the agency contract with Federal Reserve?

Mr. HOLT. That is right.

Mr. GESELL. It was his company?

Mr. HOLT. It was his company. It too was a stock-with-policy company. In 1925 an effort was made to merge the assets, the capital stock, the surplus, and the insurance of the two companies, the Federal Reserve Life and the Union National Life.

¹ Subsequently identified by Miss Eva Dorothy Nordell and entered in the record as "Exhibits Nos. 1348-4 and 1348-5," see *infra*, p. 6702.

Mr. GESELL. If I may interrupt there, it was at that time that the company authorized another issue of \$100,000 of capital stock.

Mr. HOLT. Yes.

Mr. GESELL. Or 10,000 shares.

Mr. HOLT. Yes.

The VICE CHAIRMAN. You mean the Federal Reserve Co.?

Mr. HOLT. Yes; it increased its authorized capitalization.

Mr. GESELL. This was the third issue of stock, was it not?

Mr. HOLT. That is right.

Mr. GESELL. There had been another issue which was handled the way the first issue was handled?

Mr. HOLT. That is right.

Mr. GESELL. That was also for \$100,000?

Mr. HOLT. Yes.

Mr. GESELL. And when was that?

Mr. HOLT. 1921 or '22.

The VICE CHAIRMAN. The original issue was \$150,000?

Mr. HOLT. No; the original issue was \$100,000 which was sold for \$150,000, \$50,000 going in for contributed surplus. The first addition was \$100,000, making \$200,000 in all, with another \$50,000 going into contributed surplus.

The VICE CHAIRMAN. You mean \$200,000 in par value?

Mr. HOLT. That is right.

The VICE CHAIRMAN. The original issue of \$100,000 was sold at 50 percent in excess of par?

Mr. HOLT. Yes.

The VICE CHAIRMAN. The original contribution of capital was \$150,000?

Mr. HOLT. One hundred was capital and fifty was contributed surplus. It sold for \$150,000.

Mr. GESELL. Now the second issue contributed another hundred thousand to capital, and how much to surplus?

Mr. HOLT. \$50,000 to contributed surplus.

Mr. GESELL. This third issue which we have just come to was the one authorized in connection with the Union National merger, was it not?

Mr. HOLT. That is right.

Mr. GESELL. How many shares were issued?

Mr. HOLT. Ten thousand shares.

Mr. GESELL. Those were issued to whom?

Mr. HOLT. Eight thousand shares were issued to the Union National stockholders on the basis of \$15 a share. Two thousand shares were issued to W. H. Gregory and others, three or four as I recollect were small amounts, on the basis of \$15 a share.

Mr. GESELL. Now, it was proposed, I take it, to trade the 8,000 shares which went to the trustee, D. H. Holt, for the shares of the Union National.

Mr. HOLT. That is right. They were just going to trustee that stock the same as they had the other, only they were going to issue it in the names of the Union National stockholders, then assign it to the trustee, just the same as if they were the original subscribers of the original \$100,000.

Mr. GESELL. The Insurance Department stepped in December 21, 1925, and prevented that, did it not?

Mr. HOLT. That is right.

Mr. GESELL. Then what happened?

Mr. HOLT. Then we unscrambled the merger, reallocated the insurance and the assets, and the Union National started out in business all over again, with its original stockholders, its original capital set-up, and its original assets, unless there had been some changes.

Mr. GESELL. What happened to the shares that had been authorized and issued for the purpose of effecting this merger?

Mr. HOLT. They were sold to W. H. Gregory; the 8,000 shares were sold to W. H. Gregory for \$10 a share.

Mr. GESELL. For \$10 a share?

Mr. HOLT. Yes.

Mr. GESELL. How did he pay for them?

Mr. HOLT. He and my father borrowed \$40,000 at the Home Trust Co. and paid for half of them. He gave us four \$10,000 checks for the other half which we carried as cash in office.

Mr. GESELL. You carried as cash in office. You never tried to cash the checks?

Mr. HOLT. Not until we knew they were good.

Mr. GESELL. And I take it that they were made good by the accumulation of commissions on the agency contract.

Mr. HOLT. Yes; I think so. I don't remember that.

Mr. GESELL. How long was it you carried them before you felt it was advisable to cash them?

Mr. HOLT. I don't recollect that; I think it was several months.

Mr. GESELL. You say you, Mr. Gregory, and Mr. D. H. Holt, your father, borrowed this money?

Mr. HOLT. Yes.

Mr. GESELL. What was your father's interest in this transaction if the shares were sold to Mr. Gregory?

Mr. HOLT. He was presumed to have an interest in this.

Mr. GESELL. I don't understand what you mean by that. Did he have an interest or didn't he have?

Mr. HOLT. I have heard he had a partnership contract with Mr. Gregory, but I have never seen it.

Mr. GESELL. He went on the note when this \$40,000 was borrowed?

Mr. HOLT. Yes.

Mr. GESELL. And you understood he had some kind of an arrangement with Gregory?

Mr. HOLT. To the best of my—I just don't remember why he did it, except that as I recall it now, they had to do something with that stock which had been authorized and was unissued because we were told by Mr. Gregory that under the laws of Kansas, insurance laws of Kansas, you couldn't have authorized stock and unissued.

Mr. GESELL. Did Mr. Gregory tell you that or Mr. Herndon tell you that?

Mr. HOLT. Mr. Gregory told us that.

Mr. GESELL. So you had to issue them to somebody.

Mr. HOLT. And we had to get the money for them. We had to get the par value for them. That was the way it was put up to me.

Mr. GESELL. In effect the shares went to Mr. Gregory.

Mr. HOLT. In effect, they went to Mr. Gregory.

Mr. GESELL. Now we have the companies unscrambled, and Mr. Gregory holding these 10,000 shares, 8,000 which came to him through

this Union National and 2,000 which came to him originally; is that correct?

Mr. HOLT. Yes.

Mr. GESELL. Now what did Mr. Gregory do with these 10,000 shares?

Mr. HOLT. After a short time Mr. Gregory decided that the Federal Reserve would reinsure the Union National and would liquidate it, and then the Union National would liquidate, and that took place.

Mr. GESELL. That was just another way of accomplishing the same purpose which the Kansas department had said you couldn't do, wasn't it?

Mr. HOLT. Yes.

Mr. GESELL. How did he have to use his shares, if he did, in connection with the reinsurance of the Union National?

Mr. HOLT. There was quite a demand in Kansas City, Kans., at that time for shares of stock in the Federal Reserve Life Insurance Co. Practically all of these Union National stockholders resided in Kansas City, Kans. After the reinsurance and before the liquidation, a group of Mr. Gregory's agency men submitted the proposition to these Union National stockholders that if they did not want their \$120,000 back, that they could get stock in the Federal Reserve in lieu of their money at \$50 a share.

Mr. GESELL. At how much?

Mr. HOLT. \$50 a share.

Mr. GESELL. Mr. Gregory bought this for 10, didn't he?

Mr. HOLT. That is right; and it was the Gregory stock which was traded to the Union National stockholders so that eventually Gregory was the sole stockholder of the Union National and received \$120,000 assets that the Union National had, and the Union National stockholders had stock in the Federal Reserve Life Insurance Co. I hope I have made that clear.

Mr. GESELL. At \$50 a share?

Mr. HOLT. At \$50 a share.

Mr. GESELL. Now this transaction was one which Mr. Gregory was in a position to control from the start, because I understood you to say the Union National was his company.

Mr. HOLT. Yes, he organized it; he was a promoter of it.

Mr. GESELL. That was rather a vague question. When this reinsurance arrangement that started this was initiated, Mr. Gregory was really agreeing with himself to reinsure the Union National, wasn't he?

Mr. HOLT. He didn't own the Union National by any means.

Mr. GESELL. Did he have a controlling interest?

Mr. HOLT. He didn't have a controlling interest; no.

Mr. GESELL. How was the reinsurance agreement engineered?

Mr. HOLT. The stockholders and directors of Union National followed through on Mr. Gregory's suggestions.

Mr. GESELL. Did he get the proxies?

Mr. HOLT. I believe D. H. Holt got the proxies, if there were any in the Union National.

Mr. GESELL. Was Mr. Gregory an officer of Union National at that time, or was his brother-in-law?

Mr. HOLT. I don't know whether he was ever an officer of it or not.

Mr. GESELL. Was this transaction taken up with the Kansas department?

Mr. HOLT. Yes.

Mr. GESELL. Was the approval of the Kansas department obtained to this transaction?

Mr. HOLT. Yes.

Mr. GESELL. How was it that the Kansas department approved this transaction and not the merger which it had unscrambled?

Mr. HOLT. The argument advanced to me at the time was that the Kansas law did not provide for any merger of insurance companies, and that therefore the merger was illegal, or without the bounds of the statute book.

Mr. GESELL. But that this other transaction was not technically a merger and therefore it was all right?

Mr. HOLT. Reinsurance was provided under the statute.

Mr. GESELL. Who obtained the Kansas department approval for you in this transaction?

Mr. HOLT. Mr. Herndon.

Mr. GESELL. Mr. W. K. Herndon?

Mr. HOLT. Yes.

Mr. GESELL. The examiner for the department?

Mr. HOLT. Yes.

Mr. GESELL. Was there any quid pro quo in this case?

Mr. HOLT. I am not up on my Latin, but if you mean what I think you mean, there was.

Mr. GESELL. I mean consideration, benefit, what did Mr. Herndon get, if anything, for getting the approval of the Kansas department?

Mr. HOLT. There are so many of these quid pro quos that I am having a little trouble getting them straight.

Mr. GESELL. Will you look at page 28 of your previous sworn statement and see if that testimony there refreshes your recollection as to what it was.

Mr. HOLT. It does.

Mr. GESELL. Now will you tell us what it was from your present recollection?

Mr. HOLT. Mr. Gregory agreed to pay Colonel Herndon \$25,000 as soon as he could liquidate the \$120,000 of assets of the Union National.

Mr. GESELL. Were you present when that agreement was made?

Mr. HOLT. I was there.

Mr. GESELL. Did he give his note or enter into some contract with Mr. Herndon at this time?

Mr. HOLT. He wrote him a letter. He didn't write it; I wrote the letter.

Mr. GESELL. What did that letter say, Mr. Holt, in effect? We are getting a copy of it.

Mr. HOLT. In effect, if this is the letter I am thinking of, it said that he was turning over to him 10 certificates of Federal Reserve stock of 100 shares each, and that he agreed to rebuy these certificates from Colonel Herndon for \$25 a share at some date in the future, the probable date is probably given in the letter.

Mr. GESELL. Is that a copy of the letter?

Mr. HOLT. That is right.

Mr. GESELL. You say you dictated this?

Mr. HOLT. No; I wrote it on the typewriter.

Mr. GESELL. You wrote it on the typewriter, dated November 23, 1926, Kansas City, Kans.

Colonel W. K. HERNDON,
City.

DEAR COLONEL HERNDON: I hand you herewith ten certificates of capital stock of The Federal Reserve Life Insurance Company numbered as follows, to wit: 1110, 1111, 1112, 1113, 1114, 1115, 1116, 1117, 1118, 1119, each for one hundred shares—total one thousand shares.

Said certificates stand on the books of the Federal Reserve Life Insurance Company in my name, but said certificates have been signed in blank by me.

Said certificates shall be returned to me by you and shall remain in my possession until July 1st, 1927, and then they shall be delivered to you. However, I am to have an option on these shares from you at the said date—July 1st, 1927—at the price of Twenty-Five dollars a share.

If for any reason I cannot raise the money at that time to take up all the said shares, you are to deliver to me, at the said price of twenty-five dollars a share, all the said shares for which I can pay you, and then I am to have an option on any remaining shares, at the price of twenty-five dollars a share, if I can arrange satisfactorily to you the payment for my remaining shares.

Sincerely yours,

W. H. GREGORY.

Now, he gave Herndon 1,000 shares and said he would pay him back \$25,000?

Mr. HOLT. That is right.

Mr. GESELL. And that was done in that way to give him time to liquidate the assets of the Union National which had come into his possession in the manner in which you described?

Mr. HOLT. That is right.

Mr. GESELL. Do you know whether any of those shares were repurchased at any subsequent date under the terms of that agreement?

Mr. HOLT. Yes; half of them were repurchased under the terms of the agreement.

Mr. GESELL. So Mr. Herndon sold 500 shares back to Mr. Gregory for \$12,500?

Mr. HOLT. That is right.

Mr. GESELL. What happened to the other 500 shares, if you know?

Mr. HOLT. I do not know.

Mr. GESELL. Is this the transaction which had you in some doubt as to whether or not Mr. Herndon was ever a shareholder of Federal Reserve?

Mr. HOLT. Yes.

Mr. GESELL. To the extent of at least 1,000 shares he was a shareholder, if they were his?

Mr. HOLT. Yes.

Mr. GESELL. Do you know why this transaction was handled in this way?

Mr. HOLT. Yes.

Mr. GESELL. Why?

Mr. HOLT. This transaction was handled in this way so that the Insurance Department of Kansas would approve the trade of the stock of the Federal Reserve for the stock of the Union National Life Insurance Co., which resulted in an ultimate profit to Mr. Gregory of around, we will say, \$80,000.

Mr. GESELL. Now, can I get from you, was Mr. Herndon at this time examining the Federal Reserve Life Insurance Co. on behalf of the State of Kansas?

Mr. HOLT. To the best of my recollection, he examined us right at this time on account of the reinsurance of the reinsured risks of the Union National.

Mr. GESELL. You mean to say that at the very time Mr. Herndon was in your company examining this very transaction, he entered into this quid pro quo arrangement?

Mr. HOLT. That is to the best of my recollection.

Mr. GESELL. Well, now, will you look at the examination reports you have before you and see if you can fix the dates that Mr. Herndon was there in relation to the dates of this letter? I believe the letter was dated November 23, 1926.

Mr. HOLT. The examination report is dated February 24. It may be that he wasn't there right at this particular time. I don't know; I couldn't say. The records, the disbursing records of the company, showing where they pay the insurance department for examiners, would show whether Mr. Herndon was there.

Mr. GESELL. Have we those disbursing records here, so that we can look at them? We will get those records out, Mr. Holt, and come back to that in a moment. By the way, was Mr. Herndon in and out of the offices all during this period or not?

Mr. HOLT. Yes; he was quite a frequent visitor.

Mr. GESELL. Was he there even when he was not officially there to examine the company?

Mr. HOLT. Yes.

Mr. GESELL. Did he have an office space?

Mr. HOLT. No.

Mr. GESELL. Then, to make the matter clear, Mr. Gregory made out of this deal the difference between what he had to pay for the stock which he transferred to the Union National shareholders and the assets of the Union National, which became, as a result of the transaction, his?

Mr. HOLT. Yes; with a few qualifications. Two or three or four people may have demanded their money back, and gotten it. But it didn't amount to anything.

Mr. GESELL. How many shares did it take to bring this about? About 2,000, wasn't it?

Mr. HOLT. Two thousand shares. It took a little more, I believe, than 2,000, to get the entire—2,000 shares would be \$100,000, at \$50 a share. I would say about 2,000, I guess.

Mr. GESELL. And those shares would have cost Mr. Gregory \$20,000?

Mr. HOLT. That is right.

Mr. GESELL. And the assets that he got as a result of the transaction were how much?

Mr. HOLT. About one hundred and twenty thousand, as I recollect.

Mr. GESELL. So that Mr. Herndon made in the neighborhood of eighty or ninety or one hundred thousand dollars—

Mr. HOLT. Mr. Gregory made.

Mr. GESELL. Yes.

Acting Chairman O'CONNELL. You will have to deduct from that the amount that Mr. Herndon got. It cost Mr. Gregory not only \$10 a share for 2,000 shares of stock, but 12½ or \$25,000 to Mr. Herndon.

Mr. HOLT. That is right.

Mr. GESELL. Now, did you rewrite the business of the Union National after this reinsurance contract?

Mr. HOLT. I don't believe we did. I don't remember. I don't think we did. They didn't have enough business to justify it, as I recollect it.

Acting Chairman O'CONNELL. How much insurance in force did the Union National have at this time, do you recall?

Mr. HOLT. I don't recall, but it was a very small amount.

Mr. GESELL. It had assets of around \$100,000, did it not?

Mr. HOLT. Yes.

Mr. GESELL. So the insurance in force would be approximately what?

Mr. HOLT. That has no connection. You can't—

Mr. GESELL. Do you know what the reserves were at that time?

Mr. HOLT. No; I don't. I think it had about a million and a half insurance in force. I don't remember.

Mr. GESELL. If the committee please, the next transaction is a rather complicated one, and I doubt if I could finish it by 12:30. If we could adjourn now and convene at 2 o'clock—

The VICE CHAIRMAN. The committee will stand recessed until 2 o'clock.

(Whereupon, at 12:15 p. m., a recess was taken until 2 p. m. of the same day.)

AFTERNOON SESSION

(The committee resumed at 2:10 at the expiration of the recess.)

The VICE CHAIRMAN. Are you ready to proceed, Mr. Gesell?

Mr. GESELL. Yes. I might say that the question has been raised during the recess as to whether or not a Mr. W. K. Herndon will appear before the committee at this time. I might say that Mr. Herndon was subpoenaed to appear. He is in the Reserve Army Corps in some capacity which I am not certain of, and was engaged in some training activities at this time, so he is unable to appear this week, and he will be a witness before this committee at another time.

The VICE CHAIRMAN. But you will hear from him?

Mr. GESELL. Yes.

Mr. HOLT, there are one or two things that came up in the course of the morning testimony which I wanted to clarify. You stated that we would be able to determine from the ledgers of the company whether or not the exact dates would appear when Mr. Herndon was engaged in examining the company. Have you had an opportunity to check on that statement?

Mr. HOLT. Yes. And we are not able to determine the exact dates that Mr. Herndon was examining the insurance company.

Mr. GESELL. Now, the question also came up as to the price paid for the Providers reinsurance contract.

Mr. HOLT. Yes.

Mr. GESELL. Do you know that figure?

Mr. HOLT. Yes. The Federal Reserve agreed to pay the Providers on the basis of \$15 a thousand, which was approximately \$143,000.

Mr. GESELL. Now, I also asked you whether you could tell me the total amount of commissions paid to Gregory under his contact with the Federal Reserve?

Mr. HOLT. Yes.

Mr. GESELL. Have you had an opportunity over the recess to examine certain books and records of the Federal Reserve which are here in court?

Mr. HOLT. Yes.

Mr. GESELL. Can you tell for any period of time the amount of commissions on first-year business and renewal business paid to Gregory?

Mr. HOLT. Yes.

Mr. GESELL. For what years is the information available from the records that are here?

Mr. HOLT. For the years 1925, 1926, and 1927.

Mr. GESELL. Will you tell us for those years the amount of commissions paid by the Federal Reserve to the agency company which Mr. Gregory formed?

Mr. HOLT. In 1925 the insurance company paid to the agency company \$97,580.73 in first-year commissions, and \$59,629.51 in renewal commissions. In 1926 the insurance company paid the agency company \$194,195.99 in first-year commissions and \$63,342.57 in renewal commissions. In 1927 the insurance company paid the agency company \$164,180.75 in first-year commissions, and \$87,860.96 in renewal commissions.

Mr. GESELL. Would you be able to total those, give us the combined total on those commissions for those 3 years?

Mr. HOLT. The summary of those figures shows that \$455,957.47 in first-year commissions were paid to the agency company, and \$210,833.04 in renewal commissions were paid to the agency company, or a total of \$666,790.51 for the 3-year period.

Mr. GESELL. Now, in the morning we made some reference to the fact that at one time Herndon had a 2½-percent interest in certain commissions coming to Gregory under the contract.¹

Mr. HOLT. That is right.

Mr. GESELL. Have you had an opportunity to refresh your recollection during the recess from your previous sworn statements, and can you tell us what the circumstances surrounding that arrangement are?

Mr. HOLT. Yes; the insurance company issued a certain type of policy which it called a participation policy, which was in effect the old-fashioned tontine policy. The Insurance Department of Kansas must approve, must pass upon, every policy issued by an insurance company domiciled in Kansas for the reason that the certificate of the insurance department appears on the face of that policy.

The Insurance Department of Kansas approved this participation policy, or tontine policy, and a large amount of that type of insurance was sold by the agency, but a great deal of trouble developed because salesmen oversold their prospects and there were large amounts of money demanded as a return of the first-year premiums paid by the applicants for that type of policy, so that the insurance department canceled its approval of that department.

Mr. GESELL. Of that policy, you mean.

Mr. HOLT. Of that policy. The 2½ percent was not 2½ percent of the first-year premiums on all the policies. It was 2½ percent of the first-year premiums on a participation policy which was subsequently approved by the insurance department after they had withdrawn their approval of the original policy.

Mr. GESELL. Let me see if I get this. They had a tontine policy.

¹ Supra, p. 6611.

The VICE CHAIRMAN. What kind?

Mr. HOLT. A tontine, t-o-n-t-i-n-e.

Mr. O'CONNELL. Will you explain what a tontine policy is?

Mr. HOLT. A tontine policy in a few words provides that the dividends shall accrue and be paid to the surviving persistent, premium-paying policyholders at certain definite periods. For instance, the ordinary participating life insurance policy provides for dividends at the end of each year. The tontine policy as we knew it provided that those dividends would accrue and would be distributed, say at the end of 5 or at the end of 10 years among the survivors.

The VICE CHAIRMAN. You mean among the survivors?

Mr. HOLT. Among those who still retained their insurance policy.

Mr. GESELL. That was the type of policy so condemned by the Armstrong committee in 1906?

Mr. HOLT. That is right.

Mr. GESELL. You say the insurance department withdrew its approval of that policy?

Mr. HOLT. That is right.

Mr. GESELL. And subsequently the form of the policy was modified to some extent and approval obtained?

Mr. HOLT. That is right.

Mr. GESELL. When was the approval obtained for the second time?

Mr. HOLT. I am unable to refresh my memory as to those dates.

Mr. GESELL. Was that around 1926 as you recall?

Mr. HOLT (examining the record). The 2½-percent arrangement was made in 1926.

Mr. GESELL. Now, you haven't yet explained why it was that Mr. Herndon, the examiner of the department, insurance department, got this 2½-percent participation.

Mr. HOLT. Because he persuaded the Insurance Commission to approve the modified policy.

Mr. GESELL. And it was given to him for his services in that connection?

Mr. HOLT. Yes.

Mr. GESELL. Well, now, was that 2½ percent on all policies sold by Gregory's company, or 2½ percent on this special tontine policy only?

Mr. HOLT. On this special policy only.

Mr. GESELL. Now, can you tell us for what period of time that arrangement continued?

Mr. HOLT. No.

Mr. GESELL. Was it for several years?

Mr. HOLT. No. You see, those payments were made through the agency, and I had nothing to do with the agency's books.

Mr. GESELL. Now, we come to the transactions which resulted in Mr. Massey Wilson¹ and Mr. E. W. Merritt, Jr., entering into the management of the Federal Reserve. When was it that they became chairman of the board and president, respectively?

Mr. HOLT. Early in the year 1928.

Mr. GESELL. Now, will you tell us in your own words what took place immediately prior to their entering into the management of the company at that time?

¹ Mr. Wilson subsequently testified before the Committee. See, *infra*, pp 6688-6701.

Mr. HOLT. In the summer of 1927 Mr. Massey Wilson appeared in my office in Kansas City, introduced himself, and told me that he understood that on account of Mr. Gregory's illness that there would be an opportunity to buy in the company and wanted me to keep in mind that, if ever the opportunity presented itself, he would like to know about it. Late in the fall or in the early winter of the same year Mr. Gregory's continued absence from the company had caused the new business to fall to nothing, practically nothing, and Mr. Herndon came to the office in November or December of that year and submitted a proposition to my father and myself that we approve a sale of the company to the Royal Union Life Insurance Co., of Des Moines.

Mr. GESELL. Now, if I may interrupt, at that time was Mr. Herndon the examiner for the Kansas department?

Mr. HOLT. Yes.

Mr. GESELL. Was he also an officer of the Royal Union Life Insurance Co.?

Mr. HOLT. Oh, I don't know whether he was. I don't think he was ever an officer.

Mr. GESELL. You don't think he was an officer?

Mr. HOLT. I don't know anything about that.

Mr. GESELL. He was acting for them in attempting to get this stock?

Mr. HOLT. Yes.

Mr. GESELL. Now, what stock did he wish to buy, the shares that Gregory held?

Mr. HOLT. Yes; he wished to buy the Gregory stock.

Mr. GESELL. Those shares represented what proportion of the total share outstanding?

Mr. HOLT. It was 8,000 shares out of the 30,000.

Mr. GESELL. Now, were those the 8,000 shares that were originally issued for the purpose of effecting the merger of the Union National?

Mr. HOLT. I don't believe there were quite 8,000 shares. I don't know how many shares.

Mr. GESELL. Were they trustee shares?

Mr. HOLT. There is quite a confusion in my own mind as to whether or not—whether they were trustee or whether they were not. At the time the shares were issued it was my understanding that they were trustee shares. But I changed my understanding of that matter at the time of the trade for the Union National stock. Then I was given to understand that they were not trustee shares; that they belonged outright to Mr. Gregory.

Mr. GESELL. Now, will you continue? Mr. Herndon said to you that he wanted to buy them for the Royal Union?

Mr. HOLT. That is right. And there were some gentlemen there from Des Moines in Kansas City, Mo., at the time.

Mr. GESELL. Who were they?

Mr. HOLT. I can't remember their names. But his proposition was that the stock be bought from Gregory for the money that he had invested in them, and by that I mean he had paid the \$40,000 that he owed originally on them, and the proposition was that my father and I were to receive contracts for jobs with the Royal Union.

Mr. GESELL. What kind of jobs were they going to be?

Mr. HOLT. They were to be \$10,000 jobs.

Mr. GESELL. For how long?

Mr. HOLT. As I recollect it, it was 5 or 10 years. I don't remember.

Mr. GESELL. That was going to be in return for your services in buying up these shares from Gregory?

Mr. HOLT. That is right.

Mr. GESELL. What other promises or statements did Mr. Herndon make to you?

Mr. HOLT. I don't remember any others right at that time. However—

Mr. GESELL. Well, what was the upshot of the conversation. Did you agree to sell to Royal Union?

Mr. HOLT. No; we did not. We did not contract. I wouldn't consider it and at the same time I told him that, recalling the time that Massey Wilson had been in the office, that Massey Wilson would pay \$50 a share for the stock. The next thing I knew, Massey Wilson was in Kansas City trying to buy, making the arrangement to purchase the 5,000 shares of stock.

Mr. GESELL. Did he come to you?

Mr. HOLT. No; not that time.

Mr. GESELL. Who handled that transaction?

Mr. HOLT. Herndon.

Mr. GESELL. Mr. Herndon again, this time acting on behalf of Mr. Massey Wilson.

Mr. HOLT. Well, he might have been acting on behalf of all of us.

Mr. GESELL. Will you tell us just how it took place?

Mr. HOLT. I am of the opinion that he called Massey Wilson and told him, "We can get the Gregory stock now."

Mr. GESELL. I don't want your opinion, Mr. Holt, I want to know what you know about it.

Mr. HOLT. I don't know.

Mr. GESELL. Did Mr. Herndon have any dealings with you at the time?

Mr. HOLT. Yes.

Mr. GESELL. Will you tell us what those dealings were, what he said to you and what you said to him?

Mr. HOLT. We agreed that we would get the Gregory stock, Mr. Gregory being a sick man, unable to attend the business, and sell it to Massey Wilson for whatever we could get out of it. As eventually we arrived at the deal, it was for 5,000 shares of the Gregory stock. I was to get \$40 a share. Herndon was to get all over \$40 a share that he could get out of Massey Wilson for the stock. My father and I together were to persuade Mr. Gregory to give up his stock interest to the extent of 5,000 shares.

Mr. GESELL. Were you also going to sell other shares to Mr. Herndon?

Mr. HOLT. The original agreement was for 5,000 shares, but eventually in order to put the deal through, we agreed to sell 3,000 shares of the trustee stock. The trustee was empowered by his contract that if he didn't have enough of those shares sold, that he at any time could sell them at public or private sale.

Mr. GESELL. So that your father, the trustee, Mr. D. H. Holt, agreed to sell 3,000 shares.

Mr. HOLT. That is right.

Mr. GESELL. And in addition you and your father agreed to get Gregory's shares if you could.

Mr. HOLT. That is right.

Mr. GESELL. And Mr. Herndon was then going to brokerage the shares to Mr. Massey Wilson.

Mr. HOLT. That is right.

Mr. GESELL. Did he say he represented Massey Wilson?

Mr. HOLT. No.

Mr. GESELL. He said he was in contact with him, did he?

Mr. HOLT. Yes; he was in contact with him.

Mr. GESELL. Did he say anyone else was associated with Mr. Massey Wilson in this?

Mr. HOLT. Yes.

Mr. GESELL. Who?

Mr. HOLT. Mr. E. W. Merritt, Jr.

Mr. GESELL. That is the same E. W. Merritt that rewrote the contracts of the Provider's Life that we talked about this morning, isn't it?

Mr. HOLT. That is right.

Mr. GESELL. And I suppose the proposition was to get Mr. Gregory to let go of his shares.

Mr. HOLT. That was it.

Mr. GESELL. Will you tell us what took place in that connection?

Mr. HOLT. I went to Mr. Gregory's every day for months while he was ill. Finally we determined, Mr. Herndon and I determined, that I would tell him that the insurance department demanded his resignation, demanded that he give up his general agency contract, and that he sell 5,000 shares of his stock.

Mr. GESELL. You mean to say that Mr. Herndon told you to tell that to Mr. Gregory?

Mr. HOLT. That is right.

Mr. GESELL. Did you tell that to Mr. Gregory?

Mr. HOLT. Yes.

Mr. GESELL. Who was with you at the time?

Mr. HOLT. Nobody.

Mr. GESELL. You went and saw Mr. Gregory alone?

Mr. HOLT. That is right.

Mr. GESELL. Did you tell him Mr. Herndon had told you the insurance department wanted him out of the picture?

Mr. HOLT. Yes.

Mr. GESELL. Mr. Herndon was at that time interested in this deal?

Mr. HOLT. That is right.

Mr. GESELL. What did Mr. Gregory say?

Mr. HOLT. Mr. Gregory said—he wanted to know what I was going to get out of it.

Mr. GESELL. Did you tell him?

Mr. HOLT. No. And he finally agreed if we would continue to pay his renewal commissions and would turn over the money that he had invested in this stock, that he would turn it over to me and I could make whatever profit that I was able to make out of it.

Mr. GESELL. And you agreed to that?

Mr. HOLT. Yes.

Mr. GESELL. So, then, you had in your hands Mr. Gregory's shares under an agreement to pay him what he put into the company, and to continue his renewal commissions?

Mr. HOLT. Yes.

Mr. GESELL. And you had 3,000 shares from the trustee shares?

Mr. HOLT. No; I didn't have that.

Mr. GESELL. Your father had those?

Mr. HOLT. Yes.

Mr. GESELL. That made 8,000 shares in all?

Mr. HOLT. Yes.

Mr. GESELL. Did you advise Mr. Herndon that you had the 8,000 shares ready?

Mr. HOLT. That is right.

Mr. GESELL. What price did he sell those 8,000 shares to Mr. Wilson and Mr. Merritt for, if he did?

Mr. HOLT. Could I look at this? [Indicating the record.]

Mr. GESELL. Yes.

Mr. HOLT (examining record.) I think around—

Mr. GESELL. On pages 39 or 40, Mr. Holt, you will find your previous statements on that.

Mr. HOLT. \$375,000.

Mr. GESELL. How much, \$375,000?

Mr. HOLT. \$375,000.

Mr. GESELL. Now, who paid \$375,000?

Mr. HOLT. The Reserve Co.

Mr. GESELL. The Reserve Co.?

Mr. HOLT. Yes.

Mr. GESELL. That was a life-insurance company?

Mr. HOLT. That was a holding company at Kansas City, which owned the stock in the United States Reserve Insurance Corporation at Kansas City, Mo.

Mr. GESELL. Which was the legal reserve company?

Mr. HOLT. Yes.

Mr. GESELL. Now, who owned the Reserve Co.?

Mr. HOLT. I don't know who owned it, but I know who controlled it.

Mr. GESELL. Well, that is what I want to know.

Mr. HOLT. E. W. Merritt, Jr.

Mr. GESELL. Now, was Mr. Massey Wilson connected with that company, or was he acting in his individual capacity?

Mr. HOLT. He was acting in his individual capacity at that time.

Mr. GESELL. And Mr. Herndon got a check for \$375,000 from the Reserve Co.?

Mr. HOLT. That is right.

Mr. GESELL. Tell us how that was split up.

Mr. HOLT. He gave \$60,000 of it back to the Reserve Co., and took a note payable to D. H. Holt, trustee, for \$60,000 for the 3,000 shares which D. H. Holt, trustee, had agreed to sell for \$60,000, and D. H. Holt, trustee, accepted the note in payment for the 3,000 shares of stock. That left \$315,000.

Mr. GESELL. Which had as the consideration the 5,000 shares of stock you got from Mr. Gregory?

Mr. HOLT. That is right. Then he gave back to them \$30,000 because evidently they did not have quite \$375,000 in the bank, and took back two notes for \$15,000 each.

Mr. GESELL. Yes.

Mr. HOLT. One of which I took as part of my profit in the sale of the stock, and one of which Colonel Herndon took.

Mr. GESELL. Now, this is the first time we have heard the mention of Colonel Herndon. Is that the same W. K. Herndon?

Mr. HOLT. Yes.

Mr. GESELL. So he got a \$15,000 note, and you got a \$15,000 note; is that correct?

Mr. HOLT. That is right.

Mr. GESELL. Now, how was the cash divided?

Mr. HOLT. Well, how much does that leave?

Mr. GESELL. \$285,000.

Mr. HOLT. He then issued checks, and I don't know whether he issued them direct to Gregory or to some of us, for \$60,000, which went to Gregory for his 5,000 shares of stock.

Mr. GESELL. Yes; and that left \$225,000, didn't it?

Mr. HOLT. And he then gave them \$125,000.

Mr. GESELL. How much did he give Herndon?

Mr. HOLT. \$100,000.

Mr. GESELL. Herndon was at that time examiner for the Kansas department?

Mr. HOLT. Yes.

Mr. GESELL. Now, just to make sure we understand that, out of this money which was used for the purchase of those 8,000 shares, Herndon got \$100,000 and a \$15,000 note?

Mr. HOLT. That is right.

Mr. GESELL. You got \$125,000 cash and a \$15,000 note?

Mr. HOLT. That is right.

Mr. GESELL. Gregory got \$60,000 for his shares?

Mr. HOLT. That is right.

Mr. GESELL. D. H. Holt, trustee, got a \$60,000 note for his 3,000 shares?

Mr. HOLT. That is right.

Mr. GESELL. Now, were these notes ever paid off?

Mr. HOLT. I received \$7,500 of mine.

Mr. GESELL. And Mr. Herndon?

Mr. HOLT. I don't know.

Mr. GESELL. Did Mr. D. H. Holt receive anything?

Mr. HOLT. I don't know anything about that.

Mr. GESELL. Did you divide your \$125,000 with anybody?

Mr. HOLT. Yes.

Mr. GESELL. Who with?

Mr. HOLT. I divided it with my father.

Mr. GESELL. Mr. D. H. Holt?

Mr. HOLT. Yes.

Mr. GESELL. Anyone else?

Mr. HOLT. I gave \$1,000 of it to a man by the name of Harden.

Mr. GESELL. What did he do?

Mr. HOLT. He was assistant secretary of the company.

Mr. GESELL. What did he get it for?

Mr. HOLT. He conceived an idea that he would like to be able to broker this insurance company, and I told him that if he would just leave it alone, I would see that he got a little extra compensation. That was the extra compensation.

Mr. GESELL. I understand. Now, what do you understand to have been the services performed by Mr. W. K. Herndon of the Kansas Insurance Department for the \$100,000?

Mr. HOLT. I don't know of any services.

Mr. GESELL. Simply as the go-between, is that your understanding, as the reason for that much money?

Mr. HOLT. Yes. He is the man who got Wilson and Merritt pepped up about the proposition up to the tune of \$375,000.

Mr. GESELL. And is your understanding that this was paid for the brokering of the transaction?

Mr. HOLT. Yes.

Mr. GESELL. Now, right after that happened, did Mr. Merritt become an officer of the Federal Reserve?

Mr. HOLT. Yes.

Mr. GESELL. And at what salary? \$18,000, wasn't it?

Mr. HOLT. \$18,000 a year; yes.

Mr. GESELL. And did Mr. Wilson become an officer of the Federal Reserve?

Mr. HOLT. Yes.

Mr. GESELL. And at what salary? \$7,500, wasn't it?

Mr. HOLT. Yes.

Mr. GESELL. Now, immediately prior to this transaction, do you recall that the United States Reserve Life Insurance Co., which I believe you said was owned by the Reserve Life Insurance Co. who paid this \$375,000 check, had a transaction with the Federal Reserve?

Mr. HOLT. I don't know just what you are referring to. Was it in connection with some mortgages?

Mr. GESELL. That is right.

Mr. HOLT. Yes; I recall that.

Mr. GESELL. The United States Reserve, the subsidiary of the company which purchased Federal Reserve, had a mortgage transaction with Federal Reserve?

Mr. HOLT. That is right.

Mr. GESELL. What was that transaction?

Mr. HOLT. I don't remember at all. I would have to refresh my memory. I have not thought about it for 10 years.

Mr. GESELL. Do you recall that on March 21, the U. S. Reserve Corporation—that is the same date of this transaction—sold mortgages to Federal Reserve for \$105,850? I direct your attention to a ledger sheet entitled "Mortgage loans" in the books and records of the Federal Reserve.

Mr. HOLT (examining the ledger sheet). Yes; I recall that.

Mr. GESELL. Now, does that refresh your recollection?

Mr. HOLT. Yes.

Mr. GESELL. So that just prior, or at the same time of this purchase, Federal Reserve gave U. S. Reserve for these mortgages \$105,000 in cash?

Mr. HOLT. That is right.

Mr. GESELL. Now, did you subsequently reinsure the U. S. Reserve Life Insurance Co.?

Mr. HOLT. Yes.

Mr. GESELL. Did you then rewrite the business of U. S. Reserve Life Insurance Co.?

Mr. HOLT. I don't remember that. I am pretty sure we did, but—it is probably here some place.

Mr. GESELL. Do you not recall that that was rewritten by a contract with E. W. Merritt?

Mr. HOLT. That is right.

Mr. GESELL. How much was paid on the reinsurance contract? Was it not \$56,000? I show you a ledger account, payments made on reinsurance contract, that was on June 30, 1928, was it not?

Mr. HOLT. Yes, sir.

Mr. GESELL. Now, I want to show you the ledger sheet with respect to the rewrite contract so we will be certain on that. What is your recollection about that, while we are looking for the sheet?

Mr. HOLT. It is very dim. They didn't have much business in force, as I recollect it.

Mr. GESELL. Do you remember who did do the rewriting?

Mr. HOLT. No; I don't. They had so many companies around there that I couldn't keep them straight myself.

Mr. GESELL. Now, Mr. Holt, I want to come down to the next reinsurance contract.

We have this ledger sheet now. I show you first of all a ledger sheet entitled "Commissions on transfer of United States Reserve policies." That shows, does it not, \$43,633.67 paid on commissions for the transfer of those policies?

Mr. HOLT. That is right.

Mr. GESELL. So there is no question in your mind with respect to the rewriting?

Mr. HOLT. None whatever.

Mr. GESELL. Do you recall who did the rewriting job?

Mr. HOLT. E. W. Merritt, Jr. However, it seems to me he had some kind of a corporation that the contract was with.

Mr. GESELL. But he was the man who actually did the job?

Mr. HOLT. That is right.

Mr. GESELL. And he is the same fellow who rewrote the Provider's Contracts we heard about this morning?

Mr. HOLT. That is right.

Mr. GESELL. And he controlled the Reserve Company which purchased Federal Reserve?

Mr. HOLT. That was my understanding, that he controlled it.

Mr. GESELL. Now, with respect to the rewrite contracts, may I direct your attention to minutes signed by yourself, of the executive committee of the Federal Reserve, dated May 17, 1928. That shows yourself, Mr. Wilson, and Mr. Merritt present, and at that time the reinsurance contract with Mr. Merritt was approved, was it not?

Mr. HOLT. That is right; the rewrite contract.

Mr. GESELL. And what were the commission terms of that contract?

Mr. HOLT. Eighty-five percent of one annual premium, nine renewal commissions of $7\frac{1}{2}$ percent on all policies rewritten by the Reserve Company.

Mr. GESELL. Now, the contract is set forth on the following page, is it not?

Mr. HOLT. Yes.

Mr. GESELL. And am I correct in saying that for the Federal Reserve Co., Mr. Massey Wilson signed the contract and for the reserve company, Mr. Merritt signed the contract?

Mr. HOLT. That is right.

Mr. GESELL. And these were the very two gentlemen who had just a few days before purchased into Federal Reserve and gotten ownership through this \$375,000 transaction.

Mr. HOLT. That is right.

Mr. GESELL. Now, coming to the Farmers' National reinsurance contract, do you recall that reinsurance transaction?

Mr. HOLT. Not at the moment. I recall, I was active in the company at the time and I recall some of the things about it.

Mr. GESELL. What is your recollection concerning it?

Mr. HOLT. Through some source, I don't know what source, Mr. Merritt and Mr. Wilson were advised that they could secure the control of the Farmers' National Life Insurance Co. of Indiana. The ramifications preceding the actual contract I don't know anything about what went on at that time. However, it was necessary for them to advance a large amount of money to the stockholders of the Farmers' National in order to secure control of it.

Mr. GESELL. Yes.

Mr. HOLT. This they did by borrowing it from a Detroit capitalist by the name of Frank Bushman.

Mr. GESELL. He was a real-estate operator there, was he not?

Mr. HOLT. Yes; or his father was a real-estate operator. Together they were real-estate operators.

In connection with that loan, which they received from Bushman, they in turn, or we in turn, the insurance company, lent the Bushman interests a large amount of money.

Mr. GESELL. Now, let me see. Mr. Merritt and Mr. Wilson wanted some money to buy Farmers' National.

Mr. HOLT. Right.

Mr. GESELL. So they loaned money to Bushman and Bushman loaned money back to them.

Mr. HOLT. I don't know whether that was the sequence of it or not.

Mr. GESELL. How much was the loan to Bushman that the Federal Reserve made; \$400,000, was it not?

Mr. HOLT. \$400,000; yes.

Mr. GESELL. And was that the same amount of money that Bushman loaned to Mr. Wilson and Mr. Merritt?

Mr. HOLT. I wouldn't have any way of knowing that.

Mr. GESELL. But the Federal Reserve loaned \$400,000 to Mr. Bushman. Was that transaction explained to the board of directors of the Federal Reserve?

Mr. HOLT. I don't recollect that.

Mr. GESELL. How did you acquire your knowledge with respect to it?

Mr. HOLT. It was explained to me.

Mr. GESELL. By whom?

Mr. HOLT. Mr. Wilson and Mr. Merritt.

Mr. GESELL. Was Mr. Herndon in on this deal in any way?

Mr. HOLT. I don't recollect that at the moment.

Mr. GESELL. Who became president of Farmers' National, do you recall that?

Mr. HOLT. I believe Merritt, didn't he?

Mr. GESELL. That is my information. That is your recollection?

Mr. HOLT. Yes; that is my recollection, Merritt.

The VICE CHAIRMAN. Do I understand that with the proceeds of the loan from Bushman, Merritt and Wilson acquired controlling interest in this other company?

Mr. HOLT. They borrowed the money from Bushman at the same time the insurance company made the loan to Wilson.

The VICE CHAIRMAN. But Merritt and Wilson used the proceeds to acquire stock—

Mr. HOLT. In the Farmers' National Insurance Co., that is right.

Mr. GESELL. Did Merritt and Wilson subsequently gain control of Farmers' National?

Mr. HOLT. Yes.

Mr. GESELL. Was it then reinsured with Federal Reserve?

Mr. HOLT. Yes.

Mr. GESELL. What price did Federal Reserve pay for the reinsurance of that business?

Mr. HOLT. I don't recall.

Mr. GESELL. Calling your attention to the minutes signed by yourself as of January 19, 1929, is it not a fact that the Federal Reserve issued a participating certificate to Farmers' National of \$1,050,831.10?

Mr. HOLT. That is right.

Mr. GESELL. So that was what the price was on this reinsurance of the Farmers' National policy.

Mr. HOLT. Yes.

Mr. GESELL. Do you know whether Mr. Merritt and Mr. Wilson required additional money other than the money they got from Mr. Bushman for the purchase of Farmers' National, or have you any information in that respect?

Mr. HOLT. Yes; they required some additional money at that time. My father and I lent them some money.

Mr. GESELL. How much did you loan them, do you recall?

Mr. HOLT. My best recollection is between us we lent them \$15,000.

Mr. GESELL. How long was it after this before you left the company?

Mr. HOLT. I left the company in December 1929.

The VICE CHAIRMAN. I am not clear on the significance of that million-dollar entry you referred to. Does that represent a payment from the Federal Reserve to the Farmers' National?

Mr. HOLT. May I answer? That is what we called a participating certificate. We agreed to pay to the Farmers' National that amount of money and we were to pay it out of funds that we accumulated as a result of certain savings in mortality, if any, and when.

Mr. GESELL. Also excess interest.

Mr. HOLT. Excess interest.

Mr. GESELL. How much did you actually pay out under the participating contract?

Mr. HOLT. I don't know; that was after my time.

The VICE CHAIRMAN. Might there not also have been savings through rewriting?

Mr. HOLT. There was no rewriting in this contract. We did not rewrite the business in the Farmers' National.

Mr. GESELL. That was a simple reinsurance contract?

Mr. HOLT. Yes; and there was no rewriting in it.

Mr. GESELL. Farmers' National subsequently failed, did it not?

Mr. HOLT. I think that at the time of the Federal Reserve trouble there might have been a receiver appointed in the Illinois courts. I am not familiar with the history of the Farmers' National.

Mr. GESELL. And you said you left the company when?

Mr. HOLT. In December of 1929.

Mr. GESELL. Do you remember that on January of that year an examination was made by Mr. Herndon and others of the affairs of the Federal Reserve, and that on that occasion Mr. Herndon represented the Indiana department?

Mr. HOLT. Yes; I remember he did one year.

The VICE CHAIRMAN. Do I understand after Mr. Herndon left the insurance department of the State of Kansas that he represented the insurance department of the State of Indiana; is that what you mean?

Mr. HOLT. I don't recall whether this was before or after. It seems to me that an examination was made of the Federal Reserve and we wanted to go into Indiana conference examination and that Herndon represented both Kansas and Indiana. That is to the best of my recollection.

Mr. GESELL. Will you look in what capacity he signed the 1929 report that you have in front of you there? In what capacity did he sign that 1929 examination?

Mr. HOLT. Special examiner, representing insurance department, State of Indiana.

Mr. GESELL. And there was someone else in for Kansas, was there not?

Mr. HOLT. That is right.

Mr. GESELL. One more point and then I have finished. At the time of this \$375,000 transaction, is it not a fact that Mr. Herndon was then at that time engaged in examining the Federal Reserve on behalf of the Kansas department? I call your attention to a ledger sheet entitled "Insurance department licensing fees," to the particular fees and amounts checked on that schedule.

Mr. HOLT. A study of this account shows that check issued on March 19, 1928, to W. K. Herndon, special examiner, \$155.

Mr. GESELL. That was for his per diem expenses, was it not, in accordance with the regular procedure of the Department?

Mr. HOLT. I can't answer that question. I don't know what it was for.

Mr. GESELL. Do you recall, independently of this sheet, whether or not Herndon was examining the Federal Reserve at the time of this \$375,000 transaction?

Mr. HOLT. No; I don't recall that.

Mr. GESELL. This transaction took place in March, did it not, of 1928?

Mr. HOLT. The first part of the year.

Mr. GESELL. And negotiations were going on all of January and February, weren't they?

Mr. HOLT. That is right.

Mr. GESELL. Will you look and see if there is not a report signed by Mr. Herndon, dated February 24, 1928, on the affairs of the Federal Reserve?

Mr. HOLT. There is.

Mr. GESELL. So he was examining at that time, was he not?

Mr. HOLT. That is right; he was.

Mr. GESELL. And that was a so-called convention examination, was it not?

Mr. HOLT. Yes.

Mr. GESELL. What other States were represented in that examination?

Mr. HOLT. Illinois only, besides Kansas.

Mr. GESELL. I have no further questions for this witness.

The VICE CHAIRMAN. I don't believe I have any questions.

(The witness, Mr. Holt, was excused.)

Mr. GESELL. Mr. Jordan.

The VICE CHAIRMAN. Do you solemnly swear the testimony you are about to give in this proceeding shall be the truth, the whole truth, and nothing but the truth, so help you God?

Mr. JORDAN. I do.

TESTIMONY OF HERBERT W. JORDAN, FORMER EXAMINER, KANSAS DEPARTMENT OF INSURANCE, KANSAS CITY, MO.

Mr. GESELL. Mr. Jordan, will you state your full name?

Mr. JORDAN. My name is Herbert W. Jordan—J-o-r-d-a-n.

Mr. GESELL. Where do you reside?

Mr. JORDAN. Kansas City, Mo.

Mr. GESELL. What is your profession?

Mr. JORDAN. I am in the oil business.

Mr. GESELL. In the oil business?

Mr. JORDAN. Yes, sir.

Mr. GESELL. Were you at one time an examiner for the Kansas Department of Insurance?

Mr. JORDAN. I was.

Mr. GESELL. When were you an examiner?

Mr. JORDAN. In 1928 and 1929.

Mr. GESELL. Were you an examiner under Insurance Commissioner Baker or Insurance Commissioner Hobbs?

Mr. JORDAN. Both of them.

Mr. GESELL. Did you have occasion to examine the Federal Reserve Co. in 1929?

Mr. JORDAN. I did.

Mr. GESELL. Mr. Hobbs was then insurance commissioner, was he not?

Mr. JORDAN. That is right.

Mr. GESELL. Will you describe to us the nature of the examination made, the instructions you were under when you made the examination, and the scope of the examination?

Mr. JORDAN. The examination started in 1929, I think it was on the first day of April, it was a convention examination, it was participated in by Kansas, Missouri, Illinois, and Indiana.

The VICE CHAIRMAN. What is a convention examination, one in which more than one State participates?

Mr. JORDAN. A convention examination is one that is made by the direction of the convention committee of the Association of Life Insurance Commissioners. At that time I believe that Colonel

Button of Virginia was chairman of the convention examination. The report is addressed to him, as well as to the commissioners of the several States which are represented.

Mr. Hobbs had been elected commissioner of Kansas at the general election in the fall of 1928. Prior to that time, for, oh, 8 or 10 years, he had been in the Kansas department where he served as actuary under his predecessor, W. R. Baker, and Mr. Baker's predecessor, Colonel Travis.

Due to the fact that Mr. Hobbs had been in the department for a long time and had to a more or less degree been conversant with the transactions regarding the Federal Reserve Life Insurance Co., our instructions for this examination were rather broad, as well as specific.

Mr. GESELL. What do you mean? Do you mean that Mr. Hobbs was acquainted with the transactions we have been discussing here today?

Mr. JORDAN. Yes, sir.

Mr. GESELL. He was familiar with the fact that Mr. Herndon had participated in some of these transactions?

Mr. JORDAN. He told me to look it up.

Mr. GESELL. Go ahead, please.

Mr. JORDAN. I might say he was actuary of the department, he didn't run the department. However, when he became commissioner, he did send us down there with these specific instructions to investigate the Union National deal, the Provider's reinsurance deal, the sale of the stock, that block of 8,500 shares instead of 8,000 shares, the payment of the reinsurance contract to the United States Reserve before it was due and contrary to its terms, the mortgage contract with Franklin Bushman of Detroit.

Mr. GESELL. I take it there were other less important matters.

Mr. JORDAN. A good many other items.

Mr. GESELL. Did you make a thorough investigation of these transactions?

Mr. JORDAN. As far as we were able; yes, sir.

Mr. GESELL. Did that involve communicating with appraisers and other people in other States and corresponding and tracing down proceeds and checking at banks, and all of that?

Mr. JORDAN. Yes, sir.

Mr. GESELL. A thorough investigation of the books and records of the company, is that correct?

Mr. JORDAN. That is right.

Mr. GESELL. Did you render a report to the various insurance departments which participated in this examination?

Mr. JORDAN. No, sir; the report was filed by the State of Kansas but was never released to the public or to the other departments.

Mr. GESELL. Is this the report which I show you?

Mr. JORDAN. Yes, sir.

Mr. GESELL. How many pages in that report?

Mr. JORDAN. Two hundred thirty-seven.

Mr. GESELL. I notice it is directed to the other departments. You say it was never released to them?

Mr. JORDAN. No, sir.

Mr. GESELL. And you say it was never released to the public?

Mr. JORDAN. No, sir.

Mr. GESELL. Will you explain how all that came about?

Mr. JORDAN. That was held as a confidential report because after the making of that report with the conference of the officers of the company, certain practices which had been complained of were changed, certain officers were changed, the management of the company passed into different hands, and the contribution to surplus in the amount of \$375,000 was made.

Mr. GESELL. Who made that contribution?

Mr. JORDAN. It was made by the Chicago Fire Insurance Co.

Mr. GESELL. That was the company with which Massey Wilson had a connection?

Mr. JORDAN. Yes, sir.

Mr. GESELL. Was it 300 or 375?

Mr. JORDAN. I don't know.

Mr. GESELL. This report was dated September 5, 1929, was it not?

Mr. JORDAN. Yes, sir.

Mr. GESELL. Did it set forth the full facts and circumstances with respect to many of the transactions which we have been considering here today?

Mr. JORDAN. Yes, sir.

Mr. GESELL. How long did the company continue after this report was filed?

Mr. JORDAN. Until May 1936.

Mr. GESELL. Did it go into receivership at that time?

Mr. JORDAN. In May?

Mr. GESELL. Yes.

Mr. JORDAN. Of 1936? Yes, sir.

Mr. GESELL. Was it reinsured by any company?

Mr. JORDAN. The Occidental Life Insurance Co. of Los Angeles.

Mr. GESELL. Was there a lien placed against the policies?

Mr. JORDAN. Yes, sir; the lien of 50 percent.

Mr. GESELL. So that, on that basis, the policyholders lost 50 percent of what they had in the company; is that right?

Mr. JORDAN. That is correct. Wait, now; with certain reservations. There has already been a reduction in the liens on the policies. I don't know how much, and from earnings in the future there will continue to be reductions.

Mr. GESELL. The ultimate loss hasn't been determined as yet?

Mr. JORDAN. No, sir.

Mr. GESELL. Now, you say a new management was put into the company?

Mr. JORDAN. Yes, sir.

Mr. GESELL. Who was the new management?

Mr. JORDAN. Frank Bushman, of Detroit, who was indirectly interested on account of the money he and his father had advanced to assist in the purchase of the Farmers National. He was named president of the company. His associate, Alex Green, a former examiner for the Insurance Department of Michigan, was named assistant to the president. E. R. Sloan, an attorney of Topeka, and myself were placed on the board at the suggestion of the Kansas insurance department.

Mr. GESELL. Did you resign from the Kansas department?

Mr. JORDAN. I don't know whether I resigned or not. The manner in which you serve on these State examinations is by warrant, and the

warrant specifically sets forth that you are to examine a certain company, and when that examination is completed your connection with the company is severed.

Mr. GESELL. You mean your connection with the department is that you are hired on a job basis?

Mr. JORDAN. On a per diem basis.

Mr. GESELL. Per diem is paid by the company that you are examining?

Mr. JORDAN. That per diem is paid by the company that you are examining. That per diem is paid by the company to the State, and the State in turn pays the examiners.

Mr. GESELL. Now, in connection with your investigation, did you determine that a \$400,000 loan was made by the Federal Reserve to the Bushman interests in Detroit?

Mr. JORDAN. Yes, sir.

Mr. GESELL. What was the security for that \$400,000 loan?

Mr. JORDAN. The security for that \$400,000 loan was a 2,000-acre tract of land, about 30 miles from downtown Detroit, which was unimproved and for that reason was of a speculative value.

Mr. GESELL. Who owned the land?

Mr. JORDAN. F. E. Bushman.

Mr. GESELL. Was he the man who got the loan?

Mr. JORDAN. Yes, sir.

Mr. GESELL. And this property was valued at what?

Mr. JORDAN. Now, there are so many valuations of that property. Will you tell me what valuation you want?

Mr. GESELL. You mentioned a money figure.

Mr. JORDAN. No; I said it was of a speculative value on a \$400,000 mortgage.

Mr. GESELL. Now—I beg your pardon. Now, did you and your fellow examiners appraise that property?

Mr. JORDAN. We had the property appraised. We did not appraise it.

Mr. GESELL. At what value?

Mr. JORDAN. I think it was appraised at \$160,000.

Mr. GESELL. There was also a first lien against some of that property, was there not?

Mr. JORDAN. If there was, it was removed right away.

Mr. GESELL. What do you mean, "it was removed right away"?

Mr. JORDAN. Oh, there may have been a tax lien or something like that, but the title was put in good shape.

Mr. GESELL. I think that is on page 79 of your report.

Mr. JORDAN. I thank you [examining report].

Mr. GESELL. Have you found it?

Mr. JORDAN. Yes, sir.

Mr. GESELL. Was there any lien against it?

Mr. JORDAN. Yes, sir.

Mr. GESELL. What was the lien?

Mr. JORDAN. \$90,000.

Mr. GESELL. And what value did you put on the property?

Mr. JORDAN (examining record). I think it was one hundred seventy or eighty thousand dollars.

Mr. GESELL. Did you also find that Bushman had loaned \$400,000 to Wilson and Merritt, the same amount of the loan that had been made to them by the Federal Reserve?

Mr. JORDAN. Not at that time; no.

Mr. GESELL. You did determine that fact, didn't you?

Mr. JORDAN. Later, but not at this immediate time.

Mr. GESELL. Now, do I understand that Mr. Merritt and Mr. Wilson left the management of this company at the demand of the Kansas department?

Mr. JORDAN. That is right.

Mr. GESELL. Was that after the report was submitted?

Mr. JORDAN. That was sometime during—it had all been agreed upon as of the date of this report.

Mr. GESELL. That is——

Mr. JORDAN. As of December 5, 1929.

Mr. GESELL. Now, from your examination of the company, can you tell us the principal facts which you called attention to in your report, referring to the conclusions at the back of that report?

Mr. JORDAN. The general management; the fact that the salaries were too high and too numerous; the high expenses; the fact that several transfers of policies had been made in the past and were being attempted at the present time; the old Union National deal wherein Mr. Gregory took \$100,000 away from his policyholders in that company for his own benefit; and the deal whereby he got 8,000 shares of stock that was in trusteeship for the benefit of the policyholders of this company; the fact that the Provider's Life Insurance Co. had been reinsured and that as a result of that reinsurance the Federal Reserve Life Insurance Co. had lost about \$400,000 before they ever got started with it; that payment of a brokerage commission to W. K. Herndon for putting that deal over.

Mr. GESELL. Now, right away on that, did the Kansas department take any action against Mr. Herndon because of his participation in these transactions?

Mr. JORDAN. The Kansas department did not.

The disappearance of \$50,000 worth of Liberty bonds——

Mr. GESELL. Now, tell us about that.

Mr. JORDAN. Now, we are going a long way back, based on work I did 10 years ago. My memory may not be the best. At the time of the Provider's reinsurance which was in 1926, some earnest money was put up to guarantee the completion of the deal, and that consisted of \$50,000 in Liberty bonds, or a portion of it was \$50,000 in Liberty bonds. Those bonds were never returned to the Federal Reserve Life Insurance Co. I traced some of them into New York and Chicago and St. Louis banks where they were cashed, but I could never find out what happened to them.

Mr. GESELL. The \$50,000 worth of Liberty bonds just disappeared; is that correct?

Mr. JORDAN. That is right.

Mr. GESELL. Who took them out of the bank? Did your investigation disclose that?

Mr. JORDAN. I don't believe it does [examining record].

Mr. GESELL. All your investigation was able to disclose was that there were \$50,000 worth of Liberty bonds which disappeared from the portfolio of the company?

Mr. JORDAN. That is right.

Mr. GESELL. Some time in 1926?

Mr. JORDAN. Uh, huh.

The VICE CHAIRMAN. Mr. Jordan, you referred earlier to the fact that this \$50,000 worth of bonds was either all or part of some "earnest" money put up in connection with the first insurance.

Mr. JORDAN. Yes, sir.

The VICE CHAIRMAN. It must have been put up by someone with someone. If you could ascertain that it was put up in connection with that deal, I should think there must have been some way to ascertain that.

Mr. JORDAN. You are just going so far back that I don't remember the details of it now.

Mr. GESELL. Can't you look at your report and refresh your recollection with respect to that?

Mr. JORDAN. It isn't in here.

Mr. GESELL. You didn't report the \$50,000 deal in your report?

Mr. JORDAN. Not here; I don't think so. The dates are 1932 and 1933 on this.

Mr. GESELL. You didn't find out about that until after your report?

Mr. JORDAN. That is right.

Mr. GESELL. Then you were mistaken when you said that that was one of the things involved in your investigation of the report?

Mr. JORDAN. Yes, sir; I was.

Mr. GESELL. Well, now, I want to ask you a little bit about the arrangement that the company had with the Bushman interests. Did they have an arrangement with respect to placing more loans with the Bushmans subsequent to this change in the management when you came in?

Mr. JORDAN. No, sir. The arrangement with the Bushmans was by means of a contract dated July 7, 1928; under which the Federal Reserve Life Insurance Co. agreed to buy 2¾ million dollars' worth of securities from Mr. Bushman.

Mr. GESELL. Well, that contract was still in effect when you come in?

Mr. JORDAN. Yes, sir.

Mr. GESELL. Was it canceled?

Mr. JORDAN. No, sir.

Mr. GESELL. Did it continue in effect after the Bushmans became directly interested in the management of the Federal Reserve?

Mr. JORDAN. Yes, sir.

Mr. GESELL. How much was loaned on that contract in all?

Mr. JORDAN. Oh, perhaps a million and a half dollars. I can't say for sure.

Mr. GESELL. Now, when was this receivership petition filed that put the company into receivership finally in 1936?

Mr. JORDAN. I believe it was filed in 1935.

Mr. GESELL. In 1935?

Mr. JORDAN. Yes.

Mr. GESELL. Had there been previous efforts to put the company into receivership on behalf on the policyholders?

Mr. JORDAN. There had been two previous attempts to do that. The first was filed the day the new officers went into the company in December 1929.

Mr. GESELL. That was filed by a policyholder, was it?

Mr. JORDAN. I think policyholders and stockholders.

Mr. GESELL. What happened to that action?

Mr. JORDAN. That action was finally dismissed. It was brought in the Wyandotte County court at Kansas City, Kans. After it pended for a year, year and a half, 2 years, it was finally dismissed. The next attempt was a suit by a stockholder filed at Topeka, Kans., and it continued for a year or two, and we finally won that in the United States Supreme Court. Then this third attempt in the Federal court in the district of Kansas.

Mr. GESELL. Now, what would you say were the reasons for the failure of the company?

Mr. JORDAN. Bad assets and mismanagement.

Mr. GESELL. You would attribute the failure, then, primarily to the events which took place prior to your coming into connection with the management?

Mr. JORDAN. I would; yes.

Mr. GESELL. How many new policyholders would you say entered the company between the time you rendered this report in 1929 and the time the company failed in 1936?

Mr. JORDAN. The company didn't write very much new business. Its in-force fell off from 70 millions to approximately 40 millions. The new policyholders were very limited.

Mr. GESELL. Have you any idea as to how many did come in during that period?

Mr. JORDAN. No; I couldn't hazard a guess. We were losing business much faster than we were writing it.

Mr. GESELL. And yet, during that period you kept the company alive?

Mr. JORDAN. Yes, sir.

Mr. GESELL. Now, among the mismanagement features of the failure, I imagine you refer to bad investments by the company?

Mr. JORDAN. Yes, sir.

Mr. GESELL. What would you consider were some of the outstandingly poor investments that the company had made?

Mr. JORDAN. Well, I wouldn't limit mismanagement to bad investments.

Mr. GESELL. I beg your pardon?

Mr. JORDAN. I say, I wouldn't limit mismanagement to bad investments.

Mr. GESELL. I understand that, but that is one feature of the mismanagement, as you know. What were some of the least advisable investments that had been made by the company?

Mr. JORDAN. The investment in purchasing the Providers Life Insurance Co., taking over one mortgage among the Providers assets in the amounts of \$246,000.

Mr. GESELL. Now, will you please tell us about that mortgage? Did you trace the history of it?

Mr. JORDAN. Yes, sir.

Mr. GESELL. And certain other southeast Missouri mortgages?

Mr. JORDAN. That is a mortgage on some 3,000 acres of land located in Mississippi County, Mo.

Mr. GESELL. What did you determine with respect to that?

Mr. JORDAN. That had previously been mortgaged to the Missouri State Life Insurance Co., and in 1923 was appraised by them at \$60,000 for a \$30,000 mortgage. It came to the Federal in the amount of \$246,000.

Mr. GESELL. Well, in what way had it been written up in the interim? Who owned the land?

Mr. JORDAN. The land was owned by the Hunter Land & Investment Co., at the time the Missouri State Life Insurance had a mortgage on it. Subsequent to that the title passed to E. W. Rolwig, I think, of St. Louis, and when these mortgages came to the Federal Reserve Life on the Providers deal, they were in the name of straw men, as far as we could determine.

Mr. GESELL. Who did you determine these straw men to be?

Mr. JORDAN. Oh, I think a bunch of Negroes and some white men living around the country who didn't have anything.

Mr. GESELL. One of them was a fugitive from justice, one was a bootblack, and one was in jail, and one was dead.

Mr. JORDAN. I wouldn't be surprised if that is about the history of them.

Mr. GESELL. Who really owned the land?

Mr. JORDAN. The interest on the mortgages had been paid by J. De Buchananne. I don't know who owned the land.

Mr. GESELL. And Mr. De Buchananne was the president of the Providers at the time of the reinsurance deal with Federal Reserve?

Mr. JORDAN. Yes, sir.

Mr. GESELL. And how much had Providers loaned to this De Buchananne land prior to the reinsurance deal?

Mr. JORDAN. The original face of the mortgage was for \$310,000.

Mr. GESELL. And had that been immediately prior to the reinsurance deal that that loan on the mortgage was made?

Mr. JORDAN. I think it was in the summer before the reinsurance was made.

Mr. GESELL. And when you finally appraised the value of that land, you found it to be how much?

Mr. JORDAN. Oh, about \$30,000. Most of it had grown up into cottonwoods.

Mr. GESELL. Is it true that losses were also suffered by the company as a result of the loans made through this Bushman contract?

Mr. JORDAN. Yes, sir.

The VICE CHAIRMAN. How did those losses come about in that Bushman deal? Did you explain it?

Mr. JORDAN. When I say that, I say it with this regard, that at the time of the demise of this company, that property in Detroit was appraised, and a certain value set upon it. Upon that basis it was reinsured, and upon that value and that basis there was a loss.

The VICE CHAIRMAN. As compared with the \$400,000?

Mr. JORDAN. As compared with the fact of the mortgage, the original amount.

The VICE CHAIRMAN. The property was Mr. Bushman's after this report, and during this rejuvenation, so to speak, he was made president of the company?

Mr. JORDAN. The mortgages were executed by his father.

Mr. GESELL. They were in the business together? I believe you said that.

Mr. JORDAN. They were partners, but I believe they did business under the name of F. E. Bushman.

Mr. GESELL. I want to show you a memorandum dated December 14, 1932, and ask if that is a memorandum prepared by you as a result of your investigation of the \$375,000 purchase of the Federal Reserve by Mr. Wilson and Mr. Merritt?

Mr. JORDAN (examining memorandum). Yes, sir.

Mr. GESELL. You ascertained the facts contained therein as a result of your investigation?

Mr. JORDAN. Yes, sir.

Mr. GESELL. I wish to offer this memorandum for the record. It simply gives additional information as to how Mr. Wilson and Mr. Merritt raised some of the funds, and will be considered with a subsequent witness.

(The memorandum referred to was marked "Exhibit No. 1348-2" and is included in the appendix on p. 7015.)

Mr. GESELL. Now, there is just one part of your testimony that isn't clear: that relates to these \$50,000 of bonds. If you will read this information a moment, I would like to clarify that.

(The witness read the document.)

Mr. GESELL. Does that refresh your recollection with respect to that \$50,000 of Liberty bonds?

Mr. JORDAN. Yes, sir.

Mr. GESELL. What is your statement with respect to that now?

Mr. JORDAN. I became interested in the whereabouts of these \$50,000 of bonds at the time the Federal Reserve Life Insurance Co. was suing Providers Life for a cancelation of the Providers' contract, and to recover all other moneys that the receivers of the Providers might have.

In May of 1926 the Federal Reserve had paid the Providers \$50,000 for the purchase of certain mortgages, and when we attempted to locate these bonds in the assets of the Providers Life Insurance Co., we were unable to do so.

Mr. GESELL. You subsequently traced the bonds, did you not, and found that they had been cashed at various banks?

Mr. JORDAN. The bonds had been subsequently cashed at various banks.

Mr. GESELL. You never knew who it was that took this \$50,000 out of the portfolio?

Mr. JORDAN. No, sir.

Mr. GESELL. Was there a suit brought at one time against the various principals in this matter?

Mr. JORDAN. Yes, sir.

Mr. GESELL. Was that suit settled?

Mr. JORDAN. Yes, sir.

Mr. GESELL. For what amount?

Mr. JORDAN. It was settled as regards the Gregory interests for, I believe, \$20,000; as regards D. H. Holt and Vernon Holt, I don't remember the exact amount.

Mr. GESELL. \$5,000, wasn't it?

Mr. JORDAN. No.

Mr. GESELL. Did Herndon pay anything on that settlement?

Mr. JORDAN. It was settled as regards W. K. Herndon for \$5,000.

Mr. GESELL. I have no further questions.

The VICE CHAIRMAN. I should like to ask this witness one or two questions about that report. As I understand it, that report was the result of an examination by you and examiners representing insurance commissioners of other States.

Mr. JORDAN. Several States; yes, sir.

The VICE CHAIRMAN. And having been prepared, it was submitted to the Insurance Commissioner of the State of Kansas only.

Mr. JORDAN. Of the State of Kansas.

The VICE CHAIRMAN. Would that be the standard procedure in such a convention examination?

Mr. JORDAN. There were hearings before the Kansas Commissioner on this examination report in which the other commissioners participated.

The VICE CHAIRMAN. You mean a public hearing?

Mr. JORDAN. No; a hearing with officers of the company.

The VICE CHAIRMAN. Do you know why it was determined not to publish the report or to give it any publicity?

Mr. JORDAN. Because certain conditions complained of had been remedied and a substantial contribution had been made to the surplus of the company.

The VICE CHAIRMAN. But the situation creating such conditions as the lending of large sums of money secured by real estate not of sufficient value to protect the loan—that sort of situation was not remedied, was it, except to the extent that an addition to capital may have made the financial condition of the company a little more sound.

Mr. JORDAN. You mean as a furtherance of the loans to the Bushman interests.

The VICE CHAIRMAN. Nothing was done about the loans to the Bushman interests.

Mr. JORDAN. There were certain other loans made to the Bushman interests.

The VICE CHAIRMAN. You mean subsequent to that report?

Mr. JORDAN. Yes, sir.

The VICE CHAIRMAN. Do I understand that it was the consensus of opinion of the commissioners of the States which participated in the convention examination that no good purpose would be served by making available to the public the nature of the conditions found to exist in that company?

Mr. JORDAN. That is right.

The VICE CHAIRMAN. It was not the determination of the Kansas commissioner alone?

Mr. JORDAN. Not alone. All departments were represented at the hearings on it.

Mr. GESELL. When you said this was never transmitted to the other insurance departments, you mean it was never transmitted officially?

Mr. JORDAN. That is correct.

Mr. GESELL. They were familiar with its contents.

Mr. JORDAN. I think so.

Mr. GESELL. I don't want what you think, I want to know what is true.

Mr. JORDAN. It wasn't my job to send reports around to various insurance departments and I don't know whether it was sent to the other departments or not, but each department who was represented there had an examiner and naturally when he had been away from home 6 months he would go home and tell his boss about what he had been doing.

Mr. GESELL. Representatives of Kansas, Missouri, Illinois, and Indiana all signed this report.

Mr. JORDAN. That is right.

The VICE CHAIRMAN. And subsequent to preparation of the report a hearing was held before the commissioner of Kansas at which the other commissioners were represented?

Mr. JORDAN. At which representatives of the other insurance departments were present. I may have been the examiner on the job, or it may have been the commissioner.

The VICE CHAIRMAN. Was the purpose of the hearing to determine whether or not to publish the report?

Mr. JORDAN. No; to determine what to do about the company.

The VICE CHAIRMAN. But at that time it was decided it would not be published?

Mr. JORDAN. At that time it was decided to withhold the report.

Mr. GESELL. I should like, if the committee please—this volume contains 237 pages—to read the conclusions for the record.

The VICE CHAIRMAN. Is that report a report that we may keep?

Mr. GESELL. This is the report which has been identified by Mr. Jordan. I would like to file the entire report, not for printing but in the record, with the understanding that I can substitute a photostatic copy thereof with a few days.

Can we have an exhibit number for the report dated Kansas City, Kans., December 5, 1929.

(The report referred to was marked "Exhibit 1348-3" and is on file with the Committee.)

Mr. GESELL. The conclusion states as follows [reading from "Exhibit No. 1348-3"]:

The acts of the management, as reflected in the general conduct of the company's affairs and discussed throughout this report, are submitted in brief form. Your examiners feel that the subjoined matter will focus attention and result in appropriate action by state officials:

Frequently changing the bylaws of the company prior to May 1927, when the present Insurance Code went into effect, without complying with the law governing such changes.

Irregular payments of policy dividends.

Payment of survivor dividends without the authority of the board of directors.

Taking the money of one who had applied for stock in the Union National Life (\$4,800.00 from the Rushtons) and entering the same on the cash journal of the Federal Reserve Life simply as a contribution to surplus.

Permitting W. H. Gregory to use the name of the company and the office machinery to assist himself in disposing of certain stock for his own benefits.

Transferring \$20,000.00 from the surplus of the company on December 31, 1926, to the capital stock account without the authority of the board of directors.

Accepting from the Providers Life Assurance Company as a credit on policy reserves under the reinsurance contract of April 30, 1926, certain securities which would have been found to be practically worthless if they had been inspected in good faith.

Buying mortgages with a face value of \$50,000.00 from the Providers Life, in addition to the securities turned over as reserves, and then charging the loss sustained on these mortgages back against the reinsurance contract.

Paying W. K. Herndon, special examiner for the Kansas Insurance Department, a fee on account of his services in connection with the Providers Life reinsurance.

Paying W. H. Gregory first-year commissions for "twisting" the Providers Life policies such as commissions being greatly in excess of the commissions Gregory was entitled to receive under his contract.

Paying W. H. Gregory renewal commissions for "twisting" Provider's Life policies such as commissions being greatly in excess of the commissions Gregory was entitled to receive under his contract.

Attempting to reimburse W. H. Gregory for losses of \$23,470.00 insured in the cancellation of certain policies.

Permitting stock held in the name of W. H. Gregory to be transferred on the records of the company when Gregory was heavily indebted to the company.

Issuing 8,000 shares of stock on December 21, 1925, to W. H. Gregory for \$10.00 a share without any action on the part of the board of directors and at a price that was \$16.00 a share lower than the then actual book value of the stock.

Advancing the Federal Agency Investment Company (W. H. Gregory) \$99,000.00 in the first three months of 1926 so that Gregory might pay for the 8,000 shares of stock he had acquired from the company.

Careless and inaccurate methods of writing up or of the issuing of stock certificates.

Payment of extortionate commissions on the business of the "Accident Department" to R. L. Gregory, to R. E. Gregory, and W. H. Gregory, said commissions being \$140,490.85 in excess of the commissions authorized. Even the authorized commissions can be said to be entirely too high.

Entering into a contract with the Postal Life and Casualty Company, Kansas City, Mo., on the reinsurance of the "Accident Department" thus attempting to absolve R. L. Gregory, R. E. Gregory, and W. H. Gregory from all responsibility for losses suffered by the Federal Reserve Life during the operation of the "Accident Department."

Frequent changes in the number of directors without amending the charter.

Failure of the finance committee to function in the discharge of its duties as provided in the bylaws of the company in the purchase and sale of securities, or to keep a suitable record of its transactions.

Failure on the part of the company to keep a record of dividends declared and dividends paid on policies.

Payment of dividends to D. H. Holt, trustee, without insisting that the trustee comply with the conditions of the trust agreement relating to the return to be made to the company and to the investment of funds to be held for certain original and subsequent subscribers.

Failure of the company to make up a schedule of dividends paid the trustee in accordance with the terms of the trust agreement.

Failure of the company to pay the trustee dividends quarterly as provided for in the trust agreement.

Practice of fraud and deceit against policyholders and stockholders.

Payment of survivorship dividends to D. H. Holt, trustee, when the stock involved was fully paid for and when the dividend should have gone to the policyholder direct.

Releasing mortgages without collecting interest in full.

Using the Federal Reserve Life Insurance Company, the Federal Agency Investment Company, the Insurance Investment Corporation, The Reserve Company, and D. H. Holt, trustee, to advance the case and make gain for individual officers of the company.

Granting certain officers of the Federal Reserve Life authority to borrow unlimited funds at any time in the name of the company.

Borrowing \$50,000,000 from the Commerce Trust Company, Kansas City, Mo., when there was no deposit in banks, funds far in excess of the amount borrowed.

Failing to enter on the records of the Federal Reserve Life either the \$50,000.00 borrowed money or its repayment.

Making false entries on the records of the Federal Reserve Life concerning the payment of \$41.67, interest paid for borrowed money.

Carrying large company balances in certain banks where the officers of the company were heavily indebted personally.

Failing to act promptly in the best interests of the company in foreclosing the Providers (Mississippi County) mortgages and in bringing to justice the perpetrators of this fraud on the company.

Creating numerous offices and paying salaries to the officers filling same far in excess of the value of the services rendered by such officers.

Paying large expense accounts of officers when no vouchers, as required by law, had been filed.

Paying traveling expenses of E. W. Merritt, Jr., to his home in New Jersey, the officer not traveling in the interests and on the business of the company

For placing certain persons on the pay roll of the Federal Reserve Life who performed no services, but to whom certain officers of the Federal Reserve Life were indebted.

Payment of \$15,000.00 attorney fee during 1926 to J. M. Meek on the recommendation of E. H. Henning, counsel, when Meek rendered no services to the company.

Paying the clerk hire and office rent of Massey Wilson, St. Louis, Mo., when there was no need of a clerk or an office, and such were used for other than the business of the Federal Reserve Life.

Accepting from the United States Reserve Insurance Corporation in satisfaction of the reinsurance contract securities that fell far short of meeting the statutory requirements.

Failing to collect from the United States Reserve Insurance Corporation sufficient securities to offset the liabilities assumed on the business reinsured.

Adjusting part of the shortage in U. S. Reserve assets in the payment of the participating certificates issued to the U. S. Reserve by the Federal Reserve Life.

Paying the certificates issued to the United States Reserve Insurance Corporation contrary to the provisions of the reinsurance contract and against the orders of the Kansas Insurance Department.

Advancing the Reserve Company (E. W. Merritt, Jr.) considerable sums of money during 1928 and failing to collect interest on same.

Accepting from the Farmers National Life Insurance Company in satisfaction of the reinsurance contract securities that were improper and securities that fell far short of meeting the Kansas statutory requirements.

Paying to the Farmers National Life \$88,027.37 over the objection of the Kansas Insurance Department due to the fact that the Farmers National Life had not fulfilled its part of the reinsurance contract.

Taking liquid assets from the Federal Reserve Life in exchange for the Farmers National Life office building in Chicago in violation of Section 40-228, Kansas Insurance Code.

Using the machinery of the company to "twist" U. S. Reserve policyholders, just after the Federal Reserve Life had paid for and had taken over the business, and paying a heavy commission on the "twisted" business, all for the benefit of an officer of the Federal Reserve Life (E. W. Merritt, Jr.), who controlled the Reserve Company which held the contract for "twisting" the U. S. Reserve policyholders. Merritt even received a certain percent of the Reserve Company contract for putting the deal through.

Purchasing and accepting improper assets from the Huron Investment Company—the Commonwealth Fire and Marine.

Selling the home-office building of the Providers Life without showing on the records of the Federal Reserve Life the actual sale price, or accounting for the money paid by the purchaser of the building.

Paying D. H. Holt, treasurer, a salary of \$4,000.00 for the year 1928 while Holt was in Chicago engaged in operating his own general agency, Holt rendering no adequate services in the capacity of treasurer.

Using the machinery of the Federal Reserve Life and its employes to trade Federal Reserve Life stockholders out of their stock—all for the benefit of certain officers of the Federal Reserve Life.

Transferring trusted stock that was improperly paid for (stock lien notes) to persons other than those designated in the stock contracts—all for the benefit of certain officers of the Federal Reserve Life.

Failure to maintain a sufficient reserve deposit with the treasurer of the State of Kansas as is required by the Kansas statutes.

Withdrawing from the reserve deposit maintained with the treasurer of the State of Kansas \$400,000.00 in U. S. bonds and not putting in any sort of a deposit to take the place of the bonds for more than two months.

Converting said bonds to cash and with the cash paying \$400,000.00 for a certain Michigan mortgage—all done in order that the mortgagor might loan the proceeds of the mortgage to Massey Wilson and E. W. Merritt, Jr., officers of the Federal Reserve Life.

Accepting a mortgage on three pieces of land, all situated in Michigan, for \$400,000.00, two parcels of which had prior liens on them, and the third tract with an appraised value of only \$160,000.00.

Entering into an agreement with the mortgagor that the mortgage would be filed against only one piece of property in order that public officials might be deceived as to the real value of the security back of the loan.

Recording the \$400,000.00 mortgage against only one parcel of land with an assessed value of \$85,700.00.

Employing a large force of clerks and incurring other expenses in writing up policies to be exchanged for policies already in the hands of Federal Reserve policyholders when the officers knew that the Actuary of the Kansas Insurance Department, Charles F. Hobbs, now Commissioner of Insurance, had positively refused to approve the exchange (twisting) of the Federal Reserve business.

Keeping funds of the Company outside of the State of Kansas, contrary to the provisions of Section 17-616 of the 1923 General Statutes of Kansas.

I submit, Mr. Jordan, that is quite a lot for the Commissioner not to release, is it not?

The VICE CHAIRMAN. As I listened to the conclusions it occurred to me a substantial number of them were by their terms indicating substantial violations of provisions of the insurance code in Kansas. I wonder if you are sufficiently familiar with the statutes in that State to know whether those statutes were penal, that is criminal, or without any punitive provisions.

Mr. JORDAN. I am not familiar enough to know. I think most of those violations were with regard to corporation laws rather than insurance statutes; that is, the deposits of money without the State, I believe, is an old, old statute that relates to corporations. Now, the others I am not certain about.

The VICE CHAIRMAN. As a practical matter, what would you say would have been the effect of the publication of that report at the time it was made?

Mr. JORDAN. I think the report should have been rewritten and then published. I don't think that report should have been published.

The VICE CHAIRMAN. Explain what you mean. Rewritten in what way?

Mr. JORDAN. That report was made as of—what is the date on that report?

Mr. GESELL. It is dated December 5, 1929.

Mr. JORDAN. The examination is made as of what date?

Mr. GESELL. This page covers the affairs of the company from that date—that is, December 31, 1928, to March 31, 1929.

Mr. JORDAN. You see, that report was 8 months old when it was released.

Mr. GESELL. When it was released?

Mr. JORDAN. When it was filed with the department, completed there.

Mr. GESELL. The report was never released, was it?

Mr. JORDAN. No. It is dated in December and had to do with conditions that existed in March. The report should have been brought down to date.

The VICE CHAIRMAN. You mean, in bringing it down to date, it might have been indicated that some of the things found to exist had been corrected?

Mr. JORDAN. Yes, sir.

Mr. GESELL. But a substantial number of them were things which had actually been done and apparently were not subject to correction?

Mr. JORDAN. There were many things that had been completed that were not subject to correction.

Mr. GESELL. Now, although this report only covered the period indicated as far as the details of the accounts were concerned, you went way back into the history of the company for some 6 years, didn't you?

Mr. JORDAN. Yes.

Mr. GESELL. Might we take a 5-minute recess?

(Five-minute recess.)

The VICE CHAIRMAN. The committee will come to order. Are you through with Mr. Jordan, Mr. Gesell?

Mr. GESELL. I have one or two questions.

Mr. JORDAN. Before you start, may I make one observation?

The VICE CHAIRMAN. Of what nature?

Mr. JORDAN. I wanted, if I might, to say something about that report which we were discussing.

The VICE CHAIRMAN. I think it would be all right.

Mr. JORDAN. As my memory serves me, a hearing was set for the 6th day of January 1930, in Topeka, at which the various commissioners or their representatives were present. As the result of that hearing, a considerable number of liabilities in the report were eliminated. One item in particular, \$400,000 on account of survivorship dividends, which was an actuarial problem, a bond guaranteeing that big Bushman mortgage was issued by a casualty company—I don't remember the name of it just now—and the contribution of \$300,000 to surplus had been made. In the light of those, these commissioners signed a stipulation that the company would be permitted to operate as the result of that hearing.

The VICE CHAIRMAN. Incidentally, it seems to me you indicated a few moments ago that that Bushman transaction represented at the time the company failed a substantial loss.

Mr. JORDAN. I might say that this particular casualty company, and I don't remember the name of it now, failed at a subsequent date.

The VICE CHAIRMAN. So that didn't work out very well, either.

Mr. JORDAN. No; but I wanted you to get the basis upon which the company was permitted to operate.

The VICE CHAIRMAN. I understood you to say when Mr. Hobbs was it—

Mr. JORDAN. Yes, sir.

The VICE CHAIRMAN (continuing). When Mr. Hobbs became insurance commissioner in 1929?

Mr. JORDAN. In 1929.

The VICE CHAIRMAN. He was sufficiently conversant with the situation as it existed in the company so that he was able to tell you just about what to look for.

Mr. JORDAN. Yes, sir.

The VICE CHAIRMAN. And what to do. Does that mean that that condition which prevailed during these previous years that we have been listening to was generally known in the insurance department in the State of Kansas during those 5 years?

Mr. JORDAN. I don't think so. He was not the commissioner, and the information he had was not definite. It had come to him through stool pigeons who were in the company.

The VICE CHAIRMAN. What was his office?

Mr. JORDAN. He was actuary.

The VICE CHAIRMAN. Were you with the department prior to 1929?

Mr. JORDAN. I was with the department about 6 months prior to 1929. I had never heard of this condition myself.

Mr. GESELL. What do you mean that information had come to Mr. Hobbs from stool pigeons in the company? Is that the way you get the information?

Mr. JORDAN. He had a couple of fellows in the company who used to come up and see him and tell him about things that were going on.

Mr. GESELL. Now, there was an examination of the company made as of June 1933, was there not?

Mr. JORDAN. Yes, sir.

Mr. GESELL. Do you recognize this as a copy of the report from the files of the Federal Reserve Co.?

Mr. JORDAN. Yes, sir.

Mr. GESELL. How many pages is that report?

Mr. JORDAN. 205.

Mr. GESELL. That reiterates some of the questions we have been considering here, does it not?

Mr. JORDAN. Yes, sir.

Mr. GESELL. That report was not released either, was it?

Mr. JORDAN. No, sir.

Mr. GESELL. That is all the questions I have.

The VICE CHAIRMAN. Is that a convention report?

Mr. JORDAN. It is a convention examination; yes.

The VICE CHAIRMAN. What departments were there?

Mr. JORDAN. Kansas, Illinois, Indiana, Missouri, and Ohio.

Mr. GESELL. That report was never released either, was it?

Mr. JORDAN. No, sir.

The VICE CHAIRMAN. What happened to it? Was it just received and filed?

Mr. JORDAN. I was not in the department then.

The VICE CHAIRMAN. Were you with the company then?

Mr. JORDAN. I was with the company then.

Mr. GESELL. I have no further questions.

The VICE CHAIRMAN. I think that is all; thank you very much.

Mr. GESELL. If we might, I would like to adjourn today until tomorrow morning.

The VICE CHAIRMAN. There is no objection.

Mr. GESELL. I believe we will be able to conclude by noon tomorrow.

(Whereupon, at 4 p. m., the subcommittee adjourned until 10:30 a. m. the following day, Friday, December 8, 1939.)

INVESTIGATION OF CONCENTRATION OF ECONOMIC POWER

FRIDAY, DECEMBER 8, 1939

UNITED STATES SENATE,
SUBCOMMITTEE OF THE TEMPORARY
NATIONAL ECONOMIC COMMITTEE,
Washington, D. C.

The subcommittee met at 10:50 a. m., pursuant to adjournment on Thursday, December 7, 1939, in room 357, Senate Office Building, Joseph J. O'Connell presiding.

Present: Mr. O'Connell (vice chairman), Representative Reece, and Mr. Brackett.

Present also: Harry J. Daniels, representing Department of Commerce; Gerhard A. Gesell, special counsel; Helmer Johnson, and Erik G. Peterson, attorneys, and H. A. Blomquist, investigator, Securities and Exchange Commission.

The VICE CHAIRMAN. The hearing will please come to order. Are you ready to proceed, Mr. Gesell?

Mr. GESELL. Yes, I am. Mr. De Buchananne.

The VICE CHAIRMAN. Will you raise your right hand? Do you solemnly swear that the testimony that you are about to give in this proceeding will be the truth, the whole truth, and nothing but the truth, so help you God?

Mr. DE BUCHANANNE. I do.

TESTIMONY OF J. D. DE BUCHANANNE, MIAMI, FLA.

FEDERAL RESERVE—ACTIVITIES OF J. D. DE BUCHANANNE

Mr. GESELL. Will you state and spell your name?

Mr. DE BUCHANANNE. J. D. De Buchananne, D-e B-u-c-h-a-n-a-n-n-e.

Mr. GESELL. Where do you live?

Mr. DE BUCHANANNE. I live in Miami, Fla., now.

Mr. GESELL. What is your present occupation?

Mr. DE BUCHANANNE. Manager of an apartment building.

Mr. GESELL. Did you at one time engage in the insurance business?

Mr. DE BUCHANANNE. Yes, sir.

Mr. GESELL. During what period of time were you in that business?

Mr. DE BUCHANANNE. Well, do you mean in connection with my insurance company or when I was, so to speak, in business for myself?

Mr. GESELL. You were in business for yourself, and you were connected with companies in an official capacity?

Mr. DE BUCHANANNE. I worked for companies before.

Mr. GESELL. When did you first go in?

Mr. DE BUCHANNE. I think I started in 1918. I went to work in the International Life in St. Louis.

Mr. GESELL. The International Life in St. Louis?

Mr. DE BUCHANNE. Yes.

Mr. GESELL. When did you leave the insurance business?

Mr. DE BUCHANNE. Let me think. About 1928, I believe it was; 1928 or '29.

Mr. GESELL. And you have not been connected with it since?

Mr. DE BUCHANNE. I have not been connected since.

Mr. GESELL. You have not had in any way, any connection since that time?

Mr. DE BUCHANNE. No; not since that time.

Mr. GESELL. Well, now, in what capacity did you start to work with the International Life Insurance Co. of St. Louis?

Mr. DE BUCHANNE. I think I went as agent first, writing business in the city of St. Louis, and outlying counties.

Mr. GESELL. Who operated that company?

Mr. DE BUCHANNE. The principal officers at that time, Mr. Massey Wilson, J. L. Babler, and Mr. F. E. Granges.

Mr. GESELL. Was that a legal reserve life-insurance company?

Mr. DE BUCHANNE. Yes, sir.

Mr. GESELL. How long were you with the International Life?

Mr. DE BUCHANNE. I think 4 or 5 years; I can't recall the exact dates.

Mr. GESELL. Then where did you go?

Mr. DE BUCHANNE. That was the time when Mr. Babler and Mr. Wilson sold their interest in the International Life to the Standard Life Insurance Co. of Decatur, and for a couple or 3 months I didn't do anything, and then Mr. J. L. Babler, and E. W. Merritt, and I organized the North American Holding Co.

Mr. GESELL. The North American Holding Co.?

Mr. DE BUCHANNE. The North American Co.

Mr. GESELL. What year was that?

Mr. DE BUCHANNE. I couldn't give you the exact year on that.

Mr. GESELL. Aaround 1923, was it?

Mr. DE BUCHANNE. '23 or '24; yes.

Mr. GESELL. And Mr. Merritt is the same Mr. Merritt who was mentioned in the testimony yesterday?

Mr. DE BUCHANNE. That is right; yes.

Mr. GESELL. He was with you in that venture and also Mr. Babler?

Mr. DE BUCHANNE. Yes, Mr. Babler; he and I organized the company.

Mr. GESELL. The North American Co. had its offices where?

Mr. DE BUCHANNE. In the Railway Exchange Building in St. Louis.

Mr. GESELL. And it was a holding company?

Mr. DE BUCHANNE. It was on the order of a holding company, but its main purpose was to broker insurance, transfer and rewrite, that was Mr. Merritt's line of work, that was what it was organized for.

Mr. GESELL. You mean it held insurance stocks?

Mr. DE BUCHANNE. Yes. That was its purpose; that was what it was organized for; to hold insurance stock, to act as broker to buy

one company and sell to another, and transfer business, and rewrite business, as has been discussed along that line.

Mr. GESELL. How long were you with that company?

Mr. DE BUCHANANNE. I guess it was about 5 years; it was 1928 when I sold my interest in that company.

Mr. GESELL. Whom did you sell your interest to?

Mr. DE BUCHANANNE. To Mr. J. N. Mitchell and John B. Smith, I believe, from Kansas.

Mr. GESELL. Mr. Smith is the man who had been in the insurance department, whose name was mentioned yesterday?

Mr. DE BUCHANANNE. That is correct.

Mr. GESELL. Was Mr. Herndon connected with that transaction?

Mr. DE BUCHANANNE. Mr. Herndon brought about the deal; he was the broker in the deal.

Mr. GESELL. He brokered the sale of the North American Co.?

Mr. DE BUCHANANNE. To Mr. Mitchell and Mr. Smith; yes.

Mr. GESELL. And that was about—

Mr. DE BUCHANANNE. 1928, I believe, in December.

Mr. GESELL. During the time you were with North American, I take it, it acquired various companies.

Mr. DE BUCHANANNE. Yes; we loaned money to several different insurance officers. I can't recall just all those transactions.

Mr. GESELL. How many companies did you acquire?

Mr. DE BUCHANANNE. Along in '26 or '27, Mr. Merritt and I bought the holdings of Mr. Babler in North American.

Mr. GESELL. You became the sole owner?

Mr. DE BUCHANANNE. We became the sole owner with some other gentlemen in Illinois. Then we bought the Kaskaskia Life Insurance Co.

Mr. GESELL. That is the K-a-s-k-a-s-k-i-a Insurance Co.?

Mr. DE BUCHANANNE. That is right; Kaskaskia, Ill.

Mr. GESELL. Is that a legal-reserve company?

Mr. DE BUCHANANNE. Yes; a legal-reserve company.

Mr. GESELL. You said you bought it? How did you buy it?

Mr. DE BUCHANANNE. We bought the stock from the officers of the company.

Mr. GESELL. Did anybody brokerage this transaction?

Mr. DE BUCHANANNE. No; there was no brokerage at all.

Mr. GESELL. Who received the commissions for it?

Mr. DE BUCHANANNE. There was no commission paid.

Mr. GESELL. Just a straight purchase?

Mr. DE BUCHANANNE. Yes.

Mr. GESELL. The Kaskaskia—

Mr. DE BUCHANANNE (interrupting). We did that work ourselves and saved the commission for the company.

Mr. GESELL. Yes. The Kaskaskia became then a subsidiary of North American?

Mr. DE BUCHANANNE. Yes; that is true.

Mr. GESELL. Now, how did you purchase it, by cash, or did you exchange stock with the stockholders?

Mr. DE BUCHANANNE. No; we purchased the controlling interest by cash and then we exchanged the preferred stock of the North American Co. to the outstanding stockholders for their stock in the Kaskaskia Life.

Mr. GESELL. In other words, you bought control?

Mr. DE BUCHANANNE. That is right.

Mr. GESELL. And then, as far as the other stockholders were concerned—

Mr. DE BUCHANANNE. Then we exchanged them with the North American preferred stock which was a dividend-paying stock and their insurance stock was not. We exchanged our stock for theirs.

Mr. GESELL. You got the common and they got preferred of North American?

Mr. DE BUCHANANNE. That is right.

Mr. GESELL. Now, how do you work such an exchange, Mr. De Buchananne?

Mr. DE BUCHANANNE. Well, its usually, you take the capital and surplus to determine the value of the stock, and then you take the volume of business they have in force on their books, that is, like if they had two or three million—I think this little company had a million five hundred thousand, maybe a little more than that, I don't remember the figures, and insurance is based on the actuarial figures. It runs from \$10 to \$20 a thousand.

Mr. GESELL. What I was trying to get at is how do you handle the actual mechanics of the exchange. I suppose after you have control of the company you are able to get hold of the stockholders' list.

Mr. DE BUCHANANNE. That is the first thing, naturally.

Mr. GESELL. That is a pretty important beginning.

Mr. DE BUCHANANNE. That is pretty important, that is true.

Mr. GESELL. What do you do after that?

Mr. DE BUCHANANNE. We go to the stockholders and we go over with them this preferred stock in exchange for their stock and in most cases these insurance companies never paid any dividends and the holding company had other means of making money and could pay dividends and were paying on our stock then, making loans and commissions, and so on, and it was not a very hard matter to exchange a dividend-paying stock for a nonpaying.

Mr. GESELL. Why did you ever want to exchange?

Mr. DE BUCHANANNE. I don't know as I can tell why, except that gave the holding company the absolute control of the insurance company.

Mr. GESELL. You mean you wouldn't purchase 51 percent, say, from the officers, you would only purchase enough to have working control.

Mr. DE BUCHANANNE. Yes, sometimes; we nearly always in those days would try to get two-thirds because that was what it took to control the company for reinsurance or remain in control.

Mr. GESELL. Why did you want to switch the other one-third into preferred stock?

Mr. DE BUCHANANNE. I can't tell you other than it gave us the control of the company, the holding company. Naturally, that was what the holding company was for, if any merger came about, you didn't have to depend on a lot of outside voting, naturally the officers would vote the way the holding company directed.

Mr. GESELL. If you had 100 percent of the common stock and switched it to common—

Mr. DE BUCHANANNE (interposing). The preferred stock holders couldn't vote until the dividend has been in default 2 years, and then they could vote and have the same vote that a common stockholder had.

Mr. GESELL. So if you wanted to brokerage the Kaskaskia and there were no common stockholders except yourself, you didn't have to face the possibility of having some dissenting group, you wouldn't even have to call a stockholders' meeting.

Mr. DE BUCHANANNE. No, sir; that is right.

Mr. GESELL. And that way you could decide the fate of the policyholders of that company without any possible opposition from any shareholders.

Mr. DE BUCHANANNE. Yes; that is true.

Mr. GESELL. Was that your purpose in switching all of the common stockholders into preferred of North America?

Mr. DE BUCHANANNE. Well, I don't know, I can't say exactly that it was, I don't know as we had that in mind. We knew that operating insurance companies, at least small companies, couldn't pay dividends until they got a certain volume of business. We considered they had to have 30 or 40 million of business before the insurance company would pay dividends, and the idea was to take the companies and build them up by buying other smaller companies, and it made the mechanics easier, and the greatest help was that it required less cash. It you went out to buy a company, take an example, say \$100,000 capital and you get 66 $\frac{2}{3}$ percent of the stock of that company, it might require seventy-five or eighty thousand. If you bought it all it might require around one hundred thirty, forty. Instead of putting out the cash for other stock, we would trade our preferred stock in the holding company, and that would leave that other company to come into the holding company to give it liquid assets.

Mr. GESELL. Would you say it was one of the considerations that you wished to have no stockholders who might in any way object to such transactions as you wished to carry forward?

Mr. DE BUCHANANNE. I don't really believe that was as much an objective as to sell his preferred stock and acquire the cash and have money to go out and buy another company, to keep on building up the company, buying up smaller companies.

Mr. GESELL. After this transaction, did you purchase any other companies?

Mr. DE BUCHANANNE. We purchased the Two Republics of El Paso, Tex.

Mr. GESELL. Before that, do you recall any other purchases?

Mr. DE BUCHANANNE. We didn't purchase another one, but we insured the Western Life Insurance Co., which was an assessment company in Chicago.

Mr. GESELL. That company had about three million in force?

Mr. DE BUCHANANNE. Two million eight hundred thousand, something like that; yes.

Mr. GESELL. You didn't purchase the stock of that company?

Mr. DE BUCHANANNE. There was no stock; that was what is called an assessment company.

Mr. GESELL. You just reinsured it.

Mr. DE BUCHANANNE. We did that at the instance of the Illinois Insurance Department.

Mr. GESELL. What do you mean by that?

Mr. DE BUCHANANNE. The company was going behind, the policyholders were getting to be quite old and apparently some mismanagement, and they didn't want the company to close up, they wanted to protect the policyholders, and it was harder to get any of the larger companies to take it over so we were approached in the matter.

Mr. GESELL. You were approached in the matter?

Mr. DE BUCHANANNE. Yes, sir.

Mr. GESELL. You, personally?

Mr. DE BUCHANANNE. Yes, sir.

Mr. GESELL. Who approached you?

Mr. DE BUCHANANNE. I believe it was Mr. Huskinson, of the Illinois Insurance Department.

Mr. GESELL. Was he commissioner then?

Mr. DE BUCHANANNE. He was insurance commissioner then.

Mr. GESELL. What did he say to you?

Mr. DE BUCHANANNE. He told us this little company was having some difficulties. It had mismanagement and they weren't going to continue to let it run and weren't getting any new business, which is the life of a company, getting new business, and he thought we could go see them and make arrangements to reinsure the company. I did with some other officers and, after considerable negotiations back and forth, we arrived at a plan to reinsure it.

Mr. GESELL. There had been mismanagement in the company?

Mr. DE BUCHANANNE. There had been; yes; expenses entirely too high, and things of that sort.

Mr. GESELL. Officers using the company for their own advantage?

Mr. DE BUCHANANNE. The only thing I found was salaries, paying agents too great a commission trying to get new business and not getting it; too many on salary accounts instead of on commission accounts. We reinsured that business.

Mr. GESELL. You reinsured it into——

Mr. DE BUCHANANNE (interposing). The Mississippi Valley which was the Kaskaskia Life; we had changed the name, the Indian name, to Mississippi Valley.

Mr. GESELL. You changed Kaskaskia to Mississippi Valley?

Mr. DE BUCHANANNE. That is right.

Mr. GESELL. And then you reinsured this Western——

Mr. DE BUCHANANNE (interposing). Western Life business and issued them policies in the Mississippi Valley Life.

Mr. GESELL. You issued them policies in that, I see. Then you were going to tell us about the Two Republics.

The VICE CHAIRMAN. Did that transaction involve rewriting the insurance, too?

Mr. DE BUCHANANNE. No; it did not. In that case we arrived at a rate we were willing to take these risks on at and gave them what we called a 5-year renewal term policy and at the end of 5 years the rate would increase. That is the only way we would take them over and we received from the assets of the Western, I think, just the first one monthly premium on the business. That is all the money they had and the policyholder paid us each month thereafter.

The VICE CHAIRMAN. Didn't policyholders have a different form of contract?

Mr. DE BUCHANANNE. They did, much different.

The VICE CHAIRMAN. Wasn't it a matter of rewriting the insurance?

Mr. DE BUCHANANNE. We wouldn't go to the expense of rewriting, it wasn't enough of it and we didn't think it could be done profitably and we wouldn't take the risk unless we got a higher rate.

Mr. GESELL. Who forced the policyholders to change?

Mr. DE BUCHANANNE. The reinsurance contract was so worded that they could accept it if they wanted to. Those who didn't could give their policy to the insurance commissioner and go through the liquidation and receive whatever might be coming to them from that and a few did file claims with the commissioner.

The VICE CHAIRMAN. The net result was as if you had rewriting, wasn't it?

Mr. DE BUCHANANNE. That is right, because the rates were inadequate.

The VICE CHAIRMAN. And the new contract was more favorable to the company than had been the original?

Mr. DE BUCHANANNE. That is true.

Mr. GESELL. You were going to tell us about purchasing Two Republics Life of El Paso, Tex.

Mr. DE BUCHANANNE. I think that was in 1927, I believe. I am not quite sure.

Mr. GESELL. How did you purchase that?

Mr. DE BUCHANANNE. We bought the controlling interest of the stock from a Mrs. Rhodes, who was the wife of the former owner and president of the Two Republics.

Mr. GESELL. Where did you get the money to make that purchase?

Mr. DE BUCHANANNE. We had some of it in our holding company and some of it I borrowed personally at the bank. The bank loaned the holding company and we borrowed some from Central States Life Insurance Co.

Mr. GESELL. You borrowed some from Central States?

Mr. DE BUCHANANNE. Yes; the fact of the matter is the Central States Life Insurance Co., as I recall, had a loan on this stock. They had loaned Mr. Rhodes considerable money on the stock. And of course the company was not paying dividends and the widow couldn't keep up the interest.

Mr. GESELL. What connection did you have with Central States?

Mr. DE BUCHANANNE. I had none; it was a company in St. Louis, and Mr. McVoy told me of the company he thought we could buy; he knew we were trying to build up this company and we had this holding company for that purpose and I negotiated for that purchase and we finally purchased the company from them.

Mr. GESELL. Did you get some of the money from the sale of the Republic Casualty Underwriting Co.?

Mr. DE BUCHANANNE. No; I wasn't in that.

Mr. GESELL. Did you exchange preferred stock of North American for the common of the other stockholders of Two Republics?

Mr. DE BUCHANANNE. Some of it; not all of it.

Mr. GESELL. The same method was used?

Mr. DE BUCHANANNE. The same mechanics were used in that as in the other. That was the whole set-up.

Mr. GESELL. Did you then rewrite the business?

Mr. DE BUCHANANNE. We reinsured the business and took over the policies and wrote a little in Arizona.

Mr. GESELL. You reinsured it with the Mississippi Valley?

Mr. DE BUCHANANNE. That is right.

Mr. GESELL. And then rewrote it?

Mr. DE BUCHANANNE. We wrote a little in Arizona.

Mr. GESELL. Who did the rewrite business?

Mr. DE BUCHANANNE. The North American Co.

Mr. GESELL. Mr. Merritt and yourself?

Mr. DE BUCHANANNE. That would be our holding company, yes; but we only paid 30-percent commissions for our rewrite.

Mr. GESELL. As opposed to 85 or 90.

Mr. DE BUCHANANNE. I never paid over 30 percent for a rewrite or exchange or conversion.

Mr. GESELL. You and Mr. Merritt made some commissions on the rewriting of this business, did you not?

Mr. DE BUCHANANNE. The North American Holding Co. made it, yes; and we were some of the officers of it.

Mr. GESELL. You were also stockholders?

Mr. DE BUCHANANNE. Yes; there were six or seven of them.

Mr. GESELL. You said that in 1928 you sold out to Mr. Smith and who else?

Mr. DE BUCHANANNE. Mr. Mitchell.

Mr. GESELL. And Mr. Herndon brokeraged the transaction?

Mr. DE BUCHANANNE. That is right.

Mr. GESELL. He was then examiner for the Kansas department, was he not?

Mr. DE BUCHANANNE. I don't know just what his position was. I know that he examined for several States and did more work for Kansas than any other State. He was not examining us in any way. We were not licensed even in Kansas. Some States have a set of examiners employed by the year and other States I think just call in certain examiners when they have an examination to be made.

Mr. GESELL. Tell me, how much did Mr. Herndon make for brokeraging this transaction?

Mr. DE BUCHANANNE. I think we paid him the usual fee at that time, \$2 a thousand on the business in force.

Mr. GESELL. And how much would that make?

Mr. DE BUCHANANNE. About 22 or 23 thousand dollars.

Mr. GESELL. \$22,000 or \$23,000?

Mr. DE BUCHANANNE. Yes. We had 11 millions of business in force at that time.

Mr. GESELL. That was in 1928?

Mr. DE BUCHANANNE. 1928; yes.

Mr. GESELL. Am I correct in saying the whole shebang went into receivership in 1932?

Mr. DE BUCHANANNE. I don't know the date, Mr. Gesell, but it had quite a hectic career after that. It was sold two or three times, mortgaged to another company and some gentleman, I believe Mr.

Rowling, R-o-w-l-i-n-g, got it and it went into receivership after that.

Mr. GESELL. That was when—about 1932—do you think?

Mr. DE BUCHANANNE. It was 4 or 5 years after I sold out.

Mr. GESELL. You sold out in 1928, it would be 1932 or 1933.

Mr. DE BUCHANANNE. That is right, something like that.

Mr. GESELL. Do you remember having anything to do with the Peoples Life Insurance Co.?

Mr. DE BUCHANANNE. Only I tried to brokerage the Peoples Life Insurance Co.

Mr. GESELL. Did you brokerage it?

Mr. DE BUCHANANNE. I never got any brokerage out of it. My deal fell down and it went through other hands after that.

Mr. GESELL. After you had sold North American you tried to sell Peoples to the Mississippi Valley?

Mr. DE BUCHANANNE. I think that must have been 2 years—wasn't it 2 years after that?

Mr. GESELL. Some time in there, I think.

Mr. DE BUCHANANNE. About 2 years after I sold out, I understood the Peoples Life was for sale and I think myself and Mr. Sees and Mr. Temple, three of us, were working on it with them and we made arrangements where we would receive \$1 a thousand commissions.

Mr. GESELL. You are sure in this sale of North American, Herdon acted not as principal but as broker?

Mr. DE BUCHANANNE. Well, that was the understanding I had, he was acting as a broker and we paid him, because if he had been the principal we wouldn't have paid him a commission.

Mr. GESELL. Tell me a little about the general method of operation which you and your associates followed. Am I correct in saying the first step when you want to consolidate a bunch of insurance companies is to form a holding company?

Mr. DE BUCHANANNE. That is the most practical way that we found to do it; yes, sir.

Mr. GESELL. And then in one way or another you would try to get hold of a working-control interest in some other insurance company.

Mr. DE BUCHANANNE. That is right.

Mr. GESELL. It doesn't make any difference whether that company is in the same State as the holding company or anywhere else in the country?

Mr. DE BUCHANANNE. It doesn't make any difference. We usually tried to get them in States wherein our company was licensed to do business and if it wasn't we would attempt to get a license in that State if we were sure we could consummate a deal. We were not licensed in Texas so before we closed with this woman on the sale of her stock we went to the Texas department and made arrangements to be licensed in Texas.

The VICE CHAIRMAN. As a practical matter, is it a difficult matter to do business in the States?

Mr. DE BUCHANANNE. No; not in those States.

The VICE CHAIRMAN. The fact you were not licensed would not be serious when considering acquiring another company?

Mr. DE BUCHANANNE. If we were not licensed we couldn't acquire the company.

The VICE CHAIRMAN. But you could very easily acquire a license?

Mr. DE BUCHANANNE. Yes, sir; all you needed was to get a report from the department where you were licensed, and forward it on, and there would be some correspondence, and if there was nothing detrimental to us at the home department, the other department would give us our license.

Mr. GESELL. After you had acquired 100 percent of the capital stock, the outstanding stock, I take it that then your next step would be to reinsure the company.

Mr. DE BUCHANANNE. That is right. It was usually done the other way. We would take and buy the controlling interests first and then call a stockholders' meeting, have the control of the stock of the new company and owned control of the stock of the new company, so we would call stockholders' meetings of both companies and submit this reinsurance contract which would have previously been okayed by the insurance departments of both States. We would have to submit a tentative reinsurance agreement to them.

Mr. GESELL. And by that time you would have switched most of the other stockholders into the preferred of the holding company.

Mr. DE BUCHANANNE. We didn't go after them until the reinsurance contract was a matter of fact and closed and then we could go to them and show them we had taken the company over, and here is what they could have or they could wait for liquidation of their stock, and 80 or 90 percent of them always exchanged.

Mr. GESELL. So you were doing two types of rewriting operation; one, rewriting the holdings of the stockholders, the other the rewriting of the business of the policyholders of the company which was being reinsured.

Mr. DE BUCHANANNE. That is right.

Mr. GESELL. And that was a definite method of operation which you pursued?

Mr. DE BUCHANANNE. Yes, sir. There were some reasons for that; on the rewriting as soon as a company changed hands with other companies, oftentimes some of the larger companies, their agents would go around the town soliciting new insurance and the man would say, "I have a certain amount of insurance."

"What companies are they with?" and you would enumerate and say certain companies, for instance you would mention the Two Republics, and they would say, "That company has quit and gone out of business, it is no good," and they would raid our business that way. But if we would get it on our own policy of the new companies, they wouldn't say that, and that way we could offset our competition.

There was a profit in it, that was the greatest reason in rewriting; there is a profit in it.

Mr. GESELL. I thought we were in agreement on that. Was another reason for rewriting the business the possibility that by so doing you could lapse off bad claims?

Mr. DE BUCHANANNE. We never tried to lapse off any that way, but it gave you an absolutely current report on all your policyholders which you could watch very closely. If you had an opportunity to drop the policy, I don't think we ever missed it. It was considered pretty good business. If a man lapsed his policy, we wouldn't take him back.

Mr. GESELL. By approving policyholders on this rewriting operation, you would find out the undesirable risks?

Mr. DE BUCHANANNE. That is true.

Mr. GESELL. And then watch their premium payments carefully and lapse off the first chance you had?

Mr. DE BUCHANANNE. And lots of them would be late in premiums and we would take lots of them back with a self-help certificate. People like that we would require an examination of.

Mr. GESELL. Sometime you would overlook sending them a premium notice?

Mr. DE BUCHANANNE. No; we never did that.

Mr. GESELL. Let me ask you this. How did you find out about these companies that were for sale?

Mr. DE BUCHANANNE. Well, that is kind of like politics, I guess, just mixing around in insurance meetings and commissioners' meetings and things of that sort. Through examination and so on, you could get information the company was slipping. Sometimes we would take the reports and look over the Best's reports and we could tell pretty well, we used to say, "Ready for the doctor."

The VICE CHAIRMAN. Then, I take it, to build up your company you were looking for bad companies?

Mr. DE BUCHANANNE. Well, no; not in that way. When these companies which we say are ready for the doctor, these companies had too high expenses, paying too high a commission and sometimes their rates were inadequate and they had poor risks and they had office buildings and things of that kind that would reduce their income. When their surplus would be impaired we knew something had to be done, the old stockholders had to put in new money or had to sell the company and reinsure. We would eliminate that expense. Probably you can run 40 million of business with the same office force that you run 20, except maybe a few extra clerks. Your attorneys, your officers, go under the same salaries.

The VICE CHAIRMAN. If the companies that made up these companies involved poor risks plus inadequate premiums—

Mr. DE BUCHANANNE (interposing). And poor management in the way of big salaries and bad investment and buying home-office buildings which are usually the first things they did.

The VICE CHAIRMAN. Let's assume they were poor risks and high premiums. The reinsurance doesn't change those factors at all.

Mr. DE BUCHANANNE. Yes; we would change them and not write any more and then we would change the rate.

The VICE CHAIRMAN. Well, but reinsurance doesn't change that, does it?

Mr. DE BUCHANANNE. In some cases it does.

The VICE CHAIRMAN. Have you changed it?

Mr. DE BUCHANANNE. In some cases in our reinsurance contracts we only reinsured on a certain basis. They had to take that basis or file and collect whatever was coming to them out of the receivership.

The VICE CHAIRMAN. But the reinsurance contract is between two insurance companies, isn't it?

Mr. DE BUCHANANNE. Yes; that is true.

The VICE CHAIRMAN. It is not between the insurance company and the insured.

Mr. DE BUCHANANNE. No. The insured has nothing to do with that, but they abide by whatever they do. That is according to the insurance laws. That is right.

Mr. GESELL. The company which is being reinsured can put it up to the policyholders, they can put up to the policyholders the option of going along under the reinsurance contract or standing by the original contract and getting what he can out of the liquidation of the company.

Mr. DE BUCHANANNE. Yes; and of course the salesmen usually changed them over to the other plan.

Mr. GESELL. On the proposition that they at least have some hope of getting something out of it if they went along with the doctor?

Mr. DE BUCHANANNE. Yes. That's right.

Mr. GESELL. Well, now, could you find out about these companies simply from looking at the publications like Bests', or did you have to depend on information you had to receive from other sources?

Mr. DE BUCHANANNE. Both cases, Mr. Gesell. We got it from other sources sometimes, and from Bests'.

Mr. GESELL. What other sources?

Mr. DE BUCHANANNE. Well, we would go to the insurance commission's meeting and up to the state department, and different examiners and different people around, the usual grapevine route for things of that kind.

Mr. GESELL. I want to understand that. You would find out about the companies from officials of the insurance department?

Mr. DE BUCHANANNE. Sometimes we would.

Mr. GESELL. You would find out, you would attend a meeting such as at Biloxi now, and find out how the companies were—

Mr. DE BUCHANANNE (interposing). Now. We would go to the Commissioners and talk with them, and hear that some company might be in a little bad circumstances and ought to be reinsured.

Mr. GESELL. Would insurance-commission officials sometimes suggest to you that you attempt to purchase one company or another which was in bad shape?

Mr. DE BUCHANANNE. Well, I have had that occur in one or two cases. We did not succeed in doing that, but I have had them suggest it to me and work on it; yes.

Mr. GESELL. Will you give us one or two instances specifically?

Mr. DE BUCHANANNE. Well, the case of the Western was one, and the case of the Old Colony.

Mr. GESELL. Tell me about the Old Colony.

Mr. DE BUCHANANNE. That was a Chicago company, and they were having considerable difficulty on account of some adverse management, apparently, and I received that information from the insurance department.

Mr. GESELL. What insurance department?

Mr. DE BUCHANANNE. The Illinois Insurance Department.

Mr. GESELL. From whom in that department?

Mr. DE BUCHANANNE. From Mr. Huskinson.

Mr. GESELL. He tipped you off on that one, did he?

Mr. DE BUCHANANNE. Yes.

Mr. GESELL. Well, did you have to do anything to curry favor with the insurance departments to get this information, or was it given to you voluntarily?

Mr. DE BUCHANANNE. Well, that was voluntary. We always—I don't know how to answer you on that question. We always try to work with the people who are in office, politics, and so on, down the line.

Mr. GESELL. Oh, you politic with these insurance departments?

Mr. DE BUCHANANNE. Yes; you have to do a little of it occasionally. There are always fellows running for office and if we can help out a little bit when the time comes, we do, you know.

Mr. GESELL. I don't know that, no; and I am interested in it. Tell me a little more about it. How would you politic for the insurance-department officials?

Mr. DE BUCHANANNE. Well, we know who the different organizations hope to reelect in different parts of the State, and we assist them in whatever way we can with our agency, with the agency force.

Mr. GESELL. You mean, you turn your agents into ward heelers for the time being, is that it?

Mr. DE BUCHANANNE. We get them busy. We would usually favor some officers, but we would get them to work.

Mr. GESELL. What would you get them to do, drive cars, and that—

Mr. DE BUCHANANNE (interposing). Well, talk to people in the town, and electioneer in a general way.

Mr. GESELL. Would you sometimes send out notices with your premium receipts in favor of particular candidates?

Mr. DE BUCHANANNE. Well, we did have circulars once or twice, but we did not make a practice of that. It was usually done the other way. I think I have done that twice. I couldn't recall who it was, but twice, something in southern Illinois at one time. There was quite a heated election there between the different factions, and the factions that were in power wanted to see the other man elected, and we helped out.

Mr. GESELL. What company did you help out?

Mr. DE BUCHANANNE. I was with the Mississippi Valley, then and—

Mr. GESELL. And you used the Mississippi Valley for that purpose?

Mr. DE BUCHANANNE. That is right; yes, sir.

Mr. GESELL. Well, now, after you had received this information from whatever source you obtained it, what would be your next step?

Mr. DE BUCHANANNE. Well, we contacted the officers of the company then and approached them on the idea of a merger with our company or an outright sale to us.

Mr. GESELL. What officers would you see?

Mr. DE BUCHANANNE. Well, in most cases the president; usually the president and the secretary; once in a while an extra vice president.

Mr. GESELL. Well, I should imagine on some of these occasions when you walked into the president of an insurance company, he would be apt to throw you out on your ear, so to state.

Mr. DE BUCHANANNE. We have had that happen too, so to speak, but we just keep hammering away at him. We knew sooner or later he would have to sell or they would have to replace the surplus.

Mr. GESELL. You mean that because of this confidential information that you had received from the insurance departments or elsewhere,

you knew he was ailing and needed a doctor, although he wouldn't admit it publicly?

Mr. DE BUCHANANNE. We would give him the medicine.

Mr. GESELL. So you would keep at him until you gave him the medicine?

Mr. DE BUCHANANNE. That is the way we termed it.

Mr. GESELL. How persistent did you have to be? I would like to have some specific information.

Mr. DE BUCHANANNE. Well, I don't know whether we did anything particular on that. We would finally tell them the shape they were in and what we knew. And when they would find that we knew all the facts, they would admit it and we would go ahead and replace their impaired capital. Most of them were all looking for a job then, and we would sometimes take them over into our company. We would help them.

Mr. GESELL. Now, were there regular commissions on this type of transaction? I mean, a going price for the doctor?

Mr. DE BUCHANANNE. Back in those days, it seemed to me the prevailing price that you could sell a company or acquire one, or could become a doctor, was \$2 a thousand on the amount of business in force. If a company had \$20,000,000 in business, there would be \$40,000 in commission because that is cheaper than you could write new business.

Mr. GESELL. It would cost how much?

Mr. DE BUCHANANNE. Eighty or one hundred percent of the premium and this business was older and had been renewed. Because when you write new business, when you renew, 60 percent of it the second year, you are doing pretty good.

Mr. GESELL. You mean that even though that seems to be a pretty high commission, it would be much cheaper?

Mr. DE BUCHANANNE. Yes.

Mr. GESELL. Cheaper to acquire another than to write the business itself?

Mr. DE BUCHANANNE. That is right. Then you've got the advantage of the excess interest earnings and of the investments and the savings in mortality that the company made, and by eliminating the expense of the other company, it helps to build the company up much faster.

Mr. GESELL. Well, now, did you have to haggle much about price of commission or was that pretty well understood?

Mr. DE BUCHANANNE. The \$2 was pretty well understood.

Mr. GESELL. Can you give us any specific information as to the type of bargaining you had to do to get any particular deal that you were in? You said you sometimes had to go back quite often.

Mr. DE BUCHANANNE. Well, you just keep going back and discussing it.

Mr. GESELL. Well, some one person you saw, some company. I would like to get some idea of a specific case.

Mr. DE BUCHANANNE. Well, in the case of the Two Republics, I made four or five trips down to Texas to see this Mrs. Rhodes and her attorney, and they wanted more money than we thought the company was worth. I had found out in the meantime through my friend, Mr. McVoy, who was in close touch with it that capital was down pretty low and surplus as well, and they weren't getting any

new business to amount to anything, and something had to be done. So, having that in mind, we figured what we could afford to pay for it and we sat tight. We broke down the morale and they had to sell or keep it to themselves.

Mr. GESELL. Did you sometimes, when you found you couldn't deal with the principal officers of the company, obtain information about scattered stockholdings from some person in the company and gather up control in that way?

Mr. DE BUCHANANNE. I never attempted that. I saw it tried and it failed. It didn't work out so good.

Mr. GESELL. It wasn't as easy?

Mr. DE BUCHANANNE. To get to the fellow sitting—the officers of the company.

Mr. GESELL. You had to get the officers?

Mr. DE BUCHANANNE. You had to get the officers with you first.

Mr. GESELL. What about the policyholders in this situation?

Mr. DE BUCHANANNE. Well, their status was not changed. We always thought that we were bettering them. They had the same reserves, and in most cases they got practically the same kind of a policy they had before.

Mr. GESELL. They weren't consulted in cases like this?

Mr. DE BUCHANANNE. They don't have to be consulted in a stock company in Illinois or Missouri. There are some States in the Union which require, I think, consent of policyholders, and I don't think you will find many mergers in those States.

Mr. GESELL. And these commissions that were paid, however, were paid out of the policyholders' funds, weren't they?

Mr. DE BUCHANANNE. Well, no; I wouldn't say that. Now, you see, that was paid out of the capital and surplus of the company which was taken over or out of the surplus of the holding company. You see you couldn't touch their reserve. The reserve had to stay with the department.

Mr. GESELL. So these commissions were paid out of the fund of the holding company?

Mr. DE BUCHANANNE. Now, if you're speaking about the transferred commissioners, of course, they were paid out of the reserves because there is a surrender charge. I don't understand all the actuarial figures on that, but it didn't cost the company the entire amount of 30 percent because some of that 30 percent was gotten back through the conversion—that is, the difference of the values of the reserves at the different times and the loading there. And there is always a surrender charge in the policy.

Mr. GESELL. Of course, it is true that when you rewrite a company and pay commissions on the rewrite, you are paying commissions on the policyholders' reserves?

Mr. DE BUCHANANNE. That is true.

Mr. GESELL. Now I want—

The VICE CHAIRMAN. If I may interrupt, there is one other thing. You suggested, after indicating that the policyholders had nothing to say about it, you thought their position was not substantially changed. A little earlier I understood you to say that as a practical matter you would rewrite their policies or exchange them for policies more favorable to the company.

Mr. DE BUCHANANNE. Well, we only had one case where we had to do that, and that was in the Western. The other policies we gave them the same form of policy they had before.

The VICE CHAIRMAN. At a higher premium?

Mr. DE BUCHANANNE. In some cases our premium was the same. In the case of the Two Republics, they had a better premium rate than ours. Theirs was higher than ours. And those are the only two cases we reinsured. But I have known cases in other companies where it was the other way. If they had to pay a higher premium, either they had to take less insurance and pay the same premium or pay a higher premium and take the same insurance.

The VICE CHAIRMAN. And the protection would be just the same?

Mr. DE BUCHANANNE. The same.

The VICE CHAIRMAN. Of course, from the policyholders' viewpoint, their position was very much different after they got through with that operation than before, wasn't it?

Mr. DE BUCHANANNE. Well, I don't recall what kind of policy the Federal Reserve gave them. I know we had to take it to the insurance department to get it approved.

Mr. GESELL. We will come to that transaction.

Mr. DE BUCHANANNE. I would have to see some figures about it. I don't recall it.

Mr. GESELL. One thing else before we come to these specific transactions. With respect to political activities, can you tell us how many times you have engaged in political activities on behalf of state officials?

Mr. DE BUCHANANNE. Oh, I would say maybe a dozen times during that time I was in business.

Mr. GESELL. Did you sometimes make campaign contributions?

Mr. DE BUCHANANNE. Indirectly.

Mr. GESELL. What do you mean, indirectly?

Mr. DE BUCHANANNE. Well, we would make it through sources, pay some attorney or to some agent for his services out of the company for looking after stuff.

Mr. GESELL. You mean these men wouldn't do any work for their money?

Mr. DE BUCHANANNE. Well, they had to electioneer for the man, some of them would. Some of them wouldn't do a whole lot. It would go into the fund, of course.

Mr. GESELL. I don't understand this, Mr. De Buchananne. You say you paid it indirectly?

Mr. DE BUCHANANNE. Yes. We couldn't contribute directly to the campaign very well. That wouldn't look very good for us, I guess.

The VICE CHAIRMAN. When you say "you," you mean the insurance company?

Mr. DE BUCHANANNE. We would get word that a certain person would be around to see us. We knew what it meant and there wasn't anything else to say. We'd make up some contributions for them for different things.

Mr. GESELL. You would hire one of these fellows as an attorney?

Mr. DE BUCHANANNE. Sometimes we would hire an extra attorney.

Mr. GESELL. Put him on a retainer?

Mr. DE BUCHANANNE. Or some fellow as an appraiser, or things of that kind.

Mr. GESELL. And the money paid to those gentlemen would not be for services rendered, but for political contributions?

Mr. DE BUCHANANNE. Yes.

Mr. GESELL. Let us have a specific case or two, Mr. De Buchananne.

Mr. DE BUCHANANNE. Well, I've one case in mind where Mr. Garche, one of our directors—

Mr. GESELL. Will you tell us what company he was director of?

Mr. DE BUCHANANNE. He was director of the Mississippi Valley. I didn't have the Providers' loan. He came down—in fact, I had a call, I think, from Mr. Huskinson up in Springfield, telling me that Mr. Garche had been up and had a little private matter to be taken up and he would be in, and then Mr. Garche came up and told me what the situation was, what they were trying to do, raise campaign funds. I think in that instance we employed some attorney in Springfield at a \$500 fee, put him on a retainer for that year. We never called on him for services.

Mr. GESELL. You paid him the money?

Mr. DE BUCHANANNE. Yes. And Mr. Huskinson was from the insurance commission.

Mr. GESELL. And Mr. Garche was the go-between between the insurance commission and yourself?

Mr. DE BUCHANANNE. At that time; yes.

Mr. GESELL. And he was a director of your company?

Mr. DE BUCHANANNE. Yes.

Mr. GESELL. What is first name?

Mr. DE BUCHANANNE. F. A. He's dead.

Mr. GESELL. Will you tell us what he said to you when he came down to speak to you, from Mr. Huskinson?

Mr. DE BUCHANANNE. He just told me the organization up in Springfield had to raise considerable money. There was going to be sort of a warm fight and they wanted to put their men over, and they had to get out and raise funds over the State to do the work.

Mr. GESELL. And Mr. Huskinson was at that time the regulatory official in charge of your company?

Mr. DE BUCHANANNE. Yes.

Mr. GESELL. He is not an insurance commissioner any longer?

Mr. DE BUCHANANNE. I think Mr. Huskinson died 4 or 5 years ago.

Mr. GESELL. Do you know his full name?

Mr. DE BUCHANANNE. George.

Mr. GESELL. Do you know of any other cases?

Mr. DE BUCHANANNE. Well, I can't recall any specific cases, Mr. Gesell. We've done it, if I recall, I'd say a dozen different times, that my company contributed in one way or another in the political situation by handling it that way. We wouldn't pay the money out direct to them, but we would send someone for appraisal of property or employ some lawyer at a retainer fee, and after that we didn't know what happened to the funds. We weren't interested.

The VICE CHAIRMAN. Is that a new or old situation that you referred to.

Mr. DE BUCHANANNE. The old political fight.

The VICE CHAIRMAN. Was that a fight in which the issue was the election of an insurance commissioner?

Mr. DE BUCHANANNE. No; it wasn't. The insurance commissioner over there is appointed. I believe it was for some State senators, I think, in the southern part of the State.

The VICE CHAIRMAN. But the election was of some particular State senators?

Mr. DE BUCHANANNE. Yes. I believe they usually pass the word down the line what they want. They're all of the same political family, I suppose. It's passed along the organization.

The VICE CHAIRMAN. All you know is it came from the insurance commission to you, from one of your directors, and it was to help elect some State senator, and it might be that sort of thing in the other instances that you can't remember exactly. In some States the insurance commissioner is elected, is he not?

Mr. DE BUCHANANNE. No; it is the director of trade and commerce in Illinois. I think the commissioner is appointed by the Governor.

The VICE CHAIRMAN. I say in some States?

Mr. DE BUCHANANNE. Yes.

The VICE CHAIRMAN. Do you recall any instances in which the political campaign involved the election of an insurance commissioner?

Mr. DE BUCHANANNE. No, I don't; not in any of those cases of mine, because we only operated in Illinois and Missouri, and they were all appointive.

The VICE CHAIRMAN. I see.

Mr. GESELL. Now, you mentioned the director of trade and commerce in Illinois. Did you have some political dealings with him?

Mr. DE BUCHANANNE. I believe there was just one case that I spoke of a while ago that we sent out an appraiser for some of the properties, someone was sent out for the case.

Mr. GESELL. I didn't understand that. I must have been talking here. What was the case of the appraiser?

Mr. DE BUCHANANNE. I don't recall the man's name, but we had some loans in southern—

Mr. GESELL. Keep your voice up.

Mr. DE BUCHANANNE (continuing). In southern Illinois and Missouri and in Chicago, and it was suggested to me that it might be well to have them looked over, so we had them looked over.

Mr. GESELL. Did you have your own appraisers at the time?

Mr. DE BUCHANANNE. We had them before. We didn't need them.

Mr. GESELL. Didn't need any appraisals?

Mr. DE BUCHANANNE. Didn't need any appraisals.

Mr. GESELL. Who made this suggestion to you?

Mr. DE BUCHANANNE. I believe that Mr. Bailey did. I believe that is the only time—

Mr. GESELL. Is that Mr. H. U. Bailey?

Mr. DE BUCHANANNE. That is right.

Mr. GESELL. And how much did this appraiser get for his services?

Mr. DE BUCHANANNE. I can't recall offhand, Mr. Gesell. I think it was in the neighborhood of \$350, something like that.

Mr. GESELL. Now, coming to the case of the Providers Life Insurance Co., that, as the committee will recall, was one of the companies mentioned yesterday which was reinsured in the Federal Re-

serve Life Insurance Co. What was your connection with the Providers Life Insurance Co., Mr. De Buchananne?

MR. DE BUCHANANNE. I was president of it.

MR. GESELL. When did you become president?

MR. DE BUCHANANNE. I believe—oh, I think in November, in '25 or '26, something like that.

MR. GESELL. Along in there?

MR. DE BUCHANANNE. Yes.

MR. GESELL. When was it that the company went to the Federal Reserve?

MR. DE BUCHANANNE. It seems to me it was about a year or so after that.

MR. GESELL. In April '26?

MR. DE BUCHANANNE. Yes; I believe that's right.

MR. GESELL. You were in about a year, weren't you?

MR. DE BUCHANANNE. Just about; yes.

MR. GESELL. How did you get into the company?

MR. DE BUCHANANNE. Why, I bought into it, myself and some others bought into it; we bought the stock of the former officers.

MR. GESELL. You bought the stock of the former officers?

MR. DE BUCHANANNE. That's right.

MR. GESELL. That was about '24 or '25?

MR. DE BUCHANANNE. '25, it was.

MR. GESELL. Where did you get the money to buy it?

MR. DE BUCHANANNE. I had some money, and I borrowed some at the banks and borrowed some from some of my friends. I had other connections.

MR. GESELL. Who was associated with you in the deal?

MR. DE BUCHANANNE. There was nobody associated with me, except my brother had some stock and Mr. Garrison had a small interest, and another attorney, a Mr. Hoolan. There were six or seven others who acquired some.

MR. GESELL. Did you borrow money from Jacob Babler in connection with the purchase of this stock?

MR. DE BUCHANANNE. Yes.

MR. GESELL. How much; do you recall?

MR. DE BUCHANANNE. No; I don't, but it must have been ten or fifteen thousand.

MR. GESELL. Now, was this a case that you handled independent of any holding company?

MR. DE BUCHANANNE. Yes. We didn't have any holding company in it at all.

MR. GESELL. This was the company which you did not want to broker, but which you wanted to build—

MR. DE BUCHANANNE. Well, I bought it and I hoped to build it up and make it into a real nice company. I had no holding company then; I didn't know anything about a holding company.

MR. GESELL. There was no rewriting or reinsurance involved, was there?

MR. DE BUCHANANNE. No, sir.

MR. GESELL. Now, do you recall that you had some dealings with the Abraham Lincoln Life Insurance Co. with respect to selling?

MR. DE BUCHANANNE. Yes, I do; very vividly.

Mr. GESELL. The Providers?

Mr. DE BUCHANANNE. Yes.

Mr. GESELL. Will you tell us that story in as much detail as you can recall at this time?

Mr. DE BUCHANANNE. Well, Mr. Hill came down to see me. I was there. He was the president of it, the—I forget what was the name of the company, but it was later called the Abraham Lincoln Life. I don't believe that was the name of the company at that time. He came to see me in Chicago, where I had my principal office, and I told him the company was not for sale. But I told him I had bought the company with the expectation of building it up and making it my means of livelihood. Well, he came to see me two or three different times, and finally he told me he was out to get some additional business. He had to have it, he said, and he said he wanted that little business and he felt right sure that the insurance department would be favorable to the deal. So—

Mr. GESELL. He felt sure?

Mr. DE BUCHANANNE. Yes. He told me he felt that the insurance department would be favorable to the deal.

Mr. GESELL. This looks like a case where the insurance department must have tipped off someone on the other side of the transaction, too.

Mr. DE BUCHANANNE. I felt so at the time. Anyway, I told him I hadn't wanted to sell, but I would think it over some more, and then I discussed it with some of my friends, and it looked like—well, it looked like we might be in for a little fight, and maybe we had just as well sell. I made them a proposition to sell to them. I insisted upon him—I didn't have any faith in him—I insisted upon him paying me, I think it was \$80,000, for some part payment of the stock, because I owed considerable money on the stock. He did that. We took the reinsurance contract to the insurance department of Illinois, and it was approved. My company sent out the notices to its stockholders; he sent out to his. He called a meeting. About 4 days before the meeting was to be called, Mr. Hill came to me and he told me he was not going through with the deal—I was asking too much. He said I was not entitled to any more than the \$80,000, and that was just about what I owed. I said, "What are you going to do?" He said, "I'm going to take your company." "Well," I said, "of course, I'm a pretty good fighter, and I'll be in at the fight, so go ahead." He explained some of the ramifications he was going to use to take the company. He said he would call the examiners,

Mr. GESELL. He would what?

Mr. DE BUCHANANNE. He said he would have the examiners called in. He was very powerful in Springfield, he said, and he was. And he said he would have our home office revalued and cut down, and other loans, and so on, and we would just have to make a deal. So I told him we would not change it anyway, that we were going to hold him to his part of the deal, and that we were going through with our meeting. Well, then he served notice on me by registered mail that I would have to repay that \$80,000 within 36 hours, or when the date of the meeting came he would tell his stockholders that he had turned down the deal. Of course, that would be very disastrous for my company, naturally. I couldn't explain to my people, so I went and got the money and gave it to him.

Mr. GESELL. Where did you get the money from?

Mr. DE BUCHANANNE. I borrowed it from different banks in Chicago and Missouri, and some from Mr. Babler and some from my brother.

Mr. GESELL. Did Mr. Merritt go in—

Mr. DE BUCHANANNE. That is when I took Mr. Merritt in with me.

Mr. GESELL. That is this same E. W. Merritt?

Mr. DE BUCHANANNE. Yes.

Mr. GESELL. I see.

Mr. DE BUCHANANNE. I had a little difficulty in raising all the money, so Merritt came in with me as a half owner.

Mr. GESELL. Half owner of Providers?

Mr. DE BUCHANANNE. Of the Providers, yes; that is correct.

Mr. GESELL. In other words, he gave you money in return for stock?

Mr. DE BUCHANANNE. That is right, in return for stock. I immediately got hold of Mr. Garrison, that I spoke of, and he came to see me. He was on the board and had stock. We were talking about the meeting, because I was considerably disturbed. I told him what the trouble was. He said, "They can't do anything like that. I know the Governor. I'll go right to the Governor," and I never heard anything more of Mr. Hill. I gave Mr. Hill his money back, and we called off our meeting.

Mr. GESELL. Did Mr. Hill discuss with you any investments which you had made between the time of the original contract and the time it was to be consummated?

Mr. DE BUCHANANNE. Yes; I did and he did, and he went ahead and examined, and it was perfectly satisfactory, which it couldn't help but be. He was satisfied.

Mr. GESELL. Was he concerned with the mortgages that were discussed yesterday with Mr. Jordan?

Mr. DE BUCHANANNE. Yes; that was one of the things in the Home Office Building in Chicago that he was interested in, but he did not say anything about that. He examined those before he paid me the \$80,000. He sent three men out there, and not only to those but to all of our other properties, and he evidently thought pretty well of them when he looked at them, or he wouldn't have put up the \$80,000.

Mr. GESELL. Now, while we are on it, tell me a little about the mortgages.

Mr. DE BUCHANANNE. Well, all I know about them is that they are on splendid farm lands in Missouri, and I don't think there is ever a year when that land doesn't yield 40,000 to 50,000 bushels of corn.

Mr. GESELL. Who owned it?

Mr. DE BUCHANANNE. The Cotton Kings Land Co. owned the land. Mr. Rolly and Mr. Stewart, of southeast Missouri, and I guess—

Mr. GESELL. Were you interested in the company?

Mr. DE BUCHANANNE. No; I had no interest in the company.

Mr. GESELL. Were the mortgages made in the name of that land company?

Mr. DE BUCHANANNE. Well, those mortgages were in the Providers when I went in. No; they were not—

Mr. GESELL. They were in the Providers when you went there?

Mr. DE BUCHANANNE. Yes; when I went in as president. Those mortgages were straw mortgages—what we call them in Missouri. I

would say, oh, about 90 percent of the real-estate business in Missouri, back in those days, and considerable of it does that today; they use what is called a straw man to make a mortgage. If a man makes a mortgage for contractors or building for eight or ten thousand, he would get a man to make the mortgage whether he had any financial responsibility or not. Then he would sell the equity to somebody, and you would buy it subject to that mortgage. In Missouri, back in the days when I lived there, in real estate, I suppose 9 pieces out of 10 were done that way. That was the practice in Missouri.

Mr. GESELL. That explains why the mortgages were in the names of the Negroes, bootblacks, and fugitives from justice which we heard about yesterday, doesn't it?

Mr. DE BUCHANANNE. Well, I never heard that before, and I have my doubts about it. I have no right to question anyone, but I don't think it was quite that. They were colonizing that land in southeastern Missouri, and operating some fifteen or twenty thousand acres.

Mr. GESELL. Now, after the Abraham Lincoln deal fell through, were you approached with respect to reinsuring the company with Federal Reserve?

Mr. DE BUCHANANNE. Yes. I omitted one little thing. When I took Mr. Merritt with me on the deal, he told me he was willing to go in, but that he thought that the thing to do, because it took a long time to build a small company—the thing to do would be to merge it with some other company, or to go out and buy other companies and build it. I agreed and said I would carry my end of the load if he would carry his, and we did. In the meantime, we commenced to look around for small companies but didn't locate any, and one day Mr. Herndon came over from Kansas City. I had never met him but once before, and I believe that was years ago in some examination at the International. He told me he had people in Kansas. - One of them was at the time, or had been for previous years, connected with the insurance department, and that Mr. J. N. Mitchell, who is an insurance man, was one. We got into negotiations and brought Mr. Mitchell over, and we finally sold the company to him in '28, in December.

Mr. GESELL. You say you sold it to Mr. Mitchell?

Mr. DE BUCHANANNE. Mr. Mitchell and Mr. Smith, and Mr. Herndon was the broker.

Mr. GESELL. He was the broker?

Mr. DE BUCHANANNE. That is right.

Mr. GESELL. Acting for you?

Mr. DE BUCHANANNE. Well, yes; I guess he would. He would be acting for us and Mitchell, too, but, of course, the selling company always paid the broker.

Mr. GESELL. You are sure Mitchell and Smith were in on this transaction?

Mr. DE BUCHANANNE. Yes; because I had a note from Mr. Mitchell for some common stock of the holding company's collateral for eight or ten thousand dollars. Mr. J. N. Mitchell and Mr. John B. Smith, I believe.

Mr. GESELL. Are you talking about Mississippi, or about Providers?

Mr. DE BUCHANANNE. Oh, I am talking about Mississippi.

Mr. GESELL. Well, I am talking about Providers.

Mr. DE BUCHANANNE. Excuse me. Oh, the Providers. Herndon was the broker there, and Merritt and I were the big stockholders.

Mr. GESELL. That was how you finally disposed of Providers?

Mr. DE BUCHANANNE. Yes; that is right, to the Federal Reserve.

Mr. GESELL. Now, when did you first hear that you could sell this to the Federal Reserve? Who first approached you?

Mr. DE BUCHANANNE. Mr. Herndon. I think I—I think he called me from Kansas City and asked if he could see me. He came on over the following day, if I recall rightly, and it was as a result of that conference and other negotiations that we made the deal.

Mr. GESELL. Now, we heard yesterday that he received commissions for representing the Federal Reserve. He also received commissions for representing you?

Mr. DE BUCHANANNE. Yes. I think our commissions to him were on the basis of \$2 a thousand. I think it was around \$18,000 that we paid him for that.

Mr. GESELL. \$18,000?

Mr. DE BUCHANANNE. Yes. I am not sure. Now, my mind is not clear on that.

Mr. GESELL. How much insurance was in force?

Mr. DE BUCHANANNE. About \$9,500,000.

Mr. GESELL. That would be about \$28,000, wouldn't it?

Mr. DE BUCHANANNE. No; it would be about \$18,000. I think that is about right.

Mr. GESELL. Well, now, did you pay that money to Mr. Herndon yourself?

Mr. DE BUCHANANNE. No; the company paid it. That was all authorized by the officers of the company.

Mr. GESELL. The company paid it?

Mr. DE BUCHANANNE. Yes; they did.

Mr. GESELL. Then, after the reinsurance contract went through, did you and Mr. Merritt participate in the rewriting of the contracts?

Mr. DE BUCHANANNE. Mr. Merritt got a contract for rewriting that business, and at 30 percent of the first annual premium, and Mr. Merritt came to me and asked if I wouldn't supervise the writing of it. He was busy with other matters.

Mr. GESELL. You participated in that rewriting transaction?

Mr. DE BUCHANANNE. Merritt got 30 percent, and I think the men in the field were paid 20, and it took 2½ percent expenses to handle it one way or another, and I think Merritt and I divided the other commission between us, and I think I got about 3.75 or 4 percent of the commission.

Mr. GESELL. We heard yesterday that Mr. Merritt got 85 percent.

Mr. DE BUCHANANNE. I heard that, too; I did not get all of mine, then.

Mr. GESELL. The contract was very definite in respect to it.

Mr. DE BUCHANANNE. I never saw the contract. Mr. Merritt told me it was 30 percent, and the checks I got were all made in Mr. Merritt's name, and it was 30 percent. I had authority to endorse the checks for him, and I would pay the boys.

Mr. GESELL. Looks like you have something coming to you, doesn't it?

Mr. DE BUCHANANNE. Expense money, anyway.

Mr. GESELL. Well, now, in that connection I take it you came to be pretty familiar with the details of the way the rewrite contract of Providers was being handled.

Mr. DE BUCHANANNE. That is right; yes.

Mr. GESELL. The policies were all written in the Federal Reserve office?

Mr. DE BUCHANANNE. I never went to Kansas City. They were mailed to me at St. Louis to my office, and I worked about 15 boys out of that office up into Chicago and around there. I would go up to Chicago once a week. I didn't know anything about the ramifications in that office, but I, of course, do know that the policy that they wrote and made the transfer on was approved by the insurance department, because that had to be done, always. We had to get the approval of the insurance department, and it was a standard form of policy in practice at that day and time for the rewriting of business of that character.

Mr. GESELL. Well, now, you say you worked about 15 boys?

Mr. DE BUCHANANNE. Fifteen men; I call them boys because they were younger than I was. Of course, they were agents, some of them agents with Providers Co., and—

Mr. GESELL. Were some of them specialists in rewriting?

Mr. DE BUCHANANNE. Yes.

Mr. GESELL. Where did you get hold of these rewriting specialists?

Mr. DE BUCHANANNE. Well, Merritt had three or four of those boys that he trained. He had been doing that work for years.

Mr. GESELL. When an agent goes out to rewrite, is he licensed as an insurance agent?

Mr. DE BUCHANANNE. Yes; he has to have a license the same as an insurance agent.

Mr. GESELL. Well, in this case, who would the rewriting men be licensed with, with Providers or with Mr. Gregory's agency company, or with Mr. Merritt, or with the Federal Reserve?

Mr. DE BUCHANANNE. Well, I think they would be licensed for both of the insurance companies.

Mr. GESELL. For both?

Mr. DE BUCHANANNE. Either one or the other. You would either have to have a license with the Federal Reserve, or you would have to have it with Providers.

Mr. GESELL. It would be permissible to engage in rewriting whether you represented Providers or Federal Reserve?

Mr. DE BUCHANANNE. That is right.

Mr. GESELL. Did you have any difficulty with this rewriting operation?

Mr. DE BUCHANANNE. There was some little kick-back, as we call them in Chicago, but I don't think a great deal of it.

Mr. GESELL. Do you remember—

Mr. DE BUCHANANNE. I always got the impression as far as I was concerned in the deal, I don't think the rewriting was ever completed, and I always got the impression they just didn't want to pay out this extra 30 percent they were paying to Merritt, and wanted to do it themselves. So I don't think we transferred more than—not that I participated in it—more than half of it, if that. They continued after that on some other plan of their own, or maybe with Mr. Merritt. I'm not sure.

Mr. GESELL. Do you remember that you wrote to Vernon B. Holt under the date of September 24 with respect to difficulties you were having with the Indiana department on this rewrite?

Mr. DE BUCHANANNE (examining letter). Yes; I do; but I didn't before. There were a few policies at Gary, Ind.

Mr. GESELL. And the Indiana commissioner wanted you to set aside the transfers?

Mr. DE BUCHANANNE. Put them back; yes.

Mr. GESELL. Reverse the transaction? Do you recall that?

Mr. DE BUCHANANNE. I recall that.

Mr. GESELL. The letter reads:

I am just in receipt of your letter of September 23, stating that the Insurance Commissioner of the State of Indiana has ordered you to reverse all the transactions in Indiana.

I trust that you will let this matter stand until we can have time to see the department of Indiana, and as you will note by the attached copy, I have taken the matter up with my friend, Mr. Werwinski, who is very influential and very close to the officials at Indianapolis. Also, Mr. Merritt will return on October 3 and he is personally acquainted with the commissioner in Indiana and no doubt can handle this matter when it is properly explained to the commissioner.

I am also advising Mr. Merritt and sending him a copy of the letters I have written you as well as Mr. Werwinski.

Who was Mr. Werwinski?

Mr. DE BUCHANANNE. Mr. Werwinski was an agent of the Providers Life that wrote most of that business over in that territory, and—

Mr. GESELL. You say he is "very influential" and very close to the commissioner of Indiana.

Mr. DE BUCHANANNE. He was a Polish gentleman and was quite influential in his district there.

Mr. GESELL. Well, did you get this matter straightened out?

Mr. DE BUCHANANNE. To the best of my recollection, that was straightened out; yes.

Mr. GESELL. How was it straightened out?

Mr. DE BUCHANANNE. Well, I think Mr. Merritt went to the Indiana department and explained to the Indiana department the whole thing, showed them the change and what it meant, and all, and that the Illinois and the Kansas departments had approved of it, and I don't know whether the Indiana department then consulted the other departments or not. Anyway, I am satisfied it was cleared up, and it was finished up.

Mr. GESELL. Is it your impression that the Indiana department approval was based primarily on the action of the Kansas department?

Mr. DE BUCHANANNE. I would think those cases mostly are; yes. They usually are.

Mr. GESELL. In this instance, did the representative of the Kansas department become a party to both sides of the deal?

Mr. DE BUCHANANNE. Yes, sir.

The VICE CHAIRMAN. Didn't the policyholder as a result of this deal have different provisions in his policy?

Mr. DE BUCHANANNE. To the best of my recollection on that, those things were worked out in this way. The actuary, of course, also handled those things, but I believe as a practical operation, and as a fact in the matter, with the cash surrender, that was in the reserve and some other clauses that would be in there for extra participation, and so on, that would about take care of half of the cost of rewriting

this business, and of course the other half came out of the reserve of the policyholder on his old policy and he started off new with probably \$15 per thousand less reserve than before.

The VICE CHAIRMAN. Did he start off with a different type of policy?

Mr. DE BUCHANANNE. It would be a different type, but sometimes it might have every clause his policy had in it.

The VICE CHAIRMAN. Do you know whether the original objection of the Commissioner of Insurance of Indiana was based on the fact that the policy as rewritten changed the relationship between the insurance company and the insured in a way unfavorable to the policyholder?

Mr. DE BUCHANANNE. My opinion is that the greatest objection to any of that rewrite stuff was the fact that there was a depletion of the original reserve under the old policy; that is, the policyholder would lose some eight or ten dollars per thousand reserve.

The VICE CHAIRMAN. But, in general it must have been true, the general objection was based on the fact that under the new arrangements the policyholders were getting less.

Mr. DE BUCHANANNE. Yes; I think that was the real reason. I think that more than any clause in the policy because they were all just about the same.

Mr. GESELL. Now, just one thing before we get to the Farmers' National. After these mortgages in Mississippi got into the hands of Federal Reserve, did you pay the interest on those mortgages?

Mr. DE BUCHANANNE. No; I did not. I collected the money for them because Mr. D. H. Holt and two of the directors of the Federal Reserve Co. went to see the men who owned the land and they thought maybe for some reason or other they might be a little slow in getting their interest and payments. The mortgages had been reduced I think about 20 or 30 percent. They arranged with this Mr. Rowling and Mr. Stewart that I was to represent them and collect the money as fast as the corn was sold, and I looked after it and as the corn was sold I collected it for them.

Mr. GESELL. You had no other interest except agency to collect?

Mr. DE BUCHANANNE. No, sir.

Mr. GESELL. With respect to the Farmers' National deal, were you an officer of Farmers' National?

Mr. DE BUCHANANNE. No; I was a broker in that deal.

Mr. GESELL. How did you get into that transaction?

Mr. DE BUCHANANNE. Mr. John Sees and Mr. Paul Temple and I were sort of—we called ourselves insurance brokers. We would find out where a company was for sale and try to find some company that wanted to buy it, and tried to bring them together and bring about a deal whereby we could make our commission.

Mr. GESELL. How did you hear about Farmers' National?

Mr. DE BUCHANANNE. We had tried to buy the Farmers' National a number of times because we knew we had a sale for it different times, and Mr. John Sees had told us that Mr. Billeter was getting along in years and he believed we could make a deal.

Mr. GESELL. That is B-i-l-l-e-t-e-r?

Mr. DE BUCHANANNE. Yes. He was a newspaper man in Huntington. So after several weeks of negotiations we came to some kind of terms and agreement, I don't remember all of them, that we could sell

the company for him and we contacted Mr. Wilson and Mr. Merrill of the Federal Reserve, I believe, and then made a deal to sell the Farmers' National to them, and it was bought and we received our commission for that, and that is all I had to do with that.

Mr. GESELL. What commission did you get?

Mr. DE BUCHANANNE. It was on the basis of \$2 a thousand and I got a third of whatever that was. I think my commission was about \$28,000 in that deal.

Mr. GESELL. There were about forty-two million of insurance in force.

Mr. DE BUCHANANNE. It would be \$84,000 commission.

Mr. GESELL. And you got a third?

Mr. DE BUCHANANNE. I got a third, and, of course, I had some expenses out of it. I didn't get it all at one time.

Mr. GESELL. Whom were you in contact with there?

Mr. DE BUCHANANNE. An officer by the name of Mr. Presnal, Mr. Billeter, and two other gentlemen, I don't recall their names.

Mr. GESELL. Did you buy the stock from those men?

Mr. DE BUCHANANNE. I didn't.

Mr. GESELL. Their personal holdings.

Mr. DE BUCHANANNE. I didn't.

Mr. GESELL. You brokered it.

Mr. DE BUCHANANNE. Mr. Wilson's company did, the Investment Co. or whatever it was. I don't remember the whole transaction.

Mr. GESELL. Did the officers of that company receive any special commission for selling the stock?

Mr. DE BUCHANANNE. I don't know that they did.

Mr. GESELL. Did you also acquire some stock by purchasing it from the stockholders?

Mr. DE BUCHANANNE. I didn't have a thing to do with that. I got my commission and I was through. That is the last I ever heard of it.

Mr. GESELL. I have no further questions.

The VICE CHAIRMAN. Quite early in your testimony in referring to the superintendent of insurance of Illinois, you referred to what apparently was one of the considerations in advising you of companies that you might buy, as being his desire to protect the policyholders.

Mr. DE BUCHANANNE. That is right, and keep the business within the State. None of them like to have a failure, you know, of an insurance company, and naturally they get some other company to take the business over. They would like to see it brought about, rather than to have it go into receivership.

The VICE CHAIRMAN. The theory is, if the company ceases to do business, it naturally hurts the policyholders.

Mr. DE BUCHANANNE. And if the company ceases to do business, just the fact that they do cease to do business means they automatically go into receivership.

The VICE CHAIRMAN. The assets remain of the same character?

Mr. DE BUCHANANNE. Oh, yes. That's right. And then they would get their proportionate part of whatever their reserve would be.

The VICE CHAIRMAN. Of all of these companies, do you know whether any of them or all of them are still doing business?

Mr. DE BUCHANANNE. Well, I don't believe there are but two or three of the companies left in Missouri, and only three or four in

Illinois, in addition to these companies that have been mentioned here in this hearing. I know the Continental Life is out.

The VICE CHAIRMAN. What happened to them?

Mr. DE BUCHANANNE. The Continental Life was taken over by the Kansas City Life in Missouri, and the Central States Life has had considerable trouble.

Mr. GESELL. What happened to the companies we have been talking about here? What happened to the Mississippi Valley?

Mr. DE BUCHANANNE. They are all extinct now. They have been reinsured with other companies, I think, weren't they? Mississippi Valley was reinsured with some company in Detroit, and part of the business was reinsured in Mississippi:

Mr. GESELL. We are still trying to catch up with where it ended up.

Mr. DE BUCHANANNE. I don't know. As I recall, just from what I saw in the papers, I was not in St. Louis then, but part of the Mississippi Valley business was reinsured by this Detroit Life, and some of it by Washington Life, I believe, and then the Federal Reserve was reinsured by the Occidental out in California. That would take care of the Providers. The Providers went to Federal Reserve and Farmers' National went to Federal Reserve, and the Federal Reserve failed and went to the Occidental in California, and then the Kaskaskia was the same as the Mississippi, the Western went into that, and the Two Republics went into that, and that in turn went into a Detroit company and a Texas company.

The VICE CHAIRMAN. So to protect the policyholders we have had a series of reorganizations, each one resulting in more liability and a little less for the policyholders.

Mr. DE BUCHANANNE. That is right. And I think in some cases liens against the policies. I wouldn't say, but I expect there was, in some cases.

Mr. GESELL. That is all, Mr. De Buchananne.

(The witness was excused.)

Mr. GESELL. If the committee please, I think I shall finish in an hour if you want to sit until 1 o'clock.

Mr. Wilson is the next witness.

The VICE CHAIRMAN. Do you solemnly swear that the testimony you shall give in this proceeding shall be the truth, the whole truth, and nothing but the truth, so help you God?

Mr. WILSON. I do.

The VICE CHAIRMAN. Please be seated.

TESTIMONY OF MASSEY WILSON, OAK HILL, ALA.

FEDERAL RESERVE—ACTIVITIES OF MASSEY WILSON

Mr. GESELL. Will you state your full name, please, sir?

Mr. WILSON. Massey Wilson.

Mr. GESELL. Where do you reside?

Mr. WILSON. Oak Hill, Ala.

Mr. GESELL. Your first name is spelled M-a-s-s-e-y?

Mr. WILSON. Yes.

Mr. GESELL. Mr. Wilson, I want to ask you first of all concerning your participation in the purchase of Federal Reserve securities, having reference to the \$375,000 transaction which was discussed here

yesterday. May I ask you first what made you interested in getting an interest in the Federal Reserve?

Mr. WILSON. Mr. Merritt came to me and told me that he was buying a block of stock—I believe it was 8,000 shares—for \$375,000, as I remember it, and didn't have money enough to buy it and pay for it all, and wanted me to loan him—well, he first offered for me to go in with him to buy it, but I didn't want to do that because I thought he was paying too much for it, and then he wanted me to loan him \$125,000, which I did. I was in that business at the time, buying and selling insurance companies and insurance stocks and loaning money on insurance stocks, and the like, so I loaned him the money, some of it myself and some of it through a company of which I was president, the Insurance Investment Corporation of St. Louis.

Mr. GESELL. Insurance Investment Corporation?

Mr. WILSON. Yes.

Mr. GESELL. Mr. Merritt was then associated with the Reserve Life Insurance Co., was he not?

Mr. WILSON. The Reserve Co.; he had a corporation he called the Reserve Co.

Mr. GESELL. You were not interested in that company?

Mr. WILSON. Not at all. I had nothing to do with it and knew nothing about it.

Mr. GESELL. Your loan to him was made to the Reserve Co., was it not?

Mr. WILSON. Yes; the loan was to the Reserve Co.

Mr. GESELL. How much did you loan him in the final analysis of the transaction?

Mr. WILSON. I just don't remember now, but he asked me to become president of the company when he bought these 8,000 shares, which I agreed to do, and did become president of it, and afterward the Insurance Investment bought other shares, subsequently acquired, I think maybe several thousand shares. I don't remember just how much.

Mr. GESELL. I am going to come to that in a moment. I wanted to know how much you loaned the Reserve Co.

Mr. WILSON. I think it was about \$125,000; it may have been more than that.

Mr. GESELL. In that neighborhood?

Mr. WILSON. Yes.

Mr. GESELL. And in return for that loan I assume you received the note of the Reserve Co.?

Mr. WILSON. Yes; and the stock as collateral.

Mr. GESELL. That was the 8,000 shares of Federal Reserve?

Mr. WILSON. Yes.

Mr. GESELL. Then did you keep that stock as an individual, or did you place that stock in any other company?

Mr. WILSON. I believe the Insurance Investment took it over; the Insurance Investment Corporation took it over.

Mr. GESELL. The Insurance Investment Corporation foreclosed on the note, or did they purchase it from the Reserve Co.?

Mr. WILSON. Oh, no; they never foreclosed on the note. They held the note and held the stock as security, and finally sold the stock to the Fire Insurance Co. of Chicago.

Mr. GESELL. That was a subsidiary of the Insurance Investment Co.?

Mr. WILSON. Of Insurance Investment; yes.

Mr. GESELL. So that the control of Federal Reserve went from the Reserve Co. to yourself, to Insurance Investment Co., and then down to the Fire Co. of Chicago.

Mr. WILSON. It really went from the Reserve Co. to the Fire Insurance Co. of Chicago. We never really did foreclose on it, although we had a lien on it for this money.

Mr. GESELL. And it was held during that time in the portfolio of the Investment Co.?

Mr. WILSON. Yes.

Mr. GESELL. Did you sell that stock to the Fire Co. or to the Investment Co. at a profit?

Mr. WILSON. I don't believe it was at a profit. I think it about brought us out of it. There may have been some little profit in it.

Mr. GESELL. Did you have dealings at this time with Mr. Herndon?

Mr. WILSON. Mr. Herndon put this stock in a bank, this 8,000 shares of Federal Reserve Life Insurance Co. stock—I say Mr. Herndon did it; I don't know that he did. It was put in a bank; I thought at the time he did, that is the way I understood it. Anyway, was put in a bank in Kansas City.

Mr. GESELL. Did you have any negotiations and conferences with him?

Mr. WILSON. Yes, I did some, but only about the amount of the stock, the issue of the stock, and the price Merritt was paying for it. I had no negotiations as to terms and everything; I knew what the terms were, but when I came into it the terms were all agreed to, they were all settled.

Mr. GESELL. Was it not at your insistence that arrangements were made to get Mr. Gregory out of his contract with Federal Reserve?

Mr. WILSON. Yes. I think before I was willing to go in as president I wanted that contract of Gregory's out of the way somehow, and there were negotiations about it.

Mr. GESELL. You told Herndon that you wanted Gregory out of the way before you would buy in on the stock?

Mr. WILSON. Before I was willing to loan the money on the stock I wanted that contract canceled.

Mr. GESELL. Why was that?

Mr. WILSON. It was a burden on the business, and with it out of the way it left the business that much more profitable to the company. The company had that much better chance to win with it out of the way.

Mr. GESELL. You say you acquired additional shares of Federal Reserve stock. How did you obtain those?

Mr. WILSON. We bought some of it for cash and traded the preferred stock of the Insurance Investment Corporation for some of it.

Mr. GESELL. In other words, you switched the stockholders of Federal Reserve from common stock of Federal Reserve to preferred stock of Insurance Investment Co.?

Mr. WILSON. Yes.

Mr. GESELL. I presume that you obtained the names of the shareholders through your access to the shareholders' list which you obtained at the time you entered into the management of the company.

Mr. WILSON. Yes.

Mr. GESELL. Whom did you use to carry out this shifting of the shares?

Mr. WILSON. I have forgotten now who the field man was. There were several.

Mr. GESELL. I didn't mean the names. I meant were they employees of Federal Reserve or Insurance Investment?

Mr. WILSON. No; nothing to do with Federal Reserve. They were employees of Insurance Investment.

Mr. GESELL. You had people in Insurance Investment Co. who did that type of work?

Mr. WILSON. Exactly. The Federal Reserve had nothing to do with it.

Mr. GESELL. Now, did you know at that time that Mr. Herndon was connected with the Kansas department?

Mr. WILSON. Yes; I knew he was connected with the department. Well, I say I knew he was connected with the department—I knew he examined for the Kansas department at times and I knew he had then just concluded an examination of the Federal Reserve, or had just made an examination. I discussed that Federal Reserve condition with him, discussed their business in force and the persistency of policies and the loading of the premiums and the assets and the entire situation, to arrive at what I thought was a fair value, and I decided it was a very nice little plant.

Mr. GESELL. Did you know that he received on this transaction a commission of \$100,000 and a note of \$15,000?

Mr. WILSON. No; I didn't. I didn't know until yesterday anything about that. I just knew—

Mr. GESELL (interposing). That was handled by Mr. Merritt, I take it.

Mr. WILSON. So far as the talk with Herndon was concerned, it was handled by Merritt. All I knew about it was that the stock was put up in the bank and so much money had to be paid down to get the stock and the money was paid, and we loaned Merritt part of the money, or rather the Reserve Co., part of the money to pay. I didn't know what interest Herndon had in it, if any.

Mr. GESELL. Did you become president of the company prior to the consummation of the transactions?

Mr. WILSON. It may have been just prior, or it may have been just after, but it was in contemplation of the transaction.

Mr. GESELL. Were you a director prior to the time you became an officer?

Mr. WILSON. No; I don't—well, it may be that I was on the board, but it was all as a result of this purchase of this stock.

Mr. GESELL. Who put you on the board?

Mr. WILSON. I have forgotten whether the board filled vacancies or whether the stockholders' meeting did.

Mr. GESELL. Do you recall whether you had to convene a stockholders' meeting?

Mr. WILSON. I didn't convene one for that purpose.

Mr. GESELL. Do you recall any statement of Mr. Herndon to the effect that he arranged for your appointment to the board and for an officership to illustrate his good faith in this transaction?

Mr. WILSON. Yes; it may have been done that way.

Mr. GESELL. What is your recollection with respect to that, sir?

Mr. WILSON. My recollection is now, since you mentioned it—I had forgotten it, but I think I was elected a member of the board and elected president before this money was paid for the stock, but it was all meant to be simultaneous.

Mr. GESELL. That was before you had purchased the securities?

Mr. WILSON. Yes; before we had loaned Merritt this money to pay on them.

Mr. GESELL. Before you actually had gotten any interest in the company?

Mr. WILSON. Yes.

Mr. GESELL. Who arranged for that?

Mr. WILSON. Arranged for me going in the company as a director and president?

Mr. GESELL. That is right.

Mr. WILSON. I think Mr. Herndon did.

Mr. GESELL. Now, coming to the time when you left the management of that company, will you tell us the circumstances under which you resigned as an officer and director; you and Mr. Merritt, I should say?

Mr. WILSON. The company was having a lot of difficulty with Mr. Hobbs about the assets and about different things, and finally the attorney general, Mr. Smith, attorney general of the State, advised me that it would be necessary for Mr. Merritt to retire from the company, and he was going to ask Mr. Merritt to come to his office, and was going to tell him he had to get out of the company, so I told General Smith if he did that, to also ask me to get out. He said he had no objection to me remaining but Merritt had to get out, and I told him that Merritt had brought me in and if Merritt got out and I stayed in, Merritt would always think I had double-crossed him and stayed in and got him out. So I went out with Merritt.

Mr. GESELL. That was at the request of the attorney general of the State of Kansas?

Mr. WILSON. Yes.

Mr. GESELL. That was subsequent to this suppressed examination report which we discussed yesterday?

Mr. WILSON. Yes; it was. I thought the examination report did not reflect the condition of the company. I thought the securities were grossly undervalued and a lot of things made much about. I thought that arose largely from the feeling of hostility between Mr. Hobbs, the then commissioner, and Mr. Baker and Colonel Herndon, the preceding commissioner and actuary. I thought then that if we would get out of it and select a small board of five members—representative, good, honest, straight, capable business fellows—that they would all let the company alone. The company had been a target for attacks of different kinds, alleged policyholders' suits or alleged stockholders' suits—they were not lawsuits in good faith; they were just suits brought for ulterior motives of some kind or another, with almost nothing involved in any case, but, of course, it all injured the company and gave it publicity; and all these examinations it was going through kept it in the limelight all the time and gave it a bad name, and it looked like I couldn't steer it away from all of that, so I thought if I would arrange a good board and put them in there and Merritt would get out and I would get out with him, I thought they

would let the company alone, I thought the company could go on and succeed.

Mr. GESELL. You continued, after you and Mr. Merritt got out, to hold the controlling stock interest?

Mr. WILSON. Yes.

Mr. GESELL. Can you tell whether the new board which went in was appointed by you and Mr. Merritt; or, if not, by whom it was appointed?

Mr. WILSON. The board was selected after consultation with everyone that apparently had any right to talk about it. For instance, we agreed on Mr. Jordan, who was then Mr. Hobb's examiner. We thought that would satisfy Mr. Hobbs. Mr. Jordan was a capable young insurance man, and we thought that, by making him a director, it would satisfy Mr. Hobbs.

Mr. GESELL. Who became the president of the company?

Mr. WILSON. Frank Bushman.

Mr. GESELL. Was he acceptable to Mr. Hobbs?

Mr. WILSON. I was led to believe he was. The company had made loan contracts with the Bushman interests, and the Bushmans had loaned money on its stocks that it had reinsured and was financially interested pretty heavily. They were capable businessmen, thought at that time to be very wealthy men, and had a reputation as perhaps being the best real-estate-loan men in and about Detroit.

Mr. GESELL. I want to ask you about that contact.

Mr. WILSON. Just before I leave that. Then Frank Bushman agreed—I have forgotten whether he approached me or I approached him and asked him about it, but he agreed to move down to Kansas City and take charge of the company and become its president. And I thought, being a businessman of the standing he was and the reputation he had and the interest he had at stake. I thought it would be a good thing for the company. So that was two of them. There was a man named Sandell, president of one of the banks at Kansas City, Kans., and a man of good standing, a stockholder in the company, and we agreed on him for a third director. And I believe Judge Brady was the fourth one.

Mr. GESELL. And there was an associate of Mr. Bushman's, Mr. Green?

Mr. WILSON. I don't believe Alex Green went on the board. Frank was on the board, and Judge Brady as a lawyer at Kansas City, Kans., perhaps the outstanding lawyer then, was then, and I have forgotten who the fifth one was, but we thought this board would satisfy Mr. Hobbs, satisfy the insurance department, insure good, clean, capable management, and through their weight and influence, they could keep down these periodical attacks on the company, suits for receiver, and faked-up litigation, and all sorts of stuff like that.

Mr. GESELL. When you say faked-up litigation, do you have definite information as to any litigation against the company which was faked up?

Mr. WILSON. Well, I know that the amounts involved were so trivial that you know people wouldn't have brought suits—

Mr. GESELL (interposing). That isn't an answer to my question. Do you have any definite information on that, sir?

Mr. WILSON. Not of my own personal knowledge. I have talked to a great many people, and a lot of general rumors—

Mr. GESELL (interposing). We want your own personal knowledge.

Mr. WILSON. Not of my own personal knowledge.

Mr. GESELL. Coming to this Bushman contract, that was entered into prior to the time you and Mr. Merritt left the company, wasn't it?

Mr. WILSON. Yes.

Mr. GESELL. You say that was a loan contract?

Mr. WILSON. Yes.

Mr. GESELL. Can you tell us in general what the terms of that contract were?

Mr. WILSON. Bushman became really the investment agent of the company, he really had a contract to invest the company's funds in real estate at 50 percent of its value, and such securities as the company would hold, for an amount that practically absorbed the company's investment business. He really became the company's investment agent.

Mr. GESELL. He was given a contract for \$1,750,000, wasn't he?

Mr. WILSON. Spread over a period of 7 years.

Mr. GESELL. Did not the contract also provide that that money could be loaned directly to Bushman properties? He wasn't just a loan correspondent. That contract was sufficiently broad to cover his own properties as well.

Mr. WILSON. Yes; the company agreed to buy the mortgages from him.

Mr. GESELL. Those could be his own mortgages and mortgages he brokeraged?

Mr. WILSON. Yes; his own or mortgages he got from other people.

Mr. GESELL. That contract was still in force and effect when you left, was it not?

Mr. WILSON. Yes.

Mr. GESELL. And it remained in effect thereafter, did it not?

Mr. WILSON. Yes.

Mr. GESELL. Were you associated with Mr. Bushman in any other venture outside of your interest in Federal Reserve?

Mr. WILSON. Yes; I had been. I had known him for many years and had had various transactions with him and I believe it was previous to this that the Insurance Investment Corporation had bought a little life insurance company in Detroit from the Bushmans, the Agricultural Life Insurance Co. of Detroit.

Mr. GESELL. So you were in pretty close business relations with him, were you not?

Mr. WILSON. Yes; I was.

Mr. GESELL. Now I believe we had testimony yesterday to the effect that you contributed \$300,000 or \$375,000, I am in some doubt as to the figure, to Federal Reserve at the time you left. What was the amount first of all?

Mr. WILSON. Three hundred thousand dollars.

Mr. GESELL. Did you contribute that amount?

Mr. WILSON. The Insurance Investment Corporation did put in \$300,000 cash to the surplus of the company under a contract that it should be repaid out of surplus earnings in excess of \$50,000, and if there never were any surplus earnings in excess of \$50,000 in any year, it never would be repaid.

Mr. GESELL. Was that repaid with interest?

Mr. WILSON. Yes; repaid with interest, but only out of profits excess each year. Whenever the profits exceeded \$50,000 then they would be applied on it. It provided further if the business was reinsured in some other company, then it was to be repaid out of the profits of the reinsured business.

Mr. GESELL. Do you know what was done with that \$300,000?

Mr. WILSON. It was deposited with the insurance commissioner of the State of Indiana on the reserve deposit.

Mr. GESELL. On the reserve deposit of that State?

Mr. WILSON. Yes.

Mr. GESELL. You got a participating certificate, did you not, as the evidence of your contribution?

Mr. WILSON. The obligation; yes.

Mr. GESELL. And you assigned that from the insurance investment company to the fire company of Chicago, did you not?

Mr. WILSON. When the Insurance Investment sold this stock of the Federal Reserve to the fire company, it sold the certificate with it.

Mr. GESELL. Was Mr. Bushman interested in the fire company?

Mr. WILSON. No; he was not at that time.

Mr. GESELL. He subsequently became interested, did he?

Mr. WILSON. Yes; he subsequently became interested. May I tell you why this \$300,000 was put into the surplus of the Federal Reserve?

Mr. GESELL. Certainly.

Mr. WILSON. The Federal Reserve had reinsured the business of the Farmers' National Life, and the Farmers' National Life had an agency plant producing about, as I remember it, \$800,000 of new business a month.

The premium income from first-year business is not enough to pay the costs of first-year business. The Federal Reserve Life at that time had a very small surplus, it may have been \$50,000 or something like that. So in order to get the best use of this agency plant, it had to have surplus enough to stand the drain of that first-year loss for new business, or else it had to cut off this agency plant that cost the Farmers' National 2 million or 2½ million dollars to build and had taken many years to build, so that is why the \$300,000 was put into the surplus.

Mr. GESELL. Did you know the \$300,000 that was contributed was loaned out immediately under the Bushman contract?

Mr. WILSON. No; it wasn't loaned out immediately. It wasn't until I retired from the company. As long as I was in the company it was on deposit with the insurance department of Indiana.

Mr. GESELL. Let me read you what is stated to refresh your recollection on that, from the examination report of 1933, which was identified yesterday. The report reads, commencing at page 22 [reading from "Exhibit No. 1348-3"]:

Receipt of the proceeds from this participating certificate was recorded in the general ledger of the Federal Reserve Life under date of November 30, 1929, the record thereof, indicating that said proceeds came to the company in the form of a certificate of deposit for \$300,000, dated November 20, 1929, and issued by the State Bank of Chicago, Chicago, Illinois. The amount of such proceeds was credited in the general ledger of the company to surplus paid in. It appears that immediately after the Insurance Investment Corporation received this participating certificate, it sold and assigned the same to the Fire Insurance

Company of Chicago, Illinois, in which company your examiners understand Massey Wilson was somewhat interested. It also appears that said certificate was still held by the last-mentioned company on June 30, 1933, the date of this examination. The records of the Federal Reserve show no interest or principal payments on the certificate, up to and including June 30, 1933, and the financial statement included in this report shows they have paid up as a liability the sum of \$4,721.09 as due the owners of this certificate as of June 30, '33, this amount having been determined on the basis of said financial statement and as provided in the certificate. Entries in the general ledger of the Federal Reserve Life under date of April 12, 1930, show withdrawal from the State Bank of Chicago, Chicago, Illinois, of the \$300,000 represented by the certificate of deposit, and the deposit of said funds in the States Savings and Trust Company, Indianapolis, Indiana, together with the sum of \$3,624.55, representing interest paid by said State Bank of Chicago on the certificate of deposit. Statement from the States Savings and Trust Company in the files of the Federal Reserve Life show a deposit of \$300,000 as having been made on April 14, 1930, and the deposit of interest proceeds of \$3,624.55, to have been paid on April 16, 1930. It also showed two other deposits. These are in small amounts. Said statement shows that the company's balance in the States Savings prior to the making of these four deposits, \$137,542.49. This balance plus said deposit made the total funds of \$442,532.04. The records of the company show checks issued on this account with the States Savings and Trust Company under date of April 11, 1930 (that is within three days of the time of the deposit)—

Mr. WILSON (interposing). You mean within 3 days of the time we put this \$300,000 in the Federal Reserve?

Mr. GESELL. No; the time of the deposit in the State Savings.

Mr. WILSON. They just transferred the money from the Chicago bank to the Indianapolis bank; I suppose the Commissioner did that.

Mr. GESELL. Just follow me on this. [Reading from "Exhibit No. 1348-3"]:

The records of the company show checks issued on this account with the State Savings Bank and Trust Company, that is after the money is in Chicago, under date of April 11, 1930, totaling \$380,000, and another check on the same account issued under date of April 14, 1930, in the amount of \$15,000. These checks, however, were not presented to the bank for payment until after deposit of \$300,000 had been made. The amounts of these checks, or \$395,000, deducted from the above amount of \$442,532.04, left a balance of \$47,532.04 in the bank on April 26, 1930. The bank was closed and is now being liquidated.

Up to and including June 30, 1933, the Federal Reserve had realized nothing from this balance. The above-mentioned checks totaling \$395,000 were issued for the following purposes:

There are then listed five different checks in the amount of \$330,000 total, issued to the General Holding Company, mortgagor; Franklin E. Bushman, mortgagor; State Security & Realty Co., mortgagor; Franklin E. Bushman and wife, mortgagor; Franklin E. Bushman and Fanny Bushman, mortgagor.

Those checks of \$330,000 were on the proceeds of this fund?

Mr. WILSON. Yes, sir.

Mr. GESELL. So the money you deposited did go directly to the Bushmans or companies in which they were interested.

Mr. WILSON. That is, the company bought mortgages from Bushman and paid him this money.

Mr. GESELL. And some of these mortgages were actually Bushman mortgages.

Mr. WILSON. Yes, sir.

Mr. GESELL. Not mortgages placed through Bushman?

Mr. WILSON. Yes.

Mr. GESELL. Were you associated with Bushman at that time. April 1930?

Mr. WILSON. I had nothing whatever to do with the Federal Reserve Life. I had nothing whatever to do with that. No; I don't believe I was. I had business interests with him. I don't believe I had any kind of—

Mr. GESELL (interposing). You said you had nothing to do with Federal Reserve Life. You were the principal stockholder, weren't you?

Mr. WILSON. The Fire Co. was; yes.

Mr. GESELL. And you controlled the Fire Co.?

Mr. WILSON. Yes; I controlled that; but we had given Bushman a contract to buy the stock and given him an exclusive option to vote on it, and he never consulted me about anything in it. In fact, he ran it as if I was a stranger. I had nothing more to do than you had. You notice that that was some 4 months after we put this money in the company, before Bushman loaned it to himself.

Mr. GESELL. I was interested in showing the money went out under this Bushman contract, which had been entered into prior to the time you left the company.

Mr. WILSON. Yes; it did.

Mr. GESELL. I want just for a few minutes, Mr. Wilson, to discuss with you in a more general way your activities in the insurance field.

Are you in the business at the present time?

Mr. WILSON. No.

Mr. GESELL. You are retired?

Mr. WILSON. I am farming and have been for 2 years.

Mr. GESELL. Up until 2 years ago, were you in the insurance business?

Mr. WILSON. Yes.

Mr. GESELL. For how long?

Mr. WILSON. From 1909 to about 2 years ago.

Mr. GESELL. Most of that time you were engaged in buying and selling and consolidating, merging insurance companies.

Mr. WILSON. No; for 16 years of the time I was the president of a company and actively engaged as its chief executive.

Mr. GESELL. What company?

Mr. WILSON. International Life of St. Louis.

Mr. GESELL. Did that company buy up other companies during that period?

Mr. WILSON. Yes; bought up a great many of them.

Mr. GESELL. How many?

Mr. WILSON. I suppose 20 or more, some of them very small. While the company reinsured many companies, it really reinsured a very small percent of its total business of \$325,000,000 when I finally left it.

It wrote most of other business, built a splendid organization and splendid company.

Mr. GESELL. Did that company subsequently fail?

Mr. WILSON. Yes.

Mr. GESELL. You went from there into the Insurance Investment Corporation, did you?

Mr. WILSON. Yes.

Mr. GESELL. What kind of an organization was that?

Mr. WILSON. That was a corporation whose charter powers was to buy and sell companies, and loan money and deal in securities, and almost anything.

Mr. GESELL. It was a holding company which was used to gather together insurance companies.

Mr. WILSON. Well, insurance companies and other companies, other properties.

Mr. GESELL. Mostly insurance companies that you gathered together in that?

Mr. WILSON. Largely, I wouldn't say mostly, but largely.

Mr. GESELL. How do you go about assembling a bunch of insurance companies?

You heard Mr. De Buchananne's explanation of the holding company preferred stock reinsurance, rewrite procedure. Did you adopt that same procedure?

Mr. WILSON. No; we never adopted that method. In all the years I was connected with buying companies, somebody would bring us a company, bring it to our attention, and many people are engaged in that, some way they would find out a company is for sale or think that maybe it is for sale. It may be the fellow who owns it, it may be the fellow who owns the stock, it may be somebody else; anyway it comes to our attention. And when a company was brought to our attention that was for sale, we would look into it, find who owned it, and get in contact with whoever did own it and trade for it the best way we could, sometimes a reinsurance, sometimes a merger, sometimes buy the stock, just in any way we could trade for it.

Mr. GESELL. When you bought the stock, did you frequently then corner all of the stock by trading the other stockholders out of their common stock in the company to preferred, in some company you were interested in?

Mr. WILSON. I didn't with the International Life. But the Insurance Investment was a company on that line.

Mr. GESELL. It did operate on that basis?

Mr. WILSON. Yes; Insurance Investment, but that wasn't formed until, I think, a year after I had gone out of International Life.

Mr. GESELL. So you would say that is one technique in acquiring a company, to buy a controlling interest, get a place in the management, switch the other policyholders out of their stock and into preferred stock of an affiliated organization?

Mr. WILSON. Yes; I had a dream of building another great company, and I thought by getting a whole lot of companies together and merging them into one I could finally build a great company from that.

Mr. GESELL. In a transaction such as that the policyholders are not consulted are they?

Mr. WILSON. They have to be consulted when you finally reinsure it.

Mr. GESELL. They at that time are sort of in the position of having to jump from the frying pan into the fire, aren't they? If they go with the reinsurance contract, they must put their chances there, or if they stay, their interest is liquidated, isn't it?

Mr. WILSON. That is right.

Mr. GESELL. It isn't a very happy choice at that stage for any policyholder, is it?

Mr. WILSON. Usually they go along with the reinsurance.

Mr. GESELL. It isn't a very happy alternative for a policyholder to have to face?

Mr. WILSON. No; it isn't.

Mr. GESELL. Particularly when the reinsurance contract is being entered with a man who is, in effect, shaking hands with himself, having controlling interest in the two companies involved.

Mr. WILSON. No.

Mr. GESELL. So, would you say I was perhaps fair in my statement that the policyholder doesn't have much choice in a proposition like that?

Mr. WILSON. Yes; you are right about that, but on the other hand, when these companies are sold and change hands, there is usually some reason for it. It generally has got in trouble some way, and my thought was that by merging a lot of these smaller companies together, putting more money in them, curing the defects, whatever they were, we could make a good big company. Usually when you can buy these little companies and when they are ready for reinsurance, they would finally go out of business anyway.

Mr. GESELL. You mean by the time they are ripe for the doctor, to use Mr. De Buchananne's phrase, they have already gotten into some difficulties, either investment-wise or management-wise or something of that sort?

Mr. WILSON. Almost always.

Mr. GESELL. But reinsurance is, after all, a way of solving a difficulty that has already arisen.

Mr. WILSON. Yes.

Mr. GESELL. Are there many companies, do you think—do you always find there were many companies which were ripe for reinsurance arrangements, such as you were attempting?

Mr. WILSON. We negotiated with a great many that never resulted in anything.

Mr. GESELL. That doesn't answer my question.

Mr. WILSON. Yes.

Mr. GESELL. Did you find there were a lot of companies that were ready and willing to reinsure?

Mr. WILSON. I didn't say we did. When you find them, either the price is impossible or they want you to do something you can't do, unbusinesslike, like taking them in as officers or something. I wouldn't say there are a great many.

Mr. GESELL. You reinsured two in the International Life?

Mr. WILSON. Yes.

Mr. GESELL. How many did you reinsure in the Insurance Investment Corporation?

Mr. WILSON. Well, of course, it was not an insurance company, it merely owned stock.

Mr. GESELL. How many did you bring together?

Mr. WILSON. We handled, I guess, half a dozen, maybe more than that.

Mr. GESELL. Can you tell us the names of some of these companies that you brought into the Insurance Investment Corporation holding-company arrangement?

Mr. WILSON. The Agricultural Life Insurance Co. of Detroit.

Mr. GESELL. That company subsequently failed, didn't it?

Mr. WILSON. I don't know whether it has failed. The last I heard anything about it, it was still going on, it wasn't doing anything, it had almost dried up. But the last I heard of it, it hadn't got to where it couldn't pay what it owed.

Mr. GESELL. What other companies?

Mr. WILSON. The Federal Reserve Life Insurance Co. Well, the Insurance Investment's holding in the Federal Reserve was a minority holding, but then, in turn, a subsidiary of the Insurance Investment did acquire the Federal Reserve.

Mr. GESELL. That would be the Fire?

Mr. WILSON. Yes.

There were some other small ones. I just don't remember.

Mr. GESELL. You got the United States Reserve finally, didn't you?

Mr. WILSON. No.

Mr. GESELL. A subsidiary of the Reserve Corporation?

Mr. WILSON. No; not the Insurance Investment.

Mr. GESELL. Who held that?

Mr. WILSON. The Reserve Co.

Mr. GESELL. Didn't that eventually come over into the investment Corporation, one of its subsidiaries?

Mr. WILSON. No, sir. It came into Federal Reserve Life Insurance Co.

Mr. GESELL. And the Federal Reserve was held by the Fire Co., which in turn was held by Insurance Investment Corporation?

Mr. WILSON. Yes.

Mr. GESELL. Farmers' National was held——

Mr. WILSON (interposing). By Federal Reserve.

Mr. GESELL. And the stock of that company was held by Insurance Investment, was it not?

Mr. WILSON. Yes; a large part of it, it wasn't all of it.

Mr. GESELL. I have no further questions.

The VICE CHAIRMAN. Earlier in the testimony, you referred to the difficulties that you had with the insurance department of the State of Kansas after Mr. Hobbs became commissioner, and I understood you to say that you thought by putting in a new board of directors, and so forth, that you would set the situation up in such a way that they would leave you alone.

Mr. WILSON. Yes.

The VICE CHAIRMAN. I take it that the period of interference with your operation of your company coincided in point of time with Mr. Herndon's leaving the insurance department of the State of Kansas?

Mr. WILSON. Yes; it did.

The VICE CHAIRMAN. That is while Mr. Herndon was there you were substantially let alone?

Mr. WILSON. Yes.

The VICE CHAIRMAN. And from your standpoint, that was a much happier situation than when Mr. Hobbs was investigating your insurance company?

Mr. WILSON. Well, I never—as long as I was in the business I never objected to the proper regulation, but what I did object to was these continual examinations and great expense. I think one of these examinations cost up into \$20,000 or more.

The VICE CHAIRMAN. Of course, if we can believe what was said here yesterday, that happy period that Mr. Herndon was there was a source of expense too?

Mr. WILSON. Yes.

Mr. GESELL. One further question, if I might. I neglected to ask you what profit you made when you sold out of the International.

Mr. WILSON. Around a half million dollars. About a half million dollars.

Mr. GESELL. Whom did you sell the company to?

Mr. WILSON. I sold it to General Atkinson, John C. Martin, J. R. Paisley, Dave Hill, and some others. I think there were seven of them.

Mr. GESELL. What happened to the company after that?

Mr. WILSON. They operated it for 2 years and sold it to a man named Toombs in Chicago.

Mr. GESELL. Then what happened after that?

Mr. WILSON. Toombs took \$5,600,000 of its money.

Mr. GESELL. And the company failed?

Mr. WILSON. And caused it to go broke, and the Federal court took charge of it, put it in receivership, and appointed me receiver.

The VICE CHAIRMAN. Thank you, very much.

Mr. GESELL. By the way, Mr. Toombs was convicted?

Mr. WILSON. Yes.

The VICE CHAIRMAN. Before we recess——

Mr. GESELL. I have one further witness, that is all. It will take 5 minutes. Miss Nordell.

The VICE CHAIRMAN. Will you raise your right hand? Do you solemnly swear that the testimony you are about to give in this proceeding will be the truth, the whole truth, and nothing but the truth, so help you God?

Miss NORDELL. I do.

**TESTIMONY OF EVA DOROTHY NORDELL, OCCIDENTAL LIFE
INSURANCE CO., KANSAS CITY, KANS.**

Mr. GESELL. What is your full name?

Miss NORDELL. Eva Dorothy Nordell.

Mr. GESELL. Is that N-o-r-d-e-l-l?

Miss NORDELL. That is right.

Mr. GESELL. You were connected with the Federal Reserve at one time, were you, Miss Nordell?

Miss NORDELL. Yes; I was.

Mr. GESELL. In what capacity?

Miss NORDELL. In the cashier's department, either as assistant cashier, or cashier.

Mr. GESELL. Were you also an officer for a while?

Miss NORDELL. Just as cashier.

Mr. GESELL. You were not assistant secretary?

Miss NORDELL. No.

Mr. GESELL. After the company was reinsured by the Occidental Life Insurance Co., did you go to the Occidental Life?

Miss NORDELL. Yes; I did.

Mr. GESELL. You are familiar with the books and records of the company, are you not?

Miss NORDELL. Yes, sir.

Mr. GESELL. You produced the various minute books and ledgers which we have used in the course of these hearings in response to subpoena duces tecum of the Occidental?

Miss NORDELL. That is right.

Mr. GESELL. There are two letters which I showed Mr. Vernon Holt which he was unable to identify. I want to show them to you now and ask you if you can identify them as letters coming from the files of the Federal Reserve Life?

Miss NORDELL (examining them). Yes.

Mr. GESELL. These are letters dated July 14, 1926, and July 15, 1926, respectively, the first being written by Mr. D. H. Holt to Mr. Merritt, and the second being written by Mr. Merritt to Mr. D. H. Holt. I wish to offer them for the record.

The VICE CHAIRMAN. You may.

(The letters referred to were marked "Exhibits Nos. 1348-4 and 1348-5" and are included in the appendix on pp. 7017 and 7018.)

Mr. GESELL. I would like to read the first letter if the committee please. It is dated July 14, 1926, and states [reading from "Exhibit Nos. 1348-4"]:

I have been in Chicago nearly every day since the agency force began their transfer work. As you know, I am here in the interest of our company with a view of the protection of our company in the minutest details.

I believe in the transfer work, believe it is a good thing for the company and the policyholders of the old Providers Life provided it is done in the right way. And the right way is what I want to discuss with you in this letter.

You know the Federal Reserve Life Insurance Company is not in the business for just a day. A Life Insurance Company, if it endures, goes on down the avenue of time from generation to generation. People who have to do with the Life Insurance Company may pass off the sphere of action but the Life Insurance Company itself goes on and on for all time. We are interested in the future.

The representative in the field, as a rule, is interested only in the present and in his commission in the immediate placing of business. The transfer men are no exception to this rule. They are anxious to place a large number of new policies each day for the purpose of making the daily earning more attractive. If they can put it over without a proper discussion of the principles back of it, they want to do that because it is traveling the road of least resistance. But this is where trouble for the Federal Reserve Life Insurance Company begins.

We have them (Providers policyholders) now coming into the office, telling us stories of seeming duress and without any knowledge of what the change means to them. These people, as a unit, believe that the management of the Providers has been to rob them of their rights and of their cash, and they believe that this transfer is the last stroke to take their money away from them and to put them in a position where their insurance will not be effective.

Some of the agents will go into a home with the policy of some member of the family, and if this policyholder be not present, the agent will require some other member of the family to get the policy, get that member of the family to sign the cash-surrender certificate, to sign all other papers in connection with the transfer, take up the old policy, leave the new one, and return the case to the office here as a completed case and congratulating himself on the fact that he made a sale. Then the next day in comes the irate policyholder and states that the whole process was one of duress and he demands that the old policy be returned and that his status as before be established. I fear this process is being done in a more general way than is indicated by the specific case which turned up here at the office, and if it is sometime down the line, we may have serious trouble with these people whose policies have been taken up and new policies, by unauthorized signatures of people whom the agents know are not legally qualified to sign same.

This work can be done in the right way, and if it is, there will be scarcely any comeback and this is the way we want it done. Yesterday we had a case where the policy of Pavil Gofron, 2617 West Haddon Street, was brought into

the office by a son. This young fellow said his father was very irate and wanted his old policy returned. He said the agent forced his mother to give up the old policy—the father's policy, in his absence—and sign all the papers. We tried to find who the agent was who did this indiscreet act.

I will not read the rest of the letter.

Mr. GESELL. Miss Nordell, I want to ask you first of all whether you are familiar with the expense which the Federal Reserve was required to pay in connection with the examining of that company by the Kansas department during the time that Mr. Herndon was in charge of the examining.

Miss NORDELL. I have gone through the ledger accounts on it.

Mr. GESELL. And have you been able to tell from the ledger accounts the exact amount?

Miss NORDELL. Not every one.

Mr. GESELL. Can you for any years?

Miss NORDELL. For 1929. That, however, isn't Mr. Herndon's examination.

Mr. GESELL. What was the expense of the '29 examination, while we are on it?

Miss NORDELL. \$26,587.36.

Mr. GESELL. That was the one discussed with Mr. Jordan yesterday?

Miss NORDELL. Yes.

Mr. GESELL. For other years do you know approximately what the amount ran?

Miss NORDELL. No; not just offhand.

Mr. GESELL. You recall typing these sheets from the ledger showing the expense?

Miss NORDELL. That is right.

Mr. GESELL. Can you segregate there the items for insurance examination that are definitely ascertainable and make some estimate as to the amount of the expense involved in some of the Herndon examination?

Miss NORDELL. Well, in this 1921 one, there is one item on March 30, \$264.31, to expense of W. K. Herndon, and of \$261.51, A. E. Fritz. April 12, to W. K. Herndon, \$24.36.

Mr. GESELL. Now, they were paid on a per diem basis, were they?

Miss NORDELL. That is right.

Mr. GESELL. How much a day?

Miss NORDELL. \$15 a day and expenses.

Mr. GESELL. They were there from 2 to 3 weeks on each examination?

Miss NORDELL. At least that.

Mr. GESELL. Now, have you prepared from the records of the company some analysis of the loss taken on the transfer of certain mortgages from Federal Reserve to the Occidental on the reinsurance of the business in 1926?

Miss NORDELL. Yes.

Mr. GESELL. Referring first of all to the Bushman loans or Michigan loans, did you prepare a detailed schedule showing information with respect to loss taken on those loans?

Miss NORDELL. I had it prepared.

Mr. GESELL. I beg your pardon?

Miss NORDELL. I had it prepared.

Mr. GESELL. It was prepared by the people familiar with the books and the records?

Miss NORDELL. In the office.

Mr. GESELL. Is it correct to say that this schedule shows that Federal Reserve made loans on Michigan mortgages to the Bushmans or their interests in the amount of \$1,698,500?

Miss NORDELL. That is right.

Mr. GESELL. And that those were paid off in the amount of \$137,238, making the total loans outstanding at the time of the reinsurance in Occidental of \$1,561,262?

Miss NORDELL. That is right.

Mr. GESELL. Am I correct in saying that the net value approved by the court when the Federal Reserve receivers sold the assets to the Occidental based on appraisals at that time less delinquent taxes, and estimated foreclosure cost at \$331,988?

Miss NORDELL. That is right.

Mr. GESELL. So, as a result the loss sustained on the basis of these values approved by the court were \$1,229,274, were they not?

Miss NORDELL. That is right.

Mr. GESELL. Out of \$1,561,262 loaned?

Miss NORDELL. Yes.

Mr. GESELL. Now, with respect to the five Mississippi mortgages which came to Federal Reserve via Mr. De Buchananne and Providers, and which then came from Federal Reserve to Occidental, am I correct in saying that you prepared a schedule in the same fashion with respect to these mortgages?

Miss NORDELL. That is right.

Mr. GESELL. Does it disclose that those five mortgages at that time had an unpaid principal amount of \$248,050?

Miss NORDELL. Yes.

Mr. GESELL. And that the court valuation on those same properties was only \$102,723?

Miss NORDELL. Yes.

Mr. GESELL. As a result, the write-down on those five mortgages was \$143,776.28, was it not?

Miss NORDELL. That is right.

Mr. GESELL. Now, one other matter. May I ask you who was made receiver in 1936 of the Federal Reserve Life Insurance Co.?

Miss NORDELL. William R. Baker.

Mr. GESELL. That is the same Mr. Baker who was insurance commissioner?

Miss NORDELL. Yes, sir.

Mr. GESELL. Did he receive an allowance for his services as the receiver at the rate of \$1,000 per month or \$10,666.66?

Miss NORDELL. Yes.

Mr. GESELL. Was he commissioner at that time?

Miss NORDELL. No.

Mr. GESELL. That is all I have.

The VICE CHAIRMAN. At the time that the Federal Reserve Insurance Co. went into receivership, who was the president of the company?

Miss NORDELL. Mr. Clarence Schultz.

The VICE CHAIRMAN. During what period, if you know, was Mr. Bushman president of the company? I understand he started about the end of 1929.

Miss NORDELL. Until his death, which I believe was 1933.

The VICE CHAIRMAN. Thank you very much.

Before we recess, I would like to insert something in the record. During the testimony of Thomas Parkinson, president of the Equitable Life Assurance Society of the United States before this committee on October 26, 1939, it was agreed between Mr. Parkinson and Mr. Gesell, conducting the examination, that Mr. Parkinson at a later date would submit for the record a statement with respect to the rules and practices the company follows in determining the amount of life insurance it feels it can offer to applicants.¹ Mr. Parkinson's statement and accompanying letter are herewith received and ordered to be inserted in the record.

(The documents referred to were marked "Exhibit No. 1348-6" and are included in the appendix on p. 7018.)

The VICE CHAIRMAN. The committee will stand in recess until Thursday, December 14.

Mr. GESELL. At which time the first witness will be Mr. W. K. Herndon.

(Whereupon, at 1:05 p. m., the subcommittee adjourned until 10:30 a. m. Thursday, December 14, 1939.)

¹ See *supra*, pp. 6552.



INVESTIGATION OF CONCENTRATION OF ECONOMIC POWER

THURSDAY, DECEMBER 14, 1939

UNITED STATES SENATE,
SUBCOMMITTEE OF THE TEMPORARY
NATIONAL ECONOMIC COMMITTEE,
Washington, D. C.

The subcommittee met at 10:35 a. m., pursuant to adjournment on Friday, December 8, 1939, in room 357, Senate Office Building, Joseph J. O'Connell presiding.

Present: Mr. O'Connell (vice chairman), Representative Reece, and Mr. Brackett.

Also present: James B. Ross, representing the Department of Commerce; Gerhard A. Gesell, special counsel; Helmer Johnson and Erik G. Peterson, attorneys, Security and Exchange Commission.

The VICE CHAIRMAN. The hearing will please come to order.

Mr. GESELL. If the committee please, we are going to continue this morning the testimony with respect to some of the subjects covered last week, and the first witness this morning is Mr. Herndon.

The VICE CHAIRMAN. Will you raise your right hand? Do you solemnly swear that the testimony you are about to give in this proceeding will be the truth, the whole truth, and nothing but the truth, so help you God?

Mr. HERNDON. I do.

TESTIMONY OF WILLIAM K. HERNDON, FORMER EXAMINER KANSAS DEPARTMENT OF INSURANCE, BEVERLY HILLS, CALIF.

FEDERAL RESERVE—ACTIVITIES OF WILLIAM K. HERNDON

Mr. GESELL. Will you state your full name, please?

Mr. HERNDON. William K. Herndon.

Mr. GESELL. And what is your occupation, Mr. Herndon?

Mr. HERNDON. I haven't any now.

Mr. GESELL. You haven't any at the present time?

Mr. HERNDON. No.

Mr. GESELL. Where do you reside?

Mr. HERNDON. Beverly Hills, Calif.

Mr. GESELL. How old are you, Mr. Herndon?

Mr. HERNDON. Fifty-three.

Mr. GESELL. Were you at one time special examiner for the Kansas Insurance Department?

Mr. HERNDON. Yes; I did a great deal of work for them.

Mr. GESELL. Can you tell us during what years you worked for the Kansas department?

Mr. HERNDON. Well, I only was doing special work when they called on me and that was from—I don't know, 1920, 1921 to 1927 or 1928.

Mr. GESELL. Will you tell us what the nature of the work you did for them was? I understand you weren't on the pay roll regularly or anything of that sort?

Mr. HERNDON. That is right.

Mr. GESELL. You were taken on from time to time to aid in examination work, is that right?

Mr. HERNDON. That is right.

Mr. GESELL. Who would appoint you?

Mr. HERNDON. The commissioner of the State for which I was working.

Mr. GESELL. And that would be for the purpose of conducting a specific examination?

Mr. HERNDON. That is right.

Mr. GESELL. And it would be conducted on a special per diem basis, is that correct?

Mr. HERNDON. Yes; paid by the company.

Mr. GESELL. What was the usual per diem?

Mr. HERNDON. From ten to twenty-five dollars a day and expenses.

Mr. GESELL. Had you been in the insurance business in any way prior to the time you became associated with the Kansas department, the first time?

Mr. HERNDON. Yes.

Mr. GESELL. Will you tell us what you had done in the insurance business?

Mr. HERNDON. General agent of a life and casualty company in 1914, 1915, and 1916.

Mr. GESELL. Now, did you work for any other departments other than the State of Kansas?

Mr. HERNDON. Yes, sir.

Mr. GESELL. Will you tell us what departments you worked for?

Mr. HERNDON. District of Columbia, Texas, Pennsylvania, Nebraska; that is all I remember now. I think I did some work in Wyoming and some in Colorado. I am not sure of that.

Mr. GESELL. You worked in Indiana, didn't you?

Mr. HERNDON. I might have.

Mr. GESELL. Did those commissioners employ you on the same basis as you are employed by the Kansas department, that would be for purposes of special examination?

Mr. HERNDON. That is true.

Mr. GESELL. In all those cases your per diem was paid, was it not, by the company in accordance with the usual procedure in those cases?

Mr. HERNDON. In most cases; yes. I think some examiners were on salaries.

Mr. GESELL. You were never on a salary basis with any department?

Mr. HERNDON. No, sir.

Mr. GESELL. Now, when you first became connected with the Kansas department, was Mr. Travis the commissioner?

Mr. HERNDON. He was.

Mr. GESELL. And you subsequently worked from time to time for the department while Mr. Baker was commissioner, is that correct?

Mr. HERNDON. That is right.

Mr. GESELL. Had you been associated with Mr. Travis and Mr. Baker in any way prior to that time?

Mr. HERNDON. I knew them both before the war, and at one time Baker had an insurance agency in Kansas City, Kans., and I had some business with him at that time. That was before the war, and Travis had one at Iola, Kans., and I had some contacts with him.

Mr. GESELL. Had you and Mr. Baker and Mr. Travis been in the war together?

Mr. HERNDON. I was going to say we served in the same regiment, the three of us, during the World War.

Mr. GESELL. Do you recall that on several occasions you participated in an examination of the Federal Reserve Life Insurance Co. of Kansas City, Kans.?

Mr. HERNDON. Quite a few times.

Mr. GESELL. Can you recall how many times?

Mr. HERNDON. No; I wouldn't say, probably seven or eight.

Mr. GESELL. I have here some examination reports for the Federal Reserve, purporting to have been signed by yourself.

Mr. HERNDON. This one I didn't sign. The commissioner of insurance signed that one, Mr. Hobbs.

Mr. GESELL. Which is the first one where your name appeared?

Mr. HERNDON. April 7, 1922; July 21, 1923. Do you want me to call all these off?

Mr. GESELL. If you would, please.

Mr. HERNDON. Here is an unsigned one dated January 24, 1925; February 24, 1926; another unsigned one dated February 24, 1928; February 28, 1927. Here is one dated January 7, 1929, it is not signed and I don't see how I could have signed it. I might have participated in the examination, but I wasn't in this country on January 7, 1929.

Mr. GESELL. You may have participated in the examination but were not responsible for the report.

Mr. HERNDON. I might have been responsible for helping to write the report, too.

Mr. GESELL. Who ordered those examinations, the insurance commissioners in each instance?

Mr. HERNDON. Yes; it looks like some of them were authorized by the chairman of the committee on examinations of the National Association of Insurance Commissioners. I notice they appear to be convention examinations so far.

Mr. GESELL. It occurs to me that the examinations were rather frequent, one in 1925, one in 1926, one in 1927, one in 1928, one in 1929. Is there any special explanation as to why the company was examined that often that you can give us?

Mr. HERNDON. Nothing, only the troubles that Gregory was probably getting into.

Mr. GESELL. The customary procedure, at least the legal requirements, is usually examination of a company once every 3 years, are they not?

Mr. HERNDON. I don't remember about that. Different States have different laws on these examinations.

Mr. GESELL. You can't give us any more specific reasons why these examinations were made so frequently other than the possibility of Mr. Gregory being in difficulties?

Mr. HERNDON. Some of them are caused probably by reinsurance deals he was in.

Mr. GESELL. You would be called in to appraise the results of a particular reinsurance deal that had taken place?

Mr. HERNDON. Either that, or of the companies before they were put together.

Mr. GESELL. Were you in charge of the examinations where you appeared as the examiner for Kansas?

Mr. HERNDON. Not necessarily so; no.

Mr. GESELL. Is it customary for the examiner from the home State to be in charge of examinations?

Mr. HERNDON. They usually do look to him, of course, to guide them about, but they are absolutely free to do as they please and write their own report.

Mr. GESELL. I understand that, they are on their own, but someone has to take a certain amount of responsibility.

Mr. HERNDON. That is usually the man in the home State, of course.

Mr. GESELL. And therefore in most of those cases it was yourself, was it not?

Mr. HERNDON. In the ones I participated in. However, there were several in there that I did not participate in.

Mr. GESELL. Where you did participate in the examination as a representative of Kansas, you were more or less in charge of the examination?

Mr. HERNDON. I would say that I was.

Mr. GESELL. Now, what interest, if any, did you have in the Federal Reserve Life Insurance Co. during this period?

Mr. HERNDON. I don't think I had any directly. There was some deal that I had with Mr. Gregory, and as I remember it now, he hypothecated some stock with me to protect that amount of money. He didn't take it all up and when I finally sold the stock of the company to Wilson and Merritt, part of that stock went on in that transaction.

Mr. GESELL. First of all, did you have any interest in Gregory's agency contract?

Mr. HERNDON. Partially, yes; at times.

Mr. GESELL. Do you recall what that interest was?

Mr. HERNDON. You mean in money?

Mr. GESELL. Or in percent.

Mr. HERNDON. He reinsured the Provider's Life, as I remember, of St. Louis, and Mr. Merritt, who had been associated with that company, and prior to that time had been transferring business of other companies, wanted a contract for the transfer of that business and Gregory wouldn't give it to him, and Merritt had me see Mr. Gregory and make a contract with him for the transfer of that business, and I don't remember the exact percentage, but either Gregory or Merritt gave me 2, 2½, 3 percent for getting that contract.

Mr. GESELL. That was an interest you had on the rewriting or the transfer of the Provider policies?

Mr. HERNDON. That is right.

Mr. GESELL. I think you misunderstood my question. Did you have any interest in the Gregory agency contract? He had a contract, didn't he, with the company?

Mr. HERNDON. No; other than just—that was put under his contract as I remember it now.

Mr. GESELL. That was specifically in rewritings?

Mr. HERNDON. That was specifically in rewritings and I got a percentage on that business.

Mr. GESELL. Do you not recall you had a 2½-percent interest in his contract at one time quite apart from any rewriting?

Mr. HERNDON. No, sir; I don't recall that.

Mr. GESELL. Do you recall that you gave a deposition, Mr. Herndon?

Mr. HERNDON. Yes.

Mr. GESELL. One time in connection with a suit brought by the insurance company against the estate of Mr. Gregory and certain other people?

Mr. HERNDON. In Kansas City, Mo.?

Mr. GESELL. Yes.

Mr. HERNDON. Yes.

Mr. GESELL. Do you recall being asked this question and giving this answer:

What, if anything, did your dealings or your transactions there reflected have to do with W. L. Gregory's premium commission contracts?

And the plaintiff's answer was—

I had a contract with Mr. Gregory. A memorandum, as I call it, that was either 2 or 2½ percent of his premium income as consultant for his agency.

Do you recall that?

Mr. HERNDON. No; I don't. Doesn't that refer to the same 2½ percent I am just talking about with the Provider?

Mr. GESELL. No; I think you will find that is discussed separately in the deposition on page 149. You may take your time to refresh your recollection on that.

Mr. HERNDON. Well, this would appear that Gregory had assigned me 2½ percent of his contract, of his income, to pay me this money he owed me that is referred to at the bottom.

Mr. GESELL. You say, do you not, you had a contract with him as consultant for his agency?

Mr. HERNDON. Yes; that is right.

Mr. GESELL. What is your recollection with respect to that?

Mr. HERNDON. I don't remember it at all, as a matter of fact. I remember the other.

Mr. GESELL. You mean you remember the fact that you received at one time a thousand shares from him.

Mr. HERNDON. Yes; hypothecated for this money referred to here, and then I was getting 2½ percent, but my thought was that it was only on the Provider's transfer business. I can't remember, it is so long ago.

Mr. GESELL. Have you referred to page 149 of the deposition to see whether or not it is not a fact that the Provider's commissions were quite independent of these commissions we are talking about here? They would appear to be two distinct transactions.

Mr. HERNDON. Wait a minute; I am on the wrong page. It seems here the 2½ percent on Provider's was with Meritt, but I believe Gregory paid me that instead of Merritt.

Mr. GESELL. They are two different transactions?

Mr. HERNDON. It seems to be.

Mr. GESELL. You recall giving those questions and answers, do you, sir?

Mr. HERNDON. No.

Mr. GESELL. And you have no present recollection as to whether you had any interest in Mr. Gregory's contract or not?

Mr. HERNDON. No; not definitely.

Mr. GESELL. Have you any recollection about it whatsoever, sir?

Mr. HERNDON. No; I remember the 2½ percent on the Provider's business very well, but I do not remember the other 2½.

Mr. GESELL. This deposition says "as consultant for his agency." You have no recollection about that?

Mr. HERNDON. No; I was in and out of there so much and so often—

Mr. GESELL (interposing). And in so many different capacities?

Mr. HERNDON. In so many different capacities that I don't recall.

Mr. GESELL. Let's see if we can get a little light on this 1,000-share transaction, then, Mr. Herndon. Mr. Gregory gave you a thousand shares of Federal Reserve stock which were in his own name, did he not, for you to hold under an arrangement with him?

Mr. HERNDON. I think that is correct.

Mr. GESELL. And he was to repurchase those shares within a specified period for \$25 a share, or a total of \$25,000?

Mr. HERNDON. That is correct, I think.

Mr. GESELL. He did repurchase 500 shares for \$12,500?

Mr. HERNDON. As I remember it, that is right.

Mr. GESELL. And you subsequently sold the other 500 shares to Mr. Massey Wilson and Mr. Merritt for \$10,000.

Mr. HERNDON. That is correct.

Mr. GESELL. Making \$22,500 which you received for those 1,000 shares.

Mr. HERNDON. That is correct.

Mr. GESELL. Will you tell us how you came into possession of those 1,000 shares?

Mr. HERNDON. Well, all I remember about it now is that Gregory hypothecated them with me to guarantee the payment of \$25,000.

Mr. GESELL. What was the \$25,000 for?

Mr. HERNDON. I don't recall now.

Mr. GESELL. You have no recollection about that?

Mr. HERNDON. No; not definitely.

Mr. GESELL. Have you any indefinite recollection that you can help us get at the facts on it?

Mr. HERNDON. The possibilities are it was on a merger between the Union National, or Union something, and the Federal Reserve.

Mr. GESELL. You mean it was in the nature of a commission which you received in that connection?

Mr. HERNDON. No; it was a fee paid me for getting him out of a lot of trouble he had gotten himself into. He had tried to merge the companies in violation of the law, and the Attorney General stopped him after he had commingled the assets, and I think canceled the stock in the one company and reissued in another, and after that was done he wired me to come to Kansas City, and I found him in that condition, and I had to unscramble the assets and get the two companies separated and back where they originally were, and then write a reinsurance contract whereby the Federal Reserve reinsured the other

company—I think it was the Union National, if I am not mistaken; something like that.

Mr. GESELL. That is what the testimony was last week, sir.

Mr. HERNDON. Union National. Then they liquidated the Union National.

Mr. GESELL. And you received this thousand shares and guaranty of \$25,000 for helping him in that connection.

Mr. HERNDON. That is right, as I remember it now.

Mr. GESELL. Was that paid to you as an insurance expert, or because of your position in the Kansas department?

Mr. HERNDON. It was paid to me for the services I rendered him as the man who was able—yes, an expert, you might say.

Mr. GESELL. Were you acting on behalf of the Kansas department at that time or were you acting in your independent, individual capacity?

Mr. HERNDON. I was acting independently.

Mr. GESELL. And do I understand you to say there was no consideration for this 1,000 shares other than the expert assistance that you gave him as an individual?

Mr. HERNDON. Nothing that I recall; no.

Mr. GESELL. And it had no relation whatsoever to any influence you were in a position to bring to bear on the Kansas department or did bring to bear in the Kansas department?

Mr. HERNDON. No, sir; there was no way the Kansas department could stop a reinsurance contract.

The VICE CHAIRMAN. I don't understand; you say there is no way the Kansas department—

Mr. HERNDON (interposing). Could stop the reinsurance; they could a merger. The law provides for reinsurance of companies but not mergers.

The VICE CHAIRMAN. Did the law provide for a scrutiny of the reinsurance contracts set up by the Kansas department?

Mr. HERNDON. I think it did; yes.

The VICE CHAIRMAN. Could they not have stopped it; was it not subject to their approval?

Mr. HERNDON. I think not, under the contract as written.

The VICE CHAIRMAN. The contract would have to be submitted to and approved by the insurance commissioner.

Mr. HERNDON. And the attorney general, I believe.

Mr. GESELL. Did you go to the insurance commissioner and attorney general and discuss this contract with them?

Mr. HERNDON. I did not.

Mr. GESELL. Did you go to either of them and discuss it?

Mr. HERNDON. No.

Mr. GESELL. Did you write any letters to them about it?

Mr. HERNDON. Not that I know of.

Mr. GESELL. Or have any conversations with them about it?

Mr. HERNDON. Not that I recall.

Mr. GESELL. Now, does the Kansas law permit an examiner to own shares in a company which he is examining?

Mr. HERNDON. Yes, sir.

Mr. GESELL. There is no prohibition of that character in the Kansas law?

Mr. HERNDON. Not that I ever heard of.

Mr. GESELL. Did you report this transaction in your next examination of the company?

Mr. HERNDON. I think I did. If I made another one I know I did. I don't remember the date of that merger, is the reason I say that.

Mr. GESELL. The date of your agreement with Mr. Gregory—do you recall that?

Mr. HERNDON. No, sir; I do not.

Mr. GESELL. The date of the agreement shown on page 583 of the transcript of December 7, 1939, was November 23, 1926.

Mr. HERNDON. What agreement was that?

Mr. GESELL. The agreement you had with Mr. Gregory with respect to these shares. May I show you the record and let you read it and ask you if you do not recollect that as being the agreement with him in connection with these 1,000 shares?

Mr. GESELL. Do you recall that to be an agreement that you had with him?

Mr. HERNDON. Yes; I do.

Mr. GESELL. Now, the next examination of the company was made February 28, 1927, according to your previous testimony, and I hand you that examination and ask you if there is any report in there of that transaction.

Mr. HERNDON. You mean this transaction?

Mr. GESELL. Yes; that is the transaction we have been talking about the last half hour.

Mr. HERNDON. This is an examination of the company and that is a matter between Mr. Gregory and myself. The company had no concern with that whatsoever, and it would not be mentioned in this report.

Mr. GESELL. Then you were in error when you said it was mentioned in the report?

Mr. HERNDON. I said this was correct. I didn't say that was mentioned in the report.

Mr. GESELL. You now say, do you, sir, that this agreement as set forth on page 583 of the record is a correct statement of the agreement you had with Mr. Gregory?

Mr. HERNDON. I believe it to be; yes.

Mr. GESELL. And do I understand you to say that that was a matter between you and Mr. Gregory individually and therefore it was not reported in any way in the examination of the company?

Mr. HERNDON. That is right.

Mr. GESELL. Now, were you called in on this Union National transaction as a consultant for the company.

Mr. HERNDON. I was called in by Mr. Gregory.

Mr. GESELL. Did he call you in as president of the company or did he call you in as an individual?

Mr. HERNDON. I don't know. I didn't ask him when he called me.

Mr. GESELL. How did you know it was a transaction with him individually?

Mr. HERNDON. Well, he was the owner of the stock.

Mr. GESELL. The stock was in his name?

Mr. HERNDON. That is right, and he had some in Union National, and he wanted the trouble straightened out, because naturally it affected him.

Mr. GESELL. And that was a purely personal agreement that you had with him?

Mr. HERNDON. Yes, sir.

Mr. GESELL. Now, in working for him in this way, did you draw up the reinsurance contract?

Mr. HERNDON. You mean, did I write the reinsurance contract?

Mr. GESELL. That is right.

Mr. HERNDON. I helped to do it; yes.

Mr. GESELL. That looks to me like a company matter pretty much to me, a reinsurance contract between the Federal Reserve Life Insurance Co. on the one hand and the Union National on the other. It doesn't look to me like that's a personal undertaking for Mr. Gregory. That looks like a company matter.

Mr. HERNDON. It was a matter for the stockholders.

Mr. GESELL. Then you were working for the stockholders of the Federal Reserve?

Mr. HERNDON. Well, I didn't stop to inquire when Mr. Gregory employed me. He paid me.

Mr. GESELL. And you didn't inquire as to whose interest you were working for or raise any questions as to the matter of payment?

Mr. HERNDON. No; I wrote the best contract I could and it's a matter for the stockholders to accept it or disapprove it.

Mr. GESELL. Now, I want to come back to that transaction a moment. Let's get into this Federal Reserve Insurance and Providers for a minute. Were you connected in that transaction in any way?

Mr. HERNDON. Yes, sir.

Mr. GESELL. Will you tell us what you did in that transaction?

Mr. HERNDON. Mr. Gregory wanted to buy a company to merge or reinsure into the Federal Reserve Life Insurance Co. and I found that the Providers was for sale. I submitted it to him and told him I wanted a dollar a thousand if I was able to deliver the contract to his company. We took the matter up with the board of directors and the stockholders and they voted approval of that. I went to East St. Louis, made all the arrangements, worked down there several weeks and brought about the reinsurance of the company for the Federal Reserve lot.

Mr. GESELL. Now, whom were you acting for in that connection?

Mr. HERNDON. Well, Gregory is the man who employed me and the company paid me in that case.

Mr. GESELL. Well, let's see now. The company paid you, according to the testimony we had here, by check drawn to the order of an attorney by the name of Willbrand, is that correct?

Mr. HERNDON. That is right. He is my attorney.

Mr. GESELL. He cashed the check, did he?

Mr. HERNDON. I don't know, I suppose he did.

Mr. GESELL. Did you get it?

Mr. HERNDON. No; I didn't get all of it. Less his fees I did.

Mr. GESELL. You got \$9,500, was it not?

Mr. HERNDON. As I remember, that was the total amount. I think there was about \$9,500,000 of business and I got a dollar a thousand,

the two of us did, and if I am not mistaken, I paid Willbrand \$500 for his services and I got the rest of it.

Mr. GESELL. Now, you also got a commission on the other end of that transaction, didn't you?

Mr. HERNDON. That's right. From De Buchananne.

Mr. GESELL. Mr. De Buchananne gave you as your commission about \$18,000?

Mr. HERNDON. Approximately; yes.

Mr. GESELL. And in addition to that, when the business was rewritten by Merritt, a reinsurance contract was signed, you got another commission from Mr. Merritt on the rewriting of the policies?

Mr. HERNDON. Oh, those policies that were rewritten—2½ percent as I recall now.

Mr. GESELL. So you got a commission from Mr. De Buchananne, you got a commission from the Federal Reserve, and you got a commission from Mr. Gregory?

Mr. HERNDON. Gregory and Merritt.

Mr. GESELL. Were you representing all three parties in that transaction?

Mr. HERNDON. Yes; and myself.

Mr. GESELL. And yourself?

Mr. HERNDON. Yes.

Mr. GESELL. Well, now, what report did you make on the payment to you by the Federal Reserve of this nine thousand-odd dollars?

Mr. HERNDON. I didn't make any report.

Mr. GESELL. You didn't feel that was a matter that was of any interest to the policyholders or the State of Kansas?

Mr. HERNDON. No; they got the value received for it. They bought the business much cheaper than they could write it.

Mr. GESELL. And you don't think it was of any interest to them to know that the examiner who was examining had an interest in the transaction he was to approve?

Mr. HERNDON. The stockholders and directors approved it in an open meeting. What was your question, please?

Mr. GESELL. My question was whether or not you think the policyholders and the State of Kansas ought to know that the examiner called in to appraise the transaction was himself interested in the commissions of three different people.

Mr. HERNDON. I never considered it. It was a stock company and not a mutual.

Mr. GESELL. So it really wasn't a question for the policyholders at all?

Mr. HERNDON. No.

Mr. GESELL. And may I ask you this: Did the Kansas department know that you were getting these commissions three ways in this deal?

Mr. HERNDON. I didn't tell them.

Mr. GESELL. You didn't tell anybody in the Kansas department of your activities in this connection?

Mr. HERNDON. No; I wasn't working for them.

Mr. GESELL. Now, I want to find out just what you did to earn each of these commissions. What did you do to earn the \$9,500 you got from the Federal Reserve?

Mr. HERNDON. I brought nine millions of new business, and a good many thousands of dollars, I don't remember how many, assets into the company.

Mr. GESELL. What did you do to earn \$18,000 from Mr. De Buchananne?

Mr. HERNDON. Sell the company for him. He had been trying to sell it for months and couldn't.

Mr. GESELL. You mean you got a commission for selling it and you got a commission for buying.

Mr. HERNDON. They all knew about it. They simply divided it up.

Mr. GESELL. What did you do to earn the commission from Mr. Merritt on the rewriting of the business?

Mr. HERNDON. I got him a contract which was very profitable to him.

Mr. GESELL. You mean you were responsible for Mr. Merritt's getting that contract with Mr. Gregory?

Mr. HERNDON. I think that was entirely so.

Mr. GESELL. How much did that 2½ percent commission amount to?

Mr. HERNDON. I really don't know. I have no idea.

Mr. GESELL. Can you make us an estimate?

Mr. HERNDON. I imagine it may be as much as \$2,500, possibly \$2,000, maybe a little more. I don't know.

The VICE CHAIRMAN. I didn't hear you. I understood you to say that Mr. Merritt tried to get this rewrite business with Mr. Gregory and was unsuccessful and he came to you and you persuaded—

Mr. HERNDON (interposing). Mr. Gregory to give him the contract.

The VICE CHAIRMAN. Will you explain to me how you were able to persuade Mr. Gregory, or what force you used, to get him to enter into the contract?

Mr. HERNDON. In the first instance, he didn't like Mr. Merritt personally, didn't want to talk to him, and Merritt came over to the Muehlebach Hotel in Kansas City and told me his troubles and agreed to give me a percentage if I could persuade Mr. Gregory. I don't remember exactly the conversation that took place, it was several days, and finally Gregory agreed to it.

The VICE CHAIRMAN. You want us to believe that it was purely the persuasive force of the arguments that you made to Mr. Gregory that persuaded him to enter into the contract?

Mr. HERNDON. I think Gregory finally profited by it.

The VICE CHAIRMAN. Regardless of that, as I understand it, before you entered the picture Mr. Gregory didn't want to enter into it?

Mr. HERNDON. He wouldn't deal with Merritt. I don't know what the conversation was.

The VICE CHAIRMAN. And after he talked to you he did deal with Merritt?

Mr. HERNDON. Yes.

The VICE CHAIRMAN. What did you do?

Mr. HERNDON. I just visited him and told him what to do.

The VICE CHAIRMAN. You didn't tell him what would happen if he didn't?

Mr. HERNDON. There was nothing I could do to him. There wasn't a thing in the world I could do to him. Gregory and I were good

friends. He had a lot of confidence in me, and he wanted to build a life-insurance company. He knew I was in several insurance businesses, and he wanted to reinsure the company.

The VICE CHAIRMAN. He didn't want to give Mr. Merritt the re-writing of the insurance?

Mr. HERNDON. He didn't want to deal with Mr. Merritt at all.

The VICE CHAIRMAN. But he did?

Mr. HERNDON. He did; yes.

Mr. GESELL. Well, now, during some of this time you were active as an examiner, were you not?

Mr. HERNDON. I imagine so.

Mr. GESELL. When did you—what line did you draw in your own mind as between when you were acting as an examiner for the Kansas department and when you were acting in your own capacity?

Mr. HERNDON. Quite often we would go into these companies for the company. Take this company as an illustration. Mr. Gregory would ask me to come over and check a list of items, and the commissioner would hear that I was in there, and he would call up—either he, the actuarial department, the deputy—to send them a copy of the report I was making, and I would send it to them and charge them as a special examiner, and charge the company for making it.

Mr. GESELL. That gives me some idea as to how you got into these examinations. I was wondering whether you were ever concerned with the propriety of your dealing with the company which you were called upon at the same time to examine, or which you knew you would be examining in a short time.

Mr. HERNDON. If the reports are truthful, and the directors and stockholders are informed, I don't see anything wrong with it.

Mr. GESELL. Were some of these negotiations and transactions ever carried out while you were right there examining the company?

Mr. HERNDON. As I said a moment ago, the likelihood is that a lot of these were started for the benefit of Mr. Gregory or other officers of the company themselves, and before I was finished, or after I was finished, the commissioner would ask for a copy of the report, and I would head it to him, whoever he was, and send it to him, and charge the company for writing the report.

Mr. GESELL. So you served in a dual capacity on many of these occasions, did you not?

Mr. HERNDON. Yes; it worked out that way before I was through.

Mr. GESELL. And you felt perfectly free to be reporting for the Kansas department with your one hand and negotiating for the company for your personal benefit on the other hand?

Mr. HERNDON. The reports had nothing to do with that.

Mr. GESELL. That doesn't answer my question. I am trying to be just as courteous as I can.

Mr. HERNDON. I am trying to answer you fairly.

Mr. GESELL. You felt perfectly free to be negotiating with one hand for your personal benefit with the same company which you were examining for the Kansas department and at the same time?

Mr. HERNDON. I don't think that that ever occurred, I don't think, at the same time I was examining—when I was on these other matters.

Mr. GESELL. Well, I was just trying to find out whether you were or were not. I understood a moment ago that you were.

Mr. HERNDON. I said a moment ago that when the commissioner knew that we were working there, he would ask for a copy of the report. We usually checked for Mr. Gregory the annual statements that were made to the various commissions and the commissioner would call up, or the actuarial department, or the deputy, or somebody from the insurance department, and ask for a copy of the report. We might have been through, entirely through, at the time we headed it up for him and sent it to him.

Mr. GESELL. So, in reality here, you were working for Gregory and doing a favor for the Kansas department on the side?

Mr. HERNDON. In many cases that was true.

Mr. GESELL. And the Kansas department was quite willing to take as an official report the condition of the company, the report which you, as an employee of Mr. Gregory, the chief officer of the company, had prepared in connection with some other interest that you had?

Mr. HERNDON. All companies prepare them every year, and 9,000 out of 10,000 are accepted.

Mr. GESELL. That wasn't the question.

Mr. HERNDON. What was your question?

Mr. GESELL. (To the reporter:) Will you read the last question, please?

(The reporter read the last question.)

Mr. HERNDON. Well, yes. I mailed the report in.

Mr. GESELL. These are the official reports that we are discussing here today, are they not?

Mr. HERNDON. They are those that I signed; yes.

The VICE CHAIRMAN. You signed as an examiner of the insurance department, did you not?

Mr. HERNDON. Some of them I signed as a special examiner.

The VICE CHAIRMAN. Special examiner for whom?

Mr. HERNDON. For the Kansas Insurance Department. I don't think I was ever regularly commissioned on this company.

The VICE CHAIRMAN. I understand you did examine this company for 6 or 7 years for the Insurance Department of the State of Kansas?

Mr. HERNDON. That is right, and some of them, as I say, were given on the telephone.

The VICE CHAIRMAN. When you signed those reports as special examiner, you were signing as special examiner for the insurance department?

Mr. HERNDON. Of Kansas; yes.

Mr. GESELL. Here is the report dated April 7, 1922, with your signature on it. Do you recognize that as your signature?

Mr. HERNDON. Yes.

Mr. GESELL. That is signed W. K. Herndon, special examiner, representing the State of Kansas.

Mr. HERNDON. That is right.

Mr. GESELL. I must confess, Mr. Herndon, I am somewhat confused as to whether you were employed by the State of Kansas, by Mr. Gregory, or who employed you to make these examinations?

Mr. HERNDON. Well, in many cases I was employed by the State of Kansas, several by the company.

Mr. GESELL. And do I understand your position to be that the fact that you were also interested in the promotional activities of the

company would be of no importance, provided your reports were fair and complete and accurate in every respect?

Mr. HERNDON. That is right.

Mr. GESELL. Is it your experience that that dual activity of insurance examiners is rather a frequent situation?

Mr. HERNDON. Rather frequent, I would say, yes.

Mr. GESELL. You found there were other examiners that were having personal transactions on the side as well as yourself?

Mr. HERNDON. Yes; they only worked occasionally for these States.

Mr. GESELL. As a matter of fact, I suppose these commissions you received in the Provident deal were far more lucrative than any per diem you received for the examination itself in the Kansas department.

Mr. HERNDON. Much more so.

Mr. GESELL. I was even wondering why you wanted to fool with the examinations.

Mr. HERNDON. There is always that in-between time when we have to have bread and butter.

Mr. GESELL. Yes; and then I suppose also you get to find out quite a lot about what companies are for sale and what companies are in difficulty if you are going around for the Kansas department examining them.

Mr. HERNDON. Certainly you know all about the company you are examining and you hear about many others.

Mr. GESELL. Did you quite frequently find that as the result of your entree to a company as the representative of the Kansas department you were able to set in motion a series of transactions which turned out to be to your personal benefit?

Mr. HERNDON. No; I don't recall that generally.

Mr. GESELL. It certainly happened here, did it not?

Mr. HERNDON. Yes.

Mr. GESELL. Were there any other companies? What about some of these Kansas companies you reinsured in the Royal Union, the same kind of situation there, wasn't it.

Mr. HERNDON. Very largely so.

Mr. GESELL. Now, it was then the case—

Mr. HERNDON (interposing). Pardon me just a second, please. The Kansas companies, as I recall it, however, were purchased through the court. They were in receivership, if I am not mistaken.

Mr. GESELL. We will come to the Royal Union situation in detail in a moment. I was just suggesting that to you to refresh your recollection as to whether or not you were not placed in an advantageous position to negotiate transactions for your own benefit by reason of the information you received while examining a particular company.

Mr. HERNDON. No doubt about that.

Mr. GESELL. No question about that, is there?

Mr. HERNDON. No, sir.

Mr. GESELL. I want to come for a moment to your efforts to sell the Federal Reserve Life Insurance Co. I understand you attempted to sell the company to the Royal Union; is that correct?

Mr. HERNDON. That is right.

Mr. GESELL. For whom were you acting in that case?

Mr. HERNDON. Mr. Gregory.

Mr. GESELL. About when was that?

Mr. HERNDON. It was at the same time I sold it to Wilson and Merritt.

Mr. GESELL. Just a few months before?

Mr. HERNDON. No; it was during that time because they were in the Muehlebach Hotel fighting with me at the time I sold the stock to the other people.

Mr. GESELL. I suppose you mean arguing with you.

Mr. HERNDON. They were doing some tall talking.

Mr. GESELL. Will you tell me what the nature of your negotiations with Royal Union was?

Mr. HERNDON. At that particular time?

Mr. GESELL. Yes.

Mr. HERNDON. As I recall now, A. C. Tucker, the president, was ill and was down in Florida some place, and we had a man named Bauers and a brother of A. C.'s named Frank Tucker who were very anxious to purchase the stock and they wanted to wait until Mr. A. C. Tucker had recovered and was able to come back and look after the matter personally. But I had such an excellent offer from Merritt and Wilson that I didn't want to wait.

Mr. GESELL. Were you connected with Royal Union in any way at that time?

Mr. HERNDON. No.

Mr. GESELL. In any official capacity?

Mr. HERNDON. No.

Mr. GESELL. You just approached them with respect to selling the stock?

Mr. HERNDON. As I recall it now, I phoned them that I could deliver the controlling stock in that company, and asked them if they wanted to buy it and they did, and after a lot of negotiations, I did not sell to them.

Mr. GESELL. How were you in a position to deliver the controlling stock to them? You weren't a stockholder.

Mr. HERNDON. In the Federal Reserve?

Mr. GESELL. Yes.

Mr. HERNDON. Gregory and D. H. Holt and others of the stockholders wanted to sell. Mr. Gregory had been told by his doctors he never could go back to his office and Gregory called me in and asked me if I could sell the stock, and I told him that I thought I could. He made a price on his stock and then I conferred with other stockholders, and later I contacted both the Royal Union and Massey Wilson and Merritt, and they came to Kansas City.

Mr. GESELL. You then had been solicited by Mr. Gregory to undertake the sale of the stock?

Mr. HERNDON. That is it, in his home.

Mr. GESELL. I want to call your attention to some testimony which Mr. Holt gave before this committee on December 7.¹ I examined Mr. Holt as follows:

Now, will you continue. Mr. Herndon said to you that he wanted to buy them—

meaning the shares—

for the Royal Union?

Mr. HOLT. That is right. And there were some gentlemen there from Des Moines in Kansas City, Mo., at the time.

¹ Supra, p. 6634.

Who were they?

I can't remember their names. But his proposition was that the stock be bought from Gregory for the money that he had invested in them, and by that I mean he had paid the \$40,000 that he owed originally on them, and the proposition was that my father and I were to receive contracts for jobs with the Royal Union.

What kind of jobs were they going to be?

They were to be ten-thousand-dollar jobs.

For how long?

As I recollect it, it was five or ten years. I don't remember.

That was going to be in return for your services in buying up these shares from Gregory?

That is right.

What other promises or statements did Mr. Herndon make to you?

I don't remember any others right at that time.

Do you recall having made such a promise to Mr. Holt and his father that they would receive jobs if they helped get Gregory's shares?

Mr. HERNDON. No; I don't recall. I don't remember Vernon Holt having sat in any meeting any time, any place. His father was present two or three times.

Mr. GESELL. You mean in connection with the purchase of the Federal Reserve shares?

Mr. HERNDON. That is right.

Mr. GESELL. Now, do you recall having told Mr. Holt that he was to help you persuade Mr. Gregory to give up his shares?

Mr. HERNDON. No, sir.

Mr. GESELL. Let me read you a bit of the testimony again and see if it refreshes your recollection. He said:¹

The next thing I knew, Massey Wilson was in Kansas City trying to buy, making the arrangements to purchase the 5,000 shares of stock.

Did he come to you?

No; not that time.

Who handled that transaction?

Herndon.

Mr. Herndon again, this time acting on behalf of Mr. Massey Wilson.

Well, he might have been acting on behalf of all of us.

Will you tell us just how it took place?

I am of the opinion that he called Massey Wilson and told him, "We can get the Gregory stock now.

I don't want your opinion, Mr. Holt; I want to know what you know about it.

I don't know.

Did Mr. Herndon have any dealings with you at the time?

Yes.

Will you tell us what those dealings were; what he said to you and what you said to him?

We agreed that we would get the Gregory stock, Mr. Gregory being a sick man, unable to attend the business and sell it to Massey Wilson for whatever we could get out of it. As eventually we arrived at the deal, it was for 5,000 shares of the Gregory stock. I was to get \$40 a share; Herndon was to get all over \$40 a share that he could get out of Massey Wilson for the stock. My father and I together were to persuade Mr. Gregory to give up his stock interest to the extent of 5,000 shares.

Do you recall that?

Mr. HERNDON. No; not that way.

Mr. GESELL. What is your recollection with respect to those transactions?

Mr. HERNDON. My recollection is that first Mr. Gregory called me to his home, and I visited with him; he talked about his physical con-

¹ Supra, p. 6635.

dition and what the doctor had told him, and that he owed the bank several thousand dollars, and he would like to get the big thing cleaned up as soon as he could, and the only way he had to realize any money was this stock, and he wanted to know if I thought I could sell it. I told him I believed that I could.

I called that night representatives of the Royal Union and told them that I thought I was in a position to deliver that stock. The next morning I went over to the Federal Reserve office, and he called Merritt, not Wilson, on long-distance phone and told him the same thing. Merritt took an afternoon train, came to Kansas City, and we had a conference that night and the next day. Then he contacted Mr. Wilson and some 2 or 3 days later brought Mr. Wilson up to Kansas City.

Mr. GESELL. What about getting Mr. Gregory to give up his shares? Did you do that?

Mr. HERNDON. No; he called me out there and asked me to sell them for him and set a price on them.

Mr. GESELL. There was no dispute or argument in connection with that at all?

Mr. HERNDON. No; there couldn't have been.

Mr. GESELL. Mr. Holt testified:¹

I went to Mr. Gregory's every day for months while he was ill. Finally we determined—Mr. Herndon and I determined—that I would tell him that the Insurance Department demanded his resignation, demanded that he give up his general agency contract, and that he sell 5,000 shares of his stock.

You mean to say that Mr. Herndon told you to tell that to Mr. Gregory?

That is right.

Did you tell that to Mr. Gregory?

Yes.

Mr. HERNDON. I had an option on that stock before Holt knew anything about it, and I made no such statement to Vernon Holt or to D. H. Holt.

Mr. GESELL. And your conversations with Mr. Gregory were entirely friendly and in an even tone of voice, and there was no dispute or rancor in connection with that?

Mr. HERNDON. Certainly. Mr. Gregory was a sick man. I even went to see his doctor to see if it was all right to deal with him before I sold this stock.

Mr. GESELL. Did Mr. Holt ever go with you to see Mr. Gregory?

Mr. HERNDON. Mr. D. H. Holt did on one or two occasions, but I don't ever recall having gone there with Vernon Holt. In fact, he was only a clerk in the office and we paid no attention to him. If he went, he only went as a chauffeur.

Mr. GESELL. He was getting \$6,000 a year for chauffeuring you?

Mr. HERNDON. No, not chauffeuring me; acting as a clerk in the office.

Mr. GESELL. \$6,000 a year for acting as a clerk.

Mr. HERNDON. Yes.

Mr. GESELL. \$6,000 a year for acting as secretary of the company.

Mr. HERNDON. I think that is what he was getting.

Mr. GESELL. It sounds to me like a little more than a clerical capacity, Mr. Herndon.

Mr. HERNDON. He was a "Man Friday" for Gregory.

¹ See *supra*, p. 6636.

Mr. GESELL. I want to show you a letter dated December 10, 1928, purporting to have been signed by yourself, and ask you if that letter was written by you and correctly describes the negotiations and some of the transactions which took place at that time.

Mr. HERNDON. Yes.

Mr. GESELL. You recognize that as your letter?

Mr. HERNDON. Yes.

Mr. GESELL. You recognize it as a correct statement of the facts?

Mr. HERNDON. Approximately so; yes.

Mr. GESELL. I will read it to you and see if we can't come to a better understanding of the kinds of transactions you had with Mr. Holt and Mr. Gregory and the other people at the time.

The letter is dated December 10, 1928. It is addressed to Harry W. Walker, attorney, Commerce Building, Kansas City, Mo. [reading from "Exhibit No. 1348-7"]:

In the data given you from which to prepare our income-tax report, is an item of \$15,000,000 commission on the sale of stock. For your information, I furnished the following statement of fact concerning this transaction.

In the Fall of 1927 I suggested to D. H. Holt, Secretary-Treasurer of the Federal Reserve Life Insurance Company, Kansas City, Kansas, that due to the continued illness of his associate it would be to the best interests of all concerned to bring some active men into this Company. He authorized me to find men of financial responsibility and insurance experience who would be willing to make the necessary investment and become associated in the management of the Company.

I made a trip to Des Moines, Iowa, the latter part of November 1927 and conferred with officers of the Royal Union Life Insurance Company. They were interested, but after several conferences it was found that an agreement could not be reached between the two interests, principally because the Royal Union representatives wanted to move the Company to Des Moines, Iowa.

On January 6, 1928, I had another conference with Mr. Holt and it was agreed that I keep trying to find a buyer for a block of this stock. On January 23, 1928, in a conference with Mr. E. W. Merritt, Jr., I offered him an opportunity to become associated with this company. Mr. Merritt, at my suggestion, on January 24, 1928, called on Mr.—

Which Holt is that?

Mr. HERNDON. H. D., I imagine.

Mr. GESELL. It looks like Mr. V. B. Holt to me.

Mr. HERNDON. It is V. B.

Mr. GESELL (reading further from "Exhibit 1348-7"):

called on Mr. V. B. Holt and made him an offer for a block of approximately 8,000 shares of stock. I was not present at this meeting between Mr. Merritt and Mr. Holt. Later in the day, however, I visited with both parties. At my conference with Mr. Holt on the 24th, which was after his meeting with Mr. Merritt, Mr. Holt told me that my commission was to be all in excess of \$250,000 received for this stock. I was told by Mr. Holt that Mr. Merritt agreed to pay approximately \$335,000 for the stock in question. I then called on Mr. Merritt and he told me of his offer and agreed to pay me \$40,000.00 as my commission from him. Later I informed Mr. Holt of the amount of commission to be paid me by Merritt and it was agreed that he would protect all my commissions in this deal, and we would treat the matter as \$373,000 due from Merritt and his associates.

Mr. Merritt brought Massie Wilson of St. Louis in as an associate on the night of January 24th, our conference being in the Muehlebach Hotel, at 10:00 p. m. During the months of February and March several conferences with Mr. Merritt, Mr. Wilson; Senator Vincent, Vice President of the Federal Reserve; Mr. Holt; and representatives of Keane Highy (Bankers of Detroit); and others were held in connection with the financing of the purchase of this stock and the management of the company.

On February 13th, Massie Wilson was elected a member of the Board of Directors, and at my suggestion this stock was transferred to Carl Willbrand, of Kansas City, Mo., for the purpose of protecting my commission.

On March 21, 1928, the stock was transferred to Merritt and his associates, the money having been raised through the Commerce Trust Co., Kansas City, Mo., City National Bank, St. Louis, Mo., and the U. S. Reserve Life Insurance Co., Kansas City, Mo. A check for \$373,000 was given me and deposited to my credit at the Commerce Trust Co., Kansas City, Mo. I immediately paid by checks to Mr. Holt and his associates \$250,000, leaving me a commission of \$115,000.

Now, on the basis of this letter, Mr. Herndon, I must challenge you rather vigorously on your statement that Vernon Holt had nothing to do with it.

Mr. HERNDON. That should have been D. H. Holt. Merritt talked to D. H. Holt, and while he talked to him I was in Vernon's office talking to Vernon myself.

Mr. GESELL. You recognize "V. B." as the initials on this letter, and your own initials on it approving that correction to read "V. B. Holt"?

Mr. HERNDON. That is right.

Mr. GESELL. You are just repudiating that statement at this time.

Mr. HERNDON. I still think it was D. H. Holt.

Mr. GESELL. I don't want what you think. I want to know what you recall. This was written at the time. This was initialed by you, this document says it was "V. B. Holt."

Mr. HERNDON. It doesn't make any difference, it was one of the Holts.

Mr. GESELL. It makes a lot of difference to me, and I am trying to find out, was it V. B. or D. H. Holt?

Mr. HERNDON. As I remember it now, it was D. H. Holt.

Mr. GESELL. To refresh your recollection further, do you remember an answer which was filed by you in connection with the suit which was mentioned a little while ago?

Mr. HERNDON. An answer was filed; yes.

Mr. GESELL. Do you recognize this as a certified copy of that answer?

Mr. HERNDON. Yes.

Mr. GESELL. Let me read a bit of this answer [reading from "Exhibit No. 1348-8"]:

Defendant further alleges that the purchase price of said stock so purchased by E. W. Merritt, Jr.—

Defendant is yourself, is it not?

Mr. HERNDON. I think so.

Mr. GESELL [reading further]:

Massey Wilson and their associates was not the fair reasonable market value of said stock but was a fictitious and enhanced value based on control of plaintiff company—

that is the Federal Reserve—

and alleges and shows that immediately upon the consumation of said sale that Massey Wilson and his associates sent agents and solicitors to individual stockholders of plaintiff and procured and induced the exchange of capital stock in plaintiff for stock in the Insurance Investment Company of St. Louis; that such proposed exchange of stock was one of the inducing causes for the said E. W. Merritt, Jr., and Massey Wilson becoming the purchasers of said 8,000 shares of the capital stock.

Reading from the previous page, page 2, is the following, which is particularly in point:

Thereafter this defendant engaged in an effort to procure enough shares of the capital stock of plaintiff to give the said Massie Wilson and associates control of the plaintiff, that for the purpose of bringing about this result, this defendant entered into an agreement with one Vernon B. Holt, whereby Vernon B. Holt agreed to assemble 8,000 shares of the capital stock of plaintiff at an agreed price; this defendant to have as his pay and commission for making such sale, all sums of money over and above the price so fixed by Vernon B. Holt.

Now, on the basis of that answer and the basis of this letter which you have identified as your own, do you still say Mr. Vernon B. Holt was simply a stooge for Mr. Gregory, he was a clerk who wasn't in on any of the consultations or negotiations and whose sworn testimony before this committee last week is false?

Mr. HERNDON. This is not my answer; this is Holt's answer.

Mr. GESELL. I beg your pardon, sir, there are two answers. Your answer is the one I was reading from, certified by the clerk.

Mr. HERNDON. I beg your pardon, I looked down at the bottom.

Mr. HERNDON. I still only remember D. H. Holt sitting in in any of those meetings. I'm not going to say Vernon wasn't present.

Mr. GESELL. I wish to offer the letter identified by the witness.

The VICE CHAIRMAN. That will be admitted.

(The letter referred to was marked "Exhibit No. 1348-7" and is included in the appendix on p. 7020.)

Mr. GESELL. I also wish to offer at this time the pleadings from which I have been reading.

The VICE CHAIRMAN. They will be admitted.

(The pleadings referred to were marked "Exhibit No. 1348-8" and are included in the appendix on p. 7020.)

Mr. GESELL. Now, you received \$115,000 for your participation in this transaction?

Mr. HERNDON. That is right.

Mr. GESELL. What did you do to earn that?

Mr. HERNDON. I sold the stock to Massey Wilson and Merritt.

Mr. GESELL. And that was a commission on the sale of that stock and nothing else?

Mr. HERNDON. I don't believe it was a commission. They put that stock up and asked Willbrand to sign the stock over to me and I paid them the price that they asked for it and the difference between that and what I got from Wilson was my profit, commission, brokerage, or whatever you want to call it.

Mr. GESELL. Only \$125,000 of this \$375,000 was actually used to pay for the stock, isn't that so?

Mr. HERNDON. I think that is about correct.

Mr. GESELL. The rest of it was commissions or gravy or what you will. It had nothing to do with the purchase price of the stock?

Mr. HERNDON. D. H. Holt got \$115,000 as I remember and Vernon Holt got \$25,000.

Mr. GESELL. And do I understand you to take the position that you purchased this stock yourself from Gregory and then sold it to Massey Wilson, and this is in the nature of a profit between what it cost you and what you sold it for? Is it a commission for handling the direct transaction between Gregory and Wilson?

Mr. HERNDON. I don't know what you would call it. Gregory had the stock and wanted to sell it and agreed to take a certain price. I

paid that price at the Commerce Trust Co. and paid Holt and paid Vernon Holt, and the rest of it was mine.

Mr. GESELL. Now, is it not a fact that you were examining the Federal Reserve Life Insurance at the very time these transactions took place?

Mr. HERNDON. I don't recall that I was. I might have been.

Mr. GESELL. These conferences, according to your letter, took place on January 6, 1928, and continued up until January 24, 1928, with the final transaction on March 21, 1928. Those dates are correct, aren't they?

Mr. HERNDON. I think they are.

Mr. GESELL. Now, if I told you that the records of the Kansas department showed that you were examining the company from January 9 (practically consecutively, for \$10 for a period of 18 days until January 28, does that refresh your recollection?

Mr. HERNDON. No, it doesn't; but if that is what the record shows, I would say it was correct.

Mr. GESELL. You don't know one way or another whether you were examining the company at the time?

Mr. HERNDON. No.

Mr. GESELL. What did you have to do with putting Mr. Wilson on the board of directors of the Federal Reserve prior to the time that this stock transaction went through?

Mr. HERNDON. Well, I don't remember the details, but after Wilson had agreed to purchase, I imagine I suggested that they put him on the board of directors. I know he went over there and made a speech, but I don't know whether he was officially elected then.

Mr. GESELL. It was at your insistence that that was done?

Mr. HERNDON. Not necessarily so. I may have suggested that.

Mr. GESELL. You don't have any recollection as to what happened?

Mr. HERNDON. No; not definitely.

Mr. GESELL. Now, the company finally failed in 1936, did it not?

Mr. HERNDON. About that time, I think.

Mr. GESELL. It was reinsured in the Occidental?

Mr. HERNDON. Yes.

Mr. GESELL. What did you have to do with that reinsurance?

Mr. HERNDON. Nothing.

Mr. GESELL. Participated in it in no way whatsoever?

Mr. HERNDON. No way whatsoever.

Mr. GESELL. You don't remember coming from California to Kansas City with Mr. Giles, the representative of the Occidental, to participate in those transactions?

Mr. HERNDON. I never met Mr. Giles in my life.

Mr. GESELL. Now, coming back to your examinations, for a moment, I believe you said that in your examinations of the company you made a complete, fair, and accurate disclosure of what was taking place there, that there was nothing wrong with your having also a personal interest in the affairs of the company; is that correct?

Mr. HERNDON. That is right.

Mr. GESELL. Well, now, did you ever report in any of these reports that Mr. Gregory had an interest in and had organized the Union National Insurance Co. which was reinsured by the Federal Reserve?

Mr. HERNDON. Well, officially we had no knowledge of who the stockholders were in the Federal Reserve of the Union National.

Mr. GESELL. You knew?

Mr. HERNDON. I think it was in his brother's name, if I am not mistaken.

Mr. GESELL. You knew that Mr. Gregory and his family were the leading people in both companies?

Mr. HERNDON. Yes.

Mr. GESELL. Now, did you know that unofficially or officially?

Mr. HERNDON. Unofficially.

Mr. GESELL. So you didn't put it into the report?

Mr. HERNDON. I don't recall whether I did or not.

Mr. GESELL. Well, let's take a look at the report and see.

Mr. HERNDON. They had a third one over in Missouri, too.

Mr. GESELL. I beg your pardon?

Mr. HERNDON. They had a third one over in Missouri later. Maybe it was at the same time.

Mr. GESELL. Now, this transaction took place in time to have been mentioned in the '26 or '27 report. Let's see if you made any disclosure with respect to that. Whether, in any of the examination reports which you made of the Federal Reserve, you disclosed the fact that Gregory and his family had an interest in the Union National Insurance Co. which was reinsured by the Federal Reserve.

Mr. HERNDON. No; I didn't list any stockholders at all.

Mr. GESELL. Now, how do you distinguish between what you knew unofficially and what you knew officially, Mr. Herndon? That is a very interesting distinction.

Mr. HERNDON. Well, if you were reconciling stock records and saw a man's name listed as a stockholder, you would assume, of course, that he owned that share of stock. But ordinarily, you didn't even bother with the individuals who might own stock. You only reconcile the number of shares outstanding and that is all there is to it.

Mr. GESELL. Well, it's a pertinent fact, is it not, that the reinsurance of the Union National which you helped carry through and got \$25,000 for was really one man shaking hands with himself, buying his own company?

Mr. HERNDON. In effect, that is right.

Mr. GESELL. That is something the policyholders ought to know?

Mr. HERNDON. He and his brother.

The VICE CHAIRMAN. That is something the policyholders ought to know and something that the State ought to know, ought it not, in appraising the fairness of the contract and its terms and conditions?

Mr. HERNDON. No; I don't think it concerns the State or policyholders either who the owners are.

The VICE CHAIRMAN. It didn't make any difference that these two companies were owned by the same one?

Mr. HERNDON. No.

The VICE CHAIRMAN. Is it for that reason that you didn't disclose it, or was it because you knew it unofficially?

Mr. HERNDON. It was never a habit or a custom of any examiner, and I never reported a list of any stockholders.

The VICE CHAIRMAN. Now, did you ever disclose your interest in the Providers deal in any your examination reports?

Mr. HERNDON. No; not that I know of.

The VICE CHAIRMAN. Was that because you had that information only unofficially?

Mr. HERNDON. No; I had rather officially.

The VICE CHAIRMAN. Why didn't you disclose it?

Mr. HERNDON. It was approved by the stockholders. It was approved by the directors. Who else was concerned with it?

The VICE CHAIRMAN. Whom were you representing, the State?

Mr. HERNDON. No, sir; I was representing myself, trying to merge these two together.

The VICE CHAIRMAN. We were talking about whether you reported in connection with your examination as representative of the State.

Mr. HERNDON. I am sure I did not.

The VICE CHAIRMAN. Well, as an examiner of the State, did you not believe that the State had some interest? You say it was of interest only to the stockholders and directors of the two companies. Who is supposed to protect the interest of the policyholders?

Mr. HERNDON. The directors and the stockholders.

The VICE CHAIRMAN. What is the State supposed to do?

Mr. HERNDON. They're supposed to supervise the company within the law.

The VICE CHAIRMAN. For what purpose? What are they there for?

Mr. HERNDON. For the protection of the policyholders, but the directors have the right to spend the surplus funds of the company.

The VICE CHAIRMAN. That is all.

Mr. GESELL. Well, now, may I ask you again whether Mr. Baker or Mr. Hobbs or anyone else in the Kansas department knew of your various dealings with the officials of these companies?

Mr. HERNDON. Not through me, they didn't.

Mr. GESELL. By the way, did you know the Federal Reserve around this time was in politics in the reelection of the commissioner, Mr. Baker?

Mr. HERNDON. I read that in the newspaper the other day.

Mr. GESELL. You didn't know it at the time?

Mr. HERNDON. No. Mr. Gregory was messing around in Kansas City, Kans., working on some local politics. I knew that.

Mr. GESELL. You didn't have any participation or political activity at that time?

Mr. HERNDON. I don't recall any.

Mr. GESELL. Now, leaving the Federal Reserve and getting into a broader topic, Mr. Herndon, how many of these transactions did you handle?

Mr. HERNDON. I couldn't say definitely—15 or 20.

Mr. GESELL. That would be during the period that you were connected from time to time as a special examiner for the department?

Mr. HERNDON. For the various departments.

Mr. GESELL. During that period from 1919 to '29, whatever it was?

Mr. HERNDON. Perhaps. That's about right.

Mr. GESELL. How do you find out about these deals?

Mr. HERNDON. In various ways. I received a letter yesterday offering me another, down here at the hotel. These insurance men, other examiners, or company officials tell you about it.

Mr. GESELL. You find out about some through your own examination of the company's records?

Mr. HERNDON. No; I don't think I ever examined a company that I had any insurance dealings with; that is, other than to bring them in, to go out and sell to them if they were in the market.

Mr. GESELL. But you don't ever recall examining a company and then selling to somebody else?

Mr. HERNDON. No; I don't.

Mr. GESELL. Except for the Federal Reserve?

Mr. HERNDON. I didn't sell that company. I sold stock.

Mr. GESELL. Well, we are now dealing in corporate fictions. The stock is the company, isn't it?

Mr. HERNDON. That is right.

Mr. GESELL. Now, what is the commission on these reinsurance transactions, Mr. Herndon?

Mr. HERNDON. From a dollar up to all you can get.

Mr. GESELL. A dollar a thousand of insurance in force?

Mr. HERNDON. That is right.

Mr. GESELL. And it usually ran around one or two dollars a thousand?

Mr. HERNDON. I'd say an average of one to two dollars; yes.

Mr. GESELL. Now, did you handle some reinsurance transactions with the Royal Union?

Mr. HERNDON. Yes.

Mr. GESELL. Now, will you tell us about that please, and the circumstances surrounding it?

Mr. HERNDON. I don't know. Have you got a name of any one of the companies that I could start on. I can't remember their names.

Mr. GESELL. Did you have anything to do with the merger of the State Life Insurance Co. of Iowa and the Royal Union?

Mr. HERNDON. Yes.

Mr. GESELL. In 1924?

Mr. HERNDON. That is right.

Mr. GESELL. That is a good starting point, isn't it?

Mr. HERNDON. That is a damn good one.

Mr. GESELL. Tell us about that deal.

Mr. HERNDON. Well, that's a long one, and I don't know whether I can remember many of the details or not. The State Life Insurance Co. was a small outfit in Des Moines and the Royal Union was a company, a mutual company, owned by old Governor Jackson, or managed, I mean, and controlled by Governor Jackson. They had a hundred thousand dollars of some sort of a participating certificate out which gave them control of the company similar to a stock control, and after many months of negotiating, that company was finally reinsured into the State Life and the State Life changed its name to the Royal Union.

Mr. GESELL. That was in 1924, was it not? February 15, 1924?

Mr. HERNDON. I don't remember the exact date, but that is about right.

Mr. GESELL. Whom were you representing in that connection?

Mr. HERNDON. First Mr. Tucker came to Kansas City and asked me what I was doing, and if I would come up and work on the company for him.

Mr. GESELL. He was an officer of the Royal Union?

Mr. HERNDON. No; he was an officer of the State Life who had some kind of a deal then pending to reinsure their business, and I told him that I would, and at dinner time we made an agreement that I was to go up there and stay until the job was finished.

Mr. GESELL. What did you get?

Mr. HERNDON. Sir?

Mr. GESELL. What did you get for your efforts?

Mr. HERNDON. As I remember, I got \$3,000 in money—cash, \$35 per diem, and expenses.

Mr. GESELL. And did you have an agreement that you would get a salary of \$1,000 a month until the \$50,000 had been paid?

Mr. HERNDON. That's right.

Mr. GESELL. So that you got \$35 per diem, expenses, \$3,000 in cash, and a salary contract which net you \$50,000?

Mr. HERNDON. I believe the \$3,000 was in the \$50,000, wasn't it?

Mr. GESELL. Well, it may have been. Can you tell me, Mr. Herndon, whether you were representing any insurance departments around this time?

Mr. HERNDON. I think I signed that examination report for some department.

Mr. GESELL. Oh, you were in on that examination?

Mr. HERNDON. I think so.

Mr. GESELL. Do you remember what department it was?

Mr. HERNDON. Well, it was either Kansas or the District of Columbia; I don't know which.

Mr. GESELL. And that was a report which you signed on the merger or reinsurance of these two companies?

Mr. HERNDON. The condition of the Royal Union that was about to be reinsured.

Mr. GESELL. Had you gone in there first to help Mr. Tucker or had you gone in first as an insurance examiner?

Mr. HERNDON. No; I went in first to help Tucker and some insurance commissioner asked me to help him in the examination, as I remember.

Mr. GESELL. Did that commissioner know that you were out there on your own hook and were interested in effecting this merger for your personal advantage?

Mr. HERNDON. Well, I don't remember.

Mr. GESELL. Do you remember what commissioner it was?

Mr. HERNDON. No, sir; I don't even remember what State, whether it was Kansas or the District of Columbia. I remember once I examined that company for the District of Columbia.

Mr. GESELL. Now, after that, you helped the Royal Union, which was the name of the company that came out after the reinsurance agreement, reinsure a lot of other companies, didn't you?

Mr. HERNDON. Well, I could tell best if you got some of the names.

Mr. GESELL. What about the Standard Savings Life Insurance Co. of Wichita, Kans.?

Mr. HERNDON. Yes; I helped them in that but did not get any money.

Mr. GESELL. You have become familiar with the Standard Savings Life again as an examiner of Kansas, have you not?

Mr. HERNDON. No; I don't think I ever examined that company.

Mr. GESELL. You also helped them to reinsure the Great States Life Insurance Co. of Wichita?

Mr. HERNDON. No; I sat in on a conference or two, but nothing else.

Mr. GESELL. Had you any contact with the Great States as an examiner?

Mr. HERNDON. Once, I believe.

Mr. GESELL. Did you help them with the Western Life Insurance Co. of Des Moines?

Mr. HERNDON. Western? No, sir; I did not.

Mr. GESELL. Do you remember any others that you helped them with?

Mr. HERNDON. Seems to me I helped them in one, that was in the State court, out in Kansas.

Mr. GESELL. The Occidental Mutual Benefit of Salina, Kans.?

Mr. HERNDON. Salina, I believe that was it, but I don't remember anything about the details. I remember going over a report or two.

Mr. GESELL. Had you had some connection with that company in your official capacity?

Mr. HERNDON. I don't recall.

Mr. GESELL. Did you subsequently become connected as a director with Royal Union?

Mr. HERNDON. Oh, many years later; yes; 10 years later.

Mr. GESELL. What office did you hold during the time you were drawing this \$1,000 a month?

Mr. HERNDON. I had no office.

Mr. GESELL. Well, it was a salary agreement, was it not, of \$1,000 a month for 50 months?

Mr. HERNDON. I was just "bird-dogging" for them to see if I could find out about any more companies.

Mr. GESELL. And at the same time you were representing various State departments?

Mr. HERNDON. That is right.

Mr. GESELL. That company failed in 1933 finally, did it not?

Mr. HERNDON. About that time.

Mr. GESELL. Now, did you have anything to do with the Agricultural Crop Insurance Co.?

Mr. HERNDON. Personally, I don't think I had anything to do with that, but it seems to me I had an associate that had something to do with it. Was that a Topeka crop-insurance outfit?

Mr. GESELL. You didn't have anything to do with that personally?

Mr. HERNDON. I think not.

Mr. GESELL. Do you remember anything with respect to the reinsurance of the Great Republic Life into the Postal Union?

Mr. HERNDON. Yes.

Mr. GESELL. Did you handle that?

Mr. HERNDON. Well, I had control of the stock through a trusteeship.

Mr. GESELL. Of which company?

Mr. HERNDON. Of the Great Republic Life.

Mr. GESELL. And you arranged for it to be reinsured in the Postal Union?

Mr. HERNDON. No; that was reinsured by the commissioner of California and the court.

Mr. GESELL. What was your interest in the Great Republic Life?

Mr. HERNDON. I was a member of a board of trustees that controlled about 97 percent of the stock.

Mr. GESELL. How did you get to be a member of the board of trustees?

Mr. HERNDON. I was elected by the other members of the board.

Mr. GESELL. Well, what did you put up?

Mr. HERNDON. As I recall, I didn't put up anything. Somebody gave me a share of stock and I went on the board.

Mr. GESELL. Did you make any money out of those transactions?

Mr. HERNDON. Seems to me the court allowed me \$1,250 for my expenses on this trusteeship.

Mr. GESELL. But nothing with respect to the reinsurance?

Mr. HERNDON. No, sir.

Mr. GESELL. What about the Bank Savings Life?

Mr. HERNDON. Well——

Mr. GESELL. Were you connected with that company?

Mr. HERNDON. I owned, with two other gentlemen, control, I believe, of that company.

Mr. GESELL. Who were the other two gentlemen who were with you in that venture?

Mr. HERNDON. Sam Appel and J. N. Mitchell.

Mr. GESELL. That is the same Mr. Mitchell we have had some testimony before?

Mr. HERNDON. In connection with what?

Mr. GESELL. Reinsurance. Is he the same fellow that rewrote the business of Providers?

Mr. HERNDON. No; that was Merritt.

Mr. GESELL. This is Mitchell?

Mr. HERNDON. As far as I know, this is the first time Mitchell's name has been mentioned.

Mr. GESELL. And how did you three get control of that company?

Mr. HERNDON. The National Bank of Topeka owned the stock and we heard that the bank examiners wanted to get it out of there, and we made an agreement with the National Bank and another bank in Topeka to buy the stock.

Mr. GESELL. And how much money did you put up?

Mr. HERNDON. Well, sir, now we borrowed from the First National Bank of Oklahoma City a lot of bonds, about \$225,000 worth, as I recall it, and they were traded to the bank, practically all of them.

Mr. GESELL. For the stock of the insurance company?

Mr. HERNDON. For the stock of the insurance company.

Mr. GESELL. Then you were going to reinsure the company with the United Benefit of Omaha?

Mr. HERNDON. Later on. That is sometime later, however.

Mr. GESELL. That deal fell through?

Mr. HERNDON. Yes, sir.

Mr. GESELL. The company went into receivership?

Mr. HERNDON. Yes, sir.

Mr. GESELL. Did you have anything to do with the Sons and Daughters of Justice of Topeka, Kans.?

Mr. HERNDON. That is an old one, but I do remember it.

Mr. GESELL. What kind of a transaction was that?

Mr. HERNDON. Seems to me that that was another receivership, State court, and was reinsured with some outfit in Chicago. I don't remember its name.

Mr. GESELL. And do you recall Mr. Herbert who rewrote the business?

Mr. HERNDON. I believe so.

Mr. GESELL. Were you influential in getting him that contract?

Mr. HERNDON. Yes.

Mr. GESELL. What did you receive?

Mr. HERNDON. I don't remember, but I think it was around 5 per cent of his writings.

Mr. GESELL. That amounted to three or four thousand dollars?

Mr. HERNDON. That is about right.

Mr. GESELL. Can you give us any estimate, Mr. Herndon, of the amount of money which came into your hands in the way of commissions, bonuses, salaries, and things of that sort, while handling these 15 or 20 transactions during the period from 1919 to 1929?

Mr. HERNDON. No; I can't. I haven't any idea.

Mr. GESELL. Can you make some estimate for us?

Mr. HERNDON. Some of them I didn't make a nickel out of and others were rather profitable.

Mr. GESELL. Can you make some estimate for us as to how much it was?

Mr. HERNDON. I would rather not do it.

Mr. GESELL. Can you help us out by naming some other deals? You have mentioned 5 or 6 and you said there were probably 15 or 20. What were some of the others?

Mr. HERNDON. God, I can't remember.

Mr. GESELL. I haven't any further question of this witness.

The VICE CHAIRMAN. I don't care to ask him any.

Mr. GESELL. That is all, Mr. Herndon. Thank you.

Mr. HERNDON. Am I excused by the committee now? Can I go back to California?

The VICE CHAIRMAN. You may.

(The witness, Mr. Herndon, was excused.)

Mr. GESELL. If the committee please, I believe we can conclude by 1 o'clock, if you wish to sit for that time.

The VICE CHAIRMAN. The committee will stand in recess until 2:30.

(Whereupon, at 12 p. m., a recess was taken until 2:30 p. m. of the same day.)

AFTERNOON SESSION

(The committee resumed at 2:35 p. m., on the expiration of the recess.)

The VICE CHAIRMAN. The hearing will please come to order. Mr. Gesell, will you please proceed?

Mr. GESELL. Mr. Temple is the next witness.

The VICE CHAIRMAN. Will you raise your right hand? Do you solemnly swear that the testimony you are about to give in this hearing is the truth, the whole truth, and nothing but the truth, so help you God?

Mr. TEMPLE. Yes, sir.

TESTIMONY OF PAUL L. TEMPLE, MANAGER, ORDINARY DEPARTMENT OF THE MISSOURI INSURANCE CO. IN ST. LOUIS

FEDERAL RESERVE—ACTIVITIES OF PAUL L. TEMPLE

Mr. GESELL. What is your full name?

Mr. TEMPLE. Paul L. Temple.

Mr. GESELL. Where do you reside?

Mr. TEMPLE. Webster Groves, Mo.

Mr. GESELL. Are you connected with any insurance company at the present time?

Mr. TEMPLE. Yes, sir. I am employed as manager of the ordinary department of the Missouri Insurance Co. in St. Louis, Mo.

Mr. GESELL. The Missouri Insurance Co. in St. Louis?

Mr. TEMPLE. Yes.

Mr. GESELL. Mr. Temple, in 1925 did you organize the Republic Casualty Underwriting Co., of Springfield, Ill.?

Mr. TEMPLE. Yes.

Mr. GESELL. Who was associated with you in that venture?

Mr. TEMPLE. William M. Baldwin, of Springfield, Ill.

Mr. GESELL. Will you tell us a little about the history of that company?

Mr. TEMPLE. Well, there was a small local company writing automobile insurance exclusively, and it was organized under the Reciprocal Act as distinguished from a mutual or stock company. We operated that little company for a year and a half at Springfield, absorbing from time to time other similar companies, small companies.

Mr. GESELL. How many companies did you take over?

Mr. TEMPLE. About four. I think it was three, perhaps four, but I think it was three.

Mr. GESELL. Were they taken over by reinsurance contracts?

Mr. TEMPLE. Yes, sir.

Mr. GESELL. Where were the main offices of that company?

Mr. TEMPLE. Springfield, Ill.

Mr. GESELL. Did you subsequently move them to St. Louis?

Mr. TEMPLE. Yes, sir.

Mr. GESELL. What were the circumstances surrounding that move?

Mr. TEMPLE. I think it was in the latter part of 1926, or perhaps the first part of 1927, that Mr. J. L. Babler, of St. Louis, came up to Springfield and introduced a Mr. J. D. De Buchananne to me. He told me that he and De Buchananne operated, or had recently organized, a holding company whose chief function was to buy up small life insurance companies. They weren't interested in the casualty business. It was primarily life insurance.

Mr. GESELL. Did they have any life-insurance company at that time?

Mr. TEMPLE. At that time I am sure they did not have any.

Mr. GESELL. Was anybody with Mr. De Buchananne and Mr. Babler?

Mr. TEMPLE. No; just the two of them on this occasion when I first met them.

Mr. GESELL. They were interested in life-insurance companies?

Mr. TEMPLE. Yes, sir.

Mr. GESELL. You understood they were promoting them?

Mr. TEMPLE. No; they explained to me that this holding company had an authorized capital of \$2,500,000, which at that particular time I thought meant \$2,500,000 in cash in the treasury of the company, and that with all those funds available they were buying up companies wherever they could find it advantageous to purchase.

Mr. GESELL. What happened after you talked with Mr. De Buchananne and Mr. Babler?

Mr. TEMPLE. Well, I had in my employ at that time what we termed a "special agent," who also served in the same capacity for a little life-insurance company in the nearby Illinois town, Shelbyville, Ill. We shared his traveling expenses and part of his salary. He worked for both of us.

Mr. GESELL. What was his name?

Mr. TEMPLE. Carl Jackson. I mentioned this to Carl and the following week he came in and said that his folks had this little company and weren't getting anywhere with it, and that it was actually owned by a doctor there in this town, and that they would be interested in selling it. I transmitted this information to Mr. Babler, I think, in St. Louis.

Mr. GESELL. That was the Kaskaskia Life Insurance Co.?

Mr. TEMPLE. That was the name of it then.

Mr. GESELL. And that subsequently became the Mississippi Valley Life Insurance Co.?

Mr. TEMPLE. Yes.

Mr. GESELL. Mr. De Buchananne and Mr. Babler bought that company, did they?

Mr. TEMPLE. I don't think Mr. Babler had anything to do with it, unless he financed Mr. De Buchananne.

Mr. GESELL. Who was associated with Mr. De Buchananne directly in the purchase of the company?

Mr. TEMPLE. A man by the name of Merritt.

Mr. GESELL. That is Mr. E. W. Merritt, Jr.?

Mr. TEMPLE. Yes, sir.

Mr. GESELL. And did you assist them in any way in purchasing that company?

Mr. TEMPLE. Yes; I loaned them \$7,500 to complete the purchase of the capital stock of that company, which they returned to me.

Mr. GESELL. And did the Mississippi Valley do business in St. Louis?

Mr. TEMPLE. Yes, sir.

Mr. GESELL. Did it reinsure your Republic Casualty Underwriters Co.?

Mr. TEMPLE. No. You see, the Mississippi Valley was a life-insurance company and the Republic was an automobile-casualty insurance company.

Mr. GESELL. Did the two companies get together in any way?

Mr. TEMPLE. Yes. Shortly after they had acquired this Kaskaskia Life Insurance Co., they changed the name to Mississippi Valley Life Insurance and moved its home office from Shelbyville to St. Louis. Then Mr. De Buchananne returned to Springfield and proposed that I move my casualty company down to St. Louis for the purposes of sharing the same quarters, and reducing the overhead operations of the company, and in return for that he proposed that he would buy out Merritt's interest and then exchange on a 50-50 basis, a 50-percent interest in the Mississippi Valley Life or a 50-percent interest in my casualty company.

Mr. GESELL. So you and Mr. De Buchananne became half owners of the Mississippi Valley Life?

Mr. TEMPLE. And half owners of the casualty company.

Mr. GESELL. And Mr. Merritt got out?

Mr. TEMPLE. Yes, sir.

Mr. GESELL. Was Mr. Baldwin with you?

Mr. TEMPLE. Yes. I shouldn't have said I became half owner because I didn't.

Mr. GESELL. Mr. Baldwin came in with you?

Mr. TEMPLE. Yes.

Mr. GESELL. And did Mr. Baldwin subsequently drop out?

Mr. TEMPLE. In due course, he and Mr. De Buchananne couldn't get along and Mr. De Buchananne and I purchased his interest, both the life and the casualty.

Mr. GESELL. Did you and Mr. De Buchananne subsequently sell the casualty company?

Mr. TEMPLE. Yes, sir.

Mr. GESELL. To whom?

Mr. TEMPLE. To the group in Chicago.

Mr. GESELL. To whom?

Mr. TEMPLE. To the group in Chicago, a syndicate sponsored by a Mr. F. H. Banta of Wisconsin.

Mr. GESELL. What did you get for it?

Mr. TEMPLE. Gross or net?

Mr. GESELL. Either figure, if you can recall.

Mr. TEMPLE. We owed the banks money, secured by the stock of the company, and I just couldn't tell you the exact amount of it.

Mr. GESELL. Approximately how much?

Mr. TEMPLE. Well, gross, perhaps as much as \$160,000. The company had \$200,000 capital, and we owned all the stock.

Mr. GESELL. When was that?

Mr. TEMPLE. I think that was in 1928 or '27.

Mr. GESELL. February 22, 1927, was it not?

Mr. TEMPLE. Yes; that is right.

Mr. GESELL. Now, what did you do with the money that you got from the sale of the casualty company?

Mr. TEMPLE. I paid off our bank debts and acquired from the Central States Life Insurance Co. in St. Louis by purchase a collateral note secured by a controlling interest in the Two Republics Life Insurance of El Paso, Tex.

Mr. GESELL. Let's see if I understand that. The company of El Paso, Tex., had shares up in a collateral note with Central States?

Mr. TEMPLE. Yes, sir.

Mr. GESELL. And you purchased that collateral note from Central States?

Mr. TEMPLE. Yes, sir.

Mr. GESELL. Foreclosed on the note?

Mr. TEMPLE. No; this stock of the Two Republics Life was personal stock of the president of that company, and he had just died, and his widow, of course, had no funds with which to take up that note; and, as I recall the transaction, we purchased the note from Central States Life with the collateral attached. Then we went out to El Paso and purchased some additional shares that I think this widow owned or inherited, and we released to her this note, or settled with the estate. I don't remember the details. Mr. De Buchananne handled largely all of these transactions.

Mr. GESELL. That gave you, in that way, control of the Two Republics Life?

Mr. TEMPLE. Yes, sir.

Mr. GESELL. And you reinsured that with the Mississippi Valley?

Mr. TEMPLE. The Mississippi Valley of St. Louis.

Mr. GESELL. How big a company was the Republic? Did they have about 12 million in insurance?

Mr. TEMPLE. Ten, eleven, or twelve million in insurance in force.

Mr. GESELL. And how much did you have to pay to get this note from Central States?

Mr. TEMPLE. I don't remember on the note—we paid face value for the note.

Mr. GESELL. And how much was that?

Mr. TEMPLE. It occurs to me it was a hundred-and-some-odd dollars, with accumulated interest on the note.

Mr. GESELL. Now, coming down to July of 1928, do you recall negotiating the sale of the Farmers National Life of Chicago to Massey Wilson?

Mr. TEMPLE. Yes, sir.

Mr. GESELL. Will you tell us about that transaction—what you did, how you learned about it?

Mr. TEMPLE. I had known the secretary of that company, a Mr. R. Presnall. I met him quite by accident at the Hamilton, in Chicago, and he told me their Mr. Billiter, the president of the company—he was some 77 years of age and a publisher of a farmers' journal of some sort in Huntington, Ind., was reaching the age where he wanted to liquidate his holdings so that he could devote all of his time to this farm publication; and he told me that he would set a price of \$30 a share on the stock. I didn't know at that time Mr. Massey Wilson, except by reputation, and I telephoned him from Chicago, asking him if he would be interested in acquiring this company.

Mr. GESELL. You mean, without having had any previous business dealings with him, just because you knew he was a fellow who traded in insurance businesses, you gave him a ring?

Mr. TEMPLE. He was the most likely prospect because he had perhaps purchased, oh, I don't know, 15 or 20 life-insurance companies in the International Life.

Mr. GESELL. You just knew him by reputation?

Mr. TEMPLE. I met him through Mr. Babler, his former partner, but I had never had any previous business with him.

Mr. GESELL. What did you say to him when you called him on the phone?

Mr. TEMPLE. I told him that this company was for sale at \$30 a share and asked him if he would be interested in buying it. I recall he said, "Hold the phone a minute," until he could check the company's statement and the insurance reports, and advised me that he was very much interested in it provided he could raise the money to finance the purchase of stock, but for me to stay there and get all the detailed information, up-to-the-minute financial statement of the company, types of business it had in force, and so forth, which I did.

Mr. GESELL. What commission were you to receive?

Mr. TEMPLE. Well, in this first conversation, the commission wasn't discussed at all.

Mr. GESELL. What commission did you actually receive on the transaction?

Mr. TEMPLE. Net to myself, it turned out to be \$27,000.

Mr. GESELL. That is based on approximately \$2 per thousand in force?

Mr. TEMPLE. No; the company had 24 million of insurance in force.

Mr. GESELL. You got about \$27,000?

Mr. TEMPLE. Personally; yes.

Mr. GESELL. What happened after you had checked again on the financial condition of the company? I suppose you were in communication with Mr. Presnall during this period of time?

Mr. TEMPLE. Oh, yes, sir. Later on he introduced me to Mr. Billiter, and Mr. Wilson had authorized me to obtain, if I could, a 30-day option on the company, giving him an opportunity to attempt to raise the necessary funds for the stock.

Mr. GESELL. You got an option then on a controlling interest in the shares of the Farmers National?

Mr. TEMPLE. Yes.

Mr. GESELL. How much did that cost?

Mr. TEMPLE. I think the nominal amount of \$2,000 to tie the deal up, as we put it, for 30 days.

Mr. GESELL. That was the Farmers National Life of Chicago, Ill.?

Mr. TEMPLE. Yes, sir.

Mr. GESELL. Now, what happened after that?

Mr. TEMPLE. Well, in due course, I furnished Mr. Wilson all this information which had been obtained from Mr. Presnall; and I don't remember whether it was within 30 days, 2 weeks, or some such time until he came to Chicago with a man by the name of Bushman and his attorneys, and they completed the deal there in Chicago.

Mr. GESELL. Well, now, before the deal was completed, had you talked about it at all with Mr. De Buchananne?

Mr. TEMPLE. Yes.

Mr. GESELL. Tell us about that, please.

Mr. TEMPLE. Mr. Presnall had told me that his president, Mr. Billiter, would not consider the sale of this stock at any price unless it would be to responsible people. Certainly he wouldn't sell it to people like Jake Babler or De Buchananne. The odd part about this was that De Buchananne was more or less my partner and associate at the time, which made it quite awkward and embarrassing to me for the reason that De Buchananne sort of felt I should share with him any earnings that I might make as a result of our association. So, in reality, he did absolutely nothing in connection with this deal, although I shared with him an equal amount of the commission which I received.

Mr. GESELL. He declared himself in, so to speak?

Mr. TEMPLE. Yes, sir.

Mr. GESELL. When was that?

Mr. TEMPLE. Just before the deal was closed.

Mr. GESELL. Before the deal was closed?

Mr. TEMPLE. Yes, sir.

Mr. GESELL. And Mr. De Buchananne did nothing at all in connection with it; is that true?

Mr. TEMPLE. Well, except to advise and encourage me to stay on the job and get it through, get it completed.

Mr. GESELL. What was the purchase price paid?

Mr. TEMPLE. For the stock?—\$30 a share.

Mr. GESELL. How much did that amount to?

Mr. TEMPLE. This is just a rough guess, but I think it was somewhere between four hundred and fifty and six hundred thousand dollars.

Mr. GESELL. About how much?

Mr. TEMPLE. Somewhere between four hundred and fifty and six hundred thousand dollars was the total consideration.

Mr. GESELL. And you got \$27,000?

Mr. TEMPLE. Net to myself; yes.

Mr. GESELL. And Mr. De Buchananne got \$27,000?

Mr. TEMPLE. And John V. Sees.

Mr. GESELL. And Mr. De Buchananne got \$27,000?

Mr. TEMPLE. Yes.

Mr. GESELL. What did Mr. Sees do for his \$27,000 and how did he get into this picture?

Mr. TEMPLE. He also declared himself in. As a matter of fact, he was a director of the company. He was from Huntington, Ind., the home town of the president, and, as I understood it, was a personal attorney for Mr. Billiter.

Mr. GESELL. He was a director of the Farmers National?

Mr. TEMPLE. Yes, sir; he was.

Mr. GESELL. And personal attorney for the chief officer?

Mr. TEMPLE. Yes.

Mr. GESELL. So he just cut himself in for \$27,000 of this melon?

Mr. TEMPLE. Mr. Wilson was very liberal in the payment of commissions.

Mr. GESELL. I gather that. What did Mr. Sees do for his \$27,000?

Mr. TEMPLE. The only thing I can recall he did was to help prepare a letter, an offer to the stockholders that if they wished to sell at this price they could do so by sending their stock, properly endorsed, to the trust department of the Chicago bank.

Mr. GESELL. That was rather a simple matter.

Mr. TEMPLE. Yes; I thought he was very well paid for his efforts.

Mr. GESELL. You say it was between four hundred and six hundred thousand dollars?

Mr. TEMPLE. Yes, sir.

Mr. GESELL. How was the stock bought? Did you receive the money and disburse it to the stockholders?

Mr. TEMPLE. Well, when Mr. Wilson concluded to go through with the deal, that is, purchase this stock, he had three or four lawyers that handled the details of it, and it ended up that all of the stock was purchased in my name and cashier's checks were issued to me, a whole series of checks, and as a director would surrender his stock, I would endorse my name on the back of the cashier's check and give him his money.

Mr. GESELL. Now, did any thing turn up before the completion of this deal which involved a change in the purchase price or negotiations?

Mr. TEMPLE. Yes. Right at the last minute, the very same man Presnall approached me and told me that Mr. Billiter was about to back out of the deal.

Mr. GESELL. And he was the chief stockholder?

Mr. TEMPLE. Yes—unless he would receive a bonus of \$50,000 in addition to the \$30 a share for his stock.

Mr. GESELL. Mr. Billiter, according to Mr. Presnall, wanted \$50,000 more before he would go through with it?

Mr. TEMPLE. Yes. I transmitted this information to Mr. Wilson, and Mr. Wilson agreed to pay it.

Mr. GESELL. Did he pay it?

Mr. TEMPLE. Yes, sir; he issued a cashier's check, as I recall, to me for \$50,000.

Mr. GESELL. Whom did you hand the check to?

Mr. TEMPLE. I handed it to Mr. Presnall in return for his receipt.

Mr. GESELL. How did he sign that receipt?

Mr. TEMPLE. He signed it "Ben H. Billiter by William R. Presnall."

Mr. GESELL. Who got the money?

Mr. TEMPLE. I haven't the slightest idea, but I turned it over to Mr. Presnall.

Mr. GESELL. Where did this \$50,000 come from?

Mr. TEMPLE. Massey Wilson.

Mr. GESELL. So that Mr. Billiter, according to Mr. Presnall, who was the chief officer of the Farmers National, in addition to \$30 a share for his stock, was able to get an additional \$50,000 from Mr. Wilson?

Mr. TEMPLE. Yes, sir.

Mr. GESELL. Now, did anybody else have a participation in this deal, commission-wise?

Mr. TEMPLE. Well, I am almost ashamed to tell you this feature of this commission—I mean, the next commission that was paid.

Mr. GESELL. Who got it?

Mr. TEMPLE. A brother of J. D. De Buchananne. Riding home on the train that night from Chicago to St. Louis, Mr. J. D. De Buchananne mentioned to me that his brother, George De Buchananne, who was an officer and being well paid for his services in the Mississippi Valley Life Insurance Co., he thought should be compensated for looking after the company's affairs while I was gone; that is, approximately 30 days, in Chicago, trying to close this Farmers National deal, and he tactfully suggested that a commission of \$1,500—

Mr. GESELL (interrupting). How much?

Mr. TEMPLE. \$1,500; and a like amount for himself, not a commission—a contribution, I should put it—would be very warmly accepted by his brother and would be a very gracious thing for us to do.

Mr. GESELL. So you gave De Buchananne's brother, George, \$1,500?

Mr. TEMPLE. Yes, sir.

Mr. GESELL. Was that out of your \$27,000?

Mr. TEMPLE. Yes, sir.

Mr. GESELL. Well, now, during this time that these negotiations were taking place, you were still in the Mississippi Valley, were you not?

Mr. TEMPLE. Yes, sir; I was secretary of the company.

Mr. GESELL. You and Mr. De Buchananne owned it jointly?

Mr. TEMPLE. Yes, sir.

Mr. GESELL. That was through the North American Holding Co.?

Mr. TEMPLE. Yes.

Mr. GESELL. I believe we had testimony about that.

Mr. TEMPLE. Yes.

Mr. GESELL. What was happening at the Mississippi Valley? Was it being well run?

Mr. TEMPLE. Well, I didn't think so.

Mr. GESELL. Why not?

Mr. TEMPLE. Well, De Buchananne had his uncles and aunts and cousins and what not on the pay roll and I was very unhappy.

Mr. GESELL. Were they at very substantial salaries?

Mr. TEMPLE. Well, I think the minimum was \$6,000 a year.

Mr. GESELL. Give us some specific instances, if you will.

Mr. TEMPLE. I think his brother was getting \$6,000 a year.

Mr. GESELL. What did he do for his \$6,000?

Mr. TEMPLE. Absolutely nothing.

Mr. GESELL. Who also was on the pay roll?

Mr. TEMPLE. He had an uncle who was a doctor who was supposed to be a medical doctor, but I don't recall that he ever examined anyone.

Mr. GESELL. What did he get?

Mr. TEMPLE. I think \$4,800 was his salary.

Mr. GESELL. Who also was there?

Mr. TEMPLE. Well, let's see, that's 12 years ago. I just can't remember.

Mr. GESELL. Were there other relatives?

Mr. TEMPLE. Yes.

Mr. GESELL. What about the investment practices of the company?

Mr. TEMPLE. Well, that was a thing I chiefly objected to. He dominated the company, of course, and he never consulted with me on the purchase of any investments, and I learned for the first time from an examiner who was examining the company that we had some mortgage loans on some southeast Missouri property, something I had never heard of before. It turned out the property was actually owned by himself upon which he had placed a straw mortgage and sold the mortgage to the insurance company.

Mr. GESELL. For approximately how much were those mortgages in the portfolio, do you recall?

Mr. TEMPLE. I do not.

Mr. GESELL. I believe we had testimony \$240,000 to \$300,000. Is that approximately correct?

Mr. TEMPLE. I don't believe it was that much.

Mr. GESELL. Now, did you set about to sell your interest in Mississippi Valley?

Mr. TEMPLE. Well, after I had learned in Chicago that these people wouldn't even consider making the deal with Mr. De Buchananne, and shortly prior to that some friends of mine in St. Louis had told me that perhaps I had made an unwise selection of my business associates, or business associate, rather, I set about to scour the country to find a buyer for the company so that I could get out from under this situation.

Mr. GESELL. Did you find a buyer?

Mr. TEMPLE. Yes, sir.

Mr. GESELL. Who was the buyer?

Mr. TEMPLE. The first man who approached me was John B. Smith.

Mr. GESELL. Who was he?

Mr. TEMPLE. He represented himself as having been the late defeated candidate for commissioner of insurance in Kansas.

Mr. GESELL. He was the fellow who ran against Hobbs at the time

he was elected in 1929, was he not?

Mr. TEMPLE. Yes. Seemed like a very fine fellow to me.

Mr. GESELL. Whom was he associated with, do you know?

Mr. TEMPLE. He brought in J. Mitchell and Mr. Herndon, whom I met for the first time.

Mr. GESELL. W. K. Herndon?

Mr. TEMPLE. Yes, sir; he testified this morning.

Mr. GESELL. Was Mr. Herndon in partnership with Mr. Smith and Mr. Mitchell?

Mr. TEMPLE. The impression I got at that time was Mr. Herndon was financing Mr. Smith and Mr. Mitchell in purchasing our stock.

Mr. GESELL. Did they finally enter into an agreement to buy your stock?

Mr. TEMPLE. Yes, sir.

Mr. GESELL. That was in the North American which held the Mississippi Valley?

Mr. TEMPLE. Held all of them.

Mr. GESELL. Did they also agree to buy out Mr. De Buchananne's stock?

Mr. TEMPLE. Oh, yes.

Mr. GESELL. Were any commissions paid on that deal?

Mr. TEMPLE. \$15,000, as I recall.

Mr. GESELL. Who was the \$15,000 paid to?

Mr. TEMPLE. Mr. Herndon.

Mr. GESELL. Who paid him?

Mr. TEMPLE. Well, Mr. De Buchananne paid him. It came, of course, half out of my proceeds and half from him.

Mr. GESELL. What did Mr. Herndon do for this \$15,000?

Mr. TEMPLE. I didn't see that he did anything.

Mr. GESELL. Why was the money paid to Mr. Herndon, Mr. Temple?

Mr. TEMPLE. Well, because it was obvious the deal wouldn't go through unless Mr. Herndon was paid the \$15,000. In other words, they weren't going to buy our stock unless Mr. Herndon was paid this commission.

Mr. GESELL. Who said that?

Mr. TEMPLE. Mr. Herndon himself.

Mr. GESELL. Was he examining the Mississippi Valley at that time?

Mr. TEMPLE. No.

Mr. GESELL. He just told you that unless he got this \$15,000 kick-back, there would be no deal?

Mr. TEMPLE. That is right.

Mr. GESELL. Did his associates know he was getting this money?

Mr. TEMPLE. As I recall, he told us not to discuss this commission with his associates, which we didn't. After all, I was anxious to get out from under the set-up myself and it was immaterial to me who received the commission.

Mr. GESELL. What did you get for your interest in the company?

Mr. TEMPLE. Well, a lot of cats and dogs and real estate and what not. Some cash.

Mr. GESELL. How much cash?

Mr. TEMPLE. Well, it seems ridiculous not to remember that exactly.

Mr. GESELL. \$30,000, was it not?

Mr. TEMPLE. Approximately \$30,000.

Mr. GESELL. What was the property valued at?

Mr. TEMPLE. Well, I don't know. We got a building in El Paso that was mortgaged and very little equity if any and a piece of property in Arizona that I never did see.

Mr. GESELL. Where did the property come from?

Mr. TEMPLE. From Mitchell.

Mr. GESELL. Not from the portfolio of the Mississippi Valley in any indirect way, or did it?

Mr. TEMPLE. I don't think so. Oh, the building did. The building in El Paso did.

Mr. GESELL. I thought when you mentioned El Paso, I recognized it. How did they get the building out of the portfolio to pay you with?

Mr. TEMPLE. I don't know. I think Mr. Herndon set that up.

Mr. GESELL. You have no further information as to how they were able to pay you for the company with the portfolio of the company they were buying from you?

Mr. TEMPLE. Well, they took this building at El Paso which was a losing proposition, they took it out and substituted in lieu of that some other assets that were more acceptable to the company from an earnings standpoint, and how they did that, I haven't the remotest idea now.

Mr. GESELL. In effect, you were paid in part for your interest in the company with the portfolio of the company they were buying from you?

Mr. TEMPLE. No; that isn't a fair assumption.

Mr. GESELL. It is what happened?

Mr. TEMPLE. No; it isn't about what happened either. This particular building is one that I remember so well. It was a losing asset to the company and they substituted in lieu of that other securities that were acceptable to the insurance company and we accepted that building, that is, the equity in it, oh, well, for what it was worth. If we got anything out of it, all right. If we didn't, all right.

Mr. GESELL. Can you recall having anything to do with the People's Life Insurance about this time?

Mr. TEMPLE. Yes, sir.

Mr. GESELL. Was that while you were still in the Mississippi Valley?

Mr. TEMPLE. Yes, before these negotiations with Mr. Smith and Mr. Mitchell and Mr. Herndon had commenced, the People's Life Insurance Co. in Chicago was financially embarrassed due to the failure of a bank that the Life Insurance Co. owned. It had failed and as a result was a double liability on the stockholders, which wiped out the surplus of that company, and I had been discussing with them the possibility of reinsuring the business and had more or less tentatively reached a basis of reinsuring the business. Then along comes Mr. Mitchell and Mr. Smith and acquired my interest in the company. I mentioned the possibility or rather the discussions that had been going on about the acquisition of the People's Life, and they then authorized me and Mr. De Buchananne to complete that transaction for them, if possible.

Mr. GESELL. Did you complete it?

Mr. TEMPLE. No; I didn't.

Mr. GESELL. Wasn't it a fact that the People's business was finally reinsured with a hundred percent lien against the company? The company failed, did it not?

Mr. TEMPLE. The bank failed and it wiped out its capital surplus.

Mr. GESELL. Did you get a commission for that?

Mr. TEMPLE. I think I got \$1,500 for that finally.

Mr. GESELL. Did Mr. De Buchananne get a commission?

Mr. TEMPLE. Yes.

Mr. GESELL. Was there anyone else who received a commission?

Mr. TEMPLE. John V. Sees.

Mr. GESELL. How much was the commission?

Mr. TEMPLE. I think it was \$1,500 to the three of us.

Mr. GESELL. Do you recall any disputes that arose in connection with those commissions?

Mr. TEMPLE. Well, yes; because the promised commission was a dollar a thousand for the business in force, which is more or less an established commission in the business on transactions of that sort, and if I remember correctly, the amount of insurance in force was sixteen million and the commission would have been approximately \$16,000, but in view—

Mr. GESELL (interrupting). \$1,600?

Mr. TEMPLE. No; \$16,000 total commission, but in view of this receivership and some expensive litigation that they finally went through, they compromised at \$1,500. I recall a fist fight in the president's office between De Buchananne and Sees about the final division of this commission.

Mr. GESELL. It was finally divided \$1,500 to you, \$1,500 to Sees, and \$1,500 to De Buchananne?

Mr. TEMPLE. I think that is correct.

Mr. GESELL. Do you recall in 1931 attempting to purchase the Republic National Life Insurance Co.?

Mr. TEMPLE. Yes, sir.

Mr. GESELL. Was anyone associated with you in that venture?

Mr. TEMPLE. Yes, sir.

Mr. GESELL. Who?

Mr. TEMPLE. E. H. Banta.

Mr. GESELL. Was he an officer of the company?

Mr. TEMPLE. Yes.

Mr. GESELL. Will you tell us what happened then?

Mr. TEMPLE. The Republic Life Insurance Co. was owned by Cullin F. Thomas, of Dallas, Tex. Thomas, who happens to be a brother-in-law of United States Senator Sheppard, and young Joe Bailey, of Dallas, who had married this St. Louis girl whom I had known, told me about the possibility of acquiring this company.

I went on down to Dallas and met Mr. Thomas. Mr. Bailey represented me in these negotiations and found Mr. Banta as vice president of the company. Mr. Thomas wanted to sell it, and we worked out a basis of acquiring his stock through the payment of part payment in cash and part payment through the purchase by the life-insurance company of a home office building in Dallas which we had learned could be acquired from the people who owned it at a sacrifice price. We bought the building and resold it to the life-insurance company at a profit, paper profit of probably \$55,000, and we executed our notes to Mr. Thomas secured by all of the stock we were buying from him and then during 1933 or 1934, somewhere in there, we defaulted in our payments and lost the collateral and lost the stock.

Mr. GESELL. But what you worked out in the purchase of the stock of this company was in part to sell a building to the company which you picked up at a distress price for a paper profit of \$55,000 which you in turn used against the purchase price?

Mr. TEMPLE. Yes, sir.

Mr. GESELL. And the man who was with you on that transaction was an officer of the company which you were attempting to buy?

Mr. TEMPLE. Well, the way you put it doesn't sound—

Mr. GESELL (interposing). I am just trying to get down to the facts.

Mr. TEMPLE. I'd like to explain that a little more clearly.

The VICE CHAIRMAN. Was he an officer of the company?

Mr. TEMPLE. Yes; he was vice president.

Mr. GESELL. You explain it any way you want.

Mr. TEMPLE. The company did not own any real estate of any kind but had been considering the purchase of a home office building. They had looked at any number of properties. I happened to be fortunate enough to know a certain investment house in Dallas owned three or four buildings, some of which were losing money hand over fist. This one was the most profitable building they had. It was a question of selling this one profitable building to protect all the rest of them or lose them all and I told Mr. Thomas very frankly I didn't have money enough to buy the company myself, I couldn't finance it by myself, but that I knew of a piece of real estate that would make an ideal home office building for the company if the directors of the company thought it a good investment and would buy it. Mr. Thomas looked it over himself and although he wasn't a director himself he did own 88 percent of the stock and he instructed the board and finance committee to go out and personally investigate the building, and also had the State insurance department, as I recall, give him a tentative or an informal report that the property was a desirable piece of property to own as a home office building.

Now the laws of Texas, I think, require that the local real-estate boards must pass upon the valuation of real-estate properties and in this particular case I am frank to say to you it turned out that I sold the building to them way below the actual value of the building set by the Dallas real-estate board.

As I remember the situation, I sold the building to them for \$610,000 and the real-estate board appraised it for \$725,000. In other words, had I sold it to them at the value the real-estate board said it was actually worth, at least from my way of thinking, it would have meant the difference between my losing control of the company, because the additional value would have given me that much more stock. Have I made that clear?

Mr. GESELL. It still is a fact, I gather, that though you protected the transaction in every possible way by having everyone realize what was happening, you purchased the building and resold it at a \$55,000 profit to the company in order to enable yourself and an officer of the company with whom you were associated to buy a controlling interest in the stock company.

Mr. TEMPLE. Well, perhaps it would be unfair for me to say that this officer of the company was actively participating prior to the

time it was actually made other than he naturally introduced me around to business interests in Dallas.

Mr. GESELL. He knew what was going on?

Mr. TEMPLE. It was helpful to me; yes; of course.

Mr. GESELL. I haven't any further questions.

The VICE CHAIRMAN. What was the name of this partner in this transaction?

Mr. TEMPLE. Banta—B-a-n-t-a.

The VICE CHAIRMAN. And he shared in the fruits of the transaction to the same extent you did?

Mr. TEMPLE. Well, he didn't share very much because he lost control in a short time.

The VICE CHAIRMAN. In the paper profit of \$55,000 of the transaction?

Mr. TEMPLE. Yes; he ultimately shared in the 15 percent.

The VICE CHAIRMAN. And what was his position?

Mr. TEMPLE. He was vice president.

The VICE CHAIRMAN. He was active in the affairs of the company?

Mr. TEMPLE. Yes, sir.

The VICE CHAIRMAN. Thank you very much.

Mr. TEMPLE. May I be permanently excused?

The VICE CHAIRMAN. Yes; you may.

Mr. GESELL. We will be concerned with the affairs of the Royal Union Life Insurance Co. tomorrow if that is convenient to the committee.

The VICE CHAIRMAN. The Committee will recess until 10:30 tomorrow.

(Whereupon, at 3:15 p. m., a recess was taken until Friday, December 15, 1939, at 10:30 a. m.)

INVESTIGATION OF CONCENTRATION OF ECONOMIC POWER

FRIDAY, DECEMBER 15, 1939

UNITED STATES SENATE,
SUBCOMMITTEE OF THE TEMPORARY
NATIONAL ECONOMIC COMMITTEE,
Washington, D. C.

The subcommittee met at 10:50 a. m., pursuant to adjournment on Thursday, December 14, 1939, in room 357, Senate Office Building, Joseph J. O'Connell presiding.

Present: Messrs. O'Connell (vice chairman) and Brackett.

Present also: James B. Ross, representing the Department of Commerce; Gerhard A. Gesell, special counsel; and Helmer Johnson, attorney, Securities and Exchange Commission.

The VICE CHAIRMAN. For reasons somewhat beyond the control of the subcommittee, it is necessary to have the subcommittee stand in recess this morning and to have the hearing scheduled for this morning this afternoon at 2:15 p. m.

AFTERNOON SESSION

(The hearing was resumed after recess at 2:20 p. m.)

The VICE CHAIRMAN. The committee will please be in order. Mr. Gesell, if you are ready.

REINSURANCE AND REWRITING—ROYAL UNION LIFE INSURANCE CO.

Mr. GESELL. Today the commission will present testimony indicating reasons for the failure of the Royal Union Life Insurance Co. of Des Moines, Iowa. This company failed on June 26, 1933, and was reinsured in the Lincoln National Life Insurance Co., of Fort Wayne, Ind., after a 50-percent lien had been placed against its policies. At the time of its failure the Royal Union had assets in excess of \$37,000,000. We have assembled certain information from public records, principally the Best Insurance Reports for 1939, which I would like to describe briefly for the committee, as I believe it will be of assistance to the committee in the study of the Royal Union. Yesterday Mr. Herndon testified with regard to the merger of the State Life Insurance Co. of Iowa and the Royal Union Mutual Life Insurance Co. of Iowa on February 15, 1924.¹ The State Life Insurance Co., which merged with the Royal Union Mutual had prior to that time absorbed five other companies. As early as March 1916 the Dakota Western Insurance Co. of Sioux Falls, S. Dak., reinsured

¹ *Supra*, p. 6730.

with the Surety Fund Life Insurance Co., of Minneapolis, Minn. This company in turn merged with the State Life Insurance Co. in April 1921. Thereafter, the State Life entered into reinsurance agreements with the Union Life and Accident Co., of Lincoln, Nebr.; the Mutual Life Insurance Co., of Red Oak, Iowa; the Liberty Life Insurance Co., of Des Moines, Iowa; and the Occidental Mutual Benefit Co., of Salina, Kans. Following the merger of the State Life with the Royal Union Mutual, its name was changed to the Royal Union Life Insurance Co. In a period of 5 years, the Royal Union then reinsured eight different companies, namely, the Standard Savings Life Insurance Co., of Wichita, Kans.; the Great State Life Insurance Co., of Wichita, Kans.; the Western Life Insurance Co., of Des Moines, Iowa; the National American Life Insurance Co., of Burlington, Iowa; the Universal Life Insurance Co. of Dubuque, Iowa; the Peerless Life Insurance Co., of Kansas City, Mo.; and the Roman Catholic Protective Society, of Fort Madison, Iowa; the Medical Life Insurance Co., of Waterloo, Iowa, which company immediately, prior to reinsurance with the Royal Union, had itself reinsured the Republic Life Insurance Co., of Des Moines, Iowa.

In 1931, the Royal Union merged with the Des Moines Life & Annuity Co., of Des Moines, Iowa. This company had been formed in part through the merger or reinsurance of several life-insurance companies. In September 1913 the Midland Insurance Co., of St. Paul, Minn., merged with the Indemnity Life & Accident Co., of Minneapolis, Minn. Thereafter the Midland Insurance Co. reinsured Twin City Life Insurance Co., of St. Paul, Minn., in February of 1923. The Des Moines Life & Annuity Co., which had previously reinsured the Preferred Risk Life Insurance Co., of Des Moines, Iowa, in April of 1924, reinsured the Midland in March of 1925. Thereafter the Des Moines Life & Annuity Co. merged with the Conservative Life Insurance Co., of Sioux City, Iowa, and then reinsured the Travelers Equitable Insurance Co., of Minneapolis, Minn., in November of 1930, this company having in turn reinsured the Merchants Life & Casualty Co., of Minneapolis, Minn., in June of 1923. It was following these mergers and reinsurance contracts that the Des Moines Life & Annuity Co. merged with the Royal Union in June of 1931. It was the company resulting from the merger which failed on June 26, 1933.

The witness this afternoon, if the committee please, is Mr. E. W. Clark. Will you take the stand please, Mr. Clark?

The VICE CHAIRMAN. Will you raise your right hand? Do you solemnly swear that the testimony you are about to give is the truth, the whole truth, and nothing but the truth, so help you God?

Mr. CLARK. I do.

TESTIMONY OF E. W. CLARK, FORMER COMMISSIONER OF INSURANCE, IOWA

Mr. GESELL. Will you state your full name and address, please, sir?

Mr. CLARK. E. W. Clark, 428 East First Street, Mason City, Iowa.

Mr. GESELL. Mr. Clark, were you commissioner of insurance for the State of Iowa at one time?

Mr. CLARK. Yes, sir.

Mr. GESELL. What period of time were you commissioner for?

Mr. CLARK. June the 23d, 1931, to July 1, 1935.

Mr. GESELL. You retired at that time, on the expiration of your term?

Mr. CLARK. Yes, sir.

Mr. GESELL. Prior to becoming commissioner, had you been in the banking and mortgage loan business?

Mr. CLARK. Yes, sir.

Mr. GESELL. Who appointed you commissioner?

Mr. CLARK. Gov. Dan W. Turner, of Iowa.

Mr. GESELL. During the time you were commissioner, did you have occasion to supervise and be in touch with an examination made of the Royal Union Life Insurance Co.?

Mr. CLARK. I did.

Mr. GESELL. Will you tell us the circumstances under which that examination was made?

The VICE CHAIRMAN. May I inquire, was the Royal Union an Iowa corporation?

Mr. CLARK. Yes, sir; it was.

Well, the circumstances under which it was made was largely the circumstances under which any life insurance company is examined. It was an examination in which I called in various States to assist us.

Mr. GESELL. What precipitated your examination of the Royal Union?

Mr. CLARK. I was anxious to know just the condition that it was in.

Mr. GESELL. Had you any information with respect to it more than the fact that you wished to examine it?

Mr. CLARK. From the time that I became a commissioner—in fact before that—I had heard that all was not well with the Royal Union, and as soon as I became commissioner I commenced to study it. I thought I would take time enough before I ordered an examination to be sure of my ground. The actuary and the deputies and myself studied it continually and finally I ordered an examination.

Mr. GESELL. It had assets in the neighborhood of \$37,000,000, had it not?

Mr. CLARK. Yes, sir.

Mr. GESELL. Was its home office in Des Moines?

Mr. CLARK. Yes, sir.

Mr. GESELL. I believe you said it was incorporated under the laws of Iowa?

Mr. CLARK. Yes.

Mr. GESELL. Do you recall what States it operated in?

Mr. CLARK. No; I do not. It was admitted in many States, however.

Mr. GESELL. Am I correct in saying that the company operated in Iowa, Kansas, Minnesota, Missouri, Montana, Nebraska, and North Dakota?

Mr. CLARK. Yes; and Ohio, Oklahoma, Pennsylvania, and Texas in addition.

Mr. GESELL. That would be in 11 States in all?

Mr. CLARK. Yes, sir.

Mr. GESELL. Now, will you tell us what condition your examination disclosed existing in the Royal Union?

Mr. CLARK. I considered it a deplorable condition.

Mr. GESELL. Can you be specific and tell us a little of the facts disclosed?

Mr. CLARK. I found, according to my idea, that the capital stock had been built up pretty largely on values that really never existed. That a large portion of the business had been acquired by mergers and that each merger that I was able to find, or practically all of them, smelled bad, if you want to put it that way.

Mr. GESELL. What do you mean by that?

Mr. CLARK. I mean there were things about them that were not in my opinion according to the best interests of the policyholders.

Mr. GESELL. What things didn't you like about the mergers, or the reinsurance?

Mr. CLARK. In most instances, large sums were paid out to favorite employees and to stool pigeons and brokers who would get the sums of money under contracts entered into with the board of directors of the company through which they would receive a certain brokerage on the entire business of the company that they would purchase.

Mr. GESELL. I'll come back to those agreements of the reinsurance in a moment. What about the investments of the company?

Mr. CLARK. The investments of the company had pretty largely reached the point where the question of their value was a question. Many of the real-estate mortgages had really developed into real estate, and in order to get around the law in which it was stated that only a certain portion of the assets of the life-insurance company could be invested in real estate, it organized holding companies.

Mr. GESELL. That was known as the Ceres Holding Company, was it not?

Mr. CLARK. Yes, sir; and that company would then issue first mortgages which would be held among the assets in the portfolios of the company.

The VICE CHAIRMAN. And the company was the owner, that is, the trust company was the owner of the stock in the holding company?

Mr. CLARK. I think so, probably.

Mr. GESELL. The same officers owned the stock, did they not?

Mr. CLARK. Yes; there were certain trustees that were appointed to hold the title to the land that had been realized on under foreclosure from these mortgages. They organized the Ceres Holding Co. and in turn mortgaged the various pieces of land back to the company and they were turned in among the assets.

Mr. GESELL. You mean that the insurance company would have real estate in its portfolio which it would have to dispose of under the law and it would transfer that to the holding company and receive back a mortgage?

Mr. CLARK. Right. On the various pieces of land.

Mr. GESELL. And who would pay the interest on the mortgage?

Mr. CLARK. I think there was very little interest paid.

Mr. GESELL. Who paid the taxes on the land?

Mr. CLARK. The company must have paid them; I don't know.

Mr. GESELL. And that was during the time that they were being held by the holding company?

Mr. CLARK. Yes, sir.

Mr. GESELL. Now what did you find with respect to the salaries of the officers?

Mr. CLARK. I found that they were in my opinion excessive.

Mr. GESELL. What do you mean by that?

Mr. CLARK. They were paid far in excess of what I considered their services were worth.

Mr. GESELL. Can you be a little more specific, sir, and tell us what they were getting?

Mr. CLARK. I don't recall exactly, but I remember with his allowance for expenses and his regular salary, the president, Mr. A. C. Tucker, got \$55,000. And various officers received large amounts.

Mr. GESELL. Did you find the salaries were being drawn in advance?

Mr. CLARK. Yes; I found in one instance that Mr. Tucker would draw his salary in advance, possibly a year.

Mr. GESELL. Did you find that the officers had expense accounts?

Mr. CLARK. Yes.

Mr. GESELL. Were those expense accounts liberal or conservative?

Mr. CLARK. They were extremely liberal.

Mr. GESELL. Were they properly accounted for?

Mr. CLARK. Not according to my idea.

Mr. GESELL. I want to come back to these matters in some detail, and I first ask you how long did your examination disclose that this condition had existed with respect to these matters we have been discussing?

Mr. CLARK. I don't remember how far back we went, but we went back a little further than we were presumed to go, beyond the time of the previous examination.

Mr. GESELL. Your study went back at least as far as 1927, did it not, sir?

Mr. CLARK. Yes.

Mr. GESELL. Would you say that these practices had been going on more or less during the period from 1927 until you made the examination?

Mr. CLARK. Yes; constantly.

Mr. GESELL. Can you tell me why nothing had been done about the conditions of this company prior to the time you became commissioner of Iowa?

Mr. CLARK. I don't know why. Something should have been done.

Mr. GESELL. Who had been the previous commissioners?

Mr. CLARK. Well, Mr. Ray Yenter was the commissioner of insurance prior to my assuming the office, and prior to his taking the office Mr. W. R. C. Kendrick, and prior to Mr. Kendrick's term I think Mr. A. C. Savage.

Mr. GESELL. Where did these three gentlemen go on leaving the insurance department?

Mr. CLARK. Mr. Savage became a vice president of the Royal Union; Mr. Kendrick became a vice president of the Royal Union; Mr. Yenter had no connection with them as far as official position was concerned.

Mr. GESELL. Is it not a fact, however, that Mr. Yenter represented the company as counsel immediately after leaving the department?

Mr. CLARK. I can't say that he represented the company. He represented Mr. A. C. Tucker in matters pertaining to the company.

Mr. GESELL. Who was Mr. Tucker?

Mr. CLARK. Mr. Tucker was its president, and then subsequent to its merger with the Des Moines Life and Annuity was the chairman of its board.

Mr. GESELL. And do I understand that you are unable to give us any explanation as to why nothing had been done by the Iowa department with respect to the condition of this company?

Mr. CLARK. No; I can't tell you.

Mr. GESELL. Was the company engaged in politics out there, Mr. Clark?

Mr. CLARK. It was presumed to have considerable political influence.

Mr. GESELL. What do you mean by that?

Mr. CLARK. I mean just that; it was always around where there was anything doing politically. You gentlemen ought to know what that means.

Mr. GESELL. Was the company active in politics?

Mr. CLARK. No; I can't say that they were openly active at all.

Mr. GESELL. When did you start your examination of the company? I believe you have a copy before you.

Mr. CLARK. Well, it was, I think, late in 1932. I am not sure; it would be in that neighborhood.

Mr. GESELL. When was the examination completed?

Mr. CLARK. I don't know as that examination ever really was completed before they put it in the hands of a receiver.

Mr. GESELL. The company failed, did it not, in June of 1933?

Mr. CLARK. Yes.

Mr. GESELL. Was the examination completed prior to that time?

Mr. CLARK. No; I think not. We had reports. I had reports made from time to time of the condition of the company and of its progress toward rejuvenating itself.

Mr. GESELL. Had the examiners that you first sent in there rendered to you a report?

Mr. CLARK. Yes.

Mr. GESELL. Isn't that the report in front of you here?

Mr. CLARK. Yes.

Mr. GESELL. What date was that report rendered?

Mr. CLARK. Well, it was made as of December 31, 1932, and it is dated February 8, 1933.

Mr. GESELL. Now, the company didn't fail until June of that year, did it?

Mr. CLARK. No; it was not put in the hands of a receiver until that time.

Mr. GESELL. What action did you take when this report was filed with you? I take it the report disclosed these conditions you have discussed with us. What action did you take?

Mr. CLARK. I called the commissioners of the other States in conference and we brought the officers into the conference, in which we called their attention to the condition that we had found in the company, and stated to them that something would have to be done to rejuvenate it or else we would have to take action.

Mr. GESELL. Well, how serious was the condition of the company at this time? It was insolvent to the extent of some \$172,000, was it not?

Mr. CLARK. Yes; it was insolvent fully that amount, in my opinion.

Mr. GESELL. The officers in charge of the company had been mismanaging it at least as far back as 1927?

Mr. CLARK. They had.

Mr. GESELL. Did you find that the bookkeeping methods were loose?

Mr. CLARK. Yes; we found in one instance that one of the vice presidents during the examination took some of the liability cards, smuggled them, in fact, from the files. Our examiners found some of them in the lower drawer of his bureau; they found some under a waste pile in the basement.

Mr. GESELL. Do you mean you were going to rejuvenate a company with that type of management and in as serious a condition as you have indicated?

Mr. CLARK. I had hoped, of course, to save that company if possible. My recollection is it had about 115 million of life insurance.

Mr. GESELL. And about 37 million of assets?

Mr. CLARK. Yes; and if it was humanly possible, I wanted to save that company.

Mr. GESELL. Why didn't you as commissioner just step in and take over the management of the company, Mr. Clark?

Mr. CLARK. Well, that is a pretty hard thing to do without putting it in the hands of a receiver. We have no law in Iowa which would give me authority to actually take care of a company except under receivership. I did go this far, that I told them that they could spend no money whatsoever other than the ordinary routine expenses without the approval of the department, and I put a man in there, but they didn't pay any attention to that. They went ahead anyhow.

Mr. GESELL. They went ahead with the extravagant expenditures even after that action?

Mr. CLARK. Yes.

Mr. GESELL. Did you finally put the company in receivership?

Mr. CLARK. No; I didn't.

Mr. GESELL. How did the company go into receivership?

Mr. CLARK. Mr. Herndon had been made, as I recall it, the chairman of the executive committee.

Mr. GESELL. That is Mr. W. K. Herndon who testified here yesterday?

Mr. CLARK. The same man.

Mr. GESELL. And he was chairman of the executive committee?

Mr. CLARK. As I recall, that is what they called him.

Mr. GESELL. All right, go ahead.

Mr. CLARK. And he became very ill at that time and the man that I had placed in charge there of expenditures had phoned me. I was in Chicago at the time, attending a meeting of the Association of Insurance Commissioners. He phoned me that this bill was about to be paid.

Mr. GESELL. Is that a bill that had been rendered by Mr. Herndon?

Mr. CLARK. It is a bill for \$1,902.32, which he had rendered to Royal Union to pay for his expenses while he was sick.

Mr. GESELL. You mean doctor bills and things of that kind?

Mr. CLARK. Doctor bills, hotels, meals, a trip to Los Angeles to recuperate, for medicines and incidentals, and for nurses.

I called the president of the company and I told him if that bill was allowed and paid, that I would not endeavor any longer to keep the company from receivership, but that I would move myself for receivership.

Mr. GESELL. What happened after that?

Mr. CLARK. They beat me to it.

Mr. GESELL. What do you mean, they beat you to it, Mr. Clark?

Mr. CLARK. I was in Chicago and they asked for a receivership, and they went to the Federal court and asked to have one of their men put in as receiver.

Mr. GESELL. You mean one of the men who had been managing the company?

Mr. CLARK. Yes.

Mr. GESELL. Is that the way it worked out?

Mr. CLARK. No; I went in there and fought it. Under the laws of Iowa the commissioners of insurance shall be the receiver of any defunct life-insurance company, and he shall receive no compensation therefor, and I felt that it was my place and province to be the receiver of that company in case it had to go into receivership, and I went into the Federal court and endeavored to be the receiver. I tried to beat the petition, I tried to beat the case. However, I couldn't do it. I finally was appointed one of the receivers, a coreceiver.

Mr. GESELL. Well, now, against that background I want to discuss with you a little more in detail some of these instances of reinsurance which you discussed. Have you made available to us the various contracts and papers relating to these reinsurance transactions?

Mr. O'CONNELL. Did you intend to go any more in detail as regards the assets of the company at the time it went in receivership?

Mr. GESELL. Yes. My question was, sir, have you made available to us certain papers and contracts relating to these reinsurance deals?

Mr. CLARK. Yes, sir; photostatic copies.

Mr. GESELL. Those are photostatic copies?

Mr. CLARK. Photostatic copies of the original contracts.

Mr. GESELL. How did they come into your possession?

Mr. CLARK. I had them made at the time we made the examination, and I kept them.

Mr. GESELL. Why did you have them made?

Mr. CLARK. I felt that the originals were liable to be withdrawn or disappear.

Mr. GESELL. You mean that the original papers that came into your possession as commissioner would disappear?

Mr. CLARK. A good many of them did.

Mr. GESELL. I don't understand that, Mr. Clark.

Mr. CLARK. Neither did I; but they disappeared, all right.

Mr. GESELL. They did disappear?

Mr. CLARK. Between the time that the judge of the Federal court granted a temporary receiver and the time of the hearing as to whether that should be made permanent, many of the files disappeared from the office.

Mr. GESELL. You mean many of the official files of the Iowa department disappeared?

Mr. CLARK. No; no; no; of the company.

Mr. GESELL. Of the company?

Mr. CLARK. Of the company. No; not of the department. These contracts were not in the department; they were in the files of the company.

Mr. GESELL. And these papers which you had had taken were prepared, I assume at your request, by your various examiners?

Mr. CLARK. Yes.

Mr. GESELL. Well, now, will you tell us how these reinsurance transactions were handled? I understood you to say that favored officers in the company received bonuses or commissions on the contracts. I would like you to amplify that, if you will, and explain a little more just how the reinsurance arrangements were worked out.

Mr. CLARK. I think possibly if I said "officers of the company," I should have said men connected with the company, possibly not officers.

Mr. GESELL. Who were the chief recipients of these special commissions?

Mr. CLARK. Mr. Charles E. Bowers and Mr. F. L. Tucker.

Mr. GESELL. Who was Mr. Bowers?

Mr. CLARK. Bowers was a gentleman who was employed in some capacity by the company as a sort of an assistant to A. C. Tucker.

Mr. GESELL. And who is Mr. F. L. Tucker?

Mr. CLARK. Mr. F. L. Tucker was a brother of A. C. Tucker, and he was likewise employed in various capacities around the company.

Mr. GESELL. And neither Mr. Bowers nor Mr. F. L. Tucker were principal executive officers, is that correct?

Mr. CLARK. No; they were not.

Mr. GESELL. But they were both employed by the company?

Mr. CLARK. You are right.

Mr. GESELL. Were they the two people who received these commissions that you refer to?

Mr. CLARK. Yes.

Mr. GESELL. Will you tell us how that was worked out?

Mr. CLARK. Well, about the time that some company was to be reinsured, the Royal Union Life Insurance Co. would enter into a contract with C. E. Bowers or with F. L. Tucker, in which contract the Royal Union Life Insurance Co. agreed to pay Mr. Bowers or Mr. Tucker a certain percentage of the premium of the new company, not necessarily the new company, but on any transaction.

Mr. GESELL. You mean a certain percentage of the premiums to be received on the policies of the company's reinsured?

Mr. CLARK. Yes.

Mr. GESELL. Very well, you go on from there.

Mr. CLARK. Then about that time there would be a merger of the two companies and Mr. Bowers would be entitled to many thousands of dollars. He would draw this money, he would draw part of it, then as it ran along over a term of years, the company would then pass a resolution of its board to the effect that Mr. Bowers and Mr. Tucker desired their money out of these contracts, and therefore they made a settlement of a lump sum on them.

Mr. GESELL. Oh, you mean that Mr. Bowers' and Mr. Tucker's contracts would provide they would receive a certain percentage of the premium to be paid by the policyholders of the reinsured company?

Mr. CLARK. Right.

Mr. GESELL. And rather than continue to take that percentage as the premiums were paid, Mr. Bowers and Mr. Tucker would settle with the company for a lump-sum payment?

Mr. CLARK. Right.

Mr. GESELL. In what amounts did those lump-sum settlements, so-called, run?

Mr. CLARK. In many instances they ran into large figures. You have a certain statement.

Mr. GESELL. Does this schedule which I show you set out some of those figures?

Mr. CLARK. Yes.

Mr. GESELL. Will you give us some idea of the amounts involved?

Mr. CLARK. In the year 1927 Mr. Bowers received as a salary \$7,800. I never was able to find out what he did for that salary—I or anybody else.

Mr. GESELL. You wouldn't find he did anything else?

Mr. CLARK. No; I had him there, and I asked him.

Mr. GESELL. What did he say?

Mr. CLARK. Oh, he was the handy man.

Then, he billed for expenses for the year 1927, \$11,732.29. And he received as an advance on renewal commissions, along the lines of what I have stated, \$50,250.

Mr. GESELL. That made for him in the year 1927, \$69,782.29.

Mr. CLARK. Right.

Mr. GESELL. What did he receive the next year?

Mr. CLARK. Salary, \$12,000; expenses, \$28,547.26; advance on renewal commissions, \$27,500, making a total of \$66,047.26.

Mr. GESELL. What about the next year?

Mr. CLARK. The year 1929 he received a salary of \$12,000 and a bonus of \$625.

Mr. GESELL. What was that bonus for?

Mr. CLARK. Search me. Expenses, \$9,376.71; and then he settled one of these contracts for \$6,500, making a total of \$28,501.71. That was a poor year.

Mr. GESELL. What was the total amount that Mr. Bowers received during the periods from 1927 through 1931?

Mr. CLARK. \$302,240.80.

Mr. GESELL. What about Mr. F. L. Tucker, the other man that was engaged in this kind of transactions? How much did he receive during that period?

Mr. CLARK. During that period he received \$178,015.80.

Mr. GESELL. Did you make computations to show the total amount of salaries and expenses and payments on reinsurance transactions made to the principal officers, or those principally active in the affairs of the company, during the period from 1927 through 1931?

Mr. CLARK. I did.

Mr. GESELL. What was the total figure?

Mr. CLARK. \$1,219,649.65.

Mr. GESELL. Were those payments of a character which the company could stand, considering its assets and general financial condition?

Mr. CLARK. Well, part of them were all right. There is some part of that that nobody could in any way really condemn, because it was the necessary expenses.

Mr. GESELL. To whom would you say excessive payments had been made, aside from Mr. Bowers and Mr. Frank L. Tucker?

Mr. CLARK. I think the president himself, Mr. A. C. Tucker, for the services he rendered was receiving far in excess of what he should, as he was never there.

Mr. GESELL. What did he receive during the period?

Mr. CLARK. The company was controlled by remote control.

Mr. GESELL. Where was he?

Mr. CLARK. He was in Dallas, Tex., and Los Angeles, Calif.

Mr. GESELL. What did he receive as being the principal executive officer of the company during this period?

Mr. CLARK. \$299,037.13. That is for various expenses and salaries.

Mr. GESELL. On these expenses, was there ever any adequate accounting?

Mr. CLARK. Not what I would term should be an adequate accounting.

Mr. GESELL. Well, let's see, was it adequate within the terms of the Iowa law? Was the accounting for the expenses adequate under the Iowa law, Mr. Clark? Was the method of accounting for the expenses adequate under the Iowa law?

Mr. CLARK. No; it was all wrong under any kind of a law you want to place it.

Mr. GESELL. By the way, how much did this company spend on long-distance telephone calls?

Mr. CLARK. Well, I have forgotten. But this man, the president of the company, would call constantly from Los Angeles and Dallas and other places, and all his telephone bills were reversed and paid by the company.

Mr. GESELL. Did you find those toll bills excessive?

Mr. CLARK. Yes; sometimes as high as \$1,000 a month.

Mr. GESELL. Let me ask you this, Mr. Clark. After one of these companies had been reinsured, did the officers of Royal Union or those promoting it undertake in any way to gather together the rest of the outstanding stock of the company which was being reinsured?

Mr. CLARK. Yes; they would buy it in. They were immediately—well, I have no personal knowledge of that. My understanding is that they would immediately go to the stockholders and tell them what a bad state of affairs their company was in, and so forth.

Mr. GESELL. If you haven't any personal knowledge, all right.

Mr. CLARK. I have no personal knowledge on that; it is all hearsay.

Mr. GESELL. Did you find that some of the stock was bought in by agents of the company?

Mr. CLARK. Yes; I think that some was bought in by agents of the company at the instance of Mr. Tucker and others.

Mr. GESELL. Reading from page 34 of this report, I ask you, under the item "Bills receivable," it states:

A large proportion of this item—
that is an item for \$57,000—

represents money advanced to various agents, the major portion of which is amply secured by the renewal commissions which will eventually accrue to these accounts. The larger portion of these advances were made to agents of A. P. Osborn of Kansas City; R. W. Brooks of Philadelphia, Penna.; J. W. A. Stout of Canton, Ohio; and T. J. Shaw of Pittsburgh, Penna.

About the time of the merger of the Des Moines Life and Annuity Company with the Royal Union Life Insurance Company, at this time these agents purchased considerable stock in the Royal Union and the money so advanced was undoubtedly used for this purpose.

Does that refresh your recollection that moneys were advanced to agents by the company to enable them to purchase into the shares of stock of a company being reinsured by the Royal Union?

Mr. CLARK. Yes. They were told to the effect that there was a merger about to be had, that it would be to their benefit, the benefit of all concerned, if they would buy some stock, and if they didn't have the money they would advance them some money and take it out of the renewal commissions due them.

Mr. GESELL. By the way, did the officers sometimes buy in this stock, too?

Mr. CLARK. That is how Tucker got his stock. He started out with nothing and ended up with \$1,000,000 of it.

Mr. GESELL. Where did the officers get the money to buy the stock?

Mr. CLARK. I don't know. I know some of the practices they would follow.

Mr. GESELL. Will you tell us what some of the practices were?

Mr. CLARK. The surplus of the company was impaired some years before I became commissioner, and just before I did become commissioner I was informed that the company, through the careful buying of good bonds by Mr. Tucker and appreciation in value of these bonds and other securities, had gotten itself into first-class financial condition, and of course I was happy to know that.

But as I dug in and studied, I found that the way that was handled was this: He went into Florida and South Carolina and Texas, and various southern States, and bought many bonds at points considerably below par. Then he put those into his company at par and took the difference and put it into surplus, which on the face of it, in figures, made the company solvent.

Mr. GESELL. And at the same time put money into surplus which he could use to buy stock in other insurance companies?

Mr. CLARK. Well, he didn't do that with that surplus. He would increase the capital of his own company and take it out of surplus. One time he raised the capital from five hundred thousand to a million, and he took it out of such surplus as that. On his own transactions, I found in some instances where he would take an advance on his salary, which was ample for most men to live, and he would buy some of these bonds at the same time that the company bought some bonds. He bought these bonds for his own personal investment, then in about a year the company would pass a resolution: Inasmuch as Mr. Tucker was indebted to it for advances, that these advances be settled and the bonds be accepted at par by the company.

Mr. GESELL. So he would in effect take an advance, let's say of \$10,000, and with a portion of that buy these bonds which were selling below par, sell them to the company at par to cancel out the advance.

Mr. CLARK. Yes; we found that in one instance, and I don't know but what two. You must remember it has been about 6 years now and I am not quite as clear on some of this as I might be.

Mr. GESELL. Did you find that some of the officers received salary increases to enable them to purchase bonds or securities of companies with the difference?

Mr. CLARK. I don't recall.

Mr. GESELL. By the way, was anybody ever prosecuted in connection with this case?

Mr. CLARK. No.

Mr. GESELL. How did that happen? Did you urge prosecution?

Mr. CLARK. I did. I went to the prosecuting attorney, the county attorney of Polk County, and he told me he would be very glad to do anything I felt should be done, provided that I could produce the evidence and show him in a legal manner wherein a crime had been committed. Well, I am not a lawyer. I told him what had been done, and that was all I could do.

At the same time I had my hands full. They were bringing suits against me all the time. I was having quite a time to keep the office chair warm.

Mr. GESELL. You mean this company was suing you?

Mr. CLARK. No; their satellites and outsiders.

Mr. GESELL. Now, Mr. Clark, don't you have in your department, or didn't you have at that time, rather, people who were qualified to examine a situation such as this and determine whether or not a case lay and prepare the evidence and present it to the district attorney, or the county attorney?

Mr. CLARK. No; I didn't think we had anybody. The only person who could have done that would have been the attorney general of the State, an assistant who is assigned to us to represent us.

Mr. GESELL. Did you turn this matter over to him?

Mr. CLARK. He was a pal of theirs.

Mr. GESELL. What do you mean by that?

Mr. CLARK. I mean that he and Herndon and the rest of them were very warm friends, and when there was any action, I had to hire my own lawyers.

Mr. GESELL. From the outside?

Mr. CLARK. From the outside.

Mr. ROSS. Did you ask the attorney general's representative to prosecute the case?

Mr. CLARK. No; I didn't ask him to do anything about it, other than at one time I went to the Governor, now Senator Herring, and explained to him what they were trying to do to me in the Federal court, and told him that I felt it would be a wrong to the policy-holders of the Royal Union to permit it, and I knew I would get no cooperation from the attorney general. I explained to him the facts and he said, "I will see that you get the help that you need," and he called in his attorney general and I did get the help.

Mr. ROSS. But you never actually discussed with him the matter of suing these people?

Mr. CLARK. No; if I started a suit or I tried to do anything of that kind, I wouldn't get anywhere.

Mr. GESELL. What about your fellow commissioners? Weren't they interested in a prosecution of some sort?

Mr. CLARK. They didn't say so. They were with me on the circumstances here and met with me, advised with me, but they felt after all that the company was domiciled in my State and any initiative should be taken by me.

Mr. GESELL. Let me ask you this: Was there any nepotism in the company of any sort?

Mr. CLARK. Well, Mr. Tucker's son was a director, his brother was as stated here before. I don't know of anything else.

MR. GESELL. Did you find that the company was paying extravagant lawyers' fees?

MR. CLARK. Oh, yes.

MR. GESELL. Will you explain that, please, sir?

MR. CLARK. If they thought there was any possible chance of trouble arising, they usually hired attorneys to look after their interest. They retained them. In many instances it was proper, but they already were paying a general attorney for the company \$12,000 a year to handle the situation, and I felt that \$12,000 a year for the average lawyer that I have seen was all he was worth.

MR. GESELL. How did they account for the employing of these other lawyers?

MR. CLARK. They didn't try to account for it.

MR. GESELL. Were these lawyers in different States?

MR. CLARK. No; they were right there in Des Moines.

MR. GESELL. Have you an explanation as to why—

MR. CLARK (interposing). When I say they were right there in Des Moines, these that I have a record here before me are from Des Moines, but they likewise employed counsel at various other places.

MR. GESELL. Did you go into these cases of employment of counsel to determine whether or not services had been rendered for the amount paid them?

MR. CLARK. I know there were services, but they weren't worth what they were getting by a long way.

MR. GESELL. It seems to me pretty much of an opinion unless you went into it some and analyzed it.

MR. CLARK. For instance, the normal place for the executive, the managing executive, at least, to live would be where the company is domiciled. If he wants to see his lawyer then, he can go to his office or have the lawyer come to his office. Instead of that, Mr. Tucker would be in Dallas or Los Angeles, and he would call some other attorney, not the company's counsel, you understand, but some other attorney, who would go to talk to him about affairs, nobody knows what, but that counsel seemed to charge the standard price of \$100 a day, plus expenses, which, in the aggregate, amounted to considerable and was all unnecessary.

MR. GESELL. I would like to discuss with you a little more this investment side of the company's situation. Coming back to that Ceres Holding Co. a moment, was that company organized by anyone connected with Royal Union?

MR. CLARK. I think possibly if I would read it, it would tell you as much as anything else.

MR. GESELL. Certainly; refresh your recollection in any way you wish.

MR. CLARK (reading):

The Ceres Holding Company represented a common law trust which had been made on February 12, 1925, with C. E. Bowers and F. L. Tucker as trustees, all properties owned by the Ceres Holding Company.

I might say this land was acquired prior to the time Tucker had anything to do with the company, while it was yet the Royal Union Mutual and was officered by what we term the Jackson boys. They had gone out and bought a large number of acres of South Dakota land, known as the Mule Head ranch and others, and they had car-

ried it just as long as anybody would permit it to be carried, and when the Royal Union Life Insurance Co. was organized, they evidently thought they could get around this, which they did, by the way, and they organized this Ceres Holding Co.

Mr. GESELL. You mean the Mule Head ranch and other properties were in the portfolio of the Royal Union?

Mr. CLARK. The Mutual at the time the Royal Union took it over.

Mr. GESELL. And since that was real estate and not mortgages, and they didn't want to hold it too long in the portfolio, they transferred it to the holding company.

Mr. CLARK. Right.

Mr. GESELL. And the holding company would give them back a mortgage on the property?

Mr. CLARK. Various mortgages on various pieces.

The VICE CHAIRMAN. At the time that the Royal Union reinsured the Mutual Co. to which he is referring, was Mr. Tucker the head of the Royal Union?

Mr. CLARK. No; I think Mr. Jackson and the Jackson boys were running it.

Mr. GESELL. You are speaking of the Royal Union Mutual?

Mr. CLARK. Yes; and the State Life, of which Tucker was the head, took over the Royal Union Mutual, put them together and then organized the Royal Union Life, of which Tucker became the head.

The VICE CHAIRMAN. But Mr. Tucker's company, State Life, acquired these properties at the time of that merger?

Mr. CLARK. Yes; they came along as part of the portfolio of the Royal Union Mutual. He had nothing to do whatsoever with the original transactions whereby the land was obtained.

The VICE CHAIRMAN. I understand, but he acquired it, of course, when he took over that company?

Mr. CLARK. Yes; the company itself was insolvent at that time.

Mr. GESELL. When was that?

Mr. CLARK. The Mutual? I think that was along about 19—I don't know.

Mr. GESELL. Our records show the Royal Union Mutual Life Insurance Co. merged with the State Life way back in 1924.

Mr. CLARK. That was the time, then.

Mr. GESELL. Do you mean to say this company had been insolvent from '24 up to the time of its failure?

Mr. CLARK. The Royal Union Mutual was insolvent when they took it over because of this stuff that they had in their portfolios.

Mr. GESELL. What was the condition of the Royal Union itself at that time?

Mr. CLARK. There was no other Royal Union than the Royal Union Mutual at that time. The State Life took it over and they called the new organization Royal Union Life Insurance Co.

Mr. GESELL. Was the State Life in good condition at that time?

Mr. CLARK. As far as I know.

The VICE CHAIRMAN. It was in worse condition after it took over the Mutual Co. than it was before.

Mr. CLARK. Yes, it was much worse; if you can differentiate between the state of decay between two rotten eggs.

Mr. GESELL. Was it a question of state of decay between two rotten eggs way back in 1924?

Mr. CLARK. Well, they had taken over many companies in which there was a question as to their assets. The State Life took over a number of companies that were in trouble. They would permit officers' salaries to run on for a term of years, maybe 10. Many large amounts were paid out like this to people who did not really render a service.

Mr. GESELL. Now, coming to these investments, I want to get clear what happened. How much property went into the Ceres Holding Co. after they organized this arrangement?

Mr. CLARK. I don't know. I haven't studied this. It was a large amount; \$1,993,102 was the amount of mortgages of the Ceres Holding Co.

Mr. GESELL. That they gave to the Royal Union?

Mr. CLARK. That was held by them at the time of this examination.

Mr. GESELL. And those transactions that resulted in that amount of mortgages were to evade the Iowa law.

Mr. CLARK. It was for the purpose apparently of placing the company in a solvent condition, which it was not.

Mr. GESELL. The other part of that investment picture I wanted to discuss with you was the purchase of these bonds, southern bonds. Were they real-estate bonds that they furnished from the South?

Mr. CLARK. No; they were usually municipal bonds, school bonds.

Mr. GESELL. Were they selling at par?

Mr. CLARK. No; they were selling below par.

Mr. GESELL. And after they had purchased them, they would take them into the portfolio at par, is that correct?

Mr. CLARK. That is right.

Mr. GESELL. And what would they do with the difference?

Mr. CLARK. Put it into surplus.

Mr. ROSS. What would they do with the payment on the interest of the bonds? Would that be credited into reserve?

Mr. CLARK. That was credited into earnings, just like any investment, returns from any investment.

Mr. GESELL. Am I correct in saying that at the time of your examination, some 78 percent of the portfolio of the company consisted of securities which they had purchased in this manner?

Mr. CLARK. Yes, sir. Seventy eight or nine percent consisted of southern bonds.

Mr. GESELL. Which they had picked up below par and taken into their portfolio at par?

Mr. CLARK. I think the great portion of it was and possibly all of it.

Mr. GESELL. Now, coming to a slightly different subject for a second, were there any rewriting contracts entered into in connection with these various reinsurance deals in the Royal Union?

Mr. CLARK. I don't think there were.

Mr. GESELL. While you were commissioner, were you called upon to pass upon any rewriting transactions?

Mr. CLARK. Yes.

Mr. GESELL. How many?

Mr. CLARK. I think only one.

Mr. GESELL. What one was that?

Mr. CLARK. I have been trying to remember what one that was. As I recall it now, it was some company, not down in Iowa, but which did business in Iowa and had failed in some other State, and they had

entered into a contract with one of these rewriting companies to rewrite the business, and they wanted to come into Iowa to rewrite that Iowa business. As I recall it, the company was taken over by the Central of Illinois, and the attorneys for this rewriting company asked permission and licensing of its agent to come in, which I refused.

Mr. GESELL. Who was the rewriting agent?

Mr. CLARK. Herbert Shimp.

Mr. GESELL. And who was representing him?

Mr. CLARK. Henning & Baker.

Mr. GESELL. E. H. Henning.

Mr. CLARK. Henning & Baker are the attorneys.

Mr. GESELL. Is that the Baker who was a former insurand commissioner for the State of Kansas?

Mr. CLARK. Yes.

Mr. GESELL. And they were representing Mr. Shimp? Did they come to see you?

Mr. CLARK. Mr. Henning did the first time.

Mr. GESELL. Can you tell us what conversation took place?

Mr. CLARK. Mr. Henning first contacted the actuary and the actuary brought him up to me, and I listened to him and told him I did not believe it was to the best interests of Iowa policyholders to give him permission to come into Iowa and I refused him and he argued for some time about it and I still turned it down. Then, a little later, he was back again, and he again was refused permission on the grounds that it was what I considered a racket on the insurance policyholders of that company. His argument was to the effect that I was mistaken about that, that some other company would go in there and persuade these men that the company was in receivership, that is the policyholders, and that it would be better for their interests to surrender that policy and then take out a policy in the agent's company that was soliciting them.

I had told him I thought possibly that might happen, but nevertheless I did not believe it was the proper thing to allow these rewriters to come and rewrite the business, and I again refused to let him.

He came a third time and brought several people with him, I have forgotten just whom now, but among them was the actuary for the company. I don't know whether Baker came along with him or not, but any way, there were several of them, and I again refused him and told him I was tired of his coming there, that I wasn't going to permit him to rewrite those policyholders.

He came a fourth time, and he brought several influential men along with him, and again argued the matter out with me and I said, "I don't want to hear any more of this stuff and you can get out of my office and stay out." And they got out and stayed out.

Mr. GESELL. What happened after that?

Mr. CLARK. Well, I presume they went in and rewrote a lot of them anyway without authority.

Mr. GESELL. Do you know that, Mr. Clark?

Mr. CLARK. I know it was rewritten.

Mr. GESELL. Did you ever give your authority for it?

Mr. CLARK. I never did. Mr. Shimp came out to see me and wanted to know just what the matter was between us. I said, "There is absolutely nothing as far as I am concerned. I haven't anything but a

friendly feeling toward you. I don't know you, but I don't like the idea of the rewriting of these policies. I don't think it is right, I don't think it is to the best interest of the policyholders," and I refused to change my position.

Mr. GESELL. Were any other steps taken to force you into approving the contract?

Mr. CLARK. No; not to force me to approve it.

Mr. GESELL. I gathered there were some steps taken of some sort, what were they?

Mr. CLARK. They joined in several suits to oust me. Mr. Baker filed with the Governor of the State a statement to the effect that I was hard to work with, that I could not see eye to eye with the best interest of insurance, and that my appointment was illegal because of certain steps, and the Governor of the State summoned me to appear before the executive council.

Mr. GESELL. What happened as the result of that?

Mr. CLARK. I brought a suit against them, enjoined them from bringing me before them or hearing anything pertaining to the matter. And they stopped my pay, and I worked 9 months for nothing, and brought another suit against them to make them pay me. All this time I was quarreling with the rest of these men on this set-up that you have seen, and all the little hangers-on were sniping, snapping, biting, one thing or another, but I won those suits.

Mr. GESELL. And you say the action to dismiss you was brought about on a complaint of Mr. Baker, whom you had turned down on this reinsurance contract?

Mr. CLARK. Whose firm I had; yes.

Mr. GESELL. I have no further questions of this witness.

The VICE CHAIRMAN. Mr. Clark, in listening to these transactions, it appears to me that almost invariably, at least in cases which we have heard here, the merger or reinsurance deal usually leaves the reinsuring company worse off as far as the company and the policyholders are concerned than was the case before the merger. That is usually so, is it not?

Mr. CLARK. No; I can't say it is always so. Frequently it isn't so, if it is an honest reinsurance contract and properly done, I think it is all right. But this wasn't an honest proposition.

The VICE CHAIRMAN. But if the firm being reinsured is in financial difficulties or is insolvent, it would necessarily follow that the company reinsuring comes out of the deal worse off than it went in.

Mr. CLARK. Not necessarily; and I will tell you why. There is considerable earnings in a life-insurance company. The average life-insurance company can work itself out of a considerable hole if they will be economical and careful in its management.

The VICE CHAIRMAN. I mean at the time of the reinsurance, if the reinsured company is in fact insolvent at the time of the reinsurance, the reinsuring company is necessarily at that point worse off than it was before. It has the obligations of the reinsured company and it hasn't sufficient assets to meet them.

Mr. CLARK. Well, I am not prepared to say that that is an exact fact, and I will try and explain why. Let's assume in the case of the Royal Union itself, it was taken over by the Lincoln National Life. On the face of it one would think that if the Lincoln National Life took over the Royal Union, it must necessarily affect the policy-

holders of the Lincoln National Life. But there is a great deal of profit to be made out of the business of the Royal Union. They put this 50-percent lien on there and did so in this particular instance.

Mr. GESELL. You mean they cut the interest of the policyholders just in half?

Mr. CLARK. No; they cut the reserve behind the policies in half; that is, they put a mortgage on it, if you want to call it that, or a lien. But they agreed in their contract that if a person died before 1942, or 1943, I think it was a 10-year period, that they would pay the assured in full. Now, in the meantime, these assets are earning money. There is a way that an insurance company earns money, and that is the saving of expenses, for instance. In this instance there was enough saving of expense to nearly make up that deficit over a period of years. Then there was the earning, the excess earning, over the required 3 percent of the securities in its portfolio, and then there is the saving on the loading for expenses and on the mortality savings. Now, eventually that ought to work itself out within 10 years and then the Lincoln National Life and its policyholders had the advantage of all that saving and of the new earnings of the company.

The VICE CHAIRMAN. But is that usually possible?

Mr. CLARK. That is usual. When it is honestly worked out and taken care of, that is the result.

The VICE CHAIRMAN. According to the stories that we have been hearing, though, of the experience of the companies which reinsure other companies, it seems they grow larger and larger and grow worse and worse.

Mr. CLARK. Yes; it's just been a racket with a lot of them. It's just been a racket with a lot of them. They cared nothing about anything but the money they could pull out of these people who were saving up for their death.

The VICE CHAIRMAN. Now, let me ask you what did the Iowa Insurance Department do about that? What function had they in connection with these transactions? They can approve or disapprove a contract.

Mr. CLARK. Usually, these things are not known. The only way that they would find it out is to go into it and find this out. I wouldn't approve a contract of this kind.

The VICE CHAIRMAN. Shouldn't the Iowa department and the other departments know about these deals?

Mr. CLARK. Certainly they should.

The VICE CHAIRMAN. They didn't seem to pay much attention to it.

Mr. CLARK. I don't know why they shouldn't. They probably thought it was for the best interests of the company.

The VICE CHAIRMAN. If they looked at all. I'm curious to know how much the State insurance departments have been in the habit of doing in the way of scrutinizing these transactions.

Mr. CLARK. Well, I have thought that as a general rule, from what I have observed, that it is the desire of every insurance commission or of the State to do the very best he can for the policyholders and for the companies. I haven't found many of them that I thought were otherwise inclined. There are some of them that have been a little weaker and there are some of them where politics played in pretty strong.

Mr. GESELL. How many times had this company been examined prior to the time you came in, by the Iowa department?

Mr. CLARK. I think for 32 years.

Mr. GESELL. Now, many of these transactions went back well into the period of these examinations. How do you account for the fact that nothing was revealed?

Mr. CLARK. Well, perhaps the short examination didn't permit it. I am not in any way defending what had been done, though. I think that was a wrong proposition and that is why I took it up as soon as I came in.

The VICE CHAIRMAN. This is a shocking condition.

Mr. CLARK. Yes; it is.

The VICE CHAIRMAN. It has apparently been done and done and done.

Mr. CLARK. It is a condition that is terrible and that is the reason I moved on it as quickly as I could. In order for any public officer to function, you know as well as I know he must have the one who appoints him behind him in order to properly function because just as quickly as he starts to do business and he runs contrary to certain interests, it has a contrary effect on certain people and they run to the Governor, whoever the appointive power is, and say, "Her, your man is all wrong, he is crazy, you had better kick him out, he's no good, he's crooked, incompetent."

The VICE CHAIRMAN. You could have the best will in the world and even if you desire to do what you should and you don't have cooperation from the people that should cooperate with you, everything you try to do can be completely nullified.

Mr. CLARK. You are right up against a stone wall in every turn that you make. I had it the first year, the first term, very well. And then during the second term, the latter part, after the new Governor found that the things they were whispering in his ears were not true, he called me in and he cooperated with me from that time on and I had no trouble. We happened to be of different party faith, and after he found it was not a political racket with me but it was honest, he said he was with me from that time on.

The VICE CHAIRMAN. Are you through with the witness, Mr. Gesell?

Mr. GESELL. Yes; I am through.

The VICE CHAIRMAN. Thank you very much.

Mr. CLARK. As my friend Mr. Herndon said yesterday, may I go home for good now?

The VICE CHAIRMAN. You may go home.

Mr. GESELL. If the committee please, we have no further witnesses to call at this time.

Before adjourning, however, I should like to insert in the record a copy of an address by Mr. George S. Van Schaick, former superintendent of insurance of the State of New York, and presently vice president of the New York Life. While Mr. Van Schaick was superintendent of insurance he delivered an address before the sixty-fourth annual meeting of the National Convention of Insurance Commissioners entitled "Interstate Liquidations—a National Problem." This address focused attention on still another phase of the problems which we have been considering generally during the last few days. Mr. Van Schaick has authorized me to say that the views expressed by him

in the course of his speech remain his present views. The speech is printed at page 107 of the 1933 proceedings of the National Convention of Insurance Commissioners.

The VICE CHAIRMAN. It will be received and printed in the record.

(The speech referred to was marked "Exhibit No. 1348-9" and is included in the appendix on p. 7026.)

Mr. GESELL. I should also like to introduce in this same connection an extract from the seventy-sixth annual report of the Superintendent of Insurance to the Legislature of the State of New York, dated December 31, 1934, relating to the proceedings involving delinquent companies doing extensive interstate business.

The VICE CHAIRMAN. That will be inserted in the record.

(The excerpt referred to was marked "Exhibit No. 1348-10" and is included in the appendix on p. 7030.)

Mr. GESELL. For the information of the committee, I might say in passing that Mr. Van Schaick suggests in his speech an amendment to the Federal Bankruptcy Act to permit a more uniform liquidation and reorganization of insurance companies doing a Nation-wide business in the event of their failure. As an alternative, he proposed the adoption of uniform State laws. The insurance commissioners' convention, following his address, appointed a committee on interstate liquidations and reorganizations. The proceedings of the National Convention of Insurance Commissioners, pages 96 to 98, contain the report of this special committee rendered in 1935. The committee recommended the adoption of a uniform State law as opposed to an amendment of the Federal Bankruptcy Act. The following year, as disclosed at pages 29 to 33 of the proceedings of the association, the terms of the proposed uniform State law were announced. That this law has not been widely adopted, however, is indicated on page 25 of the proceedings of the National Convention of Insurance Commissioners for the year 1939, at which time it is reported that "unfortunately only a few of the States have enacted this law, New York, Indiana, California, Vermont, and Michigan."

The VICE CHAIRMAN. The committee will stand in recess until 10:30 a. m. Wednesday next.

(Whereupon, at 3:30 p. m., an adjournment was taken until Wednesday, December 20, 1939, at 10:30 a. m.)

INVESTIGATION OF CONCENTRATION OF ECONOMIC POWER

WEDNESDAY, DECEMBER 20, 1939

UNITED STATES SENATE,
SUBCOMMITTEE OF THE TEMPORARY
NATIONAL ECONOMIC COMMITTEE,
Washington, D. C.

The subcommittee met at 10:45 a. m., pursuant to adjournment on Friday, December 15, 1939, in room 357, Senate Office Building, Joseph J. O'Connell, presiding.

Present: Messrs. O'Connell (vice chairman), and Brackett.

Present also: Senator King, Harry J. Daniels, representing the Department of Commerce; Gerhard A. Gesell, Special Counsel, Arthur J. Leary, investigator, Securities and Exchange Commission.

The VICE CHAIRMAN. The committee will come to order. Mr. Gesell, are you ready to proceed?

Mr. GESELL. I am. Mr. Henning, one of the counsel for the company before us, had to step out of the room.

The VICE CHAIRMAN. He is the first witness?

Mr. GESELL. He is one of the counsel and an officer of the company. I think we had best not proceed without him.

The VICE CHAIRMAN. Let us call the witness and swear him.

Will you hold up your right hand? Do you solemnly swear the testimony you are about to give in this proceeding will be the truth, the whole truth, and nothing but the truth, so help you God?

Mr. WOODS. Yes, sir.

(A recess was taken until 11:15 o'clock.)

Mr. GESELL. If the committee please, we have waited half an hour for Mr. Henning to make his phone call. Apparently something else has delayed him. I think we had better start, and Mr. Henning will probably be in shortly.

REINSURANCE AND REWRITING—ILLINOIS BANKERS LIFE ASSURANCE CO.

TESTIMONY OF WILLIAM H. WOODS, FORMER PRESIDENT, ILLINOIS BANKERS LIFE ASSURANCE CO. AND ILLINOIS BANKERS LIFE ASSOCIATION, MONMOUTH, ILL.

HISTORY OF ILLINOIS BANKERS LIFE ASSOCIATION

Mr. GESELL. What is your full name, sir, please?

Mr. WOODS. William H. Woods.

Mr. GESELL. And where do you reside?

Mr. WOODS. Monmouth, Ill.

Mr. GESELL. Mr. Woods, you were formerly an officer of the Illinois Bankers Life Association, were you not?

Mr. WOODS. Yes, sir.

Mr. GESELL. And you were also at one time an officer of the Illinois Bankers Life Assurance Co?

Mr. WOODS. Yes, sir.

Mr. GESELL. Both those companies had their home office in Monmouth, Ill., did they not?

Mr. WOODS. Yes, sir.

Mr. GESELL. When did you join the association?

Mr. WOODS. 1903.

Mr. GESELL. In what capacity?

Mr. WOODS. As president.

Mr. GESELL. And how long were you with the association?

Mr. WOODS. Until 1929.

Mr. GESELL. It was an assessment company, was it not?

Mr. WOODS. Yes, sir.

Mr. GESELL. Will you tell us a little more about its method of operation, what is meant by an assessment company?

Mr. WOODS. I don't know just what terms you would use, but the provisions in those associations were that if your rates were inadequate, you could increase your rates. It was a policyholders' company.

Mr. GESELL. The trustees were elected by the policyholders?

Mr. WOODS. Yes, sir.

Mr. GESELL. And in turn the trustees elected the officers?

Mr. WOODS. Yes, sir.

Mr. GESELL. There was no legal reserve as such?

Mr. WOODS. No, sir.

Mr. GESELL. In the assessment company?

Mr. WOODS. No, sir.

Mr. GESELL. And the rates or premiums charged the policyholders could be increased if it appeared desirable to do so in the interests of good management?

Mr. WOODS. Yes, sir.

Mr. GESELL. When had the association been formed?

Mr. WOODS. In 1897.

Mr. GESELL. And you came, I believe you said, in 1903?

Mr. WOODS. Yes, sir.

Mr. GESELL. In 1929 the business of the association was reinsured by a company known as the Illinois Bankers Life Assurance Co., was it not?

Mr. WOODS. Yes, sir.

Mr. GESELL. Were you an officer of the life assurance company?

Mr. WOODS. Yes, sir.

Mr. GESELL. What office did you hold there?

Mr. WOODS. President.

Mr. GESELL. How long did you remain as president of the Illinois Bankers Life Assurance Co.?

Mr. WOODS. Until February 1938.

Mr. GESELL. February 1938?

Mr. WOODS. Until March—until March 14, 1938.

The VICE CHAIRMAN. When did you become president of that company?

Mr. WOODS. 1929.

Mr. GESELL. So that when the business was reinsured, you went from the association, the assessment company, to the new company?

Mr. WOODS. Yes, sir.

Mr. GESELL. Now the new company was a stock company, was it not?

Mr. WOODS. Yes, sir.

Mr. GESELL. It conducted business on a legal-reserve basis?

Mr. WOODS. Yes, sir.

Mr. GESELL. Was the Illinois Bankers Life Assurance Co., which I will call the stock company so we understand, incorporated in Illinois?

Mr. WOODS. Yes, sir.

Mr. GESELL. Do you recall who the other officers of the company were?

Mr. WOODS. Well, Dr. J. B. Ebersole was vice president; A. T. Sawyer was secretary; and Hugh T. Martin was general counsel.

Mr. GESELL. Hugh T. Martin, that is?

Mr. WOODS. Yes.

Mr. GESELL. Had those gentlemen been interested in the assessment company?

Mr. WOODS. No—yes. Dr. Ebersole and Mr. Sawyer had been.

Mr. GESELL. In 1929 you and Mr. Ebersole and Mr. Martin and Mr. Work and Mr. Sawyer were all directors of the assessment company, were you not?

Mr. WOODS. Yes.

Mr. GESELL. And you gentlemen, following the formation of the stock company, were all directors of the stock company?

Mr. WOODS. Yes, sir.

Mr. GESELL. I would like to offer for the record at this time a schedule showing the directors of the assessment company from 1925 to 1929. This schedule was prepared and furnished to the Commission by the Illinois Bankers Life Assurance Co.

The VICE CHAIRMAN. Subject to correction.

Mr. BECKER. Not if it is the one we gave you.

Mr. GESELL. Let me show it to Mr. Becker.

Mr. BECKER. What number has it been given?

Mr. HEFLIN. 1348-11.

The VICE CHAIRMAN. I will accept it.

(The schedule referred to was marked "Exhibit No. 1348-11" and is included in the appendix on p. 7031.)

Mr. GESELL. I should like to offer for the record at this time a schedule of the directors of the stock company for each year from 1929 to 1938. This schedule was also furnished us by the—

The VICE CHAIRMAN (interposing). That will also be admitted on the same basis.

(The schedule referred to was marked "Exhibit No. 1348-12" and is included in the appendix on p. 7032.)

Mr. GESELL. Coming back to the assessment company and your connection with it Mr. Woods, you were active president of the company and familiar with the affairs of the company from day to day?

Mr. WOODS. Yes, sir.

Mr. GESELL. What had been your business before you joined the assessment company?

Mr. WOODS. I had been in the banking business and farm-mortgage business.

Mr. GESELL. How did you happen to be made president of the assessment company?

Mr. WOODS. For lack of other material, I guess.

Mr. GESELL. How were you elected a trustee first of all? That was the start, wasn't it? Did you collect proxies on your behalf or were you nominated by the existing management?

Mr. WOODS. I just couldn't answer that question definitely. I think I was elected by the policyholders.

Mr. GESELL. Your name was put up by the then management?

Mr. WOODS. I think so. That has been a long time ago. I think so.

Mr. GESELL. Was it the usual practice for the trustees to be in turn the officers of the company?

Mr. WOODS. Yes.

Mr. GESELL. They, in other words, appointed themselves the officers?

Mr. WOODS. Yes.

Mr. GESELL. Now, what type of policies did the assessment company sell?

Mr. WOODS. Well, they sold the regular straight life insurance.

Mr. GESELL. Whole-life policies?

Mr. WOODS. Yes.

Mr. GESELL. Any endowment policies?

Mr. WOODS. No.

Mr. GESELL. Any 20-pay-life policies or straight life?

Mr. WOODS. In later years they did but found that that was a mistake.

Mr. GESELL. How big was the company when you came with it?

Mr. WOODS. \$48,000 of cash assets and about 2 million of insurance in force.

Mr. GESELL. In 1929, when the company was reinsured in the stock company, what were its assets?

Mr. WOODS. Well, it was approximately between seven and eight million, as I recollect. I didn't get those figures but I think that is approximate.

Mr. GESELL. About seven or eight million?

Mr. WOODS. Yes.

Mr. GESELL. And how much insurance in force was there at that time?

Mr. WOODS. I think about 110 million.

Mr. GESELL. After that the company continued to grow, did it not?

Mr. WOODS. After?

Mr. GESELL. After the stock company was formed, the amount of insurance assets grew?

Mr. WOODS. Yes.

Mr. GESELL. What were the assets of the company at the time you left it in 1938?

Mr. WOODS. Well, it was about 30 million.

Mr. GESELL. About how much insurance was there in force? It was around 110 million, was it not?

Mr. WOODS. I think about that figure.

The VICE CHAIRMAN. That was the same figure given in 1929, was it not?

Mr. GESELL. I have here a schedule which the Commission's staff prepared, showing for each year, from 1925 to 1938, the admitted assets of either of the association or the assurance company, the amount of insurance written in each year, and the amount of insurance in force at the end of the year. I think perhaps that will give a little more accurately the figures which Mr. Woods has approximated in his testimony.

The VICE CHAIRMAN. That will be admitted.

(The schedule referred to was marked "Exhibit No. 1348-13" and is included in the appendix on p. 7032.)

Mr. GESELL. This exhibit shows at the end of 1928 the admitted assets were \$7,378,000 and the insurance in force \$109,361,000. At the end of '38, the assets were 27½ million, approximately; the insurance in force, \$110,000,000, or close to \$111,000,000.

Now, how many States did the company operate in at the time you left it? Was it about 16?

Mr. WOODS. About that; yes.

Mr. GESELL. Can you name the principal States in which it operated?

Mr. WOODS. I can name some of them.

Mr. GESELL. If you would, please.

Mr. WOODS. Illinois, Indiana, Kansas, Texas, Oklahoma, Iowa. I don't think we were in Michigan at that time. I don't believe we were.

Mr. GESELL. About 16 States?

Mr. WOODS. Yes. I don't know about Missouri.

Mr. GESELL. Had the stock company during the time you were with it and subsequent to 1929 reinsured several companies?

Mr. WOODS. Yes.

Mr. GESELL. Do you recall if it reinsured the Abraham Lincoln Life in June of 1919? That would be the association.

Mr. WOODS. Not in 1919.

Mr. GESELL. It was in '35, wasn't it?

Mr. WOODS. Yes; about that.

Mr. GESELL. They also reinsured the Northwestern Union Life and Our Home Life Insurance Co., did they not?

Mr. WOODS. Yes; at about the same time.

Mr. GESELL. Between 1919 and 1924 I believe at that time the officers of the assessment company began to give some consideration to the desirability of either reinsuring the company with some other company, or putting it on a legal-reserve basis. Is that correct?

Mr. WOODS. Yes, sir.

Mr. GESELL. Can you tell us the considerations that prompted the trustees to reach that decision?

Mr. WOODS. It was inadequate rates.

Mr. GESELL. Will you explain that a little more fully, please?

Mr. WOODS. We were urged by some State departments and the experience on other companies—for instance, the Bankers Life of Des Moines, after which our company was formed, and the Guarantee Fund of Omaha, were practically on the same plan, practically the same rates—and we were pretty thoroughly convinced that our rates were not adequate.

Mr. GESELL. Under your form of doing business, you could have made a different assessment, could you not?

Mr. WOODS. Yes, sir.

Mr. GESELL. Why did you not undertake that approach to it?

Mr. WOODS. Because we thought it was adverse to the best interests of the policyholders.

Mr. GESELL. Did you feel that it might result in the lapsing of a considerable amount of business?

Mr. WOODS. Yes, sir.

Mr. GESELL. Was the condition of the company such as to make that assessment a rather large one? Do you have any estimates as to how great it would be?

Mr. WOODS. No; we did not.

Mr. GESELL. What was the first plan considered by the officers with respect to meeting this situation?

Mr. WOODS. I don't remember. We had so many different propositions on that thing. I couldn't tell you.

Mr. GESELL. Do you recall entering into some negotiations with the representatives of the International Life Insurance Co.?

Mr. WOODS. Yes, sir.

Mr. GESELL. Will you tell us about those negotiations?

Mr. WOODS. Well, I don't know that I can. That has been a long time ago. That was done very largely—the correspondence and work of that proposition was handled by our secretary, Mr. Work.

Mr. GESELL. Mr. Work is dead, is he not?

Mr. WOODS. Yes, sir. And this was a proposition on that, but nothing ever came of it.

Mr. GESELL. The International Life had indicated a willingness to enter into a contract to reinsure the business of the assessment company, had it not?

Mr. WOODS. Yes, sir.

Mr. GESELL. As part of that contract, was it provided that the trustees of the assessment company would be given some interest in the reinsurance contract?

Mr. WOODS. No, sir; not to my recollection.

Mr. GESELL. Any guaranty of salary or a participation in the commissions?

Mr. WOODS. No. As I recollect it, there was a proposition made to buy the interest in the company. That has been a long time ago, and it is very hard to remember.

Mr. GESELL. Did you recall ever having seen this document which I show you now, being a rough draft No. 4, dated April 10, 1924, of a proposed reinsurance contract between the International Life and the Illinois Bankers Life Association?

Mr. WOODS. I expect I saw it. Yes, sir.

Mr. GESELL. May I direct your attention, Mr. Woods, to page 24, section 8, of the agreement, the proposed agreement, where in it is stated

It is recognized by the Association, and it has been advised by competent actuaries after full investigations, that the integrity of the insurance granted by the outstanding policies can be best preserved and that its members will secure greater protection than they now have, if the policies of said Association are reinsured in a legal-reserve company. The company recognizes that the essence of the value hereof, to wit, is the persistence of the members of the Association in continuing to maintain their insurance, after they shall be reinsured hereby,

and that to secure this persistency, it is important that it shall have the good will and cooperation of the directors of the Association, or a majority of them, in inducing members to continue their insurance under the provisions of said contract, for which good will and cooperation the company has agreed to pay, and hereby agrees to pay to the directors of the Association, or to such of said directors who shall so cooperate, an aggregate sum equal to twenty percent of the amounts to be paid to the company on each policy under the second anniversary thereof following the final departmental approval hereof, and three percent of all sums thereafter paid to the company as premiums by each reinsured member until he has paid five annual premiums.

Mr. WOODS. I don't remember a thing about that provision, but I conclude it was there.

Mr. GESELL. I beg your pardon?

Mr. WOODS. I conclude it was there.

Mr. GESELL. That throws some light on my previous question as to whether or not there was some arrangement which included some compensation to the directors or trustee.

Mr. WOODS. Yes, sir.

Mr. GESELL. Do you remember any discussions about that?

Mr. WOODS. I do not.

Mr. GESELL. Were you in favor of this contract, Mr. Wood?

Mr. WOODS. Well, I think I was.

Mr. GESELL. You were familiar with its terms at the time?

Mr. WOODS. I conclude so; yes.

Mr. GESELL. You have no recollection now, however, with respect to that provision?

Mr. WOODS. No, sir; I have not.

Mr. GESELL. Well, now, you say there were many proposals made to you at or about this time. Is that correct?

Mr. WOODS. That, and after that.

Mr. GESELL. And can you tell us whether it was customary for those proposals to include some arrangement, or at least some discussion of the personal advantages which might accrue to the officers of the association in entering into the contract?

Mr. WOODS. Yes, sir.

Mr. GESELL. Were there such considerations in many of the contracts proposed?

Mr. WOODS. There were not contracts. Oh, I suppose they were brokers of that sort of thing that suggested those contracts.

Mr. GESELL. And was some inducement offered by these brokers to the officers of the association for entering into the particular reinsurance agreement or proposal presented?

Mr. WOODS. I think there was.

Mr. GESELL. Can you recall any specific instance of that, Mr. Woods?

Mr. WOODS. No, sir; I don't, except one.

Mr. GESELL. Which one was that?

Mr. WOODS. There was no contract at all suggested on that, only that there was a fellow there from New York that offered a proposition of \$750,000 for the directors if we would turn the company over to them. That is the only definite proposition, but there was no detail.

Mr. GESELL. What was that man's name; do you recall?

Mr. WOODS. No, sir; I do not.

Mr. GESELL. Did the officers and directors of the company agree to enter into that arrangement?

Mr. WOODS. Nobody knew it but me, so far as I know.

Mr. GESELL. That proposal was made to you?

Mr. WOODS. I gave no consideration to it whatever.

Mr. GESELL. You turned them down?

Mr. WOODS. Yes, sir.

Mr. GESELL. Had the officers of the company decided as a matter of policy that they would not seek a contract which would give them any personal advantage?

Mr. WOODS. No, sir.

Mr. GESELL. Were they seeking a contract which would in fact give them some such advantage?

Mr. WOODS. Well, I wouldn't say they were seeking those contracts. You didn't need to. Those propositions came voluntarily, very largely.

Mr. GESELL. Were they willing to enter into such an agreement?

Mr. WOODS. On a legal-reserve basis; yes.

Mr. GESELL. That if you could get some type of contract which you felt was equitable to the policyholders which would reinsure the business in a legal-reserve company, you and your fellow trustees were willing to have as part of that agreement a provision which would give you some personal advantage?

Mr. WOODS. Yes, sir.

Mr. GESELL. On what basis was that justified, Mr. Woods? You gentlemen were trustees, were you not?

Mr. WOODS. Yes.

Mr. GESELL. It was a semimutual, in fact, a mutual company?

Mr. WOODS. It didn't affect the policy contract in the least. It was not detrimental to the policyholder as far as that is concerned.

Mr. GESELL. They would have had adequate reserves and adequate protection?

Mr. WOODS. As much so as without it.

Mr. GESELL. On the other hand, you gentlemen had no financial stake in the company, did you?¹

Mr. WOODS. No.¹

Mr. GESELL. You put no money—

Mr. WOODS. We put our life's work into it.

Mr. GESELL. But you had no financial interest?

Mr. WOODS. No, sir.

Mr. GESELL. And you felt that if as part of the bargain you could get some personal compensation for reinsuring the company, it was perfectly proper?

Mr. WOODS. Yes, sir.

Mr. GESELL. Well, now, did the company at this time in any of these instances, progress to the stage where you actually decided on a program to put the association over on to a legal-reserve basis?

Mr. WOODS. Up to what time?

Mr. GESELL. At any time prior to 1929 when the present company was formed.

Mr. WOODS. We all felt that it should be done.

¹In a letter to the Committee dated February 17, 1940, Mr. Woods corrected above statement as follows: " * * * when Mr. Frank Hallam and myself joined the company in 1903 we paid to former directors, Mr. E. C. Hardin and Mr. W. G. Stephenson, \$2,000 each for their positions in the company."

Mr. GESELL. Yes; but did you enter into any specific undertaking?

Mr. WOODS. Nothing except the one that went through, that I remember.

Mr. GESELL. Well, now, perhaps I can refresh your recollection here. Do you not recall that there was, back in 1924, a corporation formed as a result of the negotiations which you gentlemen had with Mr. Martin and Mr. Matthews for the formation of a company to be known as the Illinois Bankers Life Assurance Co.?

Mr. WOODS. The final arrangement was the outgrowth of that consideration.

Mr. GESELL. The first attempt did not succeed, did it?

Mr. WOODS. No.

Mr. GESELL. Will you tell us a little about what the plan was in 1924, how it came to you, what Mr. Martin's and Mr. Matthews' interest in it was, and the surrounding facts and circumstances, as best you recall them?

Mr. WOODS. I just don't remember the details of that. I tell you I had very little to do with the workings of those details myself. My end of the work there was the investments of the company, actuarial part in that sort of thing was entirely in other hands, only in a general way did I have very much knowledge of that end of it. I will not go into that proposition, the original proposition; I just couldn't give the details of that because I haven't reviewed it.

Mr. GESELL. Well, do you recall that as a result of that agreement there were suits brought against the company by policyholders—other people—and that the matter was tied up in litigation over a period of about 4 years?

Mr. WOODS. No; I do not.

Mr. GESELL. You have no recollection with respect to that litigation at all?

Mr. WOODS. A litigation on that proposition?

Mr. GESELL. Yes; a litigation to prevent the officers from carrying this plan out in 1924.

Mr. WOODS. Well, there might have been—

Mr. GESELL. What litigation do you recall? Do you recall any litigation at this time, Mr. Woods?

Mr. WOODS. I recall a litigation in our election there one time.

Mr. GESELL. That was as to the method used in soliciting the proxies.

Mr. WOODS. Yes.

Mr. GESELL. But what with respect to these actual contracts? Wasn't this action taken to prevent the carrying out of these contracts both by the attorney general of the State and by some policyholders?

Mr. WOODS. Well, there might have been; but, to be honest about it, I don't remember what they were. We had all kinds of trouble along there, I know that.

Mr. GESELL. Why didn't the plan go through at that time? Wasn't it because the litigation was brought?

Mr. WOODS. No; I think it was because of the State department, as I recollect it.

Mr. GESELL. It was your recollection that the State department didn't approve it?

Mr. WOODS. Yes.

Mr. GESELL. Well, then have you ever seen this document before?

Mr. WOODS. Not that I know of; no, sir.

Mr. GESELL. Well, then, Mr. Woods, we will skip over that litigation and try to get at it through someone else. You think the State department prevented this thing from going through in 1924?

Mr. WOODS. Yes, sir.

Mr. GESELL. The State insurance department?

Mr. WOODS. Yes, sir.

REINSURANCE OF ILLINOIS BANKERS LIFE ASSOCIATION BY ILLINOIS
BANKERS LIFE ASSURANCE COMPANY

Mr. GESELL. Then, when was the proposal revived, as best you recall it? Sometime in 1929, wasn't it?

Mr. WOODS. Yes; I think so.

Mr. GESELL. Was the proposal on the same basis as it had been made back in 1924 for a formation of a company to be known as the Illinois Bankers Life Assurance Co.?

Mr. WOODS. Yes, sir.

Mr. GESELL. And the reinsurance of the association's policies in that on a legal-reserve basis?

Mr. WOODS. Yes, sir.

Mr. GESELL. Well, why were you able to get approval at that time when you hadn't been able to get it back in 1924?

Mr. WOODS. I don't know.

Mr. GESELL. Was there a new commissioner in?

Mr. WOODS. Yes.

Mr. GESELL. Otherwise it was just the same situation, wasn't it, Mr. Woods?

Mr. WOODS. I couldn't tell you about that 1924 contract, because I don't recall that.

Mr. GESELL. You mean you are not sure as to the specific terms of the reinsurance-company contract?

Mr. WOODS. No; I am not.

Mr. GESELL. Generally, the deal was the same, wasn't it?

Mr. WOODS. So far as I can remember. I just don't remember with reference to that 1924 proposition.

Mr. GESELL. You do remember the arrangement in 1929, don't you?

Mr. WOODS. Yes, sir.

Mr. GESELL. Were you in favor of that arrangement?

Mr. WOODS. Yes, sir.

Mr. GESELL. Did you agree to vote for it and to promote it and help carry it through?

Mr. WOODS. Well, I did.

Mr. GESELL. You say you did vote for it?

Mr. WOODS. I voted for most of the provisions of that contract; yes.

Mr. GESELL. Were you familiar with the negotiations that took place about that time and participated in discussions with the other officers leading up to this arrangement?

Mr. WOODS. Yes, sir.

Mr. GESELL. Now, will you tell us just what type of arrangement it was?

Mr. WOODS. You mean—

Mr. GESELL. Just how this business of the association was to be reinsured and taken over by the stock company.

Mr. WOODS. You are speaking of the arrangement of the reinsurance of the old policyholders.

Mr. GESELL. Of the association's policyholders over into the stock company and the formation of the stock company. I'd like you to tell us just what happened at that time.

Mr. WOODS. Well, there was an arrangement made by which these policyholders should be transferred from the association to the legal-reserve company.

Mr. GESELL. Well, now, that was by means of a reinsurance contract, was it not?

Mr. WOODS. Yes.

Mr. GESELL. Well, now, before you could reinsure the business in the stock company, you had to form the stock company, didn't you?

Mr. WOODS. Yes.

Mr. GESELL. Who formed the stock company?

Mr. WOODS. Mr. Martin had most to do with that.

Mr. GESELL. Mr. Hugh T. Martin, is that?

Mr. WOODS. Yes.

Mr. GESELL. Who else was interested in it?

Mr. WOODS. At that time I understood Mr. Matthews was.

Mr. GESELL. And who else? Yourself? And Mr. Sawyer?

Mr. WOODS. Yes.

Mr. GESELL. And Dr. Ebersole?

Mr. WOODS. Yes, sir.

Mr. GESELL. And Mr. Work?

Mr. WOODS. Yes.

Mr. GESELL. In the main, then, this new stock company was to be owned and controlled by the individuals who had been trustees and officers of the association?

Mr. WOODS. It wasn't to be owned. We continued, at least, that was my part of it, in the same official capacity that we had before.

Mr. GESELL. Did you have any stock in the new company?

Mr. WOODS. I did. No—there was stock issued to me.

Mr. GESELL. How many shares?

Mr. WOODS. Two hundred shares.

Mr. GESELL. Did you pay for them?

Mr. WOODS. I did not.

Mr. GESELL. Who paid for them?

Mr. WOODS. I don't know.

Mr. GESELL. What did you do with them?

Mr. WOODS. I signed them.

Mr. GESELL. Signed them in blank?

Mr. WOODS. Yes, sir.

Mr. GESELL. Who did you hand them to?

Mr. WOODS. As I remember, I handed them to the bank.

Mr. GESELL. What bank was that?

Mr. WOODS. The Boulevard Bridge Bank.

Mr. GESELL. In Chicago?

Mr. WOODS. Yes, sir.

Mr. GESELL. So you had no stock interest in it?

Mr. WOODS. I had no money.

Mr. GESELL. You made no investment in the stock company.

Mr. WOODS. No, sir.

Mr. GESELL. Under what conditions did you continue as an officer in the company?

Mr. WOODS. I continued as president, as I did before.

Mr. GESELL. Who elected you president, the stockholders?

Mr. WOODS. Yes, sir.

Mr. GESELL. Were you active in the same fashion you had been before?

Mr. WOODS. Yes; I did the same work.

Mr. GESELL. Were you the principal executive officer of the company?

Mr. WOODS. No, sir.

Mr. GESELL. Who was?

Mr. WOODS. So far as authority was concerned, Mr. Martin was the main officer.

Mr. GESELL. You took instructions from Mr. Martin?

Mr. WOODS. Yes, sir.

Mr. GESELL. On all phases of the business?

Mr. WOODS. Very largely.

Mr. GESELL. Who determined matters of policy?

Mr. WOODS. Well, I think he did. Of course, it was considered, if there was any change there, by the directors.

Mr. GESELL. You mean he would make the recommendations to the board which the board would adopt on consideration?

Mr. WOODS. Yes; I think that is about the working of it.

Mr. GESELL. Well, now, do I understand that you entered into this arrangement for change from the association to the stock company with a purely open mind and in full accord with the program as it had been worked out?

Mr. WOODS. With one exception.

Mr. GESELL. What was the exception?

Mr. WOODS. It was with reference to the expense of transferring the policies.

Mr. GESELL. You mean by that that after the reinsurance contract was entered into, you were not in accord with the commissions to be paid to the rewriting agent?

Mr. WOODS. Yes; sir.

Mr. GESELL. That was Mr. Shimp, of the American Conservation Co., was it not?

Mr. WOODS. I think so; yes.

Mr. GESELL. Did you express your approval—disapproval?

Mr. WOODS. Yes, sir.

Mr. GESELL. You didn't vote for that contract?

Mr. WOODS. I did not.

Mr. GESELL. Were the majority of the trustees in favor of it?

Mr. WOODS. Yes, sir.

Mr. GESELL. Well, now, did you receive any remuneration or compensation at this time in connection with the change from the association to the stock company?

Mr. WOODS. Yes, sir.

Mr. GESELL. How much did you receive?

Mr. WOODS. I received \$100,000 in cash and six notes of \$10,000 each.

Mr. GESELL. Whom did you receive the \$100,000 in cash from?

Mr. WOODS. Mr. Martin.

- Mr. GESELL. How was that handed to you?
- Mr. WOODS. In four drafts.
- Mr. GESELL. In four what?
- Mr. WOODS. In four drafts.
- Mr. GESELL. Those were checks, you mean?
- Mr. WOODS. Well, they were drafts.
- Mr. GESELL. Drawn on what bank?
- Mr. WOODS. Well, I couldn't tell you that.
- Mr. GESELL. Each in the amount of \$25,000?
- Mr. WOODS. Yes, sir.
- Mr. GESELL. And you say you received in addition six notes for \$10,000 each?
- Mr. WOODS. Yes, sir.
- Mr. GESELL. What date was that that you received that \$160,000?
- Mr. WOODS. I couldn't tell you. The records would show that.
- Mr. GESELL. Do you recall it was September 3, 1929?
- Mr. WOODS. It was just about that time.
- Mr. GESELL. Does this memorandum help refresh you as to the date?
- Mr. WOODS. Yes.
- Mr. GESELL. September 3, 1929?
- Mr. WOODS. Yes, sir.
- Mr. GESELL. Now these notes that you received, they were payable serially, were they?
- Mr. WOODS. Yes, sir.
- Mr. GESELL. Each in the amount of \$10,000?
- Mr. WOODS. Yes, sir.
- Mr. GESELL. And there were six of those notes?
- Mr. WOODS. Yes, sir.
- Mr. GESELL. Who signed those notes?
- Mr. WOODS. Mr. Martin and Mr. Matthews.
- Mr. GESELL. They were jointly on the notes?
- Mr. WOODS. Yes, sir.
- Mr. GESELL. So that that came, in all, to \$160,000?
- Mr. WOODS. Yes, sir.
- Mr. GESELL. What did you do to earn that \$160,000, Mr. Woods?
- Mr. WOODS. I built a company there that I was proud of.
- Mr. GESELL. You mean the association?
- Mr. WOODS. Yes, sir.
- Mr. GESELL. You had been with it, as its chief officer, from 1903 to 1929?
- Mr. WOODS. Yes, sir.
- Mr. GESELL. Well, you were—I believe you said—in sympathy with the company being turned into a legal-reserve company.
- Mr. WOODS. Yes, sir.
- Mr. GESELL. You thought it was in the best interests of the company.
- Mr. WOODS. I did; of the policyholders.
- Mr. GESELL. You were to continue as an officer of the legal-reserve company, were you not?
- Mr. WOODS. Yes, sir.
- Mr. GESELL. At a salary of how much?
- Mr. WOODS. \$30,000 a year.
- Mr. GESELL. What had you been receiving as president of the assessment company?

Mr. WOODS. Twenty-four thousand.

Mr. GESELL. So that you had a \$6,000 increase in salary?

Mr. WOODS. Yes, sir.

Mr. GESELL. Well, I don't believe your explanation then quite clarifies the matter, Mr. Woods. If you thought it was in the best interests to change the company to a stock company, and in addition you continued to be its chief officer, and in addition actually received more salary, why did you merit any compensation?

Mr. WOODS. That salary was only for a short time.

Mr. GESELL. It was understood you would get out of the company, was it?

Mr. WOODS. Yes, sir; I had no authority after that time.

Mr. GESELL. You had no authority?

Mr. WOODS. No, sir.

Mr. GESELL. Well, I think we need a little further explanation here. You remained then in the company just as a figurehead. Would that be correct?

Mr. WOODS. No, sir.

Mr. GESELL. Why did you stay in the company at all?

Mr. WOODS. I stayed in the company because I thought I could do it a lot of good, and of course for the salary.

Mr. GESELL. In what way did you think you could do the company good?

Mr. WOODS. Our agents at that time were simply scattered helter-skelter. I had known these agents for years. Some of my best personal friends were our general agents, and I felt I could handle them better than anybody else, which I think I did.

Mr. GESELL. You mean by staying in the company, the agents would continue to have confidence in the new stock company?

Mr. WOODS. The agents were all in an uproar at that time.

Mr. GESELL. And by staying in that way, you could steady the management and make the change?

Mr. WOODS. Yes, sir; I thought it would be well worth the money to the policyholders if that could be done, and retain that agency force.

Mr. GESELL. Who suggested that you stay, did you or did someone else suggest to you that you stay?

Mr. WOODS. Well, I think it was suggested to me.

Mr. GESELL. You hadn't anticipated that you would stay in, the stock company, had you?

Mr. WOODS. Yes; I had.

Mr. GESELL. Who suggested it to you?

Mr. WOODS. I think Mr. Martin suggested it.

Mr. GESELL. Did he make any understanding with you as to how long you would be with the company?

Mr. WOODS. Not definitely. There was a definite understanding that this salary was to be for 3 years.

Mr. GESELL. For 3 years?

Mr. WOODS. Yes, sir.

Mr. GESELL. Well, now, will you tell us again what consideration there was for this \$160,000 that you received? Was it that you relinquished your control over the company and handed it to Mr. Martin? Was that the real consideration, Mr. Woods?

Mr. WOODS. Well, yes; and the benefit that I thought would accrue to the policyholders under that condition, under that contract. We were very fearful of our rates at that time. We had been pretty thoroughly convinced, all of us, that our rates were inadequate.

The VICE CHAIRMAN. Mr. Woods, I find it a little bit difficult to understand. I can understand that reinsurance in your mind might have been to the advantage of the policyholders, but I don't quite understand what I understood you to say; that is, to the effect that the \$160,000 payment to you was to the benefit of the policyholders.

Mr. WOODS. Well, I think they had received ample benefit for all that I ever got out of it, and I think you will agree with me.

The VICE CHAIRMAN. I wouldn't care to be put in that position at this moment.

Mr. WOODS. I am not putting you in that position.

Mr. GESELL. Mr. Woods, let me see: You got this \$100,000 on September 3, 1929, did you not?

Mr. WOODS. Yes, sir.

Mr. GESELL. The contract of reinsurance in the stock company wasn't signed until October of that same year, was it?

Mr. WOODS. I think so.

Mr. GESELL. Or November? I am told it is November 19, 1929, that the contract was signed. Do you recall that?

Mr. WOODS. No; I don't. I don't remember those dates. That was the time the contract was to go into effect, I think.

Mr. GESELL. You had to sign both contracts, didn't you?

Mr. WOODS. I conclude so.

Mr. GESELL. Do you recognize this document that I show you as the contract of reinsurance?

Mr. WOODS. I expect that is a copy of it.

Mr. GESELL. Do you recognize the facsimile of your signature on the back?

Mr. WOODS. Yes, sir.

Mr. GESELL. You signed for both the association and the stock company, didn't you?

Mr. WOODS. Yes, sir.

Mr. GESELL. Now what was the date of that contract? November 19, was it not?

Mr. WOODS. Yes, sir.

Mr. GESELL. You received this \$100,000 in September, the previous September? Am I not correct in saying, Mr. Woods, that that \$100,000 was the consideration you received for signing this reinsurance contract?

Mr. WOODS. No, sir.

Mr. GESELL. Isn't there a direct relationship between the \$100,000 and your signature on these documents?

Mr. WOODS. Well, I conclude that would be true to an extent, but in signing that contract it was paying me for what I had done in the 28 years that I had been there—25 years or 24 years, or whatever it was.

Mr. GESELL. You wouldn't have signed the contract if you didn't have the \$100,000, would you?

Mr. WOODS. Very likely not.

Mr. GESELL. In other words, you felt that your service with the company deserved some compensation?

Mr. WOODS. Absolutely.

Mr. GESELL. And you weren't going to agree to any reinsurance contract of any kind with one person or another until you had the money that you thought those services were worth.

Mr. WOODS. Well, it wasn't necessary to consider it.

Mr. GESELL. In other words, you were in a position to control it, weren't you?

Mr. WOODS. I was.

Mr. GESELL. You could have stopped the reinsurance agreement, couldn't you?

Mr. WOODS. No; I couldn't myself.

Mr. GESELL. As president of the company for all these years, and with your intimate contact with the agents, couldn't you have gone out and stopped this contract?

Mr. WOODS. No, sir; I could not, without the consent of the other directors.

Mr. GESELL. You had some of them with you.

Mr. WOODS. It was practically unanimous as far as the directors were concerned.

Mr. GESELL. I think you misunderstood me. You had some directors with you who also felt they should receive some compensation before you signed the contract?

Mr. WOODS. I conclude so.

Mr. GESELL. What do you mean by that? There were some directors with you on this. Who were they?

Mr. WOODS. Mr. Work.

Mr. GESELL. How much did he receive?

Mr. WOODS. I don't know.

Mr. GESELL. He received something?

Mr. WOODS. I do not know.

Mr. GESELL. Whom did he receive it from?

Mr. WOODS. I don't know that.

Mr. GESELL. Who else received some compensation?

Mr. WOODS. Dr. Ebersole.

Mr. GESELL. How much did he receive?

Mr. WOODS. I do not know.

Mr. GESELL. Whom did he receive it from?

Mr. WOODS. I do not know.

Mr. GESELL. You three gentlemen were in agreement that you were to receive compensation for this contract?

Mr. WOODS. That was the understanding.

Mr. GESELL. Did you three men constitute a majority of the board?

Mr. WOODS. Mr. Work was in the thing too, so far as that is concerned.

Mr. GESELL. Mr. Work, Mr. Ebersole, yourself, and Mr. Sawyer?

Mr. WOODS. No; not Mr. Sawyer, but Ebersole, Work, and myself.

Mr. GESELL. That is three out of a board of how many?

Mr. WOODS. Four.

Mr. GESELL. So you gentlemen had this thing right by the throat, didn't you?

Mr. WOODS. Well, we had it that way for a good many years, and we made a darn good record with it, too.

Mr. GESELL. So that you were in a position to bargain for this reinsurance contract in no uncertain terms, were you not?

Mr. WOODS. Yes, sir.

Mr. GESELL. And the bargain was, was it not, that you would get this compensation before you signed this reinsurance contract?

Mr. WOODS. It was agreed that should be done before, or when the contract was signed.

Mr. GESELL. And was it agreed that you wouldn't sign until you did have the money?

Mr. WOODS. Oh, no; they understood that without any agreement.

Mr. GESELL. Now, whom were you negotiating with on the other side? Who was against you in this proposition? Mr. Martin, I take it?

Mr. WOODS. Against who?

Mr. GESELL. Mr. Martin was interested in putting this reinsurance contract through, wasn't he?

Mr. WOODS. Yes, sir.

Mr. GESELL. And who was associated with him?

Mr. WOODS. Mr. Matthews was at one time.

Mr. GESELL. Did he have any interest in the company, or was he just helping to finance the proposition?

Mr. WOODS. I don't know about that.

Mr. GESELL. What was his full name?

Mr. WOODS. William—I can't tell you his middle initial. I believe it was M—William M. Matthews, but I am not real sure about that.

Mr. GESELL. I should like to offer for the record, if I may at this time, the contract of reinsurance identified by Mr. Woods.

(The contract referred to was marked "Exhibit No. 1348-14" and is included in the appendix on p. 7033.)

Mr. GESELL. Now, does this contract, which has just been placed in evidence, disclose in any way that you and Mr. Ebersole and Mr. Work were to receive compensation?

Mr. WOODS. No, sir.

Mr. GESELL. Was that ever disclosed to the policyholders?

Mr. WOODS. Not to my knowledge.

Mr. GESELL. You would know whether it was or not, wouldn't you?

Mr. WOODS. I say, not to my knowledge.

Mr. GESELL. It was not in any of the printed literature that was distributed to the policyholders, was it?

Mr. WOODS. Not that I know of.

Mr. GESELL. Where did this money come from, this \$160,000? Did it come from the company?

Mr. WOODS. I don't know a thing about that.

Mr. GESELL. You have no way of telling us where it came from?

Mr. WOODS. No, sir.

Mr. GESELL. If I may request, Mr. Chairman, I would like Mr. Woods to step down for a moment while I call another witness on this topic. I will want him back in a few moments.

Mr. Martin, please.

The VICE CHAIRMAN. Do you solemnly swear that the testimony you are about to give in this proceeding will be the truth, the whole truth, and nothing but the truth, so help you God?

Mr. MARTIN. I do.

**TESTIMONY OF HUGH T. MARTIN, PRESIDENT, ILLINOIS BANKERS
LIFE ASSURANCE CO., MONMOUTH, ILL.**

Mr. GESELL. What is your full name, please, sir?

Mr. MARTIN. Hugh T. Martin.

Mr. GESELL. Where do you reside, Mr. Martin?

Mr. MARTIN. Chicago.

Mr. GESELL. What is your connection with the Illinois Bankers?

Mr. MARTIN. I was a director in 1938 of the Association.

Mr. GESELL. In 1928, I believe.

Mr. MARTIN. In 1928; yes. Since 1938, of the new company, I have been president. Before that I was counsel.

Mr. GESELL. You succeeded Mr. Woods as president?

Mr. MARTIN. In 1938.

Mr. GESELL. Of the present company?

Mr. MARTIN. Yes.

Mr. GESELL. And you were a director of the association?

Mr. MARTIN. Yes, sir.

Mr. GESELL. By profession you are an attorney, are you not?

Mr. MARTIN. Yes.

Mr. GESELL. Well now, you heard the testimony of the previous witness, did you not?

Mr. MARTIN. Yes.

Mr. GESELL. Do you recall paying him \$100,000 by draft on September 3, 1929?

Mr. MARTIN. Yes.

Mr. GESELL. Do you also recall providing him with six \$10,000 notes?

Mr. MARTIN. Yes.

Mr. GESELL. Will you tell us why that money was paid by you to Mr. Woods?

Mr. MARTIN. Well, the idea was—that is, in my mind it was—that the association should be reorganized, and without any agreement with Mr. Woods, I had argued with him that that ought to be done, and he and other directors were rather fearful about the difficulties and the hazards of the change, and wanted to be made in some way secure so far as the future was concerned, so I paid him that amount of money.

Mr. GESELL. You say they were worried about the hazards of this. Do you mean they didn't think the venture would succeed, or that they had some doubts as to its legality?

Mr. MARTIN. No doubts as to its legality; fearful of whether it might succeed or not.

Mr. GESELL. And you paid them this money in order to make them secure?

Mr. MARTIN. Yes.

The VICE CHAIRMAN. May I ask a question? You don't understand that the payment to Mr. Woods would be any stretch of imagination make the undertaking more secure.

Mr. MARTIN. No; no—make him secure.

Mr. GESELL. Well now, did you also pay some money to Dr. Eber-sole?

Mr. MARTIN. Yes.

Mr. GESELL. How much?

Mr. MARTIN. Twenty-five thousand dollars, I think it was, and I gave him probably three notes of \$25,000 each.

Mr. GESELL. Making a total of \$75,000 that you paid him, or \$100,000?

Mr. MARTIN. One hundred thousand.

Mr. GESELL. You paid him twenty-five in cash and three notes of twenty-five each?

Mr. MARTIN. I think that's it.

Mr. GESELL. And how much did you—or rather, I should say—did you pay any money to Mr. Work?

Mr. MARTIN. Yes; I think I did.

Mr. GESELL. How much did you pay him?

Mr. MARTIN. He wanted to dispose of certain real estate, and I took it off his hands, I think at \$75,000.

Mr. GESELL. You mean he sold you some real estate for seventy-five thousand?

Mr. MARTIN. Seventy-five.

Mr. GESELL. Was it worth \$75,000?

Mr. MARTIN. No.

Mr. GESELL. How much was it worth?

Mr. MARTIN. Mr. Gesell, it is pretty hard to say.

Mr. GESELL. I want to know how much money he got out of this, how much was for real estate and how much for this other consideration.

Mr. MARTIN. I think he rated it as worth about \$40,000, but I am not real sure. It was 10 years ago.

Mr. GESELL. There was at least \$25,000 overpayment?

Mr. MARTIN. At least \$20,000 and possibly more. I am not quite clear as to the value there.

Mr. GESELL. In the case where you gave these men notes, were the notes subsequently paid off?

Mr. MARTIN. They were.

Mr. GESELL. So that in the end Mr. Woods got \$160,000, Dr. Ebersole got \$100,000, and Mr. Work got \$75,000?

Mr. MARTIN. Yes.

Mr. GESELL. And what was Dr. Ebersole's position in the company?

Mr. MARTIN. Dr. Ebersole was vice president and medical director.

Mr. GESELL. And what was Mr. Work?

Mr. MARTIN. Secretary.

Mr. GESELL. He was secretary of the company?

Mr. MARTIN. Yes.

Mr. GESELL. Well now, did you pay any money to anybody else who was connected with the management at this time?

Mr. MARTIN. No.

Mr. GESELL. And do I understand that the consideration for the payments to Dr. Ebersole and Mr. Work were the same as the consideration for the payment to Mr. Woods?

Mr. MARTIN. Well, I don't know exactly what you mean by that, Mr. Gesell. If you mean that I had some agreement with them, I did not.

Mr. GESELL. I take it you didn't have any formal contract.

Mr. MARTIN. No.

Mr. GESELL. You said you paid Mr. Woods in order to make him secure.

Mr. MARTIN. Yes.

Mr. GESELL. Was that the same reason for paying these other two men?

Mr. MARTIN. Dr. Ebersole was quite an old man, and Mr. Work was in very poor health; in fact, he died within 3 or 4 months.

Mr. GESELL. And this was more or less a humanitarian enterprise?

Mr. MARTIN. No; I wouldn't say so, but it did make them secure.

Mr. GESELL. You wanted control of the company, didn't you, Mr. Martin?

Mr. MARTIN. Yes, sir.

Mr. GESELL. And so far as you were concerned, that was the motivating factor in your payment of these sums?

Mr. MARTIN. Yes.

Mr. GESELL. Did any of these three men indicate to you that they would not sign the reinsurance agreement, or agree to encourage its going through without the payment of these sums?

Mr. MARTIN. No. There was no reinsurance, there was no proposal of reinsurance, at this time.

Mr. GESELL. There was no proposal of reinsurance at this time?

Mr. MARTIN. No.

Mr. GESELL. September 1929?

Mr. MARTIN. Yes.

Mr. GESELL. Did you pay Mr. Ebersole and Mr. Work at the same time you paid Mr. Woods, or approximately?

Mr. MARTIN. Approximately.

Mr. GESELL. And there was no proposal for reinsurance?

Mr. MARTIN. No.

Mr. GESELL. What proposal was up at that time?

Mr. MARTIN. None.

Mr. GESELL. Then you came forward and paid these sums—I come back again to my question. It sounds to me as though it must have been on your part purely humanitarian; if you had no interest whatsoever in any particular contract, why would you pay these sums? You must have had something in your mind.

Mr. MARTIN. I expected—I hoped, rather—to be able to get the company reinsured, but there was no proposal of reinsurance up at this time.

Mr. GESELL. You mean there was no specific proposal before the Board.

Mr. MARTIN. None before the Board and none in existence.

Mr. GESELL. You were still hoping you could clarify the situation which had arisen about 1924 to enable you to go through with the undertaking you had been interested in then? Is that correct?

Mr. MARTIN. No; not with that undertaking.

Mr. GESELL. A similar undertaking?

Mr. MARTIN. I mean with some contract, some form of reinsurance in a legal-reserve company.

Mr. GESELL. Will you tell us—Mr. Woods' memory seemed to fail him on this point—what the original arrangement that you proposed was? It was in 1924, wasn't it?

Mr. MARTIN. It was discussed in 1924. I think it was probably in 1925. The dates I am just a little hazy about.

Mr. GESELL. Was it a proposal to form a company to be known as the Illinois Bankers Life Assurance Co., and to reinsure in it the risks of the association?

Mr. MARTIN. The directors of the association proposed to form a new legal-reserve company in which they would take all of the stock, subscribe for all of the stock, and as I recall it, pay for it, and what they gave me at the time was in the nature of an option on their stock at some price if that was done. I mean, I had the option of taking it, if they organized this company and the deal was consummated.

Mr. GESELL. What held the deal up?

Mr. MARTIN. Well, it was delayed on account of some litigation, all of which litigation was won out by the officers and the contract had received, when it was proposed—that is, the contract of reinsurance between that new company that was organized at that time and the Association—and had been tentatively approved by the Insurance Department of the State of Illinois. But later, before the reinsurance was consummated, there was some political shift in Illinois, and a new department came in, or at least a new head of the department, and he notified the officers that he would not approve the contract.

Mr. GESELL. So you had the fact that there was a new Commissioner who was not approving this contract of '25, and the fact that there was litigation.

Mr. MARTIN. It wasn't litigation, it was the lack of approval. There was no use of going ahead with it. I mean, if this new director would not give his approval.

Mr. GESELL. Did you finally get the approval of that director?

Mr. MARTIN. No; he went out of office.

Mr. GESELL. And you got approval from the next fellow?

Mr. MARTIN. I don't know whether it was the next one, but a later one. I forget now who succeeded him.

Mr. GESELL. So that by September of 1929 there was every likely prospect in your mind of your being able to work out a reinsurance agreement.

Mr. MARTIN. The department was urging that a reorganization be effected, and I thought there was likelihood that a reorganization could be effected.

Mr. GESELL. So that when you said there was no specific proposal before Mr. Woods and Mr. Work and Mr. Ebersole in September of 1929, you meant that there was no definite contract before them, but there was greater consideration being given, was there not, to carrying it through?

Mr. MARTIN. No; they were not considering it at all.

Mr. GESELL. You were considering it?

Mr. MARTIN. I was considering it.

Mr. GESELL. And the department had been dealing with you alone, and not with the other officers?

Mr. MARTIN. No; I don't think they had been dealing at all. I had not been dealing with them.

Mr. GESELL. The department had come to you rather than come to the Board?

Mr. MARTIN. No; the department had just expressed their general views on it, and I knew how the department generally felt on such

matters. You see, all of these assessment associations were more or less in a process of reorganization.

Mr. GESELL. Now, when the stock company was formed, I believe Mr. Work said that some shares were issued to him which he signed in blank and deposited at the Boulevard Bank.

Mr. MARTIN. Pardon me, you mean Mr. Woods.

Mr. GESELL. Did you pay for his stock?

Mr. MARTIN. Yes.

Mr. GESELL. Did you pay for the rest of the stock that was issued?

Mr. MARTIN. We borrowed the money from the Boulevard Bridge Bank.

Mr. GESELL. What was the capitalization of the company?

Mr. MARTIN. \$100,000.

Mr. GESELL. Par value of what a share?

Mr. MARTIN. One hundred.

Mr. GESELL. So there were 1,000 shares.

Mr. MARTIN. One thousand.

Mr. GESELL. As far as the books and records of the company were concerned, there were 200 shares issued to each of the 5 men?

Mr. MARTIN. Yes, sir.

Mr. GESELL. Yourself, Mr. Work, Mr. Woods, Mr. Sawyer, and Dr. Ebersole?

Mr. MARTIN. Yes.

Mr. GESELL. How much investment did you actually have in it, yourself?

Mr. MARTIN. Well, it was done jointly. There was an investment of \$150,000.

Mr. GESELL. Now, who participated in that with you?

Mr. MARTIN. Mr. Sawyer, and Mr. John P. Nichol and I signed the notes.

Mr. GESELL. Did he have any of the stock issued to him?

Mr. MARTIN. No.

Mr. GESELL. Who was he?

Mr. MARTIN. He was an insurance man that lived in Chicago that I had known for a good many years.

Mr. GESELL. I take it, then, that Dr. Ebersole, Mr. Work, and Mr. Woods had no interest in the stock at all?

Mr. MARTIN. No.

Mr. GESELL. Why was it shown on the books of the company and all the public documents that each of them were to get 200 shares?

Mr. MARTIN. Why was it shown?

Mr. GESELL. Yes.

Mr. MARTIN. Well, because that was the way it had been done before. Of course, Mr. Sawyer appeared as a stockholder, and I appeared as a stockholder.

Mr. GESELL. Well, now, let's have an answer to the question. Why did you issue 200 shares to each of these three gentlemen when none of them had any interest in the company at all?

Mr. MARTIN. Because they were going to go ahead as officers. They were also going ahead as officers of the company, and should also appear as stockholders, and it gave the thing better credit at the bank, to know that these stockholders were going to go ahead—I mean, that these men were going along as, at least, stockholders, on the face of the record.

Mr. GESELL. You mean that these men who had had so much to do with building up the association, if they were shown to have a financial stake in this new enterprise, it would receive wider acceptance with banks.

Mr. MARTIN. That is true—you see, the difficulty would be that in any serious change in the set-up of the concern, it would start agitation among agents, and it was desirable, and I did it.

Mr. GESELL. It also had quite an allaying effect to the policyholders, agents, and everybody else, didn't it?

Mr. MARTIN. I don't know as to policyholders. It was more particularly as to agents.

Mr. GESELL. The agents had confidence in these three men, and if they thought they were stockholders, they were more apt to stay with the company and help the new enterprise?

Mr. MARTIN. They knew them all. They were all close personal friends of these men.

Mr. GESELL. This is the same kind of window dressing, in other words, that went on keeping Mr. Woods in, even though he didn't have any real authority as an executive in running the company?

Mr. MARTIN. That isn't a fair statement, Mr. Gesell. Mr. Woods was a very able investment man and a very able administrator, and it was very necessary to keep him in.

Mr. GESELL. Well, he wasn't in the same position that he had been in before, according to his testimony here this morning.

Mr. MARTIN. Well, he had, or he was president, and there was no interference with his exercising his duties as such.

Mr. GESELL. Then you did not agree with his testimony this morning?

Mr. MARTIN. Well, I don't know just exactly what you mean by that.

Mr. GESELL. I understood him to say that after the change in 1929, this was your company, and matters of policy and other matters were presented by you to the board, and the rest of the directors approved, and that you in fact ran the company.

Mr. MARTIN. Well, of course he gave more weight, probably, to what I suggested on the thing, but he was heard at all times with regard to his ideas, and very much he just carried on the same as he always had.

Mr. GESELL. He didn't, for instance, agree to this rewrite contract?

Mr. MARTIN. I think he raised some question there with regard to one phase of it. He did agree with the proposition that it should be rewritten, and that the business should be rewritten and that should go through.

Mr. GESELL. How many shares of these thousand shares did you own? Eight hundred?

Mr. MARTIN. No; originally I was to have, I think, 400 shares. The other shares were to be divided on some basis, rather, with Mr. Nichol and one of the other men.

Mr. GESELL. Who was the other man?

Mr. MARTIN. Mr. Matthews. It was the expectation that he would take an interest in the company at that time.

Mr. GESELL. And that Mr. Sawyer would have an interest too?

Mr. MARTIN. Oh, yes.

Mr. GESELL. How did it actually wind up?

Mr. MARTIN. As the matter now stands—

Mr. GESELL (interposing). Keeping to this first issue, if you don't mind. I don't want to come to the second hundred thousand issue.

Mr. MARTIN. I can't just recall, but as far as those shares, they finally stood in my name, and stand in my name.

Mr. GESELL. All of the thousand shares?

Mr. MARTIN. No; except the interest of 200 shares of Mr. Sawyer.

Mr. GESELL. So it finally worked out that you had eight hundred of these thousand shares, and Mr. Sawyer had two hundred?

Mr. MARTIN. That is right.

Mr. GESELL. Did you put up any money, personally, to organize the new stock company?

Mr. MARTIN. In the sense of—no, it was all borrowed from the Boulevard Bridge Bank.

Mr. GESELL. The Boulevard Bridge Bank in Chicago?

Mr. MARTIN. Yes.

Mr. GESELL. You pledged the shares with the Boulevard Bridge Bank, and in turn they loaned you the money?

Mr. MARTIN. That is right.

Mr. GESELL. How many shares did you pledge with the bank?

Mr. MARTIN. One thousand shares.

Mr. GESELL. They represented \$100,000, did they not?

Mr. MARTIN. Well, they represented \$100,000, they represented in effect \$150,000 that the company owned.

Mr. GESELL. They were shares in a new corporation, each with \$100 par, or \$100,000?

Mr. MARTIN. That is right.

Mr. GESELL. And against that the bank lent you how much money?

Mr. MARTIN. \$150,000.

Mr. GESELL. \$150,000?

Mr. MARTIN. Yes.

Mr. GESELL. What other collateral or consideration did you put into the bank?

Mr. MARTIN. None.

Mr. GESELL. Quite clear on that?

Mr. MARTIN. Yes.

Mr. GESELL. Do you now recall that there was pledged as collateral against that loan a certificate of deposit of the association on the funds of the Boulevard Bridge Bank No. 335, in the amount of \$50,000, which was put as collateral in that obligation?

Mr. MARTIN. No. You are asking me about a \$50,000 certificate of deposit of the association?

Mr. GESELL. Or of the insurance company.

Mr. MARTIN. Oh, of the insurance company. The certificate of the insurance company in the amount of \$50,000—when the loan was made, the officers said, that that certificate would have to be left at the bank in order that it be not—they didn't want it cashed out, but it was not collateral security on the loan. It was to assure the bank that it would not be cashed.

Mr. GESELL. The Boulevard Bridge Bank held a \$50,000 deposit of the new company, the stock company?

Mr. MARTIN. Yes.

Mr. GESELL. And as part of the agreement leading up to the financing of the new company, it was understood that that \$50,000 wouldn't be withdrawn?

Mr. MARTIN. Yes; that is right.

Mr. GESELL. So that if you gentlemen defaulted on the obligation to the Boulevard Bridge Bank, they would be able to take this \$50,000?

Mr. MARTIN. Oh, no.

Mr. GESELL. What good would it do then, to leave it?

Mr. MARTIN. They could not take it, because they knew that it belonged to the new company.

Mr. GESELL. Then, why did they want you to keep it there?

Mr. MARTIN. Because, if for some reason or other the reinsurance contract did not go through, and the new company would then have to be dissolved, then on the dissolution there would be no dissipation of the funds. You see, Mr. Gesell, in that connection the new company took the name similar to the name of the association.

Mr. GESELL. Yes.

Mr. MARTIN. Ordinarily, the insurance department will not allow a new company of the same or a similar name to that already in existence. Therefore, it had to be agreed with the company that if a reinsurance contract was not effected, the new company would at once be dissolved, and the name surrendered.

Mr. GESELL. And that \$50,000 would then have belonged to the association, wouldn't it?

Mr. MARTIN. No; the association would have nothing to do with it.

Mr. GESELL. Who would it belong to?

Mr. MARTIN. It would belong to the legal-reserve company. And if there was no reinsurance, and the new company was dissolved, it would go back to the original stockholders.

The VICE CHAIRMAN. I don't get it. That \$50,000 was a certificate of deposit of the corporation?

Mr. MARTIN. The new legal-reserve company.

Mr. GESELL. Where did that come from?

Mr. MARTIN. It came from the loan that we made at the Boulevard Bridge Bank.

The VICE CHAIRMAN. Maybe you can do better in this connection.

Mr. MARTIN. It stood as the contribution to surplus of the new company.

Mr. GESELL. The Boulevard Bridge Bank loaned you and Mr. Sawyer and Mr. Nichol \$150,000?

Mr. MARTIN. Correct.

Mr. GESELL. One hundred thousand of that went in as capital?

Mr. MARTIN. Correct.

Mr. GESELL. \$50,000 went in as surplus?

Mr. MARTIN. Correct.

Mr. GESELL. What did you do with the surplus? Was that the \$50,000 that was deposited in the bank?

Mr. MARTIN. That represented the \$50,000 which was held there at the bank; yes.

Mr. GESELL. So that you borrowed \$150,000 from the bank, and deposited \$50,000 of that back in the Boulevard Bridge Bank in the name of the new company, the stock company?

Mr. MARTIN. Correct.

Mr. GESELL. And they issued the certificate of deposit to you?

Mr. MARTIN. Yes.

Mr. GESELL. And then you endorsed that certificate of deposit?

Mr. MARTIN. I don't recall, Mr. Gesell. I don't think it was endorsed, but I don't recall.

Mr. GESELL. You have to make it negotiable of some sort, so as to make it worth something to leave with them?

Mr. MARTIN. No; because as long as they had it, it could not be cashed, and the not cashing of it was what they were interested in.

Mr. GESELL. So that the real net effect was that you were able to present the picture of a company that had a \$50,000 surplus, and it did not have that surplus?

Mr. MARTIN. Yes; but it did have a surplus. The bank had that money, and it could not be taken.

Mr. GESELL. The surplus was pledged with the bank?

Mr. MARTIN. The surplus was not pledged. It was left with the bank, and it was known and shown on their books as the property of the new corporation.

Mr. GESELL. What is the status of that loan now?

Mr. MARTIN. That loan at the Boulevard Bridge?

Mr. GESELL. Yes.

Mr. MARTIN. It has been paid off. It was finally paid off in full some few years ago.

Mr. GESELL. It remained on the books for some time, didn't it?

Mr. MARTIN. It was paid down from time to time. I can't tell you just when it was finally paid off. There is a loan there at the Boulevard Bridge, however, secured by certain stock amounting to \$30,000, or \$31,000.

Mr. GESELL. Is that part of the same original loan of \$150,000?

Mr. MARTIN. No; I don't think so.

Mr. GESELL. Well, now, during the time that—

Mr. MARTIN (interposing). The original loan was entirely paid off.

Mr. GESELL. During the time that any amount of that original loan was outstanding, did that arrangement with respect to the certificate of deposit continue?

Mr. MARTIN. No; it was cashed some years ago. I don't know just what date. The records would show that.

Mr. GESELL. In 1935, was it not?

Mr. MARTIN. Maybe so. The original loan had not been paid off.

Mr. GESELL. Did the certificate of deposit remain with the Boulevard Bridge Bank after the insurance contract had gone through?

Mr. MARTIN. I think so; for a time, yes.

Mr. GESELL. What was the justification for that? I understood you to say that a certificate of deposit remained there only because the bank wanted to be sure your arrangement went through. Once your insurance contract went through, why couldn't you return the certificate of deposit to the company?

Mr. MARTIN. Well, they took the same position that they still didn't want it cashed and wanted to be certain they carried that deposit with them.

Mr. GESELL. They considered it in effect collateral?

Mr. MARTIN. They did not, and on the notes that were signed, it was not shown as collateral. Collateral was shown as 1,000 shares of stock of the Illinois Bankers Life Assurance Co.

Mr. GESELL. When you reported to the State insurance department, where did you show this certificate of deposit?

Mr. MARTIN. I don't know.

Mr. GESELL. We will have further testimony to present on this matter. It might be a good opportunity to adjourn.

The VICE CHAIRMAN. We will stand recessed until 2 o'clock.

Mr. GESELL. Might I suggest a quarter of 2?

The VICE CHAIRMAN. All right, 1:45.

(Whereupon, at 12:35 p. m. a recess was taken until 1:45 p. m. of the same day.)

AFTERNOON SESSION

The committee resumed at 1:50 p. m. on the expiration of the recess.

The VICE CHAIRMAN. The hearing will please come to order.

Mr. GESELL. Mr. Martin.

Mr. Martin has been delayed. I will put someone else on the stand. Mr. Leary.

The VICE CHAIRMAN. Do you solemnly swear the testimony you are about to give will be the truth, the whole truth, and nothing but the truth, so help you God?

Mr. LEARY. I do.

TESTIMONY OF ARTHUR J. LEARY, ACCOUNTANT INVESTIGATOR, SECURITIES AND EXCHANGE COMMISSION, WASHINGTON, D. C.

Mr. GESELL. Will you state your full name?

Mr. LEARY. Arthur J. Leary.

Mr. GESELL. Are you an investigator attached to the insurance section of the Securities and Exchange Commission?

Mr. LEARY. I am.

Mr. GESELL. Mr. Leary, did you have occasion to visit the National Boulevard Bank of Chicago in connection with an investigation of a loan made at that bank by Hugh T. Martin, A. T. Sawyer, and John P. Nichol?

Mr. LEARY. I did.

Mr. GESELL. Did you obtain from the National Boulevard Bank of Chicago a photostatic copy of the collateral record of a loan made October 11, 1929, in the amount of \$150,000?

Mr. LEARY. I did.

Mr. GESELL. Is that the collateral record which I show you?

Mr. LEARY. It is.

Mr. GESELL. That record shows, does it not, that on October 11, 1929, a loan of \$150,000 was made to Hugh T. Martin, Sawyer, and Nichol?

Mr. LEARY. This is the collateral record. It doesn't show the amount of the loan. It shows the collateral in the loan.

Mr. GESELL. Did you also obtain the loan records?

Mr. LEARY. Yes.

Mr. GESELL. Do those records reflect the amount was \$150,000 on which collateral was placed?

Mr. LEARY. It was.

Mr. GESELL. What is the collateral shown on that sheet as being pledged against the loan?

Mr. LEARY. This collateral record indicates on October 11, 1929, 1,000 shares of Illinois Bankers Life Assurance Co. capital stock bearing the numbers of 6, 7, 8, 9, and 15 was placed on the record along with No. 335, certificate of deposit in the amount of \$50,000.

Mr. GESELL. That certificate of deposit further described on the records of the bank?

Mr. LEARY. There is some writing on this record which reads as follows (and the photostat seems to be poor), "payable to Illinois Bankers Life Assurance Co. and so endorsed."

Mr. GESELL. Does that collateral record show for what period of time the certificate of deposit remained against the loan or any part thereof?

Mr. LEARY. It does.

Mr. GESELL. When was the certificate of deposit withdrawn for the first time, according to that record?

Mr. LEARY. For the first time, according to the record, it indicates it was released on June 13, 1935.

Mr. HENNING. May I see that?

Mr. GESELL. I wish to offer this collateral record.

The VICE CHAIRMAN. It may be admitted.

(The document referred to was marked "Exhibit No. 1348-15" and is included in the appendix on p. 7037.)

Mr. GESELL. No further question.

TESTIMONY OF HUGH T. MARTIN, PRESIDENT, ILLINOIS BANKERS LIFE ASSURANCE CO., MONMOUTH, ILL.—Resumed

Mr. GESELL. The decision to make the loan of \$150,000 to the Boulevard Bridge Bank was made at the first meeting of the board of directors of the Illinois Bankers Life Assurance Co., was it not, which was held at the offices of the bank on October 10, 1929?

Mr. MARTIN. Will you state the question again?

(The question was read by the stenographer.)

Mr. MARTIN. No.

Mr. GESELL. When was the decision to make the loan?

Mr. MARTIN. Whose decision do you mean?

Mr. GESELL. Your decision to borrow the money.

Mr. MARTIN. Oh, that had been done some few days before.

Mr. GESELL. Did you borrow that money with Mr. Sawyer and Mr. Nichol in your personal capacity or as an officer of the company?

Mr. MARTIN. In our personal capacity.

Mr. GESELL. It was not a corporate matter whatsoever?

Mr. MARTIN. No.

Mr. GESELL. The first meeting of the corporation was, however, held the same day, was it not?

Mr. MARTIN. It was.

Mr. GESELL. That loan, however, was a purely personal matter?

Mr. MARTIN. Yes.

Mr. GESELL. Was it discussed by the directors at the meeting of the bank on the same day?

Mr. MARTIN. I don't recall.

Mr. GESELL. Now do you recall that on occasions you were required or requested by Mr. Sawyer to obtain the certificate of deposit from the bank and forward it to the insurance company?

Mr. MARTIN. I don't recall as to that.

Mr. GESELL. Now may I ask you if you recall receiving a letter dated February 3, 1932, from Mr. Sawyer in which he states:

The examiners are inquiring in regard to the certificate of deposit for \$50,000 on the Boulevard Bridge Bank. It is my understanding you are mailing the certificate to us.

Do you recall that letter having particular reference to the paragraph I have read, and your reply to him, Mr. Martin, under date of February 3, 1932, in which you say [reading from "Exhibit No. 1348-16"]:

Please find enclosed certificate of deposit of the Boulevard Bridge Bank to the order of the Illinois Bankers Life Assurance Company in the amount of \$50,000 which has been held for safekeeping in Chicago.

Does that correspondence refresh your recollection?

Mr. MARTIN. No; I don't recall it. The letter is not from Mr. Sawyer.

Mr. GESELL. I am sorry, it is from Mr. Sellman. Mr. Sellman wrote you on February 3, after having talked to you on the phone and on the same day you sent him the certificate of deposit?

Mr. MARTIN. That is probably true, but I don't recall it.

Mr. GESELL. You sent that certificate of deposit from Chicago, did you not?

Mr. MARTIN. I don't recall. It may be true, but I don't recall it.

Mr. GESELL. Do you recall the correspondence?

Mr. MARTIN. No; I don't. As far as my recollection is concerned, I don't.

Mr. GESELL. Do you recognize the letter signed by yourself dated February 3, 1932?

Mr. MARTIN. That is my signature.

Mr. GESELL. No question about it?

Mr. MARTIN. No question about it.

Mr. GESELL. Well, then you sent the certificate of deposit to him on the date of February 3, 1932?

Mr. MARTIN. I presume so from this letter.

Mr. GESELL. Well, you say the certificate had been kept in safe custody in Chicago. It had been at the bank, had it not?

Mr. MARTIN. It had; yes.

Mr. GESELL. Did you obtain it from the bank?

Mr. MARTIN. I presume so.

Mr. GESELL. You have no recollection about it?

Mr. MARTIN. I don't recall.

Mr. GESELL. Do you recall that on February 8, 1932, Mr. Sellman returned the certificate of deposit to you accompanying the letter which I show you a copy of now?

Mr. MARTIN. Well, I don't recall the letter; no.

Mr. GESELL. Do you have any recollection of the fact that he sent the certificate back to you?

Mr. MARTIN. I don't recall, Mr. Gesell.

Mr. GESELL. There is no question from that correspondence that you sent the certificate of deposit to him because the examiners were inquiring about it, and then he sent it back to you a few days later.

Mr. MARTIN. That is what the letter says, but my own recollection is that I don't recall it.

The VICE CHAIRMAN. There isn't any doubt in your mind about the authenticity of your own letter, that you sent the certificate?

Mr. MARTIN. No; there is no doubt about it as far as the authenticity of my letter.

Mr. GESELL. I will offer Mr. Martin's letter for the record.

(The letter referred to was marked "Exhibit No. 1348-16" and is included in the appendix on p. 7038.)

Mr. GESELL. Now, do you recall that again in 1933 the certificate came into the possession of Mr. Sellman and that he returned it to you and that you signed the registered receipt therefor?

Mr. MARTIN. Well, that is my signature; but I don't recall the transaction.

Mr. GESELL. I want to know, Mr. Martin, quite without regard to your recollection on these specific documents, how it was that you were able when an examination or audit was under way, to get the certificate of deposit from the bank and send it to the insurance company.

Mr. MARTIN. Because the understanding with the bank was that—I don't know what any clerk may have made by way of record—but the understanding with the officers was that it was merely held for safekeeping, as I stated in my testimony this morning, and that it was not held as collateral to this loan, and it is not noted on the notes which we gave. The only collateral shown on the notes is 1,000 shares of the capital stock of the Illinois Bankers Life Assurance Co.

Mr. GESELL. The loan you made was a personal loan?

Mr. MARTIN. It was.

Mr. GESELL. The certificate belonged to the corporation?

Mr. MARTIN. It did.

Mr. GESELL. The insurance company?

Mr. MARTIN. Yes; that is right.

Mr. GESELL. Now, wasn't the place for the certificate in the company, in the portfolio of the company at Monmouth, Ill., and not even as safekeeping against some personal loan that you people had made from the Boulevard Bridge Bank? It seems to me that is so obvious on the face of it that it hardly requires discussion, and I think it deserves some explanation from you as to how it happened, and I haven't been able to get it from you so far.

Mr. MARTIN. Well, I made the explanation this morning—at least, I thought I made it clear—that the bank in its relations with the insurance company and with us insisted that the certificate be held there and not be cashed, and for that reason they were also willing to allow it to go out. It was only held for safekeeping.

The VICE CHAIRMAN. Why did it become important that the certificate be returned from the insurance company when the insurance examiners were examining the company?

Mr. MARTIN. Well, I don't know. Probably they check over all assets, and therefore they count everything, no matter where it is.

The VICE CHAIRMAN. You got a receipt from the Chicago bank to the effect that they were holding that certificate for safekeeping?

Mr. MARTIN. Probably so.

The VICE CHAIRMAN. Apparently it became necessary from time to time to get physical possession of the certificate of deposit from the Chicago bank while the insurance examiners were examining the bank, and to thereafter return the certificate of deposit to the bank.

Mr. MARTIN. They no doubt would have given the receipt which would have served the same purpose, but it was not thought of as the way to handle it.

The VICE CHAIRMAN. I am correct as to what actually happened? The mechanics of handling the situation was as I have indicated?

Mr. MARTIN. Yes; I think so.

Mr. GESELL. If that certificate was simply held for safekeeping, why was it endorsed?

Mr. MARTIN. I don't know.

Mr. GESELL. It was endorsed, wasn't it?

Mr. MARTIN. I don't know as to that.

Mr. GESELL. I have in my hand a letter from the Boulevard Bridge Bank to Mr. Sawyer, under date of February 24, 1932, in which they refer to the certificate and say "bearing the following endorsements: That of the Illinois Bankers Life Assurance Co., by yourself as treasurer." That would indicate that it had been endorsed.

Mr. MARTIN. I don't know. I never saw the letter.

Mr. GESELL. I will ask Mr. Sawyer about that in a moment. You have no recollections as to whether that was endorsed or not?

Mr. MARTIN. No.

Mr. GESELL. There would be no purpose in endorsing the certificate if it was merely held for safekeeping or safe custody in Chicago?

Mr. MARTIN. I don't know.

Mr. GESELL. Wasn't one of the reasons that the insurance department was interested in this certificate of insurance the fact that you never disclosed in any of your annual convention form statements the fact that it was out on loan, or away from the rest of the portfolio with the company?

Mr. MARTIN. No; not as far as I know.

Mr. GESELL. What reply was given by the company to item 15 of the general interrogatories of the annual statements for the years that this certificate of deposit was in Chicago, that interrogatory asking, "Were any of the stocks, bonds, or other assets of the company loaned during the year covered by this statement?"

Mr. MARTIN. I don't know what the report showed on that.

Mr. GESELL. I show you the statement for 1930 and direct your attention to the answer, which is "no."

Mr. MARTIN. Yes.

Mr. GESELL. Do you consider that a correct answer in view of your testimony here?

Mr. MARTIN. Yes.

Mr. GESELL. Well, now, Mr. Martin, if you would just step down a moment.

Mr. Sawyer.

The VICE CHAIRMAN. Do you solemnly swear that the testimony you are about to give in this proceeding will be the truth, the whole truth, and nothing but the truth, so help you God?

Mr. SAWYER. I do.

TESTIMONY OF ARTHUR T. SAWYER, SECRETARY AND DIRECTOR,
ILLINOIS BANKERS LIFE ASSURANCE CO., MONMOUTH, ILL.

Mr. GESELL. What is your full name?

Mr. SAWYER. Arthur T. Sawyer.

Mr. GESELL. Where do you live; Mr. Sawyer?

Mr. SAWYER. Monmouth, Ill.

Mr. GESELL. Am I correct in saying that you have been with the Illinois Bankers Life Assurance Co. since its organization in 1929?

Mr. SAWYER. Yes.

Mr. GESELL. And that you were with the association prior to that time?

Mr. SAWYER. Yes.

Mr. GESELL. You have been treasurer of the insurance company since January 1928?

Mr. SAWYER. Well, the insurance company wasn't formed in 1928.

Mr. GESELL. Treasurer since 1929?

Mr. SAWYER. I can't remember the date. I was the treasurer; yes.

Mr. GESELL. Let me show you your previous memo. You say you were "treasurer of the Illinois Bankers Life Assurance Co. from October 10, 1929, to March 12, 1935. I have been Secretary of the company from January 29 to date." Is that correct?

Mr. SAWYER. Yes.

Mr. GESELL. Now, Mr. Sawyer, I show you a letter from the Boulevard Bridge Bank addressed to yourself, dated February 24, 1932, asking you if you recognize that letter as the letter you received from the bank.

Mr. SAWYER. No; I don't have a definite recollection of it. It is dated in '32.

Mr. GESELL. You don't ever remember seeing that?

Mr. SAWYER. Well, I have seen it as an exhibit, but I don't have any recollection of definite facts of receiving the letter.

Mr. GESELL. You know that is a letter from the files of the company, do you not?

Mr. SAWYER. Yes.

Mr. GESELL. And if it was addressed to you, you must have received it in the regular course of business, must you not?

Mr. SAWYER. Yes.

Mr. GESELL. Now, what do you know about this certificate of deposit, Mr. Sawyer, that we have been talking about?

Mr. SAWYER. Well, it is my recollection, the same as Mr. Martin's testimony—it is my recollection that it was to be held in the bank according to Mr. Martin's testimony, as I heard.

The VICE CHAIRMAN. Let's have your explanation as to how it happened.

Mr. SAWYER. It was my understanding that the certificate was to be held there and not cashed, but not as collateral. I never had any understanding of that kind.

Mr. GESELL. Why was the certificate endorsed, Mr. Sawyer?

Mr. SAWYER. That I can't tell you. I don't remember. I don't remember when it was endorsed or why or anything about it.

Mr. GESELL. Well, now, you have been treasurer of this company. Why would you endorse a certificate? To make it negotiable?

Mr. SAWYER. Yes.

Mr. GESELL. In other words, to make it good collateral in the hands of the bank, wouldn't you?

Mr. SAWYER. I don't think that was the purpose.

Mr. GESELL. That would be the effect of it if the bank wanted it as collateral. They'd want it endorsed.

Mr. SAWYER. That I couldn't say.

Mr. GESELL. Supposing you were in the bank and you had a certificate of deposit. You also have a loan out. You wanted to have some recourse against the certificate of deposit. You'd want to have it endorsed, wouldn't you?

Mr. SAWYER. That I couldn't say. The bank never asked me to endorse the certificate and I don't know anything about the endorsement, when it was or—

Mr. GESELL. If the bank didn't ask you to endorse this, then somebody signed your name to it improperly, because it says, "Bearing the following endorsements: That of the Illinois Bankers Life Assurance Co. by yourself as treasurer." Who asked you to, if the bank didn't?

Mr. SAWYER. I can't recall. It was endorsed with my name.

Mr. GESELL. This was a personal obligation of you and Mr. Martin and Mr. Nichol at the bank?

Mr. SAWYER. I had no knowledge of that at all. The notice that I signed had no reference to this certificate in any way, shape, or form.

Mr. GESELL. You knew you were borrowing money in your individual capacity, didn't you?

Mr. SAWYER. Yes, sir.

Mr. GESELL. Then, what was the certificate of deposit doing up there under any possible circumstances?

Mr. SAWYER. As I said, my recollection of it is exactly as Mr. Martin's testimony. It was held there not to be cashed at the bank.

Mr. GESELL. Do you know it was trickling back to the company every now and then when the examiners came in?

Mr. SAWYER. I know it has been in our possession.

Mr. GESELL. Why did you have to have it back?

Mr. SAWYER. Well, I can't recall. I think the examiners questioned where it was and they seemed satisfied with it. That is my recollection.

Mr. GESELL. They seemed satisfied with it when they saw you had it in your own hands?

Mr. SAWYER. Well, I can't recall.

Mr. GESELL. Did you have any discussions with the examiners about it?

Mr. SAWYER. That I cannot recall.

Mr. GESELL. The only thing you can really recall about this is that you can recall that what Mr. Martin said was true?

Mr. SAWYER. That is practically it; yes.

Mr. GESELL. Well, now, Mr. Sawyer, you are a responsible officer of this company. You were on the note for \$150,000 loaned. You were also treasurer of this company and secretary of the company, and charged with pretty deep obligations, I suppose, under the by-laws, to guard its own assets. Now, here an asset of the company gets mixed up in one way or another with a personal loan of yourself and Mr. Martin and Mr. Nichol, and I think we deserve a little better explanation from you than the fact that you just can't recall. You must have some independent knowledge of this thing and what happened and how it was handled, and that is what the committee wants.

Mr. SAWYER. I have no knowledge whatever that it was held as collateral.

The VICE CHAIRMAN. You have knowledge that it was held in the bank. You also said that it was to be held there not to be cashed.

Mr. SAWYER. That was my understanding.

The VICE CHAIRMAN. That, of course, is no explanation of how that situation came about. That describes an existing situation. What do you know about why that was held by the bank under this particular arrangement?

Mr. SAWYER. I can't give you the reason why. I don't know.

The VICE CHAIRMAN. You have no understanding of it at all?

Mr. SAWYER. No.

Mr. GESELL. What did you understand should be the proper answer to the annual convention form statement, Mr. Sawyer, under item 15, in which it asks, "Were any of the stocks, bonds, or other assets of the company loaned during the year covered by the statement?"

Mr. SAWYER. It should be known.

Mr. GESELL. Your impression was that the bank had no recourse against this certificate of deposit whatsoever?

Mr. SAWYER. Not to my knowledge.

Mr. GESELL. Then, why did they want it?

Mr. SAWYER. I understood it was just to be kept there, not to be cashed, kept there as an asset of the company. That is all my understanding.

The VICE CHAIRMAN. That is no explanation. That doesn't give a response to the question, "Why?" Why was it held there?

Mr. SAWYER. I have no knowledge of it.

The VICE CHAIRMAN. You do remember that it was held there under these circumstances, that it was not to be cashed?

Mr. SAWYER. That is right.

The VICE CHAIRMAN. And you were the treasurer of the company?

Mr. SAWYER. Yes.

The VICE CHAIRMAN. But you have no understanding or thought at all on the subject as to why that was there, or why it had been endorsed by the company?

Mr. SAWYER. That is correct.

The VICE CHAIRMAN. That is your testimony?

Mr. SAWYER. Yes.

Mr. GESELL. By the way, Mr. Sawyer, did you receive any money around about this time in connection with these transactions?

Mr. SAWYER. No, sir.

Mr. GESELL. You don't recall receiving \$60,000 in 1932?

Mr. SAWYER. I received no cash.

Mr. GESELL. What did you receive?

Mr. SAWYER. Well, I received credit against my obligation at the bank. It was never any payments made at all.

Mr. GESELL. Well, now, you just explain what you did receive. You mean your obligation at the Boulevard Bridge Bank?

Mr. SAWYER. Yes.

Mr. GESELL. You were obligated on that note?

Mr. SAWYER. That is right.

Mr. GESELL. And you received a credit of \$60,000 against that obligation?

Mr. SAWYER. No; there was no credit received. It was to relieve my obligation.

Mr. GESELL. Who relieved your obligation for you?

Mr. SAWYER. Well, it hasn't been relieved.

Mr. GESELL. We were talking about \$60,000. Somebody paid \$60,000 somewhere, didn't they?

Mr. SAWYER. No; I never received any money.

Mr. GESELL. You mean that your obligation at the bank was just reduced \$60,000?

Mr. SAWYER. That I can't answer. I don't know.

Mr. GESELL. I don't want to confuse you, Mr. Sawyer.

Mr. SAWYER. I know.

Mr. GESELL. I want you to tell me just how you received \$60,000 in 1932, or 1931, wasn't it?

Mr. SAWYER. I did not receive \$60,000. I didn't receive any money.

Mr. GESELL. You referred to some credit that you received?

Mr. SAWYER. Yes.

Mr. GESELL. What was that credit? Was that for \$60,000?

Mr. SAWYER. Well, it is hard for me to recall. There was an agreement made that my stock would be financed.

Mr. GESELL. That your stock was going to be financed?

Mr. SAWYER. That's right.

Mr. GESELL. Now, who was going to finance your stock?

Mr. SAWYER. Mr. Martin.

Mr. GESELL. And that is the 200 shares that you own now?

Mr. SAWYER. Yes, sir.

Mr. GESELL. And he agreed to purchase those shares for you?

Mr. SAWYER. He was to finance them for me.

Mr. GESELL. He undertook to take up the entire note and therefore you got the stock free?

Mr. SAWYER. Well, I was to pay for it. He was to see that it was financed for me.

Mr. GESELL. Did you receive the shares?

Mr. SAWYER. Yes; they are issued in my name.

Mr. GESELL. Did you pay anything for them?

Mr. SAWYER. Well, yes. I have paid certain moneys, I couldn't tell how much, on the obligation. Over a period of years I wouldn't know what it was without going into records, and those I can't give you.

Mr. GESELL. Well, I don't understand how this \$60,000 figure in 1931 come into this. I understand you didn't receive \$60,000 in cash, but you did get the benefits of the amount of \$60,000 somewhere.

Mr. SAWYER. Yes; somewhere. I can't recall just exactly how it was transacted. If I could look into the records or go back through correspondence, I might be able to recall. That was 1931 and I can't recall.

Mr. GESELL. Did you receive any other credits, Mr. Sawyer? Wasn't there a \$20,000 credit in 1932?

Mr. SAWYER. Well, I wouldn't know if there were other credits. I'd have to see it. I can't recall.

Mr. GESELL. When you refer to credits, do you mean that someone else paid that much on your note at the Boulevard Bridge Bank, and that therefore you were relieved to that extent?

Mr. SAWYER. Well, that is practically true; yes.

Mr. GESELL. I am getting a little impatient, Mr. Sawyer, because I want to know what is true, not what is practically true. I want you to tell us what happened. You are the person who knows this, not I.

Mr. SAWYER. Well, there were obligations out in reference to the formation of this company, and Mr. Martin had agreed with me to finance my obligations, and this money was used to finance my obligations of these transactions, and I was compelled to make a return.

Mr. GESELL. You say by making a return you count it as income to you?

Mr. SAWYER. Yes.

Mr. GESELL. What happened was, as a net effect of it was, as a result of these credits, you received your shares free.

Mr. SAWYER. Well, they are still up as collateral.

Mr. GESELL. You are still obligated on the note?

Mr. SAWYER. Oh, not all the notes.

Mr. GESELL. We are talking about this note that you and Mr. Martin and Mr. Nichol signed together on the Boulevard Bridge Bank.

Mr. SAWYER. That's been paid off.

Mr. GESELL. The stock is now pledged elsewhere, is it?

Mr. SAWYER. Yes.

Mr. GESELL. Where is it pledged now?

Mr. SAWYER. Well, I would have to look at the records.

Mr. GESELL. Actually, Mr. Sawyer, this is all Mr. Martin's problem, isn't it? Do you sign such notes and put your stock into such places as he suggests?

Mr. SAWYER. No; that is not true. I wouldn't know what banks. Some of it is in Mr. Martin's name, and some of it is in my name, and I don't know exactly which banks it is pledged at.

Mr. GESELL. How many shares do you own in the company now?

Mr. SAWYER. Three hundred and seventy.

Mr. GESELL. Did you pay for those shares?

Mr. SAWYER. They are not paid in full.

Mr. GESELL. Did you pay any money on it other than by way of these credits?

Mr. SAWYER. Yes; I paid over \$5,000.

Mr. GESELL. How many shares did you say?

Mr. SAWYER. Three hundred and seventy.

Mr. GESELL. They are a hundred dollars each, aren't they?

Mr. SAWYER. Yes, sir.

Mr. GESELL. That is, \$37,000 worth of stock?

Mr. SAWYER. Yes.

Mr. GESELL. You paid about five thousand?

Mr. SAWYER. About.

Mr. GESELL. The rest of it you have gotten by credits?

Mr. SAWYER. Yes.

Mr. GESELL. In other words, Mr. Martin has paid for the stock.

Mr. SAWYER. Well, I still owe for the stock. It isn't all free yet.

Mr. GESELL. But to date he has paid for it?

Mr. SAWYER. The stock is pledged under loans where I am on the note.

Mr. GESELL. Do you actually understand these credits at all, how they happened or what they are?

Mr. SAWYER. They are credits for obligations that arose in the formation of the legal reserve company.

Mr. GESELL. Well, now, what consideration did you give Mr. Martin in return for these credits of \$80,000; they were, weren't they?

Mr. SAWYER. I don't quite understand you.

Mr. GESELL. The credits amounted to \$80,000, didn't they?

Mr. SAWYER. I don't know. I would have to see that.

Mr. GESELL. You remember a \$60,000 credit in 1931?

Mr. SAWYER. That is my recollection.

Mr. GESELL. And there was another credit?

Mr. SAWYER. Yes.

Mr. GESELL. Do you know how much that was?

Mr. SAWYER. Only you asked me if it was twenty, and I think that is correct.

Mr. GESELL. Now, these \$80,000 in credits; what did you do in return for them?

Mr. SAWYER. Nothing.

Mr. GESELL. You didn't give any consideration?

Mr. SAWYER. No.

Mr. GESELL. They were just gifts to you by Mr. Martin?

Mr. SAWYER. Mr. Martin made an agreement with me that he would finance my stock.

Mr. GESELL. Well, then, the fact——

Mr. SAWYER. At the time the company was formed.

Mr. GESELL. The fact that you are on these notes is again sort of window dressing. These are definitely Mr. Martin's obligations, aren't they?

Mr. SAWYER. The stock is in my name. The bank wouldn't loan on the stock I would take——

Mr. GESELL. What did you do to get Mr. Martin to finance your stock in this company? What was the consideration for that?

Mr. SAWYER. There was no consideration. I wanted to go on with the company in 1929, and I wanted to stay with the company and become a stockholder.

Mr. GESELL. You weren't considered about your financial security in the future in the way Mr. Woods and Mr. Ebersole and Mr. Work were?

Mr. SAWYER. I know nothing about them. I was a young man. I had grown up with the company as a boy, and I wanted to continue with it.

Mr. GESELL. When did he agree to pay for your stock?

Mr. SAWYER. You mean when did he——

Mr. GESELL. Make the original commitments?

Mr. SAWYER. I wouldn't know that.

Mr. GESELL. That was before the company was formed?

Mr. SAWYER. Well, I would say it was; yes.

Mr. GESELL. Was part of his consideration for that agreement the fact that you as a director of the association agreed to carry this thing on?

Mr. SAWYER. No, sir; I wanted to carry it on.

Mr. GESELL. And this was purely good will on his part?

Mr. SAWYER. Well, he needed assistance to go on with it and I had been with the company a long time and wanted to stay.

Mr. GESELL. You got a salary, didn't you?

Mr. SAWYER. Yes.

Mr. GESELL. Adequate salary for your work?

Mr. SAWYER. Yes.

Mr. GESELL. Then why should he finance your stock for you, in addition?

Mr. SAWYER. He wanted me to be a part of the company, the same as I wanted to be a part of the company.

Mr. GESELL. You mean that he was so anxious to have you with his company that he let you get \$37,000 worth of stock for \$5,000? That just doesn't ring a bell with me at all, Mr. Sawyer. You were a young man and you were willing to work for your salary, weren't you?

Mr. SAWYER. Yes; but I wanted to become a part of the company. As I said, I had grown up with it, and worked there since a small boy, and I wanted to continue so.

Mr. GESELL. Well, now, will you step down and perhaps we can get an explanation of this from Mr. Martin.

Will you come up, Mr. Martin.

Mr. MARTIN. Surely.

TESTIMONY OF HUGH T. MARTIN, PRESIDENT, ILLINOIS BANKERS
LIFE ASSURANCE CO., MONMOUTH, ILL.—Resumed

Mr. GESELL. Mr. Martin, you have just heard Mr. Sawyer's testimony, have you not, sir?

Mr. MARTIN. Yes.

Mr. GESELL. Can you give us some explanation of the transactions he is discussing?

Mr. MARTIN. Well, I think so; yes. I told him that I thought we could work it out, either through loans or in some way or other, and get the new corporation started and built up.

The VICE CHAIRMAN. Exactly when was that?

Mr. MARTIN. About the time we organized.

The VICE CHAIRMAN. Prior to the reinsurance contract?

Mr. MARTIN. Yes.

Mr. GESELL. So, Mr. Sawyer knew at that time he probably wouldn't have to put up any money for his stock.

Mr. MARTIN. Well, he didn't know that he wouldn't, but it was rather indefinite. We didn't know what we could work out.

Mr. GESELL. Well, now, did you give him a \$60,000 credit in 1931?

Mr. MARTIN. I don't know what the credit was in 1931 or 1932 or those years. I don't know just what it was.

Mr. GESELL. He has testified they were \$60,000 in 1931 and he believes in 1932, \$20,000. How did you give him those credits?

Mr. MARTIN. The payments were made on this and other obligations.

Mr. GESELL. In other words, you made payments in that amount against the note which was secured by the stock, the \$150,000 note.

Mr. MARTIN. I don't know whether it was made on that one or not, or some other note was made in its place. Whether it was that amount, I don't know. But payments were made on his obligations with regard to the stock.

Mr. GESELL. Those payments were not made in your name, but on his behalf against the notes?

Mr. MARTIN. They were probably made in my name or just were made not on anybody's name in particular. He was obligated on the notes and payments were made on them.

Mr. GESELL. By yourself?

Mr. MARTIN. Yes.

Mr. GESELL. Were those payments in your mind made definitely for the benefit of Mr. Sawyer?

Mr. MARTIN. Well, it was made definitely. I mean, there were payments made definitely for his benefit. I don't know of any particular one—

Mr. GESELL. Did you tell him at the time that you made them for him?

Mr. MARTIN. He knew the payments were being made, but whether I said, "This is for you and that is for me," or that is anything of that kind, I don't think so. The payments were just made and the loans were reduced.

Mr. GESELL. Consequently, his obligation was reduced to the amount of the credits?

Mr. MARTIN. Yes.

Mr. GESELL. Thank you, sir. Will you step down again?

Mr. Woods, can you return to the stand, please?

TESTIMONY OF WILLIAM H. WOODS, FORMER PRESIDENT, ILLINOIS BANKERS LIFE ASSURANCE CO. AND ILLINOIS BANKERS LIFE ASSOCIATION, MONMOUTH, ILL.—Resumed

Mr. GESELL. Mr. Woods, when you were on the stand before, I asked you whether it was not a fact that the reinsurance agreement entered into in 1929 was, except for a few formal matters, identical with the agreement proposed by Mr. Martin and Mr. Matthews to the corporation in 1925.

Mr. WOODS. Well, now, you have the two copies here and I haven't had an opportunity to compare those copies. It seems to me that the two copies would speak for themselves on that. I wouldn't want to say that they were, and I wouldn't want to say that they weren't.

Mr. GESELL. The agreement of 1925 is set forth in the minutes of the special meeting of the members of the Illinois Bankers Life Association, held December 30, 1925, and signed by yourself, is it not?

Mr. WOODS. Yes, sir.

Mr. GESELL. You recognize those as the minutes setting out that agreement?

Mr. WOODS. Yes, sir.

Mr. GESELL. I'd like to offer these minutes for the record.

The VICE CHAIRMAN. They are admitted.

(The minutes referred to were marked "Exhibit No. 1348-17" and are included in the appendix on p. 7038.)

Mr. GESELL. Now, Mr. Woods, I asked you about the litigation with respect to these agreements, and I perhaps didn't make myself fully clear to you. Do you remember some issues that arose in 1924 and 1925 with respect to a proxy fight?

Mr. WOODS. I really do.

Mr. GESELL. You do?

Mr. WOODS. Yes, sir.

Mr. GESELL. Well, now, will you tell us what happened at that time?

Mr. Woods. It will take until after Christmas if I tell you all of it.

Mr. GESELL. I'd like a rather complete story from you, but I think you will find it won't take you that long.

Mr. WOODS. Would it be all right just to ask me questions on that and let me answer those questions? I don't know where to start or where to begin.

Mr. GESELL. You just start. Well, let me ask you this: Did the officers of the company, the trustees of the association, learn that the agents had been gathering proxies to oust them from office?

Mr. WOODS. Yes, sir.

Mr. GESELL. When did you learn that?

Mr. WOODS. I can't give you the date.

Mr. GESELL. Approximately.

Mr. WOODS. The first I knew of it was we got a few of these proxies from one of the agents in Texas. That was supposed to go to the general agent at Dallas. Instead of that, he sent it to the home office.

Mr. GESELL. That was about in 1924, was it not?

Mr. WOODS. Well, I tell you, I don't like to say definitely on the date, but it was about that time, I think; yes.

Mr. GESELL. What did the management of the company do?

Mr. WOODS. Well, we got busy.

Mr. GESELL. Tell us just what you did when you got busy.

Mr. WOODS. We got out and tried to get proxies.

Mr. GESELL. How did you do it?

Mr. WOODS. Well, there were several features to that. I went and saw some of the agents myself.

Mr. GESELL. And got those agents to work for you, in other words?

Mr. WOODS. No; I didn't.

Mr. GESELL. Tried, I mean?

Mr. WOODS. Yes, sir. [Laughter.]

Mr. GESELL. You tried to get them to work for you?

Mr. WOODS. Yes, sir; I did.

Mr. GESELL. Well, that didn't succeed. What else did you do?

Mr. WOODS. Well, we got out a circular, I think two of them, if I remember, explaining the situation.

Mr. GESELL. Did you also hire a man named Giltner to solicit some of them for you on the west coast?

Mr. WOODS. No, sir; I did not.

Mr. GESELL. Did you have any recollection with respect to that at all?

Mr. WOODS. I had him out there doing some conservation work.

Mr. GESELL. You don't recall that he was doing any proxy work for you?

Mr. WOODS. I don't recall that he was.

Mr. GESELL. What other steps did you take for getting the proxies?

Mr. WOODS. Well, that is our main source of battle, was through the mail.

Mr. GESELL. You had the lists, I take it, and were able to mail out to everyone?

Mr. WOODS. Yes, sir.

Mr. GESELL. Did the company pay for them?

Mr. WOODS. No, sir.

Mr. GESELL. The officers themselves?

Mr. WOODS. Yes, sir.

Mr. GESELL. How much did it cost you?

Mr. WOODS. I don't know.

Mr. GESELL. Approximately.

Mr. WOODS. You mean that proxy fight?

Mr. GESELL. Considerable money?

Mr. WOODS. Yes.

Mr. GESELL. Now, did you have a show-down with the agents?

Mr. WOODS. Yes, sir.

Mr. GESELL. Will you tell how that worked out. What happened there?

Mr. WOODS. I had a show-down after the thing was over. There wasn't a single one of the agents who wasn't working on that proxy business.

Mr. GESELL. Against the management?

Mr. WOODS. Yes, sir; so far as I know.

Mr. GESELL. You got enough proxies to keep yourself in office, didn't you?

Mr. WOODS. Yes, sir.

Mr. GESELL. And then what kind of a show-down did you have with the agents after that?

Mr. WOODS. After that, they were very reconcilable; after that thing. We got out and went after these agents. I did that very largely myself. That is to say, I don't mean that I did it myself, but I went with three or four others from the company there to the different agencies. We had agency meetings, and we got every agent except one that I remember, every one of our general agents, right back into the fold, and they went to work.

Mr. GESELL. Well, now, did you have to pay these agents anything?

Mr. WOODS. No, sir; they had been promised too much before we got there. [Laughter.]

Mr. GESELL. Who had been promising that money, Mr. Woods?

Mr. WOODS. The fellows working on proxies.

Mr. GESELL. You mean the group that was trying to oust you people?

Mr. WOODS. Mr. Hallam particularly.

Mr. GESELL. Who is Mr. Hallam?

Mr. WOODS. A former director.

Mr. GESELL. And he was trying to get back into power?

Mr. WOODS. He sure was.

Mr. GESELL. Well, now, did you make any offers to the agents to subsidize them to work on your behalf?

Mr. WOODS. No, sir. Will you ask me that question again? I might have misunderstood that.

Mr. GESELL. I will ask it in perhaps a little different language. Did you offer any compensation, special bonuses, of any sort?

Mr. WOODS. No, sir.

Mr. GESELL. Did you subsidize them in any way?

Mr. WOODS. No, sir.

Mr. GESELL. Why did the agents want to oust you people from the management?

Mr. WOODS. Simply because they misunderstood the whole situation.

Mr. GESELL. They had been advised what?

Mr. WOODS. They had been advised that they were going to be on the board, every darn one of them. He was either going to be on the board or he was going to be secretary or something of that kind. That is what I found in my investigation of this thing.

Mr. GESELL. After that, the directors of the association passed resolutions staggering the term of service, did they not, to make it more difficult for anyone to oust them in the future?

Mr. WOODS. I don't remember about that. I don't know what you refer to.

Mr. GESELL. And you don't recall any subsidization of agents of any sort in connection with this thing?

Mr. WOODS. No; I don't.

Mr. GESELL. Any raising of their commissions?

Mr. WOODS. No, sir.

Mr. GESELL. Any granting of additional office expenses?

Mr. WOODS. Not to my recollection. Of course, the agency manager might have had something to do with something of that kind. I can't remember anything of that kind. I am very sure I didn't. I am quite sure that I didn't.

Mr. GESELL. One other thing that I wanted to ask you before we get further along: You and several of your fellow officers in the association had made loans from it, had you not?

Mr. WOODS. Yes, sir.

Mr. GESELL. Sold mortgages to it?

Mr. WOODS. Well, that was the early part of my administration. We didn't have very much money to loan at that time.

Mr. GESELL. You and Mr. Hallam sold an office building to the association, did you not, at a profit of around thirty or forty thousands dollars?

Mr. WOODS. We did not.

Mr. GESELL. What profit?

Mr. WOODS. About \$15,000. The enhanced value of it was a good deal more than was accounted for.

Mr. GESELL. You had been borrowing money from the company on collateral, had you not?

Mr. WOODS. I didn't on collateral loans. I borrowed some money there on real estate.

Mr. GESELL. In the report for 1926 of the insurance examiners, there are shown loans of one kind and another to the officers, directors, or trustees, of \$91,200. That is correct, is it not?

Mr. WOODS. I conclude that it is.

Mr. GESELL. Is that about the whole amount these loans ran to at any one time?

Mr. WOODS. That was very largely loans on real estate; yes, sir. They were all paid.

ILLINOIS BANKERS—THE LINCOLN SECURITIES CO. LOAN

Mr. GESELL. I want to come down to a discussion of a loan which was made by the Illinois Bankers Life Assurance Co. to the Lincoln Securities Co. Do you recall that loan?

Mr. WOODS. Yes, sir.

Mr. GESELL. Do you recall when it was made?

Mr. WOODS. I think it was in 1930. I wouldn't be positive about that.

Mr. GESELL. May I show you a copy of the minutes of a meeting of the board of directors of the Illinois Bankers Life, held June 13, 1930. That was the date of the loan, was it not?

Mr. WOODS. January 13.

Mr. GESELL. January 13, 1930. Do you recognize that as the minutes at which that loan was approved?

Mr. WOODS. That is a meeting I never attended.

Mr. GESELL. Mr. Woods presented to the board a suggestion of a loan that states—you must have been there.

Mr. WOODS. No, sir; I was not there.

Mr. GESELL. You were not present at that meeting?

Mr. WOODS. No, sir.

Mr. GESELL. Will you step down for a minute?

Mr. Sawyer.

TESTIMONY OF A. T. SAWYER, ILLINOIS BANKERS LIFE ASSURANCE CO., MONMOUTH, ILL.—Resumed

Mr. GESELL. Mr. Sawyer, I show you what purports to be the minutes of a meeting of the board of directors of the Illinois Bankers Life Assurance Co., held January 13, 1930. Do you recognize your signature on that?

Mr. SAWYER. Yes, sir.

Mr. GESELL. That minutes states that Mr. Woods was there, does it not?

Mr. SAWYER. Yes, sir.

Mr. GESELL. Was he there?

Mr. SAWYER. It so states. To my recollection it is true.

Mr. GESELL. Is that your recollection of what happened?

Mr. SAWYER. That is my recollection of what happened; yes.

Mr. GESELL. Will you read those minutes to the committee, please?

Mr. SAWYER [reading from "Exhibit No. 1348-18"]:

A meeting of the Board of Directors of Illinois Bankers Life Assurance Company was held on January 13, 1930.

The following Directors were present: Messrs. W. H. Woods, J. R. Ebersole, A. T. Sawyer, and R. M. Work.

Mr. GESELL. Do you see Mr. Woods' name mentioned there?

Mr. SAWYER. Yes; I read it.

Mr. GESELL. Whom do you say is present?

Mr. SAWYER. Messrs. W. H. Woods, J. R. Ebersole, A. T. Sawyer, and R. M. Work.

Mr. GESELL. And that is your recollection as to who was there?

Mr. SAWYER. Yes, sir.

Mr. GESELL. Go ahead.

Mr. SAWYER [reading further from "Exhibit, No. 1348-18"]:

Mr. Woods presented to the Board a suggestion of a loan of Two Hundred and Fifty Thousand Dollars (\$250,000) to Lincoln Securities Company, with assets of from \$4,000,000 to \$5,000,000. Common and preferred stock will be put up as collateral security to the demand note of the Securities company, bearing 6% interest.

We now have a certificate of deposit of \$100,000, drawing but 2% interest and Liberty Bonds of \$100,000, drawing 3½% and 4¼%. It is suggested that

these low rates of interest might be improved by making the loan suggested and depositing other securities with the State Department in place of those lifted. Director Martin, who knows these properties, recommends this loan.

Motion was duly made, seconded, and carried that the President be authorized to close a loan of \$250,000 to the Lincoln Securities Company on its demand note, drawing 6% interest, the same to be further secured by common and preferred stock of Hotel LaSalle Company as collateral, the loan not to exceed a rate of \$150.00 per share on the common stock and \$80.00 per share on the preferred stock of the Hotel LaSalle Company.

On motion duly made and seconded, the death and disability claims paid during the month of December 1929, which were presented, were approved.

On motion, the meeting adjourned.

Mr. GESELL. So at that meeting the Illinois Bankers Life Insurance Co. authorized a loan of \$250,000 to the Lincoln Securities Co.

Mr. SAWYER. Yes, sir.

Mr. GESELL. I would like to offer this minute for the record.

(The minutes referred to were marked "Exhibit No. 1348-18" and are included in the appendix on p. 7043.)

Mr. GESELL. Mr. Sawyer, what was the Lincoln Securities Co.?

Mr. SAWYER. Well, this loan had been discussed informally some time before, and it is my recollection that it was an investment company in Chicago. That is about all I can tell you about it. I know no more about it now.

Mr. GESELL. Had they made application for the loan in the regular orderly manner?

Mr. SAWYER. As far as I know, yes.

Mr. GESELL. Do you know whether they had or not?

Mr. SAWYER. No; I don't. I don't recollect.

Mr. GESELL. Do you know why they wanted the money?

Mr. SAWYER. I do not.

Mr. GESELL. Do you recall that a loan of \$200,000 and another loan of \$50,000 was made to the Lincoln Securities Co. on January 28 and January 15, 1930?

Mr. SAWYER. Well, this is, or these are the loan sheets. They seem to be in order.

Mr. GESELL. They are kept under your supervision and direction, aren't they?

Mr. SAWYER. Indirectly. They are in the investment department. I am not in charge of investments. Those were kept under the supervision of Mr. Woods.

Mr. GESELL. Those were kept under the supervision of Mr. Woods?

Mr. SAWYER. Yes.

Mr. GESELL. Mr. Woods, will you please come back, sir?

TESTIMONY OF WILLIAM H. WOODS, MONMOUTH, ILL.—Resumed

Mr. GESELL. Mr. Woods, do you recall this loan now?

Mr. WOODS. I know of the loan.

Mr. GESELL. You don't believe you were there at the time?

Mr. WOODS. I do not and I was not.

Mr. GESELL. You are quite certain of that?

Mr. WOODS. Yes, sir.

Mr. GESELL. And you disagree with the minutes of Mr. Sawyer's testimony?

Mr. WOODS. I absolutely do.

The VICE CHAIRMAN. May I ask how you are so sure that you were not at the meeting in 1930? I am interested to know, because from time to time it surprises me to find how clear people can be on some subjects.

Mr. WOODS. My recollection is that that loan never was discussed at a board meeting.

The VICE CHAIRMAN. Is there any specific reason why you have a very clear recollection of that loan of all loans that have been discussed? Can you help me out a little more by saying why you are so sure of remembering that particular loan? The minutes seem to indicate that you recommended the loan. The minutes indicate that you were present.

Mr. WOODS. I wasn't present at that meeting, and that is a loan that I knew nothing about, to speak of.

Mr. GESELL. You say you know it was discussed informally. Whose idea was it?

Mr. WOODS. It was Mr. Martin's suggestion.

Mr. GESELL. Did you know why that loan was being made?

Mr. WOODS. I did not.

Mr. GESELL. Lincoln Securities hadn't asked for the money, had it?

Mr. WOODS. No. It came from Mr. Martin.

Mr. GESELL. It was Mr. Martin's idea, was it not?

Mr. WOODS. That is my understanding.

Mr. GESELL. He wasn't connected with the Lincoln Securities Co., was he?

Mr. WOODS. Not to my knowledge.

Mr. GESELL. Why are you so definite in your recollection about this? Did you not approve of the loan?

Mr. WOODS. No, sir; I did not.

Mr. GESELL. You did not approve of it?

Mr. WOODS. No, sir.

Mr. GESELL. Why not?

Mr. WOODS. I didn't think the security was ample.

Mr. GESELL. Have you any explanation for why this minute purporting to show your recommendation of the loan should have appeared in the official records of the company?

Mr. WOODS. No, sir.

Mr. GESELL. When is the first time you know that was in the official records of the company?

Mr. WOODS. I understood that in the last 2 or 3 weeks.

Mr. GESELL. Who told you?

Mr. WOODS. Mr. Sawyer.

Mr. GESELL. Did he come to talk to you about this?

Mr. WOODS. We were talking about it just the other day.

Mr. GESELL. What did Mr. Sawyer tell you?

Mr. WOODS. He said the minutes showed that that loan was O. K.'d by the board.

Mr. GESELL. And that you had presented the loan?

Mr. WOODS. That I was there.

Mr. GESELL. What did you say to Mr. Sawyer?

Mr. WOODS. I don't remember what I said to him with reference to that?

Mr. GESELL. It was just 3 weeks ago. You must remember what you said to him.

Mr. WOODS. I don't remember just what I said to him at that time, but in my own mind I knew I hadn't been there on that occasion.

Mr. GESELL. And you mean to say you can't remember what Mr. Sawyer said to you when he came to you about 3 weeks ago and mentioned this loan?

Mr. WOODS. We spoke about this loan, and about the board discussing this loan, and the action of the board on that loan. The board didn't have any meeting, to my knowledge.

Mr. GESELL. You are quite certain on that, aren't you?

Mr. WOODS. Yes, sir.

Mr. GESELL. Then when Mr. Sawyer told you that your name appeared at a board meeting as having approved this loan, didn't you say something to him?

Mr. WOODS. No; I didn't say a word.

Mr. GESELL. Why did Mr. Sawyer talk to you about this at all?

Mr. WOODS. I don't know.

Mr. GESELL. Did he come down from Chicago to see you?

Mr. WOODS. No, no; we were just talking about it in a general way.

Mr. GESELL. At Monmouth?

Mr. WOODS. Yes.

Mr. GESELL. Well, now, you recall the loan was made, do you not?

Mr. WOODS. Yes, sir.

Mr. GESELL. Two hundred thousand dollars was loaned on January 15, 1930, was it not, according to these loan records?

Mr. WOODS. Yes, sir; that is correct.

Mr. GESELL. And \$50,000 was loaned on January 28, 1930?

Mr. WOODS. Yes, sir.

Mr. GESELL. And you undertook correspondence, did you not, with the insurance commissioner, to take down the Liberty bonds which had been pledged with him and to substitute other collateral?

Mr. WOODS. We might have done that. I suspect we did. We needed the money.

Mr. GESELL. Did you not write Mr. Huskinson, the superintendent of insurance at Springfield, Ill., with respect to taking down this collateral and substituting other collateral?

Mr. WOODS. Yes.

Mr. GESELL. What you did was, was it not, to sell a certificate of deposit and to sell some Liberty bonds in order to get the cash to make this loan—good, high-grade securities, in other words?

Mr. WOODS. I conclude that is what we did.

Mr. GESELL. There is no question about it, is there?

Mr. WOODS. I don't think so.

Mr. GESELL. And then you substituted this collateral which you didn't think was satisfactory—

Mr. WOODS (interposing). I did that under instructions; yes, sir.

Mr. GESELL. Whose instructions?

Mr. WOODS. Mr. Martin's.

Mr. GESELL. Do you know what use the proceeds of this loan were put to?

Mr. WOODS. I do not.

The VICE CHAIRMAN. Mr. Woods, you were president of the company at that time?

Mr. WOODS. Yes, sir.

The VICE CHAIRMAN. And you are now telling us that you did not believe that this \$250,000 transaction was ever acted upon by the board of directors.

Mr. WOODS. I don't think so.

The VICE CHAIRMAN. Did you participate in the ultimate closing of the transaction, when the loan was actually made and securities substituted?

Mr. WOODS. I can't remember about that. I don't think I signed that check, but I wouldn't be positive about that. I might have, under instructions.

The VICE CHAIRMAN. You were the active head of the insurance company at that time?

Mr. WOODS. Yes.

The VICE CHAIRMAN. And this was a very substantial transaction?

Mr. WOODS. I was at the head nominally.

The VICE CHAIRMAN. Did you or did you not participate in the actual mechanics of closing the loan?

Mr. WOODS. I did not.

Mr. GESELL. You did participate in connection with writing to the superintendent of insurance and working out the substitution of the collateral?

Mr. WOODS. I did—under instructions.

Mr. GESELL. Who dictated the letters?

Mr. WOODS. I did.

Mr. GESELL. Under whose instructions were you acting?

Mr. WOODS. I was acting under Mr. Martin's instructions.

The VICE CHAIRMAN. You are saying that you disapproved in principle of making the loan, yet at the same time you participated as has been indicated.

Mr. WOODS. They called me to Chicago about this particular loan. They didn't tell me exactly what the collateral was going to be.

Mr. GESELL. Who called you to Chicago?

Mr. WOODS. Mr. Martin. Mr. Ramer was there. He told me about this loan, about the Lincoln Securities. That is the first time I had ever heard of it. I asked him—I told him I would like to see a statement of this Lincoln Securities, and he said, "Well, the Lincoln Securities doesn't make any statements." That is exactly the situation as far as that loan is concerned, and I don't think it would be very hard to guess why I wasn't very much in favor of the loan.

Mr. GESELL. I didn't quite hear what you said a minute ago. I was talking to Mr. Leary. What did they say to you?

Mr. WOODS. I just asked about Mr. Ramer. They were speaking of this Lincoln Securities. I asked him, or told him I would like to see a statement of the Lincoln Securities Co., and he said, "Well, the Lincoln Securities doesn't issue any statement."

Mr. GESELL. It subsequently failed, didn't it?

Mr. WOODS. I think so. I don't know whatever became of it.

Mr. GESELL. Will you step down, please? Mr. Martin, please.

TESTIMONY OF HUGH T. MARTIN, PRESIDENT, ILLINOIS BANKERS LIFE ASSURANCE CO., MONMOUTH, ILL.—Resumed

Mr. GESELL. Now, Mr. Martin, what was done with the proceeds of this loan to the Lincoln Securities Co. that we have been talking about?

Mr. MARTIN. The proceeds of this loan to the Lincoln Securities Co. were paid in to that company at that time, and a little later, then, the additional amount of \$50,000 was paid into the company. At the time of the first loan, I think it was, or maybe a little bit later, the Lincoln Securities Co. loaned me \$200,000.

Mr. GESELL. So that at about the same time that the Illinois Bankers Life Assurance Co. loaned \$200,000 to Lincoln Securities, it loaned \$200,000 to you?

Mr. MARTIN. I gave my note to them for that amount.

Mr. GESELL. Wasn't it the same day, Mr. Martin?

Mr. MARTIN. It may have been; I don't just recall.

Mr. GESELL. Well now, I show you a check of the Lincoln Securities Co., drawn to your order, in the amount of \$200,000, dated January 15, 1930, and purporting to be endorsed by yourself, and ask you if you do not recognize that as the check by which you received the \$200,000.

Mr. MARTIN. Yes; I think that was.

Mr. GESELL. That is the check and that is your endorsement, isn't it?

Mr. MARTIN. I think so.

Mr. GESELL. And January 15, according to Mr. Woods' testimony and the loan records that he was referring to, was the same date that \$200,000 was loaned by Illinois Bankers Life to Lincoln Securities Co.?

Mr. MARTIN. Yes. There was, of course, as you understand, an additional loan of \$50,000 made later.

Mr. GESELL. The fact that interests me is that you obtained \$200,000 from the bank at the same time it obtained \$200,000 from your company. Was that the arrangement that you had made with the Lincoln Securities Co. at the time you proposed this loan to the board of directors of your company?

Mr. MARTIN. I don't know. I don't know just exactly when they talked about this loan, when the matter came up. It was talked over with Mr. Stevens.

Mr. GESELL. Who is Mr. Stevens?

Mr. MARTIN. James W. Stevens. He was either the president or the chairman of the board of the Lincoln Securities Co.

Mr. GESELL. You talked it over with him?

Mr. MARTIN. I talked it over with him.

Mr. GESELL. Did you have any interest in the Lincoln Securities Co.?

Mr. MARTIN. No.

Mr. GESELL. Did you, in talking with Mr. Stevens, enter into an understanding that if you could arrange a loan to him, he in turn would loan \$200,000 to you?

Mr. MARTIN. No.

Mr. GESELL. These aren't two unrelated and distinct transactions, are they, Mr. Martin?

Mr. MARTIN. No; they are one and the same—they are closely related transactions.

Mr. GESELL. So closely you couldn't separate them? Isn't that true?

Mr. MARTIN. I think the loan was good on its merits made to the Lincoln Securities Co., without regard to any loan to me.

Mr. GESELL. But the quid pro quo for the loan to the Lincoln Securities Co. was the fact that they in turn would loan you, isn't that right?

Mr. MARTIN. No; that wasn't the idea.

Mr. GESELL. Will you explain it to us, please?

Mr. MARTIN. The idea was that the proceeds of this loan were turned over to Mr. Stevens, or to someone—to Mr. Stevens, and the money paid off a personal loan that had been originally made to me.

Mr. GESELL. Oh, you had borrowed money from Mr. Stevens.

Mr. MARTIN. Oh, I borrowed money from Mr. Stevens right along.

Mr. GESELL. And this \$200,000 check which I have here in my hand, the proceeds of that check were paid back to Mr. Stevens.

Mr. MARTIN. Were paid to Mr. Stevens.

Mr. GESELL. And Mr. Stevens was the chief officer of the Lincoln Securities Co.?

Mr. MARTIN. He was.

Mr. GESELL. And you had borrowed \$200,000 from him.

Mr. MARTIN. I had borrowed \$200,000 from him; yes.

Mr. GESELL. Was the money that you had borrowed from him money which you used to make these generous payments to Mr. Woods and Mr. Ebersole and Mr. Work?

Mr. MARTIN. I don't regard them in the matter of generosity, but that was money that I had paid to these men; yes.

Mr. GESELL. Well now, I see. You borrowed \$200,000 from Mr. Stevens.

Mr. MARTIN. Yes.

Mr. GESELL. You distributed that money to Mr. Work, Mr. Ebersole, and Mr. Woods. Is that correct?

Mr. MARTIN. That is correct.

Mr. GESELL. Then you arranged for your company to loan \$200,000 to the Lincoln Securities, right?

Mr. MARTIN. Yes. I arranged—

Mr. GESELL (interposing). The Lincoln Securities then loaned \$200,000 to you.

Mr. MARTIN. Yes.

Mr. GESELL. And you used it to pay off your obligation to Mr. Stevens, thus ending the rinky-dink, the circle—thus ending the circuitous transaction.

Mr. MARTIN. No; because in addition to that, there was another loan to the Lincoln Securities Co., made a little later.

Mr. GESELL. Of \$50,000.

Mr. MARTIN. With regard to which I had nothing to do. I mean, it had no relation to any payment to me.

Mr. GESELL. But I am talking about this \$200,000 loan.

Mr. MARTIN. I understand.

The VICE CHAIRMAN. There is one item in the chain that it occurs to me you might have left out. As I understand it, another element in the chain is that subsequent to your payments to Mr. Woods and these other gentlemen, the reinsurance contract was written pursuant to which the Association was reinsured with the Illinois Bankers' Life Assurance Co.

Mr. MARTIN. Yes; that came in some place in the meantime.

The VICE CHAIRMAN. It came in after you made the payments to Mr. Woods and the other members of the board of the association.

Mr. MARTIN. That is right.

The VICE CHAIRMAN. And prior to the \$200,000 loan from the insurance company to the bank which in turn came to you and back to Mr. Stevens.

Mr. MARTIN. That is right.

Mr. GESELL. Now, Mr. Martin, to your knowledge did this thing ever come before the Board of Directors of your company for consideration?

Mr. MARTIN. You mean that I had borrowed money from Mr.——

Mr. GESELL (interposing). I assume that that didn't come before the board. I meant did the loan of the Lincoln Securities come before the board?

Mr. MARTIN. I think so; yes.

Mr. GESELL. Were you present?

Mr. MARTIN. I wasn't at the meeting.

Mr. GESELL. What disclosure did you make to your fellow trustees with respect to this transaction?

Mr. MARTIN. To the fellow directors? I don't think I made any disclosure at the time.

Mr. GESELL. As to your interest, your personal interest in this transaction?

Mr. MARTIN. No.

Mr. GESELL. You knew, did you not, that the result of the transaction would be that Liberty bonds and certificates of deposit, good, high-grade securities, would be taken from the portfolio of the company, and the collateral of the Lincoln Securities put in its stead?

Mr. MARTIN. I didn't recall what collateral was sold or that part of it. I don't think I went into that.

The VICE CHAIRMAN. Is that because you didn't think that was important?

Mr. MARTIN. No; I just am answering from my recollection, you know, and it is almost 10 years ago, and it is rather hard to remember.

The VICE CHAIRMAN. I should think you might have the details of this pretty well in mind. It is a rather important transaction.

Mr. MARTIN. My recollection isn't as good as it was.

Mr. GESELL. Well, now, first of all, may I show you this letter, written to yourself by Mr. Huskinson, under date of January 20, 1930, in which he acknowledges receipt of the minutes of the meeting of your board with respect to this transaction dated January 15, 1930, which has been already placed in evidence, and in which he transmits to you the Liberty bonds, so you had knowledge of that, did you not?

Mr. MARTIN. I possibly did, but I didn't recall any such letter. I didn't recall that those bonds ever came to my hands.

Mr. GESELL. Now, may I ask you this. Who put up the collateral for the Lincoln Securities loan? Was that from the portfolio of Lincoln Securities? Was that Mr. Stevens' collateral, or whose was it?

Mr. MARTIN. State that again.

Mr. GESELL. The collateral which secured the \$200,000 loan of the

insurance company to Lincoln Securities, whose collateral was that?

Mr. MARTIN. Lincoln Securities?

Mr. GESELL. You say that was good, sufficient collateral.

Mr. MARTIN. I think so; yes.

Mr. GESELL. Of what did it consist?

Mr. MARTIN. Well, if you have those notes, I can answer it in detail. I can't exactly recall.

Mr. GESELL. The original collateral consisted of shares of the Hotel La Salle Co., did it not?

Mr. MARTIN. The original collateral, according to the record, consisted of 1,100 shares of common stock—no, of preferred stock—of the Hotel La Salle Co. I am not quite clear what that means here—and 750 shares of common stock of the Hotel La Salle Co.

Mr. GESELL. Then, following that additional collateral was placed against the loan, is that not true?

Mr. MARTIN. Following that, additional collateral was placed against the loan; yes.

Mr. GESELL. That additional collateral included some mortgages, did it not?

Mr. MARTIN. I think so.

Mr. GESELL. I think on the back of that sheet, sir, you will see what I have reference to.

Mr. MARTIN. Yes.

Mr. GESELL. There was in that a mortgage loan of Frances C. Zurawski, of \$60,000, a \$13,000 mortgage loan of Margaret M. O'Connor—is that correct?—a \$7,500 loan of Hugh T. Martin, a \$40,000 loan of Mary E. Zurawski, and a \$10,000 mortgage loan of John H. Passmore.

Mr. MARTIN. Yes.

Mr. GESELL. One piece of collateral there appears to have been one of your own mortgages with the Lincoln Securities. Is that correct?

Mr. MARTIN. That is correct.

Mr. GESELL. That got back in as collateral against this loan?

Mr. MARTIN. Yes.

Mr. GESELL. Who is Margaret O'Connor, who had the \$13,000 loan?

Mr. MARTIN. She is a young woman there in Chicago.

Mr. GESELL. Is she related to you in any way?

Mr. MARTIN. No; not at all.

Mr. GESELL. Who is Frances C. Zurawski?

Mr. MARTIN. She is a sister-in-law.

Mr. GESELL. She is your sister-in-law?

Mr. MARTIN. Yes.

Mr. GESELL. And there was a \$60,000 mortgage from her, was there not?

Mr. MARTIN. Yes.

Mr. GESELL. Is Mary E. Zurawski who had the \$40,000 mortgage loan related to you?

Mr. MARTIN. Yes; a sister-in-law.

Mr. GESELL. That was also in the collateral?

Mr. MARTIN. Yes.

Mr. GESELL. And is it not a fact that on the John H. Passmore \$10,000 mortgage loan you were comaker?

Mr. MARTIN. I think I am on the paper. I am not just sure whether I am comaker or not, but I am on the paper.

Mr. GESELL. And that is the same John H. Passmore who subsequently became connected with the Trust Co. of Chicago, is it not?

Mr. MARTIN. The same one; yes.

Mr. GESELL. Now, were these mortgage loans in good shape, in good condition?

Mr. MARTIN. I don't recall just what condition they were in.

Mr. GESELL. They proved not to be good loans, did they not?

Mr. MARTIN. The property is not as valuable now as it was due to the fact that a Negro housing project has been placed very close to it.

Mr. GESELL. Well, now, has the insurance company received any interest on those mortgages since they were taken over?

Mr. MARTIN. I don't know. These loans were originally made to the Illinois Life Insurance.

Mr. GESELL. These mortgage loans went into default as to interest, did they not?

Mr. MARTIN. I think they probably did.

Mr. GESELL. Perhaps I can refresh your recollection specifically in that connection by calling your attention to a copy of a letter addressed to you under date of October 19, 1938. The O'Connor loan as of that date had been in default since '35, had it not?

Mr. MARTIN. According to this record; yes.

Mr. GESELL. And the \$60,000 Frances C. Zurawski loan had been in default since '32 as to interest.

Mr. MARTIN. That is correct.

Mr. GESELL. Your own loan had been in default as to interest since 1932. Is that correct?

Mr. MARTIN. Yes; according to the record.

Mr. GESELL. And the Mary E. Zurawski loan for \$40,000 had been in default as to interest since 1932.

Mr. MARTIN. Yes.

Mr. GESELL. And the Passmore loan had been in default as to interest since 1932.

Mr. GESELL. Do you recognize this as a copy of a letter which was addressed to you by the investment department of your insurance company with respect to the status of those loans in October of 1938?

Mr. MARTIN. I don't recall anything about the letter. It appears to be that.

Mr. GESELL. You don't recall the letter now, but there is no question as to the identity of the letter, is there?

Mr. MARTIN. I don't think so.

Mr. GESELL. I would like to offer this letter for the record.

The VICE CHAIRMAN. It has been identified?

Mr. GESELL. I believe you said you had no question as to the authenticity of the letter.

Mr. MARTIN. I don't think so.

(The letter referred to was marked "Exhibit No. 1348-19" and is included in the appendix on p. 7044.)

Mr. GESELL. The Lincoln Securities Co. failed; did it not?

Mr. MARTIN. It went into receivership. I don't know the exact date.

Mr. GESELL. Do you recall that following the receivership there was some litigation involved in connection with this loan affecting the Illinois Bankers' Life Assurance Co.?

Mr. MARTIN. There was some litigation threatened.

Mr. GESELL. The Illinois Bankers' Life Assurance Co. settled for \$46,000 in that connection, or \$45,000; did it not?

Mr. MARTIN. I don't know, the record will show what that is.

Mr. GESELL. \$46,267. Is that not correct?

Mr. MARTIN. I think so.

Mr. GESELL. Are you familiar with the reasons why that settlement was made?

Mr. MARTIN. I think so.

Mr. GESELL. Can you explain them for us?

Mr. MARTIN. These loans, these mortgage loans, were all made by the Illinois Life Insurance Co.

Mr. GESELL. You had been connected with the Illinois?

Mr. MARTIN. A Chicago corporation.

Mr. GESELL. You had been connected with that company, had you not?

Mr. MARTIN. I had been counsel for that company, and when demand was made for additional collateral, the Lincoln Securities Co. turned over these mortgages.

Mr. GESELL. To the insurance company?

Mr. MARTIN. To the Illinois Bankers' Life Assurance Co.

However, the receiver of the Illinois Life Insurance Co. claimed that they were not really the property, or were not properly the property, of the Lincoln Securities Co. That is, they raised a question about whatever transfer there was. I don't know anything about it. I didn't know anything about that. But litigation was threatened, and the lawyers finally arranged a compromise.

Mr. GESELL. And as a result of it, your company agreed to settle for forty-six-thousand-two-hundred-and-odd dollars.

Mr. MARTIN. I think so; yes.

Mr. GESELL. Was the loan itself ever paid off, the \$200,000 loan?

Mr. MARTIN. No.

Mr. GESELL. It went overboard with the failure of the Lincoln Securities?

Mr. MARTIN. Yes, sir.

Mr. GESELL. So that this \$200,000 loan which you negotiated not only proved to be a total loss from the point of view of an investment, but cost your company some 46,200-odd dollars before you were—

Mr. MARTIN (interposing). Yes; but in all fairness—

Mr. GESELL (interposing). And those funds were the loss of the policyholders.

Mr. MARTIN. I don't know to what account that was charged. It was legal-reserve funds, it came out of the surplus of the company.

Mr. GESELL. In other words, it was a loss to the policyholders.

Mr. MARTIN. No; it was a loss to the company.

Mr. GESELL. It came from the surplus, not the reserve.

Mr. MARTIN. That is right. The reserves have to be maintained intact if the company is to be solvent and the reserves have never been touched. Mr. Gesell, I think it ought to be taken into account, however, that the collateral that was originally put up as security for this \$200,000 loan made by the loan of the Lincoln Securities Co., and of the \$50,000 loan, at the time the loan was made, was regarded as very high-class collateral. The stock of the Stevens Brothers Corporation had a book value of about, according to its balance sheet, \$600 a share. The

Lincoln Securities Co., was a corporation that had been in existence for a great many years which had capital of about \$1,000,000, over \$1,000,000 I think it was, of a par value of \$100 a share, and a surplus. I think at that time the surplus ran about an amount equal to the capital. At least that was the way that Mr. Stevens endeavored to maintain a basis as between the capital and surplus of his corporations.

The stock of the Hotel La Salle was not on the board, but it was currently valued, or quoted by reputable brokerage houses, at \$200 a share for the common, and \$108 a share for the preferred, and the stock of the Stevens Bros. Corporation was valued by the inheritance-tax authorities of the State of Illinois at just about this time—that is, the latter part, I think of '29—at \$200 a share, and the stock of the Lincoln Securities Co. was valued by the Inheritance Tax Department of the State of Illinois at, I think, \$100 a share, which would give the corporation a value over its liabilities of \$1,000,000. That was made by the inheritance-tax authorities, and may be regarded as ultraconservative.

Mr. GESELL. I don't suppose, however, you would agree that you would call ultraconservative the transactions whereby you borrowed money from Lincoln Securities under an arrangement which, in effect, resulted in the funds coming from your own company?

Mr. MARTIN. The question of its conservative character, in my opinion, would depend upon the collateral which was put up.

Mr. GESELL. And wouldn't involve the question of disclosure at all? In other words, when you propose a loan to your company, you don't feel that the question of disclosure of your interest in that loan has anything to do with the question?

Mr. MARTIN. Well, it is dependent on who else might be affected by it.

Mr. GESELL. You mean you looked at this as your company and you could do with it as you pleased?

Mr. MARTIN. No; I don't think so, but it wasn't a matter of a lot of stockholders involved whose interests would be affected and who would have a right to demand disclosure.

Mr. GESELL. Why didn't you borrow the money yourself directly from your company, in open fashion, and use that to pay off your obligation?

Mr. MARTIN. Because the collateral—it was a matter of—I did not have collateral for that purpose. I mean, the investment act of the State of Illinois would not permit a loan—an unsecured loan—made by me, or by other individuals. And if Mr. Stevens was willing to put up the collateral of his company, it seemed to be entirely all right.

Mr. GESELL. Even though he was willing to put up that collateral in order to enable you to pay off a loan to him of \$200,000?

Mr. MARTIN. If the collateral was, in my judgment, good.

Mr. GESELL. Now I would like to offer for the record at this time the check for \$200,000, dated January 15, 1930, drawn to the order of Hugh T. Martin, and endorsed by him, on the Lincoln Securities Co., which has been identified by the witness.

The VICE CHAIRMAN. It may be admitted.

(The check referred to was marked "Exhibit No. 1348-20" and is included in the appendix on p. 7047.)

MR. GESELL. Might I ask for about a 5-minute recess, so that we can catch up on ourselves here, and see if we can't expedite this a little?

THE VICE CHAIRMAN. We will stand in recess for about 5 minutes. (A brief recess was taken.)

THE VICE CHAIRMAN. The meeting will be in order.

MR. GESELL. Mr. Martin, will you return to the stand please, sir.

TESTIMONY OF HUGH T. MARTIN, PRESIDENT, ILLINOIS BANKERS
LIFE ASSURANCE CO., MONMOUTH, ILL.—Resumed

MR. GESELL. Mr. Martin, I don't believe the record is quite clear on the mechanics pursued in bringing about this reinsurance contract between the present Illinois Life Assurance Co. and the association.

MR. MARTIN. Correct.

MR. GESELL. I take it after the assurance company was organized and the contract had then been agreed to as between the assurance company and the association, that it was necessary to get the approval of the policyholders of the association to the reinsurance contract.¹

MR. MARTIN. I didn't quite get that, Mr. Gesell. After the legal-reserve company had been organized?

MR. GESELL. Yes; and the terms of the contract of reinsurance determined upon, it was necessary, was it not, to get the approval of the policyholders of the association?

MR. MARTIN. Yes.

MR. GESELL. How was that done?

MR. MARTIN. Well, it was necessary first to submit a contract of that kind to the insurance department to get their tentative approval and then a meeting had to be called of the stockholders of the legal-reserve company and of the members of the assessment association. Thirty days' notice had to be given of those meetings and the vote then taken on the reinsurance contract.

MR. GESELL. I assume that you, in getting the votes of the members of the association, solicited proxies in the regular manner?

MR. MARTIN. Oh, no.

MR. GESELL. You did not?

MR. MARTIN. I don't know what you mean "in the regular manner."

MR. GESELL. I suppose at other meetings you solicit proxies through the mails and then a group of proxyholders would come in and vote either for the officers or whatever action was to be taken. Is that what was done in this matter?

MR. MARTIN. No.

MR. GESELL. Or was the contract itself submitted to them?

MR. MARTIN. The contract has to be sent out 30 days in advance of the meeting.

MR. GESELL. To each?

MR. MARTIN. To each; and a proxy card was sent to him and, as I recall it, in this case there was a blank left on the proxy card. I don't know who the proxies ran to in this particular case, but room was left for him to put in another proxy.

¹The reinsurance contract was previously entered as "Exhibit No. 1348-14." see appendix, p. 7033.

Mr. GESELL. Other than someone designated?

Mr. MARTIN. Other than the one designated, and also a place as I recall it for him to indicate whether he favored the reinsurance or not so that in the event he did not favor it, the proxy would be voted; the vote would be voted against the reinsurance.

Mr. GESELL. How many members were there of the association at the time of the reinsurance—approximately? Was it around 70,000?

Mr. MARTIN. It may have been. I just can't exactly recall.

Mr. GESELL. Well, now, this reinsurance agreement which we already have a copy of in the record, can you tell us in a general way what its terms provided? I would be glad to let you have a copy in front of you.

Mr. MARTIN. Let me have a copy.

Mr. GESELL. We have the contract in the record. I am only anxious for a general summary of its provisions.

Mr. MARTIN. Well, it was a contract of reinsurance between the legal-reserve company, the new company, and the assessment association, and the agreement was that the assessment association transferred its risks and all its legal liabilities and assets to the reinsuring company, to the legal-reserve company, and the legal-reserve company undertook to assume all those risks, or liabilities, under the policies that had been issued to the association, issued by the association.

Mr. GESELL. So that what happened in effect was that the assets of the assessment association company were taken over by the new legal-reserve company, the present company, to be held by them in the manner of trust funds for the benefit of assessment policyholders?

Mr. MARTIN. Correct.

Mr. GESELL. Those policyholders had then, I take it, the same rights, the same contract privileges, that they had under the assessment company, or the association itself?

Mr. MARTIN. Yes.

Mr. GESELL. Their contracts at that stage of the procedure were not on a legal-reserve basis?

Mr. MARTIN. No.

Mr. GESELL. The legal-reserve company had simply promised to fulfill the obligations that the association owed to these assessment policyholders?

Mr. MARTIN. Yes.

Mr. GESELL. In order to put the policies onto a legal-reserve basis, it was necessary for an additional operation, the rewrite or transfer of the policies from the assessment form into the legal-reserve form?

Mr. MARTIN. Yes; if they went on a legal-reserve basis.

Mr. GESELL. All I am trying to get clear is that the reinsurance contract itself didn't put the policyholders on a legal-reserve basis?

Mr. MARTIN. No.

Mr. GESELL. They simply in effect had their obligations taken over by the new company?

Mr. MARTIN. That's it.

Mr. GESELL. So it was necessary to get them, or in order to get them on a legal-reserve basis, to rewrite or transfer.

Mr. MARTIN. In some form or other; yes.

ILLINOIS BANKERS—THE AMERICAN CONSERVATION CO. CONTRACT

Mr. GESELL. Am I correct in saying the Illinois Bankers Life Assurance Co. entered into a contract with the American Conservation Co. whereby the American Conservation Co. agreed to transfer these policies from the assessment plan over to the legal-reserve plan?

Mr. MARTIN. To solicit the transfer.

Mr. GESELL. Yes; and it was to receive a commission for those it was able to transfer?

Mr. MARTIN. Yes; that is right.

Mr. GESELL. Now, were you responsible for working out that contract with the American Conservation Co.?

Mr. MARTIN. I wouldn't say I was responsible for working it out. I worked on it.

Mr. GESELL. Were you the prime mover on behalf of the assurance company, the one most active?

Mr. MARTIN. I was quite active in it; yes.

Mr. GESELL. The American Conservation Co. was in Chicago, was it not?

Mr. MARTIN. The American Conservation Co. was not then in existence. It was later organized in Chicago.

Mr. GESELL. Who was the chief organizer of that company?

Mr. MARTIN. Mr. Herbert G. Shimp.

Mr. GESELL. Had you known Mr. Shimp for some time?

Mr. MARTIN. Yes; for some few years, I don't know just exactly how long.

Mr. GESELL. Under what circumstances had you and Mr. Shimp met?

Mr. MARTIN. I think he first came out to the Illinois Life Assurance Co. some years before and was discussing with them some plan or other of agency operation for the Illinois Life.

Mr. GESELL. You had met him in that connection?

Mr. MARTIN. That is my general recollection. He was quite well known in insurance circles in Chicago.

Mr. GESELL. He is a man who has done a great deal of rewrite and transfer work?

Mr. MARTIN. A very great deal.

Mr. GESELL. In order that we have it clear, this change of an assessment company to a legal reserve company through the reinsurance contract and then the rewriting procedure was one that was not novel to your company but used by many companies changing from assessment to legal reserve plan?

Mr. MARTIN. It had been done for probably 40 years.

Mr. GESELL. Particularly in the twenties, when many companies were shifting to the legal reserve company basis.

Mr. MARTIN. Much earlier than that, Mr. Gesell.

Mr. GESELL. It had been going on for some time?

Mr. MARTIN. I would say for 40 years.

Mr. GESELL. Mr. Shimp was known as a man who was an expert at the rewriting or transfer phase of the work?

Mr. MARTIN. Yes, sir.

Mr. GESELL. Did you approach Mr. Shimp with respect to the rewriting of this business or did he approach you?

Mr. MARTIN. Oh, I don't recall.

Mr. GESELL. Well, maybe I can get at it this way: Can you give us a little idea of the negotiations which took place? It is particularly interesting to me in view of the fact the American Conservation Co. had not yet been organized. I take it there was involved the whole organization of that company to handle their work?

Mr. MARTIN. I think I probably advised with Mr. Shimp or talked with him about the problem of an operation of this kind, because the company which I had been associated with and was associated with at that time, the Illinois Life Insurance Co., had gone through that sort of transition, but it was before I became connected with the company, so that I was not entirely familiar with the general operation, and I talked with him about the problem at various times.

Mr. GESELL. Well, now, when the American Conservation Co. was organized, did you have any interest in it?

Mr. MARTIN. No.

Mr. GESELL. Did you finance its organization in any way?

Mr. MARTIN. No.

Mr. GESELL. Generally speaking, do you recall the terms of the contract between the Illinois Bankers Life Assurance Co. and the American Conservation Co.?

Mr. MARTIN. No; I don't. It has been a long time since I have seen it.

Mr. GESELL. Do you recognize this company document which I show you as a copy of the contract entered into February 28, 1930, and the rider or amendment thereto executed December 12, 1930?

Mr. MARTIN. That seems to be the contract as near as I can recall it.

Mr. GESELL. That contract provided, did it not, that American Conservation Co. would receive a commission of 70 percent of the first premiums paid by the association policyholders after they had transferred to a legal-reserve policy with the new company?

Mr. MARTIN. I think so; yes.

Mr. GESELL. And that in addition the American Conservation Co. would receive certain renewal commissions on that business?

Mr. MARTIN. No, Mr. Gesell; I think it is expressly provided they should not receive—

Mr. GESELL (interposing). I beg your pardon, you are right. No renewal commissions. I meant to say receive a commission on any new business written in connection with the transfer?

Mr. MARTIN. Oh, yes.

Mr. GESELL. According to the rider, 70 percent was subsequently increased to 80 percent.

Mr. MARTIN. No. Let me be sure I am answering correctly here. Let me just look at that.

Mr. GESELL. Certainly.

Mr. MARTIN. No; the rider covers new business that they would write; that is to say, new business which they were soliciting, and that was 80 percent, and certain renewal commissions which was in line with what the company paid to new business or to other agents.

Mr. GESELL. To their own agents?

Mr. MARTIN. Yes.

Mr. GESELL. The American Conservation Co. received 70 percent on the transfer business and 80 percent commission on the new business?

Mr. MARTIN. On new business plus certain renewals. They also agreed along with their transfer work to produce not less than \$500,000 of new business every month.

The VICE CHAIRMAN. Those percentages are based upon the first year's premium?

Mr. MARTIN. Yes.

The VICE CHAIRMAN. That may be entered in the record.

(The documents referred to were marked "Exhibit No. 1348-21" and included in the appendix on p. 7048.)

Mr. GESELL. I have no further questions for you at this time, Mr. Martin.

The VICE CHAIRMAN. Just to be sure, none of the witnesses who have testified have been excused yet?

Mr. GESELL. I was going to ask at the close everybody be held over till at least tomorrow.

The VICE CHAIRMAN. Do you solemnly swear the testimony you will give in this matter will be the truth, the whole truth, and nothing but the truth, so help you God?

Mr. SELLMAN. I do.

TESTIMONY OF H. G. SELLMAN, ACTUARY, ILLINOIS BANKERS LIFE ASSURANCE CO., MONMOUTH, ILL.

Mr. GESELL. Will you state your full name, please?

Mr. SELLMAN. Henry G. Sellman.

Mr. GESELL. Mr. Sellman, where do you reside?

Mr. SELLMAN. Monmouth, Ill.

Mr. GESELL. Are you connected with the Illinois Bankers Life Assurance Co.?

Mr. SELLMAN. I am the actuary of the Illinois Bankers Life Assurance Co.

Mr. GESELL. Have you been with it since its formation?

Mr. SELLMAN. Shortly afterward.

Mr. GESELL. Are you familiar with the details of the reinsurance and rewrite arrangement whereby the assessment policyholders were placed on a legal reserve basis with the present company?¹

Mr. SELLMAN. I think I am; yes.

Mr. GESELL. Now, I want to go through with you at this time a discussion of just how the matter was handled. After the reinsurance contract had been signed and the rewrite arrangement entered into with the American Conservation Co., I assume that what would happen would be that an agent of the American Conservation Co. would approach the assessment policyholder and encourage him to transfer over to the legal-reserve basis; is that correct?

Mr. SELLMAN. Yes.

Mr. GESELL. Now, in order that we can make clear what happened, let us assume that an assessment policyholder carried \$1,000 of insurance with the assessment association which he had taken out in the year 1913. The premium on that policy which he would be paying to the assessment association would be \$16.48, would it not?

Mr. SELLMAN. I wouldn't know. I would have to—

¹ In this connection see also "Exhibit No. 2262," entered in the record on February 13, 1940, and appearing in appendix, p. 7095; regarding the officers and directors of the Assessment Association who converted or failed to convert their Assessment policies to Legal Reserve Policies.

Mr. GESELL. I'm sorry; at the age of 40. If you look at your records that will help you.

Let me ask it this way: If he was paying \$16.48 per thousand on a policy taken out in 1913, he would have been age 35?

Mr. SELLMAN. I was trying to find the rate here and I didn't get it.

Mr. GESELL. Let me ask you this: What is the rate of a one-thousand-dollar policy which the assessment policyholder would be paying at age 35, taken out in 1913?

Mr. SELLMAN. The 1913 policyholders had their rate changed in 1921 and the change was made to the rate as of the original age, so that that policyholder who took his policy in 1913, at age 35, was it, that you said?

Mr. GESELL. Yes.

Mr. SELLMAN. He would have been paying a rate since 1921 of \$16.48 a thousand.

Mr. GESELL. That is correct. Now, assuming such a policyholder, now that we have him defined, what type of proposition would be put up to him by the representatives of the American Conservation Co. in accordance with the reinsurance and rewriting program if he were to be transferred to a thousand-dollar policy on the legal-reserve basis?

Mr. SELLMAN. May I get a little thought in ahead of that, that the first cases transferred were on the issues after 1918 which were upon this established rate that we just mentioned, and the ones prior to 1918 were handled a little bit later.

Now, I can answer your question that there were four policy plans, major policy plans, offered in that connection. He could take an ordinary life endowment at age 85, current date, or 20-payment endowment at age 85, current date, or a whole life, 50 percent return premium policy dated back to 1918, or a 20-payment life, 70 percent return premium policy dated back to 1918.

Mr. GESELL. Now, is it not correct that the great bulk of the policyholders were transferred from the assessment association to the legal-reserve company into 20-payment life policies?

Mr. SELLMAN. With the back dating; yes, sir.

Mr. GESELL. What percentage of the policyholders would you say were transferred into the 20-pay life policy?

Mr. SELLMAN. I wouldn't have in mind an exact percent, but a large portion of them were.

Mr. GESELL. Over 75 percent?

Mr. SELLMAN. I would say so—70 to 75 percent.

Mr. GESELL. Then let's assume in this illustration that the policyholder, assessment policyholder, was to be transferred to a thousand-dollar 20-pay life policy under the back-dating plan. Can you describe to us exactly what premium he would have to pay and what type of arrangement was made with him?

Mr. SELLMAN. I have here the exchange rate book used in connection with the transfer of these policies, and a 20-payment life, 70-percent return premium policy, if the man was 35 in 1913, he would be 40 in 1918, and he would be given an exchange policy at age 40 with a rate of \$47.49, and he would pay that premium from the time he exchanged, let us say in 1930, to 1938, which would be 8 premiums, 8 annual premiums, and then he would give a certificate of loan in lieu of the prior deposits of the 12 premiums.

Mr. GESELL. Now, let me ask you several questions there so we have it clear. You would date this policy back on the transfer, I understand it, to the age of original issue of the assessment policy, but not back behind 1918.

Mr. SELLMAN. That is right.

Mr. GESELL. So that this man, having taken out his policy in 1913, would have his legal-reserve policy, the 20-pay life, dated back to 1918, but no further?

Mr. SELLMAN. That is right.

Mr. GESELL. And then he would be charged a rate which you said was \$47.49 per thousand on a 20-pay life basis?

Mr. SELLMAN. That is right.

Mr. GESELL. And would be told that he would have a paid-up policy at the end of the twentieth year, or 20 years from 1918—in other words, 1938?

Mr. SELLMAN. He would be told a good deal more than that. That would be only a part of the story.

Mr. GESELL. I realize that.

Mr. SELLMAN. He would be issued a 20-payment life 70-percent return premium policy.

Mr. GESELL. As of 1918?

Mr. SELLMAN. As of 1918.

Mr. GESELL. Paid up as of 1938?

Mr. SELLMAN. That's right.

Mr. GESELL. And his premium would be \$47.49?

Mr. SELLMAN. That's right.

Mr. GESELL. He would have to, however, to get that policy on that basis, contribute what the legal reserve against that policy would have been had he taken it out on the legal-reserve basis in 1918. Is that correct?

Mr. SELLMAN. Well, the transfer table was not the legal reserve, exactly. It was a settlement based on the reserve and the premium.

Mr. GESELL. Yes; but the first item, if we go step by step, Mr. Sellman, I think we can understand it; he has to put up the legal reserve first of all.

Mr. SELLMAN. That's right.

Mr. GESELL. In the case of this man whose premium was \$47.49, the legal reserve would have been \$350.55, would it not?

Mr. SELLMAN. What was the amount you had there?

Mr. GESELL. It was \$350.55.

Mr. SELLMAN. Well, the case I have, for age 40, the twentieth year, shows \$398.04. We seem to be a little bit different.

Mr. GESELL. No; we don't. See if I am not right. This man has been loaded 1 additional year's premium, has he not?

Mr. SELLMAN. That's right.

Mr. GESELL. So if you take out that additional year's premium, the actual reserve is \$350.55, is it not? In other words, \$350.55 plus \$47.49 gives you \$398.04, or your figure. Is that not correct?

And \$350.55, then, would be the legal reserve which he would have to pay out.

Mr. SELLMAN. That is right.

Mr. GESELL. And then he would be charged in addition 1 year's premium?

Mr. SELLMAN. That is correct.

Mr. GESELL. In this case he would have been charged 1 year's premium of \$47.49?

Mr. SELLMAN. Forty-seven-forty-nine, that is correct.

Mr. GESELL. That means that this man would have to put up a little over \$398?

Mr. SELLMAN. Yes, sir.

Mr. GESELL. Now, he might pay that in cash, I take it.

Mr. SELLMAN. Yes, sir.

Mr. GESELL. Or he might sign a note to the company.

Mr. SELLMAN. That is right; a certificate of loan.

Mr. GESELL. Was that what it was called?

Mr. SELLMAN. That is what it was called.

Mr. GESELL. Is this document I show you a sample of the certificate of loan which was used?

Mr. SELLMAN. Yes, sir; that is.

Mr. GESELL. I wish to offer this certificate of loan for the record, if I may.

The VICE CHAIRMAN. It may be received.

(The document referred to was marked "Exhibit No. 1348-22" and is included in the appendix on p. 7051.)

Mr. GESELL. What rate of interest did that loan pay?

Mr. SELLMAN. It drew 6 percent simple interest.

Mr. GESELL. So that the policyholders paid 6 percent on this loan?

Mr. SELLMAN. It was accumulated against the policy; yes, sir.

Mr. GESELL. Now, I understand that he received—the policyholder received—an apportionment of his interest in the assessment association?

Mr. SELLMAN. That is correct.

Mr. GESELL. Do I understand that that apportionment was given him one-third in cash and two-thirds to be credited against this certificate of loan?

Mr. SELLMAN. Well, the one-third was credited toward the payment of premium on the new policy, and two-thirds was in a survivorship fund.

Mr. GESELL. Yes. One-third went in cash and he paid that on his first premium, and he was given premium credit. The other two-thirds went to a survivorship fund. Will you explain to us what the survivorship fund was?

Mr. SELLMAN. The terms of the contract are the best explanation of that, and I think you probably have a copy of that.

Mr. GESELL. Do you mean this survivorship fund certificate which I show you?

Mr. SELLMAN. Yes, sir.

Mr. GESELL. I will offer this survivorship fund certificate for the record in a moment,¹ but can you tell us in a general way what the nature of this fund was?

Mr. SELLMAN. The certificate provides that the fund shall be increased by interest at 3.5 percent per annum compounded annually, and that in the event of termination of said policy for any cause prior to said distribution date, all rights of the insured to participate in such survivorship fund shall cease, and the accumulation in

¹ Subsequently entered as "Exhibit No. 1348-25," see appendix, p. 7053.

that fund is divided among the continuing members at the end of the survivorship-fund period.

Mr. GESELL. In other words, this two-thirds interest of each transferring policyholder in the assessment association was set aside in a special fund, it being understood that that fund was available only to those policyholders who survived to the period set for the distribution of the fund.

Mr. SELLMAN. And continued their policies; that is right.

Mr. GESELL. Whose policies were in force for that long, something in the nature of a Tontine or a maturity dividend.

Mr. SELLMAN. That's right; it was a Tontine.

Mr. GESELL. That survivorship fund paid interest at 3.5 percent?

Mr. SELLMAN. It was accumulated. The interest was accumulated at 3.5 percent compound; yes, sir.

Mr. GESELL. Well, then, how do you explain that the certificate of loan—in other words, when you lent money to the policyholder, you charged him 6 percent, but when you took his money you paid him only 3.5 percent?

Mr. SELLMAN. That is rather standard practice in regard to policy loans. The company's reserve basis is 3.5 percent, and the policy loans are at 6 percent, the only difference being that the usual policy loan is 6 percent compounded, whereas this was simple interest.

Mr. GESELL. You consider the certificate of loan in the nature of a policy loan?

Mr. SELLMAN. Similar to a policy loan, that's right.

Mr. GESELL. And you considered the survivorship fund in the nature of a legal reserve?

Mr. SELLMAN. No; in the nature more of a deferred dividend, I would call it, rather than a legal reserve.

Mr. GESELL. Well, now, what was the reason for charging this transferring policyholder an additional year's premium?

Mr. SELLMAN. Well, to cover the expense of the transfer.

Mr. GESELL. In other words, to cover the expense of shifting this man from the assessment association to the legal-reserve company.

Mr. SELLMAN. That's right. The same thing is true in writing new insurance. You figure that the cost of the new policy is held to be one annual premium.

Mr. GESELL. I take it, though, that this is somewhat different, Mr. Sellman. These assessment policyholders had been with the assessment association, some of them for many years, hadn't they? They were established and, in many cases, persistent policyholders.

Mr. SELLMAN. That's right; yes.

Mr. GESELL. To charge such a man, as in this case, a man who had been with you from 1913, \$47.49 on the transfer of only a \$1,000 policy seems to me to be rather an excessive amount of charge.

Mr. SELLMAN. Is that a question?

Mr. GESELL. Yes. I wondered if you thought so.

Mr. SELLMAN. It is measured according to what the actual expense would be, you see. The expense of having the transfer contract made and getting the work done would easily cost that. The commissions and the home-office expense and the death claims also have to be paid out of that, and that would easily amount to the one annual premium.

Mr. GESELL. Did you write any of these policyholders of the assess-

ment association a letter and just ask them to transfer of their own accord?

Mr. SELLMAN. Well, I wouldn't say that we didn't. There were a few cases at the advanced stages that we handled by direct correspondence, but it is not successful.

Mr. GESELL. Well, now, you see what I am getting at.

Mr. SELLMAN. By correspondence is not a practical method of accomplishing the work.

Mr. GESELL. You called in the rewrite organization, the American Conservation Co.?

Mr. SELLMAN. That is right.

Mr. GESELL. I take it, then, before you had even attempted to find out how much of this business you could transfer without engaging the services of what proved to be a very expensive undertaking—

Mr. SELLMAN (interposing). Well, I don't think we had to call in anybody to know that we wouldn't be able to do it. We could have made the gesture, but just from our own knowledge we would know that you wouldn't accomplish anything by correspondence.

Mr. GESELL. Well, now, how much commissions did you have to pay for the transfer of this business?

Mr. SELLMAN. Well, the American Conservation contract shows—I believe you read that—70 percent.

Mr. GESELL. It shows you paid a commission of 70 percent, but I asked what did those commissions total to in the transfer of the business.

Mr. SELLMAN. I have here a tabulation of insurance transferred from the assessment to the legal reserve plan by the American Conservation Co., together with the new business written by them in conjunction with the transfer, and showing the premiums collected and the commissions paid.

Mr. GESELL. Well, now, that covers the period from 1930 to 1935, does it not?

Mr. SELLMAN. Yes, sir.

Mr. GESELL. It was prepared by an actuary responsible to you, was it not?

Mr. SELLMAN. In our office, yes; it was prepared in our office; yes, sir.

Mr. GESELL. Now how many policies—what was the amount of the policies transferred in the period from '30 to '35?

Mr. SELLMAN. It shows 39,335 policies transferred, in a period from 1930 to 1935.

Mr. GESELL. And what was the face amount of those policies?

Mr. SELLMAN. For a face amount of \$56,491,832.

Mr. GESELL. And what was the amount of the commissions paid on the transfer of this \$56,000,000 of business?

Mr. SELLMAN. There was also new business written in the amount of \$2,344,731 and the commission on the entire business amounted to \$1,523,479.54.

Mr. GESELL. I would like to offer this schedule for the record which gives further detail in respect to the figures we have just been discussing. Will you repeat what that figure represents?

Mr. SELLMAN. That represents the commissions paid in connection with transferring and writing new business, totaling \$58,800,000 of business.

The VICE CHAIRMAN. The document will be admitted.

(The document referred to was marked "Exhibit No. 1348-23" and is included in the appendix on p. 7052.)

Mr. GESELL. Now, Mr. Sellman, can you tell me whether most of the people paid in their reserve and this one year extra premium in cash or whether most of them took out a certificate of loan?

Mr. SELLMAN. Most of them took out a certificate of loan.

Mr. GESELL. Is this schedule I show you now a schedule which sets forth the amounts of certificates of loans received in the various years from 1930 to 1935?

Mr. SELLMAN. This memorandum regarding certificates of loan account for the years 1930 to 1935 shows the amount of certificates of loan received by years, and also the balance of the certificates of loan at the end of each year.

Mr. GESELL. The balance is the result of the payment out of funds from the survivorship fund canceling some of the certificates of loan, is that not correct?

Mr. SELLMAN. No; that is from policies that surrendered and lapsed.

Mr. GESELL. Oh, I understand.

Mr. SELLMAN. There were no disbursements on the survivorship fund account until 1938.

Mr. GESELL. Until 1938?

Mr. SELLMAN. That is right.

Mr. GESELL. And this schedule shows, does it not, that the certificates of loan received in the year 1930, alone amounted to over \$6,000,000, \$6,086,143.14?

Mr. SELLMAN. That is right.

Mr. GESELL. I would like to offer this schedule for the record. This was prepared by an actuary?

Mr. SELLMAN. That was prepared in my office.

The CHAIRMAN. It will be admitted.

(The document referred to was marked "Exhibit No. 1348-24" and is included in the appendix on p. 7052.)

Mr. GESELL. Now, Mr. O'Connell indicated this morning some puzzlement about the fact that the assets of the company could have increased so considerably since the time of the change and the amount of insurance in force remain practically the same. Do I understand that that is the result of the fact that these certificates of loan received in connection with the transfer of business were credited to the assets of the company but did not result necessarily in any increase in insurance in force?

Mr. SELLMAN. Well, there are, of course, other influences, but to the extent indicated on that exhibit, the certificates of loan did increase the assets of the company.

Mr. GESELL. Well, now, what other factors are there responsible for the fact that the assets increased and the insurance in force remained stable during these years?

Mr. SELLMAN. Well, the assets were increased on account of the reinsurance of the Abraham Lincoln Life Insurance Co. and, of course, that increased the volume of business at that time, but then that had its lapse after February 18, 1935, so that—

Mr. GESELL. So that in the reinsurance of a company whose assets you obtain but whose persistent policies didn't stick with you?

Mr. SELLMAN. That is right; you have a big lapse at the time of reinsurance and then it tends to become persistent thereafter.

Mr. GESELL. But the principal factor in that is the certificate of loan situation, is it not?

Mr. SELLMAN. Well, to that extent it is.

Mr. GESELL. When you say "to that extent" you mean to the extent shown on the exhibit just introduced?

Mr. SELLMAN. I didn't want to try to establish a proportion of the influence of the Abraham Lincoln and the transfer business. In regard to the insurance in force, however, the guaranteed additions in connection with those policies added to the amount of insurance up to the end of the 20-year period, and then the guaranteed additions terminated.

Mr. GESELL. What is the explanation, Mr. Sellman, of the fact that so many policies were rewritten on the 20-pay life? It seems to me that is the most expensive plan from the point of view of the policyholder in this situation where he must make up the results of not having been on a legal-reserve basis.

Mr. SELLMAN. I would say the first appeal was the 8-years premiums and then they would be through. I think that was the first, probably the most important, influence.

Mr. GESELL. You mean the representation to them that these 20-pay life policies would be paid up at 1938?

Mr. SELLMAN. No; the terms of contract that premium payments ceased at the end of 20 years.

Mr. GESELL. Yes. In other words, they would be paid up in 1938?

Mr. SELLMAN. That is right.

Mr. GESELL. Well, now, it required, however, did it not, putting up a much bigger reserve than would be necessary if a policyholder switched over to a whole-life basis, let us say?

Mr. SELLMAN. Oh, yes; the 20-payment life required more reserve than the ordinary life, and, of course, the current dated policies wouldn't require any reserve, but I know I have talked to policyholders right in my office and explained the different plans just to get their reaction, and they would elect the 20-payment life date-back policy in preference to any of the others.

Mr. GESELL. It certainly would have been much cheaper for the policyholders to have turned over to the whole-life basis, wouldn't it?

Mr. SELLMAN. Well, they didn't like the long duration of premium payments on the ordinary life.

The VICE CHAIRMAN. May I ask a question? Do you know whether the percentage of new business written on a 20-pay life is also very substantial portion of your business as compared to the other types of insurance? Would it be as substantial?

Mr. SELLMAN. You mean in current volume?

The VICE CHAIRMAN. New business.

Mr. SELLMAN. I believe the ordinary life probably runs ahead of the 20-payment life.

The VICE CHAIRMAN. Reinsurance and rewriting of insurance, the 20-payment was about 75 percent?

Mr. SELLMAN. In this business it ran very materially for the 20-payment.

The VICE CHAIRMAN. How do you explain that? Is that explainable in part by the fact that you people concentrated on transferring it to that type of policy?

Mr. SELLMAN. Well, I think the men possibly were inclined to favor the 20-payment life contract.

The VICE CHAIRMAN. Because of higher premium and higher commission? What about the policy? Did you have a policy in that?

Mr. SELLMAN. We had no choice. It was entirely—we would be just as glad to have them change to an ordinary life, current date, as to a 20-payment life, date-back.

Mr. GESELL. But as far as the Conservation Co. men were concerned, they would get a bigger commission if they switched the person to a 20-pay life?

Mr. SELLMAN. That is right.

Mr. GESELL. Now, let me ask you this. Why wasn't this survivorship fund credited right against the certificates of loan in order to save the policyholder the differential between the 6 percent that he had to pay on his loan and the $3\frac{1}{2}$ percent that he got on his allotment of the assessment?

Mr. SELLMAN. Well, it was—we thought it was an inducement for him to continue their policies and pay their premiums.

Mr. GESELL. You mean that by putting this tontine feature or survivorship feature into the arrangement you would persuade these men who switched to stay longer with the company?

Mr. SELLMAN. That is right.

Mr. GESELL. In the hope that they would participate in the distribution of this survivorship fund?

Mr. SELLMAN. That is right.

Mr. GESELL. Of course, that could have even been done by an evening over of the interest rate, could it not?

Mr. SELLMAN. Well, of course, on the interest rate we should bear in mind that there comes a point where $3\frac{1}{2}$ percent compound is greater than 6 percent simple interest.

Mr. GESELL. But that point is never reached when you are only going for the period of 8 years?

Mr. SELLMAN. It is a little longer than 8 years, although there are some of them at that point.

Mr. GESELL. Now, do I understand this correctly, that when one of these 20-pay life policies becomes paid up in 1938 and after the survivorship fund participation had been distributed to that policyholder, he continues to be obligated to the company at the rate of 6 percent interest on what remained of his certificate of loan?

Mr. SELLMAN. That is right.

Mr. GESELL. So it was quite possible that policyholders who paid up and stayed through for the distribution of the survivorship fund found themselves with less protection on their policy than they had anticipated, if you offset what they still owed on their certificate of loan?

Mr. SELLMAN. Well, of course, after the 20 years the balance of the certificate of loan indebtedness is deducted from the face amount of the insurance in the settlement of the claim so that their insurance is reduced thereafter.

Mr. GESELL. And in some cases that reduction proved to be rather substantial after the distribution of the survivorship fund had taken place, did it not?

Mr. SELLMAN. Well, yes; I should say, it varies according to the individual case, but then it would be substantial, I believe.

Mr. GESELL. I might say to the committee at this time that we issued subpoenas calling for the production of certain files so we could show concrete cases of this character. Through no fault of the company, but rather through the laxness of the marshal asked to serve the subpoenas, that material is not here, and before we conclude these hearings, however, we will present some concrete instances to the interest of the committee as to just how this arrangement worked out on the distribution of the survivorship fund.

I have no further questions for this witness, but would like to offer the survivorship fund certificate, which he identified in the course of his testimony, which I think should be placed in the record.

The CHAIRMAN. It may be admitted.

(The certificate referred to was marked "Exhibit No. 1348-25" and is included in the appendix on p. 7053.)

Mr. GESELL. Do you recognize this memorandum of Mr. Twomey which I show you with respect to the handling of this matter?

Mr. SELLMAN. It was prepared in my office.

Mr. GESELL. This memorandum was prepared in your office?

Mr. SELLMAN. Yes, sir.

Mr. GESELL. And it is your understanding that the records as set forth herein are correct?

Mr. SELLMAN. I believe it is accordance with the records; yes, sir.

Mr. GESELL. I should like to offer items one to six of this memorandum for the record.

The CHAIRMAN. It will be admitted.

(The memorandum referred to was marked "Exhibit No. 1348-26" and is included in the appendix on p. 7054.)

Mr. GESELL. I think this might be a good time to adjourn. Before adjourning, however, I would like to offer two additional documents for the record. These were furnished us by the Illinois Bankers Life Assurance Co., and the first shows for the period from 1925 to 1929 the names and salaries of the principal officers of the Illinois Bankers Life Association; the second schedule gives similar information for the officers of the Illinois Bankers Life Assurance Co. from 1929 to 1938.

The CHAIRMAN. They will be admitted.

(The documents referred to were marked "Exhibit Nos. 1348-27 and 1348-28" and are included in the appendix on pp. 7055 and 7056.)

Mr. GESELL. Might I say, Mr. O'Connell, that it is my understanding, that we will convene in the main hearing room tomorrow?

The CHAIRMAN. That is my understanding, too. The committee will stand in recess until 10:30 tomorrow morning at which time we will meet in Room 318, the Senate Caucus Room.

(Whereupon at 4:35 p. m. the hearing recessed until the following morning at 10:30 o'clock.)

INVESTIGATION OF CONCENTRATION OF ECONOMIC POWER

THURSDAY, DECEMBER 21, 1939

UNITED STATES SENATE,
SUBCOMMITTEE OF THE TEMPORARY
NATIONAL ECONOMIC COMMITTEE,
Washington, D. C.

The subcommittee met at 10:35 a. m. pursuant to adjournment on Wednesday, December 20, 1939, in the Caucus Room, Senate Office Building, Joseph J. O'Connell presiding.

Present: Messrs. O'Connell (vice chairman) and Brackett.

Present also: Messrs. Henderson and Lubin; Gerhard A. Gesell, Special Counsel. Arthur J. Leary, Investigator, Securities and Exchange Commission.

The VICE CHAIRMAN. The committee will please be in order.

Mr. Gesell, are you ready to proceed?

Mr. GESELL. I would like to make a short statement at the beginning, if I might.

In view of the fact that some members of the committee were engaged in hearings on investment banking yesterday, while the Commission was presenting testimony on insurance before the special subcommittee, I have been asked to make a short statement on the state of the record in order to bring the committee up to date on this particular series of hearings.

We are considering the organization and management of the Illinois Bankers Life Assurance Co., of Monmouth, Ill. This company is a stock company organized in 1929 and at the present time operates on a legal reserve basis in 15 States. Its home offices are at Monmouth, Ill. It has assets of roughly \$27,000,000 and approximately \$110,000,000 of insurance in force. The Illinois Bankers Life Assurance Co. was formed for the purpose of reinsuring the business of the Illinois Bankers Life Association, an assessment company, which had been doing business under the assessment plan since 1897. The testimony yesterday related primarily to the facts and circumstances surrounding the reinsurance of the association in the present company and the various transactions through which the company was financed. We heard testimony from Mr. Woods, president of the Assessment Association at the time of the reinsurance contract and subsequently for several years president of the present company; also, testimony from Mr. Martin, principal stockholder of the present company and now its president; Mr. Sawyer, secretary of the company; and Mr. Sellman, its actuary, also testified.

Briefly, it appeared that the Illinois Bankers Life Assurance Co. was organized and managed by the same individuals who had previously been trustees for the Assessment Association. Three of these individuals, Mr. Woods, the president of the association, Dr. Ebersole, vice president and medical director, and Mr. R. M. Work, secretary, entered into an arrangement with Mr. Martin, another director, and the man most active in the financing and organization of the present company, whereby Mr. Martin paid \$160,000 to Mr. Woods, \$100,000 to Dr. Ebersole and purchased property from Mr. Work at a price approximately \$25,000 in excess of its true value. These emoluments were received by the three individuals in question prior to the signing of the reinsurance contract and after they had indicated either that they were fearful of the success of the new company or concerned that their personal security would be jeopardized. All three individuals had been active in the management of the association.

The testimony showed that Mr. Martin borrowed \$200,000 from a Mr. Stevens to enable him to make some of the payments to these three directors. After the formation of the Illinois Bankers Life Assurance Co., \$250,000 was loaned to the Lincoln Securities Co., of which Mr. Stevens was chief executive officer, and on the same day the Lincoln Securities loaned \$200,000 to Mr. Martin which he in turn used to pay off his debt to Mr. Stevens. The Lincoln Securities Co. subsequently failed and the loan proved worthless. In fact, the Illinois Bankers Life Assurance Co. lost not only the face amount of this loan but, in addition, was required to pay some \$46,000 in settlement of a claim brought in connection with the receivership of the Lincoln Securities Co. and based upon the fact that the transfer by the Lincoln Securities Co. of certain collateral against this loan was improper.

The Illinois Bankers Life Assurance Co. was organized with a paid-in capital of \$100,000 and a surplus of \$50,000. Stock was issued in the names of the five directors of the Assessment Association who continued active in the management of the new company. Actually, however, these shares were owned entirely by Mr. Martin and Mr. Sawyer, two of the directors. These two individuals put up no cash personally, the shares being pledged with the Boulevard Bridge Bank as collateral for a loan of \$150,000. Additional security against this loan was given in the form of a \$50,000 certificate of deposit of the Illinois Bankers Life Assurance Co., which was endorsed and left with the bank and which the bank showed as collateral on its records. Mr. Sawyer and Mr. Martin stated that this certificate of deposit was not pledged as collateral against the loan but left in safekeeping.

Following the reinsurance agreement, the Illinois Bankers Life Assurance Co. entered into a contract with American Conservation Co. whereby the latter company undertook to rewrite or transfer the assessment policyholders to a legal reserve basis in return for a commission of 70 percent of the first year's premium received on the business following its transfer. The testimony yesterday showed that the rates charged the assessment policyholders on the transfer were loaded 1 year's premium to cover the expenses of the transfer work and that commissions amounting to approximately \$1,500,000 were paid by the Illinois Bankers Life Assurance Co. to American

Conservation Co. for transferring the business and for writing new business in connection with the transfer.

I would like first of all to recall Mr. Sellman for a moment to clear up one or two matters that we were considering at the close yesterday.

TESTIMONY OF H. G. SELLMAN, ACTUARY, ILLINOIS BANKERS' LIFE ASSURANCE CO., MONMOUTH, ILL.—Resumed

Mr. GESELL. Mr. Sellman, I neglected to ask you yesterday what happened to those policyholders of the assessment association who did not transfer to the legal reserve plan.

Mr. SELLMAN. They have the privilege to continue their policies under the association group and we administer that group as a trust fund for the benefit of the continuing assessment policyholders.

Mr. GESELL. Has there been any additional assessment against those policyholders who did not switch over?

Mr. SELLMAN. No; up to this time we have maintained the same schedule rate.

Mr. GESELL. Now, are the assets of the assessment policyholders segregated from the assets of the legal reserve policyholders?

Mr. SELLMAN. Yes; they are.

Mr. GESELL. Physically or as a bookkeeping matter?

Mr. SELLMAN. Well, both. They are definitely ear-marked.

Mr. GESELL. What determines whether a particular asset shall go into the assessment association side or the legal reserve side?

Mr. SELLMAN. Well, those funds are administered under the trust fund and, of course, so far as any new investments are concerned, we haven't been troubled with that problem so far as the assessment group is concerned. Up to the present time, the income has been sufficient to pay the disbursements under that group, but there has been really no investment problem in that connection.

It should be borne in mind in an assessment group of that type that the prospective liability for the payment of future claims is increasing rapidly in that connection.

Mr. GESELL. And there may be need of an assessment at some future time.

Mr. SELLMAN. That may be true.

Mr. HENDERSON. Isn't that almost the invariable thing that happens in the later years of an assessment plan?

Mr. SELLMAN. That, of course, is the difficulty with the operation of an assessment plan. As the group grows older, the liability increases, and those who can bear the burden become less in number. The deficiency is increasing year by year in that group.

Mr. GESELL. I don't think you answered my question. What determines the segregation or the allocation of the assets between the association policyholders?

Mr. SELLMAN. I don't recall any problem confronting the—

Mr. GESELL (interposing). There is also a problem as to what assets you would take over from the association and which ones you would leave with the association.

Mr. SELLMAN. The assets in the trust fund were in there at the time of the reinsurance contract.

Mr. GESELL. Then when someone is transferred, you take the assets from that trust fund into the legal reserve?

Mr. SELLMAN. That is correct.

Mr. GESELL. You have your choice, then, of the assets of the association which you will take into the legal-reserve portfolio?

Mr. SELLMAN. That is correct.

Mr. GESELL. There is no control over you as to what assets you should take from the association policies?

Mr. SELLMAN. No; there is not. In that connection, I might say that on the assets which have been transferred from the association funds to the legal-reserve fund in connection with these transferred policies, the assets have been taken at their book value, not at their market value, the market value being substantially less than the book value.

Mr. GESELL. That has nothing to do with the quality of the assets you may leave in the association portfolio, has it?

Mr. SELLMAN. That is beyond our control at this time.

Mr. GESELL. Except you can take good assets or bad assets from the association as you please?

Mr. SELLMAN. Yes; as I understood your question, what we leave in the trust fund for the remaining policies.

Mr. GESELL. Does this schedule which I show you show the expenses that have been allocated to the association for the handling of the association business by the legal-reserve company?

Mr. SELLMAN. This is a statement of the expenses charged the association under the terms of the reinsurance contract.

Mr. GESELL. How much have you charged the association in the years since this went through?

Mr. SELLMAN. For the period from November 19, 1929, to December 31, 1938, the expense allowance was \$1,170,530.64.

Mr. GESELL. What were the expenses of running the legal-reserve company for the same period? Can you tell that on that schedule?

Mr. SELLMAN. No.

Mr. GESELL. I wish to offer that schedule for the record.

The VICE CHAIRMAN. It may be entered.

(The schedule referred to was marked "Exhibit No. 1348-29" and is included in the appendix on p. 7057.)

Mr. GESELL. That was prepared in your office?

Mr. SELLMAN. Yes.

Mr. GESELL. Is that the application for exchange of policy which is used in connection with the reinsurance contract?

Mr. SELLMAN. Yes; this is the application for the exchange of policy.

Mr. GESELL. I wish to offer this application for exchange of policy in evidence.

The VICE CHAIRMAN. It may be entered.

(The application referred to was marked "Exhibit No. 1348-30" and is included in the appendix on p. 7057.)

Mr. GESELL. You sell participating policies, do you not, under your legal-reserve plan?

Mr. SELLMAN. Well, only in connection with the exchange. The exchange policies were participating policies. Our general line of policies are nonparticipating contracts and these exchange policies in considering the premium rate, it should be borne in mind that they

are participating contracts and also that the rate is affected by the guaranteed addition at 70-percent return premium feature of the contract. In other words, that affects the rate.

Mr. GESELL. You mean, in other words, the 20-pay life policy had provisions in it to pay more than \$1,000 on your—

Mr. SELLMAN. That's right.

Mr. GESELL. Up until the paid-up date arrived?

Mr. SELLMAN. That's right, which was the guaranteed addition for the purpose of really insuring the loan during the 20-year distribution period.

Mr. GESELL. Now, Mr. Martin told us yesterday that when the surplus of the company suffered a loss by reason of this Lincoln Securities loan, that the policyholders were not affected. If you had participating policyholders on your books, they were to some extent affected by the loss or deterioration of the surplus as a result of that transaction, were they not?

Mr. SELLMAN. Well, of course, the surplus of the company—the capital and surplus—is, of course, a protection to the policyholders to that extent.

The VICE CHAIRMAN. And your participating policyholders share in that surplus?

Mr. SELLMAN. Your distribution of dividends is from your surplus. In connection with these policies, also, I would like to call attention to the fact that as a certificate of loan is taken as an asset, that is offset on the liability side by the increase in reserve under those contracts.

Mr. GESELL. I have no further questions of Mr. Sellman at this time.

The VICE CHAIRMAN. You may be excused.

Mr. GESELL. Mr. Shimp.

The VICE CHAIRMAN. Do you solemnly swear that this testimony you are about to give in this proceeding will be the truth, the whole truth, and nothing but the truth, so help you God?

Mr. SHIMP. I do.

TESTIMONY OF HERBERT G. SHIMP, PRESIDENT, AMERICAN CONSERVATION CO., CHICAGO, ILL.

Mr. GESELL. What is your full name, Mr. Shimp?

Mr. SHIMP. Herbert G. Shimp.

Mr. GESELL. You are president of the American Conservation Co., Mr. Shimp?

Mr. SHIMP. Yes.

Mr. GESELL. You reside in Chicago, Ill.?

Mr. SHIMP. Wilmette, Chicago.

Mr. GESELL. Your offices are in Chicago?

Mr. SHIMP. Yes.

Mr. GESELL. Mr. Shimp, at some later date in your testimony, I want to discuss with you the operations of the American Conservation Co. in some detail.¹ At this moment, I want to ask you specifically with respect to the circumstances under which you obtained the contract with the Illinois Bankers Life Assurance Co., which was

¹ See *infra*, p. 6917 et seq.

discussed yesterday. I might start off by asking you when did you first meet Mr. Martin?

Mr. SHIMP. Well, that date would—I couldn't establish the definite date. I would say sometime between 1918 and 1923 or '24 or '25 or somewhere around there.

Mr. GESELL. Have you had business dealings with him prior to 1929, when your contract was entered into?

Mr. SHIMP. No; not that I know of.

Mr. GESELL. Had you not been consulted by him in connection with the possibility of your having something to do with the reinsurance plan proposed back in 1925?

Mr. SHIMP. Perhaps we had some discussion with reference to it.

Mr. GESELL. What do you recall in that connection?

Mr. SHIMP. Well, at that time, prior to 1924 it probably would be, if there was any discussion at that time, our company was probably the only company doing this type of work, and we had discussions with a great many people at various times with reference to reorganization, rewriting work. Now, just when our discussion originated, what date it originated, I am not able to tell you.

Mr. GESELL. Do you recall loaning some stock to Mr. Martin?

Mr. SHIMP. Yes.

Mr. GESELL. Having a \$600,000 par value?

Mr. SHIMP. I don't recall the par value.

Mr. GESELL. What shares were they that you loaned to him?

Mr. SHIMP. Preferred stock of a real-estate company.

Mr. GESELL. That was the Holmhaven on the Gulf; is that the name of it?

Mr. SHIMP. That's right.

Mr. GESELL. When did you make that loan to Mr. Martin?

Mr. SHIMP. I think in '29 or '30.

Mr. GESELL. What was the purpose of making that loan to him?

Mr. SHIMP. What was the purpose?

Mr. GESELL. Yes; what conversation did you have with him when you loaned him those shares?

Mr. SHIMP. Well, it was purely a loan for collateral purposes. He said he wanted to use it for collateral.

Mr. GESELL. He wanted to use the stock for collateral?

Mr. SHIMP. That's right.

Mr. GESELL. Did he tell you why he wanted to use it?

Mr. SHIMP. No, sir.

Mr. GESELL. Did you find out what he did with the proceeds?

Mr. SHIMP. No, sir.

Mr. GESELL. Do you know that he had pledged some of the shares with Mr. Stevens in connection with the \$200,000 loan we were discussing yesterday?

Mr. SHIMP. Not until many years later.

Mr. HENDERSON. Mr. Shimp, do I understand your testimony—you loaned Mr. Martin securities valued at about \$600,000, and you didn't ask him what he was going to do with them, specifically?

Mr. SHIMP. Not the value; the face value, I understood the question to be.

Mr. HENDERSON. Yes. Speaking of these securities, you didn't ask him what he was going to do with them?

Mr. SHIMP. Oh, yes; he told me it was—he was going to use it as collateral.

Mr. HENDERSON. But he didn't tell you what for?

Mr. SHIMP. Not for what purpose or the amount of the loan. I had no knowledge of that.

Mr. HENDERSON. Do you go around doing that very often?

Mr. SHIMP. Well, I have done it too often.

Mr. GESELL. What did he place with you?

Mr. SHIMP. Nothing.

Mr. GESELL. You got a receipt for the stock?

Mr. SHIMP. Yes.

Mr. HENDERSON. What is the place of your business?

Mr. SHIMP. North central Illinois and Michigan, Chicago.

The VICE CHAIRMAN. What was your purpose in making the loan, when you made a loan of stock having the par value of \$600,000?

Mr. SHIMP. Well, I hoped eventually to transact some business with Mr. Martin.

The VICE CHAIRMAN. What business?

Mr. SHIMP. The rerating or the rewriting of the business of the Illinois Bankers Life.

The VICE CHAIRMAN. I see. That is what you had in mind when you made him the loan?

Mr. SHIMP. Certainly.

Mr. GESELL. You said it was in 1929.

Mr. SHIMP. No; I couldn't say. I think it was 1929 or '30. I don't recall the date.

Mr. GESELL. It was right at the time that the reinsurance contract between the Illinois Bankers Life Assurance Co. and the assessment association was under consideration; was it not?

Mr. SHIMP. No; I couldn't say that. It might have been after that time, or it might have been shortly before. I am not certain about the date now.

Mr. GESELL. Did you anticipate this loan would help you get the rewriting business on that contract? Was that the purpose for which it was made?

Mr. SHIMP. Well, I was hopeful it would be helpful in obtaining the contract.

Mr. GESELL. Well, was that one of the motivating considerations that led you to make this loan?

Mr. SHIMP. That and the friendship of Mr. Martin.

Mr. GESELL. Did Mr. Martin tell you at the time the loan was made that if you made it to him, he would be in a position to give you this rewrite contract?

Mr. SHIMP. No, sir.

Mr. GESELL. Well what was there in your conversation with him that led you to think that you would have some benefit with respect to this contract if you made the loan?

Mr. SHIMP. Well it had been discussed with Mr. Martin and some of his associates at various times.

Mr. GESELL. You mean you had been in conference with them about this matter before the loan?

Mr. SHIMP. That is right. Not the loan but with reference to the rewriting of the business of the Illinois Bankers Life.

Mr. GESELL. Had they promised you the contract prior to this time?

Mr. SHIMP. No; I don't think there had been any commitment made but there is perhaps a tentative understanding that if the contract was let, that I would at least have an opportunity to figure on the contract.

Mr. GESELL. You'd have some participation in it?

Mr. SHIMP. I beg your pardon?

Mr. GESELL. You'd have some participation in it?

Mr. SHIMP. I'd have had an opportunity to submit a proposal for rewriting the business.

Mr. GESELL. Well, you would have done that anyhow, wouldn't you, without lending \$600,000 worth of securities?

Mr. SHIMP. Well, many a time we haven't been able to do it.

Mr. HENDERSON. You mean that at other times you put up collateral like this, and then you didn't get an opportunity?

Mr. SHIMP. No; I mean there have been many times we have attempted to submit a proposal for this work in competition with other organizations and have no chance to submit our proposal.

Mr. HENDERSON. I see.

Mr. GESELL. Now, Mr. Shimp, did Mr. Martin ever pay you back this loan?

Mr. SHIMP. The stock?

Mr. GESELL. Yes.

Mr. SHIMP. No.

Mr. GESELL. Or its equivalent?

Mr. SHIMP. No.

Mr. GESELL. You still have the receipt?

Mr. SHIMP. Yes.

Mr. GESELL. Have you written it off as a loss or do you still anticipate getting it?

Mr. SHIMP. It was written off as a loss. The company went into receivership, I think, in perhaps '33.

Mr. GESELL. You mean Holmhaven on the Gulf went into receivership?

Mr. SHIMP. That is right.

Mr. GESELL. But Mr. Martin didn't go into receivership, did he, and he was the fellow who owed you the stock?

Mr. SHIMP. The stock had no value.

Mr. GESELL. This stock that you gave him had no value?

Mr. SHIMP. In '33, whenever the company went into receivership.

Mr. GESELL. It had value when you loaned it to him?

Mr. SHIMP. Yes.

Mr. GESELL. So he owed you something?

Mr. SHIMP. Well, I don't know whether he did or not. If I had kept the stock in my possession it would have had no value in '33.

Mr. GESELL. So you just struck it off with a shrug of your shoulder, let him have the benefit of the doubt?

Mr. SHIMP. I don't think that follows.

Mr. GESELL. Well, why did you cancel the obligation? Why didn't you press Mr. Martin for the payment of it?

Mr. SHIMP. The return of the stock?

Mr. GESELL. Or its equivalent.

Mr. SHIMP. Well, the reason that I have never asked for the return of the stock is because the stock had no value. I still have the receipt, and I can at any time, I suppose, insist upon the return of the stock.

Mr. GESELL. And you looked upon this strictly as a loan of a chattel, so to speak?

Mr. SHIMP. That is right.

Mr. GESELL. And not a cash loan at any time?

Mr. SHIMP. It was never intended to be a cash loan because there was no discussion as to the value of the stock at the time it was delivered to Mr. Martin.

Mr. HENDERSON. And then, in effect, Mr. Martin sold short at \$600,000 and covered at nothing.

Mr. SHIMP. No; I don't think he sold short.

Mr. HENDERSON. It was that kind of transaction.

Mr. SHIMP. In my experience, that is not an unusual transaction among friends, to loan them some collateral upon which they could make a loan—that collateral would be returned at some future date—and take a receipt for it with the full understanding if a man lives the collateral would be returned. I think that is a common, daily practice, particularly among people in business who are friendly with each other.

Mr. GESELL. Did you have anything to do, Mr. Shimp, with getting the approval of the State of Illinois for this reinsurance contract?

Mr. SHIMP. Nothing whatever.

Mr. GESELL. Did you approach anybody in connection with it at all?

Mr. SHIMP. No one. I couldn't even tell you now who was commissioner at the time this contract was entered into.

Mr. GESELL. Who did you negotiate with to get your rewriting contract?

Mr. SHIMP. Mr. John P. Nichol, Mr. William Matthews, and Mr. Hugh T. Martin.

Mr. GESELL. Now, that contract gave you, as finally signed, a 70 percent commission, did it not?

Mr. SHIMP. That is correct.

Mr. GESELL. On the business transfer?

Mr. SHIMP. That is true.

Mr. GESELL. And an 80-percent commission on new business written?

Mr. SHIMP. That is right.

Mr. GESELL. Now, with whom did you negotiate primarily, Mr. Nichol, Mr. Matthews, or Mr. Martin?

Mr. SHIMP. Well, principally with Mr. Nichol and Mr. Martin.

Mr. GESELL. Who was Mr. Nichol?

Mr. SHIMP. An associate of Mr. Martin's.

Mr. GESELL. You understood he was associated with Mr. Martin in the promotion of the new company?

Mr. SHIMP. To the same extent I understood as was Mr. Matthews.

Mr. GESELL. That Mr. Matthews, Mr. Nichol, and Mr. Martin were all three jointly interested in the company?

Mr. SHIMP. That is correct.

Mr. GESELL. What type of negotiation did you have to have to get the contract? Was there much bargaining or was it understood you were to have it from the start?

Mr. SHIMP. There was considerable bargaining.

Mr. GESELL. Who determined the final terms of the contract, Mr. Martin or Mr. Nichol, as far as the new company was concerned?

Mr. SHIMP. They were told me by Mr. Nichol. I suppose both Mr. Matthews and Mr. Martin participated in the discussion that led up to the final completion of the contract.

Mr. GESELL. Now, at this time, the American Conservation Co. had not been formed, had it?

Mr. SHIMP. That is true.

Mr. GESELL. Do I understand that it was organized at this time with the original capital of a thousand dollars?

Mr. SHIMP. That is not true.

Mr. GESELL. What was the original capital?

Mr. SHIMP. I couldn't tell you. The records would show.

Mr. GESELL. Where are the records, Mr. Shimp?

Mr. SHIMP. I don't know. Your men have had them for 6 weeks in your office. I couldn't tell you what the paid-in capital was.

Mr. GESELL. You were served with a subpoena asking you to produce those records.

Mr. SHIMP. The minutes are available; yes, sir.

Mr. GESELL. Will you get them, please? Now, if you'd turn to the minutes of the American Conservation Co., from the very first organization meeting; according to my records, it was held February 6, 1930.

Mr. SHIMP. That is the stockholders' minutes?

Mr. GESELL. The meeting of the subscribers to the stock, February 6, 1930. Have you those minutes before you?

Mr. SHIMP. I will see. On February what date?

Mr. GESELL. February 6, 1930.

Mr. SHIMP. Yes; I have the initial subscription agreement.

Mr. GESELL. Does that not show the original subscription and the amount of capital stock as \$1,000?

Mr. SHIMP. The amount to be paid for it was \$1,000.

Mr. GESELL. Two hundred shares of nonpar stock?

Mr. SHIMP. That is correct.

Mr. GESELL. Given a stated value of \$5 a share?

Mr. SHIMP. That is correct.

Mr. GESELL. I understand that 187 of these shares were issued to you. Is that correct? And that the other subscribers each received 1 share apiece.

Mr. SHIMP. I am not certain as to that.

Mr. GESELL. Do not those minutes show that?

Mr. SHIMP. I don't know that they show what stock was issued. This shows 187 shares subscribed for by me.

Mr. GESELL. You subscribed for 187 of the 200?

Mr. SHIMP. That is correct.

Mr. GESELL. Did you put up any money for those shares?

Mr. SHIMP. I suppose I put up the \$935.

Mr. GESELL. Where did you get those funds, Mr. Shimp?

Mr. SHIMP. I suppose out of my checking account.

Mr. GESELL. Did you borrow them from someone?

Mr. SHIMP. I am sure it wasn't borrowed.

Mr. GESELL. Those were your personal funds?

Mr. SHIMP. Yes.

Mr. GESELL. At that same meeting, or rather at a meeting of February 17, 1930, the officers were elected, were they not?

Mr. SHIMP. I assume that they were.

Mr. GESELL. On February 17, 1930?

Mr. SHIMP. February 17, 1930.

Mr. GESELL. They would be elected by the directors at the meeting of the board of directors, February 17, 1930.

Mr. SHIMP. Yes.

Mr. GESELL. Now, at that meeting am I correct in saying that the capital stock was increased to \$10,000, or 2,000 shares, and that in return for 1,800 shares issued at that time you assigned to the American Conservation Co. your contract with the Illinois Bankers Life Assurance Co.?

Mr. SHIMP. I think that is correct; yes, sir.

Mr. GESELL. In connection with that assignment, it was understood that you were to have a 25-percent interest in the commissions received, was it not?

Mr. SHIMP. That is correct; yes.

Mr. GESELL. Was anyone else to share other than the corporation in the commissions which you received from the Illinois Bankers Life Insurance Co. by reason of your rewrite contract with them?

Mr. SHIMP. I wasn't to receive any commission from the Illinois Bankers. The American Conservation Co. received a contract for 70-percent commission, and in turn they made a contract with me, or an agreement with me, to pay me 25-percent commission—the American Conservation Co.

Mr. GESELL. Did the American Conservation Co. make any agreement with anybody else with respect to commissions?

Mr. SHIMP. No, sir.

Mr. GESELL. Did you, sir?

Mr. SHIMP. No, sir.

Mr. GESELL. You had no agreement with Mr. Nichol?

Mr. SHIMP. Yes; I had a contract with Mr. Nichol.

Mr. GESELL. Tell us about that.

Mr. SHIMP. I made a contract with him for this 25-percent commission.

Mr. GESELL. To give him the entire 25-percent commission?

Mr. SHIMP. That is correct; yes, sir.

Mr. GESELL. Did you recognize this sheet which I show you as a copy of a contract which you had with Mr. Nichol?

Mr. SHIMP. I think this is correct.

Mr. GESELL. This contract reads [reading from "Exhibit No. 1348-31"]:

THIS AGREEMENT Made this 2nd day of January A. D. 1930, between HERBERT G. SHIMP, of Chicago, party of the first part, and JOHN P. NICHOL also of Chicago, party of the second part, WITNESSETH, That:

WHEREAS the said party of the first part is desirous of again going into the business of rerating and transferring policyholders of legal reserve and assessment life insurance companies, and proposes to organize corporation to carry on such work; and

WHEREAS said first party is desirous of securing the assistance and cooperation of said second party in securing from life-insurance companies contracts or employment for transferring or rerating policyholders; and

WHEREAS the said second party is willing to give his best endeavors to said first party in securing said contracts;

NOW, THEREFORE, FOR AND IN CONSIDERATION of the foregoing, it is expressly understood and agreed by and between the parties hereto that said second party shall work with said first party for the purpose of securing from life-insurance companies contract of transfer and rerating of policyholders, which contracts shall be taken either directly by said first party or by such corporation as he may organize or cause to be organized, and that in particular he shall endeavor to secure for such first party a contract with Illinois Bankers' Life Assurance Company, of Monmouth, Illinois. Said second party agrees that, for a period of two (2) years, all of his efforts in this regard shall be directed to the securing of such contracts for the benefit of said first party or of such corporation as he may organize or designate.

It is further understood and agreed that, in the event said first party or the corporation which he may organize or designate shall secure any such contract with a life-insurance company through the said second party or with his assistance, and particularly if said first party or the said corporation which he shall organize shall secure any contract with the Illinois Bankers' Life Assurance Company, of Monmouth, Illinois, said first party will pay to said second party an amount equal to twenty-five per cent (25%) of the first year's premiums paid on any policies of insurance so transferred or rerated under any contract so secured, which amount shall, from time to time, be paid in cash as collected by said first party or by the corporation which he may organize or designate.

I wish to offer that for the record.

The VICE CHAIRMAN. It will be admitted.

(The agreement referred to was marked "Exhibit No. 1348-31" and is included in the appendix on p. 7058.)

Mr. HENDERSON. What was the date of the organization of the American Conservation Co.?

Mr. SHIMP. February 17, I believe, or 6.

Mr. GESELL. February 6, 1930.

Mr. HENDERSON. This contract was entered into then before the formation—

Mr. SHIMP (interposing). That's right.

The VICE CHAIRMAN. And who is Mr. Nichol?

Mr. SHIMP. He was an associate of Mr. Matthews and Mr. Martin in the Illinois Bankers' Life.

The VICE CHAIRMAN. What was his connection with the Illinois Bankers'?

Mr. SHIMP. I don't know. I don't know him; I don't know his connection. I don't think either Mr. Martin or Mr. Matthews or Mr. Nichol had any official connection with the Illinois Bankers' Life at the time this contract was entered into.

Mr. GESELL. I thought you said a moment ago in your testimony that you knew Mr. Nichol was associated with Mr. Martin and Mr. Matthews in the proposition of the Illinois Bankers' Life Assurance Co.

Mr. SHIMP. I still say that, but I assumed and believed, and still believe, that they were the controlling financial interest in the company. But I don't know that either of them had an official connection with the Illinois Bankers' Life on January 2, or subsequent to January 2, other than the ownership of the control of the stock of that company.

Mr. GESELL. Now, Mr. Shimp, you set up on the books and records of your company an account entitled "Special account earned com-

missions, No. 282," which appears in the general ledger of your company, did you not?

Mr. SHIMP. The contract covering this 25 percent payable to me by the American Conservation Co., I don't know the number of the account, but there was such an account.

Mr. GESELL. And into that account you credited this 25 percent?

Mr. SHIMP. That is correct.

Mr. GESELL. Now, may I ask you to step down, please?

Mr. Leary, will you take the stand?

**TESTIMONY OF ARTHUR J. LEARY, ACCOUNTANT INVESTIGATOR,
INSURANCE SECTION, SECURITIES AND EXCHANGE COMMISSION,
WASHINGTON, D. C.—Resumed**

Mr. GESELL. Mr. Leary, you have already been sworn, have you not?

Mr. LEARY. That is correct, sir.

Mr. GESELL. You stated that you were an investigator attached to the staff of the Insurance Section of the Securities and Exchange Commission; is that correct?

Mr. LEARY. That is correct, sir.

Mr. GESELL. Mr. Leary, did you have occasion to call at the offices of the American Conservation Co. of Chicago?

Mr. LEARY. I did.

Mr. GESELL. Were you granted access to its books and records?

Mr. LEARY. I was, sir.

Mr. GESELL. In that connection, did you make an examination of the account No. 282, which appears in the general ledger of the American Conservation Company, entitled "Special account, earned commissions"?

Mr. LEARY. I did, sir.

Mr. GESELL. Did you trace certain moneys coming into that account, and follow up the nature of the disbursements made out of that account?

Mr. LEARY. I did, sir.

Mr. GESELL. Was that work done with particular reference to tracing money disbursed from the account to John P. Nichol?

Mr. LEARY. It was, sir.

Mr. GESELL. Now, Mr. Leary, in that connection, did you examine checks disbursed out of the account to determine what was done with the proceeds of those checks?

Mr. LEARY. I did, sir.

Mr. GESELL. In that connection, did you have occasion to call at various banks in the city of Chicago, brokerage houses, and elsewhere, to gather together records and documents showing the final disposition of the funds?

Mr. LEARY. I did, sir.

Mr. GESELL. As a result of that investigation, are you in position to describe to the committee some of the transactions which were disclosed?

Mr. LEARY. I am, sir.

Mr. GESELL. Did you find that the American Conservation Co., on June 30, 1930, issued a check in the amount of \$15,000, payable to the order of the Boulevard Bridge Bank?

Mr. LEARY. I did, sir.

Mr. GESELL. Will you tell us who signed that check for the American Conservation Co., and what was done with the proceeds?

Mr. LEARY. The check was signed by Herbert G. Shimp, of the American Conservation Co., and the check was used by the American Conservation Co. to purchase a cashier's check at the Boulevard Bridge Bank of Chicago, Ill., in the amount of \$15,000. This cashier's check was issued in the name of John P. Nichol in the amount of \$15,000. This cashier's check was endorsed "John P. Nichol."

Mr. GESELL. In other words, \$15,000 was drawn out of the account used to purchase a cashier's check which was drawn to the order of John P. Nichol?

Mr. LEARY. That is correct, sir.

Mr. GESELL. Well, now, were there similar transactions?

Mr. LEARY. Yes, sir.

Mr. GESELL. Will you proceed in your own manner to describe those transactions, please?

Mr. LEARY. On August 18, 1930, another check in the amount of \$15,000 was drawn by the American Conservation Co., payable to the order of the Boulevard Bridge Bank. This check was used to purchase a cashier's check of the Boulevard Bridge Bank in the amount of \$15,000. Issued on the same date and payable to the order of John P. Nichol, the check was endorsed "John P. Nichol."

On August 29, 1930, a check in the amount of \$10,000 was drawn by the American Conservation Co., payable to the order of the Boulevard Bridge Bank. This check was used to purchase a cashier's check of the Boulevard Bridge Bank in the amount of \$10,000. It was issued on the same date, and payable to the order of John P. Nichol, and check bears the endorsement of John P. Nichol.

On September 12, 1930, a check in the amount of \$15,000 was drawn by the American Conservation Co., payable to the order of the Boulevard Bridge Bank. This check was used to purchase a cashier's check of the Boulevard Bridge in the amount of \$15,000, issued on the same date, and payable to the order of John P. Nichol. The check bears the endorsement, "Pay to the order of Halsey, Stuart & Company. John P. Nichol," and the records of Halsey, Stuart & Co. indicate this check was credited to the account of Hugh T. Martin, and used by Mr. Martin in part to purchase on October 14, 1930, \$29,000, State and Washington Building bonds.

Mr. GESELL. Then, in this instance, the check went from the American Conservation Co. to John P. Nichol to Hugh T. Martin?

Mr. LEARY. That is the final disposition of it.

The VICE CHAIRMAN. What is the amount of that check?

Mr. LEARY. The amount of that check was \$15,000.

Mr. GESELL. What is the next one?

Mr. LEARY. On September 30, 1930, the American Conservation Co. issued its check in the amount of \$25,000, payable to the order of the Boulevard Bridge Bank. This check was used to purchase two cashier's checks from the Boulevard Bank. These cashier's checks were payable to the order of John P. Nichol, each dated September 30, 1930, and they were in the amounts of \$15,000 and \$10,000, respectively. The \$15,000 cashier's check bears the endorsement, "Pay to the order of the Lincoln Securities Company. John P. Nichol." The \$10,000 check bears the same endorsement. The cash book records of

the Lincoln Securities indicate that on September 30, 1930, \$25,000 was credited to the account of Hugh T. Martin loan account.

Mr. GESELL. That is the Hugh T. Martin loan account at the Lincoln Securities Co.?

Mr. LEARY. That is correct, sir.

Mr. HENDERSON. May I have that transaction again? There are so many items in it that I missed it.

Mr. LEARY. On September 30 the American Conservation Co. issued its check in the amount of \$25,000, payable to the order of the Boulevard Bridge Bank in Chicago. This check was used to purchase two cashier's checks from the Boulevard Bridge Bank. These cashier's checks were made payable to the order of John P. Nichol, dated September 30, 1930, and were in the amounts of \$15,000 and \$10,000, respectively. The \$15,000 check bears the endorsement "Pay to the order of Lincoln Securities Company. John P. Nichol." The \$10,000 cashier's check bears the same endorsement. The cashbook records of the Lincoln Securities Co. indicate that on September 30, 1930, \$25,000 was credited to the account of the Hugh T. Martin loan account.

Mr. GESELL. Will you proceed, Mr. Leary?

Mr. LEARY. On October 31, 1930, a check in the amount of \$10,000 was drawn by the American Conservation Co., payable to the order of the Boulevard Bridge Bank. This check was used to purchase a cashier's check of the Boulevard Bridge Bank in the amount of \$10,000 issued on the same date and payable to the order of John P. Nichol. This check bears the endorsement "John P. Nichol," and is also endorsed by Halsey, Stuart & Co., and the records of Halsey, Stuart & Co. indicate that this check was credited to the account of Hugh T. Martin and used by Mr. Martin in part to purchase on October 14, 1930, \$29,000 principal value State and Washington Building bonds.

On December 20, 1930, the American Conservation Co. issued its check in the amount of \$50,000 payable to the order of the Boulevard Bridge Bank. This check was used to purchase two cashier's checks from the Boulevard Bridge Bank, each in the amount of \$25,000, bearing the—

Mr. GESELL (interposing). Bearing what endorsement?

Mr. LEARY. Bearing the endorsement "Pay to the order of Lincoln Securities Company. John P. Nichol." On December 22 the cash record of the Lincoln Securities Co. indicates that the \$50,000 was received to the credit of the Hugh T. Martin loan account.

On January 31, 1931, the American Conservation Co. issued a check payable to the order of the Boulevard Bridge Bank in the amount of \$50,000. This check was used to purchase a cashier's check at the Boulevard Bridge Bank on February 2, 1931, in the amount of \$50,000, payable to the order of J. P. Nichol. The cashier's check is endorsed "J. P. Nichol," and was used for the purpose of purchasing a cashier's check in the amount of \$50,000, dated February 2, 1931, of the Continental Illinois Bank & Trust Co. This check bears the endorsement of the Illinois Bankers Life Assurance Co., and bears the endorsement "Illinois Bankers Life Assurance Co., by W. H. Woods, president."

On February 2, 1931, Messrs. Nichol, Sawyer & Martin borrowed \$50,000 from the Continental Illinois Bank & Trust Co., and de-

posited as collateral thereon 1,000 shares of Illinois Bankers Life Assurance Co., and received from the Continental Illinois Bank & Trust Co. a cashier's check to the order of John P. Nichol, A. T. Sawyer, and Hugh T. Martin in the amount of \$50,000. This cashier's check is endorsed "A. T. Sawyer, Hugh T. Martin, and John P. Nichol," and was used by them to purchase on the same date from the Continental Illinois Bank & Trust Co. a cashier's check in the amount of \$50,000, payable to the order of the Illinois Bankers Life Assurance Co., which check is endorsed "Illinois Bankers Life Assurance Co., by W. H. Woods, president."

Mr. GESELL. I might say that that transaction, which is particularly complex, will be the subject of additional examination at a later stage in the testimony.

What is the next item?

Mr. LEARY. On March 3, 1931, the American Conservation Co. issued its check, payable to the order of the Peoples Trust & Savings Bank, in the amount of \$10,000. This check was used by the American Conservation Co. to purchase a cashier's check at the Peoples Trust & Savings Bank in the amount of \$10,000, dated March 3, 1931, and payable to John P. Nichol. This cashier's check is endorsed "John P. Nichol," and was used to purchase a cashier's check of the National Bank of the Republic, of Chicago, dated March 3, 1931, in the amount of \$10,000, payable to William H. Woods. This cashier's check is endorsed "William H. Woods."

On March 14, 1931, the American Conservation Co. issued its check in the amount of \$15,000, payable to the order of the Peoples Trust & Savings Bank. This check was used by the American Conservation Co. to purchase a check in the amount of \$15,000, dated March 14, 1931, payable to the order of John P. Nichol. The cashier's check, which is endorsed "John P. Nichol," was used to purchase three cashier's checks, each in the amount of \$5,000, dated March 14, 1931, respectively, from the National Bank of the Republic, of Chicago, payable to Hugh T. Martin. Each check is endorsed "Hugh T. Martin."

On April 27, 1931, the American Conservation Co. issued its check in the amount of \$5,000, payable to the order of John P. Nichol, and drawn on the Continental Bank & Trust Co.. This check is endorsed "John P. Nichol; signature guaranteed by F. M. Zeiler & Co."

On April 27, 1931, the American Conservation Co. issued its check in the amount of \$5,000, payable to the order of John P. Nichol, and drawn on the Continental Illinois Bank & Trust Co. This check is endorsed "John P. Nichol, F. M. Zeiler & Co.," and was credited to the account of Hugh T. Martin at F. M. Zeiler & Co., April 28, 1931.

On April 27, 1931, the American Conservation Co. issued its check in the amount of \$10,000, payable to the order of John P. Nichol, and drawn on the Continental Illinois Bank & Trust Co. This check is endorsed "John P. Nichol. Signature guaranteed by F. M. Zeiler & Co."

On May 29, 1931, the American Conservation Co. issued its check in the amount of \$15,000, drawn to the order of the Peoples Trust & Savings Bank. This check was used by the American Conservation Co. to purchase two cashier's checks at the Peoples Trust & Savings Bank, each dated May 29, 1931; one payable in the amount of \$10,000 to the order of John P. Nichol; and the other, payable in the amount of \$5,000, to the order of John P. Nichol. The \$10,000

check is endorsed "John P. Nichol," and the \$5,000 cashier's check is endorsed "John P. Nichol, Hugh T. Martin."

Mr. GESELL. Now, Mr. Leary, have you in your hands a schedule which reflects additional transactions of the same character?

Mr. LEARY. I have, sir.

Mr. GESELL. May I have it, please? Do these sheets show the transactions which you have not yet covered in your testimony?

Mr. LEARY. They do, sir.

Mr. GESELL. If the committee please, in order to shorten this examination, I would like to use this summary of the additional transactions rather than present them through our testimony.

The VICE CHAIRMAN. These are the additional transactions, of the same character?

Mr. LEARY. That's right, the same character. They are additional disbursements on the part of the American Conservation Co., and the final disposition of the money, tracing to where it finally reaches its source.

The VICE CHAIRMAN. With that understanding, the exhibits will be inserted.

(The sheets referred to were marked "Exhibit No. 1348-32" and are included in the appendix on p. 7058.)

Mr. GESELL. Have you in your hands the checks which form the basis of the testimony?

Mr. LEARY. That is correct, sir.

Mr. GESELL. If the committee please, I should like to offer these checks for the record, not to be printed but to be filed with the committee in order that we may have the exact data from which Mr. Leary has been testifying before the committee.

The VICE CHAIRMAN. With that understanding, the exhibits will be received by the committee.

Mr. GESELL. These are photostats of the original checks.

(The checks referred to were marked "Exhibit No. 1348-33" and are on file with the committee.)

Mr. GESELL. Now, Mr. Leary, have you made a summary of these transactions, and can you tell us what the total amount of the checks covered by your testimony and the exhibits equals?

Mr. LEARY. Yes, sir. For the year 1930 payments amount to \$140,000. For the year 1931, \$227,000. For the year 1932, \$63,000, or a total of \$430,000.

Mr. GESELL. That is \$430,000 issued out of this account?

Mr. LEARY. That is correct, sir.

Mr. GESELL. Now, of that amount of \$430,000, how much of it were you able to trace only to John P. Nichol?

Mr. LEARY. \$67,000.

Mr. GESELL. \$67,000 of the \$430,000 went, as far as the records disclosed, to John P. Nichol?

Mr. LEARY. That is correct, sir.

Mr. GESELL. The remainder of the money equals how much?

Mr. LEARY. The remainder equals \$363,000.

Mr. GESELL. Am I correct in saying that that \$363,000 went either to Hugh T. Martin, to brokerage accounts or loan accounts of his, or to the Martin-Sawyer-Nichol loan accounts?

Mr. LEARY. That is correct, sir.

Mr. GESELL. I have no further questions for this witness.

The VICE CHAIRMAN. Thank you, Mr. Leary.
Mr. GESELL. Mr. Martin, please.

**TESTIMONY OF HUGH T. MARTIN, PRESIDENT, ILLINOIS BANKERS
LIFE ASSURANCE CO., MONMOUTH, ILL.—Resumed**

Mr. GESELL. Mr. Martin, you have been sworn, have you not?

Mr. MARTIN. Yes, sir.

Mr. GESELL. Mr. Martin, was Mr. Nichol your nominee in these transactions?

Mr. MARTIN. No; he was my associate.

Mr. GESELL. What was the nature of your association? Did you have a partnership agreement of some kind?

Mr. MARTIN. Well, we had no written agreement, but the idea was that Mr. Nichol was to participate in a stock interest in the Illinois Bankers Life Assurance Co.

Mr. GESELL. You have heard the testimony of the previous witness, have you not?

Mr. MARTIN. Rather indistinctly. I was in the back.

Mr. GESELL. Can you tell us how much money you ultimately received, either directly or indirectly, from the American Conservation Co. by reason of these kick-backs on the agreement which the American Conservation Co. had with the Illinois Bankers Life Assurance Co.?

Mr. MARTIN. I wasn't quite clear about the total.

Mr. GESELL. Can you tell us how much was gotten on the contract?

Mr. MARTIN. There was something in excess of \$400,000.

Mr. GESELL. Mr. Leary's figure was \$430,000:

Mr. MARTIN. Yes.

Mr. GESELL. Did you get all of that money?

Mr. MARTIN. You mean did I get it personally?

Mr. GESELL. Or did it go to accounts in which you had an interest?

Mr. MARTIN. It went to accounts in which I had an interest.

Mr. GESELL. Or came to you personally.

Mr. MARTIN. That may have been. Several checks came to me personally but mostly all paid on accounts in which I was interested and loans there on the bank.

Mr. GESELL. So that the entire \$430,000 came to your benefit?

Mr. MARTIN. Yes.

Mr. HENDERSON. Does the witness mean he got the \$60,000 also from Mr. Nichol?

Mr. GESELL. You got \$430,000 in all?

Mr. MARTIN. That was the total; yes. I think it was all paid to Mr. Nichol.

Mr. GESELL. It was Mr. Nichol's practice to cash the checks and turn the proceeds over to you, or did he deposit them in accounts in which you were interested?

Mr. MARTIN. He made payment on various accounts on notes on which he and I were both interested.

Mr. GESELL. His liability was very secondary to yours, was it not, Mr. Martin? He really was a window dressing, was he not?

Mr. MARTIN. No; I wouldn't say that.

Mr. GESELL. Was he your law partner?

Mr. MARTIN. No.

Mr. GESELL. Was he associated with you?

Mr. MARTIN. He was associated with me; yes.

Mr. GESELL. Not under any partnership agreement?

Mr. MARTIN. Not in the sense of a written agreement.

Mr. GESELL. His only agreement was that you give him some stock?

Mr. MARTIN. Part of the stock; yes.

Mr. HENDERSON. I want to get that straight. Nichol didn't get any part of the \$430,000, but he got a stock interest in what company?

Mr. MARTIN. He was to get a stock interest in the Illinois Bankers Life Assurance Co.

Mr. GESELL. Did he get that interest?

Mr. MARTIN. No; not yet.

Mr. HENDERSON. Was he an officer of the company at the time?

Mr. MARTIN. I don't think so; no.

Mr. GESELL. He had been associated with you in the formation of the company?

Mr. MARTIN. Oh, yes.

Mr. GESELL. And he was to get a stock interest?

Mr. MARTIN. He was.

Mr. GESELL. And he never has gotten it?

Mr. MARTIN. Well, the stock has not been divided. As a matter of fact, the loan had not entirely been paid off.

The VICE CHAIRMAN. Who owns the stock now?

Mr. MARTIN. Well, it stands in my name and in Mr. Sawyer's, and I think several other gentlemen who are on the board of directors.

The VICE CHAIRMAN. But all the payments we have been hearing about before your payment were paid to Mr. Nichol, is that correct in the first instance?

Mr. MARTIN. Well, it was to the general interest, or to the general benefit of all of us who were on the notes. Mr. Sawyer, Mr. Nichol, and I were all on these notes.

The VICE CHAIRMAN. Well, we were talking about \$430,000 payments made to Mr. Nichol by the conservation company?

Mr. MARTIN. Yes.

The VICE CHAIRMAN. Those were all for your ultimate benefit, were they not?

Mr. MARTIN. Well, not my total benefit. It was partly benefit to everybody who had interest in the stock.

Mr. GESELL. What was the justification for this transaction? How do you justify it?

Mr. MARTIN. The matter was this: Mr. Shimp had been out of the transfer business for a period of 5 years and he was anxious to get back in the transfer business. He had made a contract covering that 5-year period and he had not engaged in it, he having sold his interest in another company in which he had been a principal. Now, in order to do that, he needed to have a large contract to build up a new company, and he was willing to forego the profit on that, practically all the profit, on that contract, if he had this rewriting contract.

Mr. GESELL. Well, assuming that to be true, why should you get the profit?

Mr. MARTIN. Why should I get the profit?

Mr. GESELL. Yes.

Mr. MARTIN. Because I was one of the stockholders of this insurance company, and those of us who were interested in—who constituted really the entire stock of the company.

Mr. GESELL. Well, the customary way of taking profits from an insurance company of which you own the stock is to take it out on dividends on the stock, not in this indirect manner.

Mr. MARTIN. That is true, but the result would be the same.

Mr. GESELL. Not from the point of view of the policyholders, would it, Mr. Martin?

Mr. MARTIN. Yes; it would be the same from the point of view of the policyholders because their participation was only the amount that was apportioned to them.

Mr. GESELL. Isn't it a fact that this \$430,000 which Mr. Shimp had kicked back to you was money which was obtained from the policyholders on the rewrite of the contract by loading them with this extra commission which they would not have had to pay if you hadn't been using their money for your own benefit?

Mr. MARTIN. Yes, sir. The expenses of that rewriting contract would have had to be paid regardless of whether the money was—whether the entire commission went to us or whether it went to Mr. Shimp.

Mr. GESELL. The expenses would have been exactly \$430,000 less, wouldn't they?

Mr. MARTIN. They would have been.

Mr. GESELL. At a minimum?

Mr. MARTIN. They would have if Mr. Shimp had been willing to take the contract on that lesser basis.

Mr. GESELL. And if you had been willing to forego this profit which you had got indirectly, is that not true?

Mr. MARTIN. That is true.

Mr. GESELL. So that they were charged \$430,000 in order to enable you to get this indirect benefit from the transaction; isn't that true?

Mr. MARTIN. They were—the commission—I mean the amount on these, the premium, that is true; but, Mr. Gesell—

Mr. GESELL (interposing). Now, I am still waiting for your justification, sir, if that is correct.

Mr. HENDERSON. Let him finish.

Mr. MARTIN. Well, it was our opinion that it made no difference whether the profit was taken in the manner of a portion of this commission from Mr. Shimp or whether it was taken out in the way of dividends.

Mr. GESELL. With a disclosure to the policyholders?

Mr. MARTIN. That was—we are not obligated to make a disclosure to the policyholders.

Mr. GESELL. And you think the policyholders would have gone into this transfer arrangement if they had known you had a \$430,000 interest in it?

Mr. MARTIN. I don't think it would have made any difference to them in either event, how one would get the commission on the writing of an insurance policy.

Mr. HENDERSON. You said there was no obligation; what do you mean, legal obligation?

Mr. MARTIN. I didn't quite get the question, sir.

Mr. HENDERSON. You said there was no obligation to disclose the nature of this transaction to the policyholders; do you mean legal obligation?

Mr. MARTIN. Legal obligation or moral obligation.

Mr. HENDERSON. Moral obligation.

Mr. MARTIN. I don't think so. The amount that the policyholders were charged, not the amount of commission that was paid on this, was the regular running rate on transactions of this kind.

Mr. HENDERSON. But evidently the rewriter would have been satisfied with \$430,000 less, would he not?

Mr. MARTIN. No; he said he wouldn't do that; he said that this was the regular rate that he charged on this kind of business and that he wasn't willing to cut the rate.

The VICE CHAIRMAN. But he did in effect cut the rate, did he not?

Mr. MARTIN. He was—he foregoed the profits, Commissioner. Well, I am giving you the facts as they were, and I am——

The VICE CHAIRMAN (interposing). I understand. \$430,000?

Mr. MARTIN. Well, that is my recollection now.

Mr. GESELL. Now, who of your associates knew about this?

Mr. MARTIN. Well, of course, Mr. Nichol and Mr. Sawyer did not know about it, I mean, until the matter had been in operation for some months. I don't know just exactly when.

Mr. GESELL. Mr. Sawyer didn't know about it, Mr. Martin?

Mr. MARTIN. He didn't know how we were obtaining these payments.

Mr. GESELL. When did he learn?

Mr. MARTIN. Well, I couldn't give you the date; probably some time in the year 1930, I think.

Mr. GESELL. And he was one of the three men associated with you in this, was he not, on many of these transactions?

Mr. MARTIN. He was associated with us on the notes.

Mr. GESELL. And he didn't know for 3 or 4 months about it?

Mr. MARTIN. How the payments were being made.

Mr. GESELL. Now, what others of your associates knew about it?

Mr. MARTIN. Whom do you mean by others?

Mr. GESELL. In the Illinois Bankers Life Assurance Co. Was it discussed with the board of directors?

Mr. MARTIN. No, sir; it was not.

Mr. GESELL. Well, now, which of the officers or directors knew about it?

Mr. MARTIN. Mr. Sawyer and I.

Mr. GESELL. Anyone else?

Mr. MARTIN. We were the only ones on the board who had any real interest in the stock.

Mr. GESELL. The rest of them were the dummies?

Mr. MARTIN. I wouldn't say dummies, but they were——

Mr. GESELL (interposing). They had stock in their name that they hadn't paid for and they had endorsed over to you?

Mr. MARTIN. That's it.

Mr. GESELL. Now, did you talk to any of the rest of them about this?

Mr. MARTIN. No, sir.

Mr. GESELL. Isn't it true that Mr. Woods refused to approve this agreement because he thought that the commissions were too high?—for Mr. Shimp?

Mr. MARTIN. Well, that is what he stated yesterday. I don't recall whether he——

Mr. GESELL (interposing). Mr. Woods was president of the company at this time, wasn't he?

Mr. MARTIN. He was.

Mr. GESELL. Did you gentlemen disclose to him when he voiced that disapproval the underlying reason why the commissions were so high; in other words, this secret contract that you had?

Mr. MARTIN. Any discussion with him?

Mr. GESELL. Yes.

Mr. MARTIN. No.

Mr. GESELL. He was president of the company?

Mr. MARTIN. He was.

Mr. GESELL. And he had raised an objection as to the contract?

Mr. MARTIN. I don't recall that he raised an objection, Mr. Gesell.

Mr. GESELL. He so stated here yesterday under oath.

Mr. MARTIN. Well——

Mr. GESELL (interposing). You recall?

Mr. MARTIN. I don't recall ever having any discussion with him at all.

Mr. HENDERSON. And the other members of the board of directors, except those you named, did not know about it?

Mr. MARTIN. No, sir; not at that time they didn't.

Mr. HENDERSON. And you thought——

Mr. MARTIN (interposing). They later knew about it, Commissioner.

Mr. HENDERSON. Yes; but you thought it was a regular, orderly, and proper transaction?

Mr. MARTIN. I did, otherwise, I would not have gone into it.

Mr. HENDERSON. And you thought there was no obligation to disclose this matter relating to \$430,000 either to the board of directors or to your policyholders?

Mr. MARTIN. The board of directors had no interest in the profits of the company.

Mr. HENDERSON. But why do you have a board of directors—just because it is a legal requirement in the State of Illinois? The board of directors is supposed to direct, is it not? Wasn't this perhaps the most important transaction the company had?

Mr. MARTIN. Well, it did not affect them as I viewed the thing, as far as I was concerned.

Mr. GESELL. Who made that decision, you or the board of directors, as to whether this \$430,000 secret contract was important?

Mr. MARTIN. Well, I made the decision, Mr. Commissioner.

Mr. HENDERSON. Have you any other sets of contracts that have not been disclosed to the board of directors?

Mr. MARTIN. No, no, no, sir.

Mr. HENDERSON. What is your idea of what a director is supposed to do in a company which is dealing with the policies of thousands of policyholders? Is he supposed to know about transactions of this character?

Mr. MARTIN. Well, if he is—here is a contract, we will say, of the agencies that is made at a regular rate of commission. What the agent does with the commission or any part of it is not a matter that

ordinarily is for the board of directors of the company, and it is not one in which they have any real interest.

The VICE CHAIRMAN. Well, now, let me ask you, Isn't it the function of the board of directors in this connection to make a contract of agencies which will be best suited to serve the interests of the policyholders?

Mr. MARTIN. Best serve the interests of the policyholders or of the stockholders or of the company.

The VICE CHAIRMAN. Or of the stockholders?

Mr. MARTIN. Yes. It depends on what kind of a company it is, Commissioner. If it is a stock company, it is a matter of the stockholders.

The VICE CHAIRMAN. Well, do you think it conceivable that a board of directors can pass on the propriety of a contract in which other members of the board of directors have a \$430,000 secret interest? How can a board of directors pass on the legitimacy of a contract or the propriety of it?

Mr. MARTIN. If the entire stock interest is owned by those who participate, I don't believe that the other directors are at all affected.

Mr. HENDERSON. Is your company in any association of life insurance companies? Are you members in any State or national association?

Mr. MARTIN. Yes; I think we are.

Mr. HENDERSON. Will you give me the names of them?

Mr. MARTIN. I think we belong to the American Life Convention.

Mr. HENDERSON. The American Life Convention?

Mr. MARTIN. Yes; that is the main one.

Mr. HENDERSON. Does it have a code of ethics?

Mr. MARTIN. Well, I don't know. Well, let me just say, Mr. Commissioner, we joined that association maybe a couple of years ago and there are certain rules they have with regard to the distribution of business and the unfair proselyting of agents and things of that kind. That is the only matter that has ever come up.

Mr. HENDERSON. Are you familiar with the insurance laws of the State of Illinois?

Mr. MARTIN. Yes.

Mr. HENDERSON. Is this transaction proper under the laws of the State of Illinois?

Mr. MARTIN. I don't think it—I think it probably is not. The laws have since been changed, but the laws as they stood then, I think it was.

Mr. HENDERSON. You think that if a similar transaction were entered into beginning today, it would not be?

Mr. MARTIN. Well, the laws were changed. I mean, the whole insurance laws were codified several years ago, and in my understanding, under the new code, this would not be allowed. I can't quote the chapter and verse on the proposition, but that is my understanding.

Mr. HENDERSON. How many policyholders did you have at that time?

Mr. GESELL. There were around 70,000, were there not, at the time of the reinsurance contract?

Mr. MARTIN. I think about that. I couldn't give you the exact number.

The VICE CHAIRMAN. Mr. Martin, you referred to your membership in some association and to the type of rules that they have. Are the type of rules or practices that they consider in that association, generally speaking, the type that you mentioned, having to do with agents proselyting and that sort of thing? Do they confine themselves largely to what might be referred to as competitive practices between the companies who are members of the association?

Mr. MARTIN. Well, Mr. Commissioner, I couldn't say.

The VICE CHAIRMAN. Those were the subjects you mentioned, and I wondered if there were any others.

Mr. MARTIN. I just understood in a general way that there were such rules, but that is the only organization that we belong to and those are the rules or whatever you call them. We joined the association and I never looked them up. I presume many of you gentlemen that may belong to a club, we will say, probably never read the constitution or bylaws.

The VICE CHAIRMAN. Very possibly.

I was curious to know whether the character of the rules was in general of the type that you indicate—that is, rules which would regulate the conduct of the various insurance companies as between them.

Mr. MARTIN. I don't really know. I never looked them up.

Dr. LUBIN. Are you a member of the American Association of Life Insurance Counsel?

Mr. MARTIN. I used to belong. I think I used to belong. I am not sure whether I am a member now or not.

Dr. LUBIN. Had you had any life insurance experience prior to entering into this relationship with these two companies?

Mr. MARTIN. Many years.

Dr. LUBIN. With what company?

Mr. MARTIN. Illinois Life Insurance Company.

Dr. LUBIN. Is that still in business?

Mr. MARTIN. No.

Dr. LUBIN. What happened?

Mr. MARTIN. It went into receivership.

Mr. HENDERSON. Did you have anything to do with the reinsurance contract there?

Mr. MARTIN. No.

Mr. HENDERSON. When you were in this former company, did you have any transactions similar to this at all?

Mr. MARTIN. No.

Mr. HENDERSON. Did you have any private contracts from which you got a personal benefit of this kind?

Mr. MARTIN. I was not a stockholder of the Illinois Life.

Mr. HENDERSON. That wasn't my question.

Mr. MARTIN. During the years I was associated with the Illinois Life they made no reinsurances.

Mr. HENDERSON. Did you have any kind of a contract where you laid off some part of the business and got a kick-back?

Mr. MARTIN. No; I never had any contracts in that connection.

Mr. HENDERSON. Is this customary practice in a stock company?

Mr. MARTIN. No; I wouldn't say that. I wouldn't know whether it was customary or not.

Mr. HENDERSON. You don't know of any other transactions of this kind?

Mr. MARTIN. Not to my knowledge. There may have been but I couldn't testify to that.

The VICE CHAIRMAN. You indicated the rate at which you paid the Conservation Co. Was that the regular customary rate?

Mr. MARTIN. Yes; that is what I understand.

The VICE CHAIRMAN. On what do you base that?

Mr. MARTIN. Just my general knowledge about the business.

The VICE CHAIRMAN. You mean that ordinarily when a company has insurance to rewrite they make an arrangement with the agency which rewrites on the basis of the 70-percent commission?

Mr. MARTIN. That is my understanding.

The VICE CHAIRMAN. You don't know exactly upon what you base that?

Mr. MARTIN. Well, you know of certain practices, one knows of certain practices, generally speaking, Commissioner; you may examine the contracts and testify with exactitude about it, but you know generally, just as one knows what companies are ordinarily paying for new business.

Mr. HENDERSON. As I figure it, about 40,000 contracts were handled and this \$430,000 represents about 25 percent.

Mr. LEARY (interposing). About 50 percent.

Mr. HENDERSON. As I figure it, it cost each one who was reinsured \$10 which went to your personal benefit or to the members associated with you as bankers on this note, and you think that that was a fair rate to charge them?

Mr. MARTIN. I can't tell you how many were transferred or what that would amount to.

Mr. HENDERSON. Are you the president of the company now?

Mr. MARTIN. I am.

Mr. HENDERSON. And you don't know that?

Mr. MARTIN. No; I can't carry those figures in my mind and I haven't gone back to refresh my recollection on it.

Mr. HENDERSON. Let me say it seems to me it cost everyone of them \$10, which went as an involuntary contribution to you and those associated with you on this note. How did this note arrive?

Mr. GESELL. Which note are you referring to?

Mr. HENDERSON. This note on which payments were made. Have you gone into that?

Mr. GESELL. You mean the loans which this money was used to reduce?

Mr. HENDERSON. Yes.

Mr. GESELL. We went into that yesterday. That was a loan, was it not, where you gentlemen pledged the stock with the bank in return for loans with which you could organize the company and pay in its original paid-in capital and surplus?

Mr. MARTIN. Yes.

Mr. HENDERSON. How much was that?

Mr. MARTIN. \$150,000.

Mr. HENDERSON. \$150,000 and you got \$430,000. It means, then, that the policyholders who were reinsured put up the money for your buying the company, isn't that about it? After all, in this long rabbit warren of transactions that were gone through to get that

money back to pay off that loan, the policyholders really paid three times over for the money you had to put up to get control of that company?

Mr. MARTIN. No; that isn't it. There was other money paid in on it.

Mr. HENDERSON. You didn't borrow the whole amount?

Mr. MARTIN. Yes; we borrowed the whole amount in the first instance, but there was other money paid in and additional stock issued later and money paid into the company.

Mr. GESELL. On the actual organization of the company, the policyholders, through this kick-back arrangement with Mr. Shimp that you had, paid off the organization expense of the company, did it not, the \$150,000?

Mr. MARTIN. It came largely through the Nichol Contract; yes.

Mr. GESELL. As a result of that, you and your associates got control of a company that had \$8,000,000 of assets, did you not?

Mr. MARTIN. Seven.

Mr. GESELL. Seven or eight millions of assets?

Mr. MARTIN. Yes.

Mr. GESELL. And it didn't cost you a cent?

Mr. MARTIN. We put in other money.

Mr. GESELL. As to the original organization, it didn't cost you—

Mr. MARTIN (interposing). I can't allocate the exact funds, but that would be the general—

Mr. GESELL (interposing). I would like to excuse Mr. Martin at this time for a moment to call Mr. Sawyer and Mr. Woods on this transaction.

TESTIMONY OF WILLIAM H. WOODS, FORMER PRESIDENT, ILLINOIS LIFE ASSURANCE CO. AND ILLINOIS BANKERS LIFE ASSOCIATION, MONMOUTH, ILL.—Resumed

Mr. GESELL. You have been sworn, Mr. Woods.

Mr. WOODS. Yes.

Mr. GESELL. You testified yesterday you objected to this rewrite contract, did you not?

Mr. WOODS. Yes.

Mr. GESELL. At that time you were president of the company, were you not?

Mr. WOODS. Yes, sir.

Mr. GESELL. Will you tell us in greater detail at this time what the nature of your objections were and to whom you expressed them?

Mr. WOODS. I expressed them in the board.

Mr. GESELL. Will you speak a little closer to the microphone?

You expressed your objections to this contract at a meeting of the board of directors?

Mr. WOODS. Yes, sir.

Mr. GESELL. Who was present, as you recall?

Mr. WOODS. Mr. Martin, Mr. Sawyer, Mr. Work—

Mr. GESELL. Mr. Ebersole, Mr. Work, Mr. Sawyer, and Mr. Martin?

Mr. WOODS. Yes, sir.

Mr. GESELL. Now, when you raised this objection, did you have any knowledge of the fact that there was this secret Nichol contract by which Martin and his associates were to get \$430,000?

Mr. WOODS. I did not.

Mr. GESELL. Did Mr. Martin, in the course of that discussion, make any reference to it?

Mr. WOODS. No, sir.

Mr. GESELL. Directly or indirectly?

Mr. WOODS. No, sir.

Mr. GESELL. Did anybody else?

Mr. WOODS. No, sir.

Mr. GESELL. When did you first know about it?

Mr. WOODS. This morning. Let me correct that last statement. I knew of the contract but I didn't know how it was handled.

Mr. GESELL. When did you know of the contract?

Mr. WOODS. Oh, it was shortly after that meeting that I knew they had a contract, the Conservation Co.

Mr. GESELL. Did you make any effort to find out what the terms were?

Mr. WOODS. No, sir.

Mr. GESELL. How did you find out about it?

Mr. WOODS. I didn't know anything about it until this morning.

Mr. GESELL. How did you find out there was a contract?

Mr. WOODS. I just concluded there was.

Mr. GESELL. What made you conclude it, sir?

Mr. WOODS. Because of business coming in there, transfers, after they got started on that work of the Conservation payments.

Mr. GESELL. Did you know any of the payments for transfer work were going to Mr. Martin?

Mr. WOODS. I did not.

Mr. GESELL. Did you have any suspicion of that at any time until today?

Mr. WOODS. No, sir.

Mr. HENDERSON. Mr. Woods, had you had experience in the life-insurance business before you became president of this corporation?

Mr. WOODS. No, sir.

Mr. HENDERSON. You knew nothing about it?

Mr. WOODS. Very little about it.

Mr. HENDERSON. On what did you base your idea that this contract was too onerous?

Mr. WOODS. On some contracts I had known before.

Mr. HENDERSON. What rates were they?

Mr. WOODS. I think 60 percent.

Mr. HENDERSON. To the best of your knowledge was there any attempt on the part of the company to get competitive bids for this business?

Mr. WOODS. No; I didn't know a thing about it.

Mr. HENDERSON. No attempt made to get—

Mr. WOODS (interposing). I wasn't interested in it at all, and I didn't know anything about it. Had nothing whatever to do with it.

The VICE CHAIRMAN. You were the president of the company?

Mr. WOODS. Yes, sir.

The VICE CHAIRMAN. And you weren't interested?

Mr. WOODS. I wasn't financially interested in it. If I had an interest in it, I wouldn't have voted against it. I had no financial interest in it.

The VICE CHAIRMAN. Apparently no one had any interest in making a contract that would be for the best interest of the policyholders.

Mr. WOODS. That is why I voted against it.

Mr. GESELL. All right, Mr. Woods. Mr. Sawyer.

TESTIMONY OF ARTHUR T. SAWYER, DIRECTOR, ILLINOIS BANKERS LIFE ASSURANCE CO., MONMOUTH, ILL.—Resumed

Mr. GESELL. Mr. Sawyer, you have been sworn, have you not?

Mr. SAWYER. Yes, sir.

Mr. GESELL. When did you first learn that Mr. Nichol and Mr. Martin and yourself were receiving benefits from this rewrite contract which the Assurance Co. had with the American Conservation Co.?

Mr. SAWYER. I can't definitely say. I think it was the latter part of '31 or the early part of '32.

Mr. GESELL. The latter part of '31 or the early part of '32?

Mr. SAWYER. That is my recollection.

Mr. GESELL. How did you find out about it, Mr. Sawyer?

Mr. SAWYER. I was informed by Mr. Martin.

Mr. GESELL. What did he say to you?

Mr. SAWYER. He told me of the contract, and that I would participate in it to the extent of paying off indebtedness incurred in the reorganization of the company.

Mr. GESELL. You mean in the purchase of your stock?

Mr. SAWYER. Yes.

Mr. GESELL. What did you do about it then?

Mr. SAWYER. Well, I thought it was income.

Mr. GESELL. I am sure it was.

Mr. SAWYER. And I so reported it on my income-tax return.

Mr. GESELL. You reported it as income on your income-tax return?

Mr. SAWYER. Yes.

Mr. GESELL. Did you feel that fulfilled your obligation to the policyholder and everybody else concerned?

Mr. SAWYER. I did.

Mr. GESELL. You had no concern as to the propriety of the contract or the arrangement?

Mr. SAWYER. No; I did not.

Mr. GESELL. You registered no protest before the board?

Mr. SAWYER. No.

Mr. GESELL. You discussed it with nobody?

Mr. SAWYER. Yes, sir.

Mr. GESELL. Whom did you discuss it with?

Mr. SAWYER. After I found it out.

Mr. GESELL. You couldn't discuss it before you found it out.

Mr. SAWYER. I don't know that I discussed it with anyone.

The VICE CHAIRMAN. You just heard it from Mr. Martin and it was of casual interest to you?

Mr. SAWYER. No; it wasn't of casual interest. It was of deep interest, because I felt I should report it in my income-tax return as income.

The VICE CHAIRMAN. That was the extent of your interest?

Mr. SAWYER. I can't exactly answer that question. The contract was made.

The VICE CHAIRMAN. Let it go.

Mr. GESELL. You in your capacity as secretary or treasurer of the company would forward the checks to the American Conservation Co.?

Mr. SAWYER. That is true.

Mr. GESELL. On these transactions.

Mr. SAWYER. A good many of them.

Mr. GESELL. Why did you send them to Mr. Martin instead of directly to the American Conservation Co.?

Mr. SAWYER. I recall he was general counsel of the company, a member of the board of directors, largest stockholder, and he would ask me to send them to him.

Mr. GESELL. All the checks went to him instead of to the company?

Mr. SAWYER. I don't believe that is true.

Mr. GESELL. Look at this batch of correspondence and tell me why were they sent to Mr. Martin instead of directly to the American Conservation Co.?

Mr. SAWYER. He would either write to me or he would be in Monmouth and tell me to check up the account, have the check come through in the morning. I don't know of any reason. He was the general counsel of the company and the largest stockholder. They were made to the American Conservation Co., not Mr. Martin.

Mr. GESELL. Wouldn't good business practice demand they be sent to the American Conservation Co.?

Mr. SAWYER. A great many were.

Mr. GESELL. Did you know the reason you were sending them to Mr. Martin was to enable him to be sure to get his cut on this transaction?

Mr. SAWYER. No; I didn't.

Mr. GESELL. What other reason would there be for sending them?

Mr. SAWYER. I can't see any material difference.

The VICE CHAIRMAN. He wasn't connected, so far as you knew, with the Conservation Co., was he?

Mr. SAWYER. No; I don't think he ever was.

The VICE CHAIRMAN. You drew checks payable to the American Conservation Co.?

Mr. SAWYER. Not all of them. I didn't send all the checks.

The VICE CHAIRMAN. A substantial number of them you did send to Mr. Martin.

Mr. SAWYER. I know there was a substantial amount of them.

The VICE CHAIRMAN. You have no definite understanding as to why you sent them?

Mr. SAWYER. No.

Mr. GESELL. I have no further questions.

The VICE CHAIRMAN. Neither have I.

TESTIMONY OF HUGH T. MARTIN, PRESIDENT, ILLINOIS BANKERS LIFE ASSURANCE CO., MONMOUTH, ILL.—Resumed

Mr. GESELL. What did the State insurance department know about this, Mr. Martin?

Mr. MARTIN. What did they know?

Mr. GESELL. Yes.

Mr. MARTIN. They knew nothing.

Mr. GESELL. You were never questioned by any representatives of the State department concerning it?

Mr. MARTIN. I don't think so.

Mr. GESELL. What is your recollection on that?

Mr. MARTIN. That I was not.

Mr. GESELL. It never appeared in any of their examination reports on your company?

Mr. MARTIN. I don't recall any.

Mr. GESELL. Now, Mr. Martin, I want to consider with you at this time——

The VICE CHAIRMAN (interposing). May I interrupt? I am a little puzzled about one phase of the \$200,000 loan transaction that we discussed yesterday. As I recall it, it involved a loan from the Lincoln Securities to you.

Mr. MARTIN. Yes, sir.

The VICE CHAIRMAN. Did you ever pay that loan?

Mr. MARTIN. No; not in full. It was paid down on.

The VICE CHAIRMAN. What happened to the Lincoln Securities Co.?

Mr. MARTIN. It went into receivership.

The VICE CHAIRMAN. And where is it now?

Mr. MARTIN. In receivership.

The VICE CHAIRMAN. And how much of the loan did you ever repay?

Mr. MARTIN. The figures would show—Mr. Gesell, I thought Mr. Leary made some statement in that regard.

The VICE CHAIRMAN. I didn't hear any. I thought you might recall whether you owe Lincoln Securities in receivership any money.

Mr. MARTIN. There still is owing on that debt.

The VICE CHAIRMAN. How much?

Mr. MARTIN. I think about \$100,000.

Mr. GESELL. \$105,000. Mr. Martin, I want to ask you for a second about borrowing this stock from Mr. Shimp at about this time.

Mr. MARTIN. Oh, yes.

Mr. GESELL. Do you recall that you borrowed from him \$600,000 par value of Holmhaven on the Gulf?

Mr. MARTIN. Yes. It had a par value of approximately that amount. It was not worth anything like that.

Mr. GESELL. What did you do with it?

Mr. MARTIN. It was put up as security on the loan by Mr. Stevens.

Mr. GESELL. In other words, the \$200,000 that you borrowed from Mr. Stevens to make the payments to Mr. Woods, Dr. Ebersole, and Mr. Work was secured by the Holmhaven on the Gulf that you borrowed from Mr. Shimp.

Mr. MARTIN. In part.

Mr. GESELL. What did you do with the rest of the Holmhaven on the Gulf?

Mr. MARTIN. That is all I had.

Mr. GESELL. You put all of it against that loan?

Mr. MARTIN. I think so.

Mr. GESELL. Was that adequate collateral for that loan?

Mr. MARTIN. I don't think so.

Mr. GESELL. What was the true value of those Holmhaven on the Gulf securities?

Mr. MARTIN. I don't know. It was a real estate corporation that not a great while afterward went into a receivership, or rather the mortgage was foreclosed and the stock become worthless.

Mr. GESELL. What was the value at the time you borrowed it?

Mr. MARTIN. I wouldn't recall; I wouldn't know.

Mr. GESELL. How were you able to borrow it from Mr. Shimp?

Mr. MARTIN. Well, I asked him if he had some collateral that he would be willing to loan me for a time, and he suggested that he had this, and that I might have it.

Mr. GESELL. What promises and understandings did you have with him about the reinsurance contract, the rewriting contract, at that time?

Mr. MARTIN. None.

Mr. GESELL. You made no indication to him that that loan would help him get the contract?

Mr. MARTIN. No.

Mr. GESELL. You must have been on pretty close terms with Mr. Shimp, then, at this time.

Mr. MARTIN. Well, he and I were friendly; yes.

Mr. GESELL. Had you been in other business ventures?

Mr. MARTIN. No; I don't think so. I think Mr. Shimp did loan me some money some years back, on the matter of the purchase of some life-insurance-company stock. The stock was sold and Mr. Shimp was repaid. That was a long time ago. I don't just recall the details of it.

Mr. GESELL. Some company you were buying into?

Mr. MARTIN. I was buying into a company; yes.

Mr. GESELL. What was it?

Mr. MARTIN. It was—bought some stock in the People's Life of Frankfort, Ind., and sold it very shortly.

Mr. GESELL. Any rewrite contract with Mr. Shimp in connection with that company?

Mr. MARTIN. No; Mr. Shimp at that time was out of the rewriting business and couldn't go into it for the period of 5 years.

The VICE CHAIRMAN. He was out of the business and couldn't be in it again for 5 years?

Mr. MARTIN. He sold his stock in the International Service Co., or whatever was the name of it, and at the same time, as I understood it, made an agreement that he would not reenter the rewriting business for a period of 5 years.

Mr. GESELL. Well, we will come to that in subsequent testimony.

The VICE CHAIRMAN. All right.

Mr. GESELL. Now, Mr. Martin, in response to a question by Commissioner Henderson, asking you if it wasn't a fact that you hadn't put up any money of your own to organize and purchase this company, and used the money you got from the Nichol contract, you made some reference to the fact that you had put up some money in connection with the second \$100,000 capitalization.

Mr. MARTIN. I didn't mean to say that. There was—what I was trying to think out was that there was additional funds paid into the insurance company when the stock was increased in the amount of \$100,000.

Mr. GESELL. Where did those funds come from?

Mr. MARTIN. I couldn't tell by my personal recollection. You must understand that during this period of time I put into this organization all the money that I could raise myself, personally, and most of my income. Just how it would be allocated on any particular, with regard to any particular indebtedness, I could not say.

Mr. GESELL. Well, now, I want to repeat some testimony that Mr. Leary gave here this morning and see if that does not refresh you as to how this second \$100,000 was paid in.

Mr. MARTIN. Yes.

Mr. GESELL. He stated:¹

On January 31, 1931, the American Conservation Company issued a check payable to the order of the Boulevard Bridge Bank in the amount of \$50,000. This check was used to purchase a cashier's check at the Boulevard Bridge Bank on February 2, 1931, in the amount of \$50,000, payable to the order of J. P. Nichol. The cashier's check is endorsed "J. P. Nichol" and was used for the purpose of purchasing a cashier's check in the amount of \$50,000, dated February 2, 1931, of the Continental Illinois Bank and Trust Company. This check was payable to the order of Illinois Bankers Life Assurance Company and bears the endorsement "Illinois Bankers Life Assurance Company by W. H. Woods, President.

That is \$50,000. That came from the American Conservation Co., did it not?

Mr. MARTIN. Yes; I would think so.

Mr. GESELL. He says:

On February 2, 1931, Messrs. Nichol, Sawyer, and Martin borrowed \$50,000 from the Continental Illinois Bank and Trust Company and deposited as collateral thereon 1,000 shares of the Illinois Bankers Life Assurance Company, and received from the Continental Illinois Bank and Trust Company a cashier's check to the order of John P. Nichol, A. T. Sawyer, and Hugh T. Martin in the amount of \$50,000. This cashier's check is endorsed "A. T. Sawyer, Hugh T. Martin, and John P. Nichol" and was used by them to purchase on the same from the Continental Illinois Bank and Trust Company a cashier's check in the amount of \$50,000 payable to the order of Illinois Bankers Life Assurance Company which check is endorsed "Illinois Bankers Life Assurance Company by W. H. Woods, President."

I will show you those checks and the account, if you want further recollection with respect to it, and I ask you if it isn't true that that second \$100,000 came, \$50,000 from the Nichol contract and \$50,000 which you obtained by pledging the new issue of stock?

Mr. MARTIN. I think that is correct.

Mr. GESELL. Then, you didn't put in a cent there either, did you, Mr. Martin?

Mr. MARTIN. Well, it depends on how that \$50,000 note was repaid.

Mr. GESELL. At the time you didn't put up any money?

Mr. MARTIN. At the time I didn't put up any money except when we got this additional money from the bank, but that had to be repaid, so we didn't get it for nothing.

Mr. GESELL. Do you recognize this letter of November 25, 1930, which you wrote to Mr. Sawyer? I am directing your attention only to the first paragraph, Mr. Martin. That is all I refer to here. Do you recognize that as your letter?

Mr. MARTIN. I think so.

Mr. GESELL. The first paragraph of the latter, dated November 25, 1930, reads:

I forgot to talk with you last week with regard to the proposition of increasing the capital stock of the Company. It is necessary that the capital be increased to \$200,000 if we are to enter the States of Iowa, Indiana, Cali-

¹ Supra, p. 6853.

ifornia, and Michigan. It is apparent that this should be done if we are to complete our transfer campaign in proper shape. Frankly, I do not know at the present time just how the matter can be financed; in fact, I have been giving so much time and thought to the trust company matter that I have not had time to think this other through. However, I think that by gathering up a nickel here and there we may be able to complete the operation by the first of the year.

I gather from that that the increase in the capitalization of the company at this time was to enable you to extend the rewriting operations into other States and thus indirectly to increase the commissions which you received under the Nichol contract.

Mr. MARTIN. That was partly it. It was also thought advisable to put a stop to the interstate raiding and in that way to put a stop to the raiding of the business that was being done by agents of other companies.

Mr. HENDERSON. You were being raided on reinsurance. You put a stop to the raiding?

Mr. MARTIN. Where you are outside of the State, naturally your business is not being serviced by your own agents, is very likely to be terminated by the solicitation of agents of other companies; yes. That is a very important element.

Mr. HENDERSON. Was it being done at a lower cost?

Mr. MARTIN. No; it wouldn't be done at a lower cost, because those were assessment policies and they were low priced, but that is a regular thing in the business.

Mr. GESELL. You mean the agents heard this reinsurance contract was under way and they tried to switch the assessment policy-holders—

Mr. MARTIN. That goes on all the time. Agents are out for business.

Mr. GESELL. Now, Mr. Martin, did the Illinois Insurance Department approve this rewriting contract between the Illinois Bankers Life Assurance Co. and the American Conservation Co.?

Mr. MARTIN. I don't recall.

Mr. GESELL. Did you present it to them?

Mr. MARTIN. I don't think so, but I don't remember.

Mr. GESELL. Did they approve the reinsurance contract?

Mr. MARTIN. Yes.

Mr. GESELL. Who carried out the negotiations to get their approval on the reinsurance contract?

Mr. MARTIN. Mr. George Graham.

Mr. GESELL. Who is he?

Mr. MARTIN. An actuary of St. Louis, Mo., and vice president of the Central State & Life Insurance Co.

Mr. GESELL. And he acted as the intermediary for the company with the department? He was attorney for the department?

Mr. MARTIN. He was a very widely known actuary and a very able one, with much experience in this kind of work.

Mr. GESELL. Was the approval of the department obtained solely on the merits of this situation?

Mr. MARTIN. What do you mean by that?

Mr. GESELL. I mean did they just consider it on its merits and pass on it?

Mr. MARTIN. No additional consideration that I ever heard of.

Mr. GESELL. You are quite certain on that?

Mr. MARTIN. Yes.

Mr. GESELL. I think this might be a good time to adjourn, if the committee please, until, if we could start at quarter to 2, that would be just before—

The VICE CHAIRMAN. The committee will stand in recess until 1:45.

(Whereupon, at 12:20 p. m., a recess was taken until 1:45 p. m. of the same day.)

AFTERNOON SESSION

The hearing was resumed at 2 p. m. upon the expiration of the recess, Vice Chairman O'Connell presiding.

The VICE CHAIRMAN. The committee will please be in order.

Mr. GESELL. Mr. Sellman, please.

TESTIMONY OF H. G. SELLMAN, ACTUARY, ILLINOIS BANKERS
LIFE ASSURANCE CO., MONMOUTH, ILL.—Resumed

ILLINOIS BANKERS—ATTITUDE OF STATE INSURANCE COMMISSIONERS

Mr. GESELL. Mr. Sellman, when did you become actuary of the company; did you say?

Mr. SELLMAN. January 1930.

Mr. GESELL. January 1930. Had you been in a consulting capacity with the company prior to that time?

Mr. SELLMAN. Yes, sir; from about 1925 to 1927.

Mr. GESELL. Did you know Mr. Harley N. Bruce?

Mr. SELLMAN. Yes, sir.

Mr. GESELL. Who is he?

Mr. SELLMAN. He was a man in Chicago employed by one of the companies there, and he came to Monmouth as assistant actuary about 1926, I think.

Mr. GESELL. Did he subsequently become actuary of the company?

Mr. SELLMAN. Yes, sir.

Mr. GESELL. And he resigned at the time of this reinsurance agreement, did he not?

Mr. SELLMAN. I believe so; yes, sir.

Mr. GESELL. What were the circumstances of his resignation?

Mr. SELLMAN. I have no knowledge as to that.

Mr. GESELL. Are you familiar with his signature?

Mr. SELLMAN. I think so.

Mr. GESELL. Do you recognize his signature on that letter?

Mr. SELLMAN. I couldn't identify his signature; no.

Mr. GESELL. And you have no information as to the reasons surrounding his resignation from the company?

Mr. SELLMAN. No; I have not.

Mr. GESELL. Well now, I will come back to that in a moment.

Do you know a Mr. Robert E. Daly, or did you know a man by that name?

Mr. SELLMAN. Yes, sir.

Mr. GESELL. Who was Mr. Robert E. Daly?

Mr. SELLMAN. When I knew him first he was an examiner for the Missouri Insurance Department. That was probably in 1913. He later became actuary of the Missouri Insurance Department, and was actuary of that department for a good many years.

Mr. GESELL. Do you recall having written him this letter, of which I show you a copy?

Mr. SELLMAN. Yes; I think I wrote that letter.

Mr. GESELL. This letter is signed by Mr. Sellman as actuary of the company, dated February 19, 1930, addressed to Mr. Robert E. Daly, D-a-l-y, care of the Missouri State Insurance Department, Jefferson City, Mo. [Reading from "Exhibit No. 1348-34":]

It has just come to my ears that Mr. Anderson, actuary of the Illinois Insurance Department, is leaving that office the first of June. Possibly this information has been before you for some time but I just heard it. I do not know whether or not it is common knowledge so that I will ask that you keep the matter confidential unless you have already received the information from some other source. It occurs to me that you might be interested in this position. You, of course, know what the job is and it is my understanding that the salary is about \$4,800 a year.

If you are interested in the matter, we are in a position to give you our support from a political angle and from the standpoint of the life insurance companies of the state. You are, of course, well known to the personnel of the Illinois Department but I would be very glad to have the opportunity to render you some active assistance if you so desire.

I wish that you would let me know immediately what your position is in this matter. You might wire me c/o Illinois Bankers Life Assurance Company, Monmouth, Illinois.

I would like to offer that letter for the record.

The VICE CHAIRMAN. It may be received.

(The letter referred to was marked "Exhibit No. 1348-34" and is included in the appendix on p. 7060.)

Mr. GESELL. Did Mr. Daly subsequently become connected with the Illinois department?

Mr. SELLMAN. Yes, sir; he did.

Mr. GESELL. Following that suggestion?

Mr. SELLMAN. I don't think it was following that suggestion. He did become connected with the department, however.

Mr. GESELL. How much later?

Mr. SELLMAN. I wouldn't recall. The record would show—6 months or a year.

Mr. GESELL. What did you do on his behalf?

Mr. SELLMAN. Not a thing. I don't think he ever acknowledged receipt of the letter. I never did anything on it.

Mr. GESELL. You never did anything on it?

Mr. SELLMAN. No, sir.

Mr. GESELL. Did you subsequently have dealings with Mr. Daly when he became supervisor of examinations for the Illinois department?

Mr. SELLMAN. Yes, sir.

Mr. GESELL. In connection with these various reinsurance contracts and matters of that kind?

Mr. SELLMAN. I don't believe I ever had any matters connected with the reinsurance up with him. I don't recall. Most of it was in connection with policies and examinations and financial statements.

Mr. GESELL. May I show you these letters, and ask you if it was not a fact that after Mr. Daly became connected with the department you had dealings with him on behalf of that department in connection with the reinsurance contract?

Mr. SELLMAN. Well, this was more in regard to the question of meeting the requirements of the various insurance departments in regard to licenses.

Mr. GESELL. You mean the objections of the insurance departments with respect to not licensing companies, don't you?

Mr. SELLMAN. Yes; in regard or in connection with our application for licenses; yes.

Mr. GESELL. Their objections were based upon the reinsurance contract, were they not?

Mr. SELLMAN. Well, in many cases, yes, sir; in some cases, it was just a question of limitation of capital stock.

Mr. GESELL. Now, do you recall receiving this letter from Mr. William R. Baker, dated November 3, 1931?

Mr. SELLMAN. Yes, sir.

Mr. GESELL. Who is Mr. Baker?

Mr. SELLMAN. He was an attorney of Henning & Baker, Kansas City, Kans.

Mr. GESELL. Had he been employed by the Illinois Bankers Life Assurance Co?

Mr. SELLMAN. I don't know whether he had. I would judge so. If he hadn't, he was later.

Mr. GESELL. In connection with obtaining State approval for the new company to do business?

Mr. SELLMAN. He handled the applications for licensing in several of the States.

Mr. GESELL. Well, now, this letter indicates that Mr. Daly was in a position to be of some help to you in this matter. The letter reads—it is dated November 3, 1931, and is marked "Personal"—as follows [reading from "Exhibit No. 1348-35"]:

I have your letter of October 27.

I do not believe it would be advisable for me to write the Illinois Department with reference to the proposed examination of the Illinois Bankers Life Assurance Company. Of course, if the department desires to make it strictly a home examination we have nothing to say about the matter. However, I still feel that at least two other departments should participate in that examination. I do not anticipate that Oklahoma, Iowa, or Texas would take any drastic action in the event an outside state did not participate but I believe it will help materially in our application for admission to California and Washington if the examination is in the nature of a convention or joint examination.

I had not planned on going to the December meeting of Commissioners but if you and Mr. Martin should consider it desirable I can probably arrange to do so. Undoubtedly Mr. Daly can take care of the matter so far as the commissioners at the convention are concerned.

I would like to offer that for the record.

The VICE CHAIRMAN. It may be admitted.

(The letter referred to was marked "Exhibit 1348-35" and is included in the appendix on p. 7061.)

Mr. GESELL. You and your associates relied on Mr. Daly's help, did you not, from time to time, in matters such as this?

Mr. SELLMAN. No; I wouldn't say that.

Mr. GESELL. What would you say, sir?

Mr. SELLMAN. I would say that Mr. Daly and I were friends of long standing and I always approached him with the utmost frankness, whether it was in favor of the company or adverse to the company.

The VICE CHAIRMAN. That is not an answer to the question.

Mr. SELLMAN. Will you read the question?

(The reporter read the question.)

Mr. SELLMAN. The supervision of the Illinois insurance company is directly under the supervision of the Illinois Insurance Department, and naturally we must rely on the department, and work in conjunction with the department in anything to be undertaken. And it is always our policy and I think the standard practice of companies to work in cooperation with the State insurance department. Does that cover the situation?

The VICE CHAIRMAN. Partially.

Mr. GESELL. Now, isn't it a fact that Mr. Daly assisted the company in getting licenses in other States?

Mr. SELLMAN. No; I wouldn't say so, not more than he would be required to do by virtue of his duties as chief examiner of the Illinois Insurance Department. He never went beyond his official duties.

The VICE CHAIRMAN. What would he be required to do as a part of his official duties?

Mr. SELLMAN. Well, for example, a little later there may be some correspondence where one of the departments wanted to know what the attitude of the Illinois department was in regard to particular—the policy form or the—

The VICE CHAIRMAN. You mean it would be his duty to answer questions or inquiries that were addressed to him from your departments, and you say that that is as far as he went?

Mr. SELLMAN. As far as I know I think that would cover it.

Mr. GESELL. You sent Mr. Daly copies of your correspondence with all the other States, didn't you?

Mr. SELLMAN. Certainly not all the correspondence with all the States. I suppose some correspondence with some States; yes.

Mr. GESELL. Why did you do that?

Mr. SELLMAN. So as to keep the Illinois department advised.

Mr. GESELL. Why did you address them to Mr. Daly?

Mr. SELLMAN. Because he was the one that I was transacting the business with.

Mr. GESELL. How did that happen?

Mr. SELLMAN. Because that was his job. He was the chief examiner of the Illinois Insurance Department.

Mr. GESELL. Did he ask you to send him all that correspondence?

Mr. SELLMAN. No; just in the perfectly normal transaction of business with the Illinois Insurance Department.

Mr. GESELL. Well, now, do you recognize this as a letter which you wrote Mr. Baker with respect to Mr. Daly?

Mr. SELLMAN. Yes, sir.

Mr. GESELL. Do you consider that letter relating to transactions in the regular course of business in the Illinois department?

Mr. SELLMAN. I do.

Mr. GESELL. Well, now, did Mr. Daly have the job of approving this contract of reinsurance? Was that his task?

Mr. SELLMAN. No, sir.

Mr. GESELL. Who was required to approve it?

Mr. SELLMAN. I would rather you would rely on the statutes at that particular time.

Mr. GESELL. I wouldn't rather rely on the statutes, that is why I am asking you who had charge of approving it?

Mr. SELLMAN. The laws have been changed from time to time, the commissioner of insurance or the director of trade and commerce. I believe at that time it was the commissioner of insurance.

Mr. GESELL. Did you have anything to do with getting the approval of that contract?

Mr. SELLMAN. I did not.

Mr. GESELL. No discussions with anyone concerned?

Mr. SELLMAN. I didn't know it even was under consideration.

Mr. GESELL. Now, at this time, if the committee please, I wish to read certain letters into the record. These letters are either from the files of the Insurance Department of the State of Illinois, or from the files of the Illinois Bankers Life Assurance Co.

It has been agreed between the Commission and Mr. Henning and Mr. Becker, counsel for the assurance company that these letters are what they purport to be. I will indicate in each instance from what files they come.

The first letter is a letter dated November 8, 1929, addressed to the Honorable George Huskinson, superintendent of insurance, Springfield, Ill., signed by Mr. Clarence C. Wysong, commissioner of insurance, insurance department, State of Indiana.

His letter reads [reading "Exhibit No. 1348-36"]:

A number of Indiana policyholders have presented to me notice of policyholders' meeting of the Illinois Bankers Life Association for the purpose of consenting to a contract of reinsurance with the Illinois Bankers Life Assurance Company. I have looked over this reinsurance contract knowing something of the litigation which ensued upon a prior attempt to reinsure this business, and I am unable to ascertain just what benefit will inure to the old policyholders, and it would seem that the condition is likely to arise in regard to some of them in the future comparable to that of the old members in the Bankers Life Association of Iowa.

It further appears to me that a group of men have organized a stock company and are going to take over a mutual company with all of its benefits and standing without paying one cent therefor; all of which, of course, belongs to the present stockholders.

Of course, I do not know what the attitude of your department is in regard to this nor do I know that you will approve the same, but I feel that at this time I should give you an expression of my feeling in the matter inasmuch as there are policyholders of the association in this state and that no doubt the new company will seek admission in this state.

In regard to the latter proposition, I will not be disposed to permit the new company to operate in this state, as I feel that it is purely for the benefit of a select group who have profited by the policyholders' company.

I should like to offer the letter. I have read the entire letter into the record. It must be returned. I would like to have a substitute photostatic copy, if I may.

The VICE CHAIRMAN. The letter will be received.

(The letter referred to was marked "Exhibit No. 1348-36" and appears in full in the text on this page.)

Mr. GESELL. The next letter is dated December 2, 1929, written to the Illinois Bankers Life Assurance Co. by Clarence C. Wysong, commissioner of insurance, State of Indiana, the same gentleman who wrote the previous letter, commissioner of insurance for the Indiana Insurance Department [reading "Exhibit No. 1348-37"]:

I have yours of the 23rd ultimo wherein you ask for blanks for the admission of your recently formed company to this state.

I wish to say very frankly that I do not approve of the reinsurance contract entered into by your company and the Illinois Bankers Life Association. Further, it is a rule of this department that a company must have operated for one year in its home state prior to its admission into this state; nor do I understand that you have sufficient capital to qualify you as a foreign company for admission into this state.

Under all the circumstances, I do not feel that you should seek admission to this state at the present time.

The VICE CHAIRMAN. This letter will be received in the same manner.

(The letter referred to was marked "Exhibit No. 1348-37" and appears in full in the text on p. 6876.)

Mr. GESELL. The next letter is from the files dated November 7, 1929, written by J. E. Reault, actuary of the Michigan department to Hon. Leo H. Lowe, director of trade and commerce, Springfield, Ill. I will read selected portions of this letter. The first two paragraphs read as follows [reading from "Exhibit No. 1348-38"]:

Your letter of November 4th with reference to the proposed reinsurance of the Illinois Bankers Life Association by the Illinois Bankers Assurance Company was handed to me by Commissioner Livingston for my attention and reply, it having reached this office just before his departure.

We, of course, are quite in agreement with you as regards the issuance and the writing of insurance on a sound basis, but our difference appears to be in the manner in which this should be accomplished. We believe that an organization writing any kind of insurance should provide for an adequate premium to mature the benefits promised and the Association can do this without placing themselves in control of a small group of stockholders who have contributed an amount insignificant when compared to the benefits that these stockholders might reap. It is our contention in connection with the proposed plan of reinsurance that the assessment members would not receive any more benefits than they now enjoy.

Reading further the last two paragraphs of the letter as follows:

We are vitally interested in this proposition inasmuch as it is our duty to safeguard the interests of the members in this State. We do not feel that we can do this if this reinsurance agreement is approved, inasmuch as the capitalization of the Company cannot meet the requirements of the laws of this State, and, therefore, cannot be admitted to this State. Although we would have supervision insofar as the present members resident in this State are concerned, we would have little or no supervision over the operations of the Company.

We further feel that our duty would be neglected if we permitted this contract to be approved without protest, because we feel that the same principle of sound insurance can be carried out in a different manner and on a more equitable basis.

(The letter referred to was marked "Exhibit No. 1348-38" and is on file with the committee.)

Mr. GESELL. The next is a letter dated February 26, 1931, addressed to William R. Baker, care of Henning & Baker, Kansas City, Kans., signed by C. D. Livingston, commissioner of the department of insurance, State of Michigan, from the files of the Illinois Bankers Co. The letter states, in the second paragraph [reading from "Exhibit No. 1348-39"]:

We would not admit this company without a hearing inasmuch as the reinsurance of the Illinois Bankers Life Association was a most vicious one in the opinion of this department. Further, the Illinois Bankers Life Association owes the State of Michigan \$1,500.00 for taxes and we have written them repeatedly requesting payment, nevertheless we have had no reply to our letters. Consequently, I would hesitate to admit any life-insurance company of such a character when I have to consider our statute which says that the Commissioner of Insurance may admit such company if satisfied that such applicant is *safe, reliable, and entitled to public confidence.*

I'd like to offer this letter in its entirety.

The VICE CHAIRMAN. It may be received on the same basis as the others.

(The letter referred to was marked "Exhibit No. 1348-39" and is included in the appendix on p. 7061.)

Mr. GESELL. The next letter is a letter from the files of the Illinois Bankers Life Insurance Co., signed by George P. Porter, State auditor and commissioner of insurance for the State of Montana, dated August 4, 1930. [Reading from "Exhibit No. 1348-40"]:

Referring to yours of the 19th ultimo, with which you enclosed tax statement of the Illinois Bankers' Life Assurance Company for 1929, together with a check of that company in the amount of \$108.98 in payment of taxes, and in which you request that I send you the necessary forms so that the company may make application for admission to the state, you are advised that I am not complying with your request for the reason that I do not care to license a company to operate in this state from whom it has been necessary to use force to make collection of the premium tax lawfully due the state.

The VICE CHAIRMAN. You may proceed on the same basis.

(The letter referred to was marked "Exhibit No. 1348-40" and is included in the appendix on p. 7062.)

Mr. GESELL. The next letter from the files of the Illinois Bankers is signed by B. B. Gribble, actuary of the Bureau of Insurance of the State of Nebraska, dated November 14, 1929, and addressed to the Illinois Bankers' Life Association. [Reading "Exhibit No. 1348-41"]:

This Department, believing that the proposed contract of reinsurance of the business of the Illinois Bankers' Life Association is not for the best interests of the policyholders but detrimental thereto, and decidedly to the interest and profit of the officers thereof, who own and control the company proposing to assume, under reinsurance contract, the business of the Illinois Bankers' Life Association, hereby protests against the carrying out of that reinsurance contract.

Our specific objections, made to protect the interests of more than one thousand Nebraska members holding certificates totalling over two million dollars are:

To the provisions of section 4 of the contract providing that the reinsuring company shall have the right to fix the rates and amounts of assessments; and that the certificates outstanding shall be assumed as yearly renewable term contracts; and the further provisions of that section that 25 percent of the assessments for the first 2 years and 22½ percent thereafter shall be contributed to the expenses of the company. We believe these percentages are not warranted by the association's experience.

To the provisions of section 5, providing for three different rates of interest, each below the net rate earned on the investments.

To the provisions of section 6, regarding allocation of surplus earnings.

And generally for the reason that this plan will effect the conversion to the present officers of the assessment association of full ownership and control of the association, without properly safeguarding the interests of its members.

We ask for your consideration of this protest, which is similar to a protest being made to the director of trade and commerce of the State of Illinois, and for your advices regarding past and future developments in connection herewith.

The VICE CHAIRMAN. Have you read the entire letter?

Mr. GESELL. I read the entire letter.

The VICE CHAIRMAN. This may be received.

(The letter reference to was marked "Exhibit No. 1348-41" and appears in full in the text on this page.)

Mr. GESELL. I next want to read a letter from the file of the Illinois Bankers Life Insurance Co., being a letter dated November 11, 1929, addressed to Hon. E. Forrest Mitchell, insurance commissioner, San Francisco, Calif., and signed J. E. Reault, actuary, Michigan department. [Reading from "Exhibit No. 1348-42"]:

We note from a review of the annual statement submitted to this Department that the Illinois Bankers Life Association of Monmouth, Illinois, is duly authorized to transact business in your State. You have no doubt received a copy of the proposed contract of reinsurance between the Illinois Bankers Life Association and the Illinois Bankers Life Assurance Company, which will be voted on by Members on November 19th.

We are directing this communication to you in order that you may be informed that this Department opposes certain of the terms and conditions of the proposed contract of reinsurance and its approval by the Director of Trade and Commerce of the State of Illinois with whom we have filed our protest. We object to the approval of the proposed reinsurance contract because in our opinion it would place in control of a few stockholders, the entire business of the company amounting to in excess of \$100,000,000 of insurance and over \$7,000,000 of assets without fair monetary consideration to the assessment members and at the expense of the members themselves.

We wish to call your attention to the provisions of Section 4, whereby it is provided that the Company shall have the right to fix the rates and amount of premium assessments and also provides that the policies are yearly renewable term policies. These policies were issued on the basis of a level stipulated premium, represented to be whole life insurance and though these rates, according to their valuation, were insufficient to provide the full reserve, we believe that the reserve to be properly set aside for these members should be the full amount of the trust fund after payment of all claims on account of assessment members.

I am reading simply the last two paragraphs, skipping over several; the letter states [reading further from "Exhibit No. 1348-42"]:

We object further to the approval of this proposed contract of reinsurance because of the fact that a small number of individuals own the entire stock of the company which is capitalized at \$100,000 and a contribution of \$50,000 to surplus. The requirements of the laws of this state for life insurance companies is now \$200,000 and for companies writing a combined life and accident business, \$300,000. If the contract is approved, the company cannot comply with the requirements of our laws and therefore cannot be licensed to transact business in Michigan. We would, of course, still have supervision of the affairs of the assessment members, but unless the company was licensed in this state, we would have little or no jurisdiction over its operations.

We hope that you will understand that this Department is in favor of any reorganization or contract of reinsurance whereby the provisions of such reorganization or reinsurance will place the organization upon a sound basis, but we cannot approve of a proposition of this kind which appears to us to be both unfair and inequitable. We are calling these things to your attention, believing that you are desirous of being informed concerning the attitude of different departments on various questions, and if you are in agreement with the view set out in this letter, that you might join us in our protest.

I would like to have the whole letter printed in the record.

The VICE CHAIRMAN. That will be done.

(The letter referred to was marked "Exhibit No. 1348-42" and is included in the appendix on p. 7062.)

Mr. GESELL. I next wish to read a telegram to Mr. W. R. Baker, Brotherhood Building, Kansas City, Kans., sent from San Francisco, Calif., signed E. Forrest Mitchell, insurance commissioner. This telegram reads [reading "Exhibit No. 1348-43"]:

Reinsurance agreement Illinois Bankers Life Association in Illinois Bankers Life Assurance Company never submitted for approval this division as required by our law. From many sources we have been advised that contract is open to serious objection. Do not see how Illinois Bankers Life Assurance Company can have authorized business in California to be raided. Do not believe company should be admitted without full examination reviewing reinsurance deal in extenso and if criticism of deal is justified we believe it should be made fair to old policyholders before company can be admitted.

The VICE CHAIRMAN. That is accepted.

(The telegram referred to was marked "Exhibit No. 1348-43" and appears in full in the text on this page.)

Mr. GESELL. From St. Louis, Mo. I will read only a very short portion of this [reading from "Exhibit No. 1348-44"]:

Have been with Mr. Reid of Oklahoma—

Who was Mr. Reid?

Mr. SELLMAN. He was the commissioner of insurance of Oklahoma.

Mr. GESELL (reading):

Have been with Mr. Reid, of Oklahoma, today, but he would not go to Springfield with me. He is going to stand pat on the proposition that the contract is not a fair one and should be reopened.

The VICE CHAIRMAN. Who wrote that letter?

Mr. GESELL. Mr. Sellman.

The VICE CHAIRMAN. The letter will be printed.

(The letter referred to was marked "Exhibit No. 1348-44" and is included in the appendix on p. 7064.)

Mr. GESELL. I have also in my hand a letter from Mr. Baker to Mr. Hugh T. Martin, under date of April 25, 1930, in which he states in the second paragraph [reading from "Exhibit No. 1348-46"]:

I conferred with Commissioner Yenter today at Des Moines and encountered considerable difficulty. He is quite dissatisfied with the nature of the reinsurance contract and has some question in his mind regarding the equity of the transfer contract, and he suggests that the simplest way to straighten the matter out entirely was to make a very brief examination of the stock company, extending it primarily to the reinsurance of the assessment association and the terms of the transfer contract. I told him quite frankly that we had practically secured the consent of the Commissioners of Oklahoma, Indiana, and Texas for admission to those states, and that the calling of an examination at this time might result in a delay to the departmental action elsewhere, and suggested that before he committed himself definitely to that requirement, he should arrange for a conference with you or Mr. Sellman, or both of you, a representative of the American Conservation Company, preferably Mr. Shimp, and myself at Des Moines, suggesting that in such a conference we should take up the two contracts in detail, and at least explain our position.

I wish to withhold that letter at this time and put a question to Mr. Baker concerning it.

I also have one additional letter, signed by J. O. Rummens, deputy commissioner of the State of Washington, from the files of the Illinois Bankers, dated December 23, 1931, addressed to William R. Baker [reading "Exhibit No. 138-45"]:

The matter of the admission of the Illinois Bankers Life Assurance Company to transact business in the State of Washington, as you know, has been before the Department ever since its reorganization or shortly thereafter.

The Commissioner has had the opportunity at least upon two occasions to talk with representatives of the company and I believe he has expressed to them direct his opinion of the contract taking over the business of the old organization. He does not look with favor upon the admission of the company for it to further transact business in this state.

I cannot offer any encouragement in this matter.

With sincere regards and wishing you and yours the Season's Greetings, I am

The VICE CHAIRMAN. It will be admitted.

(The letter referred to was marked "Exhibit No. 1348-45" and appears in full in the text on this page.)

Mr. GESELL. Mr. Sellman, according to these letters, Indiana, Michigan, Nebraska, California, Oklahoma, Missouri, and Washington, all expressed disapproval of the reinsurance contract. That is correct, is it not?

Mr. SELLMAN. I would say so from the record; yes, sir.

Mr. GESELL. These letters are from your files. You know that, don't you?

Mr. SELLMAN. Oh, yes; that is right.

Mr. GESELL. Now, the terms of the reinsurance contract were never changed or altered, were they?

Mr. SELLMAN. No; they weren't.

Mr. GESELL. Was approval of all these States obtained?

Mr. SELLMAN. Not; not all of them.

Mr. GESELL. Which States stood by their guns, so to speak?

Mr. SELLMAN. California, Michigan allowed us to transfer, but not write any business, and/or—we were licensed in Indiana, Nebraska, Oklahoma, and Missouri.

Mr. GESELL. Now, am I correct in—

Mr. SELLMAN (interposing). The objection in some of these cases was on account of capital stock.

Mr. GESELL. Yes, one or two of them; and we have heard today how that was fixed up. Now, Mr. Sellman, do I understand that Mr. Baker was employed by the company to help straighten out these objections?

Mr. SELLMAN. He handled the applications in these departments; yes, sir.

Mr. GESELL. He was the principal contact man for the company with the department, was he?

Mr. SELLMAN. Yes, sir.

Mr. GESELL. Well, now, you helped him to some extent, did you not?

Mr. SELLMAN. Yes, I did.

Mr. GESELL. Would he take care of the actuarial details?

Mr. SELLMAN. Well, yes, I guess so; furnish such information as was required to the departments. We were working together to accomplish the end of getting a license in those States as promptly as possible.

Mr. GESELL. Well, now, may I ask you to step down and call Mr. Baker, please.

Mr. Baker has not been sworn.

The VICE CHAIRMAN. Do you solemnly swear that the testimony you are about to give in this proceeding will be the truth, the whole truth, and nothing but the truth, so help you God?

Mr. BAKER. I do.

TESTIMONY OF WILLIAM R. BAKER, ATTORNEY, KANSAS CITY, KANS.

Mr. GESELL. Will you be seated, please, sir?

Now, what is your name?

Mr. BAKER. William R. Baker.

Mr. GESELL. Where do you reside, Mr. Baker?

Mr. BAKER. Kansas City, Kans.

Mr. GESELL. You are an attorney there?

Mr. BAKER. Yes, sir.

Mr. GESELL. What is the name of your firm?

Mr. BAKER. I am practicing by myself at the present time.

Mr. GESELL. Were you formerly commissioner of insurance for the State of Kansas?

Mr. BAKER. I was.

Mr. GESELL. What was the period of term of your office?

Mr. BAKER. January 1923 to January 1929.

Mr. GESELL. Were you retained by the Illinois Bankers Life Assurance Co. to assist them in obtaining licenses in various States?

Mr. BAKER. I was.

Mr. GESELL. When were you employed?

Mr. BAKER. To the best of my recollection, in March or April of 1930.

Mr. GESELL. That was—

Mr. BAKER (interposing). Early in the year 1930.

Mr. GESELL. That was just a few months after you ceased being commissioner?

Mr. BAKER. That was—no, sir; well, it was over a year.

Mr. GESELL. About a year later?

Mr. BAKER. I went out in January 1929.

Mr. GESELL. Oh, I see; about a year and a half.

Mr. BAKER. Not quite a year and a half, over a year, however.

Mr. GESELL. How did you happen to be employed by them, Mr. Baker?

Mr. BAKER. Mr. Shimp called me from Chicago some 2 or 3 days before I made the trip to Chicago and was retained, telling me that the Illinois Bankers Life Assurance Co. might have some work for me to do, and wanted to know if I could come to Chicago and confer with Mr. Martin, the general counsel of the company. I went to Chicago about the second or third day after that telephone conversation and met Mr. Martin in Mr. Shimp's office, and as a result of that meeting, I was retained.

Mr. GESELL. Had you known Mr. Shimp prior to that time?

Mr. BAKER. Yes, sir.

Mr. GESELL. Had you had business dealings with him?

Mr. BAKER. No business dealings; no, sir.

Mr. GESELL. You had personally known him?

Mr. BAKER. Yes, sir.

Mr. GESELL. On what basis were you employed, and what were the conversations held between you and Mr. Shimp and Mr. Martin?

Mr. BAKER. The basis of employment was a payment of fees to be contingent. It was to be an agreed retainer—do you care to have me state the amounts?

Mr. GESELL. Yes.

Mr. BAKER. An agreed retainer of \$750 paid. At this time, I was in partnership with Mr. Henning—Henning & Baker. We were to be paid \$500 on obtaining a license in any State where we were—he or both of us—were required to make a trip to the department of that State; where such travel was not necessitated, the fee was to be \$200, and all expenses, traveling expenses, were to be paid regardless of the obtaining of a license.

Mr. GESELL. Now, what were the difficulties facing the company at the time? Had you learned that from your conversation with Mr. Shimp and Mr. Martin at that time?

Mr. BAKER. I learned that from Mr. Martin. Mr. Martin told me that several of the commissioners of insurance had objected to the re-insurance agreement between the stock company and the assessment association, and had declined to issue a certificate of authority, on

making applications. The company had made application in some of the States, I don't recall what ones now offhand—

Mr. GESELL (interposing). Did you go into the merits of the deal, the reasons for it, at that time?

Mr. BAKER. I went over—that is, we went over the reinsurance agreement. My recollection is now that at least one commissioner, possibly more, I don't recall, had objected to the action of the Illinois department in approving the reinsurance contract, without prior conference with some of the commissioners. It is quite a while ago and I may be wrong in this statement, but I believe that one or two commissioners stated that they had communicated with the Illinois department prior to the action on the reinsurance contract by the Illinois department, requesting they be consulted. I am not certain now that that is correct.

Mr. GESELL. Did you go into the merits and the terms of the rewriting contract at this time?

Mr. BAKER. We went over the contract—I went over the contract with Mr. Martin—and the objections which he related to me had been made, had to do, first, with the expense allowance granted the stock company for the administration of the assessment business, which was 25 percent of the assessments for each of the first 2 years, and 22½ percent thereafter.

Mr. GESELL. Well, were you advised of the Nichol contract, so-called, involving this payment of \$430,000 to Mr. Martin and his association through Mr. Shimp?

Mr. BAKER. At that time?

Mr. GESELL. Yes.

Mr. BAKER. No, sir.

Mr. GESELL. When did you first learn of it?

Mr. BAKER. The first I knew of the existence of the contract between Mr. Shimp and Mr. Nichol was in the spring of 1931.

Mr. GESELL. Was that after your effort to obtain licensing of the company had ceased?

Mr. BAKER. To the best of my recollection, my work had terminated.

Mr. GESELL. Now, were you brought into this situation, Mr. Baker, for the purpose of consulting them and drawing up the rewrite contract and reinsurance contract, or were you there brought into it to assist them in getting it approved?

Mr. BAKER. Neither.

Mr. GESELL. Well, why were you?

Mr. BAKER. I had nothing whatever to do with the matters of the Illinois Bankers Life Assurance Co., including the organization of the company, the preparation of the reinsurance agreement and its execution, approval, or with the contract between the stock company and the American Conservation Co.

Mr. GESELL. Those things were all settled?

Mr. BAKER. Yes, sir. My recollection is that the contract of reinsurance was approved in November of 1929 and, as I stated, my first meeting with Mr. Martin was either in March or April of 1930.

Mr. GESELL. Then for what reason were you brought in, you particularly?

Mr. BAKER. For the purpose of endeavoring to obtain from various State insurance departments a certificate of authority for the stock company to transact business.

Mr. GESELL. Well, why did they hire you? They had their own counsel; why would they bring you into this?

Mr. BAKER. Well, I can only give you an assumption. I didn't inquire as to why exactly they hired me. I was practicing law.

Mr. GESELL. You had a pretty good idea, though.

Mr. BAKER. I can give you my assumption.

Mr. GESELL. What is that?

Mr. BAKER. I had been a commissioner of insurance for a period of 6 years. I assumed that naturally it was the thought of Mr. Martin that I should know something about the departmental procedure and departmental requirements relative to the admission of the company, and I assume further, and Mr. Martin assumed, that any acquaintance with commissioners of insurance who had been in office when I was in office and were still in office, would permit me at least to get in—

Mr. GESELL. You were one of the boys, so to speak?

Mr. BAKER. Well, I was a former commissioner of insurance.

Mr. GESELL. What about this contract; did you agree to go out and try to get it approved?

Mr. BAKER. The contract?

Mr. GESELL. Yes; the reinsurance contract.

Mr. BAKER. The contract of reinsurance? No, sir.

Mr. GESELL. Your only interest was to get the new company licensed?

Mr. BAKER. That was what I was to do.

Mr. GESELL. And many of the objections of the States not licensing the company were because of the reinsurance contract?

Mr. BAKER. That is correct.

Mr. GESELL. What did you think of the contract? Did you think it was fair and equitable?

Mr. BAKER. My opinion at the time was that the allocation or the allowance for expense purposes was high.

Mr. GESELL. Would you have approved it while you were in Kansas, Mr. Baker?

Mr. BAKER. I don't believe I could state definitely. While I think the expense allowance was high, I would have no other reason, or no reason to change my mind. I know that it is the general view of insurance departments that inadequately rated business should be placed on an adequate basis or legal reserve basis, and if the elimination of this assessment business could be effected, I would have given that phase of it consideration.

Mr. GESELL. Well, now, some of these letters that I read before you took the stand indicate that the commissioners had very vigorous objections to this contract, some thought it vicious, some thought it unfair, some thought it inequitable, and similar adjectives of that character were used. Can you tell us what commissioners you called upon as counsel for Illinois bankers in order to get the approval of the new company?

Mr. BAKER. On getting the applications of the company?

Mr. GESELL. Yes; did you call Indiana?

Mr. BAKER. Yes, sir.

Mr. GESELL. Michigan?

Mr. BAKER. I don't believe, Mr. Gesell, I made a trip to Michigan. I believe I wrote Mr. Livingston.

Mr. GESELL. Did you call on Nebraska?

Mr. BAKER. Yes.

Mr. GESELL. California?

Mr. BAKER. Yes.

Mr. GESELL. Oklahoma?

Mr. BAKER. Yes.

Mr. GESELL. Missouri?

Mr. BAKER. No—well, I went to Missouri but was never successful in finding the commissioner of insurance in.

Mr. GESELL. You could find him there now, I think.

Mr. BAKER. Not in Missouri.

Mr. GESELL. Oregon?

Mr. BAKER. No, sir.

Mr. GESELL. Well, now, tell us, Mr. Baker, what kind of arguments and what kind of discussions you have had with these insurance commissioners. Let's take Mr. Reid, of Oklahoma, as an instance.

Mr. BAKER. Insofar as this contract of reinsurance is concerned?

Mr. GESELL. Yes; supposing you went to one of these commissioners and he said he wasn't going to let the new company into his State because he didn't think the reinsurance contract was fair, or he had some other objection to it. What type of argument would you use in order to make that man change his mind?

Mr. BAKER. As I recall, there were somewhere in the neighborhood—we will take Oklahoma as an example, I believe Oklahoma had some five or six thousand members of the assessment association. I could not endeavor to overcome the objections of the commissioner of insurance. I had advised Mr. Martin that in view of the fact that the commissioners had expressed their opinions, this contract had been approved, that I did not propose to hold a brief before them with reference to the contract. The only contention which I made or possibly a suggestion was that the obligation of the commissioner of Oklahoma was primarily to his people who were members of this association. Mr. Reid was sometimes rather vehement in his statements—

Mr. GESELL (interposing). What did he say to you on this occasion?

Mr. BAKER. He told me that in his opinion the contract was extremely unfair, and that—I am not endeavoring to quote.

Mr. GESELL. As best you recall, of course.

Mr. BAKER. Yes; he felt that the officers of the stock company and the board of directors of the stock company and the officers, the stockholders, had taken an unfair advantage of the assessment association; that they had not received value for that assessment business.

Mr. GESELL. Well, now, Mr. Reid subsequently licensed this company in Oklahoma, did he not?

Mr. BAKER. Yes, sir.

Mr. GESELL. That was after your talk with him?

Mr. BAKER. Subsequent to my conversation with him.

Mr. GESELL. Well, now, what suggestion or talks did you have with him that led to his taking that position?

Mr. BAKER. The argument, contention, that I made to Mr. Reid, and which I made to the other commissioners of insurance, was that in my opinion their obligation was to the residents of their respective States, who were members of the assessment association, and that it would be better from the standpoint of those people for their home department to be in a position to exercise supervision, jurisdiction, or control to some extent over the operations of this company by permitting it to come into the State rather than by excluding it and therefore lose its jurisdictional power, examination.

Mr. GESELL. You mean by that that if he refused the new company license, then all he'd have, as far as the company was concerned, would be a bunch of policyholders in his State who had taken out policies with the assessment association, and no company which he could control or regulate.

Mr. BAKER. That was my—

Mr. GESELL (interposing). It was one of these between-the-devil-and-the-deep-blue-sea situations, then, wasn't it?

Mr. BAKER. Yes, sir; one end of the stick was as hot as the other, possibly.

Mr. GESELL. And even though the commissioner thought the thing was unfair or inequitable or the officers had taken unfair advantage of the assessment policyholders, in order to keep some control over the company, to protect those policyholders who had already come in previously into the association, he was obliged to license it.

Mr. BAKER. To do that, to have that power, he would be obliged to license; yes.

Mr. GESELL. And in that way obliged to let the new company come in and conduct its business there, to sell new policies, continually?

Mr. BAKER. Yes, sir.

Mr. GESELL. Now, is that situation which we have been discussing in terms of Oklahoma more or less generally the situation which was facing many of these other commissioners who expressed these vehement objections?

Mr. BAKER. Yes, sir. Enlarging slightly upon California, under the California statutes, at least as construed by the California commissioner, the contract had to be—the contract of reinsurance, although it was between two Illinois organizations—had to be submitted to the California department for approval before the company could be authorized in California. But, generally speaking, the statements I made regarding my conference with the Commissioner of Insurance of Oklahoma are applicable to those other States where the commission objected to the contract.

Mr. GESELL. Well now, taking—

The VICE CHAIRMAN (interposing). Did the State of California approve the reinsurance contract?

Mr. BAKER. No, sir.

The VICE CHAIRMAN. Was the company ever licensed to do business in California?

Mr. BAKER. No, sir; at the time also that I went to California, the authorized capital, the paid-in capital of the company, was only \$100,000. and under the California statutes, the minimum capital was \$200,000. That was true of some other States, also.

The VICE CHAIRMAN. Was the contract submitted to the commissioner of California before it was signed?

Mr. BAKER. Before it was signed?

The VICE CHAIRMAN. Before it was actually executed.

Mr. BAKER. My understanding was it was not; no, sir.

The VICE CHAIRMAN. So that the company under the laws of California could not have been admitted to do business in California, quite apart from the capital situation?

Mr. BAKER. That is, until the capital had been obtained.

Mr. GESELL. Now, was there also a retaliatory feature here, Mr. Baker? Did the question come up whether if one of these States took a strong position after the Illinois department had approved it, the Illinois department might in turn take some action against that particular State's companies doing business in Illinois?

Mr. BAKER. I have no recollection of that, Mr. Gesell.

Mr. GESELL. You understand what I mean?

Mr. BAKER. Yes, sir; I do.

Mr. GESELL. That question of the propriety of some State trying to overrule the action of the Illinois department did not present itself?

Mr. BAKER. I don't recall any such instance as that.

Mr. GESELL. What did you do about the situation that you related in your letter to Mr. Martin which I read a little while ago,¹ dated April 25, 1930, in which you said that you had conferred with Commissioner Yenter, of Iowa, and that Mr. Yenter was quite dissatisfied with the nature of the reinsurance contract, and had some questions in mind regarding the equity of the transfer contract, and wanted to conduct an examination of the affairs of the company to find out the exact terms of the transfer contract and the reinsurance? What did you do about such a commissioner, who felt he ought to go in and look at these transactions before he gave his approval?

Mr. BAKER. My recollection is, and I couldn't hear you very clearly—

Mr. GESELL (interposing). You may look at that letter and read it carefully, if you wish.

Mr. BAKER. This is my letter to Mr. Martin?

Mr. GESELL. Yes.

Mr. BAKER. In this letter I advised Mr. Martin generally of Commissioner Yenter's position and suggested that he arrange to come himself or to send Mr. Sellman, and also some representative of the American Conservation Co., preferably Mr. Shimp, to meet with me at Des Moines for the purpose of conferring with Mr. Yenter and considering his suggestions.

Mr. GESELL. Well, he wanted to make an examination, didn't he, according to the second paragraph of that letter?

Mr. BAKER. This letter recites that; yes.

Mr. GESELL. And that is your letter?

Mr. BAKER. Yes.

Mr. GESELL. Did he make an examination?

Mr. BAKER. My recollection is that he did not.

Mr. GESELL. And he did license the company, didn't he?

Mr. BAKER. The company was—

Mr. GESELL (interposing). Licensed in Iowa?

Mr. BAKER. Licensed in Iowa. I am not certain whether Mr. Yenter was—there is quite a mortality amongst insurance commissioners. I

¹ Supra, p. 6880.

am not sure he was connected with the insurance department at the time the license was issued or not.

Mr. GESELL. I suppose that was one way to solve the matter—to wait until a new commissioner came in.

Mr. BAKER. I don't believe that was the situation in Iowa.

Mr. GESELL. Then Mr. Yenter did approve this contract in Iowa and let the company in?

Mr. BAKER. Well, as I say, I am not certain now whether he was the commissioner at the time the approval was effected.

Mr. GESELL. But the company did get licensed in Iowa?

Mr. BAKER. They were licensed in Iowa.

Mr. GESELL. And there was no examination made?

Mr. BAKER. My recollection is that there was not.

Mr. GESELL. Was there a conference held with Mr. Yenter, Mr. Shimp, Mr. Martin, and others mentioned in your letter?

Mr. BAKER. Yes, sir; I am sure.

Mr. GESELL. Were you there?

Mr. BAKER. I believe I was present.

Mr. GESELL. Did Mr. Shimp and Mr. Martin discuss with Mr. Yenter the terms of the Nichol contract?

Mr. BAKER. No, sir; if they had, I would have known it then.

Mr. GESELL. Then, by adopting the conference method rather than the examination method, or rather, if the examination method had been pursued rather than the conference method, a different result might have occurred?

Mr. BAKER. I don't know that an examination of the company's books and records would have disclosed the existence of the Nichol contract.

Mr. GESELL. This letter is quite specific, however, in saying that he wished an examination extending primarily to the reinsurance of the assessment association and the terms of the transfer contract.

Mr. BAKER. That was the contract between the American Conservation Co. and the Illinois Bankers Life Insurance Co.

Mr. GESELL. An examination might have given a greater disclosure, then, than was obtained through the conference? Is that not possible?

Mr. BAKER. Yes; I assume it would be possible.

Mr. GESELL. How were you gentlemen able to persuade Mr. Yenter not to undertake this examination?

Mr. BAKER. I didn't endeavor to persuade the commissioner of insurance of Iowa, or any other commissioner, not to insist upon the examination. That is his prerogative.

Mr. GESELL. Why was not the examination made?

Mr. BAKER. I am sure I couldn't tell you. There were one or two States that I recall who desired an examination. If my memory serves me rightly now, the examination was made only by the Illinois department.

Mr. GESELL. I would like to offer this letter at this time, which I previously read.

The VICE CHAIRMAN. It will be admitted and printed in the record.

(The letter referred to was marked "Exhibit No. 1348-46" and is included in the appendix on p. 7066.)

Mr. GESELL. Can you tell us, Mr. Baker, what fees you, or rather your firm, received for representing the Illinois Bankers during 1930 and 1931 for this purpose?

Mr. BAKER. Yes, sir. I am reading from a memorandum which I prepared from our records at the request of one of the representatives of the committee. In 1930 the total amount, including expenses, retainer, and fees, received by the firm of Henning & Baker from the Illinois Bankers Life Insurance Co. was \$4,438.31. In 1931 the amount was \$2,352.24.

Mr. GESELL. I have no further questions of Mr. Baker at this time. We will probably want to recall him tomorrow on another phase of this matter.

The VICE CHAIRMAN. We will have a 5-minute recess.

(A brief recess was taken.)

The VICE CHAIRMAN. The committee will be in order.

Mr. GESELL. There is one letter, if the committee please, that I neglected to read when I was going through the various letters, that I'd like to read at this time. It is a letter written by Mr. Sellman to Mr. Martin, under date of May 9, 1934, and states [reading "Exhibit No. 1348-47"]:

The Commissioner was not in Jefferson City Monday. We simply submitted two thoughts to the Actuary and the Deputy. The first was that renewal licenses had been issued by the other states without any question on the basis of the Illinois Department's Certificate of Authority. The second was that the Missouri Department probably would not wish to be put into the position of reconsidering and in a sense reversing the conclusion to the Illinois Department, and on that account we would not want to go into the full details of the Examination Report.

They assured us that the matter would be brought to Mr. O'Malley's attention and that we should expect an answer within the week. It would seem to me entirely reasonable to expect our license from the State of Missouri within the time indicated.

The VICE CHAIRMAN. The letter will be received.

(The letter referred to was marked "Exhibit No. 1348-47" and appears in full in the text on this page.)

Mr. GESELL. Now, Mr. Martin.

TESTIMONY OF HUGH T. MARTIN, PRESIDENT, ILLINOIS BANKERS LIFE ASSURANCE CO., MONMOUTH, ILL.—Resumed

ILLINOIS BANKERS—TRUST COMPANY OF CHICAGO AND LISTED SECURITIES COMPANY TRANSACTIONS

Mr. GESELL. Mr. Martin, I want to cover with you very briefly the facts and circumstances surrounding the formation of the Transcontinental Trust Co., which I understand was later known as the Trust Co. of Chicago.

Mr. MARTIN. Yes.

Mr. GESELL. That was an Illinois corporation, was it not?

Mr. MARTIN. Yes.

Mr. GESELL. What was its business?

Mr. MARTIN. It was to do a general trust—it was incorporated under the General Incorporation Act, but with a special license to do a trust business.

Mr. GESELL. Whose idea was it that this company be formed?

Mr. MARTIN. I think it was mine.

Mr. GESELL. Did you have in mind that the trust company would receive some business advantages from the Illinois Bankers Life Insurance Co.?

Mr. MARTIN. I thought there would be an interest both ways to the trust company and also to the insurance company.

Mr. GESELL. Will you explain that a little more completely?

Mr. MARTIN. At that time, this was in 1930, there was much writing of life insurance with proceeds payable to a trustee, and we thought that a lot of business could be written by the insurance company, working out something of this kind.

Mr. GESELL. In other words, the Trust Co. of Chicago was conceived as an organization which would have among its trusts, trusts arising out of the proceeds of policies written in the Illinois Bankers Life Assurance Co.

Mr. MARTIN. Yes.

Mr. GESELL. The Trust Co. of Chicago was organized November 26, 1930, was it not?

Mr. MARTIN. That is correct.

Mr. GESELL. You and Mr. Nichol and Mr. Passmore were the incorporators, were you not?

Mr. MARTIN. Yes.

Mr. GESELL. The company was capitalized at how much?

Mr. MARTIN. Two hundred thousand.

Mr. GESELL. And 2,000 shares were issued, were they not?

Mr. MARTIN. Yes; at a hundred dollars each.

Mr. GESELL. A hundred dollars each, 2,000 shares. Whom did you sell those shares to?

Mr. MARTIN. Those shares were taken over by the Illinois Bankers Life Assurance Co.

Mr. GESELL. And in return for the shares, the Trust Co. of Chicago received \$225,000, did it not?

Mr. MARTIN. Yes, sir.

Mr. GESELL. A paid-in capital of \$200?

Mr. MARTIN. Two hundred thousand.

Mr. GESELL. Two hundred thousand, and a premium of \$12.50 per share to give a cash surplus of \$25,000.

Mr. MARTIN. Yes.

Mr. GESELL. Now, can you tell us the procedure followed by the Illinois Bankers Life Assurance Co. in obtaining the funds with which to buy the 2,000 shares of the Trust Co. of Chicago stock?

Mr. MARTIN. I don't think that I could trace that out in detail, Mr. Gezell. Generally speaking, the cash was used to buy bonds of the Illinois—the Illinois municipal bonds. The situation was that the trust company had to have the Illinois municipal bonds, or United States Government bonds, or Illinois first mortgages, put up to guarantee its creditors. I don't recall whether the Illinois Bankers turned over the money or whether it bought the bonds. My recollection is that it bought the bonds, the Illinois municipal bonds.

Mr. GESELL. It bought \$200,000 of bonds and turned them over, together with \$25,000 in cash, did it not?

Mr. MARTIN. That is my recollection?

Mr. GESELL. Do you know how the Illinois Bankers Life Assurance acquired those bonds?

Mr. MARTIN. No; I don't.

Mr. GESELL. Are you familiar with the fact that it borrowed \$150,000 from the Chatham Phenix National Bank?

Mr. MARTIN. No; I don't recall that.

Mr. GESELL. You are not familiar with the circumstances under which this was financed?

Mr. MARTIN. No; I don't recall the details.

Mr. GESELL. Well, now, after this transaction took place, the attorney general of the State of Illinois declared the action ultra vires, did he not?

Mr. MARTIN. He gave such an opinion; yes; several years later.

Mr. GESELL. Yes; that was several years later?

Mr. MARTIN. Several years later, in 1933; I think it was, to be exact.

Mr. GESELL. So what steps were taken by the company to correct the situation at that time?

Mr. MARTIN. Well, we thought at the time the objection was to stock standing in the name of the company. Under the statute in Illinois, the Investment Act, stocks of a trust company were a legal investment for a life insurance company, and the question was raised that it amounted to an ultra vires act in that the trust business was different from the business that the Illinois Bankers was incorporated to do, namely, the business of insurance.

So we thought that we might meet that objection and a sale was made to Mr. John H. Passmore, and he gave his note for the amount of the stock, two hundred and twenty-five thousand, which was the amount that the company had invested.

Mr. GESELL. You mean he bought the shares from Illinois Bankers and then repledged them with Illinois Bankers as collateral for a loan in an amount sufficient to enable him to purchase the shares?

Mr. MARTIN. Yes, however—

Mr. GESELL. That loan was then carried in the nonadmitted assets of the company?

Mr. MARTIN. The attorney general followed that up and he held that that did not cure the situation.

Mr. GESELL. And a suit was then brought, I take it?

Mr. MARTIN. No; he didn't bring any suit. That was in 1933, and the matter went along, and the attorney general allowed the matter to go on without any further objection until I think the summer or fall, it was in the fall of 1938. The question that had been put was that on account of the increased business of the trust company, a larger deposit should be made with the auditor of public accounts.

Mr. GESELL. As the thing finally worked out, the Trust Co. of Chicago was owned by Passmore who pledged the shares with Illinois Bankers Life Assurance Co. as collateral for his loan.

Mr. MARTIN. That was the way it stood; yes, sir.

Mr. GESELL. And that loan was held in the nonadmitted assets?

Mr. MARTIN. The nonadmitted assets of the insurance company.

Mr. GESELL. Now, who was interested with you, other than Mr. Passmore and Mr. Nichol, in the Trust Co. of Chicago?

Mr. MARTIN. Do you mean in organizing it?

Mr. GESELL. No; after this Passmore arrangement had been worked out.

Mr. MARTIN. There wasn't anybody interested. It was a matter of handling it.

Mr. GESELL. You three gentlemen were the owners?

Mr. MARTIN. No; the insurance company was the owner. The insurance company was the owner.

Mr. GESELL. And any profits of the trust company went to the insurance company?

Mr. MARTIN. Well, there have been no profits paid out. There has been a large building up of surplus which will go to the insurance company.

Mr. GESELL. So far, however, the Illinois Bankers Life Assurance Co. has received nothing from the Trust Co. of Chicago?

Mr. MARTIN. Neither has Mr. Passmore.

The VICE CHAIRMAN. I don't understand that. I thought you said that Passmore bought the shares of stock.

Mr. MARTIN. Well, it was put in that shape, but it was generally regarded as really the investment of the insurance company.

The VICE CHAIRMAN. You mean it was put in that shape because—

Mr. MARTIN. To try to meet the objection of the attorney general.

Mr. GESELL. But that didn't meet his objection?

Mr. MARTIN. That didn't meet his objection, and the matter just was left unchanged and Mr. Passmore did not pay the note, and it was really the property of the insurance company.

Mr. GESELL. Did he turn the stock back to the—

Mr. MARTIN. The insurance company? The insurance company has it; yes, sir.

Mr. GESELL. And it has not been canceled?

Mr. MARTIN. I don't think it is canceled, but it has been canceled, and that is the arrangement.

The VICE CHAIRMAN. Does the insurance company have legal title to the stock?

Mr. MARTIN. It stands in the name of Mr. Passmore, but it really is owned by the insurance company.

Mr. GESELL. If there were dividends declared, they would have gone to Mr. Passmore, would they not?

Mr. MARTIN. Not unless he paid his note.

Mr. GESELL. The stock was in his name, was it not?

Mr. MARTIN. The stock was in his name; yes.

Mr. GESELL. If it was paid to him as a shareholder he would receive the benefits quite without consideration of the fact that they were pledged as collateral to a loan?

Mr. MARTIN. That is true, except that some of the officers of the insurance company are on the board, and there would be no dividends declared, unless that indebtedness is taken care of.

You raise the question about the suit by the attorney general. That suit has been entirely settled and the attorney general yesterday dismissed the suit on that basis. I want to say further the decision of the Illinois courts in a similar case, the case of the People ex rel. the auditor of public accounts against the Bank of Peoria, I believe it has held that for an insurance company to own or have control of a bank is not an action ultra vires as far as the insurance company is concerned. In our opinion, that decision largely invalidates the opinion of the attorney general.

The VICE CHAIRMAN. The attorney general's opinion in 1933 was contrary to what you understand that case to be?

Mr. MARTIN. Very largely. They are not quite the same on all fours, but very close.

The VICE CHAIRMAN. To attempt to comply with the original ruling of the attorney general, the stock was to be sold to Mr. Passmore in return for his note?

Mr. MARTIN. We thought we could meet the situation in that way.

The VICE CHAIRMAN. Is that the situation today?

Mr. MARTIN. Except that the arrangement with Passmore is that the note is to be canceled and the shares to be put in the name of the insurance company.

The VICE CHAIRMAN. Is there a contract to that effect?

Mr. MARTIN. Not a formal contract, but that is what he has asked should be done.

The VICE CHAIRMAN. Who has asked should be done?

Mr. MARTIN. Mr. Passmore.

Mr. GESELL. As far as the formal papers are concerned, they were dressed up as though he purchased the shares in an individual capacity?

Mr. MARTIN. For the reason I said. There was no secret about it. We thought the way the attorney general's opinion read, that would meet his objection and it might be held for the benefit of the Assurance Co. and without any further objection on his part.

The VICE CHAIRMAN. Insofar as the record is concerned, Passmore owns the stock?

Mr. MARTIN. Yes.

The VICE CHAIRMAN. And he owes \$225,000 to the insurance company.

Mr. GESELL. It has been written off as a bad asset.

Mr. MARTIN. Not as a bad asset. It was written off in 1933 because the attorney general held at that time it was not a legal investment. He didn't hold it was a bad investment.

Mr. GESELL. It proved to be a bad investment and was written off because it was an illegal investment.

Mr. MARTIN. It isn't a bad investment; it was a good investment.

Mr. GESELL. The collateral note wasn't a good investment.

Mr. MARTIN. The collateral is very good.

Mr. GESELL. It is in default, isn't it?

Mr. MARTIN. The note is in default as to interest. Here is collateral stock, \$200,000, part of which has built up a surplus of \$100,000. That is not a bad investment.

Mr. GESELL. Except for this side agreement he had with you, you had no right to foreclose on the shares except in the amount sufficient to satisfy the loan?

Mr. MARTIN. That would be true; yes.

Mr. GESELL. I would like to call Mr. Woods for a moment to explain how this company was financed.

TESTIMONY OF WILLIAM H. WOODS, FORMER PRESIDENT, ILLINOIS BANKERS LIFE ASSURANCE CO, AND ILLINOIS BANKERS LIFE ASSOCIATION, MONMOUTH, ILL.—Resumed

Mr. GESELL. Mr. Woods, I want to ask you how the Illinois Bankers Life Assurance Co. raised the money in order to purchase the

\$200,000 of municipal bonds which it turned over to the Trust Co. of Chicago in return for its shares.

Mr. WOODS. As I remember it, we made an arrangement for a bond company to carry the \$150,000 in bonds for a time and we got the money out of it and agreed to repurchase them; really a repurchase contract.

Mr. GESELL. You had \$50,000 in cash, did you not?

Mr. WOODS. I couldn't remember.

Mr. GESELL. You borrowed \$150,000 from the Chatham Phenix National Bank; is that right?

Mr. WOODS. Well, we turned back to them.

Mr. GESELL. You borrowed \$150,000 from the Chatham Phenix Bank.

Mr. WOODS. Well, we returned them that many bonds. You can term it anyway you want to; they took \$150,000 of bonds which we had on hand on a repurchase agreement. We agreed to repurchase those later.

Mr. GESELL. In other words, you took bonds worth \$150,000 from the portfolio of the Illinois Bankers Life Assurance Co. and placed them with the Chatham Phenix National Bank and they gave you \$150,000.

Mr. WOODS. Was it a bank?

Mr. GESELL. Chatham Phenix National Bank & Trust Co., was it not?

Mr. WOODS. I guess that is right.

Mr. GESELL. And they gave you credits with which you were able to get \$150,000 worth of securities; is that not correct?

Mr. WOODS. That is right.

Mr. GESELL. And you agreed in turn to repurchase from the Chatham Phenix National Bank & Trust Co. the securities that you had taken from the portfolio of the insurance company and pledged thereunder the repurchase agreement?

Mr. WOODS. Yes.

Mr. GESELL. Is this a copy of the repurchase agreement that I show you?

Mr. WOODS. I think it is.

Mr. GESELL. I wish to offer this for the record.

The VICE CHAIRMAN. It may be admitted.

(The agreement referred to was marked "Exhibit No. 1348-48" and is included in the appendix on p. 7067.)

Mr. GESELL. Did you also have an understanding with them that you would place a restricted deposit with the Chatham Phenix to the amount of \$10,000?

Mr. WOODS. Not to my recollection. I don't remember that.

Mr. GESELL. You have no recollection with respect to agreeing not to check on the \$10,000 you had on deposit there?

Mr. WOODS. I don't recollect that. We did that with one or two cases. As I remember, we agreed to keep a deposit. I didn't see whether it made any difference whether we kept it in the safe. I don't remember in this case.

Mr. GESELL. I have here a letter dated March 2, 1931, from the Chatham Phenix National Bank & Trust Co., for your attention, signed by Vice President Brewer of that bank. He says in respect to this

matter, in the second paragraph [reading from "Exhibit No. 1348-49"]:

We further understand that the \$10,000 cash deposit of your company now carried on our ledgers will not be drawn down while said repurchase agreement is outstanding, and that this deposit may be regarded by us as in the same status as the \$25,000 par value Fox Film Corporation secured 6% gold notes, as above mentioned.

Does that refresh your recollection? Do you recognize this as a letter you received from the Chatham Phenix Bank?

Mr. WOODS. Yes.

Mr. GESELL. You put up, in effect, then, in addition to these other stocks from the portfolio, the \$25,000 of Fox Film Corporation gold notes and entered into this agreement on the \$10,000 cash deposit?

Mr. WOODS. I don't remember those extra bonds being put up. As I understood, it was just a repurchase agreement.

Mr. GESELL. The bonds are described in the letter.

Mr. WOODS. Yes.

Mr. GESELL. I offer it for the record.

The VICE CHAIRMAN. It may be entered.

(The letter referred to was marked "Exhibit No. 1348-49" and is included in the appendix on p. 7067.)

Mr. GESELL. Now, can you tell us, Mr. Woods, what interest has been earned by the bonds which were delivered to the Trust Co. of Chicago?

Mr. WOODS. No; I can't.

Mr. GESELL. That is all I had to ask you about. I have no further questions.

TESTIMONY OF HUGH T. MARTIN, PRESIDENT, ILLINOIS BANKERS LIFE ASSURANCE CO., MONMOUTH, ILL.—Resumed

Mr. GESELL. Mr. Martin, is it not a fact that the operating statements of the Trust Co. of Chicago disclosed the date the Trust Co. of Chicago had earned interest in the amount of \$66,000 approximately on the bonds which were delivered to it by the Illinois Bankers Life Assurance Co. in purchase of the stock?

Mr. MARTIN. I wouldn't—

Mr. GESELL (interposing). Is that about your recollection as to the amount?

Mr. MARTIN. Well, I never totaled it, but I presume that would be about the correct amount.

Mr. GESELL. Now, I want to ask you, Mr. Martin, about certain mortgage loans made by various individuals from the Illinois Bankers Life Assurance Co. Am I correct in saying that there have been several loans by the Illinois Bankers Life to the Trust Co. of Chicago?

Mr. MARTIN. Several mortgages to the trust company.

Mr. GESELL. Several loans?

Mr. MARTIN. The record will show. I don't recall just what you refer to there.

Mr. GESELL. Referring to this sheet, do you not recall there was a \$48,000 loan to the Trust Co. of Chicago dated December 22, 1936?

Mr. MARTIN. This is a mortgage loan by the Trust Co. of Chicago as trustee for the Aurora Leland Hotel Co., of Aurora, Ill. That is a corporation that was reorganized, and the building was valued at

\$525,000 and the land at \$160,000, and the loan was \$48,000. I note here by the loan register sheet that it is now cut down to \$39,000. Is that right, Mr. Leary?

Mr. LEARY. That is the record.

Mr. MARTIN. I wanted to know if I am reading this correctly. The loan was made really on behalf of that trust. It was a very excellent loan.

Mr. GESELL. It was made on your recommendation, was it?

Mr. MARTIN. I don't think so. It was taken up, I think, with Mr. Townsend at the time—Mr. Townsend, the president of the company—and possibly—let me see, when was it made?

Mr. GESELL. Who is Mr. Townsend?

Mr. MARTIN. President of the trust company.

Mr. GESELL. And is he also a director of the Illinois Bankers?

Mr. MARTIN. No.

Mr. GESELL. Mr. Townsend himself borrowed \$9,000 from the Illinois Bankers on September 15, 1932, did he not?

Mr. MARTIN. Yes.

Mr. GESELL. Now can you tell us who Mr. John C. Temple is?

Mr. MARTIN. Mr. John C. Temple is interested in some automobile-accessory business in Chicago.

Mr. GESELL. Is he not also an officer of the Trust Co. of Chicago?

Mr. MARTIN. No.

Mr. GESELL. No connection with it?

Mr. MARTIN. No. He did some work for them at one time, but he is not now connected with them.

Mr. GESELL. Do you recall that \$10,000 was loaned to him and his wife in June and July of 1932 on your recommendation?

Mr. MARTIN. That seems to be correct.

Mr. GESELL. May I have that file, please? You recommended that loan, did you not?

Mr. MARTIN. I don't recall. Maybe I did; maybe I didn't.

Mr. GESELL. There is a letter here dated July 11, 1932, signed by yourself, to Mr. Woods, saying that you were—

enclosing trust deed executed by John C. Temple and his wife securing a note also herewith enclosed in the amount of \$10,000. It was necessary to put this through in somewhat of a hurry, and Mr. Sawyer forwarded the check for a portion of the loan, \$4,000. The balance has not yet been paid. These papers have been recorded and certified to by the Chicago Title & Trust Company.

That indicates that you were interested in working on that loan.

Mr. MARTIN. Evidently it does.

Mr. GESELL. Do you recall that, sir?

Mr. MARTIN. I don't recall it very clearly.

Mr. GESELL. You may look at the letter. It is the first below—that is correct, is it not?

Mr. MARTIN. That is correct.

Mr. GESELL. Now the loan is in default as to interest, is it not? None has been received on it.

Mr. MARTIN. That is what this indicates.

Mr. GESELL. Now, I have here in my hand a letter of Mr. Sawyer to you under date of June 17, 1932, in which he says—

I guess I must have misunderstood you on the phone in reference to the Temple loan. I understood that you had discussed this matter with Mr. Woods, but when I told him of sending the check he said he did not know a thing about

it, was somewhat put out that he had nothing to show for the check going out. I saw him again this morning and he said he had not received any papers or information concerning this loan. I thought you should have this information so that you will know the position he has taken.

Do you recall that letter?

Mr. MARTIN. No; I don't recall it. If that is from the file, it is a matter of record.

Mr. GESELL. What were the circumstances under which this loan was made, Mr. Martin? The money seems to have been paid out without following any of the proper formalities and on your recommendation. What can you tell us about it?

Mr. MARTIN. Well, I don't think I recall.

Mr. GESELL. Well now, maybe this will refresh your recollection. Here is another letter to you under date of November 25, 1932, by Mr. Sellman, and reading one paragraph in this letter, he says:

The John Temple loan, made June 14, for \$10,000—

This is November, and it was made in June—

has interest due on December 14th. We do not have information as to Mr. Temple's address for the purpose of mailing interest notes. In this connection, the files are short the following papers: 1, application for loan; 2, title policy; 3, appraisal; 4, receipt for the money.

Now, I submit that you seem to be the only person that would have any information on this loan, and I would like you to explain it to us.

Mr. MARTIN. Well, I don't recall.

Mr. GESELL. Those letters are from the file, are they not?

Mr. MARTIN. I presume they are. They seem to be.

Mr. GESELL. What beneficial interest, if any, did you have in that loan, Mr. Martin?

Mr. MARTIN. I don't recall that I had any beneficial interest in it.

Mr. GESELL. You would recall if you had a beneficial interest, I should think, and I would expect a rather definite answer on that one way or the other. Did you have an interest in that loan?

Mr. MARTIN. I don't know whether I did or not. I may have had. What is the security that is on there? I mean, what is the property?

Mr. GESELL (reading):

The East 10 feet of Lot 27 and all of Lot 28 in middle tier of Oakenwald subdivision of part of the N. E. fractional quarter of Sections 34, Township 39, north, range 14, east of the third P. M.—

is what is shown on the title record.

Mr. MARTIN. I think that is a piece of property that I sold to Mr. Temple.

Mr. GESELL. Well then, you sold this property to him and then financed the mortgage loan on it so that he could pay you for it, is that correct?

Mr. MARTIN. In part.

Mr. GESELL. To the amount of \$10,000?

Mr. MARTIN. To the amount of \$10,000.

Mr. GESELL. Now, the Illinois Bankers Life Association also loaned Mr. John P. Nichol \$18,000 on July 3, 1929, did it not?

Mr. MARTIN. Yes.

Mr. GESELL. In accordance with that loan record I show you?

Mr. MARTIN. Yes.

Mr. GESELL. Was that in your recommendation?

Mr. MARTIN. I think so.

Mr. GESELL. What interest did you have in that loan?

Mr. MARTIN. I don't think I had any interest—

Mr. GESELL (interposing). That was made right at the time?

Mr. MARTIN. It was back—this was made back in September.

Mr. GESELL. And you had no interest in that?

Mr. MARTIN. I don't think I did.

Mr. GESELL. What is the condition of that loan at the present time? Has there been any—I beg your pardon!

Mr. MARTIN. The land had been conveyed for the collections of loans.

Mr. GESELL. This purports to be the loan card, and there is no record of that on here.

Mr. MARTIN. Well, the income—

Mr. GESELL (interposing). How recently was that?

Mr. MARTIN. Well, I think it was made just within the last few—during the last few weeks. I can't give you the exact date.

Mr. GESELL. And involving interest and principal?

Mr. MARTIN. Yes; involving interest and principal.

Mr. GESELL. And did you have any interest in the property which was placed against this collateral?

Mr. MARTIN. I don't think so. I knew about it, however.

Mr. GESELL. Now, you say that you did know whether you had anything to do with recommending this loan, the first in the file?

Mr. MARTIN. I don't think I said—

Mr. GESELL (interposing). Oh, I beg your pardon.

Mr. MARTIN. I think I recommended the loan. I regarded it as a very good one.

Mr. GESELL. Now, the Illinois Bankers Life Association loaned \$2,500 to Mr. W. R. Baker, did it not?

Mr. MARTIN. Yes.

Mr. GESELL. Do you recall having seen that memo, which is the first memo in that file?

Mr. MARTIN. Yes.

Mr. GESELL. What is the date of the loan, Mr. Martin?

Mr. MARTIN. Well, the date given on the loan register is May 5, 1932.

Mr. GESELL. May 5, 1932?

Mr. MARTIN. Yes.

Mr. GESELL. Well, now, the memo which you say you recall having seen is dated April 9, 1932—just prior to the loan—and is a memo from yourself to Mr. Woods, bearing your initials, is that 'not correct?

Mr. MARTIN. That is correct.

Mr. GESELL. The memo states—

I am handing you herewith the letter of Captain Baker with regard to a mortgage on his house in Topeka. I wish you would look into this and if there is any way we can accommodate him, I would be very glad to do so. He has done a lot of good work for us and he is ready at all times to go to the front on our affairs in a very helpful way. I would suggest that you write him and get a line on the proposition and then see what can be done.

Mr. MARTIN. I think Mr. Woods then went out and inspected the property personally.

Mr. GESELL. Interest and principal payments have been made on that loan, have they not?

Mr. MARTIN. I think so. I think the loan has been paid.

MR. GESELL. Now, do you know Mr. George F. Ramer?

MR. MARTIN. I did know him.

MR. GESELL. Who was he?

MR. MARTIN. He was an officer of the Illinois Life Insurance Co. and an officer of some other corporation and finally became Treasurer of the Illinois Bankers Life.

MR. GESELL. And was he also in any way connected with the Trust Co. of Chicago?

MR. MARTIN. I think he was.

MR. GESELL. Now, this record indicates that there was a loan made to him of \$12,500 on August 12, 1930; do you recall that loan?

MR. MARTIN. I do.

MR. GESELL. May I ask whether you had any interest in that loan?

MR. MARTIN. I did not.

MR. GESELL. I want to call your attention to a letter dated August 8, 1930. Do you recall having written that letter to Mr. Sawyer?

MR. MARTIN. Yes; I think that is my letter.

MR. GESELL. Now, was Mr. Ramer connected with the Illinois Life Insurance Co.?

MR. MARTIN. He was connected with the Illinois Life Insurance Co.; yes.

MR. GESELL. An auditor?

MR. MARTIN. As a—yes; he had that office.

MR. GESELL. And I believe you testified already that you were connected with that company?

MR. MARTIN. Yes; I was connected with it.

MR. GESELL. Well, now, this letter signed by yourself, written to Mr. Arthur T. Sawyer under date of August 8, 1930, reads [reading "Exhibit No. 1348-50"]:

A matter has just come up which I will have to ask you to look after. Mr. George F. Ramer, the Auditor of Illinois Life Insurance Co., is desirous of making a loan on a residence in Woodlawn, Chicago, to the amount of \$12,500. As he is an officer of the company, it is better that the loan not be made here. I, therefore, told him that we would handle the matter on a 6-percent basis. I am well acquainted with the property and it is well worth twice the amount of the loan.

I will call you up Tuesday morning and arrange about the getting of the check.

I would write Mr. Woods but, as he will be absent, I will have to ask for your assistance.

I wish to offer this letter for the record.

The VICE CHAIRMAN. Did you read the entire letter?

MR. GESELL. Yes.

The VICE CHAIRMAN. Then I think it may be admitted in its entirety.

(The letter referred to was marked "Exhibit No. 1348-50" and appears in full in the text on p. 6899.)

MR. MARTIN. May I comment there?

MR. GESELL. Certainly.

MR. MARTIN. He refers there to being an officer of the Illinois Life Insurance Co., and for that reason, he was making the loan, or it was desired to make the loan from the Illinois Bankers Life Assurance Co. He was not an officer of the Illinois Bankers Life Assurance Co. at that time.

MR. GESELL. At that time?

MR. MARTIN. At that time.

Mr. GESELL. But you who were interested in both companies made the suggestion that the loan be made from the Illinois Bankers because this officer of the Illinois Insurance Co. should have made the loan there?

Mr. MARTIN. What do you mean that I was interested in both companies? I never had any interest in the Illinois Life. I was employed by that company as general counsel, but I never had any interest in it.

Mr. GESELL. Well, that is what I meant by interest.

Mr. MARTIN. Well, just so we have it clear.

Mr. GESELL. That is what I meant; you were interested as one of the employees in it.

Mr. MARTIN. That's right.

Mr. GESELL. Now, do you recall that there was a loan made in March of 1930 in the amount of \$45,000 by the Illinois Bankers Life to Francis Zurawski?

Mr. MARTIN. Yes.

Mr. GESELL. And Mary E. Zurawski and Helen Z. Martin?

Mr. MARTIN. Yes, sir.

Mr. GESELL. Who is Helen Z. Martin?

Mr. MARTIN. She is my wife.

Mr. GESELL. And I believe you said that these Zurawakis were sisters-in-law?

Mr. MARTIN. That's right.

Mr. GESELL. Did you have any beneficial interest in that loan?

Mr. MARTIN. I don't think so. I didn't—at least, these were quite close to me—

Mr. GESELL (interposing). The loan is in default and no interest has been paid, is that not correct?

Mr. MARTIN. Yes. The loan is now in default; the interest has been paid, however.

Mr. GESELL. According to this record, not since August 23, 1931.

Mr. MARTIN. Well, I don't know what the date of it was.

Mr. GESELL. As to interest and principal.

Mr. MARTIN. As to interest and principal; yes.

Mr. GESELL. Now, do you recall that a loan of \$9,000 was made to Mr. J. H. Brady and May C. Brady in March and April of 1935?

Mr. MARTIN. Yes; about that time.

Mr. GESELL. Well, now, who was Mr. Brady?

Mr. MARTIN. J. H. Brady is a lawyer of Kansas City, Kans., and I think was a former partner of Mr. Henning.

Mr. GESELL. He was instrumental in helping your company to get the license in Missouri, was he not?

Mr. MARTIN. Yes; I think he did do some work for us on that.

Mr. GESELL. Now, that loan was made back in 1935, according to the record, and was in default as to both interest and principal?

Mr. MARTIN. Yes; that is right.

Mr. GESELL. Was it not a fact that no interest was ever received on that loan?

Mr. MARTIN. I don't know.

Mr. GESELL. Is that not correct?

Mr. MARTIN. Well, that appears to be the record; yes.

Mr. GESELL. What is your understanding of the circumstances surrounding that loan?

Mr. MARTIN. Well, it is a loan that was made after the property had been appraised and, well, it seemed well secured.

Mr. GESELL. Have you made any attempt to—

Mr. MARTIN (interposing). Oh, yes; and Judge Brady has finally arranged to take up that loan and make a new loan secured by 800 acres of land.

Mr. GESELL. Well, now, did you make any attempt to collect interest right along as it defaulted?

Mr. MARTIN. Well, we knew somewhat about the circumstances of the judge, and we didn't want to take over the property, and we tried to get it worked out. He finally arranged to do this.

Mr. GESELL. You—

Mr. MARTIN (interposing). In the interval of the last few weeks, it has been agreed upon.

Mr. GESELL. You seem to have been cleaning up some of these loan accounts just recently, since our investigation started.

Mr. MARTIN. Oh, no; we have been working on that all the time. That isn't a fair statement.

Mr. GESELL. Mr. Martin, your company, the Illinois Bankers Life Assurance Co., was interested in the Monmouth Trust & Savings Bank of Monmouth, Ill., was it not?

Mr. MARTIN. Yes; we had a stock interest, and still have a stock interest in that company.

Mr. GESELL. You held 223 shares out of approximately 1,250 outstanding as of December 31, 1932, according to your own annual convention form statements, representing—

Mr. MARTIN (interposing). That is correct.

Mr. GESELL. Representing an investment of approximately \$59,000?

Mr. MARTIN. Yes, sir.

Mr. GESELL. You also had on deposit in the bank, did you not, as of that period, \$287,064?

Mr. MARTIN. I don't know. At that time we handled all of our banking business in Monmouth, through that one bank. The stock, I think, had been originally secured by the assessment association. I don't think that the stock—legal reserve company—ever bought any of the stock of that company.

Mr. GESELL. It was taken over on the reinsurance?

Mr. MARTIN. It was taken over on the reinsurance, yes, sir. It was one of the assets of the association.

Mr. GESELL. Mr. Woods was chairman of the board of the Monmouth Trust & Savings Bank, was he not?

Mr. MARTIN. Well, I think we wanted him—we asked him to be chairman of the board in order that our interests might be properly looked after.

Mr. GESELL. Some of the officers had individual investments in that bank?

Mr. MARTIN. I don't recall.

Mr. GESELL. Individual shareholders of stock?

Mr. MARTIN. I know that I didn't, and I don't recall that any did.

Mr. GESELL. Now, am I correct in saying that at the time of the bank moratorium the affairs of the bank became involved, and it was necessary for the insurance company to make some sacrifice in order to save the bank?

Mr. MARTIN. We did pay some money. There was an assessment made there, yes.

Mr. GESELL. Well, you also entered into an arrangement adjusting your account, did you not, after a hearing?

Mr. MARTIN. We took a deferred deposit, I think it was. We didn't relinquish any assets, however.

Mr. GESELL. You took some mortgages, did you not, Mr. Martin?

Mr. MARTIN. We took some mortgages of the bank, yes.

Mr. GESELL. In return for what?

Mr. MARTIN. To cover a portion of our deposits.

Mr. GESELL. Instead of drawing out the money, you took some of the mortgages off the bank's hands?

Mr. MARTIN. Yes; I think so.

Mr. GESELL. And, in addition, you took the deferred deposit?

Mr. MARTIN. Yes, sir.

Mr. GESELL. That was in order to assist the bank, is that correct?

Mr. MARTIN. Well, we were trying to assist the whole general situation; that was the time when everybody was getting back of the proposition of getting these banks opened.

Mr. GESELL. And you had put considerable money into the bank in the way of deposits in order to save it prior to that time, had you not?

Mr. MARTIN. Well, we didn't want the bank to go down, of course.

Mr. GESELL. That doesn't answer my question, which was: You had been putting money into the bank in the way of deposits prior to that time, in an attempt to save it?

Mr. MARTIN. I don't think so; no; but we did carry large deposits.

Mr. GESELL. Well, now I am reading from a transcript of the hearing in the office of Superintendent of Insurance Palmer on June 5, 1933, re Illinois Bankers Life Assurance Co. Mr. Palmer made this statement:

It is very evident from our association with the situation that the company has put in more money than they would have put in a bank of that size unless they had been interested in the bank, and they put in money on call dates to save the bank and keep it running, and they would not have done that under any proper administration of the life-insurance company, and it certainly won't be permitted during this administration.

Now, that would indicate that he made an investigation to show that you had been putting money in at that time.

Mr. MARTIN. Well, he expressed that opinion, but, of course, you must remember, Mr. Gesell, that we already had a large investment in that bank which we had inherited from the assessment association.

Mr. GESELL. And you were putting in additional funds to save it, were you not?

Mr. MARTIN. Well, I don't know that we were doing that; we were very anxious to save the bank; yes, sir.

Mr. GESELL. This letter from Mr. Sawyer to you under June 23, 1933, may help to complete the record. I want to ask you whether this was not the final outcome of the arrangements that were made.

Now,—

He states—

in connection with the bank, I want to give you the figures as they now stand. We will take \$41,045 of real estate, we will take \$87,000 of first mortgages, making a total of \$128,045. On top of this, we will take a certifi-

cate of deposit, deferred, of \$50,000, making a total reduction in our deposit liability of \$178,045. We have on deposit \$272,662.45, which will leave us a total deposit after the reductions have been subtracted of \$94,617.45.

I read that only to get your concurrence in the fact that those are the figures of the arrangement which was finally made.

Mr. MARTIN. Well, I presume that is correct, but I couldn't tell from memory that they are. We did do everything that we could to avoid a loss on our own account and to save the bank.

Mr. GESELL. Your difficulty arose from the fact that the insurance company had become so interested in a proprietary way in the bank, and was subsequently—

Mr. MARTIN (interposing). Which we inherited, Mr. Gessell.

Mr. GESELL. Oh, quite, I understand. It was the association's investment.

Mr. MARTIN. Of course, under the law in Illinois, the insurance companies invested in bank stock and it was really at one time highly recommended by the insurance department.

Mr. GESELL. It proved to be inadvisable here, did it not?

Mr. MARTIN. Mr. Gesell, I wish you would tell me any investment that didn't prove inadvisable in a depression such as we have been through.

Mr. GESELL. Well, I was merely suggesting that we have had a lot of testimony here, Mr. Martin, on other occasions with respect to the difficulties which insurance companies have had when they have had investments and mingled their affairs with those of a bank. This would appear to be another illustration of some of the difficulties that arise in that connection.

Mr. MARTIN. My only experience, Mr. Gesell, if you will pardon me for saying so, is that there is no kind of investment that insurance companies have made that hasn't caused difficulties in times like these.

Mr. GESELL. Now, I would like to recall Mr. Woods.

We will be through in a few moments.

Thank you, Mr. Martin.

TESTIMONY OF WILLIAM H. WOODS, FORMER PRESIDENT, ILLINOIS BANKERS LIFE ASSURANCE CO. AND ILLINOIS BANKERS LIFE ASSOCIATION, MONMOUTH, ILL.—Resumed

Mr. GESELL. Mr. Woods, I wanted to ask you about the Listed Securities Corporation. Have you heard of the Listed Securities Corporation?

(The witness nodded.)

Mr. GESELL. What kind of a corporation is that?

Mr. WOODS. A brokerage corporation.

Mr. GESELL. Where are its offices?

Mr. WOODS. Monmouth, Ill.

Mr. GESELL. Who organized the Listed Securities Corporation, Mr. Woods?

Mr. WOODS. David Moffett.

Mr. GESELL. Were you interested in it in any way?

Mr. WOODS. Yes, sir.

Mr. GESELL. To what extent?

Mr. WOODS. Fifty percent.

Mr. GESELL. You had a 50-percent interest in it?

Mr. WOODS. Yes, sir.

Mr. GESELL. It did a general brokerage business, did it?

Mr. WOODS. Yes, sir.

Mr. GESELL. When was it organized; 1931, was it?

Mr. WOODS. I think it was 1931. That is my recollection, but I am not positive about that. I think that is when it was.

Mr. GESELL. Now, can you tell us the nature of the transactions, Mr. Wood, which were had between the Listed Securities Corporation and the Illinois Bankers Life Assurance Co.?

Mr. WOODS. Well, we sold a good many bonds through that source.

Mr. GESELL. Receiving a commission on the transactions?

Mr. WOODS. The company did.

Mr. GESELL. And you had a 50-percent interest in the profits which were obtained from those commissions, did you not?

Mr. WOODS. Yes.

Mr. GESELL. To what did those profits amount?

Mr. WOODS. I couldn't tell you.

Mr. GESELL. Can you give us an estimate of how much they were?

Mr. WOODS. No; I couldn't. The books of the company would show that, but I really wouldn't know.

Mr. GESELL. Was it substantial?

Mr. WOODS. Well, I wouldn't say.

Mr. GESELL. You must have some idea of what it paid.

Mr. WOODS. I would guess it was around three or four thousand dollars.

Mr. GESELL. A year?

Mr. WOODS. No.

Mr. GESELL. During the period?

Mr. WOODS. Yes; that would be my guess of it. I don't know whether that is right or not, but his books would show that.

Mr. GESELL. Now, are you familiar with the details of the transactions as between Illinois Bankers Life and the Listed Securities Co.?

Mr. WOODS. Yes; I think so.

Mr. GESELL. Am I correct in saying that the transactions between the Listed Securities Co. and the Illinois Bankers Life were designed to bolster the portfolio of the insurance company?

Mr. WOODS. I don't know just what you mean by that.

Mr. GESELL. Will you explain the nature of the transactions?

Mr. WOODS. Of course I knew Mr. Moffett and I knew him for a great many years, and bought a good many bonds through him, through Compton & Co., Chicago. I knew him better than any other bond man that I knew, and he was a very capable bond man, as I regarded him, and he was very helpful to the Illinois Bankers Life in their purchases and the sale of bonds.

Mr. GESELL. Well, do you understand the nature of the specific transactions, Mr. Woods?

Mr. WOODS. Well, I don't know just what you mean by that.

Mr. GESELL. Reading the third paragraph of your letter of January 1, 1932, to Mr. Martin, which I have in my hand, you state:

With reference to the bond situation, I have been spending a good deal of time going over the list we have here and have worked out quite a few of our bonds into Listed Securities, but we have a lot of them yet. The only trouble is just at this time all bonds are at such a low ebb that it just shows such a tremendous loss on our books, while in reality the bonds that we would

have are worth every dollar, and in a good many cases more than the bonds that we own now that we can buy for one-half the money. That is what makes it embarrassing here.

Does that help explain to you what the transactions were?

Mr. WOODS. Well, there were some trades made in those bonds which we thought would be beneficial to the company.

Mr. GESELL. Now, will you explain those trades?

Mr. WOODS. We bought different issues of bonds and sold some issues that we had; we bought those for which we felt there was more chance of advances.

Mr. GESELL. You say—

You see, Hugh, a bond you can buy now at anywhere from \$30 to \$50, and there are just hundreds of them, and they are absolutely worth 100 cents on the dollar at maturity, but where we trade bonds that cost us from 70 to 90 for bonds selling at that price, it shows quite a shrinkage in our bond account so far as our books are concerned, while in reality the bonds you would be holding would be of greater value than the bonds we now hold. I think you can see this situation, and that is the thing that I am trying to get through with just as little shrinkage as possible. I have been continuously working on this thing for at least 6 months.

I gather from that that you were working on kinds of trades which would result in showing a better portfolio condition of the company.

Mr. WOODS. To keep from showing a worse one, I think would explain it better.

Mr. GESELL. To keep from showing a worse condition?

Mr. WOODS. I really think that would be it.

Mr. GESELL. Let's see how you handled it. You have a bond that was selling, let's say, at, oh, \$90, and you would sell that to the Listed Securities Co.

Mr. WOODS. Well, we would sell—the Listed Securities Co. would sell it. That is the way they did with our transactions. They would sell it to some individual or bond company. That is the way they did their trading altogether.

Mr. GESELL. Well now, just a moment. Let's say you had a bond that you could only get 30 for.

Mr. WOODS. Yes.

Mr. GESELL. Would you sell that to the Listed Securities Corporation at thirty or at some higher price?

Mr. WOODS. Well, we aimed to get just as little shrinkage on our bond account as we could.

Mr. GESELL. So the Listed Securities would pay you more than thirty for the bond; is that correct?

Mr. WOODS. They would pay us just whatever they could get for it. They didn't hold these bonds. They didn't have the money to pay for them. Whatever they got for the bonds, that is what we got back for them.

Mr. GESELL. How did you handle the billing back and forth in order to keep the shrinkage out of your portfolio?

Mr. WOODS. We didn't. We had a shrinkage there. You take the whole situation with that Listed Securities proposition; we have a list of them there, a list of the buys and sells in that bond account, and it will show a profit to the company of over \$100,000.

Now, these trades: When a trade was made, there on those bonds—I think there were two or three of them; I don't remember just

how many—they were what we thought was bettering the possibilities of advance in the bonds we bought than there was in the bonds that we held at that time.

Mr. GESELL. I think, Mr. Woods, I had best call Mr. Watts, who handled this trading. Will you step down, please? I think I can make him understand what I am trying to get out.

The VICE CHAIRMAN. Do you solemnly swear that the testimony you are about to give in this proceeding will be the truth, the whole truth, and nothing but the truth, so help you God?

Mr. WATTS. I do.

**TESTIMONY OF DONALD W. WATTS, INVESTMENT DEPARTMENT,
ILLINOIS BANKERS LIFE ASSURANCE CO., MONMOUTH, ILL.**

Mr. GESELL. What is your full name, please?

Mr. WATTS. Donald W. Watts.

Mr. GESELL. What is your connection with the Illinois Bankers Life?

Mr. WATTS. I am in the investment department.

Mr. GESELL. How long have you been there?

Mr. WATTS. Since '20.

Mr. GESELL. Will you explain to us the nature of the transactions which the Illinois Bankers Life Assurance Co. had with the Listed Securities Co.?

Mr. WATTS. At the time, I think now you are probably referring to the trades along about 1932, is that correct?

Mr. GESELL. Yes.

Mr. WATTS. Well, at that time I think the question was that we would probably take bonds that were in default, municipal bonds that probably were on the books at par, and we wanted to get those traded into bonds that weren't in default, principally utilities and rails that were paying interest, and we thought had more chance to make a recovery.

Mr. GESELL. You mean, you had bonds which were in default in the portfolio of the insurance company?

Mr. WATTS. Correct.

Mr. GESELL. And you wanted to get those out and get in bonds that weren't in default?

Mr. WATTS. That's right.

Mr. GESELL. Why did you want to do that?

Mr. WATTS. I imagine for income purposes.

Mr. GESELL. Was that because you could value bonds that weren't in default at par in your convention form statements, whereas if the bonds were in default you couldn't so value them?

Mr. WATTS. We would have to carry them at convention value, the defaulted bonds.

Mr. GESELL. So that you might have two \$100 bonds, each having a market price, let's say, of \$30, one in default and one not in default. Your portfolio would be the same, but if you could have the one which was not in default you could carry it at the full par value in your annual convention form statement.

Mr. WATTS. Well, yes, sir; either that or the amortized value.

Mr. GESELL. So that you were anxious to get the defaulted bonds out of the portfolio and substitute for them bonds not in default.

Mr. WATTS. That angle would apply in one respect; yes.

Mr. GESELL. All right. Now, how did you go about doing that?

Mr. WATTS. I think the basis of most of those trades, so far as the book end is concerned, were based on the book value of the outgoing bonds.

Mr. GESELL. Well, you said you had a bond which was in default, and you sold it to Listed Securities for \$30 a bond. How would you show on your books the price that you had gotten for that? Would you show that you had gotten the par value or that you had gotten \$30?

Mr. WATTS. I believe back in 1932, along in there, instead of handling it on our books and indicating they were direct trades, we would show them as purchases and sales when as a matter of fact they were trades, and it might be, if I recall it, we would carry them on the books at around 80, for example, when the actual value was 50, and we were taking a bond, for instance a rail, that at that time was worth about what the market value was of the outgoing bond and we might—I think the method used was to write up the invoice of the outgoing bond, they paid us accordingly and wrote an invoice on the incoming bond. In other words, it was the same procedure as if it was handled as a trade, which as a matter of fact it was.

Mr. GESELL. What do you mean by "write up the invoice?"

Mr. WATTS. Well, just that. Just that, exactly.

Mr. GESELL. Well, now, let me see if I can take you through this. You have a bond which you sell for 30. You show you have gotten the book value, 80, on that bond, when you only got 30. Is that the first step?

Mr. WATTS. I believe that is correct.

Mr. GESELL. And then Listed Securities Corporation would buy a bond with the proceeds of the bond you have sold, or with the 30, is that right, and sell it back to you at the 80. Is that the way it went?

Mr. WATTS. Well, I don't believe I understand.

The VICE CHAIRMAN. The first step was to sell the bond for 30, but invoice it at 80 in this hypothetical situation. The Listed Securities would sell the bond and get 30, because that is the market value. What would they do with the \$30, buy a bond?

Mr. WATTS. Well, we bought the bonds from Listed as incoming bonds. It might have been involving a particular exchange of securities. Understand, most of the outgoing bonds were municipal bonds of Texas.

The VICE CHAIRMAN. But this hypothetical bond was transferred to you by Listed Securities and sold by your—

Mr. WATTS. Those trades were handled on a cash transaction.

The VICE CHAIRMAN. And they did use the securities to buy another bond for \$80.

Mr. WATTS. They wrote them up.

Mr. GESELL. What was the result of that on the portfolio of the company?

Mr. WATTS. Well, the result was—let me explain it to you in this respect. I think I should say this. In the book of valuations, I think you will agree with me that the conventional valuations were much more optimistic on municipals than they were on rails or any other.

Mr. GESELL. I am not trying to give you the merits of convention valuation. I want to find out how you handle these trades, Mr. Watts. It is a very simple matter, isn't it?

Mr. WATTS. I think it is.

Mr. GESELL. I should hope that between you and Mr. Woods, no matter how I fumble on it, you should be able to explain to me what you did. [Laughter.] If you sell a bond for 30, and show that you get 80 for it, and then with the 30 the Listed Securities buys you a bond and invoices it to you at 80, the result of that is to show a much better condition in your portfolio than actually existed.

Mr. WATTS. As far as the book rate is concerned?

Mr. GESELL. Yes.

Mr. WATTS. Yes.

Mr. GESELL. Well, isn't that what you were doing in those transactions?

Mr. WATTS. Yes.

Mr. GESELL. Now, I have been doing all the testifying, Mr. Watts, not you. Why don't you tell us a little about it yourself? Let me give you this complete trading here in your own handwriting, and with that before you, see if you can't explain it to us. This is a work sheet I hand you.

Mr. WATTS. That was a trade on these Northwestern Public Service bonds. The result of this was that the bonds that went out for trade and the bonds that came in, the adjustment as far as the books were concerned, were all based on the book value of the outgoing bonds, subject to any adjustments on the interest.

Mr. GESELL. I'd like you just to explain the transaction to us, if you can, in detail. How many bonds there were, what book value they had, what you sold them for, what you got back, at what price you got it back, and how you showed it on the books? Just A-B-C stuff, now, and see if you can't go through that for us so we will understand it.

Mr. WATTS. Here are 5,000 New England Powers that went out on a book value of \$4,760.57. In view of that, we took a like amount of Northwestern Public Service fives, par value five thousand, book value forty-eight, seventy-six, sixty-eight, at date of acquisition. Now, there is very little difference between the book value of outgoing bonds and the cost or book value of the bonds coming in, insofar as our book end is concerned.

The market value, according to the invoice of the New England Powers, which went out, was the price of sixty and interest. The market value of the Northwestern Public Service coming in was sixty-one and three-quarters, or a difference of one and three-quarters points, plus the adjustment, or minus the adjustment of interest. In this event, the net amount due the Listed Securities was \$94.48.

Now, to get back to the work sheet. In arriving at that, I believe it was our custom in those days, starting off with the book value of outgoing bonds, and making an adjustment of the interest paid on the new bonds coming in, in this particular trade the bonds that went out even carried it. We did probably write it up a little to take advantage of the outlay in cash, which only amounted to \$94.48.

Mr. GESELL. Do you recognize this sheet that I show you as a recapitulation of the purchases of bonds made from Listed Securities on this basis for the year 1932?

Mr. WATTS. I assume it is.

Mr. GESELL. You have seen it before, haven't you. Or have you?

Mr. WATTS. It has been a long time, if I have.

Mr. GESELL. Do you recognize it?

Mr. WATTS. This is from the department of insurance, Springfield.

Mr. GESELL. Do you recognize it?

Mr. WATTS. Well, I believe I do.

Mr. GESELL. You don't believe you do?

Mr. WATTS. I do.

Mr. GESELL. Did you prepare it?

Mr. WATTS. I don't recall.

Mr. GESELL. It was prepared from your records, was it not?

Mr. WATTS. I think so.

Mr. GESELL. Now, do you understand that recapitulation there for the year 1932?

Mr. WATTS. Will you state your question again, please?

Mr. GESELL. I want to know whether you recognize this, first of all, as coming from the books and records of the Illinois Bankers.

Mr. WATTS. This I believe, is a part of the State department's, is it not?

Mr. GESELL. Did they prepare it from the books and records of the company, Mr. Watts?

Mr. WATTS. I assume they did.

Mr. GESELL. Well, do you know? In other words, can you testify from it as to what the transactions were in 1932 both on the purchase and sale side?

Mr. WATTS. Well, I assume that this is a schedule prepared by the department; yes; regarding the purchases and sales of 1932.

Mr. GESELL. What does it show for the purchases and sales of 1932, the recapitulation on each trade?

Mr. WATTS. I don't believe I understand your question completely.

Mr. GESELL. It is all right, Mr. Watts; thank you.

Mr. Sellman, can you take the stand, please?

TESTIMONY OF H. G. SELLMAN, ACTUARY, ILLINOIS BANKERS LIFE ASSURANCE CO., MONMOUTH, ILL.—Resumed

Mr. GESELL. Mr. Sellman, can you explain this to us?

Mr. SELLMAN. I will try.

Mr. GESELL. All right, sir. Mr. O'Connell has an appointment in 3 minutes, and I think that is just about all we need to get this finished.

Mr. SELLMAN. Well—

Mr. GESELL (interposing). If you can work from the recapitulations on that schedule before you, I believe that will give the information in the quickest way.

Mr. SELLMAN. Let me see if I can't explain the thing as I understand it. Our desire at that time was to improve the bond portfolio; in other words, to trade out the bonds which were in default and to replace them with bonds which were not in default. These trades were handled on the basis of the value at which the company was carrying the old bonds at the time of the trade, and the new bonds were put on the books at the same value as the bonds which were traded out, and that was the basis on which they would bill both ways, to and from the Listed Securities Co. We later changed

our practice and made the same type of entry, but the bills to and from Listed Securities Co.

Mr. GESELL. Now, can you give us a recapitulation of the result of those trades for 1932, first, on the purchase side?

Mr. SELLMAN. I don't know anything about this schedule. I don't—

Mr. GESELL (interposing). Do you recognize this letter?

Mr. SELLMAN. Yes, sir. These figures are based, I think, on the examination report.

Mr. GESELL. That is it right there.

Mr. SELLMAN. Is this what you want?

Mr. GESELL. That letter that I have just shown you was the letter with which the schedule that you have before you was passed?

Mr. SELLMAN. I see. This is the schedule referred to in here.

Mr. GESELL. That is right.

Mr. SELLMAN. I see.

Mr. GESELL. Can you give us the net result of these transactions, please?

Mr. SELLMAN. Page 148 of the schedule submitted by the Insurance Department of Illinois shows the excess price paid by the company over quotations on bonds purchased of \$96,291.35, and on the bonds sold the excess that the company received over the quotation of \$64,663.65.

Mr. GESELL. Or a difference of how much? Well, we could make the computation.

Mr. SELLMAN. Just the difference between the two, approximately \$33,000.

Mr. GESELL. That difference was the difference in the write-up of the portfolio of the insurance company which resulted from the transactions. Is that not correct?

Mr. SELLMAN. No; I think that is not correct. I believe that that is the difference in adjustments because of cash payments which we made in the adjustments in the accrued interest. I think there was no write-up in the value of the bonds themselves.

Mr. GESELL. Well, I think we must conclude. We will take this up again in the morning for a few minutes to clarify it. I think that we can excuse Mr. Watts, Mr. Sawyer, and Mr. Woods tonight.

The VICE CHAIRMAN. Fine.

(The witnesses Messrs. Watts, Sawyer, and Woods were excused.)

The VICE CHAIRMAN. The meeting will stand in recess until 10:30.

(Whereupon, at 4:30 p. m., a recess was taken until Friday, December 22, 1939, at 10:30 a. m.)

INVESTIGATION OF CONCENTRATION OF ECONOMIC POWER

FRIDAY, DECEMBER 22, 1939

UNITED STATES SENATE,
SUBCOMMITTEE OF THE TEMPORARY
NATIONAL ECONOMIC COMMITTEE,
Washington, D. C.

The subcommittee met at 10:35 a. m. pursuant to adjournment on Thursday, December 21, 1939, in the Caucus Room, Senate Office Building, Mr. Joseph J. O'Connell, vice chairman of the subcommittee, presiding.

Present: Messrs. O'Connell (vice chairman), and Brackett.

Present also: Harry J. Daniels, representing the Department of Commerce; Gerhard A. Gesell, special counsel, Arthur J. Leary, investigator, Securities and Exchange Commission.

The VICE CHAIRMAN. The hearing will be in order.

Mr. GESELL. Mr. Sellman, please.

TESTIMONY OF H. G. SELLMAN, ACTUARY, ILLINOIS BANKERS LIFE ASSURANCE CO., MONMOUTH, ILL.—Resumed

Mr. GESELL. Mr. Sellman, are you in a position to clarify the state of the record on the subject of the transactions between the Illinois Bankers Life Assurance Co. and the Listed Securities?

Mr. SELLMAN. I will be glad to try to do so; yes, sir.

Mr. GESELL. Would you just proceed in your own way to explain those transactions for us so that we may have it clear in the record?

Mr. SELLMAN. The bond exchanges with the Listed Securities Co. were made during 1932, 1933, and 1934. These transactions were recorded on the books of the company the same in 1932 and in 1933 and differently in 1934. The manner of billing by the Listed Securities Co. in 1933 was different than in 1932.

In most of these exchanges a group of bonds, some of which were in default, was exchanged for interest-bearing bonds having approximately the same market value.

During 1932 the outgoing bonds were billed to the Listed Securities Co. at the investment value. The investment value is the admitted value at which the bonds are carried in the financial statements of the insurance company. Bonds coming into the insurance company were billed at the same price, that is, the investment value of the outgoing bonds plus or minus any difference in the market values of the bonds. When the bonds acquired had a lower market value than the bonds sold the company received the difference from the Listed Securities Co. Where the acquired bonds had a higher market value than the bonds sold, it paid the difference.

During 1933 the transactions were recorded in precisely the same manner on the books of the insurance company. However, bonds going from the insurance company to the Listed Securities Co., were billed at the market and so also bonds bought by the insurance company from the Listed Securities Co. were billed at the market.

This method of handling the bond trades is set out in my letter to the department of December 4, 1933, and approved by the director of insurance, Mr. Palmer, under date of December 9, 1933.

In the statement of December 31, 1934, the company was required to carry the acquired bonds at the investment value of the bonds sold. That is, bonds in default had to be valued at the convention value. Bonds in good standing were allowed at amortized value.

As the values at which the default bonds could be carried were not determined until after December 31, 1934, the excess of the book value over the market value was deducted as a not admitted asset. The actual book adjustments were not made until 1935.

The bonds exchanged in 1932 were billed to and from the company at investment values and not at the market because it was believed that the bonds acquired would have to be carried at the market and therefore a loss taken. We were mistaken in this view because in the next year the bonds were billed at the market with the approval of the department but we were not required to carry the acquired bonds at the market.

Now, the difference of \$32,637.70 noted in the 1932 report of examination as paid by the company in connection with the exchanges represents the higher market value of the bonds acquired over the market value of the bonds disposed of. It was an additional investment and not a revaluation of bonds or a write-up.

ILLINOIS BANKERS—REWRITING ACTIVITIES OF AMERICAN CONSERVATION CO. OF CHICAGO

Mr. GESELL. Now, turning to another matter, Mr. Sellman, I want to ask you if you recognize these five files which I show you, as files of the Illinois Bankers' Life Assurance Co., relating to the transactions of certain policyholders with that company who were transferred from the assessment association to the legal reserve company?

Mr. SELLMAN. Yes; these are the files of the company in regard to transactions with these particular policyholders.

Mr. GESELL. Turning to the first file, that of Spafford S. Warren, of Sycamore, Ill., will you show us just what the status of that account was on the distribution of the survivorship fund? Do you understand my question?

Mr. SELLMAN. Under policy No. 311908, issued to Spafford S. Warren, the statement of survivorship fund and deferred dividend credits on certificates of loan indebtedness was as follows: On August 22, 1938, the—

Mr. GESELL (interposing). The certificate of loan was how much?

Mr. SELLMAN. The certificate of loan was \$374.44.

Mr. GESELL. How much was the interest which had accrued on that certificate of loan?

Mr. SELLMAN. The interest from August 22, 1930, to August 22, 1938, was \$179.74.

Mr. GESELL. Making a total indebtedness of how much?

Mr. SELLMAN. The total indebtedness was \$554.18.

Mr. GESELL. And what was the amount of the survivorship fund?

Mr. SELLMAN. The survivorship fund was \$160.02.

Mr. GESELL. And what was the amount of the deferred dividend credit to that fund?

Mr. SELLMAN. The deferred dividend credit was \$45.18.

Mr. GESELL. Making allowance for the survivorship fund and deferred dividend credit, what was the balance of the indebtedness on the policy?

Mr. SELLMAN. The balance of the indebtedness on the certificate of loan after credits were applied was \$348.08.

Mr. GESELL. And that was a policy for how much?

Mr. SELLMAN. On a policy for \$1,000.

Mr. GESELL. Now, turning to the file of David B. Landon, of Moline, Ill., which is the next file before you, can you tell us what the balance of indebtedness on certificate of loan on the maturity of that policy was?

Mr. SELLMAN. On policy No. 317112, issued on the life of David B. Landon, the balance of indebtedness on the certificate of loan after credits were applied was \$243.54.

Mr. GESELL. Was that a thousand-dollar policy?

Mr. SELLMAN. This was a policy for \$1,000.

Mr. GESELL. Now the file of Mary Walker, how much was her policy?

Mr. SELLMAN. Policy No. 315960, issued on the life of Mary Walker, was for \$1,000.

Mr. GESELL. And what was the balance of indebtedness after making allowance for the survivorship fund and deferred-dividend credit?

Mr. SELLMAN. The balance of indebtedness on the certificate of loan after credits were allowed was \$327.19.

Mr. GESELL. Now can you take the file of Christian A. Bidlingmaier—B-i-d-l-i-n-g-m-a-i-e r. What was the amount of that policy?

Mr. SELLMAN. Policy No. 314377, issued on the life of Christian A. Bidlingmaier, was for \$2,000 of insurance.

Mr. GESELL. And what was the balance of indebtedness on the certificate of loan after the credits had been applied?

Mr. SELLMAN. The balance of indebtedness on certificate of loan after credits had been applied was \$676.65.

Mr. GESELL. Now, on the last file, that of Larkin Gorsuch, of Industry, Ill., can you tell us what the amount of that policy was, and the amount or the balance of the indebtedness on the certificate of loan after applying the credits?

Mr. SELLMAN. Policy No. 315561, issued on the life of Larkin M. Gorsuch, was in the amount of \$2,000, and the balance of indebtedness on the certificate of loan after credits were applied was \$1,392.09.

Mr. GESELL. So that in this case the policyholders who had gotten this \$2,000 policy on the transfer had protection in the amount of \$2,000 and owed \$1,392?

Mr. SELLMAN. Yes, sir.

Mr. GESELL. They owed that to the company?

Mr. SELLMAN. That's right.

Mr. GESELL. I should now like to read at this time for the record, letters from each of the five policyholders, whose files have just been

discussed by the witness. These are letters from the files, which have been identified.

The first is a letter dated August 17, 1938, written to the Illinois Bankers Life Assurance Co. by Spafford S. Warren, which states [reading from "Exhibit No. 1348-51"]:

In 1930 your high-pressure salesman so explained the plan of reinsurance so that I thought that after the 22nd of this month the policy, which I hold would be worth \$1,000 to my beneficiary at my death. In other words, that the survivorship fund and deferred dividend would be enough to liquidate the loan, and am very much surprised at the status at the present time. Had I have known just what I do now I could have withdrawn from the company at the time of the change in 1930, and taken insurance through our Postal Employees and done much better, but I thought the Illinois Bankers was better than it has proved to be as you have so carefully explained in the letter I have before me.

I will not read the rest of that letter but offer it for the record.

The VICE CHAIRMAN. It may be admitted.

(The letter referred to was marked "Exhibit No. 1348-51" and is included in the appendix on p. 7068.)

Mr. GESELL. A letter from David B. Landen, second policyholder, reads as follows [reading from "Exhibit No. 1348-52"]:

Just returned from a two weeks' trip and had a very pleasant (NOT) surprise when I read your letter and other notices of my indebtedness to you.

My wife and I were told by your agent, Mr. Ralph M. Waterbury, that the note which I signed was merely issued so that I could not draw out the cash value until 7 $\frac{3}{4}$ years, and that the premiums would clear the note if paid in full to Aug. 12, 1938.

Well I suppose there are a lot of other poor dumbbells like myself who signed the note without reading or realizing what they were doing. I would not have changed the policy over if I had known (what I do now).

I feel very much like sending my policy and all that goes with it, and also the information as to how you are working the poor fools on the change of policy plan, thru your false, lying agents.

Well according to you I owe \$243.54—and the cash value is \$476.00—which leaves a balance of \$232.46. Send that and have it over with.

(The letter referred to was marked "Exhibit No. 1348-52" and is included in the appendix on p. 7068.)

Mr. GESELL. The next is policyholder Mary Walker, written under date of August 2, 1938. She states [reading from "Exhibit No. 1348-53"]:

In reply to your letter about my policy being due, I do not care to take out any more Insurance in your company as your agent certainly misrepresented things when I taken out my 20-yr. policy. He made me think I would have a \$1,000 paid-up Insurance on August 2—38 or that I could cash it in for same. thing over \$500 if I wanted two. So therefore I would be afraid to risk any more Insurance in your company. We have skimped trying to keep it payed thinking I had something we could depend on latter. So you can just send me what cash value is on my policy and oblige.

I wish to offer that letter for the record.

The VICE CHAIRMAN. It may be admitted.

(The letter referred to was marked "Exhibit No. 1348-53" and is included in the appendix on p. 7069.)

Mr. GESELL. A letter from Christian A. Bidlingmaier, Winslow, Ill., under date of April 4, 1938 [reading from "Exhibit No. 1348-54"]:

The way I see this situation, is, that March 28, 1938, is the distribution date of the Survivorship Fund and therefore is the settlement date of the policy, policy loan, etc. So then I should be entitled to a paid-up policy for \$2,000.00 less the Net Balance of Indebtedness (\$676.65) or \$1,323.35 without any indebtedness. When settlement is made and indebtedness is paid, it constitutes payment and

I can't see why you should expect me to pay interest on it for the rest of my life. I would be willing to exchange this policy for a paid-up insurance policy on the above basis (\$1,323.35). If that is not possible, please forward blanks for cash settlement.

Please be advised that the signature on photostatic copies of Application for exchange of Policy and Certificate of Loan are not mine. Note the misspelled Christian.

I offer this in evidence.

The VICE CHAIRMAN. It may be admitted.

(The letter referred to was marked "Exhibit No. 1348-54" and is included in the appendix on p. 7069.)

Mr. GESELL. The next letter from Larkin Gorsuch, September 5, 1938, to the Illinois Bankers, states in part as follows [reading from "Exhibit No. 1348-55"]:

In answer to your letter of Aug. 10th regarding my insurance policy, I wish to say that I was in no way responsible for the change that was made in my insurance policy, and I do not see why I should have to stand such a loss as you state in your letter.

I was informed by the man that made the change that the Deferred Dividends and the Survivorship Funds would be ample to take care of the loan and I would get a paid-up policy for two thousand dollars (\$2,000.00) or a good cash value when it was paid up, but instead, it was not enough to take care of the interest.

I offer that in evidence. I will not read any further in it.

The VICE CHAIRMAN. It may be admitted.

(The letter referred to was marked "Exhibit No. 1348-55" and is included in the appendix on p. 7069.)

Mr. GESELL. We have also from the files of the Illinois Bankers a series of additional letters from policyholders concerning their transactions at the time of the rewrite contract. These letters have been selected by our representatives from policy holder files of the company and are offered under an understanding with Mr. Henning and Mr. Becker that there will be no question as to their identification. I submit them in evidence.

The VICE CHAIRMAN. They may be received.

(The eight letters referred to were marked "Exhibits No. 1348-56" and are included in the appendix on p. 7070.)

Mr. GESELL. Mr. Sellman, can you tell us how many letters of the character I have just read the company received?

Mr. SELLMAN. No; I couldn't.

Mr. GESELL. There were a great number, were there not?

Mr. SELLMAN. Well, there were a good many, but the proportion I would say was not large in view of the large number of policies that were outstanding.

Mr. GESELL. There were a considerable number of letters received of the character that have been introduced here, were there not?

Mr. SELLMAN. Yes, sir.

Mr. GESELL. And it proved to be generally true, did it not, that the distribution of the survivorship fund in 1938 was insufficient to take care of the loans made under the certificate of loan?

Mr. SELLMAN. That is correct.

Mr. GESELL. And that therefore if the amount of the loan was set off against the amount of the protection in the policy that protection was less than the face amount of the policy showed.

Mr. SELLMAN. The amount of protection after the twentieth year would be the face amount of the policy less the remaining indebtedness.

Mr. GESELL. Now, Mr. Sellman, there is one other matter I wanted to ask you about. Was it the practice of the company to send a notice to the policyholders asking them to pay the interest due on the loan made under the certificate of loan?

Mr. SELLMAN. Year by year?

Mr. GESELL. Yes.

Mr. SELLMAN. No; no notice.

Mr. GESELL. That interest was just allowed to accumulate?

Mr. SELLMAN. That is correct.

Mr. GESELL. How is that justified or explained?

Mr. SELLMAN. Well, the certificate of loan provided for the addition of simple interest, and the policyholders to pay the premium, that would continue his insurance and they were entitled to deferred credits at the end of the period.

Mr. GESELL. But I am asking for an explanation why you didn't ask him to pay for the interest on the loan when it fell due. Isn't that the way the company handled it?

Mr. SELLMAN. That is the way regular policy indebtedness is handled.

Mr. GESELL. Why wasn't this handled that way?

Mr. SELLMAN. Because they were paying the premium and that was all that was required.

Mr. GESELL. Why?

Mr. SELLMAN. I don't know.

Mr. GESELL. There isn't any real explanation of it, is there? Wouldn't it have been much fairer to the policyholders to permit him to liquidate this indebtedness, keeping the interest down rather than let the whole thing accumulate?

Mr. SELLMAN. It would have been better if he were in position to pay the interest or pay the principle.

Mr. GESELL. Why didn't you give him the opportunity by bringing it to his attention through giving him proper notice?

Mr. SELLMAN. I wouldn't know any particular reason.

Mr. GESELL. You send out notices on other policy loans, don't you?

Mr. SELLMAN. Yes, sir.

Mr. GESELL. Now, one other matter that I didn't cover yesterday. What dividends have been paid by the Illinois Life Assurance Co. to the stockholders since 1929?

Mr. SELLMAN. There has only been one dividend of \$25,000.

Mr. GESELL. When was that dividend declared?

Mr. SELLMAN. 1932 or 1933, I wouldn't be sure.

Mr. GESELL. Has the company paid any dividends to its participating policyholders?

Mr. SELLMAN. Yes.

Mr. GESELL. The deferred dividends?

Mr. SELLMAN. The deferred dividends.

Mr. GESELL. Any other?

Mr. SELLMAN. There are some of those policies on which they had annual dividends and such payments were made to the annual dividend policyholders.

Mr. GESELL. Were those dividends guaranteed under the terms of the policy?

Mr. SELLMAN. No.

Mr. GESELL. How much did those dividends amount to, roughly?

Mr. SELLMAN. I have no information on which I can base an answer on that.

Mr. GESELL. All right. I think it will appear in the convention form statement.

Mr. SELLMAN. Yes, sir.

Mr. GESELL. I have no further questions of Mr. Sellman.

The VICE CHAIRMAN. Thank you, Mr. Sellman.

Are you through with him?

Mr. GESELL. There is just a possibility that we will need him a little later in the day.

Mr. Shimp, please.

TESTIMONY OF HERBERT G. SHIMP, PRESIDENT, AMERICAN
CONSERVATION CO., CHICAGO, ILL.—Resumed

Mr. GESELL. Mr. Shimp, you have been sworn, have you not?

Mr. SHIMP. Yes, sir.

Mr. GESELL. When did you first become interested in the rewriting business, Mr. Shimp?

Mr. SHIMP. About 22 years ago.

Mr. GESELL. And your interest at that time was the result of the need of certain fraternal societies for some kind of a reorganization or rewriting program?

Mr. SHIMP. Yes, sir.

Mr. GESELL. What was the first contract or rewriting contract that you had back about that time?

Mr. SHIMP. The National Union Assurance Society of Toledo.

Mr. GESELL. After that was handled, did you form the International Insurance Service Co.?

Mr. SHIMP. No; during the time that that contract was handled, or was being handled, the International Insurance Service was organized.

Mr. GESELL. For the purpose of handling that contract among other things?

Mr. SHIMP. That and other contracts; yes.

Mr. GESELL. Where was that company incorporated?

Mr. SHIMP. Ohio. It was a fraternal society.

Mr. GESELL. You did rewriting work—I am talking about the International Insurance Service Co.; that was a rewriting organization?

Mr. SHIMP. Oh, yes; that was a declaration of trust—organized under a declaration of trust.

Mr. GESELL. For the purpose of a rewriting company?

Mr. SHIMP. That's right.

Mr. GESELL. Did you also at one time have a company known as the Old Line Service, Inc.?

Mr. SHIMP. That's right.

Mr. GESELL. Is that also a rewriting company?

Mr. SHIMP. That was a company organized for the purpose of handling the rewriting of business in old-line companies upon which there were policy loans or business of old-line companies running on paid-up or extended insurance.

Mr. GESELL. Now, did that company operate in or around Ohio and Chicago, too?

Mr. SHIMP. Its offices were in Chicago.

Mr. GESELL. In 1924, December of 1924, did you sell your interest to Mr. Frank W. Pearson?

Mr. SHIMP. Yes, sir.

Mr. GESELL. Will you tell us the circumstances surrounding the sale of your interest, I take it your interest in the International Insurance Service Co.?

Mr. SHIMP. Yes, sir. The circumstances surrounding it? I don't quite understand what—

Mr. GESELL (interposing). Under what terms did you sell your interest to him?

Mr. SHIMP. I sold my stock with the contract providing that I would not reenter the business for a period of 5 years from December 4—I think it was—1924.

Mr. GESELL. How much did Mr. Pearson pay for the business, Mr. Shimp, or for the stock?

Mr. SHIMP. Well, he didn't pay for it immediately; there was some financing. I think the total amount I received for my stock, which was approximately 60 percent of the stock of the company, was somewhere between \$500,000 and \$600,000.

Mr. GESELL. Did Mr. Pearson operate the International Insurance Service Co. for that period of 5 years?

Mr. SHIMP. No; he did not.

Mr. GESELL. When did it go out of business?

Mr. SHIMP. I think in the year following his purchase he organized Frank W. Pearson, Inc., and took into that corporation the assets of the International Insurance Service Co., and I believe—I am not certain—that the International Insurance Service Co. was dissolved.

Mr. GESELL. Was Mr. Pearson successful in handling this work?

Mr. SHIMP. He had one contract, I think, that commenced during 5 years.

Mr. GESELL. What was that contract?

Mr. SHIMP. The Modern Woodmen of Rock Island, Ill.

Mr. GESELL. Do you know what commissions he received on that?

Mr. SHIMP. I do not.

Mr. GESELL. He then retired, did he, from the business?

Mr. SHIMP. No; I don't think he retired; at least, the present organization or some part of it, his part, whether it was a part of the corporation or not I don't know, handled some work, oh, within the last year.

Mr. GESELL. Well, then, you came back into the business in 1930; is that correct?

Mr. SHIMP. Yes.

Mr. GESELL. With the formation of the American Conservation Co. under the circumstances which we explained yesterday?

Mr. SHIMP. That is correct; yes.

Mr. GESELL. Now, the American Conservation Co. has done rewrite work for companies other than the Illinois Bankers Life Assurance, has it not?

Mr. SHIMP. Yes, sir.

Mr. GESELL. Am I correct in saying that you have rewritten business for fraternal societies and legal-reserve companies as well as for the assessment association?

Mr. SHIMP. Yes, sir.

Mr. GESELL. Can you tell me the volume of business rewritten by the American Conservation Co. down to the present date, or estimate it for us?

Mr. SHIMP. No; unfortunately I am not able to give you that figure. I know the amount that has been handled under my supervision since I went into the business, within approximately \$100,000,000.

Mr. GESELL. About how much was it?

Mr. SHIMP. I would say about \$1,300,000,000 of insurance.

Mr. GESELL. That is in all the time that you have been in the rewriting business?

Mr. SHIMP. That is correct.

Mr. GESELL. That you or the organization which you supervised have rewritten about \$1,300,000,000?

Mr. SHIMP. That is correct.

Mr. GESELL. Now, what kind of organization do you have, Mr. Shimp? I assume it fluctuates in number of personnel with the number of contracts that you have.

Mr. SHIMP. Yes. We have an organization of field men, and these field men at present are, the majority of them, men that have been associated with us, a great many of them, for 20 years or approximately 20 years. Originally these men came from all walks of life, but over the past 15 or 20 years they have been educated in life insurance through schools of instruction which were conducted at regular intervals, through manuals, and through house organs which were issued, and through various publications of our own, including a history which we prepared of life insurance, containing some 850 pages.

Mr. GESELL. How many agents do you have?

Mr. SHIMP. I suppose we have had in the field approximately 350 field representatives.

Mr. GESELL. Now, when these field representatives approach a policyholder to transfer work, do they approach the policyholder as a representative of the American Conservation Co. or just what type of credentials do they present?

Mr. SHIMP. The identity of the American Conservation Co. is not known. We act as an agent of the insurance company and the field men carry a letter of authority issued by the insurance company or the fraternal society over the signature of some one of the officers of the company, designating this representative as a special representative of the insurance company or of the fraternal society.

Mr. GESELL. Must these rewrite men be licensed as insurance agents under the laws of the States in which they operate?

Mr. SHIMP. If they are producing new business it is necessary.

Mr. GESELL. But for strict rewrite work must they be licensed?

Mr. SHIMP. No; not in all States. The majority of the States permit the readjustment of insurance already in force without the licensing of an agent.

Mr. GESELL. So that if you are to confine the activities of your men solely to the activities of transfer work they need not be licensed in most States.

Mr. SHIMP. Yes; but if they write new business or increase the business already in force, then they must be licensed.

Mr. GESELL. How many different companies, Mr. Shimp, have you had contracts with since the American Conservation Co. was formed?

Mr. SHIMP. Well, I would have to count them here. Approximately 25.

Mr. GESELL. About 25 companies?

Mr. SHIMP. Yes.

Mr. GESELL. Is this list which I show you a list of the companies with which you have had contracts?

Mr. SHIMP. Yes, sir.

Mr. GESELL. I wish to offer this for the record.

The VICE CHAIRMAN. It will be admitted.

(The list referred to was marked "Exhibit No. 1348-57" and is included in the appendix on p. 7076.)

Mr. GESELL. Now, Mr. Shimp, I asked you a moment ago the amount of insurance which you had written in the American Conservation Co. since its formation, in other words, from 1930 to 1938, and directing your attention to this schedule which you made available to us, the first column thereof, does that refresh your recollection as to the amount of business which you have written in those years?

Mr. SHIMP. This is probably correct. It is up to 1939.

Mr. GESELL. Yes; it is through 1938. It was furnished by you, was it not?

Mr. SHIMP. Yes; about \$184,000,000.

Mr. GESELL. That means you have handled that much business in the American Conservation Co.?

Mr. SHIMP. That is correct.

Mr. GESELL. What have been the total amount of commissions paid to you for handling his \$183,000,000 of insurance?

Mr. SHIMP. A little over \$4,000,000.

Mr. GESELL. What is the exact figure?

Mr. SHIMP. \$4,004,783.29.

Mr. GESELL. And in accordance with the way your company keeps its books, what has been the net profit to you for handling this amount of business?

Mr. SHIMP. To the American Conservation Co. the profit was \$551,479.86 for the years 1930 to 1938, inclusive.

Mr. GESELL. That schedule gives details of the operations of the company, does it not?

Mr. SHIMP. That is correct; yes.

Mr. GESELL. I would like to offer this schedule for the record.

The VICE CHAIRMAN. It may be admitted.

(The schedule referred to was marked "Exhibit No. 1348-58" and is included in the appendix on p. 7077.)

Mr. GESELL. Now, Mr. Shimp, I next want to ask you what the usual commission arrangements that you have with these companies are. I understood that in the case of the Illinois Bankers, you had a commission arrangement with them which gave you 70 percent of the first-year premiums on business transferred, and 80 percent of the new business commission, 80 percent of the premiums on new business.

Mr. SHIMP. That is correct.

Mr. GESELL. Now, this schedule which I show you reflects other commissions which you have received on business handled in the American Conservation Co., does it not?

Mr. SHIMP. That is correct.

Mr. GESELL. Am I correct in saying that the 70-percent commission of the Illinois Bankers is the highest commission which you have received for rewrite work in the American Conservation?

Mr. SHIMP. No; it is not.

Mr. GESELL. From whom have you received higher commissions?

Mr. SHIMP. The Manhattan Life.

Mr. GESELL. Have the bulk of the commissions been in the neighborhood of from 60 to 70 percent?

Mr. SHIMP. Of course, there is a vast difference between the types of work and the service rendered by our company. That is, in many instances we even write the policy and prepare the policy record cards, and print the policies. Of course, when that work is done, it makes a difference in the commission cost. If we have nothing to do with the writing of the policy, or the preparation of the policy record card or the printing of the policies, the commission is correspondingly reduced. On fraternal society contracts the commission is usually less than the rate for old-line companies, and the reason, of course, is due to the fact that the members are called together in numbers, or arrangements are made for the members to come in to a central point, thereby not requiring the high travel expense of a field representative.

Mr. GESELL. I notice on this that the Illinois Bankers' contract provided a 70-percent commission.

Mr. SHIMP. That is correct.

Mr. GESELL. That the American Insurance Union contract had a 50-percent commission.

Mr. SHIMP. That was a fraternal organization.

Mr. GESELL. It is listed as a legal reserve company.

Mr. SHIMP. It was a fraternal membership.

Mr. GESELL. Pacific States, 70 percent.

Mr. SHIMP. That is correct.

Mr. GESELL. The Manhattan Life had 50 percent plus nine renewals—I suppose that means 9 years—of 7½ percent.

Mr. SHIMP. That is correct.

Mr. GESELL. Life Insurance Co. of America, 65 percent.

Mr. SHIMP. That is correct.

Mr. GESELL. Life Insurance Co. of Detroit, 70 percent.

Mr. SHIMP. That is right.

Mr. GESELL. And two contracts with Gulf States Life from 55 to 70 percent.

Mr. SHIMP. I don't think there was any contract ever operated for more than a few days at 55 percent. That contract was amended, and the commission increased on it.

Mr. GESELL. And do these schedules which I show you give the details of your contracts for legal reserve companies on one sheet and fraternities on the other?

Mr. SHIMP. Yes; they do.

Mr. GESELL. I wish to offer these for the record.

The VICE CHAIRMAN. They will be admitted.

(The schedules referred to were marked "Exhibit No. 1348-59" and are included in the appendix on p. 7078.)

Mr. GESELL. Now, Mr. Shimp, may I ask you how you get your business, how you find out about these companies, how you get your contracts?

Mr. SHIMP. There are various ways of obtaining business, about the same as any commercial business obtains their business. We know who our potential clients are, perhaps better than any other business could possibly know who their clients are.

Mr. GESELL. How do you know who your potential clients are?

Mr. SHIMP. Because we know the names of all old-line and fraternal, and assessment associations, and our clients are limited to those organizations.

Mr. GESELL. Usually it is true, is it not, that a company must be in some degree of difficulty to require your services?

Mr. SHIMP. That is correct. There is no necessity at any time for our services unless a part or all of the business of the company involved is in some kind of difficulty.

Mr. GESELL. Then you must be particularly anxious to find out the names of companies which are in difficulty, because those are the ones that are most likely—

Mr. SHIMP. It is not very difficult for anyone who has been in the business for over 20 years to determine, at least have some idea, as to whether a company or society or association is in difficulty or will eventually be in difficulty.

Mr. GESELL. In the case of the Illinois Bankers', which we discussed yesterday, you paid a commission to Mr. Nichol under a contract which stated that it was in part because of his services in helping you get this particular contract.

Mr. SHIMP. I don't think I stated in part. I think it was in whole.

Mr. GESELL. Well, I stand corrected on that. Do you sometimes give similar commissions to other persons for getting you business?

Mr. SHIMP. I don't think there is more than a month goes by but someone comes to our office and tells us that they can obtain some kind of a contract for us and wants to know if we will pay him a commission in the event that he is successful in obtaining the contract.

Mr. GESELL. And do you on occasions pay such commissions?

Mr. SHIMP. We do; yes.

Mr. GESELL. What kind of people are these people who come to you and say they may be able to obtain a contract for you?

Mr. SHIMP. About half of them are, well, very optimistic to say the least. They have an idea that a situation may arise and attempt to put us into an agreement which might bind us in the event that this particular organization eventually did do business with us, and those types of people we very seldom enter into any contract with.

Mr. GESELL. But with respect to the type you do enter into a contract with, in other words those who are bona fide, what types of individuals are they? Are they officers of the companies themselves?

Mr. SHIMP. They never have been.

Mr. GESELL. They never have been?

Mr. SHIMP. No, sir.

Mr. GESELL. Except in the case of the Illinois Bankers' deal?

Mr. SHIMP. We made no contract with anyone who was an officer of the company.

Mr. GESELL. Do I understand you had no knowledge that Mr. Martin was receiving some benefit on the Nichol contract?

Mr. SHIMP. No, sir.

Mr. GESELL. You had no such knowledge?

Mr. SHIMP. No, sir; I had no knowledge at all, no absolute knowledge that he benefitted, but I had an idea that he was benefitting, and in 1933 I knew definitely that he did benefit.

Mr. GESELL. Did I understand you to say that you never had any other contract at any time with any other officer of a company with which you had a rewrite contract, or a person representing such an officer?

Mr. SHIMP. Well, it would be difficult for me to say whether any person represented anyone. To my knowledge there was never any commission contract made with anyone who represented any officer of any life-insurance company or fraternal society.

Mr. GESELL. Which you rewrote?

Mr. SHIMP. Which we had anything to do with; yes, sir.

Mr. GESELL. Now, who are, generally speaking, the type of people you have entered into contracts with?

Mr. SHIMP. I think you have a list of all the special contracts that we have made.

Mr. GESELL. Perhaps that would be the way to get at this. These are the contracts in this document, are they not?

Mr. SHIMP. Yes, they are; yes, sir.

Mr. GESELL. Now, turning to the first contract, I find you have a contract dated November 15, 1932, with Mr. Raymond T. Smith.

Mr. SHIMP. That is correct.

Mr. GESELL. In which this contract recites that Mr. Smith has agreed to use his best efforts to assist you in getting a contract with the Central Life Insurance Co. of Illinois, Chicago.

Mr. SHIMP. That is correct.

Mr. GESELL. And under the terms of the contract you have agreed to pay him compensation for his services at a sum equal to 5 percent of the first-year premiums paid upon policies in the Security Life Insurance Co., which shall be rewritten into the Central Life.

Mr. SHIMP. That is correct.

Mr. GESELL. Who is Mr. Raymond T. Smith?

Mr. SHIMP. He is vice president of the Alfred M. Best Co.

Mr. GESELL. Alfred M. Best & Co.?

Mr. SHIMP. That is correct.

Mr. GESELL. They are the company which is by far the most prominent company in the insurance business in reporting on financial condition of companies?

Mr. SHIMP. I would say so; yes.

Mr. GESELL. Will you tell us what services Mr. Raymond T. Smith actually performed in this connection to warrant his getting this contract, just how you came to sign it, what all the circumstances are?

Mr. SHIMP. Well, Mr. Smith had been very active in connection with reinsuring the Security Life. I think he had been approached by maybe one or more insurance companies to assist in working out a reinsurance proposal. I am not certain that he was employed by the Central of Illinois, but at least in our opinion could be helpful in obtaining that contract.

Mr. GESELL. In what way? What was his connection with this?

Mr. SHIMP. With the Security Life?

Mr. GESELL. Yes.

Mr. SHIMP. He had no connection with the Security Life or with the Central Illinois.

Mr. GESELL. Then how could he be helpful to you?

Mr. SHIMP. We were convinced he could be helpful for the reason he did represent an outstanding organization that I say he was very active at least in that time, during these receiverships, in obtaining companies who would offer a reinsurance agreement to reinsure any company that was in financial difficulty as was the Security Life.

Mr. GESELL. You mean that Mr. Smith was an officer of Alfred M. Best & Co., was in 1932 engaged in working out all kinds of reinsurance arrangements in the business?

Mr. SHIMP. Yes.

Mr. GESELL. You thought if you gave him this contract he would lend his influence to give you the business?

Mr. SHIMP. That is correct.

Mr. GESELL. Did you get the business?

Mr. SHIMP. Yes, sir.

Mr. GESELL. Approximately how much was paid to Mr. Smith under this contract?

Mr. SHIMP. I can't tell you. I believe you have the figures. I couldn't hazard a guess.

Mr. GESELL. Well, we will come to that in a moment. Is this the contract?

Mr. SHIMP. Yes; that is the contract, a copy of it.

Mr. GESELL. A correct copy, is it?

Mr. SHIMP. Yes, sir.

Mr. GESELL. I wish to offer it for the record.

The VICE CHAIRMAN. It will be admitted.

(The contract referred to was marked "Exhibit No. 1348-60" and is included in the appendix on p. 7078.)

Mr. GESELL. Now, did you have another contract with Mr. Smith dated June 16, 1932, in which you agreed to pay him a similar commission for his work in getting you the contract to rewrite the business of the Chicago National Life Insurance Co. into the Pacific States Life Insurance Co.?

Mr. SHIMP. Yes; sir.

Mr. GESELL. Is this the contract?

Mr. SHIMP. Yes, sir.

Mr. GESELL. I wish to offer this for the record.

The VICE CHAIRMAN. It will be admitted.

The contract referred to was marked "Exhibit No. 1348-61" and is included in the appendix on p. 7079.)

Mr. GESELL. Was that contract given under the same circumstances?

Mr. SHIMP. It was, well, no because of the fact that the Chicago National had already been reinsured by the Pacific States and Mr. Smith was well acquainted with the officers of the Pacific States, the then officers of the Pacific States. I was introduced to them by Mr. Smith and subsequently the contract was made.

Mr. GESELL. It was for his services in that connection that he was paid?

Mr. SHIMP. That's right.

Mr. GESELL. Now, did you have any other written contracts with Mr. Smith?

Mr. SHIMP. No, sir.

Mr. GESELL. Did you have any other verbal understandings or agreements of any kind with Mr. Smith?

Mr. SHIMP. We always had written contracts, with one exception.

Mr. GESELL. You say you always have had a written contract?

Mr. SHIMP. Yes, sir.

Mr. GESELL. And that exception, I take it, doesn't relate to Mr. Smith?

Mr. SHIMP. Not at all.

Mr. GESELL. Well, now, Mr. Smith's organization was reporting on the financial condition of these companies right about this time, too; was it not.

Mr. SHIMP. Well, these companies didn't need any reporting. They were in receivership.

Mr. GESELL. Well, what about the companies doing the reinsuring?

Mr. SHIMP. Yes; they, of course, were reporting on the companies that reinsured the business, but I am quite confident that his connection with the rewriting contract in no manner affected the report made on the company for the reason that in these two cases neither of the companies was recommended by Best at that time or for a number of years thereafter.

Mr. GESELL. Now, the next contract I find here is a contract with Hordes & Kauffman, Inc. Who were they?

Mr. SHIMP. Well, they were general agents for the Securities Life Insurance Co. for the State of Michigan.

Mr. GESELL. Your contract provided that they would get 5 percent for all business exchanged from the Securities Life into Central Life in Wayne County, Mich., did it not?

Mr. SHIMP. And the further provision, I think, that they would work with us in overwriting contracts on the work of our men in the State of Michigan.

Mr. GESELL. Yes; you say, "it is, of course, understood that for this 5 percent you are to cooperate with us and aid us in licensing our men in the State of Michigan."

Mr. SHIMP. That's right.

Mr. GESELL. Is this the contract?

Mr. SHIMP. It is.

Mr. GESELL. I wish to offer it for the record.

The VICE CHAIRMAN. It may be offered.

(The contract referred to was marked "Exhibit 1348-62" and is included in the appendix on p. 7079.)

Mr. GESELL. Now, you say that these people were general agents of the company whose business was being rewritten?

Mr. SHIMP. Yes, sir; they had been general agents at the time—you see, this Security Life was in receivership for some little time and in the interim following the receivership of the Security Life and its reinsurance in the Central of Illinois, this firm became agents for another life insurance company.

Mr. GESELL. Well, then why did you enter into the contract with them?

Mr. SHIMP. To keep them from proselyting all the business they had once written in the Security Life.

Mr. GESELL. You mean that this general agency which had represented the Security Life would, without this contract, have switched

the Security Life policyholders to policies in the new company they were representing and you wanted to switch them under the reinsurance contract?

Mr. SHIMP. We didn't want to twist them; we wanted to retain that business for the benefit of the reinsurance agreement, but what actually was happening in this case, and does happen in nearly every similar case, the agents find it very lucrative to go out and rewrite that business in some other company.

Mr. GESELL. And this contract which you gave them was to prevent them from doing that?

Mr. SHIMP. We were hopeful that it would at least keep them from rewriting all of the business.

Mr. GESELL. Well, there must have been some particularly strong motivating factor that led you to enter into this particular contract?

Mr. SHIMP. It was a very serious situation in Detroit.

Mr. GESELL. And you stepped in to prevent—

Mr. SHIMP (interposing). They had rewritten quite a lot of business prior to the reinsurance of the business by the Central of Illinois and we wanted to save the balance of it.

Mr. GESELL. Now, I next find four different contracts all relating to the reinsurance of the Detroit Life, one with Mr. Fred P. Cory, one with Mr. Arago F. Guck, one with Mr. O. B. La Freniere, and one with Mr. Hildur Stenstrom—

Mr. SHIMP. That is a "Mrs." in that case.

Mr. GESELL. Yes, a Mrs. Hildur Stenstrom. What were the circumstances surrounding the giving of these contracts?

Mr. SHIMP. They were all former general agents of Detroit Life.

Mr. GESELL. And the situation was similar as to the Hordes & Kauffman contract in the case of the Security and Central Life?

Mr. SHIMP. No; not on one or two of those people there. I don't recall La Freniere, a French Canadian in the Upper Peninsula of Michigan; his business was largely with the French or the French Canadians, and he remained a general agent of the Life of Detroit but his services were absolutely necessary in order to conserve that business.

Mr. GESELL. These were again contracts given with general agents of the Detroit Life in order to enable the rewriting of the business and to prevent these general agents dissipating the business elsewhere?

Mr. SHIMP. That's correct. One or two of these agents, I think, were general agents at the time with the Lincoln National Life Insurance Co.

Mr. GESELL. Those are correct copies of the contracts, aren't they?

Mr. SHIMP. They are; yes.

Mr. GESELL. I wish to offer them for the record.

The VICE CHAIRMAN. They may be admitted.

(The contracts referred to were marked "Exhibit No. 1348-63" and are included in the appendix on p. 7070.)

The VICE CHAIRMAN. You say that this gentleman you just referred to, his services were absolutely necessary. You mean that it was necessary that he not do something, rather than he do something?

Mr. SHIMP. Well, it was more of a family group with him. It was a racial group. They were French Canadians and many of them

spoke the language and very little English and his services were necessary.

The VICE CHAIRMAN. The switch, or what you speak of as his service, was in effect an agreement not to compete?

Mr. SHIMP. Oh, no, no! He went out actively with our representatives, these men did, and called on the policyholders, and he assisted them in rewriting this business.

Mr. GESELL. I suppose all the agents or he himself knew the policyholders and these contracts were a way of getting a more effective person to help in the rewriting as well as to prevent the twisting?

Mr. SHIMP. That is correct, and as I say, in the case of Mr. La Freniere, I don't think there was any evidence at the time we made that contract—there was no evidence that he was going to twist this business, although he was an agent for the Lincoln National Life Insurance Co., but I don't think he had written much business at the time this contract was entered into.

Mr. GESELL. Now, in connection with the Detroit Life, I see here next a contract dated March 19, 1936, with Levin, Levin & Dill. This contract is a contract under which you agreed to give commissions to Levin, Levin & Dill. Do you recognize that?

Mr. SHIMP. Yes. That is a correct copy of the contract.

Mr. GESELL. This document should be with it.

Mr. SHIMP. Yes. Well, this is a certified copy of a resolution of our board of directors approving the—

Mr. GESELL (interposing). Approving the full terms of the contract?

Mr. SHIMP. Yes; that is right.

Mr. GESELL. And that contract provides 10 percent, does it not, to Levin, Levin & Dill?

Mr. SHIMP. That is correct.

Mr. GESELL. Of the commissions you are to receive on the Detroit Life rewrite?

Mr. SHIMP. That is correct.

Mr. GESELL. Ten percent of the first year premium or of your commission?

Mr. SHIMP. Ten percent of the first-year premium.

Mr. GESELL. On all business rewritten?

Mr. SHIMP. That is correct.

Mr. GESELL. I would like to offer these contracts in evidence.

The VICE CHAIRMAN. They may be received.

(The documents referred to were marked "Exhibits No. 1348-64" and are included in the appendix on p. 7082.)

Mr. GESELL. Who were Levin, Levin & Dill?

Mr. SHIMP. A firm of attorneys in Detroit, Mich.

Mr. GESELL. Why were they given this contract?

Mr. SHIMP. Well that is quite a long story. Do you want all of it?

Mr. GESELL. Yes; I want it.

Mr. SHIMP. Well, in nineteen hundred and I believe thirty-three it was generally understood that the Detroit Life Insurance Co. was in financial difficulty, and the stock of that financially insolvent life insurance company was owned by the R. F. C. and no attempt was being made by anyone to remedy the situation. I made a trip to Washington and discussed the matter with officers of the R. F. C. on the theory that the stock might have a value which would justify

us to make a commitment to purchase the stock and buy the company. Ninety-eight percent of the stock was in the portfolio of the R. F. C., I think; that is the appropriate figure. I went up to Detroit and took a look at the statement, balance sheet, of the company and made some kind of an inspection of the portfolio and determined that the company was hopelessly insolvent and that there was nothing that could be worked out which would give the stock any value.

Mr. GESELL. The company was still operating at that time?

Mr. SHIMP. It was operating; yes. And further than that it developed that the public were being generally advised that they had nothing to fear about the condition of the company because it was owned by the United States Government. Well, in fact—

Mr. GESELL (interposing). I take it you mean that advice was coming from the agents of the company.

Mr. SHIMP. Well, it was coming pretty generally from everybody, including State officials; probably a natural conclusion to reach, all of the stock of the company being directly in the ownership of the R. F. C. After we discovered that then we had no further interest in purchasing the stock but we felt confident that the day would come when that company would be in receivership and we wanted someone on the ground who would assist in obtaining that contract. We felt a law firm was necessary. We employed Levin, Levin & Dill on a contingency-fee basis, the idea being that while it developed the commission might have been high, 10 percent of nothing is nothing, so if you don't get the contract you are out no money, and they took that gamble and devoted their time from 1933, I believe is the date, down to the time the company was finally reinsured.

Mr. GESELL. Doing what with their time?

Mr. SHIMP. Well, to begin with we submitted a proposal for the Life Insurance Co. of America at Columbus, Ohio. Levin, Levin & Dill, together with our counsel prepared a proposal which was submitted to the Insurance Department of Michigan and finally in 1934, I believe it was, the department appointed a conservator for the business of the Detroit Life in the circuit court of Lansing, Mich., the court of Judge Carr. The court ruled that premiums were to be continued and, in our opinion, they made preferred creditors, that is, they said that any death claims should be paid in full but that anyone that wanted to withdraw any part of their money would have no right to do that. Levin, Levin & Dill contested that action on the theory that these were preferred creditors, that they were making preferred creditors. Finally our proposal to reinsure the business—well, we even arranged to move the offices of the life insurance company to Detroit and were going to make that a part of the consideration, if we could acquire this business of the Detroit Life. And all of the legal detail and all the work in the State of Michigan was done by this law firm. Then finally the Detroit Life was placed in receivership in the Federal court.

Mr. GESELL. By whom?

Mr. SHIMP. By policyholders of the Life Insurance Co. of—by policyholders of the Detroit Life.

Mr. GESELL. Whom were those policyholders represented by?

Mr. SHIMP. Who were their counsel?

Mr. GESELL. Yes; Levin, Levin & Dill?

Mr. SHIMP. I am not certain as to that; they might have been. I think the bill would certainly say.

Mr. GESELL. I am sure it would, I am quite sure it does show that Levin, Levin & Dill represented them.

Mr. SHIMP. Perhaps they did.

Mr. GESELL. Was that part of the services they performed in connection with the receivership in the Federal court?

Mr. SHIMP. Well, there was no idea that the company was to do any receivership in the Federal court, but that is where it eventually wound up. Then the business was reinsured and a new company formed, called the Life Insurance Co. of Detroit. All of those services were rendered by Levin, Levin & Dill, and this contract here, which was made several years prior to the reinsurance of that business—it was for those services the contract was made.

Mr. GESELL. I want to come back to the Detroit Life case a minute, and I want to go on with your contract, first of all. You said a moment ago that there was one exception to your regular arrangement of having written agreements.

Mr. SHIMP. That is true.

Mr. GESELL. What was that contract?

Mr. SHIMP. Central Life of Illinois.

Mr. GESELL. With whom was the contract?

Mr. SHIMP. There never was a contract.

Mr. GESELL. To whom was the special commission paid?

Mr. SHIMP. Oh, no; when I say we had a contract, we never had any rewriting contract with the Central Life of Illinois, no written contract.

Mr. GESELL. Oh, I was talking about the special splits of commission.

Mr. SHIMP. Well, I said—

Mr. GESELL. Were those all in writing?

Mr. SHIMP. All in writing; yes, sir.

Mr. GESELL. Isn't it a fact that Mr. W. R. Baker had an interest in some of these contracts?

Mr. SHIMP. That wasn't in writing, but it is set out in the minutes of our board.

Mr. GESELL. What deals did he have an interest in?

Mr. SHIMP. I think the first one was in the American Insurance Union, at Columbus, Ohio.

Mr. GESELL. Then he had also an interest in the Pacific States, did he not?

Mr. SHIMP. Possibly so. In the Life of Detroit, in the Securities and Central Life. I believe that is the extent. There may be one other, but I am not certain.

Mr. GESELL. What did Mr. Baker do to earn those special commissions in connection with those various transactions?

Mr. SHIMP. Well, our company—you say Mr. Baker, that is not quite a fact because the agreement was with Henning & Baker. We needed a counsel in '31. We made an arrangement with Henning & Baker. They were to do all of our legal work on a contingent fee basis, that contingent fee to be 5 percent on any contracts where they devoted any time or legal work, and they opened an office in our suite of offices, or adjoining our office, for which they paid their rent. Our business was important enough with them that a teletype machine was put in between their Kansas City office and the Chicago office. Our reason for employing them was because, in our opinion, there was no independent firm of life insurance attorneys in the United States that had

as much knowledge of the life-insurance business as did Henning & Baker, and we felt we made a very good deal when we made an arrangement to pay them a 5-percent commission in lieu of any fees or per diem or expenses. They paid all their own expenses.

Mr. GESELL. They had a 5-percent interest in effect, then, in the business, did they not?

Mr. SHIMP. Not in the business; there was no percentage in the business at all, purely this over-writing commission on the business rewritten.

Mr. GESELL. What other business did you do besides rewrite work?

Mr. SHIMP. Well, they had no participation in the profits of the business.

Mr. GESELL. They had a 5-percent interest in all the commissions received?

Mr. SHIMP. That is right; not all commissions but on these certain contracts.

Mr. GESELL. That is the American Insurance Union, Pacific States, Life of Detroit, and Central Life?

Mr. SHIMP. That is correct.

Mr. GESELL. Now, for that commission did they attempt to locate the deals or just give general legal advice, or what was their duty?

Mr. SHIMP. No. They made no attempt to locate any deals. Well, I say no attempt. We would write Mr. Henning or Mr. Baker or perhaps consult with them about some organization that we felt was in need, and if they knew any of the officers or directors they might write them a letter and ask if an appointment could be made so that we could go in and discuss the subject with them.

Mr. GESELL. They did a lot of work with the State insurance department, did they not?

Mr. SHIMP. Quite a bit; yes.

Mr. GESELL. Are you quite certain, coming back to a question I asked you before, that you had no understandings, no agreements, with any of the officers of any of these companies?

Mr. SHIMP. I am quite sure.

Mr. GESELL. You have no recollection of an agreement in the case of the Woman's Bohemian Catholic Central Union case?

Mr. SHIMP. We had no agreement.

Mr. GESELL. Did you propose any agreement?

Mr. SHIMP. No, sir.

Mr. GESELL. Do you recall no instructions at all concerning a 5-percent split in that case?

Mr. SHIMP. No, sir; I don't recall ever having any such conversation.

Mr. GESELL. I still haven't a very clear picture of how you obtain your business, Mr. Shimp. Do you rely to some extent on tips given to you by people in the State insurance department?

Mr. SHIMP. No; we don't need any tips. You can take your fraternal compend and you can turn to the back of it and there is tabulated in the fraternal compend a list of all of the business that is not on adequate rates. Now, eventually, all of that business will either be rewritten or the societies will go in receivership and that business will be gone. With that knowledge, we don't need any tip from anybody. We have a definite knowledge of where to go.

Mr. GESELL. You have a lot of competitors, don't you, Mr. Shimp?

Mr. SHIMP. Well—

Mr. GESELL (interposing). People who are doing rewrite work?

Mr. SHIMP. Well, I don't know, I think perhaps with one exception they all worked for us at one time or another.

Mr. GESELL. I am not getting into the merits of who is the best rewriter in the country. I am asking you if there are other people who do rewrite work who go around the country.

Mr. SHIMP. We don't think we have any competitors.

Mr. GESELL. None whatsoever?

Mr. SHIMP. No, sir.

Mr. GESELL. So there is no need of you getting inside information or advance information which may help you land a particular contract?

Mr. SHIMP. We are quite confident that if we are in a position to present our program to an organization before other action is taken that our services will be employed.

Mr. GESELL. And it is quite satisfactory for you to sit back and wait until the fraternal compendium comes out and then write a letter to the companies with inadequate rates. That just doesn't make sense, Mr. Shimp.

Mr. SHIMP. Well, I don't know, if you were in the contracting business and the Government published a list of buildings that were to be built you wouldn't need anyone to tip you off as to where you could go and make a bid for constructing a building. That is exactly what happens in this insurance business. Here's a list of societies, naming the societies, and the amount of insurance in force, and the statement that is on inadequate rates and that business has been in that condition ever since the society was organized.

Mr. GESELL. Is it through the fraternal compendium list that you find out about the legal reserve companies?

Mr. SHIMP. Legal reserve companies, all of them that we have handled, with one or two exceptions, have been in receivership.

Mr. GESELL. And I gather from your statement, then, that your information concerning these various transactions comes purely from the public records.

Mr. SHIMP. Oh, no; I have already said to you that there isn't a month goes by but what someone comes into our office and occasionally there is someone comes in that points out a situation that we don't know anything about.

Mr. GESELL. Give us a little better idea, then, of who these people are who come into your office. Are they representatives of insurance departments?

Mr. SHIMP. No. On a number of occasions there have been bond men that have come in to call on us. We made one contract with a bond man. These bond men call at the offices of insurance companies and discuss financial problems with the officers of the company, and while a number of them have brought situations to us, only on one occasion has any contract or assistance developed.

Mr. GESELL. Do you recall having seen this correspondence before?

Mr. SHIMP. Yes; I think I saw the correspondence.

Mr. GESELL. Well now, who, may I ask, is Mr. Clair A. Lee?

Mr. SHIMP. A former insurance commissioner of the State of Oregon, I think.

Mr. GESELL. What was his connection with the American Conservation Co.?

Mr. SHIMP. Well, he had an idea that he could get us a contract in Oregon, and I think we either made a tentative agreement with him or a written agreement with him, and we sent him \$200 as a sort of retainer, and then his letters got so wild that—

Mr. GESELL (interposing). You paid him some expense money, didn't you?

Mr. SHIMP. Perhaps we did. If we did, it didn't amount to very much.

Mr. GESELL. He states here in his letter to Mr. Baker of May 3, 1933:

The examination of the Neighbors is going on now. Mr. Valla of the California Department, Examiner, is on the job and Mr. Houston of the Washington, Actuary, is another. Between these gentlemen I should be able to get some inside dope.

That seems to me a little beyond public sources there, Mr. Shimp.

Mr. SHIMP. Well, as far as he was concerned, he was a public source. I don't know where these people get their information.

Mr. GESELL. Mr. Clair Lee was a public source?

Mr. SHIMP. Certainly he was.

Mr. GESELL. Is he cataloged in the Library of Congress? What do you mean a public source?

Mr. SHIMP. Well, he had no official connection with any insurance company or any department.

Mr. GESELL. Oh, so when you said you got your information from public sources, you meant you got your information from any source other than an insurance department?

Mr. SHIMP. No; we have never had any information from an insurance department, except the filed statements of the companies themselves which are a public document, which are available in Chicago at any time that anyone wants to go in and look at them.

Mr. GESELL. Have you employed other ex-insurance commissioners on an expense basis, or any other basis, to help you get at this kind of business?

Mr. SHIMP. I don't think I remember any ex-insurance commissioners except Captain Baker and Mr. Lee.

Mr. GESELL. They are the only two?

Mr. SHIMP. I think so.

Mr. GESELL. What about examiners and other people connected with insurance departments?

Mr. SHIMP. We have never employed an examiner, never paid an examiner a dollar for any services as long as we have been in the business.

Mr. GESELL. What about other people who formerly have been with insurance departments?

Mr. SHIMP. I don't know of anyone.

Mr. GESELL. Do you know Mr. R. R. Haffner?

Mr. SHIMP. Yes, sir.

Mr. GESELL. Who is he?

Mr. SHIMP. At present he is an examiner for the Illinois department.

Mr. GESELL. He is actuary, isn't he?

Mr. SHIMP. I mean actuary.

Mr. GESELL. Been actuary for that department or connected with that department for many years, has he not?

Mr. SHIMP. Well, I don't know how many years. He was formerly actuary for the National Life of U. S. A. I think he went with the department perhaps in '34 or '33, maybe earlier than that, I am not quite sure.

Mr. GESELL. You are quite sure he was in the department in 1933, are you not?

Mr. SHIMP. No; I don't remember the year he went with the department. I know he was with the department in 1933—he might have been; I am not sure.

Mr. GESELL. There is no question about his being in the department in 1933. There was some correspondence in your files with him. You recall that, do you not?

Mr. SHIMP. I don't remember the date. The correspondence would show.

Mr. GESELL. Did you ever pay any money to Mr. Haffner?¹

Mr. SHIMP. We paid expenses to him on one occasion.

Mr. GESELL. How much expense money did you pay to Mr. Haffner?

Mr. SHIMP. I don't recall the amount. It was inconsequential, perhaps something under \$100. It might have been a little over a hundred dollars.

Mr. GESELL. What was the nature of paying him that expense money?

Mr. SHIMP. We were interested in an insurance company and we wanted him to become secretary and actuary of that company. He took a leave of absence from the department, visited the insurance company, and spent, I don't know how much time, a few days, going over the affairs of the company and the proposal for his services, and he finally decided that he didn't want it and he would go back and continue as actuary for the department and his expenses were paid for that trip.

Mr. GESELL. What insurance company was that?

Mr. SHIMP. Life Insurance Co. of Detroit.

Mr. GESELL. And when you say he took a leave of absence, you mean he left the office for a few days?

Mr. SHIMP. That is right.

Mr. GESELL. And you paid his expenses only in that connection?

Mr. SHIMP. That is correct.

Mr. GESELL. Just train fare up to Detroit and back?

Mr. SHIMP. That is correct; and his expenses while he was there.

Mr. GESELL. You would say it was in the neighborhood at the most, I take it, of \$250?

Mr. SHIMP. I don't think it was in excess of that.

Mr. GESELL. It wouldn't have been more than something like that?

Mr. SHIMP. No; I don't think it could have been more than \$100.

Mr. GESELL. Have you ever seen that letter before?

Mr. SHIMP. I assume that I have seen it. It is from our accountants.

¹ See affidavit of R. R. Haffner, entered on February 13, 1940 as "Exhibit No. 2263," and appearing in appendix, p. 7096.

Mr. GESELL. Well, now, this is a letter from Ernst & Ernst, written to the board of directors of your company under date of March 1, 1937, is it not?

Mr. SHIMP. Yes, sir.

Mr. GESELL. Now, directing your attention to the item toward the end of the letter, signed by Ernst & Ernst, Chicago public accountants, does it not say as follows:

In connection with our audit of the accounts of your company for the period from inception to December 31, 1936, we note several disbursements which we desire to call to your attention. Dropping down to 1933, October, check to cash, \$5,000; checks to Currency and H. G. Shimp, a/c R. R. Haffner, \$1,500.

Mr. SHIMP. That is correct.

Mr. GESELL. That seems to me a little more than a hundred dollars. What was that money for?

Mr. SHIMP. None of it ever went to R. R. Haffner, not a dollar of it. You must remember that this audit was completed by Ernst & Ernst in 1937, and it covered all of the years from 1930 to December 31, 1936, inclusive.

Mr. GESELL. This item is under the head of 1933.

Mr. SHIMP. That is correct.

Mr. GESELL. Now, where did the money go?

Mr. SHIMP. Well, I can't tell you where it went; it probably went to my account, as it says there.

Mr. GESELL. Well, how do you account for this check that I show you, American Conservation Co., drawn in the sum of \$250, August 5, 1933, and down in the lower lefthand corner is written, "Haffner—July fee."

Mr. SHIMP. Well, all I can say to you, Mr. Gesell, is that to my knowledge—and I think if any money was ever paid to R. R. Haffner I certainly would know about it—that never a dollar has been paid to Mr. R. R. Haffner.

Mr. GESELL. How do you account for the fact that in the files of your company there was a check drawn to cash bearing the notation "Haffner, fee," for \$250 drawn August 5, 1933?

Mr. SHIMP. I have no way of knowing what notations appear on a check.

Mr. GESELL. You recognize the check, don't you?

Mr. SHIMP. I never made the check and I don't know whether the notation was on the check when it was signed or after it was signed, and have no knowledge about any notation on any check.

Mr. GESELL. Do you recognize this check as coming from the files of the company?

Mr. SHIMP. I recognize my signature on it; yes.

Mr. GESELL. Your signature isn't on it.

Mr. SHIMP. It isn't? Then I never saw it. I never saw the check.

Mr. GESELL. You never saw the check?

Mr. SHIMP. No, sir.

Mr. GESELL. Before this very moment?

Mr. SHIMP. No, sir.

Mr. GESELL. You don't recall having discussed this check with Mr. Leary?

Mr. SHIMP. No, sir.

Mr. GESELL. Did you produce your check stub books in response to subpoena duces tecum?

Mr. SHIMP. No, sir.

Mr. GESELL. Why not?

Mr. SHIMP. Because they were destroyed.

Mr. GESELL. When were they destroyed?

Mr. SHIMP. About 4 or 5 days after your people left our office.

Mr. GESELL. Mr. Leary, will you take the stand, please?

**TESTIMONY OF ARTHUR J. LEARY, ACCOUNTANT INVESTIGATOR,
SECURITIES AND EXCHANGE COMMISSION, WASHINGTON, D. C.**

Mr. GESELL. Did you examine the check stubs of the American Conservation Co., Mr. Leary?

Mr. LEARY. I did.

Mr. GESELL. Did you see on those check stubs any notations indicating money had been paid to a Mr. R. R. Haffner?

Mr. LEARY. Stub books of the Boulevard Bridge Bank of the American Conservation Co.

Mr. GESELL. You mean stub books of checks drawn on the American Conservation on the Boulevard Bridge Bank.

Mr. LEARY. That is correct.

Mr. GESELL. What do they indicate?

Mr. LEARY. Check No. 7621 was charged to 42 account which is an account of special services, on October 18, 1933, for the amount of \$250, with the notation R. R. Haffner. Check No. 7871, Herbert G. Shimp, Ray Haffner, account 42, 11/28/33, \$250.

Mr. GESELL. What was the notation on that one?

Mr. LEARY. Account No. 42, Ray Haffner.

Check No. 6635, account No. 42, which was a special services account in the ledger of the American Conservation Co., R. R. Haffner, April and May 1933, \$500. Check No. 5488—excuse me, that is out.

Mr. GESELL. How much do those total?

Mr. LEARY. I have to refer to my notes a moment, if you will, please. That is \$1,000, the figures I called to you.

Mr. GESELL. Does that include this check of \$250 which I show you, or is that in addition to the thousand?

Mr. LEARY. That is in addition, sir; check No. 7081 which was on the stub book, \$250 which was charged to special services, No. 42 account. This check has a notation on the foot of it, "Haffner, July fee."

Mr. GESELL. Did you subsequently have any interview with Mr. R. R. Haffner?¹

Mr. LEARY. I did.

Mr. GESELL. Did you discuss whether or not he had received any money from the American Conservation Co.?

Mr. LEARY. I did.

Mr. GESELL. What did he say?

Mr. LEARY. I asked Mr. Haffner whether he was ever connected with the American Conservation Co. and he said no. I asked him if he ever received any money from the American Conservation Co. and he said "Yes; and what's more, I received a small amount of money."

I said "Are you sure you didn't receive any additional amount of money?"

¹ In this connection see also affidavit of R. R. Haffner, subsequently entered on February 13, 1940, as "Exhibit No. 2263," and appearing in appendix, p. 796.

He said, "No; I did not." He said, "Have you any proof that I received any money?" I said I did not. "But I did see," I said to him, "a check of the American Conservation Co. which had a notation down in the corner with the name 'Haffner for July fee' on it."

He said, "I never received any money," and he said, "It probably will be a question of my word against Mr. Shimp's word."

I said, "Well, that is up to you, sir."

Mr. GESELL. But he denied having received any money?

Mr. LEARY. He denied, that is right, sir.

Mr. GESELL. When did you speak to him, approximately?

Mr. LEARY. Oh, about 2 weeks ago.

Mr. GESELL. I have no further questions.

I wish to offer this check for \$250 which has been identified.

The VICE CHAIRMAN. It will be admitted.

(The check referred to was marked "Exhibit No. 1348-65" and is included in the appendix on p. 7084.)

Mr. SHIMP. I would like to make a statement for the record, if I may be permitted to.

Mr. GESELL. Certainly, go ahead.

Mr. SHIMP. With reference to these check stubs, when the surveyors of this committee came into our office we didn't ask for any subpoena to show all of the books and records of our company. They were all delivered to them, and they had possession of those books and records for, I would say, approximately 6 weeks. The check stubs and the canceled vouchers were in a sub-basement in a storeroom, and I personally helped dig in the dirt down there and bring them up when they got them, and when they finished with these checks and check stubs, I asked them if they were through with them, if there was anything more they would ever want with them, and they said, "No, you can put them away."

I said, "I am not going to put them away, I'm going to destroy them," and I called our counsel and said, "I am not going to carry this stuff down to the sub-basement. I am going to destroy them."

He said, "Don't destroy anything that isn't 5 years old," and that was the reason for destroying these check stubs. If there had been the slightest idea that this committee wanted them they certainly would never have been destroyed.

Mr. GESELL. Now, Mr. Shimp, how do you explain that the check which has been introduced in evidence and your records which have been destroyed—

Mr. SHRIMP (interposing). Our book records have not been destroyed, Mr. Gesell.

Mr. GESELL. I understood you to so testify.

Mr. SHIMP. Oh, no; our book records have not been destroyed.

Mr. GESELL. I understood you to say that your check-stub book had been destroyed.

Mr. SHIMP. Well, but—

Mr. GESELL. What is your testimony?

Mr. SHIMP. The check stubs were destroyed but the books have not been destroyed.

Mr. GESELL. How do you account for the fact that your check-stub book which has been destroyed bore notations of the name of Mr. Haffner, that this check bears the notation "Haffner, July fee."

Mr. SHIMP. Well, so far as the check stubs are concerned, I have no knowledge of any notation contained on any of them because I never saw any of them at any time except as they were in a box. So far as the check is concerned, I don't think I ever saw that check. I am confident I never saw that check until it was presented to me this morning.

Mr. GESELL. Now, since the investigation commenced, have you had any telephone conversations or other discussions with Mr. Haffner?

Mr. SHIMP. Yes, sir.

Mr. GESELL. When did he call you or when did you call him?

Mr. SHIMP. Well, I didn't call him. I suppose the day that Mr. Leary talked with him, he called me by long-distance phone, and he said: "A man from the S. E. C. has been in to see me. He said he was Mr. Leary, and he tells me that he has obtained from your office a check for \$1,500 carrying my endorsement," and he said, "You know that no such check was ever issued from me or endorsed by me." And I said, "Mr. Haffner, if Mr. Leary told you that, it's an untruth because there could not possibly be any check in our files made payable to you or carrying your endorsement," and that was our correspondence.

I said, "If he has made that statement to you, it is a falsehood because such a check, I know, is not in our files."

Mr. GESELL. Well, now, what is the explanation of all this, Mr. Shimp?

Mr. SHIMP. Well, I don't know.

Mr. GESELL. How is it that Mr. Haffner's name gets on the check stub and on the check?

Mr. SHIMP. Well, when I say to you that I have never seen a check stub, to my knowledge, I would have no way of knowing; I never wrote any checks, I never see the check-stub books or the account books of our company, I couldn't tell you how any name would get on any check stub, and I don't know that there is any name on any check stub.

Mr. GESELL. Well, I showed you the check stub a minute ago, with a notation for Haffner's—

Mr. SHIMP (interposing). Oh, this check undoubtedly carries the notation "R. R. Haffner." I see that. But that is the first time I ever saw that check in my life.

Mr. GESELL. Well, now, who beside yourself is authorized to sign checks on the funds of the American Conservation Co.?

Mr. SHIMP. Well, there have been various officers that have had power to sign checks. The names appearing on that check both had power to sign checks, Mr. F. E. White, the vice president of our company in 1933, and Herman, who was the treasurer of the company in '33.

Mr. GESELL. There can't be any question that the records of your company disclose checks to currency and H. G. Shimp, account R. R. Haffner, \$1,500, can there? Ernst & Ernst called that to the attention of your board of directors in this letter.

Mr. SHIMP. Will you ask that question again?

Mr. GESELL. There cannot be any question that the accounts of your company show checks to currency and H. G. Shimp, account R. R. Haffner, in the amount of \$1,500, can there?

Mr. SHIMP. I don't think there is any record of any kind that makes that statement.

Mr. GESELL. Well, how does Ernst & Ernst, certified public accountants, make that statement in a letter to your board of directors?

Mr. SHIMP. Well, I'll try to tell you how they probably make that statement when I say to you that they were completing in 1937 an audit of our books running from 1930 through 1936, inclusive, and that letter was written almost on the day that Mr. Haffner made the trip to Detroit for the purpose of either accepting or rejecting the job as secretary of that company.

Mr. GESELL. This letter was written about that date? What do you mean by that?

Mr. SHIMP. No; that is a year afterward. It is just exactly about a year afterward.

Mr. GESELL. This says "1933."

Mr. SHIMP. This letter is written in 1937.

Mr. GESELL. That is correct. Ernst & Ernst, accountants, having made an examination of your company for the year 1933, show this \$1,500 item, not in 1937—

Mr. SHIMP (interposing). But they are writing this letter in 1937.

Mr. GESELL. That's right.

Mr. SHIMP. On an examination of records covering 7 years.

Mr. GESELL. And your explanation of it would be that the records have been changed to show account "R. R. Haffner, \$1,500"—

Mr. SHIMP (interposing). No; no; you are putting words into my mouth, Mr. Gesell. I never said that the records have been changed.

Mr. GESELL. I would like to offer this letter for the record.

The VICE CHAIRMAN. It may be admitted.

(The letter referred to was marked "Exhibit No. 1348-66" and is included in the appendix on p. 7085.)

The VICE CHAIRMAN. Regardless of whether this is 1933 or the period from 1930 to 1937, I don't believe we have had any explanation of what appears to be the fact—that is, that there was a payment indicated, of \$1,500, credited to the account of R. R. Haffner. Have you any explanation of that? I mean, this apparently did occur, or did appear in your records.

Mr. SHIMP. All I say to you, Mr. Commissioner, is that there never has been any money paid to Mr. R. R. Haffner, with my knowledge, or checks issued to him by me or drawn by me.

The VICE CHAIRMAN. Have you any explanation of this item?

Mr. SHIMP. None whatever, except what I have already given you, and that is that there is evidently an error in making that audit, covering 7 years and going back at that time 4 years.

The VICE CHAIRMAN. Well, whether it is 7 years or 1 year, the appearance of the name you still haven't explained.

Mr. SHIMP. Well, the only thing I can say is that Ernst & Ernst have confused the expense item and R. R. Haffner's name some way in connection with the item of expense paid to him at the time he went to Detroit in connection with the offer to become secretary and actuary of that company, with an item there that had nothing to do with Mr. R. R. Haffner.

Mr. GESELL. Will you step down a moment, Mr. Shimp, please?

Mr. Baker.

TESTIMONY OF WILLIAM R BAKER, ATTORNEY, KANSAS CITY,
KANS.—Resumed

Mr. GESELL. You have been sworn, have you not, Mr. Baker?

Mr. BAKER. Yes, sir.

Mr. GESELL. Were you associated with Mr. Shimp and Mr. Martin, Mr. Baker, in certain transactions involving the American Insurance Union, commencing in January of 1934?

Mr. BAKER. I was representing the American Conservation Co. throughout the transaction with the American Insurance Union, Inc.

Mr. GESELL. Well, can you tell us what the nature of those transactions were? What part did you and Mr. Shimp, and Mr. Martin play in them?

Mr. BAKER. Well, it involved the reinsurance of the business of the American Insurance Union, a fraternal society, by the American Insurance Union, Inc., a stock company, and the adjusting of the rates of the fraternal society's business in the stock company. The matter to which you have reference concerned the increase in the capital stock of the American Insurance Union, Inc.

As it was originally organized by the officers and directors of the fraternal society, it had a capital of \$100,000. Following the reinsurance, upon execution and approval of the reinsurance contract with the American Insurance Union, Inc., and the contract with the American Conservation Co., with readjustment of that fraternal business, it was necessary to effect an increase in the capital stock of the American Insurance Union, Inc., to \$200,000 in order to comply with the requirements of the statutes of some of the States and obtain admission to those States where the fraternal society had had business before. The additional \$100,000 of capital was offered to the stockholders, the original stockholders, or holders of the original \$100,000 of capital stock, in the stock company. The American Conservation Co. underwrote the increased capital of \$100,000, agreeing to pay for that portion of that stock which was not taken by the original stockholders of the company. I don't know—

Mr. GESELL (interposing). So that gave the American Conservation Co. what interest in the American Insurance Union?

Mr. BAKER. Well, at the end of the period during which the original stockholders had a right to purchase a part of the increased capital, my recollection is that there had been only 55 shares out of 10,000 shares taken by those stockholders. There were 9,945 shares which the American Conservation Co. was obligated to pay for under the underwriting agreement.

Mr. GESELL. And that was, roughly, 50 percent ownership of the company, was it not?

Mr. BAKER. Yes, sir. There were then 20,000 shares issued and outstanding.

Mr. GESELL. Will you proceed, please. Mr. Baker, after they had that interest, how was the American Conservation able to finance it?

Mr. BAKER. My recollection is that in part from the funds of the company, although the Conservation Co. did not have sufficient money.

Mr. GESELL. You were a director of the American Conservation Co. at this time, were you not?

Mr. BAKER. I was not.

Mr. GESELL. Subsequently?

Mr. BAKER. I became a director in October 1934, following the death of one of the—of Mr. Shimp's father, who was a director.

Mr. GESELL. You say the American Conservation Co. did not have enough money?

Mr. BAKER. Didn't have sufficient cash to pay for the 9,945 shares of stock.

Mr. GESELL. Where did it raise the cash?

Mr. BAKER. I had nothing to do with the negotiations directly, but I do know about them. The American Conservation Co. effected a loan from the Illinois Bankers Life Assurance Co. for, my recollection is, \$75,000.

Mr. GESELL. And pledged the shares against that loan?

Mr. BAKER. As collateral, so I understood. The collateral was the stock of the American Insurance Union, Inc.

Mr. GESELL. Was Mr. Martin associated in this venture in any way at this time?

Mr. BAKER. Mr. Martin—of course, at that time at least, he was the general counsel of the Illinois Bankers Life Assurance Co., and he was to receive one-third of the profits to be derived from the sale of the American Insurance Union, Inc., stock purchased by the American Conservation Co., whenever that stock was sold.

Mr. GESELL. What had he done to have that one-third interest?

Mr. BAKER. Nothing that he had done, except as to this loan which was negotiated with the Illinois Bankers Life Assurance Co.

Mr. GESELL. Now, did the American Conservation Co., after it acquired this approximately 50-percent interest, undertake to get a rewriting contract from the American Insurance Union?

Mr. BAKER. That had been obtained before.

Mr. GESELL. That had been obtained before?

Mr. BAKER. Yes, sir.

Mr. GESELL. Did the rewriting contract go through?

Mr. BAKER. Yes, sir; it was executed prior to the amendment to the articles of incorporation, increasing the capital.

Mr. GESELL. Who had control of the management of the American Insurance Union, the Conservation Co., or someone else?

Mr. BAKER. The company was officered largely by the officers of the American Insurance Union fraternal society?

Mr. GESELL. Yes; were they friendly to the American Conservation Co., or did disputes arise?

Mr. BAKER. Disputes arose in connection with the operations of the stock company as well as the fraternal society.

Mr. GESELL. Involving both the operations of the legal reserve company, in other words, and the rewriting of the fraternal policy-holders?

Mr. BAKER. I don't recall that there was so much dispute regarding the work under the readjustment work, but in connection with the handling of the affairs of both the stock company and the fraternal society.

Mr. GESELL. Why had this company gotten into trouble, Mr. Baker?

Mr. BAKER. The fraternal society?

Mr. GESELL. Yes.

MR. BAKER. I can give you my personal opinion. I think the facts, in a measure, bear me out. The fraternal society erected in Columbus, Ohio, an office building which houses in part the Deschler-Wallick Hotel and has an office section that is as I recall, 40 stories high, and the cost to the fraternal society, including the proceeds derived from the first-mortgage-bond issue floated—by, I believe, a trust company—was over \$9,000,000. The bond issue, my recollection is, was over \$3,000,000.

The income from that building was not sufficient to pay the interest on the bond issue, and the assessments paid into the fraternal society by its members was largely used—probably I shouldn't say that, but the difference between the amount necessary to complete the interest on the bond issue over and above the net income from the building could come only from the contributions paid by the members of the fraternal society.

MR. GESELL. How big a society was it at this time?

MR. BAKER. I think the records approximately show \$80,000,000 of insurance in force. They claimed something over a hundred million, but they had forgotten to pull lapsed cards from the records.

MR. GESELL. Now, what was the motivating factor or factors behind the American Conservation Co.'s acquiring an interest in the American Insurance Union?

MR. BAKER. Primarily, in order to permit the admission of the stock company in States requiring \$200,000 capital, so that the work of re-adjusting the business could be carried on.

MR. GESELL. In other words, they wanted to get sufficient control over the company to bring about this capital increase and thus further the rewriting activities?

MR. BAKER. Well—

MR. GESELL (interposing). Or rather, they wanted to make the capital increase to further the rewriting activity, and in so doing, they got a substantial interest in the stock?

MR. BAKER. They acquired the stock; yes, sir.

MR. GESELL. Is that a correct statement?

MR. BAKER. That is a correct statement. I may add it was not with any enthusiastic approval on my part that the stock was bought.

If I may just complete the picture slightly—I don't want to take up too much time—the American Insurance Union Fraternal Society had an unconscionable overhead expense in addition to the loss it was taking every year, because of the ownership of this one asset which constituted practically all of the assets of the society.

Many of those officers, as I say, were officers of the stock company also, and after the stock company began functioning, there continued practically the same practices. The unpaid claims of the fraternal society at the time the stock company began active operations, as I recall, were approximately \$400,000, without funds in possession of the society to pay those claims.

The volume of unpaid claims increased in the fraternal society—increased to almost a million and a half, something over a million four hundred thousand, as I recall. The directors of the stock company, and in that capacity as well as in the capacity of directors or trustees of the fraternal society, repeatedly refused to take any action looking toward a winding up of the fraternal society's affairs and discontinue the acceptance of contributions from the members in

spite of the condition of the amount of the unpaid claims. That was the beginning of our difficulty with those people. They had on the pay roll of the stock company something over 90 employees. Finally, I was elected a director. There was cumulative voting, and the directors were staggered. I was elected a director, and I endeavored—and I am sure the records of the company will show—to compel the turn-over of the affairs of the fraternal society to the Insurance Department of Ohio for liquidation, and I was voted down. That was finally done—I can't remember, in 1934 would be my guess on it—but it continued at least until the claims increased from four hundred thousand to approximately a million and a half.

Mr. GESELL. Can you tell me whether or not one of the factors in the acquisition of the American Insurance Union by the Conservation Co., was to enable the Conservation Co. thereafter to arrange for reinsurance of companies into the American Insurance Union, and the subsequent rewriting of those policies?

Mr. BAKER. No, sir; I don't believe so. The motivating factor was as I related—

Mr. GESELL (interposing). Was the American Union contract itself?

Mr. BAKER. Was the necessity for increasing the capital in order to obtain permission, particularly in the State of Pennsylvania, I remember, where a large volume of the fraternal society's business was located.

Mr. GESELL. Is this schedule which I show you a schedule of your fees in handling work for the American Conservation Co.?

Mr. BAKER. That is a memo which I had prepared from our records at the request of a representative of the committee, showing the fees, by years, received by Henning and Baker, and by myself after our partnership was dissolved in 1935, from the American Conservation Co.

Mr. GESELL. What is the total amount of the fees which are shown in this schedule for the year 1931?

Mr. BAKER. \$4,040.36. There are two items.

Mr. GESELL. What are the two items?

Mr. BAKER. One was a retainer of \$100 per month, which began in April 1931, and the other is an item of \$3,140.36, payment on our contingent fee in connection with the American Insurance Union, Inc., transfer contract.

Mr. GESELL. I don't see included in that the transaction represented by these checks. Will you examine them and see if you can give us any explanation of how that \$10,000 item fails to appear?

Mr. BAKER. This is a check, numbered "1257," of the American Conservation Co., payable to the order of the Peoples Trust & Savings Bank, in the sum of \$10,000, dated March 12, 1931.

Mr. GESELL. And then subsequent records in that sheaf show that the check was used to purchase a cashier's check at the People's; is that not correct?

Mr. BAKER. This apparently is some memorandum from the records of the Peoples Trust & Savings Bank, showing that on March 12, 1931, the American Conservation Co. purchased a draft on Chicago in the sum of \$10,000 payable to the order of W. R. Baker.

Mr. GESELL. Now, you have that draft there in your hand, do you not?

Mr. BAKER. A cashier's check.

Mr. GESELL. What is the date of it?

Mr. BAKER. March 12, 1931.

Mr. GESELL. And in the amount of how much?

Mr. BAKER. \$10,000.

Mr. GESELL. And that is made out to the order of W. R. Baker?

Mr. BAKER. "Pay to the order of W. R. Baker."

Mr. GESELL. And is the note endorsed "W. R. Baker?"

Mr. BAKER. There is an endorsement, "W. R. Baker"; yes, sir.

Mr. GESELL. Is that your signature, sir?

Mr. BAKER. No, sir.

Mr. GESELL. That is not your signature?

Mr. BAKER. No, sir; I did not sign that check.

Mr. GESELL. What other endorsement is there on the check?

Mr. BAKER. "For deposit, Herbert G. Shimp."

Mr. GESELL. And you did not sign that check?

Mr. BAKER. No, sir.

Mr. GESELL. Did you ever receive the funds? Did you ever receive that \$10,000?

Mr. BAKER. No, sir.

Mr. GESELL. You are quite certain about that?

Mr. BAKER. Yes, sir.

Mr. GESELL. Now, will you step down, and I will ask Mr. Shimp to come back.

I want to offer at this time the schedule of fees identified by Mr. Baker.

The VICE CHAIRMAN. It will be admitted.

(The schedule referred to was marked "Exhibit No. 1348-67" and is on file with the Committee. In lieu of this exhibit see "Exhibit No. 2261,"¹ appendix, p. 7093.)

Mr. GESELL. Mr. Shimp, please.

TESTIMONY OF HERBERT G. SHIMP, PRESIDENT, AMERICAN CONSERVATION CO., CHICAGO, ILL.—Resumed

Mr. GESELL. Mr. Shimp, I want to show you the final checks which Mr. Baker was considering when he left the stand and ask you if you have any explanation of that transaction?

Mr. SHIMP. I don't recall the incident at all; no, sir.

Mr. GESELL. You have no recollection after the incident at all?

(The witness shook his head.)

Mr. GESELL. Is that your handwriting on the back of the check?

Mr. SHIMP. My endorsement on it; yes.

Mr. GESELL. Did you sign Mr. Baker's name on that check?

Mr. SHIMP. No, sir; I don't think I did. I don't remember it.

Mr. GESELL. Do you know what happened to the proceeds of that check?

Mr. SHIMP. It says it was deposited to my account.

Mr. GESELL. You have no explanation of the circumstances under which that transaction took place?

Mr. SHIMP. No; I probably could get in my account and discover what it was, but from this check I wouldn't have any knowledge.

¹ Entered in the record on February 13, 1940, at the request of Mr. Henning, whose interest in the fees paid to Henning and Baker by American Conservation Co. ceased with the dissolution of the partnership on April 1, 1935.

Mr. GESELL. Why was it drawn to Mr. Baker, if the funds never went to him?

Mr. SHIMP. I don't know.

Mr. GESELL. You have no explanation you can give us on that?

Mr. SHIMP. No, sir.

Mr. GESELL. I would like to file these checks with the committee.

The VICE CHAIRMAN. They will be received and filed.

(The checks referred to were marked "Exhibit No. 1348-68" and are on file with the committee.)

Mr. GESELL. Now, Mr. Shimp, do you recall borrowing money from the Illinois Bankers' Life Assurance Co.?

Mr. SHIMP. Yes, sir.

Mr. GESELL. In your own name and in the name of the American Conversation Co.?

Mr. SHIMP. Yes, sir.

Mr. GESELL. What were the amounts of those loans, if you recall—the original amounts?

Mr. SHIMP. Well, I wouldn't be able to give you that.

Mr. GESELL. Mr. Baker said there was a loan for approximately \$75,000. Do you recall you borrowed \$74,700?

Mr. SHIMP. Yes, sir.

Mr. GESELL. Was that to assist in the financing of American Union stock?

Mr. SHIMP. Yes, sir.

Mr. GESELL. Did Mr. Martin receive a one-third interest in this undertaking by reason of having assisted in obtaining authorization for that loan from the insurance company?

Mr. SHIMP. No; that isn't quite true.

Mr. GESELL. What was his participation in this?

Mr. SHIMP. There was no determined amount, and Mr. Martin spent a great bit of time and money in connection with that undertaking. His hope undoubtedly was at the time that this business might eventually be reinsured in the Illinois Bankers' Life, but he employed counsel in Columbus, a law firm, and had considerable expense in connection with it, in addition to obtaining or assisting in obtaining the loan for us.

Mr. GESELL. And was this loan made at the Illinois Bankers' on his recommendation?

Mr. SHIMP. I assume so; my negotiations were with him.

Mr. GESELL. He was not interested in the American Conservation Co.?

Mr. SHIMP. No, sir.

Mr. GESELL. Am I correct in saying that following the acquisition of the stock in the American Insurance Union, it was your effort to encourage the reinsurance of companies into the American Insurance Union with a view to obtaining the rewrite contracts on the business so reinsured?

Mr. SHIMP. That was after we—of course, when we first acquired this stock we had a minority interest, and the stock was acquired primarily so that we could complete our contract with this company. After we acquired additional stock in the company, it was our desire to build it up, and we attempted to reinsure the Detroit Life in that company.

Mr. GESELL. Did you gain control of it through the solicitation of proxies?

Mr. SHIMP. No; we gained control of it by buying stock.

Mr. GESELL. You bought a majority interest, finally?

Mr. SHIMP. We finally had, I think, about 70 percent of the stock.

Mr. GESELL. Then did you try to reinsure various companies into the American Insurance Union?

Mr. SHIMP. We only submitted one proposal, and that was to the Detroit Life.

Mr. GESELL. Was it your effort, however, to get other business and reinsure it in that fashion?

Mr. SHIMP. I think there was only one other place where they made any attempt, and that was a company in receivership in Ohio, the Federal Union Life of Cincinnati.

Mr. GESELL. Do you recognize this correspondence as correspondence in the files of your company?

Mr. SHIMP. This first letter of June 13, addressed to me by the then president of the American Insurance Union Corporation, spoke of the Union National Life, a company that I don't remember, but indicates that the business would be taken over by the Lincoln National.

Mr. GESELL. If you can identify the documents, I will just offer them for the record in the interest of time, Mr. Shimp.

Mr. SHIMP. There are several letters here, addressed to me.

Mr. GESELL. Copies of letters which you wrote?

Mr. SHIMP. Copies of two letters written by me to Judge Younger, and one letter by me to Captain Baker.

Mr. GESELL. There is a Mr. Warner, or Judge Warner, in there referred to. He was insurance commissioner, was he not, for what State?

Mr. SHIMP. I don't recall now. Is it in my letter?

Mr. GESELL. You have no recollection as to who he was?

Mr. SHIMP. I could if I would see the letter.

Mr. GESELL. May I have it a moment, and I will try to find it for you.

You say here in the letter to Captain Baker, under date of October 23, 1934 [reading from "Exhibit No. 1348-69"]:

Bill returned from Columbus this morning, where he was yesterday, and they sold about \$100,000 worth of bonds. There is nothing new at Columbus except the suggestion that someone ought to talk to Warner and offer him a job with the A. I. U., Inc. He has no job or no chance to get one after the first of the year, so we are informed, and it might be helpful in getting an agreement to move out of Ohio and also helpful with the Federal Union deal. What is your reaction on this subject, and who do you think should approach Warner? Both Judge Younger and Paul Bernard say that they would not do so, but Eldridge and Bill and I think that this is a smart move.

He was the commissioner, was he not?

Mr. SHIMP. Yes; he was the commissioner.

Mr. GESELL. Was he offered such a job?

Mr. SHIMP. No; not to my recollection.

Mr. GESELL. I wish to offer this correspondence for the record.

The VICE CHAIRMAN. It may be admitted and printed.

(The correspondence referred to was marked "Exhibit No. 1348-69" and is included in the appendix on p. 7085.)

Mr. SHIMP. This correspondence, if you will permit me to correct one statement that I made some time earlier, and that is that there were only two Commissioners that were ever connected in any financial way with our organization. Judge Younger is a former Commissioner of Ohio, but I believe he was an officer of the American Insurance Union before we had any interest in it.

Mr. GESELL. There are just two other matters. One, what commissions do you usually pay your agents on this transfer work?

Mr. SHIMP. It depends entirely upon the character of the work they do. Their commissions vary. Our commissions charged have varied over the years from a high of 87½ percent, first year, to I think probably the lowest commission that we ever had is about 50 percent; maybe 55. I don't know that there is any contract at 50 percent.

Mr. GESELL. My second question, and last question—

Mr. SHIMP (interposing). I didn't answer your last question. The commission of the agents varied from a high of probably 45 percent to—I don't think any contract provided less than 25 percent.

Mr. GESELL. Now, my second question is, Has your organization ever been examined by any State insurance department?

Mr. SHIMP. No; we have never had any examination.

Mr. GESELL. You are not subject to their jurisdiction?

Mr. SHIMP. I don't know.

Mr. GESELL. They have not asserted it?

Mr. SHIMP. They have not asserted it, and they would be perfectly welcome if they wanted to make any examination at any time.

Mr. GESELL. I have no further examination of Mr. Shimp.

The VICE CHAIRMAN. Thank you very much, Mr. Shimp.

Mr. GESELL. Mr. Leary, will you return to the stand?

TESTIMONY OF ARTHUR J. LEARY, ACCOUNTANT INVESTIGATOR, SECURITIES AND EXCHANGE COMMISSION, WASHINGTON, D. C.—

Resumed

Mr. GESELL. Mr. Leary, have you prepared from the books and records of the American Conservation Co. a schedule entitled "Commissions received" which shows the amount of commissions received by years on the various rewriting contracts that the American Conservation Co. had with the companies indicated for the years 1930 to 1938?

Mr. LEARY. I have.

Mr. GESELL. The total amount of commissions shown on that schedule is \$4,004,783.29, is it not?

Mr. LEARY. That is correct, sir.

Mr. GESELL. Is that a copy of the schedule that you have?

Mr. LEARY. That is the original, sir.

Mr. GESELL. I wish to offer it for the record.

The VICE CHAIRMAN. It will be admitted.

(The schedule referred to was marked "Exhibit No. 1348-70" and is included in the appendix on p. 7089.)

Mr. GESELL. Have you prepared a schedule entitled "Agents' commissions from February 13, 1930, to December 31, 1936," from the records of the American Conservation Co.?

Mr. LEARY. May I change the heading of this schedule? It should be 1938.

Mr. GESELL. From 1930 to 1938?

Mr. LEARY. That is correct, sir.

Mr. GESELL. Have you prepared such a schedule?

Mr. LEARY. I have, sir.

Mr. GESELL. Is this the schedule?

Mr. LEARY. It is, sir.

Mr. GESELL. May I offer it for the record?

The VICE CHAIRMAN. It will be admitted.

(The schedule referred to was marked Exhibit No. 1348-71" and is included in the appendix on p. 7090.)

Mr. GESELL. Have you also prepared a schedule entitled "Special commissions paid American Conservation Co.," indicating special commissions paid in connection with the various reinsurance contracts for the years 1930 to 1938?

Mr. LEARY. I have, sir.

Mr. GESELL. Is this the schedule?

Mr. LEARY. It is, sir.

Mr. GESELL. I wish to offer it for the record.

The VICE CHAIRMAN. It may be admitted.

(The schedule referred to was marked "Exhibit No. 1348-72" and is included in the appendix on p. 7091.)

Mr. GESELL. Are these three schedules which have been offered to the best of your knowledge and ability correct and accurate statements from the books and records of the company?

Mr. LEARY. They are, sir.

Mr. GESELL. Now on yesterday, referring to the schedule entitled "Special commissions paid," we heard testimony from you to the effect that \$430,000 of the special commissions shown in the American Conservation Co.'s account for Illinois Bankers' Life Assurance Co. have been paid to Mr. Nichol in the manner concerning which you testified.

Mr. LEARY. That is correct.

Mr. GESELL. What is the total amount of commissions paid in connection with that transaction?

Mr. LEARY. \$551,571.93.

Mr. GESELL. Are you prepared to say whether any of the amount of difference between \$430,000 and \$551,571 was paid to Mr. Shimp?

Mr. LEARY. I am in a position to say part of the difference was paid to Mr. Shimp.

Mr. GESELL. What part could you so trace, what amount—\$85,300; is that correct?

Mr. LEARY. Approximately \$85,300 was either disbursed or distributed to Mr. Shimp's account on the books of the American Conservation Co.

Mr. GESELL. Now have you prepared from the records of the Illinois Bankers' Life Assurance Co. schedules which will show the loans made from Illinois Bankers' Life Assurance Co. by Herbert Shimp and American Conservation Co.?

Mr. LEARY. I have prepared a summary of the loans of Herbert G. Shimp with the Illinois Bankers' Life Assurance Co.

Mr. GESELL. Those schedules show the amount of loans outstanding at various dates and the adjustments made, but do not show the collateral; is that correct, sir?

Mr. LEARY. That is correct, sir.

Mr. GESELL. The first schedule is "Loans to Herbert Shimp" and the second, "Loans to American Conservation Co."; is that correct?

Mr. LEARY. That is correct, sir.

Mr. GESELL. I wish to offer these schedules.

The VICE CHAIRMAN. They will be admitted.

(The schedules referred to were marked "Exhibit No. 1348-73" and are included in the appendix on p. 7092.)

Mr. GESELL. Now if I might ask for about 3 minutes' recess, I think we will be in position to close.

The VICE CHAIRMAN. We will recess for 3 minutes.

(Whereupon, a 3-minute recess was taken.)

Mr. GESELL. Mr. Henning.

The VICE CHAIRMAN. Do you solemnly swear the testimony you are about to give in this proceeding will be the truth, the whole truth, and nothing but the truth, so help you God?

Mr. HENNING. I do.

**TESTIMONY OF ELDRIDGE HENRY HENNING, VICE PRESIDENT
AND GENERAL COUNSEL, ILLINOIS BANKERS LIFE ASSURANCE
CO., MONMOUTH, ILL.**

Mr. GESELL. What is your full name?

Mr. HENNING. Eldridge Henry Henning.

Mr. GESELL. You are an officer of the Illinois Bankers'?

Mr. HENNING. Yes, sir.

Mr. GESELL. During what period of time have you been an officer?

Mr. HENNING. I was vice president in 1935, until March of 1939. Since March of 1939 I have been a vice president, general counsel, director.

Mr. GESELL. Were you counsel for the company prior to '35?

Mr. HENNING. In specific matters.

Mr. GESELL. Not as general counsel?

Mr. HENNING. No.

Mr. GESELL. You were also a law partner of Mr. Baker during the time that the firm of Henning & Baker was representing the American Conservation Co.; were you not?

Mr. HENNING. Yes, sir.

Mr. GESELL. As partner, you had a joint participation with Mr. Baker in fees of the American Conservation Co.?

Mr. HENNING. Yes, sir.

Mr. GESELL. Mr. Henning, when did you first learn that under the rewrite contract between the American Conservation Co. and Illinois Bankers' Life Assurance Co., commissions were being paid to the American Conservation Co. which Mr. Shimp was disbursing to Mr. Martin through means of the Nichol contract which was discussed yesterday?

Mr. HENNING. Early in 1934.

Mr. GESELL. You were not associated with the company other than as counsel at that time?

Mr. HENNING. In specific cases, yes; whatever cases were assigned to me.

Mr. GESELL. Did you learn of that in your capacity as counsel?

Mr. HENNING. I learned of that in the relation of attorney and client; counsel to Mr. Martin personally, not to the company.

Mr. GESELL. After you became connected with the company officially, did you take any action with respect to the matter, whatsoever?

Mr. HENNING. I had learned of that in the relation of attorney and client, and I never divulged it.

Mr. GESELL. And you took no action?

Mr. HENNING. No.

Mr. GESELL. The firm Henning & Baker was representing Illinois Bankers' Life Assurance Co., we heard yesterday, from time to time in connection with getting the approval of the new company to do business in various States.

Mr. HENNING. Yes, sir.

Mr. GESELL. Did you participate with Mr. Baker in any fees obtained in that connection?

Mr. HENNING. I did.

Mr. GESELL. Was that the work that you were employed on from time to time prior to the time you became officially connected with the company?

Mr. HENNING. Well, I tried cases for them, other cases.

Mr. GESELL. Did you do work specifically in connection with getting the admittance of the company into various States?

Mr. HENNING. I did in one State.

Mr. GESELL. What State was that?

Mr. HENNING. Michigan.

Mr. GESELL. With or without success?

Mr. HENNING. Well, with success.

Mr. GESELL. I have no further questions, and I think this concludes this set of hearings, except I would like to read one paragraph from a letter which I received from Mr. Ernest Palmer, director of the department of insurance, dated December 16, 1939, in response to a question from me as to the dates when the Illinois Bankers' Life Assurance Co. had been examined by the Illinois department or any other department. The paragraph of the letter reads:

You also inquire in regard to the date of each examination of the Illinois Bankers Life Assurance Company in which the Illinois Department participated. The record indicates that this company was examined by the Illinois Department as of December 31, 1931, covering the period from December 31, 1928. Another examination by the Illinois Department was made as of December 31, 1932, covering the period from December 31, 1928. They were again examined in the spring of 1937 as of December 31, 1936, covering the period from December 31, 1932. In this examination, Illinois was assisted by the insurance departments of Iowa, Arkansas, and Virginia. Their company is again due for examination early next spring covering the period from December 31, 1936, to December 31, 1939.

I think that completes anything we have at this time.

The VICE CHAIRMAN. Thank you, Mr. Henning.

I think it is quite appropriate to say that as a representative of the committee I am deeply appreciative of the work you and your staff have done in this connection. I think the hearings have been very, very ably presented. I think that it is a credit to Securities and Exchange Commission and indirectly to the committee.

**TESTIMONY OF WILLIAM R. BAKER, ATTORNEY, KANSAS CITY,
KANS.—Resumed**

Mr. BAKER. May I make a correction; that is, a correction of an error which I made in answer to a question you propounded to me yesterday?

The VICE CHAIRMAN. Certainly.

Mr. BAKER. I was informed after adjournment last night that in reply to a question by Mr. Gesell I stated that I became acquainted with the Nichol transaction in the spring of 1931. If I made that statement, it was in error, because that time Henning & Baker were in partnership and in 1934 under the same circumstances and conditions in which Mr. Henning became familiar with the matter, I became familiar with the matter, in the spring of 1934. If I said 1931, it was an error.

The VICE CHAIRMAN. The committee will stand recessed subject to the call of the Chair.

(Whereupon, at 12:55 p. m., an adjournment was taken, pursuant to the call of the chairman.)

APPENDIX

“EXHIBIT No. 1089,” introduced on p. 6363, appears in Hearings, Part XII, appendix, p. 6352.

“EXHIBIT No. 1090,” introduced on p. 6364, is on file with the Committee.

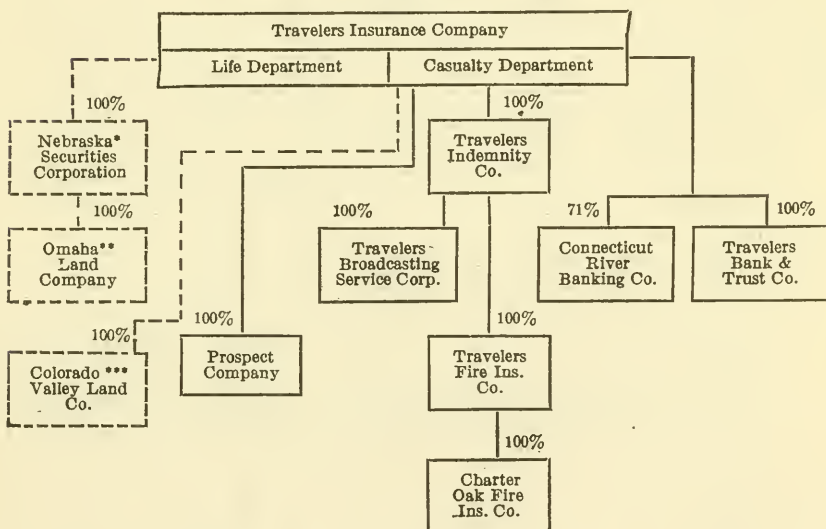
“EXHIBIT No. 1091,” introduced on p. 6364, appears in Hearings, Part XII, appendix, p. 6353.

“EXHIBIT No. 1092,” introduced on p. 6364, appears in Hearings, Part XII, appendix, p. 6356.

EXHIBIT No. 1093

[Prepared by Securities and Exchange Commission Insurance Study staff]

CHART OF CORPORATE RELATIONSHIPS IN TRAVELERS GROUP



*Dissolution voted by stockholders in Feb., 1936 and completed in Mar., 1936.

**Dissolution voted by stockholders in May 1930 and completed in May 1930.

***Dissolution voted by stockholders in Oct., 1937 and completed in Dec., 1937.

NOTE.—In all cases where 100% ownership is shown Directors' qualifying shares have been included.

EXHIBIT No. 1094

[Prepared by The Travelers Insurance Co.]

Directors of The Travelers Ins. Co.	The Travelers Insurance Co.	The Travelers Indemnity Co.	The Travelers Fire Ins. Co.	The Charter Oak Fire Ins. Co.	The Travelers Bank and Trust Company	The Connecticut River Banking Company	The Travelers Broadcasting Service Corp.	The Prospect Company
L. Edmund Zacher.....	President, Director.	President, Director.	President, Director.	President, Director.	Vice-President, Director.	Director.....	President, Treasurer, Director.	President, Treasurer, Director.
Charles C. Beach.....	Consulting Medical Director.	Director.....	Director.....	Director.....	Director.....	Director.....	Director.....	Director.....
John L. Way.....	Director.....	Director.....	Director.....	Director.....	Director.....	Director.....	Director.....	Director.....
Francis T. Maxwell.....	Director.....	Director.....	Director.....	Director.....	Director.....	Director.....	Director.....	Director.....
C. Luther Spencer.....	Director.....	Director.....	Director.....	Director.....	Director.....	Director.....	Director.....	Director.....
L. Marsden Hubbard.....	Director.....	Director.....	Director.....	Director.....	Director.....	Director.....	Director.....	Director.....
Everett C. Wilson.....	Vice-President, Director.	Director.....	Director.....	Director.....	Director.....	Director.....	Director.....	Director.....
James L. Howard.....	Director.....	Director.....	Director.....	Director.....	Director.....	Director.....	Director.....	Director.....
William C. Skinner.....	Director.....	Director.....	Director.....	Director.....	Director.....	Director.....	Director.....	Director.....
H. H. Ensworth.....	Director.....	Director.....	Director.....	Director.....	Director.....	Director.....	Director.....	Director.....
George B. Foster.....	Director.....	Director.....	Director.....	Director.....	Director.....	Director.....	Director.....	Director.....
Charles L. Taylor.....	Director.....	Director.....	Director.....	Director.....	Director.....	Director.....	Director.....	Director.....
Thomas W. Farnam.....	Vice-President, Director.	Director.....	Director.....	Director.....	Director.....	Director.....	Director.....	Director.....
Bertrand A. Page.....	Gen. Counsel, Director.	Gen. Counsel, Director.	Gen. Counsel, Director.	Gen. Counsel, Director.	Gen. Counsel, Director.	Gen. Counsel, Director.	Director.....	Director.....
Francis W. Cole.....	Director.....	Director.....	Director.....	Director.....	Director.....	Director.....	Director.....	Director.....
Officers of The Travelers Ins. Co. and Affiliates	The Travelers Insurance Co. Life & Casualty Departments	The Travelers Indemnity Co.	The Travelers Fire Ins. Co.	The Charter Oak Fire Ins. Co.	The Travelers Bank and Trust Company	The Connecticut River Banking Company	The Travelers Broadcasting Service Corp.	The Prospect Company
Walter G. Cowles.....	Vice-President (Casualty).	Director.....	Director.....	Director.....	Director.....	Director.....	Vice-President.....	Director.....
H. H. Armstrong.....	Vice-Pres. (Life)	Director.....	Director.....	Director.....	Director.....	Director.....	Director.....	Director.....
Benedict D. Flynn.....	Vice-President & Actuary (Life & Casualty).	Director.....	Director.....	Director.....	Director.....	Director.....	Director.....	Director.....
Daniel A. Read.....	Secretary. (Life & Cass).	Director.....	Director.....	Director.....	Director.....	Director.....	Director, Vice-President, Secretary.	Director.....

Name	Treasurer (Life & Cas.)	Treasurer	Treasurer	Treasurer	Director	Director	Director	Director	Director	Director
Gladden W. Baker									Vice-Pres., Director, Asst. Treas.	Vice-Pres., Director, Asst. Treasurer.
H. Pierson Hammond	Actuary (Life)	Comptroller	Comptroller	Comptroller	Director	Director	Director	Director	Director, Vice-Pres., Secretary.	Assistant Secretary.
C Donald Ravey	Manager Mort-	Comptroller	Comptroller	Comptroller	Director	Director	Director	Director	Director, Vice-Pres., Secretary.	Assistant Secretary.
Henry M. Spencer	Manager Mort-	Comptroller	Comptroller	Comptroller	Director	Director	Director	Director	Director, Vice-Pres., Secretary.	Assistant Secretary.
Frank J. Flynn	Auditor	Auditor	Auditor	Auditor	Director	Director	Director	Director	Director, Vice-Pres., Secretary.	Assistant Secretary.
Lewis M. Robotham	Secretary (Life)	Comptroller	Comptroller	Comptroller	Director	Director	Director	Director	Director, Vice-Pres., Secretary.	Assistant Secretary.
Charles W. Gamerdinger	Secretary (Life)	Comptroller	Comptroller	Comptroller	Director	Director	Director	Director	Director, Vice-Pres., Secretary.	Assistant Secretary.
Frank L. Grosvenor	Medical Director	Comptroller	Comptroller	Comptroller	Director	Director	Director	Director	Director, Vice-Pres., Secretary.	Assistant Secretary.
R. C. Wilkins	Asst. Manager	Comptroller	Comptroller	Comptroller	Director	Director	Director	Director	Director, Vice-Pres., Secretary.	Assistant Secretary.
C. P. Osgood	Mgtg. Loan Div.	Comptroller	Comptroller	Comptroller	Director	Director	Director	Director	Director, Vice-Pres., Secretary.	Assistant Secretary.
Wellington R. Slocum	Asst. Secretary	Comptroller	Comptroller	Comptroller	Director	Director	Director	Director	Director, Vice-Pres., Secretary.	Assistant Secretary.
Henry W. Erving	Asst. Secretary	Comptroller	Comptroller	Comptroller	Director	Director	Director	Director	Director, Vice-Pres., Secretary.	Assistant Secretary.
Martin Welles	Asst. Secretary	Comptroller	Comptroller	Comptroller	Director	Director	Director	Director	Director, Vice-Pres., Secretary.	Assistant Secretary.
Hon. Louis R. Cheney	Asst. Secretary	Comptroller	Comptroller	Comptroller	Director	Director	Director	Director	Director, Vice-Pres., Secretary.	Assistant Secretary.
Danaei S. Morrell	Asst. Secretary	Comptroller	Comptroller	Comptroller	Director	Director	Director	Director	Director, Vice-Pres., Secretary.	Assistant Secretary.
Arthur L. Shipman	Asst. Secretary	Comptroller	Comptroller	Comptroller	Director	Director	Director	Director	Director, Vice-Pres., Secretary.	Assistant Secretary.
Frederick F. Fisher	Asst. Secretary	Comptroller	Comptroller	Comptroller	Director	Director	Director	Director	Director, Vice-Pres., Secretary.	Assistant Secretary.
John J. Merriman	Asst. Secretary	Comptroller	Comptroller	Comptroller	Director	Director	Director	Director	Director, Vice-Pres., Secretary.	Assistant Secretary.

EXHIBIT No. 1095

[From files of The Connecticut River Banking Co.]

The Connecticut River Banking Company, Hartford, Connecticut—Statement of Condition as of December 31, 1938

RESOURCES		LIABILITIES	
Loans and Discounts.....	\$909,371.62	Capital Stock.....	\$150,000.00
U. S. Government Bonds.....	5,668,600.00	Surplus.....	850,000.00
Other Bonds and Investments.....	984,398.60	Undivided Profits.....	141,740.74
Cash and Due from Banks.....	1,636,239.68	Reserve for Contingencies.....	289,452.19
Other Resources.....	1,437.88	Reserve for Interest, Taxes, etc.....	22,739.21
		Due to Banks.....	156,732.11
		Dividends Unpaid.....	3,084.00
		Deposits.....	7,605,124.69
		Other Liabilities.....	1,174.84
Total Resources.....	\$9,200,047.78	Total Liabilities.....	\$9,200,047.78

Trusts: Through our affiliation with The Travelers Bank and Trust Company we are able to offer a strong and efficient organization to administer estates and trusts.

EXHIBIT No. 1096

[From files of The Travelers Bank & Trust Co.]

The Travelers Bank & Trust Company—Statement of Condition as of December 31, 1938

RESOURCES		LIABILITIES	
Loans and Discounts.....	\$121,912.72	Capital Stock.....	\$500,000.00
U. S. Govt. Bonds.....	1,165,000.00	Surplus.....	500,000.00
Other Bonds and Investments.....	716,790.40	Undivided Profits.....	320,550.16
Funds Set Aside for Savings Depositors:		Reserve for Contingencies.....	100,000.00
Mortgage Loans.....	4,180,857.53	Reserve for Securities Depreciation, etc.....	331,817.16
U. S. Govt. Bonds.....	4,463,046.09	Reserve for Interest, Taxes, etc.....	70,533.64
Cash and Due from Banks.....	314,548.21	Savings Deposits.....	10,076,957.46
Other Investments.....	1,118,505.63	Other Deposits.....	627,933.57
	10,076,957.46	Total Liabilities.....	\$12,527,791.99
Cash and Due from Banks.....	437,002.29		
Other Resources.....	10,129.12		
Total Resources.....	\$12,527,791.99		

EXHIBIT No. 1097

[Prepared by The Travelers Insurance Co.]

Schedule showing amount of Dividends received by The Travelers Insurance Company on its ownership of stock of The Travelers Bank & Trust Company and The Connecticut River Banking Company (annually since the banks were organized)

THE TRAVELERS BANK & TRUST COMPANY

1924.....	\$9,300	1933.....	\$24,600
1925.....	9,300	1934.....	24,600
1926.....	9,300	1935.....	24,600
1927.....	9,300	1936.....	24,600
1928.....	9,250	1937.....	24,600
1929.....	49,250	1938.....	24,600
1930.....	49,200		
1931.....	49,250	Total.....	\$391,000
1932.....	49,250		

Schedule showing amount of Dividends, etc.—Continued

THE CONNECTICUT RIVER BANKING COMPANY

1912.....	\$7,816.80	1927.....	\$41,292.00
1913.....	8,196.00	1928.....	51,459.00
1914.....	8,217.60	1929.....	51,420.00
1915.....	8,217.60	1930.....	51,420.00
1916.....	8,217.60	1931.....	52,545.00
1917.....	8,217.60	1932.....	53,574.00
1918.....	8,241.60	1933.....	53,670.00
1919.....	8,263.20	1934.....	53,670.00
1920.....	8,263.20	1935.....	53,670.00
1921.....	19,625.10	1936.....	53,670.00
1922.....	20,646.00	1937.....	53,466.00
1923.....	25,807.50	1938.....	53,415.00
1924.....	10,323.00		
1925.....	51,615.00	Total.....	\$866,230.80
1926.....	41,292.00		

EXHIBIT No. 1098

[Prepared by The Travelers Insurance Co.]

The Travelers Insurance Company—Bank Balances, The Connecticut River Banking Company, Regular Account

	Balance	Rate of interest	Amount of interest
December 31, 1911.....	0	0	0
1912.....	37,384.55	2%	68.63
1913.....	40,201.89	2%	1,251.96
1914.....	697,797.59	2%	4,537.34
1915.....	754,543.02	2%	13,211.60
1916.....	1,007,885.73	2%	14,940.48
1917.....	1,714,932.03	2%	21,363.98
1918.....	1,445,611.30	2%	25,010.65
1919.....	1,501,053.28	2%	19,376.00
1920.....	1,242,826.42	2%	19,008.01
1921.....	1,331,265.23	2%	21,161.17
1922.....	1,027,425.90	2%	20,597.91
1923.....	1,422,696.36	2%	26,767.73
1924.....	2,449,752.77	2%	31,960.97
1925.....	1,926,135.87	2%	33,230.52
1926.....	2,847,194.55	2%	34,690.99
1927.....	2,326,307.58	2%	38,321.73
1928.....	3,382,553.40	2%	50,432.19
1929.....	4,530,133.87	2%	60,351.18
1930.....	3,584,320.06	2%	59,562.67
1931.....	3,440,989.37	1%	39,196.44
1932.....	2,024,044.65	1%	15,900.05
1933.....	3,215,265.18	3/4% on Part	13,854.17
1934.....	3,119,257.98	3/4% on Part	14,999.47
1935.....	2,311,583.24	3/4% on Part	11,684.84
1936.....	4,023,482.65	1/2% on Part	9,999.96
1937.....	3,521,621.76	1/2% on Part	9,962.95
1938.....	3,345,293.85	3/4% on Part	5,342.41

EXHIBIT No. 1099

[Prepared by The Travelers Insurance Co.]

The Travelers Insurance Company—Bank Balances, The Connecticut River Banking Company, Special Account

	Balance	Rate of Interest	Amount of Interest
December 31, 1911.....	0	0	0
1912.....	250,000.00	3%	2,122.25
1913.....	375,000.00	3%	11,017.18
1914.....	375,000.00	3%	11,250.00
1915.....	375,000.00	3%	11,250.00
1916.....	375,000.00	3%	11,250.00
1917.....	375,000.00	3%	11,250.00
1918.....	400,000.00	3%	11,881.25
1919.....	400,000.00	3%	12,000.00
1920.....	400,000.00	3%	12,000.00
1921.....	400,000.00	3%	12,000.00
1922.....	400,000.00	3%	12,000.00
1923.....	400,000.00	3%	12,000.00
1924.....	400,000.00	3%	12,000.00
1925.....	400,000.00	3%	12,007.23
1926.....	400,000.00	3%	12,000.00
1927.....	400,000.00	3%	12,000.00
1928.....	400,000.00	3%	12,000.00
1929.....	400,000.00	3%	12,000.00
1930.....	400,000.00	3%	12,000.00
1931.....	400,000.00	13 ¹ / ₄ %	8,963.91
1932.....	400,000.00	13 ¹ / ₄ %	6,999.96
1933.....	400,000.00	0	2,896.44
1934.....	400,000.00	0	0
1935.....	400,000.00	0	0
1936.....	400,000.00	0	0
1937.....	400,000.00	0	0
1938.....	400,000.00	0	0

EXHIBIT No. 1100

[Prepared by The Travelers Insurance Co.]

THE CONNECTICUT RIVER BANKING CO.

<i>Directors</i>	<i>Finance Committee</i>
1/ 5/69 Elmore, Samuel E. (6/3/12 R).....	
1/ 3/93 Bosworth, Stanley B. (4/29/16 D).....	1/ 4/10 to 4/29/16.
1/15/95 Cheney, I uis R.....	5/ 3/16 to date.
1/ 7/02 Coffin, A lthur D. (5/23/16 R).....	
1/ 6/03 Williams, Almeron N. (7/27/29 D).....	1/ 4/10 to 7/27/29.
1/ 1/07 Shipman, Arthur L. (10/16/37 D).....	1/ 4/10 to 10/16/37.
12/16/07 Welles, Martin (1/27/22 O).....	1/ 1/18 to 1/27/22.
1/ 4/10 Whitney, Clarence E. (6/3/12 R).....	
7/27/10 Pope, Geo. (4/6/15 R).....	
6/ 3/12 Spencer, Chas. L. Senior (9/21/21 D).....	6/ 3/12 to 9/21/21.
6/ 3/12 Zacher, L. E.....	6/ 3/12 to date.
6/ 1/15 Dunham, Sylvester C. (10/26/15 D).....	
1/ 1/16 Butler, Louis F. (10/23/29 D).....	5/3 /16 to 10/23/29.
5/23/16 Morrell, Daniel S.....	5/23/16 to date.
5/23/16 Ensworth, Horace H.....	5/23/16 to date.
1/27/22 Hubbard, L. M.....	1/27/22 to date.
1/27/22 Erving, H. W.....	1/27/22 to date.
9/ 3/29 Willson, Everett C.....	9/ 3/29 to date.
11/ 5/29 Brosmith, William (8/22/37 D).....	11/ 5/29 to 8/22/37.
10/ 5/37 Baker, Gladden W.....	10/19/37 to date.
12/ 7/37 Shipman, Arthur L. Junior.....	12/ 7/37 to date.

THE TRAVELERS BANK & TRUST CO.

10/ 6/13	Bosworth, Stanley B (5/16/16 D)-----	10/ 6/13 to 5/16/16.
10/ 6/13	Brosmith, William (8/22/37 D)-----	
10/ 6/13	Butler, Louis F. (10/23/29 D)-----	{ 4/18/16 to 1/27/22. 2/14/22 to 10/23/29.
10/ 6/13	Dunham, Donald A. (1/13/31 O)-----	
10/ 6/13	Dunham, Sylvester C. (10/26/15 D)-----	10/ 6/13 to 10/26/15.
10/ 6/13	Hills, John R. (4/20/15 O)-----	
10/ 6/13	Page, Bertrand A.-----	
10/ 6/13	Shipman, Arthur L. (10/16/37 D)-----	
10/ 6/13	Spencer, Chas. L., Senior (9/21/21 D)-----	10/ 6/13 to 9/21/21.
10/ 6/13	Williams, Almeron N. (7/27/29 D)-----	
10/ 6/13	Zacher, L. E.-----	10/ 6/13 to date.
4/20/15	Dickenson, Robert C. (8/20/36 D)-----	
5/16/16	Slocum, Wellington R.-----	5/16/16 to date.
4/15/19	Howard, James L.-----	
1/27/22	Hubbard, L. Marsden-----	1/27/22 to date.
4/18/22	Way, John L.-----	
4/18/22	Erving, H. W.-----	
4/18/22	Welles, Martin-----	
2/14/28	Willson, Everett C.-----	1/14/30 to date.
9/10/29	Spencer, C. Luther, Junior-----	
9/10/29	Skinner, William C.-----	
12/10/29	Ensworth, Horace H.-----	
1/10/33	Baker, Gladden W.-----	
9/ 8/36	Read, Daniel A.-----	
10/11/37	Rarey, Charles D. (6/16/39 D)-----	
1/11/38	Flynn, Benedict D.-----	

D Deceased.
R Resigned.
O Not re-elected.

EXHIBIT No. 1101

[Prepared by The Travelers Insurance Co.]

Directors of the Travelers Insurance Company January 1, 1912 to July 1, 1939

Name	Elected	Date of death
Clark, William B.-----	July 6, 1875.-----	August 6, 1927.
Dunham, Austin C.-----	July 2, 1878.-----	March 17, 1918.
Roberts, George-----	January 12, 1887-----	May 4, 1921.
Beach, Charles C.-----	January 8, 1890.-----	
Dunham, Sylvester C.-----	January 27, 1897-----	October 26, 1915.
Spencer, Charles L., Senior-----	January 12, 1898-----	September 21, 1921.
Hills, John R.-----	January 12, 1898-----	March 19, 1915.
Batterson, James G., Jr.-----	January 9, 1901-----	January 17, 1923.
Lunger, John B.-----	December 9, 1901-----	March 21, 1912. ¹
Way, John L.-----	April 12, 1903-----	
Bennett, Edward B.-----	December 9, 1907-----	March 25, 1927.
Shipman, Arthur L.-----	December 9, 1907-----	October 16, 1937.
Maxwell, Francis T.-----	January 11, 1909-----	
Butler, Louis F.-----	June 12, 1911-----	October 23, 1929.
Robinson, Charles L. F.-----	April 8, 1912-----	July 6, 1916.
Zacher, L. Edmund-----	April 12, 1915-----	
Burr, Willie O.-----	December 13, 1915-----	November 27, 1921.
Brosmith, William-----	October 9, 1916-----	August 22, 1937.
Johnson, Elijah C.-----	January 23, 1918-----	September 12, 1933.
Spencer, C. Luther, Jr.-----	October 17, 1921-----	
Clark, Charles Hopkins-----	January 25, 1922-----	September 5, 1926.
Hubbard, L. Marsden-----	February 25, 1922-----	
Wing, Daniel G.-----	April 17, 1922-----	January 27, 1936.
Foster, George G.-----	October 20, 1924-----	May 1, 1931.
Willson, Everett C.-----	November 15, 1926-----	
Howard, James L.-----	April 18, 1927-----	
Skinner, William C.-----	December 19, 1927-----	
Ensworth, Horace H.-----	November 18, 1929-----	
Foster, George B.-----	December 21, 1931-----	
Taylor, Charles L.-----	December 18, 1933-----	
Farnam, Thomas W.-----	July 20, 1936-----	
Page, Bertrand A.-----	October 18, 1937-----	
Cole, Francis W.-----	November 15, 1937-----	

¹ Resigned.

I hereby certify that the above is a true list of the Directors of The Travelers Insurance Company from January 1, 1912 to July 1, 1939.

Attest:

July 13, 1939

B. T. BENT,
Assistant Secretary.

“EXHIBIT No. 1102,” appears in text on p. 6396.

“EXHIBIT No. 1103,” appears in text on p. 6397.

“EXHIBIT No. 1104,” appears in text on p. 6398.

EXHIBIT No. 1105

[From files of The Travelers Insurance Co.]

From: ASSISTANT AGENCY SECRETARY,
To: E. B. Dudley, Manager, Chicago, Illinois.
Subject: Alexander Sobel

In reference to your letter of November 18, 1930, would advise that arrangements have been approved by The Connecticut River Banking Company under which they are agreeable to the granting of Mr. Sobel a loan of \$2,500. Therefore, upon receipt of a demand note in this amount from Mr. Sobel together with an assignment properly executed by him as per form enclosed together with a letter from Mr. Sobel to the effect that should his commissions not accomplish such repayment he would agree to the repayment of the loan in full within a ten months period from the date of the note and the assignment, the bank will forward him a check for the amount requested—namely, \$2,500.

We are enclosing a form of note for this amount with the date left blank. We are also enclosing in triplicate a collateral assignment in favor of The Connecticut River Banking Company against Mr. Sobel's Life renewals applying to business now to his credit and also future Life business. Under this assignment you will note the Company is authorized to hold such commissions and disburse them to the order of The Connecticut River Banking Company until satisfaction in full under the assignment shall have been received by the bank. One copy of this assignment may be retained by Mr. Sobel and two copies properly executed by him should be returned to this office, one for the bank and one for the files of the Company. The assignment should be executed in the presence of at least two witnesses.

The assignment has been made to apply against all of Mr. Sobel's Life renewals, thereby permitting him to receive all first year Life commissions as well as all commissions on other classes of risks produced by him rather than to apply the assignment against all commissions with a specific amount to be repaid to the bank by Mr. Sobel each month. The bank has requested, however, that Mr. Sobel furnish them with a letter guaranteeing the full repayment of the loan within the ten months period if his Life commissions are insufficient to effect such complete repayment within that time.

W:E

EXHIBIT No. 1106

[From files of The Travelers Insurance Co.]

(Stamped:) Received, Oct. 6, 1931. Agency Dept.

Handwritten: Noted.

Personal attention.

From: G. V. Kuehner, Supt. of Agencies, Cleveland, O.

To: H. H. Armstrong, Vice President

Subject: Leonard Agency Company, Canton, Ohio

SEPT. 25, 1931

The total paid premiums of The Leonard Agency for the full year of 1930 are roughly as follows:

Life, new.....	\$38,000.00
Life, renewal.....	286,000.00
Wholesale and Group.....	50,000.00
Accident and Health.....	20,000.00
Casualty.....	57,000.00
Fire.....	2,000.00
Total.....	\$453,000.00

The remittances from the Leonard Agency have been slowing up noticeably during the last several months in spite of continued and increasing pressure by Cashier Ussher. A quick calculation today indicates that life items already over the grace period and not yet remitted to us amount to \$10,800 (they collect their own life premiums). Their delinquent Casualty premiums prior to June 30th amount to \$9,800.00. Their delinquent July items to \$2,400.00, making a casualty delinquency of approximately \$12,200.00. Assuming their accident remittance to be in like condition they are probably delinquent another \$3,000. This would make a total of \$26,000.00 actually delinquent. Assuming further that they must have collected some current items it is probable that they have in their possession from \$30,000 to \$35,000 of premiums that belong to us and which they appear to be unable to remit.

You will understand that we do not know that a shortage exists because the situation has not been forced to an issue by Cashier Ussher. He was on the point of bringing things to a head when Mr. Leonard informed him that Mr. Parker would be in Hartford on Monday morning, September 28th, "To see what could be done about the situation."

I talked to Mr. Parker on the telephone twice this morning and while he talked guardedly I feel sure that he is coming to you and the Comptroller with a request for a loan. I told him that we were unable to make loans against or advances of commissions and while I thought he was acting wisely in going to Hartford to put the whole question before the Home Office I could give him no encouragement as to financial relief from The Travelers Insurance Company.

To my direct question as to whether the Leonard Agency needed money he answered "yes". I asked him whether they had explored the possibility of making a collateral loan from a commercial bank with say an assignment of life commissions as collateral. To this he answered "no". He then told me that commercial banks in Canton were not making loans of any kind at this time—which doesn't seem reasonable. Our discussion of this possibility, however, put the idea into his mind that if it is a banking proposition the Connecticut River Bank in Hartford might be of assistance. I told him that I had no authority to speak for the Connecticut River Bank but my conception of their function was that it is a local institution to serve the community of Hartford and that it was not an institution used by The Travelers Insurance Company to solve situations of the kind under discussion.

I also told Mr. Parker that a discussion of the whole¹ subject in Hartford would bring the situation to a head and that the Comptroller would undoubtedly insist on itemized statement of the condition of things and probably an audit by a Company man. Mr. Parker appreciates this fact and is going to Hartford prepared for it.

Please understand that my conversation with Mr. Parker was most amicable and friendly and this friendliness has characterized all conversations and correspondence that has been had on the subject between the Cleveland Branch and the Leonard Agency. Mr. Parker is not coming to Hartford with any strained feelings or with a chip on his shoulder.

¹ The word in writing.

The Leonard Agency as you well know is an important and productive one and I hope that no effort will be spared to bring their situation into line. Their loss as a producing factor would be a serious one to The Travelers Insurance Company.

I shall be in Cleveland all of next week and following your discussion with Mr. Parker I will be available if you and Mr. Reary feel that there is anything that I might do to assist in clearing this matter up.

GORDON V. KUEHNER,
Supt. of Agencies.

GVK: ER

EXHIBIT No. 1107

[From files of The Travelers Insurance Co.]

NOVEMBER 3, 1931

Re: The Leonard Agency, Canton, Ohio
VICE PRESIDENT ARMSTRONG:

Mr. Leonard and Mr. Schaeffer, president and secretary respectively of the Leonard Agency, were in my office this afternoon for a discussion of their non-liquid position. Mr. Lumsden of the Comptroller's Department and Assistant Agency Secretary Gray were also present.

The Travelers premium income of this Agency is slightly over \$450,000 per year and in 1930 we paid them \$57,000 in commissions. Mr. Leonard says that their total commission income—all companies, all lines—runs slightly over \$100,000 gross and their net divisible profit has been in the neighborhood of \$25,000 per year.

While they have advanced about \$36,000 to The Travelers during the last year for premiums which they have not collected, they admit that they owe The Travelers for collected, unreported premiums at the moment about \$22,000, net. They also have about \$18,000 net belonging to other companies, but because of the accounting basis which other companies have extended to them, this \$18,000 is not embarrassing and does not disturb them. Mr. Leonard says that this \$18,000 can be worked out very nicely during the new few months.

Effective October 1, the expense overhead of the Leonard Agency was reduced by \$15,000 per year. Further provisional steps have been taken to make an additional reduction of overhead to the extent of another \$15,000, if necessary.

According to figures which Mr. Lumsden had prepared, their overriding Life renewals amount to slightly over \$12,000 per year during the next two years and on the basis of assignment of these Life renewals, we appear to have given the Leonard Agency the relief which they need. Their trouble is not one of insolvency but rather one of being in a non-liquid position.

I discussed the question of a loan with President Hubbard of The Connecticut River Bank, with an assignment of Life renewals as collateral. Mr. Hubbard expressed himself favorably, and Mr. Lumsden is sending instructions to Cashier Ussher to go to Canton, make an audit, verify the figures given us by Mr. Leonard, and send the verification in here. When that has been done, and subject to the verification being in order, The Connecticut River Bank will loan the Leonard Agency \$22,000. This check will be delivered to Cashier Ussher, will have to be endorsed by the Leonard Agency, and turned back to The Travelers so that nothing will go amiss.

A part of this bargain is that we take over their Life collections on December 1. Cashier Ussher will be instructed to accumulate their Life renewals and remit to the Connecticut River Bank once a month the approximate \$1,000 that will have accumulated. In this way the loan will liquidate itself within two years and at the same time the Leonard Agency has already reduced its expense to meet the reduced income.

When you have a minute, I suggest that you express appreciation of the Agency Department to Mr. Hubbard for his cooperation in the case—I feel sure that it will mean much water on The Travelers' wheel.

GORDON V. KUEHNER,
Superintendent of Agencies.

GVK.

EXHIBIT No. 1108

[From files of The Travelers Insurance Co.]

NOVEMBER 12, 1931.

THE PRESIDENT: Mr. Hubbard asked me this afternoon to give you a report about the Leonard Agency of Canton, Ohio and my opinion as to whether The Connecticut River Banking Company should make this agency a loan. First let me give you the production figures:

1930 Paid Premiums Casualty-----	\$56, 290
1930 Paid Premiums Fire-----	1, 400
1930 Paid Premiums Accident and Health-----	19, 997
1930 Paid Premiums Group-----	48, 239
1930 Paid Premiums Life-----	327, 732
Total-----	\$453, 658

During the year 1930 The Travelers paid this agency in commissions \$55,939. Of this amount the Life commissions alone amounted to \$39,371., though these figures, are, of course, in gross. As nearly as I can determine, the Life renewal overriding commissions which would be available for the use of the agency after payments to the sub-agents should amount to better than \$10,000. a year. It would appear that an assignment of the Life renewals alone would be ample protection against a loan in the amount proposed.

You may recall that I have several times mentioned in my reports to you that the Leonard Agency at Canton, Ohio was having trouble. The situation came to a head recently following the failure of another Canton bank. We understand that Mr. Leonard was negotiating a loan with this bank when it failed. The agency is a very large and successful one and I think it is obvious that it could have secured almost unlimited bank credit in normal times. As you know, such credit is almost impossible to secure in northern Ohio today, and this agency's affairs have been still further complicated because its funds have been involved in three separate bank failures.

Last week Mr. Leonard, President of the Leonard Agency Company, and Mr. Shafer, its Secretary, came to Hartford. I was unable to attend the meeting but I was represented by Mr. Lumsden, who thoroughly understands my views on shortages in general and with whom I had reviewed this case in particular. It was my own suggestion that Mr. Hubbard be approached in regard to a loan if the situation appeared to justify such a recommendation and if the agency readily agreed to certain stipulations which I am endeavoring to enforce in all such cases.

Mr. Leonard and Mr. Shafer admitted owing The Travelers approximately \$22,000. net in premiums and an audit since made by Cashier Usher of the Cleveland Office has increased this amount to \$28,000. Prior to the failure of this last bank—at the time when Mr. Leonard expected to secure funds in Ohio—the agency had agreed to turn over its Life renewal collections to the Company and arrangements had already been made to start this flow of renewal premiums into the Cleveland Office beginning December 1st. You will perhaps recall my telling you that the Leonard Agency, because of its size and importance, was one of the dozen or so exceptions we made in this country when we put in the direct collection program.

When these men came to Hartford it was, therefore, unnecessary to stipulate direct collections, because that had already been covered. However, Mr. Lumsden told them for me that hereafter we would require them to pay Casualty, Fire, Accident, and first year Life premiums as collected, reporting at least twice a week to the Cleveland Office. They agreed to this stipulation and also agreed that we might apply our regular collection plan to Casualty premiums—under this plan we go direct to Casualty policyholders if premiums have not been paid by the agent after a reasonable period of time.

As the situation stands now, the agency owes us approximately \$28,000. net in premiums. It has agreed to the strictest collection requirements we ever enforce and it is right now complying with this agreement literally. Our cashier reports that the agency has paid us everything collected since the shortage was established. They are prepared to give to The Connecticut River Banking Company an assignment of their commission interest in all of their Life renewals, and the plan of course would be for the bank's check to be delivered by Cashier Usher of the Cleveland Office, who would secure the agency's endorsement thereon and then use the check to report the premiums admittedly collected and unpaid to the Company.

I learned this week for the first time that the Leonard Agency represents another Casualty Company, and I daresay they represent a number of Fire Companies. The suggestion has been made that we take this opportunity to insist that the agency give us exclusive Casualty representation. I have talked with Mr. Tracy Smith about this angle of the situation today and he does not look favorably upon any such plan. Mr. Smith says that every large agency today finds it necessary to represent more than one Casualty Company. Furthermore, he feels, as I am inclined to feel, that the officers of the Leonard Agency will be grateful to The Travelers for this assistance at this critical time and will probably give us voluntarily considerably more business than they have in the past. As a matter of fact, I understand that Mr. Leonard and Mr. Shafer offered such assurances when they were here last week seeking a loan.

In recommending that the bank loan this agency \$28,000., with the Life renewals assigned as collateral, I do so with full recognition of the fact that we have not made a complete investigation of all the affairs of the agency. How badly involved they may be we do not know by actual examination of their books, but we are satisfied—and our Cleveland cashier has checked the accounts in Canton—that the full indebtedness of the agency to The Travelers has been established. Relatively, it is not a large amount of money, considering the size of the agency. The matter is presented to us as a business situation rather than a defalcation. The officers of the corporation—men of standing and ability, to whom we are now entrusting the collection of a very large sum of money every year—have assured us that they can manage their other obligations if The Connecticut River Banking Company will help them put their house in order with The Travelers. They do not appear to be worried at all about anything except their accounts with us. Taking all this into consideration, it does not seem to me that we would be warranted in requiring proofs or in an extensive examination of all of the affairs of the agency, including the financial responsibility of each of its officers. The President and Secretary of the corporation have assured us that the agency is in a perfectly sound condition and I feel that it would be unwise to jeopardize our relations with such a large and important production unit by treating these men with suspicion. As far as we can ever tell about such things, the \$28,000. loan secured by the Life renewal commissions appears to be amply protected in this case. It would seem to me that repayment to the bank can practically be guaranteed in view of the fact that we shall be collecting Life renewals through our Cleveland Office and can at any time divert the commission interest to The Connecticut River Banking Company if the agency fails to make its payments as agreed.

Comptroller.

(Handwritten below last sentence:) { I recommend the loan. }
 CDR:M. { Concur. L. E. Zacher }

EXHIBIT No. 1109

[Prepared by The Travelers Bank & Trust Co.]

Commercial Department Mortgage Loans as of July 27, 1939

Name of Borrower	Title if with Trav. Ins. Co.	Date of Original Loan	Unpaid Balance
Rocco Pallotti		July 5, 1923	\$3,000.00
Madison D. & Fern E. Chapman	Cashier, Branch office	Jan. 2, 1924	3,850.00
Joseph R. & Anna C. Lacy	Ass't. Secy. Accident Dept.	Mar. 18, 1924	300.00
Charles E. Ferree	Ass't. Agency Secy. Ind. Co.	Feb. 19, 1925	
Acquired by Edith Weston Ferree Jan. 9, 1936.			5,016.50
M. Good Wolfe	Ass't. Secy. Casualty Dept.	Feb. 20, 1926	5,857.69
Dorothy R. Taylor		June 18, 1929	
Acquired by Euen Van Kleeck July 31, 1936.	Ass't Medical Director		8,900.00
Bertrand A. Page	Vice-Pres	Nov. 30, 1929	5,000.00
Allan E. & Georgette C. Brosmith	Lawyer	Feb. 14, 1930	2,400.71
Burt K. & Edith H. Spencer	Indemnity Dep't	Mar. 25, 1930	4,500.00
Hector O. Provost		Aug. 14, 1930	
Acquired by Elizabeth S. White Aug. 12, 1936.			5,188.49
Bartlett T. Bent	Ass't. Secy	Mar. 14, 1932	8,865.28
Bertrand A. Page		May 31, 1923	
Acquired by Reuben R. Kusnltt August 18, 1931.			

Commercial Department Mortgage Loans as of July 27, 1939—Continued

Name of Borrower	Title if with Trav. Ins. Co.	Date of Original Loan	Unpaid Balance
Bertrand A. Page—Continued. Acquired by Ann R. Einstein May 29, 1933.	-----	-----	\$7,336.00
Skinner Bros & W. A. Haviland. Acquired by Gladden W. Baker and Marlon Williams Baker June 14, 1929.	Treasurer-----	Sept. 27, 1928	6,250.00
Daniel A. Read-----	Secretary-----	Apr. 28, 1923	6,050.00
Benedict D. Flynn-----	Vice-Pres.-----	Oct. 25, 1930	14,550.00
			\$86,164.67

F. F. FISHER, *Treas.*

EXHIBIT No. 1110

[From files of The Travelers Insurance Co.]

(Handwritten:) File Trav. Ins. Co.

SEPTEMBER 11, 1929.

Mr. HUBBARD: I have arranged with Mr. Butler that while I am gone the money not needed for investment and above the amounts normally required for our business should go in The Travelers Bank and Trust Company.

If you will be kind enough to *put this out on call*, we will receive due benefit from it.

Please keep in mind that the balance of The Travelers Insurance Company in The Connecticut River Banking Company should be around \$3,000,000.

L. E. ZACHER.

(Handwritten:) Sherwood will advise you as he puts in the deposits. 2.

(Handwritten:) Noted. La H.

EXHIBIT No. 1111

[Prepared by The Travelers Insurance Co.]

The Travelers Insurance Company—Bank Balances, The Travelers Bank and Trust Company

	Balance	Rate of Interest	Amount of Interest
December 31, 1917-----	100,000.00	2%	1,468.01
1918-----	175,000.00	On 100 M 3%	4,639.37
		Balance 2%	
1919-----	175,000.00	On 75 M 2%	4,250.00
		On 100 M 3%	
1920-----	250,000.00	On 150 M 2%	4,854.62
		On 100 M 3%	
1921-----	225,000.00	On 75 M 2%	6,167.80
		On 200 M 3%	
1922-----	275,000.00	On 75 M 2%	6,859.86
		On 200 M 3%	
1923-----	400,000.00	3%	9,564.49
1924-----	350,000.00	3%	10,678.81
1925-----	300,000.00	3%	8,488.17
1926-----	673,830.21	3%	11,422.79
1927-----	750,000.00	On 75 M 2%	16,349.43
		On 100 M 3%	
1928-----	1,150,000.00	On 75 M 2%	28,039.62
		On 100 M 3%	
1929-----	1,300,000.00	On 75 M 2%	49,999.37
		Excess 3%	
1930-----	450,000.00	On 75 M 2%	31,727.99
		Excess 3%	
/ 1931-----	450,000.00	134%	9,849.67
1932-----	450,000.00	194%	7,896.50
1933-----	450,000.00	134%	6,007.16
1934-----	450,000.00	94%	3,916.45
1935-----	450,000.00	122%	2,249.95
1936-----	450,000.00	122%	2,256.12
1937-----	450,000.00	122%	2,249.95
1938-----	450,000.00	122%	1,455.53

H. R. P.

EXHIBIT No. 1112

[From files of The Travelers Insurance Co.]

[Copy]

I. SIBBERNSEN,

FARM LOANS

OMAHA, NEB., *September 29, 1926.*Mr. L. E. ZACHER,
Hartford, Conn.

DEAR MR. ZACHER: Last winter when H. C. Adams had his blow up I expected the same thing to happen to me, but it has now come, and you will find that you hold a large amount of spurious mortgage papers; every one however, made for the purpose of taking care of your interests in this State and for no other purpose; that is, not a dollar has gone into my pocket or for riotous living, gambling, etc. I will admit that some of the loans which are on your books and on which foreclosure has been had and the land taken over, should not have been made, but there are only about ten loans where there might be a loss and where I unfortunately relied upon other peoples' examinations. The rest are all well secured and will within a couple of years, when matters get normal again, bring not alone in all instances, the money back, but in many cases an enormous profit. That is, I figure that the land will bring at least \$200,000.00 profit over and above what the land stood on my books on July 1st, when I took an invoice.

Times are slowly getting more normal, and some lands are being sold, but none being sold which is under foreclosure, and those lands which are under foreclosure or have been are run down propositions where repairs were and are necessary, and what money I have realized from the spurious mortgage papers has all gone for the purpose of paying you interest upon the original mortgages, taxes, repairs upon the buildings, and interest upon the spurious mortgages which I have sent you to cover those expenditures; I can account for every dollar. Hence, you will not alone not lose a dollar, but will have quite a large margin of security. Possibly I have fixed up the buildings and the farms better than I ought to, but it had to be done or the loss would be great.

But, don't you think, Mr. Zacher, that you folks are also greatly to blame? I have loaned for The Travelers Insurance Company over \$40,000,000.00 and not more than ten or twelve of the farms have been investigated, while every other Insurance Company has a number of special examiners who examine each farm either before, or shortly after the loan has been made. Of course, you have had explicit confidence in me and which confidence I have violated, but it was partly done for lack of supervision and conditions that came about over which I had no control. You and the Mortgage Loan Division have the Finance Committee to check you over, while I have not had anybody.

I am not sorry that the matter was discovered in connection with the duplication of loans Miller (which I had prepared) and Hastreiter, and also that inspections will be made by Mr. Mount of those Nyquist loans, as I will be unable to carry on any longer. Just think, what work I have done in the last six years running the loan business, completing all of these foreclosures and getting the farms in shape, without a dollar of expense to The Travelers or a minute of worry. Please bear in mind that my organization is in perfect running order, and the books also in perfect shape.

Besides the fictitious mortgages, I have of course been compelled—so as not to see everything collapse a year ago—to make many extensions of the loans which had been foreclosed upon; that is, I only foreclosed upon interest coupons and taxes, and let the principal remain, and which can be done under the laws of this State. The total amount of your first mortgages to which I hold title must be about \$1,400,000.00 but they are in good standing.

Mr. Zacher, after the deflation, Nebraska as well as Iowa became dead busted and of course I made the mistake of my life when I bought the Meadow Ranch and did not close up shop on March 1, 1920, and did not pay out on the Meadow Ranch and let you take care of the loans, as during these six and a half years I have done nothing else but trade dollars, without a moment's peace of mind and not a day's vacation. I have many apologies to make, and still above are the facts, and it is for The Travelers Insurance Company and I. Sibbersen to work out the matter in a harmonious manner. Deeds were prepared as the lands were taken over, and I wish to get credit for every dollar I have put into your securities with interest, and be charged every dollar of those spurious mortgages, but I also

wish to save my deferred commissions and I am at your service and so is the office help, to work out everything, which we can do better than anybody else. I am not alone ready to turn back to you the Meadow Ranch, and the cattle, but also to pledge my other property as security.

The spurious mortgages, partial payments and unfinished loans on hand amount to, in round figures, about \$1,467,700.00 but I have taken over about 116 farms for your account, and which farms are ready to be turned over to you and which are daily being improved; that is, we do not need any controversy, receivership, litigation, prosecution, or publicity; everything is in first class condition as far as it goes.

Mr. Drexel came home the other day from the ranch to see his mother, who has been quite ill and bedfast for over five weeks.

We carefully went over the matter of the Meadow Ranch, and come to the conclusion that we have to stop the operation. He has spent three years of his life on the place, and I have out of the loan business paid his salary. We have on the ranch now 2000 head of cattle, 3000 tons of hay, besides the other personal property. The ranch, as you know, cost me, including the School Land Contract and personal property, \$300,000.00 in addition to which I have spent about \$15,000.00 for repairs, new wells, etc., and it is in perfect condition. I have marked it on my list of assets at what it stands me in without marking off any loss, but have not added the large amount of interest which I have suffered on my cash investment of over \$200,000.00 for six years, and neither is there included Drexel's salary, which as said before, I have paid out of the loan business, and neither anything for my services.

Mr. Drexel I believe will associate himself with his father-in-law, Mr. John W. Towle, who has been after him for a year and a half, but Drexel thought his first duty was to me, but of course it does not satisfy him to be working on a losing proposition continually.

As the farm loan business is today, it is, as I told you yesterday, not worth doing, except you make the excessive loans. The rate is almost down to 5% flat; the local money is interfering as well as the Federal Land Banks, which are making loans up to \$100.00 an acre, and if I were you I would from now on collect in all of the Nebraska as well as Iowa loans and quit that line of business. Many of the loan agencies in Nebraska are I believe in the same shape as I am, and the standard greeting is with most of us when we meet each other, that we are "wondering we are still out of jail." I feel relieved that the matter has come to an issue and that I might possibly be able to enjoy a few years of peace, and not be worrying what the day will bring me each time I go to the office in the morning.

Mr. Zacher, I do not know how you wish to handle the matter; possibly the best thing would be to form a Farm Land Corporation with a capital of \$2,000,000.00 out of which you pay out on unfinished loans, partial payments, take up those spurious mortgages and refund to me advanced interest, taxes and what I have invested in foreclosures; the balance to be used for running expense to take up maturing loans in 1927, pay taxes, etc. Of course, a good deal of rent will be coming in from now on, and everything can be worked as a separate affair from your loans in force. By the fall of 1927 many of the farms can be sold and a great many for much more than there is invested in them, and by the spring of 1929 the matter ought to be a closed incident as far as The Travelers is concerned, except the collection of unmatured loans. If this should not meet with your approval, why not set aside sufficient money to work it out with, even in a gradual manner.

I am suggesting a corporation to take over the farm lands, the same as you did with the San Luis Valley land and Irrigation enterprise, and the same as the Trust Companies here have had to do for the same purpose; they selling the stock. The Penn Mutual I understand recently took deeds from their representative to all of the lands which he had bought under foreclosure or mortgages negotiated by him, and the Royal Union of Des Moines have already expended a million and a half dollars, I have been told, for repairs, taxes, etc., to protect their investments in Iowa, Nebraska and South Dakota.

The attached statement is a fair and unbiased balance sheet, subject to minor corrections, considering the large amounts involved. On the lands which I have taken in under foreclosure, no profit has been added, but farm after farm will bring a profit of from \$5,000.00 to \$20,000.00 when disposed of, provided they are not thrown on the market at the present time.

When the collapse came, I had saved and had laid aside for a rainy day, \$31,000.00 cash in a separate account (this was outside of my general assets) but it was quickly spent and is not included in the statement. The \$31,000.00 all went for

repairs, new buildings on the farms which I commenced to take over, but it became only a "drop in the bucket" and shortly thereafter I had to commence shifting and cut sharp corners. I have never been able to understand really that you folks did not realize the conditions out West. As said before, we became dead busted, but as we had usually been able to dig out after a year or two of depression, I was optimistic but here it is almost seven years and we are not very much better off, and apparently it will take two years more before matters have righted themselves and by that time more farmers will lose their farms and more banks will close their doors. Here in Omaha three National Banks were absorbed by larger institutions, so as I presume, to prevent greater calamities and one State Bank went into Receiver's hands.

Foreclosures are seldom completed within three years, and sometimes longer, and when it is completed what we have to take over is nothing else but a run down farm, and then it takes from two to three years for rebuilding, repairs, re-fencing and re-seeding so as to get the place on a productive basis as well as giving it an intrinsic value. A person can figure it takes from 33% to 60% of the amount of the loan before the farm can be sold and the money realized. The Reynoldson farm, Loan No. 26814—\$17,000.00 stood me at the time of the confirmation of the sale by the Supreme Court, \$34,482.70, but which farm is worth now, the way it is fixed up, \$150.00 an acre, or \$48,000.00. And, Loan No. 24941—Bauer—\$14,000.00, and which foreclosure also went to the Supreme Court, stands me about \$10,443.34 plus your mortgage of \$14,000.00 and this is the first year that I can expect some kind of returns from either place. These are only a couple of instances and the information is given you so that you may see where your money has gone, and in the cost of the farms is included interest, taxes and repairs paid by me, as well as court costs, attorney fees and abstracting. The office work has been done in connection with the farm loan business.

Among the "bills receivable" is a note of \$120,000.00 which my sons gave me in connection with the purchase by them of cattle for the Meadow Ranch and to enable them to run their farms during the last six years. However, they like all farms, have lost, and their personal property would not bring more than \$80,000.00 if sold at the present time. The note is good and will be paid.

OCTOBER 8, 1926.

To add to my present predicament, I wish to state plainly, they the interest collections for this fall are going to be quite slow, We had, so to speak, a complete failure of small grain, and in most of the South Platte country also complete failure of the corn, while in your loaning territory the corn is from fair to full, but very little money will be realized from the corn or the spring pigs until December-January. The fact of the matter is, the interest due October 1 came in slower than in any other year since 1921, and we have already sent out second notices and attended to everything the same as if nothing had happened as yet,—and will until you or some representative comes out—except that we are declining whatever new applications that come to the office.

After above letter had been dictated and written I came to think that perhaps it was best to make you an itemized statement, list of the spurious loans, of the farms taken over, etc., so that you may have everything before you in Hartford instead of waiting until coming out West.

Let me add that the accounts for the farms which I have taken over, are kept in separate set of books, and I have about \$3,000.00 on hands in cash to cover all bills for pending repairs, superintendent's salaries, lumber bills, etc. I have two superintendents working, to look after those farms, to-wit: John P. Cameron of Tekamah and F. J. Sexsmith of Emmet, Nebraska. They are both ex-farmers; men of excellent repute and of sound judgment, and they have been with me for a long time. The farms are all rented to good tenants; the leases are all drawn and the farms are under perfect control the same as if I owned them myself, and did not hold them, so to speak, as trustee or as agent.

I am not indebted to any bank and my only indebtedness is small current bills and lease upon the office.

Yours very truly,

(Signed) (I. SIBBERNSEN)

EXHIBIT 1113

[From files of The Travelers Insurance Co.]

Record Book, Nebraska Securities Corporation

I. Sibbernsen owed The Travelers:

On account of spurious mortgages	1, 251, 500	
On account of partial payments on principal collected and withheld	55, 100	
On account of money paid to him for loans which did not reach the borrowers	161, 100	
		1, 467, 700

Settlement of this indebtedness was made as follows:

By allowance for net amount invested by I. Sibbernsen in 116 farms to which he had taken title, over and above the first mortgages thereon held by The Travelers aggregating \$1,392,300	583, 566. 76	
By allowance for net amount invested by I. Sibbernsen 44 farms in process of foreclosure, over and above the first mortgages thereon held by The Travelers aggregating \$538,100	83, 375. 43	
By tax certificates owned by I. Sibbernsen on properties in which the Company had a first mortgage interest	7, 801. 10	
By interest advanced by I. Sibbernsen on interest coupons sent him for collection	42, 360. 37	
By the amount of interest paid to The Travelers on Sibbernsen loans, \$1,251,500	65, 167. 27	
		782, 270. 93

Leaving to be paid 685, 429. 07

I. Sibbernsen gave his note for this amount, \$685,429.07 due March 15, 1929, and pledged in payment:

The Meadow Ranch subject to purchase lien of \$87,000 together with all personal property, cattle, etc. at a valuation of	295, 585. 08	
Notes, Receivables and Accounts due I. Sibbernsen including note of Sibbernsen Bros. Realty Co. for \$120,000—at a face value of	132, 739. 51	
Mortgage notes due I. Sibbernsen aggregating	72, 288. 81	
Uncollected deferred commissions due Sibbernsen on mortgage loans negotiated by him—about	300, 000. 00	
Real Estate owned by I. Sibbernsen put in at a value of	278, 348. 27	
Other items including "2707 Corby St." and notes, put in at a value of	5, 000. 00	

Total estimated value of collateral 1, 083, 961. 67

Following the settlement agreement, the Nebraska Securities Corporation was organized with a

Paid in capital of	2, 300, 000	
And notes payable	1, 100, 000	
		3, 400, 000. 00

The Nebraska Securities Corporation purchased from The Travelers:

116 farm mortgages for	1, 392, 300	
Equity in above for	583, 566. 76	
44 farm mortgages in process of foreclosure for	538, 100	
And expended thereon	83, 375. 43	
I. Sibbernsen note	685, 429. 07	
		3, 282, 771. 26

Leaving a working capital of cash 117, 228. 74

The Omaha Land Company was organized to hold the collateral supporting I. Sibbernson's note and act in a fiduciary capacity for proper accounting, tax purposes, etc.—the stock being issued to the Nebraska Securities Corporation for \$685,500.

A short time before the maturity of I. Sibbernson's note, he made a proposal to liquidate the balance by transferring title to a certain part of the collateral and keeping the balance. A counter proposal was then made and about July 12, 1929 a settlement was agreed upon whereby I. Sibbernson discharged his note by surrendering and transferring *all* the collateral in the Omaha Land Company and a cash payment of \$15,000, with the exception of

Sibbernson Bros. Realty Company note, \$120,000, on which we received a payment of \$10,000.

Spirit Lake Farm	Nominal Value	\$5,000.00
J. F. Lunby Notes	" "	1,933.93
Schultz 2nd Mortgage	" "	4,000.00
Michaelson Texas Farm	" "	300.00
Elkins 2nd mortgage note	" "	354.51
Nieman Note	" "	250.00

On March 15, 1929, Sibbernson's note had been reduced from \$685,429.07 to \$569,800.67, the accumulated interest on the principal figured at 5% per annum on monthly balances, except that portion represented by the Meadow Ranch which was figured at 3% in accordance with the original agreement, amounted to \$37,761.50 at 5%, and \$21,294.68 at 3%, total \$59,056.18, making the total due from I. Sibbernson on March 15, 1929	\$628,856.86
He paid in cash	15,000.00

Leaving	613,856.86
The value of the remaining collateral was figured by us (excluding only Sibbernson Realty note, balance due thereon \$110,000) at	594,211.72

Net difference	19,645.14
Sibbernson's commission interest was figured at	\$140,634.78
Discounted at 5%—present value is	130,143.17
Less 20% for loss on loans paid in advance, partial payments, foreclosures	26,028.34
Amount allowed	\$104,114.83

EXHIBIT No. 1114

[From files of The Travelers Insurance Co.]

Nebraska Securities Corporation, Balance Sheet, December 31, 1926

ASSETS

First Mortgage Loans (Secured by Real Estate)	\$1,930,400.00
Real Estate	666,942.19
Stock in Omaha Land Company	685,500.00
Cash in Banks	117,157.81
	\$3,400,000.00

LIABILITIES AND CAPITAL

Demand Notes	\$1,100,000.00
Capital Stock	2,300,000.00
	\$3,400,000.00

Omaha Land Company, Balance Sheet, December 31, 1926

	ASSETS	
Notes Secured.....	-----	\$685, 429. 07
Cash in Bank.....	-----	2, 070. 93
		\$687, 500. 00
	LIABILITIES AND CAPITAL	
Notes Payable.....	-----	\$2, 000. 00
Capital Stock.....	-----	685, 500. 00
		\$687, 500. 00

EXHIBIT No. 1115

[From files of The Travelers Insurance Co.]

DECEMBER 18, 1930.

Mr. E. B. MOUNT,
Security Building, Minneapolis, Minnesota.

DEAR EARL: Last year you wanted to buy ten shares of Travelers stock. As I remember, I told you it would be best to buy five shares and take a chance on picking up the other five shares cheaper.

Due to the liquidation of several brokerage houses and the general scare, certain distressed stock has been thrown on the market during the last month and it has declined from 1500 to as low as 830. In this process we acquired a few shares—more to steady the market than otherwise and there is no particular reason for holding it.

If, therefore, you have some cash and want to average down you may have five or ten shares of this stock at 850. I telegraphed you and this letter is merely to supplement that information.

If you decide to buy, please send me your check and I will take care of it, and will see that you get the certificate.

Sincerely,

[Copy of telegram]

HARTFORD, CONN., *December 18, 1930.*

Mr. E. B. MOUNT,
Security Building, Minneapolis, Minnesota:

Some distressed Travelers stock came into market Stop Recalling you purchased but half what you wanted last year leads me to ask if you care to add to your holdings up to ten shares at eight hundred fifty cash Wire me tomorrow

L. E. ZACHER.

Charge "The Travelers."

[Western Union]

1930, Dec. 19 PM 1 30.

NA476 12, Minneapolis, Minn. 19 1221P

L. E. ZACHER,
*President, The Travelers Insurance Company,
Hartford, Conn.:*

Please put me down for five shares Check in mail Many thanks.

E. B. MOUNT.

(Various illegible signatures were on bottom of copy of telegram.)

EXHIBIT No. 1116

[From files of The Travelers Insurance Co.]

DECEMBER 24, 1931.

Mr. F. B. GOUDY,
General Manager,
320 Barker Building, Omaha, Nebraska.

DEAR SIR: The Nebraska Securities Corporation has today purchased the following stock:

100 shares	Alabama Power Co. \$6. Preferred	\$10,375.00
340	American Hardware Corp. Common	27,020.00
220	Pacific Gas & Electric Co. Common	13,482.75
15	Pere Marquette Rwy. Co. pfd	1,451.75
100	Public Service Corp. of N. J. \$5. Pfd	9,795.00
500	Scovill Mfg. Co., Common	31,507.50
250	Shell Union Oil Corp. 5½% conv. pfd	20,925.14
300	Southern Calif. Edison Co. 5½% Pfd. Series "C"	7,845.00
500	Standard Brands, Inc. Common	16,000.00
657	Stanley Works, Common	34,847.00
25	The Travelers Insurance Co.	38,654.94
60	United States Steel Corp. Common	9,816.50
		<hr/>
		\$221,720.58

Please make the following entries:

Charge Stocks and Bonds	\$221,720.58
Credit L. E. Zacher, Treasurer, Account	\$221,720.58

Very truly yours,

A. H. STEIDEL, Assistant Cashier.

(Handwritten:) Entered, 12-28-31.

"EXHIBIT No. 1117," appears in text on p. 6457.

EXHIBIT No. 1118

[Prepared by Trading & Exchange Division, S. E. E.]

No. of Shares	Description of Security	Cost	12/24/31 Market Value		Amount market under cost
			Price	Amount	
100	Alabama Power Co., \$6 Pfd.	10,375.00	*73½	7,350.00	3,025.00
340	American Hardware Corp. Com	27,020.00	22	7,480.00	19,540.00
220	Pac. Gas & Elec. Com	13,482.75	33¾	7,315.00	6,167.75
15	Pere Marquette Ry. Co. Pfd.	1,451.75	6	90.00	1,361.75
100	Public Service of N. J., \$5 Pfd.	9,795.00	78¾	7,887.50	1,907.50
500	Scovill Mfg. Co. Com.	31,507.50	18¾	9,250.00	22,257.50
250	Shell Union Oil 5½ Conv. Pfd.	20,925.14	15¾	3,875.00	17,050.14
300	So. Calif. Edison Co. Pfd., Ser. C.	7,845.00	*20½	6,450.00	1,395.00
500	Standard Brands	16,000.00	12¾	6,375.00	9,625.00
657	Stanley Works, Com	34,847.00	*18	11,826.00	23,021.00
25	Travelers Insurance Co.	38,654.94	410	10,250.00	28,404.94
60	U. S. Steel Corp., Com	9,816.50	37¾	2,265.00	7,551.50
		<hr/>			
		\$221,720.58		\$80,413.50	\$141,307.08

(1) Source of information is Wall Street Journal except where an exception is designated by asterisk. In these three cases the Commercial and Financial Chronicle is the source.

(2) Actual bid prices are used. No attempt has been made to narrow wide spreads.

FWWolf/rmg

"EXHIBIT No. 1119," introduced on p. 6463, appears in Hearings Part XII, appendix, p. 6356.

EXHIBIT No. 1120

[Prepared by Shenandoah Life Insurance Co.]

	July 31, 1939	
	No. Lives	Amt. Ins.
U. S. Treasury Department Beneficial Association, H. G. Kaiser, President. J. F. Moody, Sec'y	15,074	\$21,367,644
In-Com-Co Club (Interstate Commerce Commission), W. H. Barringer, Pres. C. A. Gartner, Treas.	511	749,065
Department of the Interior Beneficial Assn., John G. Harvey, Pres. John P. McDowell, Sec'y-Treas.	2,705	3,502,806
Employees' Welfare Association, U. S. Veterans' Administration. A. J. Bross- eau, Pres. Frances M. Miller, Treas.	2,136	2,625,782
Navy Department Beneficial Association, A. F. Bogue, Pres. J. S. Davitt, Sec'y	14,713	18,194,742
U. S. Department of Agriculture Beneficial and Relief Association, W. W. Stock- berger, Pres. J. M. Kemper, Sec'y-Treas.	13,579	19,196,049
Philadelphia Navy Yard Group Life Insurance Assn., J. F. Daniels, Pres. H. D. Rutherford, Sec'y	4,687	5,279,300
U. S. Departments of Commerce and Justice Beneficial Association, Malcolm J. Kerlin, Pres. W. S. Erwin, Sec'y-Treas.	7,200	9,820,503
War Department Beneficial Association, F. M. Cunley, Pres. W. A. Kenyon, Sec'y-Treas.	11,251	16,117,343
Tacomis Club Beneficial Association (U. S. Tariff Commission), F. M. Leonard, Pres. L. W. Moore, Sec'y-Treas.	308	365,941
Washington Navy Yard Group Life Insurance Association, R. M. Carnahan, Pres. Edwin C. Lynch, Secretary	2,914	3,734,997
Municipal Employees' Group Insurance Association, A. G. Cole, Pres. J. L. Gelbman, Secretary	1,812	2,127,671
Government Printing Office Group Life Insurance Association, M. R. Spielman, President. Ernest C. Mellor, Secretary	3,599	5,236,972
U. S. Department of Labor Beneficial Association, S. J. Gompers, President. Ralph H. Horner, Secretary-Treasurer	2,276	3,065,685
Welfare and Recreational Association of Public Buildings and Grounds, U. S. Veterans' Administration, Insurance Division, R. F. Martin, Pres. F. W. Hoover, Gen. Manager	1,441	1,633,971
Employees' Beneficial Association, Bureau of Old Age Insurance, Social Security Boa 1, Earle R. Strong, President. J. I. Bellow, Sec'y	392	553,438
Totals	84,598	\$113,576,909

SHENANDOAH LIFE INSURANCE COMPANY, INC.,
HENRY E. THOMAS, *Vice President*
In Charge of Group Insurance.

EXHIBIT No 1121

[Prepared by Shenandoah Life Insurance Co.]

No.	Name	Amount	Date made	Date paid
193	J. P. Saul, Jr.	\$4,750.00	1-4-29	3-24-29.
194	R. H. Angell	29,000.00	1-9-29	12-31-30.
195	J. P. Saul, Jr.	3,500.00	1-9-29	5-12-29.
196	W. L. Andrews	9,000.00	2-2-29	8-31-29.
197	J. H. Dunkley	5,250.00	2-4-29	9-23-29.
198	J. P. Saul, Jr.	4,000.00	2-13-29	5-12-29.
199	J. H. Dunkley	1,000.00	3-15-29	10-23-29.
202	J. P. Saul, Jr.	2,000.00	4-24-29	5-13-29.
203	J. P. Saul, Jr.	7,500.00	5-12-29	7-25-30. 12-23-30.
204	W. J. Henson	1,750.00	5-15-29	7-17-29.
206	W. E. Henson	2,000.00	6-10-29	12-31-31.
207	Hughes T. Angell	5,500.00	6-17-29	12-31-30.
208	J. P. Saul, Jr.	2,000.00	7-15-29	1-3-30.
209	J. H. Dunkley	6,000.00	9-23-29	1-3-30.
211	W. L. Andrews	27,000.00	11-11-29	12-28-29. 1-3-30.
213	W. J. Henson	900.00	12-4-29	5-22-30.
214	R. H. Angell	4,800.00	12-20-29	1-13-30.
214½	W. L. Andrews	12,745.00	12-31-29	3-3-30. 7-26-30.
216	W. L. Andrews	5,000.00	1-7-30	2-7-30.
217	Henson & Henson	500.00	1-7-30	3-11-32.

No.	Name	Amount	Date made	Date paid
218	Oakland Corp. 1 lot set up in Real Estate @ + 400.00 Bal of 299.71 Charged off.	\$7,477.00	1- 8-30	{ 7- 8-30 } { 12-19-30 } { 12-29-31 } { 2-26-32 } } 2,603.30 cash. 3,812.79 cash. 361.20 cash.
222	Dunkley & Saul	6,500.00	4- 2-30	4-8-30.
223	Dunkley & Saul	7,500.00	4- 8-30	7-7-30.
224	Rives S. Brown	5,000.00	4-29-30	10-18-32.
225	W. J. Henson	1,400.00	5-22-30	7-10-30.
226	W. J. Henson	2,000.00	7-10-30	9-12-30.
228	H. T. Angell	5,500.00	8- 5-30	12-31-30.
229	Saul & Dunkley	7,500.00	8- 5-30	12-23-30.
230	J. H. Dunkley	2,000.00	8-21-30	10-14-30.
231	Central Mfg. Co.	10,000.00	10-10-30	11-4-30.
232	J. H. Dunkley	3,600.00	10-14-30	3-27-31.
233	Central Mfg. Co.	12,500.00	11- 4-30	12-2-30.
234	Central Mfg. Co.	16,000.00	12- 2-30	12-31-30.
235	J. P. Saul, Jr.	7,500.00	12-23-30	3-27-31.
236	Saul & Dunkley	1,800.00	12-23-30	3-27-31.
237	R. H. Angell	40,000.00	12-31-30	{ 4-14-35 (200.00). 5-31-38.
238	Central Mfg. Co.	38,000.00	12-31-30	Collateral taken over—Balance of loan \$17,913.50 transferred to Notes Receivable.
239	L. S. Davis	5,000.00	1- 6-31	6-2-31.
240	J. H. Dunkley	500.00	1- 6-31	3-10-31.
242	Hughes T. Angell	12,000.00	1-27-31	3-12-32.
244	Mrs. Mary J. Andrews	12,000.00	2-20-31	12-31-31.
245	J. H. Dunkley	1,000.00	3- 7-31	6-21-31.
246	Dunkley & Hughes *Unsecured balance of 784.77 transferred to Notes Rec.	2,000.00	2-26-31	10-20-38.*
247	J. H. Dunkley	4,400.00	3-27-31	3-12-32.
248	J. P. Saul, Jr.	8,500.00	3-27-31	3-12-32.
251	L. S. Davis	1,000.00	5-13-31	7-16-31.
252	J. H. Dunkley	1,000.00	5-27-31	6-12-31.
253	E. M. Andrews	2,400.00	6- 2-31	{ 9-8-31—250.00 cash. 8-10-32—2,150.00 cash.
254	Hughes T. Angell	2,750.00	6- 3-31	7-1-31.
257	W. E. Henson	245.00	6-27-31	{ 12-19-31—11.19. 1-29-32—233.81.
258	Hughes T. Angell	4,500.00	7-15-31	3-12-32.
259	Hughes T. Angell	4,500.00	8-10-31	3-12-32.
260	Shenandoah Holding Corp.	7,500.00	8-24-31	10-26-31.
261	L. S. Davis	850.00	10-15-31	7-18-32.
262	Foundation Finance Corp.	12,000.00	12-10-31	9-6-32.
263	Chas. E. Ward	1,000.00	12-29-31	1-9-32.
265	Hughes T. Angell	15,000.00	1- 2-32	3-12-32.
266	J. H. Dunkley	600.00	1- 6-32	3-12-32.
268	J. P. Saul, Jr.	10,000.00	1-18-32	3-12-32.
274	Shenandoah Holding Corp.	2,500.00	2-23-32	9-6-32.
277	J. H. Dunkley	900.00	3- 8-32	3-12-32.
278	Mrs. Elizabeth H. Saul Balance of \$14,837.63 consolidated with Coll. Loan #288—J. P. Saul, Jr.	18,500.00	3-12-32	{ 4-28-34 (1,805.72) coll. sold. 8-31-35—1,856.65 coll. sold.
279	Hughes T. Angell *Balance still in Coll. Loans.	*36,000.00	3-12-32	12-23-38—\$10,440.00 paid.
280	J. H. Dunkley	5,300.00	3-12-32	9-21-32.
283	M. F. Weaver, et al.	5,000.00	5-16-32	{ 8-15-35. 5-31-38.
284	Rives S. Brown	3,100.00	6-17-32	{ 10-3-32. 10-18-32.
286	J. P. Saul, Jr. Consolidated with Coll. Loan #288.	3,000.00	7-14-32	12-26-35.
287	L. S. Davis	2,800.00	7-18-32	7-25-39.
288	J. P. Saul, Jr. Collateral sold—Balance of loan \$10,891.93 transferred to Notes Receivable.	5,000.00	6-18-32	12-26-35.
293	Helen S. Trinkle	875.00	8-22-32	9-3-32.
295	Laura W. Dunkley	1,500.00	9-13-32	3-23-33.
296	Foundation Finance Corp.	3,000.00	9-20-32	9-29-32.
297	J. H. Dunkley Balance of \$1,791.22 transferred to Notes Receivable.	5,700.00	9-21-32	12-29 38. Unsecured.
298	Foundation Finance Corp. Over by Co.—Unsecured balance of \$2,357.00 charged off.	16,000.00	9-29-32	7-29-38 Call. taken.
301	Virginia Lumber Mfg. Co.	6,500.00	10-14-32	In force.
302	Rives S. Brown, Jr., Inc.	7,000.00	10-15-32	2-21-33.
304	M. F. Weaver	5,000.00	11-16-32	2-14-33.
308	Rives S. Brown, Jr., Inc.	8,000.00	2-21-33	5-26-33.
310	Central Mfg. Co.	2,000.00	2-28-33	2-7-34.

No.	Name	Amount	Date made	Date paid
311	Shenandoah Holding Corp.----- Unsecured balance of \$1,701.54 transferred to Notes Rec.	\$116,675.58	2-24-33	12-31-38.
312	Mrs. Laura W. Dunkley----- balance of \$665.95 transferred to Notes Rec.	1,900.00	3-24-33	12-29-38 Unsecured
314	Rives S. Brown, Jr., Inc.-----	9,000.00	5-26-33	8-28-33 (1,000.) 6-24-34 (1,100) 12-31-35 (6,000.) 5-7-36 537.50. 5-4-37 362.50.
315	Virginia Lumber Mfg. Co.----- Collateral taken over by Co.	2,000.00	6-21-33	7-29-38 Foreclosed.
316	Chas. E. Ward-----	14,000.00	8-16-33	12-16-33.
317	Helen S. Trinkle-----	1,500.00	8-30-33	12-30-33.
318	M. F. Weaver-----	1,500.00	8-30-33	9-15-33.
319	M. F. Weaver-----	1,871.21	9-15-33	{12-15-33 (174.89). 12-7-34 (1,696.32).
320	M. F. Weaver-----	1,000.00	10-30-33	11-16-33.
321	Elizabeth H. Saul-----	1,000.00	11-6-33	11-28-33.
322	M. F. Weaver-----	2,000.00	11-15-33	12-29-33.
323	M. F. Weaver-----	1,000.00	12-6-33	12-29-33.
324	Hughes T. Angell-----	400.00	1-13-34	4-13-34.
325	Central Mfg. Co.-----	1,000.00	1-15-34	{7-17-34. 10-31-34.
327	Helen S. Trinkle-----	1,500.00	1-30-34	{2-25-37 750.00. 12-28-38 750.00.
328	Central Mfg. Co.----- of \$2,108.67 still in force.	3,602.80	2-7-34	12-31-38 Balance.

Note: Unsecured balances on Collateral Loans numbered: 246, 278, 288, 297, 312, are current as to interest and small payments on principal are made monthly.

W. T. WINGFIELD,
Accountant, 9/2/39.

"EXHIBIT No. 1122," introduced on p. 6472, is on file with the Committee.

EXHIBIT No. 1123

[From files of Shenandoah Life Insurance Co.]

STATE OF NEW JERSEY

DEPARTMENT OF BANKING AND INSURANCE

Bureau of Insurance

TRENTON, August 8th, 1933.

Mr. R. H. ANGELL,
President, Shenandoah Life Insurance Company,
Roanoke, Virginia.

DEAR SIR: We are in receipt of the semi-annual statement of your company for the six months' period ending June 30th, 1933. It is noted from this statement that during a period when disbursements continued to exceed income and your company was operating under restrictions for the benefit of conserving its liquid position, your company increased its outstanding collateral loans by approximately \$100,000 which increase was caused by a loan of \$116,675.58 to the Shenandoah Holding Corporation on the security of certain notes of Insurance Equities Corporation. It is also noted that the transaction as of December 2nd, 1932 involving an exchange of shares of United Life and Accident Insurance Company for shares of Insuranshares Corporation, of Delaware, has been reversed so that your company is again in possession of the United Life and Accident Insurance Company stock. A complete explanation of these transactions is requested.

It is noted that other collateral loans have been made and that certain others, although overdue, have not been paid. Please furnish us with a complete list of borrowers who have any connection with your company whatsoever by way of

stockholdings, directorships or executive office holding. In view of the fact that the income of your company continues to be less than its disbursements it does not appear entitled to use Convention values in the valuation of securities. Please give us a schedule containing a complete valuation of all your outstanding securities on the basis of actual market values as of a current date.

Yours very truly,

A. N. GUERTIN.

R.

(Handwritten:) Interview with A. N. Guertin, Actuary, by E. Lee T. & L. St. J. T. in Trenton on 8/11/33.

EXHIBIT No. 1124

VIRGINIA CODE OF 1936

SEC. 4251a. *Conversion of a stock life insurance Corporation into a mutual life insurance corporation.*—Any domestic stock life insurance corporation may become a mutual life insurance corporation, and to that end may carry out a plan for the acquisition of shares of its capital stock, provided, however, that such plan: (First) shall have been adopted by a vote of a majority of the directors of such corporation; (Second) shall have been approved by a vote of the holders of two-thirds of the stock outstanding at the time of issuing the call for a meeting for that purpose; (Third) shall have been submitted to the State Corporation Commission and shall have been approved by it in writing; and (Fourth) shall have been approved by a majority vote of the policyholders (including, for the purpose of this act, the employer or the president, secretary or other executive officer of any corporation or association, to which a master group policy has been issued, but excluding the holders of certificates or policies issued under or in connection with a master group policy) voting at a meeting, called for that purpose, at which meeting only such policyholders whose insurance shall then be in force and shall have been in force for at least one year prior to such meeting shall be entitled to vote; notice of such meeting shall be given by mailing such notice, postage prepaid, from the home office of such corporation at least thirty days prior to such meeting to such policyholders at their last known post-office addresses, provided that personal delivery of such written notice to any policyholder may be in lieu of mailing the same; and such meeting shall be otherwise provided for and conducted in such manner as shall be provided in such plan; provided, however, that policyholders may vote in person, by proxy, or by mail; that all votes shall be cast by ballot and a representative of the State Corporation Commission shall supervise and direct the methods and procedure of said meeting and appoint an adequate number of inspectors to conduct the voting at said meeting who shall have power to determine all questions concerning the verification of the ballots, the ascertainment of the validity thereof, the qualifications of the voters, and the canvass of the vote, and who shall certify to the said representative and to the corporation the results thereof, and with respect thereto shall act under such rules and regulations as shall be prescribed by the State Corporation Commission; that all necessary expenses incurred by the State Corporation Commission or its representative shall be paid by the corporation as certified to by said commission. Every payment for the acquisition of any shares of the capital stock of such corporation, the purchase price of which is not fixed by such plan, shall be subject to the approval of the commission; provided that neither such plan, nor any payment thereunder, nor any payment not fixed by such plan, shall be approved by the commission if the making of such payment shall reduce the assets of the corporation to an amount less than the entire liabilities of the corporation, including therein the net values of its outstanding contracts computed according to the standard adopted by the corporation under section forty-two hundred and fifty-seven of the Code of Virginia, and also all other funds, contingent reserves and surplus, which the corporation is required by order or direction of the State Corporation Commission, to maintain, save so much of the surplus as shall have been appropriated or paid under such plan. (1934, p. 9.)

SEC. 4251b. *How stock life insurance corporation may acquire its own capital stock.*—If a stock life insurance corporation shall determine to become a mutual life insurance corporation, it may, in carrying out any plan to that end under the provisions of section forty-two hundred and fifty-one—a, acquire any shares of its own stock by gift, bequest or purchase. And until all such shares are acquired,

any shares so acquired shall be acquired in trust for the policyholders of the corporation as hereinafter provided and shall be assigned and transferred on the books of the corporation to not less than three nor more than five trustees and be held by them in trust and be voted by such trustees at all corporate meetings at which stockholders have the right to vote, until all of the capital stock of such corporation is acquired when the entire capital stock shall be retired and cancelled and thereupon, unless sooner incorporated as such, the corporation shall be and become a mutual life insurance corporation without capital stock. Said trustees shall be appointed and vacancies shall be filled as provided in the plan adopted under section forty-two hundred and fifty-one-a. Said trustees shall file with the corporation and with the State Corporation Commission a verified acceptance of their appointments and declaration that they will faithfully discharge their duties as such trustees. After the payment of such dividends to stockholders or former stockholders as may have been provided in the plan adopted under section forty-two hundred and fifty-one-a, all dividends and other sums received by said trustees on said shares of stock so acquired, after paying the necessary expenses of executing said trust, shall be immediately repaid to said corporation for the benefit of all who are or may become policyholders of said corporation and entitled to participate in the profits thereof, and shall be added to and become a part of the surplus earned by said corporation and be apportionable accordingly as a part of said surplus among said policyholders. (Id., p. 10.)

EXHIBIT No. 1125

[From files of Shenandoah Life Insurance Co.]

SHENANDOAH LIFE INSURANCE CO., INCORPORATED,
Roanoke, Virginia, March 26, 1934.

To our policyholders:

After mature consideration, the Officers and Board of Directors of Shenandoah Life Insurance Company decided to convert this stock company into a mutual life insurance company under the Virginia laws in accordance with the Plan set out below. This Plan has been submitted to and approved by the Bureau of Insurance and Banking of the State Corporation Commission of Virginia, and has been approved by more than two-thirds of the Stockholders of this Company. It is herewith submitted to our Policyholders for their approval, as required by law.

This Plan will not change the terms and conditions of your policy.

This movement is in keeping with the modern trend in the insurance world and is similar to the action taken by other progressive stock companies in recent years whereby the stock companies became mutual life companies and are now owned by their policyholders. In excess of 75 per cent of all life insurance today is in mutual companies.

A meeting of the Policyholders of this Company is hereby called for Monday, April 30, 1934, at 10:30 A. M. o'clock at the Home Office of the Shenandoah Life Insurance Company in Roanoke, Virginia, for the purpose of passing upon this Plan to Mutualize the Company.

You, as a Policyholder, are entitled to vote in person, by proxy or by mail. If inconvenient for you to attend the meeting in person and you do not desire to vote by mail, you may sign and return the attached proxy.

Yours very truly,

SHENANDOAH LIFE INSURANCE CO.,
E. LEE TRINKLE, *President.*

ELT/C.

THE PLAN OF MUTUALIZATION

The Plan proposed by the Shenandoah Life Insurance Company, a stock life insurance corporation, hereinafter called the Company, pursuant to Sections 4251-A and 4251-B of the Code of Virginia, to convert said stock life insurance corporation into a mutual life insurance corporation, and providing how it may acquire shares of its own capital stock and ultimately retire same:

1. The Company shall have the right to acquire, from time to time, shares of its capital stock by gift, bequest or purchase. All shares acquired by purchase shall be paid for as follows:

(a) The Capital and Surplus of said Company as shown by its financial statement as of December 31, 1933, which is herewith filed and made a part hereof, marked "Exhibit A," being One Million Dollars (\$1,000,000.00) or Twenty Dollars (\$20.00) per share, Fifteen Dollars thereof shall be payable in cash, upon the proper assignment of such share or shares to the trustees hereinafter provided for, and the residue of Five Dollars (\$5.00) shall be payable only when and as the surplus of the Company shall exceed the sum of Two Hundred Fifty Thousand Dollars (\$250,000.00), or such other sum as may be required by order or direction of the State Corporation Commission of Virginia, after provision has been made for the purchase of all of its outstanding shares at the same price per share; and

(b) After provision has been made for the payment of dividends to holders of participating policies, the said purchase price of shares of stock shall also include the net earnings of the Company for a period of fifteen years from the effective date hereof, payable when and as declared by the Board of Directors. After such dividend shall have been paid to the stockholders from whom such shares were acquired, or to their assignees, for said period of fifteen years, all dividends thereafter declared shall be paid to the trustees to whom said shares so acquired have been assigned and transferred on the books of the Company to be by said trustees repaid to the Company for the benefit of all who are or may become policyholders of said Company and entitled to participate in the profits thereof. From all dividends payable to stockholders whose shares have been acquired by the Company, or from their assignees, there shall be deducted interest at the rate of four per centum per annum on the purchase price paid to such stockholders from the date of acquisition of such shares of stock by the Company.

(c) If at any time during the said period of fifteen years the earnings, assets, and surplus of the Company shall be of sufficient amount to justify the payment of a lump sum in lieu of any and all future dividends hereunder to the stockholders, or their assignees, from whom shares have been acquired, then in such case the Board of Directors may submit to the State Corporation Commission of Virginia a plan setting forth a proposed commuted value of any and all future dividends payable hereunder and, if said Commission shall approve the plan, then such lump sum payment may be made by the Company to such stockholders, or their assignees, as will accept the same.

(d) In consideration of Shenandoah Holding Corporation, owner under contract of purchase of 20,000 shares of Shenandoah Life Insurance Company stock, uniting in this plan and accepting the same price for its controlling block of stock as will be paid for single or small lots of stock, it is proposed to purchase said 20,000 shares from Shenandoah Holding Corporation first under this plan. The Shenandoah Holding Corporation is largely owned and controlled by individuals who are also Officers and Directors of Shenandoah Life Insurance Company. After the cash payment for said 20,000 shares shall have been made and used in discharge of the amount due against said shares, all future payments either on account of principal or of dividends shall accrue to the Company to be applied in liquidating any indebtedness of the Shenandoah Holding Corporation to the Shenandoah Life Insurance Company, until such time as such indebtedness shall have been discharged.

(e) After purchasing said block of 20,000 shares from Shenandoah Holding Corporation, and as the cash resources of the Company shall, in the judgment of the Board of Directors and of the State Corporation Commission of Virginia, permit additional shares to be acquired, as aforesaid, the same shall be purchased from time to time from stockholders whose names shall be drawn by lot by the Trustees, or a majority thereof, hereinafter provided for, from the list of stockholders as shown by the stock record in the office of the Company at the time the list is prepared.

(f) In lieu of the price and terms of payment as set forth in sub-sections (a) and (b) above, and notwithstanding the provisions of sub-section (e) above, the Company may, at the option of the stockholder, purchase outright, shares of stock at such price as may be determined by the Board of Directors, subject, however, to the approval of the State Corporation Commission of Virginia, before any such purchase shall be made.

II. When all of the shares of the capital stock shall have been acquired by the Company, the same shall be retired and cancelled and thereupon, unless sooner incorporated as such, the Company shall be and become a mutual life insurance corporation without capital stock.

III. Five trustees, who shall hold all shares of the stock of said Company purchased as aforesaid in trust for the benefit of the present as well as the future policyholders entitled to participate in the earnings of the Company, shall be elected by the stockholders at the meeting called for the purpose of approving

this plan, and any vacancy occurring among said trustees shall be filled by appointment of the Board of Directors until the next regular meeting of the stockholders, at which time such vacancy shall be filled by the stockholders for the unexpired period for which the trust shall continue; provided, however, that of the said five trustees, two shall be elected or appointed from the stockholders or former stockholders, two shall be elected or appointed from the policyholders of the company who are neither stockholders or former stockholders, and one shall be nominated or designated by the State Corporation Commission and elected or appointed as aforesaid. Said trustees shall file with the Company and with the State Corporation Commission of Virginia a verified acceptance of their election or appointment and a declaration that they will faithfully discharge their duties as such trustees. A majority of the said trustees shall cast the vote of all of the stock held by said trustees at all meetings at which stockholders are entitled to vote.

IV. Notwithstanding anything to the contrary hereinbefore contained in reference to the price and/or terms of payment for shares of stock to be acquired hereunder, no payment therefor or thereon shall be made by the Company which shall reduce the assets of the corporation to an amount less than the entire liabilities of the corporation including therein the net value of its outstanding contracts computed according to the standard adopted by the corporation under Section 4257 of the Code of Virginia and all other funds, contingent reserves and surplus, which the corporation is required by order or direction of the State Corporation Commission to maintain, save so much of the surplus as shall have been appropriated or paid under such Plan.

This Plan shall be submitted to and approved by the Board of Directors, the Stockholders and the Policyholders of Shenandoah Life Insurance Company, and by the State Corporation Commission of Virginia prior to May 15, 1934, in order to become effective; and if not so approved as required by statute and the initial acquisition of stock hereunder made on or before May 15, 1934, this Plan shall be void and of no effect.

In Testimony Whereof, the Shenandoah Life Insurance Company has caused this instrument to be signed on its behalf by E. Lee Trinkle, its President, and its corporate seal to be hereunto affixed, attested by R. M. Graham, its Assistant Secretary-Treasurer, on this the _____ day of _____ 1934.

By _____
 SHENANDOAH LIFE INSURANCE Co.,
 _____,
 President.
 _____,
 Assistant Secretary-Treasurer.

Attest:

PROXY

April 1934.

Know All Men by These Presents: That the undersigned holder of Policy No. _____, issued by the Shenandoah Life Insurance Company of Roanoke, Virginia, does hereby constitute and appoint E. Lee Trinkle, J. P. Saul, Jr., and Chas. E. Ward, or either of them, or _____, my true and lawful proxy to vote upon the Plan to Mutualize said Shenandoah Life Insurance Company at the meeting of the Policyholders to be held for that purpose at the Home Office of said Shenandoah Life Insurance Company in Roanoke, Virginia, at 10:30 A. M. o'clock on Monday, April 30, 1934, or at any adjourned meeting thereof, hereby ratifying and confirming all lawful acts my said proxy may do by reason of this appointment.

Witness:

CONCENTRATION OF ECONOMIC POWER

SHENANDOAH LIFE INSURANCE COMPANY, INC.

ROANOKE, VIRGINIA

Statement as of December 31st, 1933

ASSETS	
Stocks and Bonds.....	\$586, 975. 85
Mortgage Loans.....	2, 469, 128. 35
Collateral Loans.....	399, 516. 68
Policy Loans.....	1, 239, 242. 77
Real Estate.....	1, 264, 141. 29
Renewal Extension Agreement (net).....	69, 675. 57
Cash in Bank.....	319, 437. 67
Accrued Interest and Rents.....	154, 553. 73
Uncollected and Deferred Premiums (net).....	448, 821. 69
Due from Other Companies.....	64, 892. 75
	\$7, 016, 386. 35
LIABILITIES	
Policy Reserves.....	\$5, 799, 905. 00
Reserved for Taxes and Contingencies.....	52, 969. 23
Premiums Paid in Advance.....	6, 847. 81
Unearned Interest Collected.....	31, 063. 48
All Other Liabilities.....	125, 600. 83
Capital.....	500, 000. 00
Surplus.....	500, 000. 00
	\$7, 016, 386. 35

SHENANDOAH LIFE INSURANCE COMPANY, INC., ROANOKE, VIRGINIA

End of Year	Eighteen Years of Progress	Insurance in Force
1916.....		\$1, 504, 904
1920.....		12, 112, 174
1924.....		36, 150, 140
1928.....		72, 274, 000
1933.....		134, 003, 674

Paid to Policyholders Since Organization \$8,760,446.93

(Submitted by New York Life Insurance Company)

SCHEDULE I—BANKS IN WHICH DIRECTOR OF NEW YORK LIFE INSURANCE CO. IS AN OFFICER AND/OR DIRECTOR

Name of Bank	Date of Author-lation to Open Account	Director of N. Y. Life Ins. Co.	Date of Elec-tion to N. Y. Life Board	Balances as of December 31, 1920 to 1928, inclusive																							
				Dec. 31, 1920	Dec. 31, 1921	Dec. 31, 1922	Dec. 31, 1923	Dec. 31, 1924	Dec. 31, 1925	Dec. 31, 1926	Dec. 31, 1927	Dec. 31, 1928	Dec. 31, 1929	Dec. 31, 1930	Dec. 31, 1931	Dec 31, 1932	Dec. 31, 1933	Dec. 31, 1934	Dec. 31, 1935	Dec. 31, 1936	Dec. 31, 1937	Dec. 31, 1938	Dec. 31, 1939				
ral accounts	The Chemical Bank & Trust Co., New York	Aug. 10, 1875	Johnston	Sept. 13, 1922	\$471,465.09	\$339,615.15	\$239,974.82	\$221,104.56	\$346,883.08	\$585,572.51	\$644,977.82	\$899,590.26	\$1,765,993.83	\$2,028,938.56	\$1,074,975.05	\$1,742,852.89	\$5,507,523.84	\$4,548,723.88	\$4,214,633.01	\$4,907,180.99	\$5,800,401.55	\$7,297,264.23	\$5,366,296.92				
	New York Trust Company, New York	May 14, 1889	Hollins	Dec. 11, 1929	\$301,029.00	\$465,791.86	\$135,988.72	\$27,419.59	\$371,974.35	\$40,310.46	\$49,257.73	\$50,245.45	\$1,691,166.91	\$1,865,746.26	\$3,508,552.94	\$,457,352.78	\$,180,043.91	\$,608,059.57	\$,120,633.37	\$,787,504.25	\$,361,969.50	\$,373,366.77	\$,129,226.64	\$,395,350.75			
ial accounts	The National City Bank of New York	June 8, 1853	Hill	July 12, 1923																							
	Lawyer Trust Company, New York	Jan. 28, 1911	Baker, M. N.	Nov. 13, 1933																							
ial accounts	Security Trust Company of Rochester (Rochester Branch Office No. 1 and No. 2 accounts)	Nov. 17, 1910	Sibley	Mar. 9, 1938	\$72,484.18	4,909.00	\$1,333,772.92	129.01	\$464,728.15	453.35	\$1,438,511.84	469.13	\$1,256,446.11	892.05	\$1,194,766.09	105.99	\$1,377,023.05	959.15	\$1,540,016.98	\$2,167,804.98	\$2,775.65	\$2,427.90	\$3,196,996.98	\$3,705,329.44	\$4,306,228.44	\$4,730,264.84	\$5,149,808.84
	Total				\$777,484.27	\$1,435,195.93	\$464,728.15	\$1,438,511.84	\$1,256,446.11	\$1,194,766.09	\$1,377,023.05	\$1,540,016.98	\$2,167,804.98	\$2,775.65	\$2,427.90	\$3,196,996.98	\$3,705,329.44	\$4,306,228.44	\$4,730,264.84	\$5,149,808.84	\$5,572,591.22	\$6,000,144.61	\$6,428,264.84	\$6,856,384.84	\$7,284,504.84	\$7,712,624.84	\$8,140,744.84

SCHEDULE II—BANKS IN WHICH DIRECTOR OF NEW YORK LIFE INSURANCE CO. IS AN OFFICER AND/OR DIRECTOR

Name of Bank	Date of Author-lation to Open Account	Director of N. Y. Life Ins. Co.	Date of Elec-tion to N. Y. Life Board	Balances as of December 31, 1920 to 1928, inclusive																							
				Dec. 31, 1920	Dec. 31, 1921	Dec. 31, 1922	Dec. 31, 1923	Dec. 31, 1924	Dec. 31, 1925	Dec. 31, 1926	Dec. 31, 1927	Dec. 31, 1928	Dec. 31, 1929	Dec. 31, 1930	Dec. 31, 1931	Dec 31, 1932	Dec. 31, 1933	Dec. 31, 1934	Dec. 31, 1935	Dec. 31, 1936	Dec. 31, 1937	Dec. 31, 1938	Dec. 31, 1939				
ier General accounts	The Ches National Bank, New York	Nov. 7, 1907			\$98,848.42	\$27,203.41	\$70,467.00	\$42,339.07	\$200,358.17	\$281,337.25	\$573,115.25	\$393,332.20	\$284,995.15	\$2,242,028.98	\$1,488,429.24	\$2,338,038.21	\$3,003,001.61	\$2,350,070.55	\$2,541,551.47	\$581,1948.72	\$3,561,606.80	\$7,656,656.78	\$5,720,377.69				
	Memphis and Metals National Bank, New York	Jan. 28, 1927																									
ier General accounts	The Chase National Bank, New York (Collection account)	Sept. 7, 1915																									
	Central Union Trust Company, New York (Collection account)	Sept. 23, 1925																									
ier General accounts	Central Hanover Bank & Trust Company, New York	May 8, 1933																									
	Guaranty Trust Company of New York	June 30, 1934																									
ier General accounts	Manufacturers Trust Company, New York	Sept. 28, 1935																									
	Com Exchange Bank Trust Company, New York	Dec. 15, 1935																									
ier General accounts	Hartford National Bank, New York	Jan. 1, 1916																									
	International Commerce Trust Company, New York	Mar. 22, 1916																									
ier General accounts	City National Bank, Chicago	Jan. 25, 1920																									
	City National Bank & Trust Company, Chicago	Jan. 25, 1920																									
ier General accounts	Continental Illinois National Bank & Trust Company, Chicago	Jan. 25, 1920																									
	Wells Fargo Bank & Union Trust Company, San Francisco	Aug. 11, 1896																									
ier General accounts	Creeker First National Bank, San Francisco	Jan. 30, 1938																									
	Bank of Montreal, Montreal, Canada	Aug. 10, 1888																									
ier General accounts	The First National Bank of Atlanta	Jan. 15, 1933																									
	Fulton National Bank, Atlanta	Jan. 30, 1933																									
ier General accounts	Continental Trust Company, Baltimore	Feb. 3, 1933																									
	Merchants Merchants First National Bank, Baltimore	Mar. 20, 1933																									
ier General accounts	Minneapolis Valley Trust Company, St. Louis	Feb. 3, 1933																									
	First & Merchants National Bank, Richmond	Sept. 9, 1933																									
ier General accounts	Merchants Bank & Trust Company, Manassas, Va.	Nov. 12, 1933																									
	The First Nat'l Bank, Memphis	Aug. 9, 1933																									
ier General accounts	Merchants Bank & Trust Company, Jackson, Miss.	Nov. 24, 1933																									
	Northern National Bank & Trust Company, Mississippi	Mar. 12, 1934																									
ier General accounts	Seattle First National Bank, Seattle, Wash.	May 10, 1926																									
	The United States National Bank, Portland, Oregon	May 1, 1929																									
ier General accounts	Sub-total				\$1,812,010.25	\$2,554,698.41	\$1,389,183.60	\$1,807,189.20	\$2,220,113.31	\$3,006,605.65	\$3,491,823.61	\$4,246,691.80	\$4,718,113.65	\$5,808,540.39	\$4,438,287.07	\$5,508,227.52	\$6,033,814.69	\$6,429,735.29	\$6,824,310.89	\$7,219,321.96	\$7,614,310.89	\$8,009,300.00	\$8,404,290.00	\$8,800,280.00	\$9,195,270.00	\$9,590,260.00	
	Total balances in all other accounts authorized to be included in this schedule				\$1,803,974.39	\$1,249,711.41	\$1,333,772.07	\$1,345,677.07	\$1,715,677.45	\$1,715,385.96	\$2,124,033.39	\$1,900,163.32	\$2,221,910.00	\$3,229,480.00	\$3,359,225.48	\$4,370,052.48	\$4,478,880.00	\$4,580,000.00	\$4,681,111.11	\$4,782,222.22	\$4,883,333.33	\$4,984,444.44	\$5,085,555.55	\$5,186,666.66	\$5,287,777.77	\$5,388,888.88	
ier General accounts	Total				\$3,615,984.64	\$3,804,409.82	\$2,722,955.67	\$3,152,866.27	\$3,935,790.77	\$4,721,491.61	\$5,611,917.00	\$6,146,852.10	\$7,947,603.85	\$8,077,533.83	\$9,878,592.47	\$8,907,167.05	\$10,008,032.59	\$11,110,035.28	\$12,121,041.98	\$13,222,048.08	\$14,323,054.18	\$15,424,060.28	\$16,525,066.38	\$17,626,072.48	\$18,727,078.58	\$19,828,084.68	
	Total balances in foreign accounts other than accounts in Canada				\$35,997,287.14	\$4,808,698.88	\$5,456,294.42	\$2,212,028.38	\$707,717.00	\$123,218.24	\$4,697.53	\$4,549.46	\$4,806.25	\$4,283.29	\$4,539.34	\$4,396.70	\$4,874.55	\$5,357.42	\$5,840.29	\$6,323.16	\$6,806.03	\$7,288.90	\$7,771.77	\$8,254.64	\$8,737.51	\$9,220.38	\$9,703.25

SCHEDULE III—BANKS IN WHICH DIRECTOR OF NEW YORK LIFE INSURANCE CO. IS AN OFFICER AND/OR DIRECTOR AND IN WHICH THERE WERE NO BALANCES AS OF DECEMBER 31, 1920 TO 1928, INCLUSIVE

Name of Bank	Date of Author-lation to Open Account	Director of N. Y. Life Ins. Co.	Date of Elec-tion to N. Y. Life Board
City Bank Farmers Trust Company, New York		Dowling	Jan. 11, 1933
Savings Bank Trust Company, New York (for Mutual Savings Bank only)		Bruce	May 11, 1933
United States Trust Company of New York		Bliss	Nov. 13, 1919
Boston Safe Deposit & Trust Company, Boston		Ayer	Mar. 10, 1926
National Shermis Bank, Boston		Ayer	Mar. 10, 1926
First National Bank, Meriden		Canon	Sept. 11, 1919
Cabarrus Bank & Trust Company, Concord, N. C.		Canon	Oct. 14, 1931
Central National Bank, Chicago		Canon	Oct. 14, 1931
First Bank of East Prairie, Missouri		Denforth	Aug. 12, 1931
St. Louis Union Trust Company, St. Louis (conducts a trust business exclusively)		Denforth	Aug. 12, 1931

Previous Home Office General account in Bankers Trust Company, New York, authorized 4/29/17. Account closed 12/24/28.
 Home Office General account authorized in Guaranty Trust Company which was merged with Lawyer Trust Company in 1933.
 Merged with First National Bank, New York, in 1929.
 Merged with Chase National Bank, New York, in 1928.
 Merged with Merchants and Metals National Bank, New York, in 1922.
 Account transferred to National Park Bank, New York after bank merged with Chase National Bank, New York, in 1929.
 Home Office General account authorized in Columbia Trust Company which was merged with Irving Bank in 1923.
 Previous Home Office General account in National City Bank of New York, authorized 11/20/06. Account closed in December, 1928.
 National Bank of Commerce merged by Guaranty Trust Company in 1929.
 Previous Home Office General account in Industrial Bank, New York, authorized 8/28/04. Industrial Bank merged by Manufacturers Trust Company in 1922. Account closed 6/25/28.
 Account closed in 1928.
 Account closed in 1920.
 Previous Home Office General account in First National Bank, Chicago, authorized 6/8/02. Account closed 11/10/25.
 Home Office General account authorized in Farmers-South National Bank. Farmers-South National Bank merged by First National Bank in 1911.
 Home Office General account authorized in Central Trust Company of Illinois. Later by merger of Central Republic Bank & Trust Company. Deposit balances assumed by City National Bank & Trust Company in 1922.

Note.—Company schedules accounts in only those banks which are a commercial banking business. Only commercial banks (except as noted) are listed in this schedule. All savings banks, savings deposit companies, and banks which do not do a commercial banking business and in which a Director of the New York Life Insurance Company is an officer and/or director, are not listed.

Home Office General account authorized in Lowry National Bank. Lowry National Bank became First National Bank in 1929 by merger. Account closed in 1929.
 Account closed in 1923.
 Home Office General account authorized in Merchants-Lafayette National Bank. Merged by Manufacturers Trust Company in 1929. Account closed in 1927.
 Account closed in 1929.
 Home Office General account authorized in County State National Bank which was absorbed by First National Bank in 1920.
 Home Office General account authorized in Dexter-Herzog National Bank. By subsequent merger became Seattle First National Bank in 1936.
 Home Office General account in 1928 and 1929. For "Other Accounts in U. S. and Canada" includes few balances of foreign branch offices in foreign depositors. These balances were not segregated in the annual statement schedules during these two years because they were relatively small.
 Note.—In addition to the General accounts shown in Schedule I, a few accounts of domestic branch offices (and agencies) were maintained from time to time in the bank listed. The relatively small balances in these accounts are not readily available and are not included in the balances of the General accounts. As of December 31, 1928, the total of the balances in the 16 accounts of domestic branch offices reported there maintained in these Home Office General account depositors was \$27,629.25. As of December 31, 1928, the Company had a total of 215 active bank accounts in 107 banks in 60 countries.

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EXHIBIT No. 1127

[Submitted by Hendon Chubb]

Premiums received by the Federal Insurance Company on business of the Prudential Insurance Co.

	1937	1938
Registered Mail Ins.....	\$7,379.28	\$3,713.06
Fire Insurance:		
Direct insurance of the Prudential.....		1,430.80
Reinsurance of American Insurance Co.....		163,231.65

¹ This is the total of the premiums entered on the Federal's books during 1938. If to it were added the Federal's share of premiums entered by the American in November and December 1938, but not reaching the Federal's books until 1939, this figure would be increased to \$91,488.39.

FEBRUARY 21, 1939.

"EXHIBIT No. 1128," introduced on p. 6502, appears in Hearings, Part XII, appendix, p. 6357.

"EXHIBIT No. 1129," introduced on p. 6502, appears in Hearings, Part XII, appendix, p. 6359.

"EXHIBIT No. 1130," introduced on p. 6502, appears in Hearings, Part XII, appendix, p. 6359.

"EXHIBIT No. 1131," introduced on p. 6502, appears in Hearings, Part XII, appendix, p. 6360.

"EXHIBIT No. 1132," introduced on p. 6503, appears in Hearings, Part XII, appendix, p. 6361.

EXHIBIT No. 1133

[Submitted by the Shenandoah Life Insurance Company]

Notes receivable resulting from deficiencies on collateral loans

From Col. Loan No.	Name	Original Amount	Date	Balance 12/31/38	Interest Rec'd	Rate	Balance 8/31/39
238	Central Mfg. Co.....	17,913.50	12-16-35	17,913.50	None.....	6%	17,913.50
246-A	J. H. Dunkley.....	784.77	12-29-38	784.77	To 8/15/39.....	4%	755.02
187-A	J. H. Dunkley.....	348.20	12-29-38	348.20	To 8/15/39.....	4%	335.01
297	J. H. Dunkley.....	1,897.37	12-29-38	1,897.37	To 8/15/39.....	4%	1,825.45
312	Laura W. Dunkley.....	665.95	12-29-38	665.95	To 8/15/39.....	4%	640.69
283	J. P. Saul, Jr.....	11,628.25	7-6-35	10,891.93	To 8/30/39.....	4%	10,290.34
311	Shenandoah Holding Corp ¹	116,675.58	2-24-33	1,701.54	None.....	6%-4%	11,024.21
237 RHA	Chas. E. Ward ²	4,388.84	10-4-33	3,938.84	To 8/31/39.....	4%	3,779.35

¹ During 1938 dividends amounting to \$10,000.00 were credited to principal of this note. In the examination made this spring, the examiner felt this amount should be applied to interest, and entry was reversed 5-23-39, this accounting for difference in amounts shown at 12/31/38 and 8/31/39.

² This note does not represent a loan made by Company, but was acquired in compromise settlement of indebtedness of R. H. Angell.

EXHIBIT No. 1134

[From files of Shenandoah Life Insurance Company]

H. LESTER HOOKER,
Chairman
 THOS. W. OZLIN,
 WM. MEADE FLETCHER,
 N. W. ATKINSON,
Clerk of the Commission

COMMONWEALTH OF VIRGINIA

STATE CORPORATION COMMISSION

RICHMOND, April 14, 1934.

HON. E. LEE TRINKLE,
President, Shenandoah Life Insurance Company,
Roanoke, Virginia.

DEAR GOVERNOR TRINKLE: Recently it came to the attention of the State Corporation Commission that the business of your company was not being properly conducted in several most important respects. Pursuant to this information, the Commission called on the Bureau of Insurance and Banking for a written statement of any irregularities, bad practices, and suggestions for betterment relating to your company, which might be revealed by any reports made by your company, or examinations of it, or which may have otherwise come to the attention of the Bureau.

Pursuant to this request for a written statement of the things mentioned above, the Commission has received from the Bureau of Insurance and Banking a written statement, which, to say the least, is amazing in many respects to the Commission, and which the Commission views with the utmost disfavor, and feels it to be its duty to demand that these things be corrected.

We are giving you below a statement of a few of the matters which have been brought to light, with our comments thereon:

I

Collateral and mortgage loans to officers, directors, members of their families, and companies in which they are interested.

There are entirely too many of such loans of the funds of this company, and this practice was severely criticized in the report of the examination filed with you about a year ago, and the examiners were assured at the time of the examination that the practice would be discontinued. However, your company continues to make such loans, or to increase existing loans of this character. It also appears that some of the new loans and increased loans do not comply with the provisions of the statutes regulating investments by insurance companies. The following examples are cited simply as examples, and are by no means the only cases:

(a) On November 1, 1933, your company made a thirty-day loan of \$2,000.00 to Lawrence S. Davis, a director, and accepted as collateral a real estate note for \$2,000.00 of Lawrence S. and Blanche R. Davis, secured by deed of trust on real estate in Roanoke, Virginia. The collateral was accepted without an appraisal of the property, and without any legal opinion, or abstract of title. On April 9th, the deed of trust had not been recorded, and the loan was reported in the annual statement of December 31, 1933, as a first mortgage loan on real estate. Your minutes show that this loan was approved by the Managing Committee a week after it was made. (Pencil notation on side:) Appeal to R. H. A. 30 days previous appeal.

Comment: Aside from the inadvisability of making a loan to a director, or a member of his family, it was certainly highly improper to make this loan without an appraisal of the property, and without an abstract of title approved by a reputable attorney. Also, it was bad business to hold this deed of trust off the record from November 1, 1933, to April 9, 1934. The fact that it was reported in your statement of December 31, 1933, as a first mortgage loan on real estate is certainly not in accordance with the facts, nor in accordance with accepted business practices.

(b) On August 11, 1933, your company loaned \$1,000.00 to J. M. Barker, et als, and the loan charged to "suspense", and remained in suspense until December 6, 1933. The check was made payable to J. P. Saul, Jr., Attorney, and, so far as the records show, no collateral was held by your company to secure the loan. (Pencil notation on side:) Late from time check was issued, not to me as Gen. C. but atty for Barker et als.

Comment: There is no explanation of why such a loan should have been made to Mr. Barker without security, or without the security being in the proper files of your company. It naturally raises a question mark when we note that the loan was made to J. M. Barker, while the check given was to J. P. Saul, Jr., Attorney, who is a Vice President and General Counsel of your company.

(c) On December 6, 1933, your company purchased \$6,000.00 worth of Rose-lawn Burial Park, Inc., bonds, and credited to "suspense" \$1,000.00, and issued check for \$5,000.00 to Rives S. Brown, a director. At the time these bonds were purchased, your company received a written guarantee which was attached to the bonds, by which Rives S. Brown, J. R. Goodwyn, Jr., J. P. Saul, Jr., C. B. Strickler, and J. M. Barker unconditionally guaranteed to re-purchase the said bonds from your company at par at or before the expiration of ninety days from December 6th. That guarantee has not been complied with, although the ninety days expired more than a month ago, and although demand has repeatedly been made upon the guarantors to re-purchase them. Furthermore, nothing appears in the minutes to show that the loan was ever approved by your Managing Committee, and you as President deny any knowledge of this transaction whatsoever. (Pencil notation on side:) Approved by Com. to absent.

Comment: We cannot condemn in too harsh terms an office system, or rather lack of system, by which such a loan could be made without the approval of the Managing Committee, and without the knowledge of the President and other executive officers of your company. We must insist that your system of making loans be so organized that no loan in any amount can be made without the approval of the Managing Committee, and that the executive officers keep themselves fully informed as to every loan made and the security behind the same.

II

On or about January 3, 1934, Mr. J. P. Saul, Jr., took out of the company's files \$5,000.00 worth of preferred stock of H. C. Baker Company, which stock was held by the company as part of the collateral on a loan of \$18,500.00 made to Elizabeth H. Saul, wife of J. P. Saul, Jr. On January 5, 1934, \$1,000.00 was credited to the *principal* of this loan, although more than \$1,000.00 was due as *interest* on the loan. The remaining \$4,000.00 of collateral has not been returned to the possession of the company, the reason being given that Mr. Saul claims that he has a prospective purchaser for it, and is holding it pending sale, the proceeds of which will be applied on the loan.

Comment: We can scarcely find words to sufficiently condemn a practice whereby anyone, whether he be officer or otherwise, can go promiscuously into the files of the company, and take down the collateral securing any loan, much less one to himself or member of his family, and keep this collateral in his possession for any purpose whatsoever. Such a practice is verging dangerously close to a violation of the criminal laws, and again we must condemn your office system which would make it possible for any such thing to happen, under any circumstances. Also, it was highly improper for the \$1,000.00 to be credited on the principal of this loan, when there was more than \$1,000.00 due as interest. More than a year ago, the Bureau of Insurance and Banking called to the attention of your company, the absolute necessity that all collateral, as well as all other securities held or owned by the company, be deposited in a safe deposit box, requiring at least two executive officers to get access to it, and that any collateral to be sold should be held by the company until sold, and the price approved by the company, and all necessary proceeds applied to the loan. This recommendation, apparently, has been completely ignored. (Pencil notation on side:) see letter.

III

In October, 1933, Mr. R. H. Angell, then President of the company, took a \$5,000.00 certificate of deposit held by the company in the Bank of Fieldale, Virginia, and, on October 11, 1933, Mr. Angell and Mr. J. P. Saul, Jr., each gave the company a check for \$2,569.16, or a total of \$5,138.32, the difference between the amount of the checks and the amount of the certificate of deposit being the accrued interest on the certificate of deposit. Mr. Angell and Mr. Saul requested the bookkeeper to hold these checks for a while, and to charge the item to "suspense" account. The item was carried in "suspense" account in the annual statement, and was, of course, reported as a non-admitted asset. The bookkeeper still holds these checks, and the item is still in "suspense" account. (Pencil notations on side:) Saul out of State. My check pd by mtg on home.

Comment: All that we have said with respect to item II above, applies with added emphasis to this item. In addition, there was a palpable intent to hide this transaction in the annual statement of your company, and to keep it from the knowledge of the proper authorities. Our information is that the proceeds of this \$5,000.00 certificate of deposit was used to pay indebtedness of Mr. Angell and Mr. Saul to the Bank of Fieldale. In other words, there was simply a taking of the property of your company without authority, and using it to pay the private debts of two of its officers. Furthermore, in properly regulated insurance companies, the "suspense" account is never used for such purposes as this account has been repeatedly used in your company. Such practices simply must cease forthwith, or the Commission will feel compelled to exercise every vestige of authority it has to protect the policyholders of your company.

IV

The salaries of three of the principal officers of the company have been drawn in advance, as follows: E. Lee Trinkle, President, to April 15, 1934; J. P. Saul, Jr., Vice-President, to May 16, 1934; and J. H. Dunkley, Medical Director, to May 1, 1934.

Comment: We feel that it is a bad practice for the officers of a company to be drawing their salaries in advance, and that this practice should be discontinued. Furthermore, according to your records, the term of office of Mr. J. P. Saul, Jr., will expire on May 10th and he has already drawn his salary to May 16th, or six days beyond his present term of office. It would seem that to point out the practice of drawing salaries in advance should be sufficient condemnation of such a policy.

V

Your company has been indulging in the extremely bad and indefensible practice of making unsecured advances to officers, as well as to the Shenandoah Holding Corporation and Foundation Finance Corporation. Your records show a large number of such advances having been made, and, in most instances, such items were charged to "suspense" account; which we have hereinabove condemned. The largest of these items was one of \$5,000.00 made to the Shenandoah Holding Corporation on October 24, 1933, and returned some days thereafter. On November 8, 1933, an advance was made to the Foundation Finance Corporation on a check requisition approved by J. P. Saul, Jr. On November 14, 1933, an advance was made to J. P. Saul, Jr., in the amount of \$500.00, and charged to "suspense", this check requisition was approved only by Mr. Saul. On September 11, 1933, a check for \$500.00 was issued to J. P. Saul, Jr., on his own requisition, and approved only by him. On December 1, 1933, another advance was made to Mr. Saul in the amount of \$250.00, and charged to "suspense", the requisition for this check was approved by you. These are only instances of such advances, and many others could be mentioned. (Pencil notation on side:) All agreed to by A. T. & S. to time of a draft all accounted for.

Comment: We must insist that such unsecured advances be forthwith stopped, and that, in instances where it is necessary to make advances for the legitimate purposes of the company, the requisition therefor be approved by at least two executive officers other than the one to whom the money is advanced. Also, again let us say that such items as this should not be charged to "suspense".

VI

It appears that in numerous instances expenses of the Shenandoah Holding Corporation have been paid out of funds of the Shenandoah Life Insurance Company, and it is entirely improper for such expenses to be borne by the insurance company. Among such items were the expenses of about fifteen trips to New York made by executive officers of the Shenandoah Life Insurance Company on business of the Shenandoah Holding Corporation.

Comment: There is no warrant of authority in law, nor can the officers have any authority, to use the funds of the Shenandoah Life Insurance Company to pay the expenses of any other person, company, or corporation, and any sums so expended for other corporations, persons, or associations, should be accounted for and repaid to the Shenandoah Life Insurance Company.

VII

Your company is holding a demand note of the Shenandoah Holding Corporation for \$116,675.58, dated February 24, 1933, and secured by notes of Insurance Equities Corporation in the amount of \$365,000.00. We understand that the

notes of the Insurance Equities Corporation are absolutely worthless, and that there is no security behind the note of \$116,675.58. No interest has been paid on this note since it was made, and it appears that no provision has been made by the officers of the Shenandoah Holding Corporation for the payment of this interest or the note.

Comment: Every possible effort should be made to collect the past due interest on this note, and to have the note paid at the earliest possible date. The investment of the funds of the Shenandoah Life Insurance Company in such a way was not a proper investment in the first instance, and those responsible for the loan being made should spare no effort to secure its payment.

VIII

It appears that no definite policy has been adopted as regards what constitutes a collateral loan on the one hand, and what constitutes a first mortgage loan on the other hand, and that frequently loans which are really collateral loans are classified and reported as first mortgage loans.

Comment: No loan should be classified as a first mortgage loan except those which come up to the standard implied in the name itself. In other words, there should be a first deed of trust or mortgage on real estate which has been appraised by competent and disinterested appraisers, and the evidence of the debt should be secured by a mortgage or deed of trust instrument to be recorded simultaneously with the making of the loan, and only after there has been furnished the company a proper abstract of title showing the fee simple title in the mortgagor clear of defects and encumbrances. We must specifically criticize the loan of \$14,000.00 made to Chas. E. Ward, a Vice-President of the company, the details of which need not be specifically stated. This was transferred from a collateral loan to a first mortgage loan, when as a matter of fact its essential character is that of a collateral loan.

IX

It is apparent that the Managing Committee of your company does not in fact manage the affairs of the company. It is imperative that this Committee must meet as often as there is any business to be transacted by it, and definitely approve or disapprove all transactions, except matters of office routine, before they are consummated. Permanent minutes should be kept of every meeting of the Managing Committee, showing in detail what matters were considered, and what action taken. A system whereby any one officer separately and without the approval of the Managing Committee, obtained in advance, can disburse or invest substantial sums of money belonging to the company, is, to say the least, an indefensible system, and one which must be forthwith corrected.

X

We must condemn the practice of officers or employees incurring expenses, for trips or otherwise, and accounting for such expenses, or being reimbursed for such expenses, on the sole approval of the officer or person incurring the expense. All expense accounts should be made out in detail, and, before being approved or allowed, should be checked and have the approval of at least one, and preferably two, executive officers of the company other than the person incurring the expense.

XI

We have already made reference to the necessity of a clear differentiation between your collateral loans and your mortgage loans, and we must call attention to the fact that your company has been in the habit of transferring loans from the collateral loan account to the mortgage loan account. A glaring instance of this occurred at the end of the year 1933, when several such transfers were made, apparently with the sole purpose in view of keeping out of your annual statement the information which would have necessarily been reported therein regarding these collateral loans. To be specific, we refer particularly to mortgage loans numbers 885, 884, 888, and 886, all of which were transferred on the last two days of December, 1933.

XII

It is the belief of the Commission that the salaries of some of your officers are in excess of what they should be, considering the size and condition of your company and general business conditions. To illustrate:—your General Counsel draws a salary of \$12,500.00 a year, while the General Counsel of the Atlantic

Life Insurance Company, with over three times the assets of your company, pays two counsel only \$9,403.77, and the Jefferson Standard Life Insurance Company, with assets over seven times that of your company, pays its general counsel only \$9,166.60. Likewise, your Medical Director draws a salary of \$12,000.00 a year, while two medical directors of the Life Insurance Company of Virginia, with assets ten times that of your company, draw only \$12,900.00 a year, and the medical directors of the Atlantic Life Insurance Company, with assets three times that of yours, draw \$13,816.35.

We appreciate that the salaries of the officers are fixed by the board of directors, but you, as President of the company, are charged with communicating all proper matters to the board, and we feel that you should bring the views of the Commission to the attention of your board.

Many of the things hereinabove referred to have been called to the attention of your company from time to time by the Bureau of Insurance and Banking, but the company has apparently disregarded and ignored the suggestions and criticisms made. Under date of April 14, 1933, Mr. Combs, an examiner under the Bureau of Insurance and Banking, made a detailed report to Mr. Angell, then President of the company, which report Mr. Angell acknowledged under date of April 19, 1933, and stated that the Managing Committee would approve the recommendations made, and he felt that they were vital and to the best interests of the company, yet practically none of the suggestions have been adopted, or the improper practices which were pointed out, stopped.

The duty and responsibility of managing the affairs of your company fall primarily on your shoulders. If you do not now possess the authority to remedy the conditions herein complained of, the Commission would suggest that you specifically ask your board of directors for such authority as you may need, and that, in the future, all transactions involving unusual or extraordinary disbursements of funds, be discussed and fully approved by the proper committee before any disbursements whatsoever be made, and that minutes be kept of the meetings of such committee. The success of your company is dependent upon observing sound, conservative, and proper business practices, and the Commission will look to you to see that they are observed in the conduct of the affairs of the company.

As already said, we have not undertaken in this letter to point out all instances of improper practices, but have simply cited some examples, and we desire to also say that, if any officer of your company is not conducting himself properly, or is not performing his duty, or is performing it in an improper way, or if there are any other matters requiring the attention of your board of directors, it is clearly your duty to make a full and complete disclosure to the directors.

Very truly yours,

H. LESTER HOOKER, *Chairman*,
WM. MERLE FLETCHER,
THOS. W. OZLIN, *Commissioners*.

EXHIBIT No. 1135

[From files of Shenandoah Life Insurance Company]

JOHN P. SAUL, JR.

Vice-President & Gen. Counsel

SHENANDOAH LIFE INSURANCE CO., INC.

ROANOKE, VA., April 21, 1934.

STATE CORPORATION COMMISSION,
Richmond, Virginia.

GENTLEMEN: The Managing Committee has asked me to write you in regard to some of the matters referred to in your letter of April 14th, wherein criticisms of our actions and office system were made and recommendations were made for changes and improvements.

(a) I think Governor Trinkle has explained to the Commission that Mr. L. S. Davis appealed to Mr. Angell for a temporary loan which he stated would certainly be repaid by the maturity of the thirty-day note, and the trust deed given to secure the \$2,000 was not recorded nor the file completed at his personal request. Of course this should not have been done and will not recur. The trust deed is now of record together with an abstract showing title to be good, and the trust

deed the first lien, and the dwelling is insured for \$9,200, and an appraisal of the property filed and our file is now complete. This loan was agreed upon by a majority of the Managing Committee before it was made, although the minutes of the Managing Committee in this as in many other instances do not show the approval of actions taken until sometime after the transaction has been closed. This practice of informal action by the members of the Managing Committee without the proper record being made at the time has now been discontinued and will not again be allowed to happen.

(b) The collateral loan to J. M. Barker on August 11, 1933, was not made without security. A collateral note and first mortgage bond was delivered to the Asst. Sec.-Treas. at the time the check for the loan was issued, and remained in his custody until the loan was discharged. The check was made payable to me not as General Counsel of this Company but as Attorney for Barker and others, and used for their benefit. I will have the Asst. Sec.-Treas. initial this paragraph to show the accuracy of the foregoing statement that he held the collateral from the moment the check was issued, as above stated.

(c) The Roselawn Burial Park first mortgage bond. The purchase of these bonds was approved at a meeting of three of the Managing Committee before the purchase was made, Governor Trinkle was away at the time. It was not intended that the Company should carry the bonds to maturity and the guarantee made by Rives S. Brown and others to repurchase the bonds will be made good. The reason it has not thus far been complied with is that Brown and others, including myself, decided that we would rather wait until the semi-annual interest period matured, and upon default in the payment of interest by the Corporation, to have the property sold in accordance with the terms of the deed of trust and then take up the bonds. An appraisal of the property is now in the file of the Company together with the certificate from the attorney in Martinsville who examined the title. The First National Bank of Martinsville is carrying most of the other bonds secured by the same trust deed.

(2) Regarding the stock of the Baker Company, which was collateral to a loan made by Mrs. Saul: at the request of my associate, Mr. Baker, in December I agreed to sell some of my stock to one or two of our Supervisors in order that they might be elected to the Board of Directors, and I receipted for the certificate at the time I got it from the Asst. Sec.-Treas. and explained to him what I had in mind. The Supervisors are in town only on Saturdays and the sale of ten shares to one of them, Gaines Lloyd, was closed up promptly and his own check for \$1,000.00, the entire purchase price, was delivered by me to the Company. I kept the new certificate in my desk on the same floor with the main office of the Company, and being wholly engrossed with the multitude of matters which we have looked after since the first of the year, including business which took me away from Roanoke a considerable part of the time, I simply overlooked pressing the matter to a conclusion or calling it off promptly. Once or twice the Asst. Sec.-Treas. asked me about the stock and I told him, and once in his presence called the Baker Company and left word for the other purchasers that they must either buy the shares or I would not hold the matter open, and told Mr. Graham that the stock was in my desk, and it was there at all times. When the matter was called to my attention in the late afternoon by Mr. Combs and Mr. Moore at the Patrick Henry Hotel I told them these facts and that the stock was in my desk and that I would immediately return the certificate, which was done, after one other representative of the Baker Company gave his check for five shares, \$500.00, which identical check was delivered to the Company with the certificate for 35 shares. I regret more than I can say my negligence in not clearing the matter promptly, especially because of the possible misconception which could be placed on the transaction in view of the fact that it was my own stock and I am an officer of this Company. However, the stock was not used by me in any way except as above stated, and the entire proceeds of the sale were applied on the loan on which it was collateral. It is not necessary, I trust, to assure you that such an instance will not occur again.

Your recommendation that all collateral be deposited in a safety deposit box, requiring two executive officers to gain access thereto, and where any collateral is to be sold that the price should be approved by the Company, has been carried out, and all collateral which the Company holds in connection with its collateral notes has this week been checked by two members of the Managing Committee, with the Assistant Secretaries-Treasurers, and found in perfect accord with the collateral account, and the collateral has been deposited in a lock box in the Colonial-American National Bank and access thereto can now be had only by two members of the Managing Committee jointly. I might add

that we also checked all securities which the Company owns and found same to be in accord with the general ledger account.

(3) I was out of the State of Virginia when Mr. Angell took the Bank of Fieldale certificate of \$5,000.00 and delivered it to an attorney for the Bank of Fieldale, who had come to Roanoke to collect a note of Mr. Angell and one of my own. I will have the Asst. Sec.-Treas., who delivered the certificate to Mr. Angell confirm the accuracy of this statement by a marginal notation. I knew nothing about the transaction until I returned to Roanoke several days thereafter and the matter had then been closed and the only thing I could do was to give my check for my one-half of the certificate and I regret that my check had not been previously paid. I have this week executed a first mortgage on my home and delivered to this Company bonds in payment of the check.

Your recommendation in reference to the suspense account will be strictly observed.

(4) You are familiar with the history of the Shenandoah Holding Corporation loan and our plan for the repayment thereof.

As to expenses incurred in connection with trips made by me and other officers of the Company in connection with the block of 20,000 shares of our stock, every trip was agreed upon in advance by the Managing Committee and was considered to be in the ultimate interest of the Shenandoah Life Insurance Company. I have had to do most of the traveling and negotiation in reference to these matters through the months but as above stated it was with the full knowledge and at the request of my associates that such expenses have been incurred. Hereafter all expense accounts of every one, including officers, will be made in more detail and approved by two executive officers other than the one incurring the expenses.

Your recommendation as to differentiating between our collateral and mortgage loan accounts will be observed, although as to the instances referred to in the report of your Examiners we feel that they were properly classed as mortgage loans and you will recall that the Attorney General in the presence of Governor Trinkle expressed the same view.

Please be assured that each member of the Managing Committee appreciates the spirit in which your criticisms have been made and each is conscious of the fact that we have been careless in not having more cohesion in our actions and been more prompt and accurate in keeping our records in a more business like, efficient and punctual way, although no damage has been occasioned and everything properly accounted for, and on behalf of each member of the Managing Committee I want to assure you that hereafter we will observe sound and modern practices in these respects and a higher degree of vigilance.

By a resolution of the Managing Committee passed this week it was ordered that no loans should hereafter be closed without the written approval of the General Counsel of the Company certifying that it comes within the terms of the law regarding investments of life insurance companies of Virginia, and as long as I hold this office none will be hereafter made which do not conform thereto.

We feel that this letter of explanation should be attached to the report made by your Examiners Combs and Moore in order that your file may show the facts and circumstances surrounding the instances mentioned.

Yours very truly,

JOHN P. SAUL, Jr.,
General Counsel.

S*C

EXHIBIT No. 1329

[From files of Equitable Life Assurance Society]

[Copy]

Mr. GORDON K. SMITH

NEW YORK, May 18, 1938.

Earnings of Agents in Metropolitan New York for the year 1937

The study made of the earnings of agents in Agency Manager agencies in metropolitan New York for the year 1937 gives the results shown in the table below. This includes full-time agents who have been with the Society a full year. All Unit Managers are excluded.

Earnings Class	Number in Class	Cumulative Totals	% of Total	Earnings Class	Number in Class	Cumulative Totals	% of Total
Under 250.....	53	53	6.9	3,000-4,000.....	54	711	92.6
250-500.....	96	149	19.4	4,000-5,000.....	20	731	95.2
500-750.....	92	241	31.4	5,000-6,000.....	13	744	96.9
750-1,000.....	69	310	40.4	6,000-7,500.....	10	754	98.2
1,000-1,250.....	67	377	49.1	7,500-10,000.....	6	760	99.0
1,250-1,500.....	64	441	57.4	10,000-15,000.....	4	764	99.5
1,500-2,000.....	96	537	69.9	15,000-20,000.....	3	767	99.9
2,000-2,500.....	65	602	78.4	Over 20,000.....	1	768	100.0
2,500-3,000.....	55	657	85.5				

(Signed) J. E. H.
(John E. Hartigan).

EXHIBIT NO. 1330

[From files of Equitable Life Assurance Society]

(Handwritten:) Mr. Hartigan.

Agency Turnover 1938

	Direct agents		Sub-agents		Combined	
	Total	W. T.	Total	W. T.	Total	W. T.
Agents contracts in force 38-1-1.....	5,894	3,983	¹ 1,383	1,087	¹ 7,277	5,070
New agents appointed during 1938.....	2,045	1,199	433	277	2,478	1,476
Old agents appointed during 1938 (includes 32 from managerial staff to direct agent—29 full time).....	185	125	230	180	424	305
Terminations during 1938 (includes 77 direct agents appointed to the managerial staff).....	8,124	5,307	¹ 2,055	1,544	¹ 10,179	6,851
	2,721	1,636	550	390	3,271	2,026
	5,403	3,671	¹ 1,505	1,154	¹ 6,908	4,825
		² -19		³ +19		
Total number of agents in force 39-1-1.....	5,403	3,652	¹ 1,505	1,173	¹ 6,908	4,825
General percentage of turnover.....	<u>47.81</u>			<u>36.52</u>		<u>45.40</u>
Surplus contracts in force 38-1-1.....				22		22
Surplus contracts approved during 1938.....		2		16		18
		2		38		40
Surplus contracts terminated during 1938.....				1		1
Surplus contracts in force 39-1-1.....		2		37		39
Not approved contracts terminated during 1938.....		148		56		204

¹ Included 3 group Agents.

² During the year 223 agents changed to full time basis while 242 changed to part time basis. This represents a loss of 19 full time agents.

³ During the year 71 agents changed to full time basis while 52 changed to part time basis. This represents a gain of 19 full time agents.

During the year there was a loss of 491 Direct Agents (331 W. T.), while there was a gain of 122 Sub-agents (86 W. T.). This represents a loss to the Society of 369 agents (245 W. T.).

D. S., Agency Assis'tant.

GB 39-1-6.

EXHIBIT No. 1331

[From files of Equitable Life Assurance Society]

SUMMARY OF COMMISSIONS, SALARY, ALLOWANCES, ETC., PROVIDED FOR UNDER THE FORMS OF AGENCY CONTRACTS USED BY THE SOCIETY

GENERAL AGENT

Commissions, graded up to 55% on first year premiums and up to 7½% on renewal premiums from second to tenth years, inclusive, on business of Agency, out of which General Agent pays sub-agents up to 50% on first year premiums and up to 5% on renewal premiums for a term of years based upon the first year premium production of the sub-agent.

5% of life insurance renewal premiums and up to 4% of Optional Deferred Annuity renewal premiums paid for eleventh to fifteenth years, inclusive, provided first year premiums not less than certain stipulated amounts.

To encourage conservation of business, 1% of renewal premiums (excluding Group) paid after tenth year, or after fifteenth year if commissions paid for eleventh to fifteenth years.

Not exceeding 5% of life insurance and annuity first year premiums and 1% of group life, group accident and health, group hospitalization and group accidental death and dismemberment first year premiums, for office expense.

GENERAL AGENT (MODIFIED A CONTRACT)

Commissions, graded up to 55% on first year premiums and up to 7½% on renewal premiums from second to tenth years, inclusive, on business of Agency, out of which General Agent pays sub-agents up to 50% on first year premiums and up to 5% on renewal premiums for a term of years based upon the first year premium production of the sub-agent.

Up to 6% of second year premiums, provided first year premiums paid by Agency not less than certain stipulated amount.

To encourage conservation of business, 1% of renewal premiums (excluding Group) paid for eleventh to fifteenth policy years.

Not exceeding 6% of life insurance and annuity first year premiums and 1% of group life, group accident and health, group hospitalization and group accidental death and dismemberment first year premiums, for office expense.

AGENCY MANAGER

Salary \$4,200 per annum, payable monthly.

A percentage of the first year commissions paid to agents each month, but not including commissions on any excess over \$500,000 in premiums on any one Group, payable as of end of month, except percentage of Group commissions payable at end of contract year.

To encourage economy in expenses, an allowance of ¼ of difference between an expense ratio of 24% of first year premiums and the actual expense ratio if lower, or, a charge of ¼ of the difference if the actual expense ratio exceeds 24%, payable as of end of contract year.

To encourage conservation of business, a charge or credit of one cent per one thousand of life production will be made against or credited to the Agency Manager for each percentage point that his lapse rate differs from the standard, payable as of end of contract year. For the contract year ending March 31, 1940, this provision will apply only to the first quarter of 1940.

10% of salary and of compensation, based on first year commissions paid to agents, paid during year, payable as of end of succeeding contract year.

On business produced personally, commissions graded up to 50% on first year premiums and up to 5% on renewal premiums paid from second to tenth years, inclusive.

DISTRICT MANAGER (FOR ASSISTANT AGENCY MANAGERS, DISTRICT MANAGERS AND UNIT MANAGERS)

Salary \$1,200 per annum, payable monthly.

10% of the first year commissions paid to agents each month, but not including commissions on any excess over \$500,000 in premiums on any one Group, payable as of end of month, except percentage of Group commissions payable at end of contract year

10% of salary and of compensation, based on first year commissions paid to agents, paid during year, payable as of end of succeeding contract year.

On business produced personally, commissions graded up to 50% on first year premiums and up to 5% on renewal premiums paid from second to tenth years, inclusive.

FIELD ASSISTANT

Same commissions as an agent, except that earning of renewal commissions is not contingent upon amount of first year premiums paid. Also allowed traveling and hotel expenses outside of headquarters.

SUPERVISOR

Same commissions as an agent on personal business.

For assistance to agents in group insurance and group annuity production, allowed overriding 10% of the usual first year group life, group accident and health, group hospitalization, and group accidental death and dismemberment commissions and 5% of the usual first year group annuity commissions on personal and joint business.

Also required to assist agents in solicitation of Business, Tax and other specialized forms of regular insurance and annuities.

GROUP MANAGER

In addition to salary and traveling expenses, allowed 20% of total of (a) full first year group life, group accident and health, group hospitalization, and group accidental death and dismemberment commissions and (b) one-half of first year group annuity commissions, paid to agents in assigned territory, in excess of specified allotment.

DIVISIONAL DIRECTOR—GROUP ANNUITY

For assistance to agents in group annuity production, allowed, in addition to salary and traveling expenses, 25% of usual group annuity commissions to soliciting agents.

AGENT

Contracts with direct agents, operating under Agency Managers, are on the 8th Edition C, which provides for commissions, graded up to 50% of first year premiums, and up to 5% of renewal premiums paid

From 2nd to—	<i>Provided first year premiums amount to</i>
4th years, incl.....	\$500
7th years, incl.....	1, 250
10th years, incl.....	2, 000

Contracts with sub-agents, operating under General Agents, may be on the 8th Edition C, but are generally on the 6th Edition C, which provides for commissions graded up to 50% of first year premiums, and, provided sub-agent in service at least two years, up to 5% of renewal premiums paid

From 2nd to—	<i>Provided first year premiums amount to</i>
4th years, incl.....	\$1, 000
7th years, incl.....	2, 000
10th years, incl.....	3, 000

EXHIBIT No. 1332

[From files of Equitable Life Assurance Society]

(Stamped:) William J. Graham, Vice President. 1937 Sep 15 PM 3 52

THE EQUITABLE LIFE ASSURANCE SOCIETY OF THE UNITED STATES
ARTHUR M. SPALDING, ASSISTANT TO AGENCY VICE-PRESIDENT

DATED AT NEW YORK, September 15, 1937.

For Mr. W. J. GRAHAM,
Vice-President.

Subject: Agents' Earnings

Replying to yours of

Based on a Life Insurance Sales Research study of a large number of Agents they report that out of 100 new, full-time Agents in the United States without previous experience, 27 are left at the end of two years. Only 5 pay for as much as \$100,000 in their first and second years. The average annual production of the 27 Agents who stay at least two years is \$56,000 which translated into earnings at the rate of \$12 per \$1,000, means about \$672 a year or \$56 a month.

Comparing this with the study made of new full-time Equitable Agents, they find that only 20.2% of the Agents were left at the end of two years. The average annual production of those who stay is \$67,000 and translating that into actual earnings on the same basis as above means that these Equitable Agents earn about \$804 a year or \$67 a month. Of course, we must bear in mind the fact that our study includes annuities whereas the study of the other companies does not so that we should expect a larger earning.

ESTABLISHED AGENTS

The production, and thus the earnings, of established Agents is likewise very low. A sample year's production during the third to fifth contract years of a group of full-time Agents from different companies shows that 73% pay for less than \$100,000.

A. M. S.

Would you like extra copies of the above information prepared for distribution among the members of the Agency Committee at the next meeting?

EXHIBIT No. 1333

[From files of Equitable Life Assurance Society]

Causes of termination (direct agents and sub-agents) 1938

	Whole Time	Total
Resigned or died:		
Non-production, insufficient production and not earning a living at selling Life Insurance	226	315
To enter another business	175	237
Returned to old occupation	44	170
To another life insurance company	135	152
Death	55	78
Moved from territory	49	69
Ill health or Old Age	28	34
No reason given for resignation	16	19
Terminated:		
Insufficient Production	616	1,088
Non-production	217	409
Ten-Case Rule	98	227
Bond coverage withdrawn	49	169
Failed other requirements, Part-Time Urban, 12-Miscellaneous, 13	14	25
Irregularities	16	19
Unsatisfactory Type	11	17
Failed to obtain license	12	15

¹ [Four over one years service. All others terminated after Bonding Company completed their usual investigation.]

1939/9/20

EXHIBIT No. 1334

[From files of Equitable Life Assurance Society]

THOMAS I. PARKINSON, *President*

(Stamped:) President. June 13, 1938. Referred to

THE EQUITABLE LIFE ASSURANCE SOCIETY OF THE UNITED STATES
HOME OFFICE, NEW YORKTHE EDWARD A. WOODS, COMPANY
GENERAL AGENT

Frick Building, Pittsburgh

JUNE 10, 1938.

The Honorable THOMAS I. PARKINSON,
President, The Equitable Life Assurance Society,
398 Seventh Avenue, New York, New York.

DEAR MAJOR: Thank you very much for your nice letter of the seventh and also for the copy of the letter which you wrote to Mr. McKean of the American Meter Company.

Compliments to the Woods Company are at times embarrassing to the Manager when such a situation as the following is true:

On May thirty-first we had under contract 296 wholtime agents and 149 part-time agents, a total of 415.

By December next I hope that we will have not over 300 agents and with this number most of them substantial.

Making a study of our records divulges the fact that 116 agents last year produced less than \$50,000 apiece; therefore, earned not even a fair living. This 116—25% of our force then—produced 19% of our business and consumed, I would say, at least 50% of our time.

If the Lord lets me live, I expect to see to it that a very large percentage of those who remain under contract are substantial agents, selling substantial amounts of insurance to substantial people. What is the use of talking about Life Insurance as a career when one-fourth of our people are not making a decent living, and when year in and year out we hire and fire about ten people a month!

I give you my word that we will do better for the balance of the year and a great deal better next year, although I would rather this be a good report of the present performance than simply a prognostication.

Yours very sincerely,

WM. M. DUFF,
President and Manager.

WMD/kb

EXHIBIT No. 1335

It's up 1216
to YOU

The DRAW POKER POOL is a fascinating, ability-rivalling contest in which the Paid Business Officers of each player will determine his "hand" in the BIG GAME at the end of MARCH.

YOU WILL DRAW YOUR HAND in the following manner:

For each Paid Case up to \$2,000--ONE CARD.
For each Paid Case \$2,001 to \$4,000--TWO CARDS.
For each Paid Case \$4,001 to \$7,000--THREE CARDS.
For each Paid Case \$7,001 and over--FOUR CARDS.
As a Player Pays, for over 5 Cases--A POKER.

THE POOL:

For each card earned in the above manner, there will be TWENTY CENTS put in the Draw POKER Pool. A quarter of this amount, FIVE CENTS, will be contributed by the corresponding agent, the balance by the Managerial Staff. This pool will be collected from week to week.

THE GREAT FOR CARDS:

The earned cards will be distributed at a final March Meeting. Several decks will be mixed in one draw, from which contestants will make a blind draw of the number of cards they are entitled to. If a player earns more than five cards, he may draw his five best poker hand from among his five best cards. Anyone earning the POKER is, of course, in an advantageous position to complete a high pair or better. A player must have at least two cases, or a base amounting to more than \$2,000 to have the possibility of a high. The more cards earned, the better the chance of pulling together a good poker hand.

The Pool will run
right. There will be
5 awards in Cash
made to the
HOLDERS of the
5 Top



At the Midway
Point in March
there will be an
Interim Drawing
for satisfaction of
the Draw POKER

EXHIBIT No. 1335

EXHIBIT No. 1335—Continued



9

MEN ARE GATHERED AROUND THE DRAW POKER TABLE WITH COMPLETE HANDS

LOOK FOR YOUR SCORE BELOW and GET BUSY!!!

Schen, A. J.	6	Egan, J. A. P.	4	Jones, B. G.	4
Kaloupek, H.	3	Marrus, J.	4	Napleson, R.	4
Wofford, W.	3	Park, A.	4	Parker, T.	6
Tomchick, W. B.	4	Tompson, G.	3	Scaliger, H.	4
Malone, A. H.	2	B. Robinson	4		
Malone, J. H.	2	Swell, F.	3		
Malone, J. H.	2	Dubois, E.	3		
Malone, J. H.	2	King, P.	3		
Malone, J. H.	2		3		
Malone, J. H.	2	Gilbert, R.	3		
Malone, J. H.	2	Spiegel, S.	3		
Malone, J. H.	2	Denise, T.	3		

CLEAN UP ALL OUTSTANDING CASES NOW!!!

EXHIBIT No. 1335

EXHIBIT No. 1336

[From files of Equitable Life Assurance Society]

Copy for: Mr. Graham
 Mr. Welch—Chicago
 Mr. Welch—Home Office
 Mr. Borden
 Mr. Bushnell

Mr. Dalager
 Mr. Spalding
 Mr. G. K. Smith
 Mr. Hartigan
 File

AGENCY LAPSE RATES FOR FOURTH QUARTER AND YEAR 1938

Lapse Ratio of Equitable Agencies and the Average of 20 "A" Companies in Agency Territory

Ratio of "A" Companies: Year 1938 as reported by the Life Insurance Sales Research Bureau

Ratios for Equitable Agencies: Fourth quarter and year 1938

Lapse defined as the lapse of ordinary life insurance before the payment of premiums for 2 full years. The ratio is the relation of the volume of such lapsed insurance for the quarter to one-eighth the insurance volume paid for in the 24-month period ending 2 months before the beginning of the quarter. The year ratio represents the accumulated experience in all four quarters.

Agency	4th Quarter Agency Lapse Ratio	Year 1938 Aver. Lapse Ratio in Territory 20 "A" Companies	Year 1938 Agency Lapse Ratio	Ratio of Equitable Agency Lapse for Year to average for Year 1938 (20 "A" Cos.)
Sibley	6.2	22	12.1	54.8
C. Barber	4.3	16	12.2	76.3
Lustgarten	15.6	16	15.1	94.3
Harris	11.4	14	15.1	107.9
Murphy ¹	17.0	14.1	16.5	117.0
Miner	16.0	14	16.6	118.6
Ott ¹	12.6	14	16.8	119.7
Moss ¹	8.7	16	17.0	106.4
Metzger	14.6	14	17.3	123.3
Fitting	17.7	14	17.3	123.6
McNamee	19.1	14	17.5	124.7
Wartel	18.0	14	17.6	125.6
Richardson ¹	26.2	16	18.1	112.9
Bumstead	21.8	16	18.9	117.9
Devitt	8.4	14	19.1	136.4
Parks	17.9	14	19.7	140.7
Herzberg ¹	26.4	14	19.7	140.8
M. A. Nelson	19.2	15	20.3	135.1
Downing ¹	29.1	15	20.5	136.5
J. V. Davis ¹	17.8	14	20.6	147.1
Reno ¹	18.1	16	20.6	129.0
Carson	18.2	13	20.7	159.5
Wilson ¹	15.6	14	21.0	150.2
Casey ¹	18.9	18.2	21.2	118.6
Traylor	20.0	15	21.2	131.7
Dickenson ¹	24.3	14.1	21.5	152.2
Richards	20.0	15	21.8	143.3
Haller	13.2	16	21.8	136.6
Blestein	21.3	14	21.9	156.6
Lewis	15.4	14	22.3	159.1
Prosser & Homans	20.1	14	22.5	159.6
Riehle	19.7	14	22.4	160.2
Mercer	13.5	12	22.8	138.8
Fern	4.4	14	23.1	164.2
Feter	27.6	15.1	23.1	153.2
Rozelle	21.6	14.5	23.2	160.0
Gierhart ¹	12.9	14	23.3	166.3
Sundelson	8.4	14	23.4	167.0
Hobbs	22.0	16	23.4	146.4
Kerber	13.5	16	23.5	146.8
Burgess ¹	23.2	21	23.8	113.5
Dewar	23.9	18	23.9	132.7
Diehl ¹	17.4	14	24.0	171.4
Masterson	36.8	14.8	24.1	163.1
Croxson	23.3	17	24.1	141.9
Sauter	23.7	20	24.3	121.7
Israel	20.9	16	24.9	158.0

¹ Agencies so marked have had changes in the last 2 years involving management or territory and; therefore, full responsibility for results cannot be attributed to these managers.

Agency	4th Quarter Agency Lapse Ratio	Year 1938 Aver. Lapse Ratio in Territory 20 "A" Companies	Year 1938 Agency Lapse Ratio	Ratio of Equitable Agency Lapse for Year to average for Year 1938 (20 "A" Cos.)
Nolting	19.4	14.2	25.0	176.5
Dunsmore	22.1	14	25.0	178.4
B. Davis	23.5	14	25.0	178.9
Woods	23.5	14	25.0	178.9
Carter	27.4	15	25.2	168.1
Maulh	23.4	14.5	25.2	173.9
Woody	21.0	16	25.3	158.1
E. M. Barber ¹	25.0	16.7	25.4	151.8
Sloan	21.5	16	25.4	158.6
Woodward ¹	31.2	16	25.4	158.7
Pasco	26.8	16.7	25.5	152.6
Ryan	18.7	18	25.6	142.2
Groves	20.3	16	25.7	160.6
Rosenstein	31.1	14	25.8	184.2
Pedrick ¹	20.1	14	25.8	184.3
Grose	24.1	20.1	26.7	132.7
Chipman	21.2	16	26.7	167.2
Rogers	23.3	17	27.0	158.8
Levy	123.1	14.1	27.0	191.5
Sacks	18.7	16	27.1	169.4
Jones, Jr. ¹	6.5	14.1	27.5	195.0
J. H. Harrop	25.0	23.6	27.8	117.9
Farnsworth	19.8	15	28.0	186.5
M. C. Nelson	27.5	17	28.3	166.7
Jamison	20.6	16	28.5	178.0
Streeter	² 28.6	² 19	28.7	² 150.5
Mitnick	19.2	14.1	28.7	203.4
Golly	23.7	16	28.9	180.7
Van Winkle	28.5	18	29.5	163.8
Bethune	25.1	14	29.5	211.0
Goldstandt	5.0	14	29.5	211.0
Collins ¹	35.2	11.6	30.2	260.2
Nye	19.7	19.7	30.4	154.5
Shea ¹	34.6	18.3	31.2	170.9
Kemp	15.8	16	31.3	195.5
Ford	19.0	14	31.5	224.9
Karsch	30.7	14	31.5	227.4
Johnson ¹	29.1	17	32.1	189.1
Sweeney	30.5	18	32.2	178.8
Peacock	30.6	14	32.2	230.3
Hale	33.1	14	32.3	237.6
Dent ¹	29.2	22	33.6	152.9
V. J. Harrop	24.4	18	33.8	187.6
Moses	34.5	29	34.7	119.8
Embry	36.9	17.9	36.8	205.5
Berlin	47.4	20.2	37.7	186.6
J. K. Taylor ¹	25.1	14	38.3	273.4
Keating	9.6	18	38.8	215.6
Poole ¹	² 40.9	² 21	38.8	² 194.9
Society	22.9	16	25.2	157.5

¹ Agencies so marked have had changes in the last 2 years involving management or territory and, therefore, full responsibility for results cannot be attributed to these managers.

² Agency lapse for 4th quarter 1938 compared with average for 20 "A" Companies for last 6 months of 1938.

EXHIBIT No. 1337

[From files of Equitable Life Assurance Society]

W. W. KLINGMAN,
Vice-President.

THE EQUITABLE LIFE ASSURANCE SOCIETY OF THE UNITED STATES

393 Seventh Ave., New York, N. Y.

THOMAS I. PARKINSON, PRESIDENT

(Ruling re: Plan for Improving Agency Practices, letter dated March 21, 1935.)

As you know, we have been collaborating with a special Committee of the Life Agency Officers Association which has as its objective the elimination of the so-called "part-time evil" in life insurance.

I am attaching a copy of the agreement which was drawn up by the Committee and which has been approved by a large number of companies. I believe this agreement constitutes a forward step. It will tend to place a greater value on the life insurance franchise and eventually do much to establish higher standards in Agency personnel. This should definitely aid you in bringing about the accomplishment of the slogan you so enthusiastically greeted during our Managerial Conference—"EVERY EQUITABLE MAN AND WOMAN MAKING A GOOD LIVING IN 1935."

I know you will be pleased to find your Society has decided to become a party to this agreement. The Equitable has always stood in the forefront in advocating higher standards among its representatives and this agreement, in active operation, should prove helpful to all of us. I know our Agents will be more than pleased to learn of this additional safeguard to protect them from untrained and undesirable part-time Agents in the Metropolitan Centers.

Your Superintendent during the next quarterly review will discuss this with you further but we know you will want to lay plans to meet the new standards.

Very truly yours,

W. W. KLINGMAN,
Vice-President.

PLAN FOR IMPROVING AGENCY PRACTICES—DECLARATION OF GUIDING PRINCIPLES AND AGREEMENT

In order to reduce agency turnover, to increase public confidence in life underwriters and in life insurance, to eliminate obviously unqualified persons entering the business—all of which would result in increasing the flow of quality business, and creating improved field morale, the following DECLARATION OF GUIDING PRINCIPLES is formulated in the hope that it will be generally subscribed to by those in the life insurance business charged with agency responsibility.

1. An urban center is defined to be a city of 50,000 persons or more, according to the 1930 U. S. census, and shall be understood to include certain territories within a radius of ten miles (more or less) from the center or boundary of such cities. Included also shall be certain additional natural population centers adjoining such urban centers.

2. A part-time agent is defined to be one who, in addition to selling life insurance, is engaged in work other than insurance in any of its branches.

3. No part-time agents, as defined in paragraph 2, will be hereafter employed by this company to sell life insurance or annuities in urban centers, as defined in paragraph 1.

4. Part-time agents, as defined in paragraph 2, now employed in urban centers, as defined in paragraph 1, shall be given an opportunity between now and December 31, 1935, to decide whether they wish to give up their other occupation or occupations, and thereafter, if they do not give up such other interests, their contracts shall be cancelled.

5. No contract shall be made with or business accepted from the so-called "one case" man who is not engaged full time in the insurance business.

6. The production of all newly appointed agents shall be reviewed regularly at the conclusion of the first six contract months and those contracts shall be cancelled where the business sold is inadequate in our opinion.

7. In addition, we shall review periodically the contracts of all agents with a view to cancelling those who are unfit.

8. We agree to make an earnest effort to improve the selection of agents, involving more care in the process and probable reduction of numbers hired.

9. We agree that no contract will be made with an agent now employed by another life insurance company without first communicating with the Home Office of the employing company.

10. We agree to request the Superintendent of Insurance to cancel immediately the licenses of all agents whose contracts with this company are cancelled.

(Signed) THOMAS I. PARKINSON,
President, Equitable Life Assurance Society of the United States.

EXHIBIT No. 1338

[From files of Life Insurance Sales Research Bureau, Hartford, Conn.]

SIGNATORY COMPANIES TO AGENCY PRACTICES AGREEMENT

62 Companies—September 22, 1938

- Aetna Life Insurance Company, Hartford, Connecticut.
 *American United Life Insurance Company, Indianapolis, Indiana.
 Amicable Life Insurance Company, Waco, Texas.
 Atlantic Life Insurance Company, Richmond, Virginia.
 Bankers Life Company, Des Moines, Iowa.
 *Berkshire Life Insurance Company, Pittsfield, Massachusetts.
 Business Men's Assurance Company, Kansas City, Missouri.
 California-Western States Life Insurance Company, Sacramento, California.
 Canada Life Assurance Company, Toronto, Ontario, Canada.
 Colorado Life Company, Denver, Colorado.
 Confederation Life Association, Toronto, Ontario, Canada.
 Connecticut General Life Insurance Company, Hartford, Connecticut.
 The Connecticut Mutual Life Insurance Company, Hartford, Connecticut.
 Continental American Life Insurance Company, Wilmington, Delaware.
 The Dominion Life Assurance Company, Waterloo, Ontario, Canada.
 Equitable Life Insurance Company, Washington, D. C.
 Eureka-Maryland Assurance Corporation, Baltimore, Maryland.
 The Fidelity Mutual Life Insurance Company, Philadelphia, Pennsylvania.
 General American Life Insurance Company, St. Louis, Missouri.
 Girard Life Insurance Company, Philadelphia, Pennsylvania.
 Great American Life Insurance Company, Hutchinson, Kansas.
 The Great-West Life Assurance Company, Winnipeg, Manitoba, Canada.
 The Guardian Life Insurance Company of America, New York, New York.
 Home Life Insurance Company of New York, New York, New York.
 Home Life Insurance Company of America, Philadelphia, Pennsylvania.
 The Imperial Life Assurance Company, Toronto, Ontario, Canada.
 John Hancock Mutual Life Insurance Company, Boston, Massachusetts.
 Kansas City Life Insurance Company, Kansas City, Missouri.
 Liberty National Life Insurance Company, Birmingham, Alabama.
 The Lincoln National Life Insurance Company, Fort Wayne, Indiana.
 Massachusetts Mutual Life Insurance Company, Springfield, Massachusetts.
 Metropolitan Life Insurance Company, New York, New York.
 The Minnesota Mutual Life Insurance Company, St. Paul, Minnesota.
 Monarch Life Insurance Company, Springfield, Massachusetts.
 The National Life and Accident Insurance Company, Inc., Nashville, Tennessee.
 National Life Insurance Company, Montpelier, Vermont.
 New England Mutual Life Insurance Company, Boston, Massachusetts.
 North American Life Assurance Company, Toronto, Ontario, Canada.
 The Northwestern Mutual Life Insurance Company, Milwaukee, Wisconsin.
 Northwestern National Life Insurance Company, Minneapolis, Minnesota.
 Occidental Life Insurance Company, Los Angeles, California.
 Occidental Life Insurance Company, Raleigh, North Carolina.
 Oregon Mutual Life Insurance Company, Portland, Oregon.
 The Pacific Mutual Life Insurance Company, Los Angeles, California.
 The Penn Mutual Life Insurance Company, Philadelphia, Pennsylvania.
 Philadelphia Life Insurance Company, Philadelphia, Pennsylvania.
 Phoenix Mutual Life Insurance Company, Hartford, Connecticut.
 Policyholders' National Life Insurance Company, Sioux Falls, South Dakota.
 Protective Life Insurance Company, Birmingham, Alabama.
 Provident Mutual Life Insurance Company, Philadelphia, Pennsylvania.
 Puritan Life Insurance Company, Providence, Rhode Island.
 Reliance Life Insurance Company, Pittsburgh, Pennsylvania.
 *Shenandoah Life Insurance Company, Roanoke, Virginia.
 State Mutual Life Assurance Company, Worcester, Massachusetts.
 Sun Life Insurance Company of America, Baltimore, Maryland.
 Sun Life Assurance Company of Canada, Montreal, Quebec, Canada.
 The Travelers Insurance Company, Hartford, Connecticut.
 The Union Central Life Insurance Company, Cincinnati, Ohio.
 Union Mutual Life Insurance Company, Portland, Maine.

*Companies who have eliminated Clause #9

- *United Life and Accident Insurance Company, Concord, New Hampshire.
 *Western and Southern Life Insurance Company, Cincinnati, Ohio.
 *West Coast Life Insurance Company, San Francisco, California.

9/22/38/B

P

EXHIBIT No. 1339

[From files of The Equitable Life Assurance Society]

(Stamped:) President, Oct. 22, 1937. Referred to.

THEODORE M. RIEHLE, *Agency Manager*
 Equitable Suite, 11th Floor, Pennsylvania Building
 225 West 34th Street, New York City
 Telephone: LACKawanna 4-4300

THE EQUITABLE LIFE ASSURANCE SOCIETY OF THE UNITED STATES

HOME OFFICE, NEW YORK, N. Y.

Thomas I. Parkinson, President

OCTOBER 22, 1937.

Mr. THOMAS I. PARKINSON,
 393 7th Avenue, New York City.

DEAR CHIEF: Vice-President Graham just paid me the courtesy of a telephone call wherein he stated that the Equitable was about to file a notice with the Agency Practices Committee of the Life Agency Officers' Association that hereafter they would employ part-time agents on a six months probationary basis, etc., in cities of 50,000 or over.

Our conversation was a very lengthy one and I do not wish to burden you with all the details thereof. I asked him for permission, in effect, to address these few lines to you so that my conscience will be clear. I have always told you my primary loyalty is to the Equitable and to you.

It is my considered conclusion that this act is extremely unwise. It will wreck the Agency Practices Agreement because the exclusion of probationary part-time agents is the main point upon which the Agreement rests. In spite of violations by signatory companies, including the Equitable, much good has been done by the Agreement and much more than meets the eye. I am positive it will not increase production. It will have, in my judgment, a very bad effect on the morale of the whole-time agents of the Equitable who produce the vast bulk of its business. I believe the repercussions of this act will be far-reaching. ^{W. J. G.} It seems

contrary to every one of your public utterances about field problems.¹

I do not wish to leave the impression that I know it all but, thinking institutionally, I am sorry that I was not called into the meeting of the Executive Committee at the time this matter was discussed.

May I state emphatically that my views on this matter concern only you, the Equitable, and the institution of life insurance?

Cordially,

TED.

TMR:N

*Companies who have eliminated Clause #9.

¹ Arrow drawn to last sentence of this paragraph with initials W. J. G. above it.

EXHIBIT No. 1340

[From files of The Equitable Life Assurance Society]

(Stamped:) William J. Graham, Vice President, 1938 Feb. 17, p. m. 5 00.

THE EQUITABLE LIFE ASSURANCE SOCIETY OF THE UNITED STATES

Vance L. Bushnell, Second Vice President

FEBRUARY 17, 1938.

For: Mr. W. J. GRAHAM,
Vice President.

Subject: Texas Bank Situation.

I would recommend that careful consideration be given to Mr. Klingman's letter of recent date regarding the placing of bank deposits in certain key cities throughout Texas.

While I appreciate the soundness of the policy of the Society in conducting our business on an impersonal basis and avoiding at all times the appearance of buying business, Texas would seem to be one state that should prove an exception to this rule. Reviewing the chaotic condition of the commercial banking field in 1932 and 1933 which occasioned the bank holiday, you will observe that Texas was the outstanding state in banking strength. As a result, Texas bankers are still the leaders of their community and their recommendations carry considerable weight with the business men and people of substantial income brackets in the community.

The majority of the forty-two Life Insurance Companies in Texas have banking affiliations. Since we have considerable idle funds for which we cannot find investment at the present time, I am sure that if a certain amount were deposited in certain key banks in Texas, it would aid Mr. Klingman in his sales program. It would not call for any violation of our present policy by any of Mr. Klingman's men using the bank directly in the sale of Equitable services. But the mere fact that we have deposits in certain of the key banks will automatically give us intangible support through officers of these banks.

In other words, at the present time, the citizens of the state are inclined to go to banks for endorsement of anything they buy and I fear that we are being damned by faint praise on the part of banks throughout the state of Texas.

VANCE L. BUSHNELL,
Second Vice President.

EXHIBIT No. 1341

[From files of The Equitable Life Assurance Society]

(Stamped:) William J. Graham, Vice President, 1937, Oct. 4, pm 1 55.

FRED F. FLORENCE,
President.

REPUBLIC NATIONAL BANK OF DALLAS

Capital and Surplus \$7,000,000.00

DALLAS, TEXAS

OCTOBER 1, 1937.

Mr. W. J. GRAHAM,
*Vice President, The Equitable Life Assurance Society,
New York City.*

DEAR MR. GRAHAM: We were delighted today to receive a letter from Mr. Greaves, Treasurer of your Company, enclosing check in the amount of \$25,000.00 as the initial deposit to the credit of your Home Office Account with our bank, and I wish to take this opportunity to express to you my personal appreciation of your cooperation in connection.

I want you to know that we are especially pleased to have this connection with your splendid Company, and are going to do everything possible to make it most pleasant and satisfactory to you and your associates. You will find that we are in a position to be most helpful in the development of your business in

Dallas and throughout Texas, and as we are exceedingly anxious to further develop and cement the relationship, we are going to be watchful of any opportunity we may have to promote your interests.

It was a genuine pleasure to me to have met you in Dallas recently, and I am only sorry that time would not permit us the opportunity for a longer visit. I hope that activities of your Company in Texas will bring you to Dallas frequently in the future, and I shall look forward with a great deal of pleasure to seeing you here from time to time.

In the meanwhile, again thanking you for your interest in our behalf, and with kind regards and best personal wishes, I remain

Most cordially yours,

F. F. FLORENCE,
President.

EXHIBIT No. 1342

[From files of The Equitable Life Assurance Society]

W. W. KLINGMAN,
General Manager,
1905 Elm Street, Dallas, Texas

Dallas
Houston
San Antonio

THE EQUITABLE LIFE ASSURANCE SOCIETY OF THE UNITED STATES

Home Office, New York, N. Y.

THOMAS I. PARKINSON, PRESIDENT

STATE OF TEXAS, *June 10, 1939.*

BLAZING GLORY

Sparkling, scintillating—going through June like a ball of fire—is the impression that I have of each one of you men out on the firing line as I scan the daily reports that have reached my desk during the first ten days of this great “Doubled Barreled Effort” for the month of June.

BLAZING GLORY

Are the only two words that really express the conflagration that is raging out on the firing line on every front of this Great Texas territory of ours.

So in connection with our “Double Barreled Effort” for the month of June, we are planning to have

A PERFECT DAY—TUESDAY, JUNE 20TH

A day perfect from the standpoint of a tremendous day's work well done—a day perfect from the standpoint of complete cooperation on the part of each one in fighting to attain the goal which we have set for that day, which is

ONE HALF MILLION OF NEW WRITTEN BUSINESS

At the end of a Perfect Day—Tuesday, June 20th—may we have so far exceeded our goal of “One Half Million” in a single day that all the world will know that we are building the greatest life insurance agency in the world right here in Texas.

More tomorrow of our plans.

Sincerely yours

W. W. KLINGMAN,
General Manager.

W. W. KLINGMAN
General Manager
1905 Elm Street, Dallas, Texas

Dallas
Houston
San Antonio

THE EQUITABLE LIFE ASSURANCE SOCIETY
OF THE UNITED STATES
Home Office New York, N. Y.
THOMAS I. PARKINSON, PRESIDENT

STATE OF TEXAS, *June 13, 1939.*

BLAZING GLORY

A PERFECT DAY

In accordance with my letter to you yesterday, we have decided to call our Blazing Glory Effort of Tuesday, June 20th—

A PERFECT DAY

A day that shall be perfect from the standpoint of every man and woman holding an Equitable franchise in our Texas organization working with all their might and main to write the largest volume of new business in a single day that he or she has ever written before.

Perfect from the standpoint that when we write our applications we will be bringing in our hands food and clothing, shelter and education to little children; that we will be providing for the mortgage to be paid at the death of some loved one and that we will also be providing a comfortable old age for those who otherwise would become dependent.

A day perfect from its blazing glory of achievement on the part of each one of us.

More tomorrow.

Sincerely yours

W. W. KLINGMAN,
General Manager.

W. W. KLINGMAN,
General Manager,
1905 Elm Street, Dallas, Texas

Dallas
Houston
San Antonio

THE EQUITABLE LIFE ASSURANCE SOCIETY
OF THE UNITED STATES
Home Office New York, N. Y.
THOMAS I. PARKINSON, PRESIDENT

STATE OF TEXAS, *June 14, 1939.*

BLAZING GLORY

WIRE ME

Enclosed find a prepared set of Western Union telegrams to be used by you exclusively on A Perfect Day—Tuesday, June 20th.

As fast as you close your applications wire me so that I may catch the first flash of your success in the field.

If you will explain to your prospect the fact that you are to wire me and show him the telegram it will prove helpful in closing.

Yes—

We are going through Tuesday, June 20th with

Sincerely yours

BLAZING GLORY

W. W. KLINGMAN,
General Manager.

W. W. KLINGMAN,
General Manager,
1905 Elm Street, Dallas, Texas

Dallas
Houston
San Antonio

THE EQUITABLE LIFE ASSURANCE SOCIETY
OF THE UNITED STATES
Home Office New York, N. Y.
THOMAS I. PARKINSON, PRESIDENT

STATE OF TEXAS, June 15, 1939.

BLAZING GLORY

FOR OUR PERFECT DAY

I was successful in making arrangements with the Western Union Telegraph Company to install and provide an instrument and special operator to receive the telegrams back from you that I sent to you yesterday on A PERFECT DAY.

I shall be sitting at my desk waiting for you to wire me of your successful outcome of making Tuesday, June 20th, a Perfect Day—a path of blazing glory to heights never yet achieved in the history of the State of Texas in a single day's business.

Wire me as fast as you close your applications.

Sincerely

W. W. KLINGMAN,
General Manager.

[Western Union]

SATURDAY, JUNE 17th.

ON THE EVE OF BATTLE

The fires of determination are burning brightly out on every firing line Stop This great Equitable organization which we are building in Texas is going into action all along the line bright and early this Tuesday morning Stop We are going to make a perfect day Tuesday June 20 go down in history as a RED LETTER DAY long to be remembered Stop We are entering upon this supreme one day effort with a "never-say-die" spirit and with our veins filled with dare Stop I am eagerly awaiting your telegram telling me you have written your first application Stop Be sure and have it reach my desk over the private wire in my office Tuesday morning Stop We are in fighting trim Stop The battle will be won!

W. W. KLINGMAN.

BLAZING GLORY

[Western Union]

A PERFECT DAY—TUESDAY JUNE 20

W. W. KLINGMAN,
911 Tower Petroleum Bldg., Dallas, Texas.

Got my first for \$. Still going.

GET THIS ON THE WIRE QUICKLY—AND OVER SHE GOES

[Western Union]

A PERFECT DAY—TUESDAY JUNE 20

W. W. KLINGMAN,
911 Tower Petroleum Bldg., Dallas, Texas.

Here is my second \$. Going strong.

GET THIS ON THE WIRE QUICKLY—AND OVER SHE GOES

[Western Union]

A PERFECT DAY—TUESDAY JUNE 20

W. W. KLINGMAN,
911 Tower Petroleum Bldg., Dallas, Texas.

Here is my third \$. Fighting thru

GET THIS ON THE WIRE QUICKLY—AND OVER SHE GOES

[Western Union]

A PERFECT DAY—TUESDAY JUNE 20

W. W. KLINGMAN,
 911 Tower Petroleum Bldg., Dallas, Texas.
 Here is my fourth \$ It is a dandy.

GET THIS ON THE WIRE QUICKLY—AND OVER SHE GOES

[Western Union]]

A PERFECT DAY—TUESDAY JUNE 20

W. W. KLINGMAN,
 911 Tower Petroleum Bldg., Dallas, Texas.
 Here is my fifth \$ The end of a perfect day.

GET THIS ON THE WIRE QUICKLY—AND OVER SHE GOES

EXHIBIT No. 1343

[Submitted by Southwestern Life Insurance Co.]

SOUTHWESTERN LIFE INSURANCE COMPANY'S

SALES TRAINING SCHOOL QUALIFICATION REQUIREMENTS

There are five essentials to successful life underwriting. They are:

1. Personal effectiveness.
2. Proper working habits.
3. Intelligent prospecting.
4. Skill in selling.
5. Knowledge of life insurance and an ability to apply life insurance to human needs.

The Southwestern Life's Sales Training Plan is designed to help the salesman to become proficient in these five essentials.

To do this, we have developed a program of work and study combined with sales training schools. For reasons which we feel will be self-explanatory, the sales force is being divided into three groups:

1. The Recruit.
2. The Junior Salesman.
3. The Senior Salesman.

DEFINITION OF EACH GROUP

The Recruit is the individual just entering the life insurance business. We define him as an individual who has been in the business less than one year. His is the job of learning the fundamentals of life underwriting from the beginning. Perhaps there are those who have been under contract longer than a year who would prefer to enter the initial classes; in order that they might study the fundamentals of life underwriting from the very beginning.

The Junior Salesman we define as an individual under contract longer than one year but less than two years. Obviously, the Recruit becomes a Junior Salesman at the completion of his first year.

The Senior Salesman we define as an individual under contract two years or longer. He knows the fundamentals of life underwriting but realizes the necessity of better organizing himself and keeping abreast of the business.

SALES TRAINING FOR SUCCESSFUL LIFE UNDERWRITING

There are three fundamental steps in training for successful life underwriting:

1. Study—to acquire information and keep informed.
2. A definite and adequate work program.
3. Sales training schools.

These steps are included in the Company's Sales Training Program.

Since these steps are essential, it will be necessary for the salesman to follow through on a study and work program prior to attending the sales training schools.

THE RECRUIT'S SALES TRAINING PROGRAM

The Company has established three dates on which Recruits may start a training schedule. They are:

1. January 1, 1940.
2. May 1, 1940.
3. September 1, 1940.

The Recruit's Sales Training Schedule

The Recruit's sales training schedule is divided into five parts:

A. The two weeks preceding the first training period. During these two weeks the Recruit should:

1. Study and answer the questions under units 1 through 12 of the R & R training course.
2. Mail his answers covering the questions to each unit to the Home Office for grading.
3. Make a grade of at least 75 per cent on each unit.
4. Organize one sales talk.
5. Organize one prospecting talk.
6. Set up a prospecting file.
7. Set up a cost accounting system.

B. The first sales training period. This period is of four months' duration. During these four months the Recruit should:

1. Follow through on a program of field work as outlined by his manager or assistant manager.
2. During the first thirteen weeks of this four months' period complete in numerical order and mail to the Home Office each week, one of the remaining R & R study units.
3. Make a grade of at least 75 per cent on each unit.
4. On Saturday of each week mail to the Home Office the Daily Plan and Record Booklet on which he has recorded his work activity for each day during that week.
5. Receive from his manager a recommendation as being the type of individual who, in the manager's opinion, has:
 - a. Followed through whole-heartedly on the steps outlined above.
 - b. Coöperated to the best interests of himself, his agency, and his Company.

C. Having followed through on the program outlined above and being recommended by his manager, the Recruit will be invited as a guest of the Company to attend a sales training school. The school will be held in Dallas. It will run for five days.

This will be a work school, and the Recruit will be expected to coöperate to the fullest with the person in charge of the school.

D. The second sales training period. This period is of eight months' duration. During these eight months the Recruit should:

1. Follow through on a program of field work as outlined by his manager or assistant manager.
2. Study the Diamond Life Bulletins Agent's Service in accordance with the written instructions received at the sales training school.
3. Mail to the Home Office each Saturday the answers to the questions covering the study unit outlined for that particular week.
4. Make a grade of at least 75 per cent on each unit.
5. On Saturday of each week mail to the Home Office the Daily Plan and Record Booklet on which he has recorded his work activity during that week.
6. Report on "change of age notices" as outlined in writing by his manager. This report is to be made on the Daily Plan and Record Booklet.
7. Receive from his manager a recommendation as being the type of individual who, in his opinion, has:
 - a. Followed through whole-heartedly on the steps outlined above.
 - b. Coöperated to the best interests of himself, his agency, and his Company.

E. Having followed through on the program as outlined above and being recommended by his manager, the Recruit will then be invited as a guest of the Company to attend a second sales training school. The school will be held in Dallas. It will run for five days.

THE JUNIOR SALESMAN'S SALES TRAINING PROGRAM

The purpose of the Junior Salesman's Sales Training Program is to assist the Junior Salesman in gaining a better grasp of the five essentials of life underwriting.

The starting dates for the Junior Salesman's sales training schedule may be found on page 6 of this folder.

The Junior Salesman's Sales Training Schedule

1. Study the Diamond Life Bulletins Agent's Service in accordance with written instructions received from the Company at the start of each sales training period.
 2. Mail to the Home Office each Saturday the answers to the questions covering the study unit outlined for that particular week.
 3. Make a grade of at least 75 per cent on each unit.
 4. Set up a cost accounting system.
 5. Set up a prospecting file. (Many agents will already have done this.)
 6. On Saturday of each week mail to the Home Office the Daily Plan and Record Booklet on which he has recorded his work activity for each day during that week.
 7. Report on "change of age notices" as outlined in writing by his manager. This report will be made on the Daily Plan and Record Booklet.
 8. Pay for \$35,000 of business during each six months' sales training period.
 9. Receive from his manager a recommendation as being the type of individual who, in his opinion, has:
 - a. Followed through whole-heartedly on the steps outlined above.
 - b. Coöperated to the best interests of himself, his agency, and his Company.
- Having followed through on the program as outlined above and being recommended by his manager, the salesman will then be invited as a guest of the Company to attend a sales training school.

THE SENIOR SALESMAN'S SALES TRAINING PROGRAM

The Senior Salesman's Sales Training Program is the same as the Junior Salesman's Sales Training Program with one exception. He is to follow the same sales training schedule, but is required to pay for \$50,000 of business during each six months' sales training period.

QUALIFYING BUSINESS DEFINED

1. Business will be counted as paid business for the month in which it is paid.
2. All Life plans, Triple Option, and Endowment plans of insurance issued by the Company shall be counted for their full face value toward the production requirement. Annuities shall count for \$1,000 volume for each \$10 monthly annuity.
3. A Term policy, (with the exception of Group Insurance which shall not count), or a Term policy that is converted to a permanent plan of insurance, or any policy on which only the Initial Term premium has been paid, shall count for one-half its volume toward qualification requirements.
4. Business to count must be in force at the end of the qualifying period. Any business produced within the qualifying period which lapses and is reinstated will count if settlement and satisfactorily completed papers are in the Home Office on or before the final day of the qualifying period.
5. Each candidate for a school must meet the production requirement on his own merit. New business produced jointly with another salesman will be counted toward the school candidate's production quota on the same basis that the first year commission is to be divided.

Schedule for Recruits

1st Qualifying period.....	January 1 through April 30
2nd Qualifying period.....	May 1 through August 31
3rd Qualifying period	September 1 through December 31

First Junior and Senior School Schedule

San Angelo and Abilene.....	January 1, 1940—July 1, 1940
Amarillo and Fort Worth.....	January 8, 1940—July 8, 1940
Tyler and Dalias.....	January 15, 1940—July 15, 1940
Beaumont and Houston.....	January 22, 1940—July 22, 1940
San Antonio and Waco.....	January 29, 1940—July 29, 1940

EXHIBIT No. 1344

[Submitted by Southwestern Life Insurance Co.]

Southwestern Life Insurance Company—Average Annual Earnings of Agents

1933.....	\$1, 002	1936.....	\$1, 781
1934.....	1, 273	1937.....	2, 251
1935.....	1, 588	1938.....	2, 643

EXHIBIT No. 1345
 [Prepared by Securities and Exchange Commission Insurance Study staff]
Directors Interlocking the Five Largest Life Insurance Companies with Other Important Financial Institutions, 1938
 COMMERCIAL BANKS IN NEW YORK CITY AREA

	Life insurance companies				
	Metropolitan Life Insurance Co.	Prudential Insurance Co.	New York Life Insurance Co.	Equitable Life Assurance Society	Mutual Life Insurance Co.
Chase National Bk	{ W. W. Aldrich ¹ , Newcomb Carlton	{ Howard Bayne	G. H. Milliken	{ T. I. Parkinson B. Cutler	{ Robert C. Stanley, James H. Perkins ¹
National City Bank of New York.	{ Frederick H. Ecker	{ W. P. Conway ¹ , J. A. Hartford		F. P. Keppel	{ C. P. Cooper, John W. Davis, Charles E. Dunlap, D. F. Houston, W. C. Potter ¹
Guaranty Trust Co. of New York.		H. Chubb	{ C. N. Bliss, J. G. Harbord, C. D. Hillis	{ Seward Prosser ¹	{ L. H. Brown, S. S. Colt ¹
Bankers Trust Co.	W. L. De Bost		{ Hale Holden, P. H. Johnston ¹	Wm. Skinner	W. G. Carey, Jr.
Central Hanover Bank & Trust Co.		J. E. Reynolds	M. N. Buckner ¹		{ Leon Fraser ¹ Myron C. Taylor, J. G. Colgate, Vanderbilt Webb, J. C. Traphagen ¹ C. E. Adams, F. H. Choate, Jr., Paul Tucker-man, F. L. Folk, John Sloane
Chemical Bank & Trust Co.				F. B. Davis, Jr.	
First National Bk. of the City of N. Y.				Robt. C. Hill	
New York Trust Co.					
Bank of New York & Trust Co.			C. N. Bliss		
U. S. Trust Co.				{ E. P. Maynard G. V. McLaughlin ¹	
Brooklyn Trust Co.		{ J. H. Bachelier ¹			
Fidelity Union Trust Co. (Newark, N. J.)		{ C. I. Barnard			

COMMERCIAL BANKS OUTSIDE NEW YORK CITY AREA

Atlanta, Ga.: First National Bk.				John K. Ottley.
Boston, Mass.: National Shawmut Bank.				Henry L. Shattuck.
Chicago, Ill.: New England Trust Co.	N. F. Ayer.			Lawrence A. Downs.
Chicago, Ill.: First National Bk.			R. Budd.	
Continental-Illinois Bk. & Trust Co.				
Northern Trust Co.				
Pittsburgh, Pa.: Mellon Natl. Bk.	H. W. Croft.	E. H. Ryerson, Jr.		
San Francisco, Cal.: Bank of California.			H. D. Pillsbury.	
St. Louis, Mo.: First Natl. Bk.				
Washington, D. C.: Riggs Natl. Bk.	R. V. Fleming ¹ .	W. H. Danforth.		

SAVINGS INSTITUTIONS IN NEW YORK CITY AREA

Bowery Savings Bank.	Geo. McAneny.	{ A. A. Ballentine. Henry Bruere ¹ .		Frank L. Folk.
Emigrant Industrial Savings Bk.			T. I. Parkinson.	
Bank for Savings in the City of New York.	W. P. Conway.			S. Sloan Colt.
Dime Savings Bk. of Brooklyn.			E. C. Blum.	
East River Savings Bank.	{ W. L. De Bost ¹ Frederick H. Ecker.			
Union Dime Savings Bank.				
Seaman's Bank for Savings.		R. E. Dowling.		
Brooklyn Savings Bank.		{ P. H. Johnston J. B. Smull.		Charles E. Dunlap.
Franklin Savgs. Bk. in the City of New York.			E. P. Maynard.	
Howard Savings Institution.		A. L. Aiken.		
Provident Loan Society of N. Y.	{ F. D'Olier J. E. Reynolds.		M. N. Buckner.	John Sloane.
	{ J. Millbank.			

¹ Indicates either President or Chairman of the Board of Trustees.

Directors interlocking the five largest life insurance companies with other important corporations 1938

INDUSTRIAL CORPORATIONS

	Life insurance companies				
	Mutual Life Insurance Co. of New York	Equitable Life Assurance Society of the U. S.	New York Life Insurance Company	Prudential Life Insurance Co. of America	Metropolitan Life Insurance Company
Anacosta Copper Mining Company.	{ James H. Perkins. Wm. C. Potter.				Charles M. Schwab.
Bethlehem Steel Corporation.					
Chrysler Corp.		Francis B. Davis, Jr.		John A. Hartford.	
E. I. Du Pont de Nemours & Co.					
General Electric Company.	{ Leon Fraser. Robert C. Stanley	Seward Prosser			
General Motors Corporation.		Seward Prosser			
International Harvester Co.		Ralph Budd			
International Nickel Co. of Canada, Ltd.	Robert C. Stanley	Seward Prosser			
Kennebec Copper Corporation.		Seward Prosser			
Union Carbide & Copper Corp.					Joseph P. Day.
United States Steel Corp.	{ Leon Fraser. David F. Houston Nathan L. Miller. Myron C. Taylor.				Edward R. Stettinius. Winthrop W. Aldrich.
Westinghouse Electric & Manufacturing Corporation.		Thomas I. Parkinson			
Western Electric & Manufacturing Company.		Thomas I. Parkinson			

OTHER INSURANCE COMPANIES: FIRE, MARINE, AND MISCELLANEOUS

Continental Insurance Co.					
Home Insurance Company.	Clarence M. Woolley	Thomas I. Parkinson	Mortimer N. Buckner		George McAneary.
North British & Mercantile Ins. Co., Ltd.	{ Charles E. Dunlap. David F. Houston.				

OTHER LIFE INSURANCE COMPANIES

Acacia Mutual Life Ins. Co. Massachusetts Mutual Life Insurance Co.	William Skinner	Robert V. Fleming.
Penn Mutual Life Ins. Co. Sun Life Assurance Com- pany of Canada.	Charles D. Barney	L. A. Taschereau.
North American Reassur- ance Co.	Edwin P. Maynard	

PUBLIC UTILITY CORPORATIONS

American Telephone & Tele- graph Co.	{ Charles P. Cooper John W. Davis David F. Houston Elihu Root, Jr. Myron C. Taylor Daniel Willard }	Hale Loiden	Winthrop W. Aldrich.
Consolidated Edison Co. of New York. New Jersey Bell Telephone Co.	{ James H. Perkins }	George V. McLaughlin	{ Joseph P. Day Frederick H. Ecker }
New York Telephone Co. Pacific Telephone & Tele- graph Co.	Lewis H. Brown	Edwin P. Maynard Horace D. Pillsbury	Wm. L. De Bost.
Southern Bell Telephone Co. Western Union Telegraph Co.	John K. Ottley	John J. Pelley	{ Newcomb Carlton. Frederick H. Ecker. Jeremiah Milbank }

RAILROAD COMPANIES

Atchison, Topeka & Santa Fe Railway Co.	{ William C. Potter Myron C. Taylor }	James G. Harbord	Carroll B. Merriam.
Baltimore & Ohio Railroad Co.	{ Clarence M. Woolley Daniel Willard }		
Canadian Pacific Railway Co.	Robert C. Stanley	Ralph Budd	D'Alton Corry Coleman.
Chicago, Burlington & Quincy Railroad Co. Cleveland, Cincinnati, Chi- cago & St. Louis Railway Co.	Myron C. Taylor	Bertram Outler	

Directors interlocking the five largest life insurance companies with other important corporations 1938—Continued

RAILROAD COMPANIES—Continued

	Life insurance companies					Metropolitan Life Insurance Company
	Mutual Life Insurance Co. of New York	Equitable Life Assurance Society of America	New York Life Insurance Company	Prudential Life Insurance Co. of America		
Chicago, Milwaukee & St. Paul & Pacific Railroad Company.						
Delaware & Hudson Railroad Corp.		George W. Murray.	Mortimer N. Buckner			
Delaware, Lackawanna & Western Railroad Company.	Clarence M. Woolley			Roy E. Tomlinson.		
Erie Railroad Company.						
Illinois Central Railroad Co.	Lawrence A. Downs.			Jackson E. Reynolds		Michael D. Follansbee.
New York Central Railroad Co.	Myron C. Taylor.	Bertram Cutler.				
New York, New Haven & Hartford Railroad Co.				John A. Hartford		
Northern Pacific Railroad Co.	Frank L. Polk.					
Pennsylvania Railroad Co.				Franklin D'Olier		
Southern Pacific Co.		John F. Harris.	Hale Holden	Jackson E. Reynolds		
Southern Railway Company.	John K. Ottley.		Gerrish H. Milliken.	Jackson E. Reynolds		
Union Pacific Railroad Co.	James H. Perkins.		Henry Bruere.			Newcomb Carlton.

EXHIBIT No. 1346

[Prepared by Securities and Exchange Commission Insurance Study staff]

Executive Structures of the Six Largest Life Insurance Companies, 1938—Based on All Salaries, Compensation and Emoluments, Excepting Bona Fide Commissions Paid to or Retained by Agents, of Whatever Amount Received in the Current Year by Active Officers Where the Same Amounted to More Than \$5,000

NUMBER OF OFFICERS IN RESPECTIVE COMPANIES RECEIVING STATED AMOUNTS

Salary class	Metropolitan Life Insurance Company	Prudential Insurance Company of America	New York Life Insurance Company	Equitable Life Assurance Society of the United States	Mutual Life Insurance Company	North-western Mutual Life Insurance Company
\$100,000 and over.....	1		1		1	
\$90,000 to \$99,999.....						
\$80,000 to \$89,999.....						
\$70,000 to \$79,999.....		2	1	1		
\$60,000 to \$69,999.....			1			
\$50,000 to \$59,999.....	1					1
\$40,000 to \$49,999.....	3	2	2	1	2	
\$35,000 to \$39,999.....	3	2	1			
\$30,000 to \$34,999.....	3	1	6	2		
\$25,000 to \$29,999.....	12	3	5	1	2	1
\$20,000 to \$24,999.....	12	12	6	7	4	5
\$15,000 to \$19,999.....	30	16	18	16	7	4
\$10,000 to \$14,999.....	118	64	38	38	30	13
\$5,000 to \$9,999.....	859	548	205	178	123	41
Totals.....	1.052	650	284	244	170	65

PERCENTAGES OF ALL OFFICERS IN RESPECTIVE COMPANIES RECEIVING STATED AMOUNTS

\$100,000 and over.....	0.10		0.35		0.59	
\$90,000 to \$99,999.....						
\$80,000 to \$89,999.....						
\$70,000 to \$79,999.....		0.31	.35	0.41		
\$60,000 to \$69,999.....			.35			
\$50,000 to \$59,999.....	.10					1.54
\$40,000 to \$49,999.....	.29	.31	.71	.41	1.18	
\$35,000 to \$39,999.....	.29	.31	.35			
\$30,000 to \$34,999.....	.29	.15	2.11	.82	.59	
\$25,000 to \$29,999.....	1.14	.46	1.76	.41	1.18	1.54
\$20,000 to \$24,999.....	1.14	1.85	2.11	2.87	2.35	7.69
\$15,000 to \$19,999.....	2.85	2.46	6.34	6.56	4.11	6.15
\$10,000 to \$14,999.....	11.21	9.85	13.38	15.57	17.65	20.00
\$5,000 to \$9,999.....	82.60	84.30	72.19	72.95	72.35	63.08
Totals.....	100.01	100.00	100.00	100.00	100.00	100.00

† Mr. Edward D. Duffield, president of the Prudential Insurance Company of America, died September 17, 1938. He was succeeded in that office by Mr. Franklin D'Olier. During 1938 Mr. Duffield was paid \$75,000 and Mr. D'Olier received \$60,000 as vice president.

Source: Annual statements, convention form—Schedule G.

EXHIBIT No. 1347

[Prepared by Securities and Exchange Commission Insurance Study staff]

*Remuneration of Directors of the Six Largest Life Insurance Companies, 1938,
Excluding Those Directors Who Were Officers of Their Companies*

	Metropolitan Life Insurance Company	Prudential Insurance Company of America	New York Life Insurance Company	Equitable Life Assurance Society of the United States	Mutual Life Insurance Company	Northwestern Mutual Life Insurance Company
Number of directors (or trustees).....	24	18	25	35	36	35
Number of directors other than officers receiving remuneration.....	20	16	23	31	35	35
Total amount paid to directors (other than officers)....	\$26, 130.00	\$32, 860.00	\$48, 300.00	\$52, 350.00	\$33, 400.00	\$51, 863.07
Average amount paid to directors (other than officers)....	\$1, 306.50	\$2, 053.75	\$2, 100.00	\$1, 688.71	\$954.29	\$1, 481.80

NAMES, TITLES AND SALARIES OF OFFICERS IN THE SIX LARGEST LIFE INSURANCE COMPANIES RECEIVING \$40,000 OR MORE IN 1938

Metropolitan Life Insurance Company:

L. A. Lincoln (P.), \$125,000; F. W. Ecker (V. P.), \$50,000; J. E. Kavanagh (V. P.), \$45,000; E. H. Wilkes (V. P.), \$42,000; J. D. Craig (V. P.), \$42,000.

Prudential Life Insurance Company:

F. D'Olier* (P.), \$78,314; E. D. Duffield* (P., dec'd), \$75,000; J. W. Stedman (V. P.), \$48,000; H. B. Sutphen (V. P.), \$40,000.

New York Life Insurance Company:

T. A. Buckner (Ch.), \$100,000; A. L. Aiken (P.), \$75,000; W. Buckner (V. P.), \$60,000; F. A. Wickett (V. P.), \$41,702; A. H. Meyers (V. P.), \$40,000.

Equitable Life Assurance Society of the United States:

T. I. Parkinson (P.), \$75,000; W. J. Graham (V. P.), \$42,500.

Mutual Life Insurance Company:

D. F. Houston (P.), \$125,000; W. A. Hutcheson (V. P.), \$40,000; D. S. Beebe (V. P.), \$40,000.

Northwestern Life Insurance Company:

M. J. Cleary (P.), \$50,000.

*For less than a full year.

Source: Annual statements, convention form—Schedule G.

EXHIBIT No. 1348

(Prepared by Securities and Exchange Commission Insurance Study Staff)

Ordinary and industrial life insurance—Nineteen stock companies selling ordinary and industrial life insurance: Amounts of insurance in force, premium income, original paid-in capital, dividends to stockholders, surplus and capital in 1938

Name of company	Year began operations	Insurance in force		Premium income		Original paid in capital	Dividends to stockholders since organization		Surplus ¹	Capital
		Ordinary	Industrial	Ordinary	Industrial		Stock	Cash		
Aetna Life Insurance Company ¹	1850	\$3,984,353,013	0	\$54,660,286	0	\$150,000	\$4,100,000	\$21,717,000	\$20,386,975	\$15,000,000
California-Western States Life Insurance Company ²	1912	242,660,703	0	6,863,307	0	500,000	0	2,455,897	450,000	875,000
Commonwealth Life Insurance Company	1905	76,430,524	\$77,509,523	1,949,375	\$1,896,817	148,143	0	3,453,314	250,000	1,500,000
Connecticut General Life Insurance Company	1865	1,127,366,929	0	25,750,132	0	250,000	0	5,328,736	6,210,522	3,000,000
Equitable Life Insurance Company of Iowa	1867	577,404,048	0	15,968,404	0	25,000	0	1,926,185	3,424,519	1,000,000
Franklin Life Insurance Company	1884	175,108,383	0	4,339,462	0	100,000	150,000	363,750	1,035,364	250,000
General American Life Insurance Company ³	1933	712,976,153	0	9,357,962	0	1,568,000	0	142,500	1,980,683	500,000
Great Southern Life Insurance Company	1909	250,386,240	0	8,192,496	0	119,690	1,200,000	5,735,000	1,000,000	3,000,000
Jefferson Standard Life Insurance Company	1907	385,058,943	0	10,510,114	0	250,000	1,583,333	2,260,000	2,500,000	2,000,000
Kansas City Life Insurance Company	1895	443,055,919	0	10,799,936	0	125,000	875,000	2,450,000	8,021,440	1,000,000
Lincoln National Life Insurance Company	1905	995,423,126	0	20,540,335	0	110,300	0	6,442,423	3,500,000	2,500,000
Northwestern National Life Insurance Company ⁴	1885	427,027,802	0	10,593,377	0	1,100,000	0	165,000	2,329,048	1,100,000
Occidental Life Insurance Company	1906	452,817,977	0	7,965,849	0	100,000	0	431,000	1,731,332	1,000,000
Ohio National Life Insurance Company	1910	186,232,005	30,240	4,852,028	\$ 6,107	106,400	0	1,146,730	1,000,000	828,580
Bellanca Life Insurance Company ⁵	1903	468,673,892	0	14,267,737	0	1,000,000	0	1,500,000	3,637,012	1,000,000
Shenandoah Life Insurance Company	1916	179,861,487	0	11,473,758	0	120,920	0	5,575,000	3,578,091	1,500,000
Southwestern Life Insurance Company	1903	342,617,326	0	8,858,549	0	100,000	3,750,000	5,760,000	3,610,574	4,000,000
Travelers Insurance Company ⁶	1866	4,644,922,861	0	74,588,834	0	200,000	0	17,734,000	33,356,461	20,000,000
Union Central Life Insurance Company	1867	1,131,358,805	0	31,320,275	0	100,000	2,400,000	4,285,733	8,197,514	2,500,000
Total		\$16,804,016,706	\$77,539,763	\$320,365,171	\$1,902,924	\$6,005,453	\$14,058,333	\$64,978,273	\$101,179,543	\$61,553,580

¹ Excludes Contingency Reserves.
² Engaged in sale of health and accident insurance.
³ As of June 13, 1943 after reorganization into a legal reserve company.
⁴ Changed from mutual to stock in 1927.
⁵ Best reports an original paid-in capital of \$200,000. Spectator reports the figures which appears in the schedule. Both figures are of the same date.
⁶ Listed as Accident and Health—probably of an industrial nature in this company.
⁷ \$308,750 purchased for policyholders under mutualization plan.
 Sources: Best's Life Reports; Spectator Insurance Year Books; Annual Statements.

EXHIBIT No. 1348-1

[From files of The Federal Reserve Life Insurance Co.]

AUGUST 5, 1926.

Major W. R. BAKER,
Superintendent of Insurance, Topeka, Kansas.

DEAR MAJOR BAKER: It is my pleasure to make these suggestions; you may, or may not, think well of them.

1st—During the campaign some bad news was collected; it will be sent to you in due course. Don't worry about it, because people who do things surely will be criticized.

No bad news was sent you during the campaign as you seemed to be somewhat worried and it was my wish to relieve you as much as possible; and it will only be sent now in order to keep you posted.

2nd—It seems to me that one of the most important things now is for you to write the people here in Wyandotte County a letter of appreciation—thank them for their good work.

For instance: when a judge on the bench lays aside judicial matters and goes out to work for you, that should be acknowledged in a letter that shows feeling.

If you are too busy to do this, send us your stationery and we will have the proper letters written for each and every one; send them back and you can sign them, or you can make such changes as you like. Rest assured that they will be written in the proper spirit and they will be written to fit the case.

3rd—We do not know what your ambition is—no one has told us—but a great secret has been discovered by me. If you should like to continue as Superintendent of Insurance for the fourth, fifth, sixth, or seventh term, and so on, this secret will enable you to do it. It is not necessary to talk about it now, but in a short time plans should be laid. However, the work would be done so unobtrusively that no one would realize your ambition, or the point at which you were driving until the proper time.

Think the matter over and, if at any time in the future you are in a receptive mood, we could discuss my plan.

In this campaign something was learned by me about politics; it seems that there are four essentials: (a) some money; (b) some brains; (c) hard work, and (d) friends.

It requires some money to acquire ammunition and guns and then to plant them in the right spot; it requires brains to know what to do, how to do it and to know what your opponent is doing and then to out-general him; it requires hard work, because nothing worth while can be accomplished without hard work; it requires friends—friends with whom one can trade and with whom one may work—friends who can turn the trick for one.

Perhaps we did not do everything exactly and precisely as you ordered, because we were enthusiastic and determined to win; we used our judgment, but, in looking back over the ground over which we traveled, no errors can be seen by us.

We spent money—it was necessary to do it—but you will never know what we spent; in fact, we do not know ourselves, and that is the way it will rest if anything comes up in the future. But, in my opinion, nothing will come up in the future, because there would be too much to investigate.

It is our impression that more money was spent in this campaign than probably any other campaign in Kansas; it rolled as freely as water running down stream.

Sometime, if you wish me to do so, it will be a pleasure to write you something of the intricacies of this last campaign and you would acknowledge that we played the game to win.

My ambition in life is to win every time, the goal always is in sight, with a steady tramp to that goal—never allowing myself to be deflected from a path that leads directly to the goal.

It seems to me that you are in position now to get anything you wish along political lines, although it is our impression that some fight will be made on you at the next session of the legislature; but we can find out in advance what they wish to do and Senator Vincent, if you will pardon a slang expression, will have the "low down" on it.

You must take off your hat to him when it comes to politics. He knows a great deal about the game. And he will place the cards on the table in a manner that everything will move along satisfactorily to all concerned; he will smooth the rough edges.

Senator Vincent has been in politics for a quarter of a century and six years and he loves to smile at the other fellow. He has an attractive smile that sinks deeply into the heart of his opponent.

Congratulations and very best wishes.

Sincerely yours,

W. H. GREGORY.

EXHIBIT No. 1348-2

[From files of The Federal Reserve Life Insurance Co.]

Office of the First Vice President

THE FEDERAL RESERVE LIFE INSURANCE COMPANY,
Kansas City, Kansas, December 14, 1932.

MEMORANDUM

During 1927 E. W. Merritt, Jr., approached Clark Strickland, President of the United States Reserve Insurance Corporation, for the proposition to form the Reserve Company, the latter to serve as a holding Company as the U. S. Reserve and to assist in financing deals for the purpose of developing the U. S. Reserve into one of the larger insurance companies in this section.

Strickland acquiesced in Merritt's proposition and assisted in placing control of the U. S. Reserve in the Reserve Company. In this step, however, Strickland entered into a contract with Merritt and Massey Wilson which finally resulted in his receiving \$40,000 cash for his holdings in the U. S. Reserve, rather than stock only in the Reserve Company. This is the only instance that has come to my attention, where the Reserve Company or Merritt purchased stock in the U. S. Reserve for cash. Strickland forced collection of this item in the summer of 1929, through an informant of Fred Robertson.

With the assistance of Strickland, Merritt soon gained control of the U. S. Reserve by exchanging U. S. Reserve stock for stock of the Reserve Company. Just how far and how fast this progressed is reflected in the vote on May 17, 1928, on the proposition of reinsurance of the U. S. Reserve by the Federal Reserve.

In payment for their services in assisting him in obtaining control of the U. S. Reserve, Merritt brought the following men with him to the Federal Reserve: Clark Strickland, as a Vice President; E. J. Sander, Secretary of the U. S. Reserve; Sander made an investment of \$20,000 in that Corporation and exchanged the holding of the stock in Merritt's holding Company.

A. E. Reid, Merritt's financial angel in the foundation of the Reserve Company, also in the purchase of Federal Reserve stock, and in the payment of the Strickland note. A. H. Slagle, former Agent of the U. S. Reserve, who with Reid carried on the major portion of the stock exchanging and later transferred U. S. Reserve policies.

All four of these individuals were at one time or another on the payroll of the Federal Reserve.

However, before the Federal had reinsured the business of the U. S. Reserve, the latter became a stockholder in the Federal. In the winter of 1927, Merritt began dealing for the five hundred shares of Federal stock. This stock was finally purchased from W. K. Herndon on March 21, 1928, for \$385,000.00.

To assist in this purchase the Federal Reserve on March 21, 1928, purchased mortgages in the amount of \$107,645.06 from the U. S. Reserve. The U. S. Reserve then advanced the Reserve Company \$101,050.00 of these identical funds.

There follows a description of the source of the funds used by the Reserve Company in payment for the 8,500 shares of Federal Reserve stock:

Advanced by U. S. Reserve.....	\$100,050.00
Advanced by E. W. Merritt and Massey Wilson, who in turn borrowed from the First National at St. Louis and put up Federal Reserve stock as collateral.....	\$100,000.00
Borrowed from Commerce Trust Company with Federal Reserve stock as collateral.....	\$59,790.00
Borrowed from A. E. Reid.....	\$25,000.00
Borrowed from D. H. Holt, Trustee.....	\$60,000.00
Total.....	\$375,840.00

In order to meet the outstanding obligations of the Reserve Company, the participating certificate on the U. S. Reserve reinsurance was discounted and the Federal Reserve paid \$79,006.26 in cash on the certificates in 1928.

At the suggestion of Merritt, the Federal Reserve gave the Reserve Company a contract to transfer the U. S. Reserve policies just reinsured. All told, the Reserve Company received \$83,997.48 for this job. The following tabulation shows the cash supplied by the Federal Reserve in 1928 to the U. S. Reserve and the Reserve Company in Merritt's interests:

Mortgages purchased.....	\$107, 645. 06
Reinsurance contract discounted.....	79, 006. 26
Commissions on twisted policies.....	83, 997. 48
Total.....	270, 648. 80

In spite of these cash contributions to the Merritt interest, the Reserve Company was unable to meet its obligations on its preferred stock in 1929 and called upon Massey Wilson for assistance. Wilson took up the bank loans of the Reserve Company and gave the Reserve Company 42,000 shares of Insurance Investment stock for its equity in the Federal Reserve stock, held as collateral by the various banks and which was at that time in danger of being foreclosed.

The following quotation is taken from the minutes of the Directors' meeting of the Federal Reserve Life Insurance Company held on April 24, 1928, page 120, Directors Minute Book:

"Motion by E. W. Merritt, Jr., seconded by D. H. Holt, and carried, that the Finance Committee be authorized to pay from its surplus the sum of Fifty Thousand (\$50,000.00) Dollars on the amount due the United States Reserve Insurance Corporation on account of the reinsurance contract approved by the Board of Directors this date, subject to the written approval of the Insurance Commissioner of Kansas."

The proposition was submitted to William R. Baker, Kansas Commissioner, and the following extract is from his letter of May 30, 1938:

"It is distinctly understood, of course, that the payment of these certificates will not be made if by so doing the surplus of the Company as shown in its annual statement of December 31, 1927, will be reduced. In other words, payment must be made from the earnings of the current year."

Following the motion of April 24, 1928, and the letter from William R. Baker of May 30, 1928, the following cash disbursements were made during the year:

June 14, 1928, Cash.....	\$25, 000. 00
June 10, 1928, Check No. 27459.....	10, 000. 00
July 2, 1928, Check No. 27656.....	15, 421. 05
July 25, 1928, Check No. 28033.....	85. 21
Sept. 4, 1928, Check No. 28821.....	25, 000. 00
Total.....	\$79, 006. 26
Payment authorized by Board of Directors.....	50, 000. 00
Payment in excess of Board authorization.....	\$29, 006. 26

Commissioner Baker in his letter of May 30, 1928, stated emphatically that any payments on account of the reinsurance contract must be out of current earnings and the payment should not be made, "If by so doing, the surplus of the Company as shown in its annual statement of December 31, 1927, will be reduced."

Surplus, Statement of Dec. 31, 1927.....	\$102, 614. 56
Surplus, Statement of Dec. 31, 1928.....	84, 067. 50
Decrease in Surplus.....	18, 547. 06

The decrease in the surplus of \$18,547.06 is noticed. This decrease would not have occurred if the participating certificate of the U. S. Reserve Insurance Corporation in the amount of \$105,266.68 had not been paid.

HERBERT W. JORDAN.

WHJ:G

EXHIBIT No. 1348-4

[From files of The Federal Reserve Life Insurance Co.]

JULY 14, 1926.

Mr. E. W. MERRITT,
1909 Railway Exchange Bldg., St. Louis, Missouri.

DEAR MR. MERRITT: I have been in Chicago nearly every day since the agency force began their transfer work. As you know, I am here in the interest of our company with a view of the protection of our company in the minutest details.

I believe in the transfer work, believe it is a good thing for the company and the policy holders of the old Providers Life provided it is done in the right way. And the right way is what I want to discuss with you in this letter.

You know the Federal Reserve Life Insurance Company is not in the business for just a day. A Life Insurance Company, if it endures, goes on down the avenue of time from generation to generation. People who have to do with the Life Insurance Company may pass off the sphere of action but the Life Insurance Company itself goes on and on for all time. We are interested in the future.

The representative in the field, as a rule, is interested only in the present and in his commission in the immediate placing of business. The transfer men are no exception to this rule. They are anxious to place a large number of new policies each day for the purpose of making the daily earning more attractive. If they can put it over without a proper discussion of the principles back of it, they want to do that because it is traveling the road of least resistance. But this is where trouble for the Federal Reserve Life Insurance Company begins.

We have them (Providers policyholders) now coming into the office, telling us stories of seeming duress and without any knowledge of what the change means to them. These people, as a unit, believe that the management of the Providers has been to rob them of their rights and of their cash, and they believe that this transfer is the last stroke to take their money away from them and to put them in a position where their insurance will not be effective.

Some of the agents will go into a home with the policy of some member of the family, and if this policy holder be not present the agent will require some other member of the family to get the policy, get that member of the family to sign the cash surrender certificate, to sign all other papers in connection with the transfer take up the old policy, leave the new one, and return the case to the office here as a completed case and congratulating himself on the fact that he made a sale. Then the next day in comes the irate policy holder and states that the whole process was one of duress and he demands that the old policy be returned and that his status as before, be established. I fear this process is being done in a more general way than is indicated by the specific case which turned up here at the office, and if it is sometime down the line, we may have serious trouble with these people whose policies have been taken up and new policies, by unauthorized signatures of people whom the agents know are not legally qualified to sign same.

This work can be done in the right way, and if it is, there will be scarcely any comeback and this is the way we want it done. Yesterday we had a case where the policy of Pavil Gofron, 2617 West Haddon Street, was brought into the office by a son. This young fellow said his father was very irate and wanted his old policy returned. He said the agent forced his mother to give up the old policy—the father's policy, in his absence—and sign all the papers. We tried to find who the agent was who did this indiscreet act. I talked to George D. about it and he informed me that he did not know and that I should write to you in St. Louis, a letter asking you to send us the name of the representative who handled this case. However, we did find out that this is the territory that Mr. Hargrave is working and, in all probability, it is Mr. Hargrave's work as we have had a great many complaints from the people he has worked.

I am of the opinion that the agency force needs some real definite stern instructions by someone who is the authority to determine what is expected of them and what they shall be required to do.

I am writing you this letter at the suggestion of George D. with a view that you should know the situation as it is being presented to the company, and with the feeling that you are interested in doing this the right way, as the future of our company here will be greatly influenced by the methods used, also will your career as transfer workers be likewise influenced. Assuring you that we want to cooperate with you in every way for the best interest of the company, the policyholders of the Providers, and the transfer department, I remain

Yours very respectfully,

D. H. HOLT.

DHH:LVR

EXHIBIT No. 1348-5

[From files of The Federal Reserve Life Insurance Co.]

JULY 15, 1926.

Mr. D. H. HOLT,

*Secy., The Federal Reserve Life Insurance Co.,
1530-32 North Robey Street, Chicago, Illinois.*

MY DEAR MR. HOLT: Please accept my thanks for your most courteous and very welcome letter of July 14. I absolutely agree with you in everything that you have said in this letter. Moreover, I know that you realize that I am as anxious as you are to have this work done properly.

Last Monday I was in the Home Office in Kansas City and I went over everything very carefully with Messrs. Hackethal and Kalousek. As a result of my conference with them, I brought back several cases along the lines indicated in your letter.

J. D. and I then discussed the whole situation thoroughly and an explicit letter has gone out to each agent. If there is any more of this kind of transfer, we will give the agent one more warning. Then, on next offence lay him off.

Mr. Holt, I have been transferring for nearly twenty years and I find that these things will "crop out" at the beginning of a deal. We are all human, especially transfer agents. However, considering the volume of business transferred and the class of people transferred, I am surprised that we have not had more complaints.

Again, Mr. Holt, I want to assure you that we will co-operate with you in every possible way. Again, I want to thank you, as I thanked Mr. Gregory in Kansas City Monday, for the wonderful co-operation that you all have given us. We certainly appreciate it and we are going to show our appreciation by doing for the Federal Reserve Life Insurance Company the best transfer work that has ever been done.

Please let Mr. Geo. D. DeBuchanan read this letter as he has all of our interests at heart and is in immediate charge of the men. Please tell George to warn the men that if these complaints continue we will have to disperse with their services.

Again assuring you of my appreciation of yours of July 14, and with kindest personal regards, I am

Very truly yours,

(Signed) E. W. MERRITT, JR.,

(Typed) E. W. MERRITT, JR.,

1909 Railway Exchange Bldg., St. Louis, Missouri.

EWM/H

EXHIBIT No. 1348-6

[Submitted by The Equitable Life Assurance Society]

[Copy]

THOMAS I. PARRINSON,
President.

THE EQUITABLE LIFE ASSURANCE SOCIETY OF THE UNITED STATES

393 Seventh Avenue, New York

NOVEMBER 9, 1939.

Mr. GERHARD A. GESELL,

*Special Counsel, Insurance Section, Monopoly Study,
Securities & Exchange Commission, Washington, D. C.*

DEAR MR. GESELL: In the course of my testimony before the Temporary National Economic Committee in Washington on October 26, 1939, it was agreed that I was to submit, for inclusion in the record of the Committee, a statement with respect to the rules and practices we follow in determining the amount of life insurance we feel we can offer to applicants.

I now attach such a statement, prepared by Mr. Mervyn Davis, Vice-President in charge of our Underwriting Department.

Very truly yours,

(Signed) THOMAS I. PARRINSON

President.

MERVYN DAVIS,
Vice-President.

THE EQUITABLE LIFE ASSURANCE SOCIETY OF THE UNITED STATES

393 Seventh Avenue, New York

THOMAS I. PARKINSON, PRESIDENT

The primary purpose of life insurance is to meet the individual's actual insurance needs—in other words, to provide funds which will protect those dependent upon him against the actual or prospective financial loss which his death will entail. In the great majority of cases, however, it is clearly impossible for the individual to cover these needs fully and completely because of the large outlay which would be involved, and he must content himself with a program which will meet the more pressing needs. It is therefore a fundamental principle of underwriting that no applicant for insurance should burden himself with an insurance program which, because of his financial situation, he may be unable to carry out.

With this in mind the underwriters examine carefully all applications for insurance, whether for large or small amounts, from a financial standpoint, since it is evident that the man with the small income cannot possibly afford to spend as high a proportion of that income for insurance purposes as the applicant with a larger income. In other words, we must measure the ability to pay as well as the insurance needs.

For underwriting purposes applications for insurance may roughly be divided into two classes, namely:

First, personal insurance, to replace the individual's earnings or to build up his estate, including clean-up fund, family protection, inheritance taxes, claims of creditors, etc.

Second, business insurance, to reimburse his company for their share of the loss involved in the termination of the services of an important executive or key man.

In the case of either of these classes of insurance, in determining the amount of insurance which may properly be issued the most important criterion considered by the underwriter is the income of the prospective insured, for this enables the underwriter to form a judgment as to the amount of the insurance which the applicant needs and also, in most instances, his probable ability to pay the premiums.

In the case of personal insurance, our general practice is to limit the total amount of insurance, including that already in force, to that which may be purchased by 20% of the income when applied on the Ordinary Life Plan. This 20% of the income is used as a guide rather than an exact rule, and any case where the amount approaches that limit is given special consideration. In the case of smaller incomes particularly, so high a proportion is inadmissible and each case is judged rather on ability to pay, having in mind all the known family circumstances. In such instances, if a large part of the income is obviously needed for basic necessities, the percentage of income which we would permit to be used to pay insurance premiums would be much below 20%. Obviously the variety of conditions met in practice makes it impossible to state a rule for such cases in simple form.

In the case of business insurance on an executive or key man, it is our general practice to limit the total amount of such insurance in force on any man's life to five times the annual compensation paid him by his company, with the further proviso that the premiums required for all insurance on his life shall come within the 20% limit. In the case of older men this proportion may be reduced.

MERVYN DAVIS,
Vice President.

NOVEMBER 9, 1939.

EXHIBIT No. 1348-7

[From files of Fred Robertson, Esq., Kansas City, Kans.]

[Copy]

DEC. 10, 1928.

Mr. HARRY B. WALKER,
Attorney, Commerce Bldg., Kansas City, Mo.

DEAR SIR: In the data given you from which to prepare our Income Tax Report, is an item of \$115,000 commission on the sale of stock. For your information I furnished the following statement of fact concerning this transaction.

In the Fall of 1927, I suggested to D. H. Holt, Secretary-Treasurer of the Federal Reserve Life Insurance Company, Kansas City, Kansas, that due to the continued illness of his associate, it would be to the best interests of all concerned, to bring some active men into this Company. He authorized me to find men of financial responsibility and insurance experience, who would be willing to make the necessary investment, and become associated in the management of the Company.

I made a trip to Des Moines, Iowa, the latter part of November, 1927, and conferred with officers of the Royal Union Life Insurance Company. They were interested, but after several conferences, it was found that an agreement could not be reached between the two interests, principally because the Royal Union representatives wanted to move the Company to Des Moines, Ia.

On January 6, 1928, I had another conference with Mr. Holt, and it was agreed that I keep trying to find a buyer for a block of this stock. On January 23, 1928, in a conference with Mr. E. W. Merritt, Jr., I offered him an opportunity to become associated with this Company. Mr. Merritt, at my suggestion, on January 24, 1928, called on Mr. Holt and made him an offer for a block of approximately 8,000 shares of stock. I was not present at this meeting between Mr. Merritt and Mr. Holt. Later in the day, however, I visited with both parties. At my conference with Mr. Holt on the 24th, which was after his meeting with Mr. Merritt, Mr. Holt told me that my commission was to be all in excess of \$250,000 received for this stock. I was told by Mr. Holt that Mr. Merritt agreed to pay approximately \$335,000 for the stock in question. I then called on Mr. Merritt and he told me of his offer and agreed to pay me \$40,000.00 as my commission from him. Later I informed Mr. Holt of the amount of commission to be paid me by Merritt and it was agreed that he would protect all my commissions in this deal, and we would treat the matter as \$373,000 due from Merritt and his associates.

Mr. Merritt brought Massie Wilson of St. Louis in as an associate on the night of January 24th, our conference being in the Muehlebach Hotel, at 10:00 P. M. During the months of February and March, several conferences with Mr. Merritt, Mr. Wilson, Senator Vincent, Vice President of the Federal Reserve, Mr. Holt, and representatives of Keane Higby (Bankers of Detroit) and others were held in connection with the financing of the purchase of this stock and the management of the Company.

On February 13th, Massie Wilson was elected a member of the Board of Directors, and at my suggestion this stock was transferred to Carl Willbrand, of Kansas City, Mo., for the purpose of protecting my commission.

On March 21, 1928, the stock was transferred to Merritt and his associates, the money having been raised through the Commerce Trust Co., Kansas City, Mo., City National Bank, St. Louis, Mo., and the U. S. Reserve Life Insurance Co., Kansas City, Mo. A check for \$373,000 was given me and deposited to my credit at the Commerce Trust Co., Kansas City, Mo. I immediately paid by checks to Mr. Holt and his associates, \$250,000, leaving me a commission of \$115,000.

Yours very truly,

(Signed) W. K. HERNDON.

EXHIBIT No. 1348-8

[From files of District Court of Wyandotte County, Kansas]

CERTIFICATES—Act of Congress

STATE OF KANSAS,
County of Wyandotte, ss:

I, Harold H. Harding, Clerk of the District Court of the Twenty-ninth Judicial District of the State of Kansas, in the County of Wyandotte, in said State, do hereby certify that the attached are full, true and complete copies of Separate Answer of W. K. Herndon and Journal Entry in case No. 37272-A, The Federal

Reserve Life Insurance Company vs. Riddelle L. Gregory, et al. Also copy of the Separate Answer of D. H. Holt and Vernon B. Holt.

IN WITNESS WHEREOF, I have hereunto set my hand and affixed the seal of said Court at my office in the city of Kansas City, Kansas, this 17th day of November A. D. 1939.

[SEAL]

HAROLD H. HARDING.

Clerk of the District Court of the 29th Judicial District of the State of Kansas.

STATE OF KANSAS,

County of Wyandotte, ss:

I, Harvey J. Emerson, Judge of the Twenty-ninth Judicial District of the State of Kansas, in and for the County of Wyandotte, in said State, do hereby certify that Harold H. Harding, whose name is subscribed to the foregoing certificate and attestation, is the duly qualified Clerk of the District Court in and for said county, and that said certificate and attestation is in due form of law, and that his signature thereto is his own proper handwriting, and that the seal thereto affixed is the official seal of said Court.

WITNESS my hand this 17th day of November A. D., 1939.

HARVEY J. EMERSON.

Judge of the District Court of the 29th Judicial District of the State of Kansas.

STATE OF KANSAS,

County of Wyandotte, ss:

I, Harold H. Harding, Clerk of the District Court of the Twenty-ninth Judicial District of the State of Kansas, in and for the County of Wyandotte, in said State, do hereby certify that the Hon. Harvey J. Emerson, whose name is subscribed to the foregoing certificate, is the duly qualified Judge of said Twenty-ninth Judicial District, and that his signature thereto is his own proper handwriting.

IN WITNESS WHEREOF, I have hereunto set my hand and affixed the seal of said Court this 17th day of November A. D., 1939.

[SEAL]

HAROLD H. HARDING,

Clerk.

IN THE DISTRICT COURT OF WYANDOTTE COUNTY, KANSAS

The Federal Reserve Life Insurance Company, Plaintiff, vs. Riddelle L. Gregory, as Administrator of the Estate of W. H. Gregory, Deceased, et al, Defendants.
No. 37272-a

SEPARATE ANSWER OF W. K. HERNDON

Now comes the defendant, W. K. Herndon, and for answer to the petition of plaintiff, denies each, all and singular, every material allegation therein contained, unless hereinafter admitted or otherwise alleged. Defendant admits the corporate capacity of plaintiff. For further answer, defendant alleges and shows that plaintiff incorporated with a capital of \$100,000, which capital was later increased to \$200,000 and subsequently about the year 1924 or 1925 increased to \$300,000; said capital being evidenced by shares of stock of the par value of \$10.00 per share. All of said stock so issued by plaintiff was paid for in cash. And from and after the issuance thereof the plaintiff did not have any further interest or ownership therein. That by the provisions of law, plaintiff was and is not authorized to purchase or own its capital stock and may not be beneficially interested therein and for this reason defendant alleges and avers that the allegations and statements in plaintiff's petition do not show facts sufficient to constitute a cause of action in favor of plaintiff as against this defendant.

For further answer and defense, defendant alleges that the issuance and sale of the shares of capital stock of plaintiff were and are matters of record on the books of plaintiff, which records were at all times available to plaintiff, its officers and stock holders and if said stock was fraudulently procured to be issued and sold that the statute of limitation for recovery on the ground of fraud has long since passed and any cause of action on account of fraud is now barred, more than two years having elapsed since the issuance and sale of any capital stock of plaintiff.

For further answer and defense, defendant alleges and shows that in 1925 and a part of 1926, he was absent from the United States and returned to the United States about the month of February, 1926. That in January of 1928, he was approached by one E. W. Merritt, Jr., who in conjunction with one Massie

Wilson and their associates, the names of said associates which this defendant cannot give, desired to purchase control of the plaintiff. The said E. W. Merritt, Jr., and Massey Wilson with their associates either controlled or owned the Insurance Investment Company of St. Louis, the Reserve Company of Kansas City, Missouri and the Fire Insurance Company of Chicago, Ill., and were desirous of securing control of plaintiff. Thereafter this defendant engaged in an effort to procure enough shares of the capital stock of plaintiff to give the said Massie Wilson and associates control of the plaintiff, that for the purpose of bringing about this result, this defendant entered into an agreement with one Vernon B. Holt, whereby Vernon B. Holt agreed to assemble 8,000 shares of the capital stock of plaintiff at an agreed price; this defendant to have as his pay and commission for making such sale, all sums of money over and above the price so fixed by Vernon B. Holt. This defendant thereafter expended large sums of money in hotel bills, telegraph and telephone tolls together with other expense incident to bring about such sale and did sell to the said Massie Wilson and associates said 8,000 shares at a price agreeable to the said Massie Wilson and his associates. That said sale was completed by means of and through the Reserve Company of Kansas City, Missouri and defendant is informed and therefore alleges that said shares of stock so sold together with other shares of stock subsequently acquired by the said Massey Wilson and associates were transferred to and are now held by the Fire Insurance Company of Chicago. That the total number of shares of the capital stock of plaintiff so held by said Fire Insurance Company of Chicago is in excess of 15,000 shares of the capital stock of plaintiff. This defendant alleges that Massie Wilson and his associates own the Fire Insurance Company of Chicago. Defendant further alleges that plaintiff is now officered and controlled by the said Fire Insurance Company of Chicago, Massey Wilson or their assigns, and that any sum or sums recovered in this action is not for the benefit or protection of the policy holders of plaintiff, but would be for the benefit of the said Massey Wilson and his associates or the benefit of corporations controlled by him and his associates or their assigns; and therefore this defendant alleges that this action is not being prosecuted in the name of the real party in interest; to-wit: E. W. Merritt, Jr., Massey Wilson and their associates.

Defendant further alleges that the purchase price of said stock so purchased by E. W. Merritt, Jr., Massey Wilson and their associates was not the fair reasonable market value of said stock but was a fictitious and enhanced value based on control of plaintiff company and alleges and shows that immediately upon the consummation of said sale that Massey Wilson and his associates sent agents and solicitors to individual stock holders of plaintiff and procured and induced the exchange of capital stock in plaintiff for stock in the Insurance Investment Company of St. Louis; that such proposed exchange of stock was one of the inducing causes for the said E. W. Merritt, Jr., and Massey Wilson becoming the purchasers of said 8,000 shares of the capital stock of plaintiff; that further as a condition of purchase of said 8,000 shares of the capital stock of plaintiff, it was understood that the said Massey Wilson should and would become the managing officer of plaintiff, that the then president, W. H. Gregory would resign and the said Massey Wilson be elected in his place; that another and further inducing cause for the payment of more than the actual value of said 8,000 shares of the capital stock of plaintiff, was the fact that the said Massey Wilson could and would be elected President of the said plaintiff company and be able to control the same, by the purchase of much less number of shares than a majority of the shares of the capital stock of plaintiff.

The allegations contained in plaintiff's petition of fraud and conspiracy are so indefinite and vague that this defendant is unable to know what acts of his were or are claimed to be fraudulent and he is therefore unable to more particularly plead to said allegations of claimed fraud, but alleges that whatever fraud, if any, which this defendant denies any knowledge, were committed at or before the time of the issuance and sale of the capital stock of plaintiff, and were or should be matters of record on the books of plaintiff company, made at the time of the issuance and sale of said capital stock; and that more than two years has elapsed since the issuance and sale of said stock and any action bottomed on fraud, has long since been barred by lapse of time.

Defendant for further defense herein shows that his co-defendants, E. W. Merritt, Jr., and Massey Wilson, have not been served with summons, filed answer, or otherwise appeared herein, and that a full complete and final determination of the matters and things alleged in the petition ought not to be had unless and until they and each of them, come into court and file answer.

Defendant, as another and further defense to plaintiff's petition, is informed, and therefore alleges on information and belief that plaintiff has issued its complete release of all liability to Riddell L. Gregory, as administrator of the estate of W. H. Gregory, deceased, and also to Riddell L. Gregory, personally, and has made a full and complete settlement with the administrator of the estate of W. H. Gregory and with the said Riddell L. Gregory, and that by reason thereof nothing is now due plaintiff from this defendant on account of said release and acquittance; defendant does not know the terms of said settlements, but has been informed and therefore alleges on information and belief that by the terms of said settlements the plaintiff acknowledged its indebtedness to the estate of the said W. H. Gregory, deceased, and paid large sums of money to the administrator of said estate, as well as releasing the said estate from liability on account of the alleged fraud and conspiracy alleged in plaintiff's petition, and therefore plaintiff should not be permitted to further maintain this action against this defendant.

WHEREFORE, defendant prays that plaintiff take naught by its said petition and that this defendant have and recover his costs in this behalf expended.

JAMES M. MEEK,
Attorney for Defendant, W. K. Herndon.

[Endorsement on back:]

No. 37272-a. In the District Court of Wyandotte County, Kansas. The Federal Reserve Life Insurance Company Plaintiff vs. Riddelle L. Gregory, et al. Defendants

SEPARATE ANSWER OF W. K. HERNDON

Filed Apr. 1, 1931

WALTER F. MATHIS, *Clk. Dis. Court.*
By MOTT, *Deputy.*

JAMES M. MEEK,
Atty. for W. K. Herndon.

IN THE DISTRICT COURT OF WYANDOTTE COUNTY, KANSAS

The Federal Reserve Life Insurance Company, Plaintiff, vs. Riddella L. Gregory as administrator, Riddelle L. Gregory, D. H. Holt, Vernon B. Holt and Massey Wilson et al., Defendants. No. 37272-A

JOURNAL ENTRY

Now, on this 6th day of January, 1932, the above entitled cause came regularly on for hearing upon the application of the plaintiff to dismiss this cause as to D. H. Holt, Vernon B. Holt and Massey Wilson; the plaintiff appearing by its attorneys, Fred Robertson and F. A. Sloan, and the defendants D. H. Holt, Vernon B. Holt and Massey Wilson, appearing by their attorneys, Stanley & Stanley; thereupon the parties appearing as above set forth show to the Court that they have arrived at a settlement as between the plaintiff and the defendants, D. H. Holt, Vernon B. Holt and Massey Wilson, by the terms of which the said defendants last named, for and in consideration of the dismissal of this case as to them only have conceded to plaintiff on its claims against them the right to recover the sum of Twenty Thousand and No/100ths (\$20,000.00) Dollars, which sum is the full consideration for the dismissal and release of said defendants, D. H. Holt, Vernon B. Holt and Massey Wilson, from this cause, it being understood, however, that the plaintiff expressly reserves all claims, rights of relief and causes of action against all of the other parties to this suit, and all others not parties to this suit for and on account of the matters involved in this cause, and for and on account of their liability for any wrongful issue, management or disposition of any shares of stock of the plaintiff. The Court finds that said settlement should be approved, judgment entered accordingly, and this cause dismissed with prejudice as to said defendants, D. H. Holt, Vernon B. Holt and Massey Wilson, but without prejudice as to the rights of plaintiff under said settlement.

It is Therefore Considered, Ordered and Adjudged that this cause be and the same is hereby dismissed with prejudice to any future action against the defendants, D. H. Holt, Vernon B. Holt and Massey Wilson, and that the dismissal of this cause as to said defendants is without prejudice to the plaintiff to pursue any right, claim or cause of action of any kind it may have against the other

parties defendant to this suit, and all others, whether parties to this suit or not, and without prejudice as to the rights of plaintiff under the agreement of settlement above referred to.

E. L. FISCHER, *Judge*.

Approved:

F. A. SLOAN,
FRED ROBERTSON,
Attorneys for Plaintiff.

STANLEY & STANLEY,
By ARTHUR J. STANLEY,
Attorneys for Defendants, David H. Holt and Vernon B. Holt and Massey Wilson.

[Endorsement on back:]

37272-A. J 115-276. Federal Reserve vs. Gregory

ORDER OF JAN. 6, 1932

Filed: Jan. 6, 1932.

WALTER F. MATHIS,
Clerk of the District Court.
By VIRGIL D. WOOD, *Deputy.*

IN THE DISTRICT COURT OF WYANDOTTE COUNTY, KANSAS

The Federal Reserve Life Insurance Company, Plaintiff, vs. Riddelle L. Gregory, as administrator, et al., Defendants. No. 37272-A

SEPARATE ANSWER OF D. H. HOLT AND VERNON B. HOLT

Comes now the defendants, D. H. Holt and Vernon B. Holt, and for their separate answer to the petition of plaintiff filed herein denies each, every and singular all of the material allegations in said petition contained except such as may be hereinafter admitted or alleged.

Further answering and as a ground of defense these answering defendants state that if the plaintiff had any cause of action against these defendants based on matters and things alleged in its petition that said cause of action is barred by the statutes of limitation of the State of Kansas.

Further answering these defendants state that the plaintiff was organized as a life insurance company in 1919 and began the active business of writing life insurance on February 12, 1920, with an authorized capital stock of \$100,000.00 divided into ten thousand shares of the par value of \$10.00 per share, fully subscribed and paid for; that in the plan of operation of which the plaintiff is thoroughly informed and of which it has copies, it was determined to trustee all of said stock and re-sell it to policy holders with stock purchase contracts at a price above par and after re-paying to the "original subscribers" of the capital stock the values advanced by them to pay for the original capital stock and surplus, with interest and such other deductions as were authorized in said plan of operation, the balance remaining was credited to the surplus of plaintiff.

That thereafter the capital stock of plaintiff was increased an additional \$100,000.00 divided into ten thousand shares of the par value of \$10.00 each, which was fully subscribed and paid for by those in said plan of operation termed "subsequent subscribers" and the said plan of operation in that regard is well known to plaintiff as it has many of the contracts of the "subsequent subscribers"; that said second issue of capital stock was also trustee delivered and re-sold with stock purchase contracts to policy holders at a price above par and of the moneys received on re-sale of said stock there was used of it to repay the "subsequent subscribers" the values advanced by them to pay for said second issue of capital stock, with interest, and after paying the other expenses authorized by said plan of operation, the balance was turned into the surplus of the plaintiff as in said plan of operation provided.

That on or about the 5th day of January, 1925, for the purpose of raising additional capital to merge with the Union National Life Insurance Company, the stock of plaintiff was again increased \$100,000.00 divided into ten thousand shares of the par value of \$10.00 per share and the capital stock and business of the Union National Life Insurance Company was merged with the plaintiff and said third increase used to take up the stock of the Union National Life Insurance

Company; thereafter the plan of merger of plaintiff and the Union National Life Insurance Company, not proving feasible, the contract for the merger with the Union National Life Insurance Company was rescinded and the said Union National Life Insurance Company had returned to it its stock and its assets thereby returning to plaintiff the \$100,000.00 third issue of capital stock of plaintiff which was then unsubscribed and unissued; that at the annual meeting of the stockholders of the plaintiff held in Kansas City, Kansas, on January 5, 1926, the said stockholders authorized the sale of the \$100,000.00 third issue of capital stock of plaintiff to W. H. Gregory and the said W. H. Gregory purchased said stock at \$10.00 per share and paid for the same and the money was received by plaintiff for said stock and said third issue of capital stock became the individual property of the said W. H. Gregory.

These answering defendants further state that said third issue of capital stock of \$100,000.00 was never trusteeed and was never by said plaintiff reserved to be trusteeed and sold at an advance above par; that the said plaintiff was without power or authority to sell, speculate in and handle its stock or by indirection or trusteeship or in any other manner speculate in or make a profit upon its stock, or deal in its stock in any manner, and if any trustee arrangement was made by said plaintiff to trustee the said third issue of capital stock and sell the same through said trustee and retain a beneficial interest therein that said transaction was illegal and void and the plaintiff can claim no right or benefit thereunder.

These answering defendants state that all of said matters were of record on the records of the company from the date of their respective transaction and that said records were open to inspection of all the stockholders, officers of plaintiff and to the Insurance Department of the State of Kansas and because of this fact any action for fraud claimed by plaintiff has long since been barred by the statutes of limitation of the State of Kansas; that said stock transaction took place in 1926 and the said W. H. Gregory continued as President of plaintiff until about the 1st month of 1928, at which time, the said W. H. Gregory resigned as president of plaintiff.

These answering defendants further allege that in the latter part of 1927 or the first part of 1928, Massey Wilson and his associates of St. Louis, Missouri, had become interested in plaintiff and at the annual meeting of stockholders in January, 1928, the said Massey Wilson was elected on the Board of Directors having at said time agreed to become president of plaintiff if he could obtain a control of the stock and own and control a majority of the stock of plaintiff and that this fact was well known to the said W. H. Gregory and the stockholders of the plaintiff. That about February 1, 1928, the said W. H. Gregory, then owned a large block of stock in plaintiff, contracted and agreed to sell 4354-11/15 shares of his stock if he could obtain as purchase price therefor, the amount he had invested in said stock, which contract and agreement was made with Vernon B. Holt and the said W. H. Gregory delivered to Vernon B. Holt his stock certificates in said amount duly endorsed and received payment for his investment in said stock in the sum of \$52,321.00; that the said stock theretofore individually owned by the said W. H. Gregory, together with other stock accumulated by the said Vernon B. Holt was sold through a broker and transferred so that the said Massey Wilson, by the purchase of this stock and other stock purchased by him through the exchange of stock of the Insurance Investment Company for stock of plaintiff held by various stockholders, received and obtained the control of 15,100 shares of the 30,000 shares outstanding stock of plaintiff. That the price paid by the said Massey Wilson and his associates for the stock of plaintiff was paid on the basis of control of the stock of plaintiff and not for the market or intrinsic value of said stock at said time.

These answering defendants state that the stock sold and transferred by said Vernon B. Holt through a broker to Massey Wilson and his associates, either directly or indirectly, was stock in which this plaintiff had no interest and no right to obtain any of said proceeds from the sale thereof.

WHEREFORE having fully answered, these answering defendants pray that they may go hence without day and have and recover their costs.

STANLEY & STANLEY,

Attorneys for Answering Defendants, D. H. Holt and Vernon B. Holt.

[Endorsement:] No. 37272-A. In the District Court of Wyandotte County, Kansas. The Federal Reserve Life Insurance Company, Plaintiff vs. Riddelle L. Gregory, et al Defendants.

SEPARATE ANSWERS OF D. H. HOLT AND VERNON B. HOLT

Filed: April 1, 1931.

WALTER F. MATHIS,
Clk. Dis. Court.

By MATH,

STANLEY & STANLEY,

Attys. for Defts. D. H. Holt and Vernon B. Holt.

EXHIBIT No. 1348-9

[Submitted by George S. Van Schaick]

INTERSTATE LIQUIDATIONS—A NATIONAL PROBLEM

Address of George S. Van Schaick, Superintendent of Insurance of the State of New York at the 64th annual meeting of the National Convention of Insurance Commissioners, Edgewater Beach Hotel, Chicago, Illinois

All through the depression there has been noted commendable action by insurance companies to improve their condition by the elimination of wasteful and harmful practices. Companies which were most prompt in putting their houses in order generally have come through this long trying period best. The relationship between wasteful and improper practices and the public interest has been repeatedly recognized by this Convention.

In the same manner that insurance companies have had occasion to study shortcomings, supervisory officials have noted certain defects in public administrative procedure. Attention has become focused on the liquidation of companies. The public is entitled to high efficiency in the liquidation of insolvent insurance companies. Company failures have been fewer in number than might reasonably have been expected. Those that have occurred clearly demonstrate that methods of liquidation need improvement. How this might be brought about is the subject of this discussion.

It is manifestly impossible to cover the entire subject adequately in one paper. This discussion will be limited to one phase of liquidation and reorganization, namely, the lack of unity in the proceedings taken at the present time upon the failure of an insurance company which has been doing a nationwide business, thus needlessly aggravating the tragedy of the failure. This aspect of the subject is chosen for two reasons: first, because the existing lack of co-ordination between the proceedings in the various states is coming to be a serious condition in and of itself, and second, because this condition may have a direct bearing upon the future of State supervision of insurance.

To provide a background for a better understanding of the defect in the present method of handling insolvent insurance companies it is worth while to classify roughly the outstanding phases in the course of events after a determination has been made to liquidate a company. In the beginning the machinery of liquidation must formally be set in motion. Then comes a preliminary period in which three objects are foremost. It is particularly necessary at this stage to prevent preferences to various individuals, to give information about what has happened and about the existing status of various matters, and to disentangle as far as possible the affairs of third persons. For example, assureds whom the company has been defending under liability policies, must be given opportunity to arrange for their own defences. Those having unexpired contracts of insurance should be given warning and opportunity to purchase new insurance.

The third major phase of liquidation is the administration of the assets of the company generally, which consists of ultimately reducing all of its resources to cash. Another important aspect is the determination of claims against the company and includes, among other things, giving of notices, receiving of proofs of claim and adjudication of claims. Finally, it is necessary to deal with those things which have to do with the distribution of assets.

The setting in motion of the machinery of liquidation customarily consists of an order of receivership in the home state or of a granting of an application by the commissioner of the home state for a statutory proceeding akin to receivership. Regardless of any theory to the contrary, the primary receiver or liquidator has very little authority as such in any other state. The primary court has practically none.

Of late in some cases the primary liquidator has encouraged the prompt commencement of proceedings in other states either through the respective commissioners of such states or by trustworthy creditors. These proceedings, however, are legally distinct and independent from the primary proceeding. Independent receivership proceedings occasionally are instituted in some of the other States under the auspices of commissioners of insurance. Generally they are sponsored by former employees or by creditors. Such receiverships vary in point of merit. Some deserve high commendation. At the other extreme is a form of receivership in some states in which the moving creditor receives a preference. In the case of the liquidation of one New York company such a receivership by a very large creditor threatens to absorb all of the assets in that particular state. Here, of course, receivership is no better than attachment.

In the balance of the states nothing is done and the affairs of a company are left to drift until the primary liquidator has time to attend to them. Most of those who owe money to the company in such states are able to avoid payment for a considerable length of time and sometimes they never pay. On the other hand, creditors are free to start attachment actions and to otherwise prefer themselves.

The lack of co-ordination between the various proceedings is clearly apparent in the preliminary stages of the liquidation. To begin with the files relating to matters in many states may be concentrated in one place, which may or may not be the domicile of the company. It is expensive to segregate these files by states. Yet the various state receivers have no interest in files pertaining to other states. Another difficulty arises when several persons simultaneously seek possession of the same files. In such cases it is likely that no one is in position to answer the legitimate inquiries of those who have an interest in the files. At times the New York Superintendent, as local conservator of a foreign company which has failed, has been in possession of files covering most of the Eastern part of the country. His helplessness at such times even to make intelligent answers to inquiries has been appalling.

The notices of liquidation, if any, sent out by the various receivers vary markedly. Under the present uncertainty of the relationships between the various proceedings it is at times literally impossible to know what to notify claimants to do in the matter of filing claims.

Several additional difficulties are encountered. There is no uniformity of policy with regard to assisting assureds whom the company was defending under liability policies. The handling of collateral differs widely. At times depositors of collateral in one state find themselves in difficulty because the collateral has been moved to another state. The vagueness of the relationship between the two states makes the return of the collateral uncertain. The employees of a company in some states will have a preferred claim for wages. In other jurisdictions there is no such preference.

The administration of the assets of an insolvent company under the present system is particularly apt to produce conflict between the various receivers. In the case of a creditor receivership the size of the receivers' fees depends upon the amount of assets collected. In the case both of a creditor receivership and one by a commissioner of insurance each receiver feels obligated to collect as much as possible in order to protect his creditors in the event it is determined that he shall make a local distribution of what he has collected.

In some states title is vested by statute in the liquidator of that state. This solves the asset problem in home state. However real estate in a foreign state is not affected. High Courts have even indicated that they are not bound by such a statute with regard to personal property within the physical jurisdiction of their respective territories.

A few examples taken at random will show how troublesome this matter may be. A receiver in one state may hold a mortgage on property in another state and the mortgagor may be in either state or in the third state. Who shall make the collection? One receiver may hold a note payable in another state by a resident of a third state who is temporarily living in a fourth state on a policy taken out and involving business in a fifth state. What receiver is entitled to collect on the note? The debtor of a company on an open account may have property and may be subject to suit in a half-dozen or more states. If it involves a substantial amount each of several receivers may feel himself entitled to it. It is not uncommon for another insurance company doing business all over the country to owe a company in liquidation a substantial amount upon reinsurance likewise scattered country-wide. What receiver may make this collection?

Another situation that comes up occasionally involves a suit by the company in one state which will be a substantial asset in that state, if won, against a defendant who has large claims against a company in other states. A compromise

which will be beneficial to the company as a whole may be seriously prejudicial to the interests of the receiver of the first state. What shall the basis of settlement be?

That portion of liquidation which relates to the determination of claims is also productive of controversy between receivers under the present system. Claims against an insurance company, particularly a casualty or surety company, are for the most part unliquidated. Unless there is some general basis for the liquidation of these claims the allowances in the different states will differ considerably. These variations make it difficult for the courts of one state to recognize without reservation the adjudication by the courts of other states. On the other hand to require all claimants to come to one state is manifestly a discrimination against those living in distant states who cannot afford the expense involved and as a result are compelled to take whatever is offered to them.

The procedure for handling claims also varies in the different states. In some states the receivers are required to defend all law suits brought by claimants rather than to centralize litigation in the receivership proceeding. This offers some advantage to the individual creditors bringing such suits. It similarly penalizes the whole estate and all other creditors by the heavy cost of such defenses. The acceptance of claims filed after the last day set for the filing of claims is another matter in which local practices differ to the necessary disadvantage of the creditors in some states.

In the liquidation of an insurance company more than in any other type of insolvency the problem of contingent claims is present. The law on this subject even in a single jurisdiction is uncertain. That uncertainty is multiplied where the courts of many states are involved. Sometimes the policies of a company are treated as cancelled by the order of liquidation in one state at the same time that the courts of another state hold them to be not so cancelled.

In the distribution of assets the evils of the present system are also apparent. It is commonly maintained that the general assets collected in any given jurisdiction shall first be applied to claims of (1) those who reside in such jurisdiction, or (2) those whose claims arise in such jurisdiction or (3) those who have filed their claims in such jurisdiction. The first proposition is plainly unsound. The second proposition is likewise unsound in the case of general assets. The third proposition is unsound where the domiciliary receiver is entitled to public confidence. In addition it always imposes a hardship on creditors. To receive a mathematically correct portion of the estate each general creditor would have to file and prove his claim in every state in which there was a receivership. This is clearly a foolish multiplication of effort.

The laws of some states establish a preference in general assets for claims of certain types such as claims for wages and claims for compensation. In some jurisdictions claims of the state as a sovereign are preferred. The exact effect of these laws is not clear. The tendency is to deny them any effect outside of the state. It is obvious that the lack of any controlling authority upon this matter contributes measurably to the problem of distribution.

The distribution of special deposits which are trust funds likewise presents opportunity for confusion. Too often there is no co-ordination between the distribution of the trust funds and the general assets. On the other hand an effort may be made to withhold dividends from the general funds to those who have shared in a trust deposit. This is of doubtful legality. It is apt to produce costly disputes and litigation.

The possible consequences which will result if this state of affairs remains unchanged are not pleasant to contemplate. It is obvious that public attention must, sooner or later, be drawn to such a condition. Criticism of insurance supervision seems inevitable because the public is likely to attribute the evils of liquidation to a lack of adequate supervision in the first place.

It is clear that the basic cause for this defect in our system of liquidation lies in the fact that the state agencies to whom the matter is entrusted do not have sufficiently broad jurisdiction. There is no single system of legal principles, both substantive and procedural, broad enough to apply to every part of the winding up of a company's affairs. Further, there is no central administrative authority.

One word of caution however should be given on this score. It is not believed that an insurance liquidation can be efficiently handled entirely from one point without suffering the ill effects of remote control.

A possible solution to the problem may be federal legislation under the bankruptcy provision of the Constitution of the United States. There is no other method of obtaining a statutory basis for complete uniformity throughout every state in the Union. It must be recognized that uniform state legislation is no more than a Utopian dream.

Insurance companies are presently excepted from the provisions of the National Bankruptcy Act for reasons which are not conclusive. One explanation is that the companies are subject to close State supervision. Another is that the rights of creditors of an insurance company are so complex that the existing machinery of the Bankruptcy Act is not suitable. Amendments to the law show a willingness upon the part of Congress to devise special provisions to meet extraordinary conditions. Hence it is not improbable that Congress may at some time in the future consider the advisability of bringing insurance companies within the scope of the Bankruptcy Act.

Federal legislation under the Bankruptcy clause of the Constitution, planned by the Congress in response to the demand of an aroused public, is not likely to be friendly to the interests of state supervision. Legislation proposed and supported by various insurance supervisory officials may well prove to be the solution to this vexing problem.

The broad outlines of such a statute may be rather readily sketched. It would be an amendment to the National Bankruptcy Act following after the recent amendments applying to individuals and railroads. One proposed draft has been worked out along the following lines:

The basic provision of this draft would permit the state supervisory officials at any time to apply to a federal court within whose jurisdiction a company is domiciled for its liquidation or reorganization. The commissioner of the company's home state might make an individual petition or certain number of commissioners from other states might unite in such a petition.

The court to which such an application should be made would hold a hearing and in the event of an adjudication would become the primary court fundamentally in charge of the proceeding through the entire United States. The law and practice of such court would prevail throughout the entire proceeding. It would be the court of distribution of all general funds of the company.

Each commissioner would have the right to apply to a federal court in his state for appointment as ancillary liquidator for such state. If he did not choose to do so the primary liquidator would have authority in such state automatically by operation of law. The duties of the ancillary liquidator would be those of assisting the primary liquidator in a collection of assets and in a determination of local claims. He would also distribute local special deposits and assets in which there were valid local preferences. The expenses of each liquidator would be drawn exclusively from funds collected by him except in extraordinary cases when funds from proceedings in other courts might be available under special order of those courts.

Referees would be chosen from special panels appointed by the judges of the United States Circuit Court of Appeals. They should be men professionally fitted to direct an orderly and expeditious handling of the affairs of any proceeding. As under the present bankruptcy system the references would be general in character and would largely dispense with the necessity of appearing before the court.

The preferences in all general assets would be fixed by the statute. This is of great importance in a number of ways. An adequate and yet regulated preference for the wages of employees would apply universally in all states. A uniform preference to workmen's compensation claims would likewise apply throughout every state. Such preference would have a known superiority to claims of the federal government. Under the present system this matter is little short of chaotic. There are preferences for compensation claims by statute in half a dozen states. Qualifying bonds are required in others. How far such laws are valid against assets in other states no one knows.

Finally, the claims of the United States of America would receive a preference. It would be a regulated preference amenable to the rest of the law just like other claims. The present federal preference statute overrides all state laws. In the case of a surety company which is always confronted with contingent claims on bonds to the United States Government amounting to many times the assets of the company, it is not an exaggeration to say that the Federal law literally paralyzes the liquidation of the company and prevents distribution to any claimants, even those holding compensation awards.

The reorganization provisions possible in a federal law would be particularly useful. Uniformity in the treatment of creditors is particularly important in the case of reorganizations.

EXHIBIT No. 1348-10

[Extract from 76th annual report to the legislature of the state of New York dated December 31, 1934 by George S. Van Schaick superintendent of insurance of the State of New York]

PROCEEDINGS INVOLVING DELINQUENT COMPANIES DOING EXTENSIVE INTERSTATE BUSINESS

Careful study of the present system under which delinquent insurance companies doing a nation-wide business are wound up through a large number of independent proceedings in state courts, leaves one with the conviction that few if any types of insolvency proceeding are more in need of fundamental change. As a going institution a large insurance company operates with relatively little regard for state lines. Its assets are scattered far and wide across the country and it is likely to be obligated to claimants in almost every community (most of the title and mortgage guaranty companies in rehabilitation confined their business to New York and therefore this description does not apply). When such a company is taken over for rehabilitation or liquidation on the other hand, the affairs of the company in each state become a separate unit. Different rules of substantive law and of practice govern the handling of these units. Even greater differences exist in the matter of practical administration. The divided responsibility encourages sectional disputes and makes cooperation difficult even where enlightened state officials earnestly desire to conduct the proceedings upon the basis of equality for all creditors wherever they may live.

The remedy for this condition is an amendment to the Federal Bankruptcy Act providing a uniform method of handling delinquent insurance companies in the federal courts. Theoretically the same result can be reached by uniform state legislation. Actually this latter course seems to be impossible.

Fear has been expressed in some quarters that such an amendment would be the entering wedge for federal supervision of insurance. On the contrary it may be argued with reason that failure of state supervision to correct a chaotic and deplorable condition by invoking the conceded bankruptcy function of the national government, may discredit state supervision generally in the public mind. There is another and even more immediate threat to state supervision in this situation. There has been some agitation to include insurance companies within the scope of the existing bankruptcy provisions, notably Sections 77A and 77B of the Bankruptcy Act. In the event these sections were applicable any creditor might commence a proceeding against an insurance company.

This would be a step backward. For many years in the more progressive states the administrative details of insurance liquidations, as in the case of the banks, have been handled by a state department. The substitution of salaried experts handling a large volume of work at low unit cost for the old receivership methods of the past has been beneficial beyond question to everyone but the displaced receivers and their lawyers. Proper exercise of federal bankruptcy jurisdiction for insurance companies will safeguard these advances and also will recognize the need for close cooperation with the state officials supervising insurance where the question of reorganization arises. Furthermore insurance companies require specially designed legislation because of the peculiar character of their liabilities. The provisions of the present Bankruptcy Act could not be applied without creating confusion and thereby adding to the tragedy of the failure.

This subject has engaged the attention of those interested in insurance matters. The Superintendent of Insurance of New York first pointed out the problem in a paper delivered before the National Convention of Insurance Commissioners meeting at Chicago in the summer of 1933. He later addressed the Section on Insurance Law of the American Bar Association meeting at Grand Rapids in the fall of that year on the same topic. A committee of the Insurance Section of the American Bar Association is now working on the problem. The National Convention of Insurance Commissioners appointed a special committee to investigate the whole question. At a meeting of such Convention held at St. Petersburg, Florida, during the current month the following resolution was adopted:

"Whereas, The present methods of liquidating or rehabilitating insurers doing business in more than one state require strengthening; and

"Whereas, Past experience has demonstrated that policyholders of, and claimants against, such insurers will best be protected through unitary control of liquidations or rehabilitations by the appropriate insurance Commissioner or Commissioners; and

"Whereas, Although the institution of insurance is rapidly approaching a state of stabilization and there is ample reason to believe that the period of extensive liquidation or rehabilitation has been passed, it is desirable to have available adequate machinery to meet emergencies that may arise in the future: Now, Therefore, Be It

"Resolved, That the National Convention of Insurance Commissioners urges the enactment into law of the necessary statute or statutes whereby such unitary control of liquidations or rehabilitations may be effected by extending the authority and control of the appropriate Insurance Commissioner or Commissioners and the appropriate court or courts; and Be it further

"Resolved, That the President of the Convention is hereby authorized to appoint a special committee of five members to frame such necessary statute or statutes and take all necessary steps to accomplish the passage thereof."

Such committee was appointed consisting of the insurance supervisory officials of Ohio, Kentucky, Connecticut, Illinois and New York. This Department has drafted a proposed bill embodying its suggestions for appropriate legislation amendatory of the Bankruptcy Act and will submit it to the Convention committee for consideration and action.

It is recognized that this is not a question upon which the Legislature can take final action. Primarily it is up to Congress. Nevertheless in view of the importance of the problem to citizens of New York and in view of the recent action of the National Convention of Insurance Commissioners, it may be desirable for the Legislature to memorialize the Congress urging that provision be made in the Federal Bankruptcy Act by special amendment for the liquidation and reorganization of delinquent insurance companies engaged in business in more than one state under a uniform system of law and practice retaining the administrative services of the state supervisory insurance officials who are now or who may hereafter be empowered and equipped to function in such a capacity and maintaining facilities for the filing and proving of claims which, so far as is practical and consistent with reasonable administrative cost, shall be equally accessible to all claimants throughout the United States.

EXHIBIT No. 1348-11

[Furnished by the Illinois Bankers Life Assurance Company October 31, 1939]

ILLINOIS BANKERS LIFE ASSOCIATION—DIRECTORS 1925-1929

	1925	
W. H. Woods		R. M. Work
J. R. Ebersole		A. T. Sawyer
F. M. Hallam		
	1926	
W. H. Woods		R. M. Work
J. R. Ebersole		A. T. Sawyer
F. M. Hallam		
	1927	
W. H. Woods		R. M. Work
J. R. Ebersole		A. T. Sawyer
F. M. Hallam		
	1928	
W. H. Woods		H. T. Martin*
J. R. Ebersole		R. M. Work
F. M. Hallam		A. T. Sawyer
	1929	
W. H. Woods		R. M. Work
J. R. Ebersole		A. T. Sawyer
H. T. Martin		

* Replaced F. M. Hallam in January 1928.

EXHIBIT No. 1348-12

[Furnished by the Illinois Bankers Life Assurance Company, October 31, 1939]

ILLINOIS BANKERS LIFE ASSURANCE COMPANY—DIRECTORS 1929-1938

	1929	
W. H. Woods		A. T. Sawyer
J. R. Ebersole		H. T. Martin
R. M. Work		
	1930	
W. H. Woods		A. T. Sawyer
J. R. Ebersole		H. T. Martin
	1931	
W. H. Woods		A. T. Sawyer
J. R. Ebersole		H. T. Martin
	1932	
W. H. Woods		A. T. Sawyer
J. R. Ebersole		H. T. Martin
	1933	
W. H. Woods		A. T. Sawyer
J. R. Ebersole		H. T. Martin
	1934	
W. H. Woods		A. T. Sawyer
J. R. Ebersole		H. T. Martin
	1935	
W. H. Woods		A. T. Sawyer
J. R. Ebersole		H. T. Martin
	1936	
W. H. Woods		A. T. Sawyer
J. R. Ebersole		H. T. Martin
	1937	
W. H. Woods		A. T. Sawyer
J. R. Ebersole		H. T. Martin
	1938	
W. H. Woods		A. T. Sawyer
J. R. Ebersole		H. T. Martin

EXHIBIT No. 1348-13

[Prepared by Securities and Exchange Commission Insurance Study staff]

ILLINOIS BANKERS LIFE ASSOCIATION

	Admitted assets	Insurance written	Insurance in force
1925.....	\$5,451,846	\$12,792,500	\$115,058,548
1926.....	5,974,510	6,409,000	106,885,506
1927.....	6,674,752	11,373,097	107,067,723
1928.....	7,378,704	16,944,324	109,361,999

ILLINOIS BANKERS LIFE ASSURANCE COMPANY

1929.....	\$8,209,861	\$110,769,725	\$108,365,571
1930.....	13,772,703	20,001,773	98,387,057
1931.....	19,106,795	30,865,238	90,919,628
1932.....	17,646,635	18,790,629	79,155,553
1933.....	17,711,369	15,034,170	72,006,115
1934.....	18,471,592	20,941,313	73,567,011
1935.....	31,301,811	71,896,107	124,330,415
1936.....	32,002,444	17,025,711	121,583,529
1937.....	33,230,378	15,684,037	123,635,293
1938.....	27,567,488	14,646,202	110,956,140

Source: Best Life Reports. 1925-1938, inclusive.

EXHIBIT No. 1348-14

[From files of Illinois Bankers Life Assurance Co.]

CONTRACT OF REINSURANCE BETWEEN
THE ILLINOIS BANKERS LIFE ASSOCIATION

AND

ILLINOIS BANKERS LIFE ASSURANCE COMPANY

CONTRACT OF REINSURANCE

THIS AGREEMENT, made this 19th day of November, 1929, by and between The ILLINOIS BANKERS LIFE ASSOCIATION, a corporation duly organized and existing under and by virtue of the laws of the State of Illinois, with its principal office in Monmouth, Illinois, hereinafter called the "ASSOCIATION", party of the first part, and the ILLINOIS BANKERS LIFE ASSURANCE COMPANY, also a corporation organized and existing under and by virtue of the laws of the State of Illinois, (as set forth in Schedule "A" hereto attached and made a part hereof), with its principal office in Monmouth, Illinois, hereinafter called the "COMPANY", party of the second part, WITNESSETH:

THAT, WHEREAS the said Association has been engaged in insuring the lives of its members on the Assessment Plan, but now deems it wise and prudent and for the best interests of its members, that its risks be reinsured with a Life Insurance Company operating upon the Legal Reserve basis; and

WHEREAS the said Company is a Legal Reserve Life Insurance Company and is willing to reinsure such members upon the terms and conditions hereinafter set forth;

NOW, THEREFORE, IT IS HEREBY MUTUALLY AGREED by and between the parties hereto, each with the other, as follows:

SECTION 1. The Association hereby transfers its risks to the said Company, such transfer to take effect when this contract takes effect, as hereinafter set forth, and agrees thereupon to transfer and deliver to the said Company all of its Applications for insurance on file in the office of the said Association, with medical examinations, reinstatement certificates, inspection reports, if any, and other data accompanying the same, together with its policy cards or records pertaining to such applications, but it is not intended to transfer or deliver to the said Company any of the purely corporate records of the Association, such as the record books of the official actions of the Association, it being understood and agreed, however, that the said Company shall have full and free access for reference at any and all reasonable times to all the books and records of the said Association.

SECTION 2. IT IS AGREED that upon this contract becoming effective, as hereinafter set forth, the said Association shall, by proper deeds of assignment and transfer, convey and set over to the said Company all of its assets, moneys, notes, bonds, mortgages, securities, judgments, choses in action, real property and property of every kind and character and wheresoever situated, belonging to the said Association.

SECTION 3. THE SAID COMPANY HEREBY AGREES to accept the said transfer to it and agrees to reinsure all of the certificates and policies held by living members, regardless of age and sex, who are in good standing in said Association when this contract goes into effect, including such members whose policies have lapsed, but who may be reinstated in accordance with the terms of such certificates or policies, such reinsurance to be subject, however, to the several terms and conditions as hereinafter set forth; it being specifically understood and agreed by and between the parties hereto that the acceptance of said transfer and the reinsurance of said risks and the assumption of said certificates and policies by said Company shall go into effect and be binding upon said Company only from and after the date this contract shall go into effect, as hereinafter set forth. Said Company, however, expressly reserves the right to any and all defenses to claims presented by members or by beneficiaries of members of said Association that said Association would have been entitled to interpose if the members of said Association had not been transferred to said Company, and said Company also reserves the right to bring any and all suits, either at law or in equity, for the cancellation of policies of insurance or for any other lawful purpose which said Company might have brought if the application had been originally made to said Company instead of to said Association.

SECTION 4. IT IS AGREED that the members of the said Association whose policies and memberships are so transferred to and assumed by said Company

under the terms and conditions as herein provided, shall, after this contract goes into effect, pay to said Company, instead of to said Association as heretofore, the several premiums provided for by the terms of their respective certificates or policies of insurance, or such amounts thereon as may be fixed by the Company, in accordance with the statute, as hereinafter set forth.

The Company shall have the right to fix the rates and amounts of premium assessments or periodical calls and the time and manner of the payment thereof, and to change the same from time to time as its experience may require, upon the members of said Association reinsured hereunder and continuing on the assessment plan, to the same extent only that said Association was originally entitled under the statute under which it was incorporated; that is to say, under an Act of the State of Illinois entitled—"An Act to incorporate companies to do the business of Life or Accident Insurance on the Assessment Plan, etc.", approved June 22nd, 1893, and in force July 1st, 1893.

The members of the Association so reinsured shall contribute to the expenses of the Company, during the first two years after this contract goes into effect, 25% of the assessments and premiums as and when paid by such members. After the first two years the amount of such contribution shall be 22½% of said premiums and assessments. The said policies or certificates shall be assumed as yearly renewable term policies at the attained age of the members, and shall be valued as such in accordance with Section 10 of an Act of the State of Illinois, entitled—"An Act to organize and regulate the business of Life Insurance", approved March 26th, 1869, in force July 1, 1869, as duly amended, and such shall be the measure of the legal reserve liability of the Company upon such policies or certificates.

SECTION 5. All the present funds of the Association shall be considered as Trust Funds for the benefit of the members of the Association, and, with accretions thereto and deductions therefrom, shall be invested from time to time in accordance with the provisions of the statute as to the investments of Legal Reserve Life Insurance Companies; and the Company shall, at all times, keep books of account of said funds.

Accretions shall consist of (A) the assessments and premiums to be paid by continuing members, less contributions to expenses as set forth in Section 4; (B) interest accumulations at the rate of 4½% per annum on the reserves accumulated on the so-called Individual Reserve Policies, and at the rate of 4% per annum on the accumulated savings contributed by holders of Savings Accumulation policies, and at the rate of 3½% per annum on the remainder of such funds, but in no event at a rate greater than the actual net rate of interest earned on the funds, nor less than 3½%; and (C) the surplus earnings provided in Section 6.

Deductions shall include (D) all policy payments and claims to the said members on the assessment plan and to their beneficiaries; and (E) any amounts apportioned and paid or credited to policies or certificates which may be converted as hereinafter set forth.

There shall be set up by the Company from the aforesaid Trust Funds the legal reserve from time to time required to be set up to the credit of all policies or certificates assumed hereunder, and the special funds created in connection with policies on the Savings Plan and the reserves on the so-called Individual Reserve policies as provided by the terms of such policies.

The Company shall have the power, as aforesaid, to invest said funds and to use the said funds, or the income therefrom, for the purpose of maintaining, as far as possible, the said present rates of the said certificates, or for the benefit of the members of the said Association. No dividends shall ever be paid by the said Company out of the funds of the Association or accretions thereto as herein provided.

SECTION 6. In consideration of said transfer of insurance and of the contributions to expenses herein provided and any excess interest earnings or otherwise, said Company agrees that at the end of each calendar year it will pay into the Trust Fund set apart for the benefit of the members of said Association, that proportion of the surplus earnings of the Company accumulated during the year, as set forth in the Annual Statement made in conformity with the requirements of the Department of Trade and Commerce of Illinois, exclusive of dividends paid or apportioned to participating legal reserve policy holders and interest earned on the capital and unassigned surplus, that the total assessment premium income of the year bears to the total renewal premium income of the Company, including the assessment premium income.

SECTION 7. Each member of the said Association so reinsured shall have the right to have his certificate or policy converted into any form of policy issued by

the Company for that purpose, upon proper adjustment of premiums and reserves. No additional medical examination for such conversion shall be required except in cases where the rate of premium is lowered or the amount of the insurance at risk or the benefit is increased, when such transfers shall be subject to evidence of insurability satisfactory to the Company. In case of any such conversion, the Company may make an equitable apportionment to such member from the Trust Funds as defined in Section 5, taking into account, among other factors, the class of policy, age of the member, length of membership, cost of insurance already furnished, and the premiums and assessments paid, which amount apportioned shall be applied to the credit of such member upon such policy as converted. The said apportionment, when made by the Company, shall be binding upon all of the said members of the said Association, or those claiming under them.

SECTION 8. IT IS UNDERSTOOD that every member or policy holder of said Association who shall file with the Secretary of said Association within ten (10) days after the meeting of members at which this contract is approved, as herein provided, written notice of his or her preference to be transferred to some other corporation than that named in this contract, shall be accorded all the rights and privileges in and of such transfer as would have been accorded under the terms of this contract had he or she been transferred to said Company named herein, as provided by Section Sixteen (16) of an Act entitled—"An Act to incorporate companies to do the business of Life or Accident Insurance on the Assessment Plan, etc.", approved June 22nd, 1893, and in force July 1st, 1893, and for the purpose and to the extent only of rendering to the members or policy holders so preferring to be transferred the aid by law provided, the said Company is hereby constituted and shall be deemed and regarded as the agent of said Association.

SECTION 9. IT IS AGREED that if this contract goes into effect as hereinafter provided, said Company shall and does hereby assume and agree to pay, or cause to be paid, settled, discharged or released, out of the funds of the said Association so transferred, all the valid unpaid claims against said Association by reason of the death or disability of members occurring prior to the time the contract goes into effect, as well as all other valid claims against the Association; PROVIDED, HOWEVER, that each and all of the said claims, including the said Death and Disability Claims, are and shall be subject to all the valid defenses existing thereto, and said Company shall have full power and authority to compromise, adjust and settle such claims or liabilities upon such terms as it shall determine.

SECTION 10. IT IS UNDERSTOOD AND SPECIFICALLY AGREED that the obligations and liabilities of said Company hereunder to the members and policy holders of the said Association and to persons holding claims or accounts against said Association, shall be limited to and they are only such as are set forth and agreed upon by and between the parties hereto in this agreement; and said Company shall be or become liable hereunder for claims upon death or disability occurring subsequent to the time this contract goes into effect only upon policies of then living members of said Association who have fully complied and do comply with all the terms and conditions of their respective policies and with the terms and conditions of this agreement; and in no event shall said Company otherwise be or become liable hereunder to the individual members or policy holders of said Association for any share or portion of the assets of said Association or for any unearned premiums or reserve or other fund of said Association whatever, except as a credit or allowance on the policies or certificates now outstanding, to be applied on new policies to be issued to said members, all as hereinabove provided. But nothing herein shall affect the rights of members holding policies on the Savings Plan or on the Individual Reserve Plan to the special funds created by the Association in connection with such policies and according to their terms.

SECTION 11. IT IS UNDERSTOOD AND AGREED that the said Company expressly assumes the liability of the Association to pay renewal commissions under any and all contracts of agency heretofore entered into between the said Association and its agency managers and agents, which shall constitute the measure of liability of the said Company upon the said contracts.

SECTION 12. IT IS AGREED that the word "policy" as used includes and has reference to each and every form of policy, certificate or other insurance contract issued by said Association; and that the term "member" as used herein includes and has reference to each and every member or policy holder of said Association, whether a holder of a certificate, policy or other contract of insurance; and that the word "premium" as used herein includes and has reference to every kind of premium, assessment, call or advance deposit on any policy, certificate or other contract of insurance of said Association.

SECTION 13. THIS CONTRACT shall be effective when, and only when, the following approvals and authorizations have been secured in the order herein set forth;

(a) This contract shall be approved by affirmative votes equal to at least two-thirds of all the votes cast by members of the Association represented at a meeting duly and lawfully called for the purpose of acting thereon.

(b) This contract shall be approved by affirmative votes representing two-thirds of all the stock of the Company, at a meeting duly and lawfully called for the purpose of acting thereon.

(c) This contract shall be signed by the respective officers of the Association and the Company.

(d) This contract shall be approved by the Director of Trade and Commerce, as provided by the laws of the State of Illinois.

SECTION 14. The effective date of this contract shall be the date of the approval by the Director of Trade and Commerce provided under Paragraph (d) above.

IN WITNESS WHEREOF, THE ILLINOIS BANKERS LIFE ASSOCIATION, pursuant to corporate authority and by its duly authorized officers, has executed this instrument and caused its corporate seal to be attached, on the day and date first above written, and ILLINOIS BANKERS LIFE ASSURANCE COMPANY, pursuant to corporate authority and by its duly authorized officers, has executed this instrument and caused its corporate seal to be attached, on the day and date first above written.

[SEAL] THE ILLINOIS BANKERS LIFE ASSOCIATION,
By W. H. WOODS, *President*.

Attest:

ROBT. M. WORK, *Secretary*.

[SEAL] ILLINOIS BANKERS LIFE ASSURANCE COMPANY,
By W. H. WOODS, *President*.

Attest:

ROBT. M. WORK, *Secretary*.

SCHEDULE "A"

The ILLINOIS BANKERS LIFE ASSURANCE COMPANY has been organized under the laws of the State of Illinois as a legal reserve life insurance company and duly authorized to make insurance upon the lives of persons and to grant or to dispose of annuities.

Its capital stock which has been fully paid in in cash, is One Hundred Thousand Dollars (\$100,000), which has been invested in approved securities and deposited with the Director of Trade and Commerce of the State of Illinois for the benefit of all policyholders. Its stock is divided into one thousand (1,000) shares of a par value of One Hundred Dollars (\$100) each.

In addition, it has a paid in surplus of Fifty Thousand Dollars (\$50,000).

The Company has been organized by the officers of The Illinois Bankers Life Association, who have subscribed for the capital stock of the legal reserve company. The Board of Directors are William H. Woods, Robert M. Work, Joseph R. Ebersole, Arthur T. Sawyer, and Hugh T. Martin.

EXHIBIT No. 1348-15

NATIONAL BOULEVARD BANK OF CHICAGO

COLLATERAL RECORD Restricted
EXEMPT

Hugh T. Martin, S.J. Sawyer, J. [unclear]

DO NOT RELEASE ANY COLLATERAL WITHOUT REFERRING TO AGREEMENT OF 8-7-35

DATE DOCUMENT NOS DESCRIPTION DATE DELIVERED PAR VALUE OR SHARES MARKET VALUE

APR 11 1929

6-7-8-9¹⁵ Illinois Bankers Life Assurance Co. *1000 \$s*
1933 Certificate of Deposit *50,000 -*

*3 7/8% 10-10-27. 10,000 shares
1% 10-10-32. 50,000 shares*

FURTHER ASSIGNMENT OF THE ABOVE COLLATERAL BY HUGH T. MARTIN
TO MARY & FRANCES ZURAWSKI, DATE OF 8-7-35. MAKE NO ADDITIONAL
LOANS ON THIS SECURITY. RELEASE NO COLLATERAL

APR 10 1937

AUTHORITY FROM ZURAWSKI DATED 4-9-37

200sh. ea.

APR 10 1937 ILLINOIS BANKERS LIFE ASSURANCE CO. CAP. JAN 16 1939

1,000,000 100 100,000

*not pay
300,000*

EXHIBIT No. 1348-16

[From files of Illinois Bankers Life Assurance Co.]

WILLIAM H. WOODS, *President.*
 JOSEPH R. EBFERSOLE, *Vice Pres. & Med. Dir.*
 HUGH T. MARTIN, *General Counsel*
 ARTHUR T. SAWYER, *Secretary & Treasurer*

ILLINOIS BANKERS LIFE ASSURANCE COMPANY

HOME OFFICE, MONMOUTH ILLINOIS,

February 3, 1932.

ILLINOIS BANKERS LIFE ASSURANCE COMPANY,
 Monmouth, Illinois.

Attention: Mr. Henry G. Sellman, Actuary.

DEAR SIR: Please find enclosed certificate of deposit of the Boulevard Bridge Bank, to the order of Illinois Bankers Life Assurance Company, in the amount of \$50,000, which has been held for safe keeping in Chicago.

I sent you yesterday full information with regard to the value of various securities inquired of by you.

We have made a careful search of our files with regard to the two checks about which you inquired—that is to say, one to the order of F. M. Zeiler & Company and the other to the order of Mr. Herbert G. Shimp. We have not been able to locate these. I am sure they were turned over to the files in Monmouth.

Your letter of yesterday just came to hand with check in the amount of \$10,000 to the order of American Conservation Company, which I will turn over to them.

I am having to leave this noon for Washington, but expect to be back in Chicago Friday afternoon.

I am

Very truly yours,

HUGH T. MARTIN,
General Counsel.

HTM
 Enc. 1.

(Handwritten:) Rec'd C. D. \$50,000.00. Roger Waynes. 2-5-32.

EXHIBIT No. 1348-17

[From files of Illinois Bankers Life Assurance Co.]

MINUTES OF SPECIAL MEETING OF MEMBERS OF THE ILLINOIS BANKERS LIFE ASSOCIATION HELD AT MONMOUTH, ILLINOIS. DECEMBER 30, 1925.

A special meeting of the members of the ILLINOIS BANKERS LIFE ASSOCIATION was held at the Home Office of the Association in Monmouth, Illinois beginning at 10 o'clock, A. M., Wednesday, December 30th, 1925.

The meeting was called to order by the President, of the Association, Mr. W. H. Woods, who then presided over the meeting and Mr. R. M. Work, Secretary of the Association was present and acted as Secretary of the meeting.

Secretary R. M. Work then reported that at a special meeting of the Directors of the Association, held on November 23rd, 1925, a resolution was passed, directing the officers of the Association to call a special meeting of the members of the Illinois Bankers Life Association for December 30th, 1925 at the hour of 10 o'clock A. M. at the Home Office in Monmouth, Illinois for the purpose of voting on the question of the adoption of the proposed contract of reinsurance with the ILLINOIS BANKERS LIFE ASSURANCE COMPANY which proposed contract of reinsurance is as follows:

★ ★ ★ ★ ★

PROPOSED CONTRACT OF REINSURANCE BETWEEN ILLINOIS BANKERS LIFE ASSOCIATION AND ILLINOIS BANKERS LIFE ASSURANCE COMPANY

CONTRACT OF REINSURANCE

THIS AGREEMENT, made this _____ day of _____ 1925, by and between the ILLINOIS BANKERS LIFE ASSOCIATION, a corporation duly organized and existing under and by virtue of the laws of the State of Illinois, with its principal office in Monmouth, Illinois, hereinafter called the "Association", party of the first part, and the ILLINOIS BANKERS LIFE ASSURANCE COMPANY,

also a corporation organized and existing under and by virtue of the laws of the State of Illinois, (as set forth in Schedule "A" hereto attached and made a part thereof) with its principal office in Monmouth, Illinois, hereinafter called the "COMPANY", party of the second part; WITNESSETH:

THAT, WHEREAS, the said Association has been engaged in insuring lives of its members on the Assessment Plan, but now deems it wise and prudent and for the best interests of its members, that its risks be reinsured with a Life Insurance Company operating upon the Legal Reserve basis; and,

WHEREAS, the said Company is a Legal Reserve Life Insurance Company and is willing to reinsure such members upon the terms and conditions hereinafter set forth;

Now, THEREFORE, IT IS HEREBY MUTUALLY AGREED by and between the parties hereto, each with the other as follows:

SECTION 1. The Association hereby transfers its risks to the said Company, such transfer to take effect when this contract takes effect, as hereinafter set forth, and agrees thereupon to transfer and deliver to the said Company all of its Applications for insurance on file in the office of the said Association, with medical examinations, reinstatement certificates, inspections reports, if any, and other data accompanying the same, together with its policy cards or records pertaining to such applications, but it is not intended to transfer or deliver to the said Company any of the purely corporate records of the Association, such as the record books of the official actions of the Association, it being understood and agreed, however, that the said Company shall have full and free access for reference at any time and all reasonable times to all the books and records of the Association.

SECTION 2. IT IS AGREED that upon this Contract becoming effective, as hereinafter set forth, the said Association shall, by proper deeds of assignment and transfer, convey and set over to the said Company all of its assets, moneys, notes, bonds, mortgages, securities, judgments, choses in action, real property and property of every kind and character and wheresoever situated, belonging to the said Association.

SECTION 3. THE SAID COMPANY HEREBY AGREES to accept the said transfer to it and agrees to reinsure all of the certificates and policies held by living members, regardless of age and sex, who are in good standing in said Association when this contract goes into effect, including such members whose policies have lapsed, but who may be reinstated in accordance with the terms of such certificates or policies such reinsurance to be subject, however, to the several terms and conditions as hereinafter set forth; it being specifically understood and agreed by and between the parties hereto that the acceptance of said transfer and the reinsurance of said risks and the assumption of said certificates and policies by said Company shall go into effect and be binding upon said Company only from and after the date and hour of the day this contract shall go into effect, as hereinafter set forth. Said Company, however, expressly reserves the right to any and all defenses to claims presented by members or by beneficiaries of members of said Association that said Association would have been entitled to interpose if the members of said Association had not been transferred to said Company, and said Company also reserves the right to bring any and all suits, either at law or in equity, for the cancellation of policies of insurance or for any other lawful purpose which said Company might have brought if the application has been originally made to said Company instead of to said Association.

SECTION 4. IN CONSIDERATION of said transfer of insurance and in payment of any Good Will attaching to the business of the said Association, or by reason of its agency organization, or otherwise, said Company agrees to pay and set apart to the benefit of the members of said Association, the sum of \$450,000.00, which shall be paid as renewal commissions of \$45,000.00 annually at the end of each year from the effective date hereof, for a period of ten years, it being agreed and understood that such renewal commissions shall not be charged as a liability until due and payable, as above set forth, and that such renewal commissions shall not in any year exceed ten per cent of the renewal premiums on the insurance reinsured remaining in force, either as assessment insurance or converted, as set forth in Section 7. If in any year, the said renewal commission of ten per cent shall amount to less than \$45,000., the deficiencies accumulated at 4% per annum shall be carried over and paid at a rate not in excess of \$45,000 per annum during the years immediately succeeding the aforesaid ten year period, but, in no event, shall the total payments, excluding interest, if any, on the deficiencies aforesaid, be less than \$450,000.00.

SECTION 5. IT IS AGREED that the members of the said Association whose policies and memberships are so transferred to and assumed by said Company under the terms and conditions as herein provided, shall, after this contract goes into effect, pay to said Company, instead of to said Association as heretofore, the several premiums provided for by the terms of their respective certificates or policies of insurance, or such amounts thereon as may be fixed by the Company, in accordance with the statute, as hereinafter set forth.

The Company shall have the right to fix the rates and amounts of premium assessments or periodical calls and the time and manner of payment thereof, and to change the same from time to time as its experience may require, upon the members of said Association reinsured hereunder and continuing on the assessment plan, to the same extent only that said Association was originally entitled under the statute under which it was incorporated; that is to say, under an Act of the State of Illinois entitled—"An Act to incorporate companies to do the business of Life or Accident Insurance on the Assessment plan, etc." approved June 22nd, 1893, and in force July first, 1893.

The members of the Association so reinsured shall contribute to the expenses of the Company 25% of the assessments as and when paid by such members. The said Policies or certificates shall be assumed as yearly renewable term policies at the attained age of the members, and shall be valued as such in accordance with Section 10 of an Act of the State of Illinois, entitled—"An Act to organize and regulate the business of Life Insurance", approved March 26th, 1869, in force July 1st, 1869, as duly amended, and such shall be the measure of the legal reserve liability of the Company upon such policies or certificates. The Legal Reserve from time to time required to be set up to the credit of such policies or certificates shall be set up by the Company from the funds of the said Association transferred to the said Company. Provided that, in addition to such liability, there shall be the liability of the Company to maintain special funds created by the Association in connection with policies on the Savings Plan.

SECTION 6. The present funds of the Association shall be considered as Trust Funds for the benefit of the members of the Association, and with accretions thereto and deductions therefrom, less any amounts apportioned on policies or certificates which may be converted, as hereinafter set forth, shall be invested from time to time in accordance with the provisions of the statute as to the investments of Legal Reserve Life Insurance Companies; and the Company shall, at all times, keep books of account of said funds. Accretions shall include the amounts to be paid by the Company into said funds, as set forth in Section 4, and assessments to be paid by continuing members, less contributions to expenses, as set forth in Section 5, together with interest accumulations at the rate of 4% per annum on such funds, but, if the average rate earned by the Company on its mean invested assets during any year shall be less than 4%, the interest accumulation on such fund during that year, shall be at the rate actually earned, and deductions shall include all policy claims of the said members continuing on the Assessment Plan, and any amounts carried as Legal Reserve liability as set forth in Section 5.

The Company shall have the power, as aforesaid, to invest said funds and to use the said funds, or the income herefrom, for the purpose of maintaining, as far as possible, the said present rates of the said certificate, or for the benefit of the members of the said Association. No dividends shall ever be paid by said Company out of the funds of the Association or accretions thereto as above provided.

SECTION 7. Each member of the said Association so reinsured shall have the right to have his certificate or policy converted into any form of policy issued by the Company for that purpose, upon proper adjustment of premiums and reserves. No additional medical examination for such conversion shall be required except in cases where the rate of premium is lowered or the amount of the insurance at risk or the benefit is increased, when such transfers shall be subject to evidence or insurability satisfactory to the Company. In case of any such conversion, the Company may make an equitable apportionment to such member from the funds transferred to the Company by the Association, taking into account, among other factors, the class of policy, age of the member, length of membership, cost of insurance already furnished, and the premiums and assessments paid, which amount apportioned shall be applied to the credit of such member upon such policy as converted. The said apportionment, when made by the Company shall be binding upon all of the said members of the said Association, or those claiming under them.

Should the Company begin making any such apportionment, the practice shall not be discontinued except upon the approval of the Director of Trade and Commerce of the State of Illinois, or such other officer who may succeed to his duties.

SECTION 8. IT IS UNDERSTOOD that every member or policyholder of said Association who shall file with the Secretary of said Association within ten (10) days after the meeting of members at which this contract is approved, as herein provided, written notice of his or her preference to be transferred to some other corporation than that named in this contract, shall be accorded all the rights and privileges in and of such transfer as would have been accorded under the terms of this contract, had he or she been transferred to said Company named herein, as provided by Section Sixteen (16) of an Act entitled—"An Act to incorporate companies to do the business of life or accident insurance on the Assessment plan, etc." approved June 22, 1893, and in force July first, 1893, and for the purpose and to the extent only of rendering to the members of policy holders so preferring to be transferred the aid by law provided, the said Company is hereby constituted and shall be deemed and regarded as the agent of said Association.

SECTION 9. IT IS AGREED that if this contract goes into effect as hereinafter provided, said Company shall and does hereby assume and agree to pay, or cause to be paid, settled, discharged or released, out of the funds of the said Association so transferred, all the valid unpaid claims against the said Association by reason of the death or disability of members occurring prior to the time the contract goes into effect, as well as all other valid claims against the Association. PROVIDED, HOWEVER, that each and all of the said claims including the said Death and Disability Claims, are and shall be subject to all the valid defenses existing thereto, the said Company shall have full power and authority to compromise, adjust and settle such claims or liabilities upon such terms as it shall determine.

SECTION 10. IT IS UNDERSTOOD AND SPECIFICALLY AGREED, that the obligations and liabilities of said Company hereunder to the members and policyholders of the said Association and to persons holding claims or accounts against said Association, shall be limited to and they are only such as are set forth and agreed upon by and between the parties hereto in this agreement; and said Company shall be or become liable hereunder for claims upon death or disability occurring subsequent to the time this contract goes into effect, only upon policies of then living members of said Association who have fully complied and do comply with all the terms and conditions of their respective policies and with the terms and conditions of this agreement; and in no event shall said Company otherwise be or become liable hereunder to the individual members or policy holders of said Association for any share or portion of the assets of said Association or for any unearned premiums or reserve or other fund of said Association whatever, except as a credit or allowance on the policies or certificates now outstanding, to be applied on new policies to be issued to said members, all as hereinabove provided. But nothing herein shall effect the rights of members holding policies on the Savings Plan to the special funds created by the Association in connections with such policies.

SECTION 11. IT IS UNDERSTOOD AND AGREED that the said Company expressly assumes the liability of the Association to pay renewal commissions under any and all contracts of agency heretofore entered into between the said Association and its agency managers and agents, which shall constitute the measure of liability of the said Company upon the said contracts.

SECTION 12. IT IS AGREED that the word "policy" as used includes and has reference to each and every form of policy, certificate or other insurance contract issued by said Association; and that the term "member" as used herein, includes and has reference to each and every member or policy holder of said Association, whether a holder of a certificate, policy or other contract of insurance, and that the word "premium" as used herein, includes and has reference to every kind of premium, assessment, call or advance deposit on any policy, certificate or other contract of insurance of said Association.

SECTION 13. THIS CONTRACT shall be effective when, and only when, the following approvals and authorizations have been secured in the order herein set forth:

(a) This contract shall be approved by affirmative votes equal to at least two-thirds of all the votes cast by members of the Association represented at a meeting duly and lawfully called for the purpose of acting thereon.

(b) This contract shall be approved by affirmative votes representing two-thirds of all the stock of the Company, at a meeting duly and lawfully called for the purpose of acting thereon.

(c) This contract shall be signed by the respective officers of the Association and the Company:

(d) This contract shall be approved by the Director of Trade and Commerce, as provided by the laws of the State of Illinois.

SECTION 14. The effective date of this contract shall be the date of the approval by the Director of Trade and Commerce provided under Paragraph (d) above.

IN WITNESS WHEREOF, the ILLINOIS BANKERS LIFE ASSOCIATION, pursuant to corporate authority and by its duly authorized officers, has executed this instrument and caused its corporate seal to be attached, on the day and date first above written, and ILLINOIS BANKERS LIFE ASSURANCE COMPANY, pursuant to corporate authority and by its duly authorized officers, has executed this instrument and caused its corporate seal to be attached, on the day and date first above written.

ATTEST: THE ILLINOIS BANKERS LIFE ASSOCIATION,
 ----- By -----
Secretary. *President.*

ATTEST: ILLINOIS BANKERS LIFE ASSURANCE COMPANY
 ----- By -----
Secretary. *President.*

“SCHEDULE A”

The ILLINOIS BANKERS LIFE ASSURANCE COMPANY has been organized under the laws of the State of Illinois as a Legal Reserve Life Company, and duly authorized to make insurance upon the lives of persons and to grant or dispose of annuities.

Its Capital Stock, which has been fully paid in, in cash, is \$100,000.00 which has been invested in approved securities and deposited with the Director of Trade and Commerce of the State of Illinois, for the benefit of all policy holders. Its stock is divided in 1,000 shares of a par value of \$100.00 each.

In addition, it has a Paid-in Surplus of \$50,000.00.

The Company has been organized by and its only stockholders are W. H. Woods, J. R. Ebersole, Robt. M. Work, F. M. Hallam and A. T. Sawyer, who each hold 200 shares of stock. These men constitute its Board of Directors.

The Secretary further reported that in carrying out said Resolution he has caused to be deposited in the Post Office at Monmouth, Illinois on November 28th, 1925 a full, true and correct copy of such proposed contract of Reinsurance, together with notice stating the time, place and purposes for such meeting, addressed to each member of the Illinois Bankers Life Association at his last post office address appearing on the records of the Association, which notice, signed by the Directors of the Association, is in words and figures as follows:

ILLINOIS BANKERS LIFE ASSOCIATION,
 Monmouth, Illinois, Nov. 28, 1925.

To the Members of the Association:

NOTICE is hereby given that a Special Meeting of the members of the ILLINOIS BANKERS LIFE ASSOCIATION will be held at its Home Office in Monmouth, Illinois, on the 30th day of December, 1925, at 10 o'clock A. M. for the purpose of voting on the question of the adoption of the proposed contract of reinsurance with the Illinois Bankers Life Assurance Company of Monmouth, Illinois, copy of which is enclosed herewith.

W. H. WOODS,
 J. R. EBERSOLE,
 ROBT. M. WORK,
 F. M. HALLAM,
 A. T. SAWYER,

Board of Directors, Illinois Bankers Life Association.

The Secretary, Robt. M. Work, further reported that there were present the following members of the Association in person:

Name of member	Amount of insurance	Number of votes	Name of member	Amount of insurance	Number of votes
W. H. Woods.....	\$15,000.00	15	D. A. Uhler.....	\$3,000.00	3
F. M. Hallam.....	15,000.00	15	W. E. Shurtleff.....	3,000.00	3
J. R. Ebersole.....	2,000.00	2	C. M. Huey.....	4,000.00	4
A. T. Sawyer.....	3,000.00	3	Ed. Sherbine.....	2,000.00	2
Robt. M. Work.....	100,000.00	100	F. A. Yockey.....	2,000.00	2
George Cox.....	2,000.00	2	Total.....	151,000.00	151

The Secretary, Robt. M. Work, reported that 26,763 members of the Association were present by proxy; that the proxies were on file with the Secretary as follows:

Proxies in name of.	Number of members represented by proxy	Amount of insurance in force	Number of votes
Robert M. Work.....	24,407	\$40,631,000.00	40,631
W. H. Woods.....	8	33,000.00	33
A. T. Sawyer.....	9	15,000.00	15
F. M. Hallam.....	32	68,000.00	68
J. R. Ebersole.....	10	29,000.00	29
I. H. Hook.....	1	1,000.00	1
Ed. Sherbine.....	2	4,000.00	4
	24,469	\$40,781,000.00	40,781
J. D. Rice.....	99	239,000.00	239
H. C. Rinear.....	527	1,900,000.00	1,009
D. A. Uhler.....	514	959,000.00	959
L. A. King.....	842	1,539,000.00	1,539
T. L. Mudd.....	107	448,000.00	448
W. E. Shurtleff.....	156	329,000.00	329
T. G. Thompson.....	1	2,000.00	2
	2,246	\$4,525,000.00	4,525
John M. Whitehead.....	1	1,000.00	1
Hill and England.....	1	1,000.00	1
John J. Sullivan.....	2	3,000.00	3
I. H. Hook.....	1	1,000.00	1
M. W. Hulsey.....	2	4,000.00	4
L. H. Kaufman.....	1	5,000.00	5
Elmer Rinear.....	1	1,000.00	1
Ed. Sherbine.....	2	4,000.00	4
O. H. Wheeler.....	1	2,000.00	2
C. A. Wilson.....	1	5,000.00	5
John Shera.....	2	19,000.00	19
	15	\$46,000.00	46
negative proxies.....	33	57,000.00	57

Thereupon Mr. Work made the following motion:

That the Special meeting of the ILLINOIS BANKERS LIFE ASSOCIATION called for 10 o'clock A. M. Wednesday, December 30, 1925 for the purpose of voting on the question of the adoption of the proposed contract of Reinsurance with the ILLINOIS BANKERS LIFE ASSURANCE COMPANY be adjourned until Tuesday, January 5, 1926 at the hour of 10 o'clock A. M. at the Home Office of the Association in Monmouth, Illinois.

The motion was seconded by Mr. Sawyer and thereupon being put to a vote unanimously carried and the meeting thereupon adjourned until Tuesday, January 5, 1926 at the hour of 10 o'clock A. M. at the Home Office of the Association in Monmouth, Illinois.

W. H. WOODS,
President, Illinois Bankers Life Association.
ROBT. M. WORK,
Secretary of the Meeting.

EXHIBIT NO. 1348-18

[From files of Illinois Bankers Life Assurance Co.]

MINUTES OF A MEETING OF THE BOARD OF DIRECTORS OF ILLINOIS BANKERS LIFE ASSURANCE COMPANY, HELD JANUARY 13, 1930

A meeting of the Board of Directors of Illinois Bankers Life Assurance Company was held on January 13, 1930.

The following Directors were present: Messrs. W. H. Woods, J. R. Ebersole, A. T. Sawyer and R. M. Work.

Mr. Woods presented to the Board a suggestion of a loan of Two Hundred and Fifty Thousand Dollars (\$250,000) to Lincoln Securities Company, with assets

of from \$4,000,000 to \$5,000,000. Common and preferred stock will be put up as collateral security to the demand note of the Securities Company, bearing 6% interest.

We now have a certificate of deposit of \$100,000 drawing but 2% interest and Liberty Bonds of \$100,000 drawing 3½% and 4¼%. It is suggested that these low rates of interest might be improved by making the loan suggested and depositing other securities with the State Department in place of those lifted. Director Martin, who knows these properties, recommends this loan.

Motion was duly made, seconded and carried that the President be authorized to close a loan of \$250,000 to the Lincoln Securities Company on its demand note, drawing 6% interest, the same to be further secured by common and preferred stock of Hotel LaSalle Company as collateral, the loan not to exceed a rate of \$150.00 per share on the common stock and \$80.00 per share on the preferred stock of the Hotel LaSalle Company.

On motion duly made and seconded, the death and disability claims paid during the month of December 1929, which were presented, were approved.

On motion, the meeting adjourned.

A. T. SAWYER.

EXHIBIT No. 1348-19

[From files of Illinois Bankers Life Assurance Co.]

[Copy]

OCTOBER 19, 1938.

Mr. HUGH T. MARTIN,

*c/o The Trust Company of Chicago, 33 North LaSalle Street,
Chicago, Illinois.*

DEAR MR. MARTIN: We are giving you herewith an itemized statement of the status of the five loans, totaling \$130,500.00, held as security in the Lincoln Securities Company Collateral Loans:

MARGARET M. O'CONNOR \$13,000.00 LOAN

Dated Dec. 30, 1926, due Dec. 30, 1931, with 6% interest payable semi-annually on June and December 30. We figure the past due interest as follows:

Interest payment due	June 30, 1935	-----	\$390.00
"	"	"	"
"	Dec. 30, 1935	-----	390.00
"	June 30, 1936	-----	390.00
"	Dec. 30, 1936	-----	390.00
"	June 30, 1937	-----	390.00
"	Dec. 30, 1937	-----	390.00
"	June 30, 1938	-----	390.00

(Margaret O'Connor made a payment on interest May 3, 1935 of \$2,340.00)

Incomplete paper in this loan:

Application

Borrower's receipt not dated

FRANCES C. ZURAWSKI \$60,000.00 LOAN

Dated Oct. 15, 1927, due Oct. 15, 1932, with 6% interest payable semi-annually on April and October 15. Attached to principal note is interest coupon for \$1,800.00, due October 15, 1932. We figure the past due interest as follows:

Interest payment due	Oct. 15, 1932	-----	\$1,800.00
"	Apr. 15, 1933	-----	1,800.00
"	Oct. 15, 1933	-----	1,800.00
"	Apr. 15, 1934	-----	1,800.00
"	Oct. 15, 1934	-----	1,800.00
"	Apr. 15, 1935	-----	1,800.00
"	Oct. 15, 1935	-----	1,800.00
"	Apr. 15, 1936	-----	1,800.00
"	Oct. 15, 1936	-----	1,800.00
"	Apr. 15, 1937	-----	1,800.00
"	Oct. 15, 1937	-----	1,800.00
"	Apr. 15, 1938	-----	1,800.00
"	Oct. 15, 1938	-----	1,800.00

Incomplete papers in this loan:

- Title Policy
- Application
- Windstorm insurance
- Renewal of the following expired insurance policies:

#28354	\$2,500.00	fire, The World, expired, Nov. 28, 1934
6848	2,500.00	" U. S. Fire " " " "
6200	1,500.00	" " " " " "

(These policies cover Rear 3729 Lake Park Avenue)

#6198 \$10000.00 fire, U. S. Fire, expired March 5, 1934
 (This policy covers 3733-35 Lake Park Avenue)

HUGH T. MARTIN \$7,500.00 LOAN

Dated Nov. 19, 1928, due Nov. 19, 1933, with 6% interest payable semi-annually on May and November 19. May 19, 1932 and subsequent interest coupons are attached to principal note. We figure the past due interest as follows:

Interest payment due	May 19, 1932	-----	\$225. 00
" "	Nov. 19, 1932	-----	225. 00
" "	May 19, 1933	-----	225. 00
" "	Nov. 19, 1933	-----	225. 00
" "	May 19, 1934	-----	225. 00
" "	Nov. 19, 1934	-----	225. 00
" "	May 19, 1935	-----	225. 00
" "	Nov. 19, 1935	-----	225. 00
Interest payment due	May 19, 1936	-----	225. 00
" "	Nov. 19, 1936	-----	225. 00
" "	May 19, 1937	-----	225. 00
" "	Nov. 19, 1937	-----	225. 00
" "	May 19, 1938	-----	225. 00

Incomplete papers in this loan:

- Appraisals (2)
- Title policy
- Borrower's receipt
- Affidavit of Possession

MARY E. ZURAWSKI \$40,000.00 LOAN

Dated Dec. 1, 1926, due Dec. 1, 1931, with 6% interest payable semi-annually on June and December 1. We figure the past due interest as follows:

Interest payment due	June 1, 1932	-----	\$1, 200. 00
" "	Dec. 1, 1932	-----	1, 200. 00
" "	June 1, 1933	-----	1, 200. 00
" "	Dec. 1, 1933	-----	1, 200. 00
" "	June 1, 1934	-----	1, 200. 00
" "	Dec. 1, 1934	-----	1, 200. 00
" "	June 1, 1935	-----	1, 200. 00
" "	Dec. 1, 1935	-----	1, 200. 00
" "	June 1, 1936	-----	1, 200. 00
" "	Dec. 1, 1936	-----	1, 200. 00
" "	June 1, 1937	-----	1, 200. 00
" "	Dec. 1, 1937	-----	1, 200. 00
" "	June 1, 1938	-----	1, 200. 00

Incomplete papers in this loan: Application

JOHN H. PASSMORE \$10,000.00 LOAN

Dated Nov. 12, 1927, due Nov. 12, 1932, with 6% interest payable semi-annually on May and November 12. May 12, 1932 and subsequent interest coupons attached to principal note. We figure the past due interest as follows:

Interest payment due	May 12, 1932	-----	\$300. 00		
"	"	"	Nov. 12, 1932	-----	300. 00
"	"	"	May 12, 1933	-----	300. 00
"	"	"	Nov. 12, 1933	-----	300. 00
"	"	"	May 12, 1934	-----	300. 00
"	"	"	Nov. 12, 1934	-----	300. 00
"	"	"	May 12, 1935	-----	300. 00
"	"	"	Nov. 12, 1935	-----	300. 00
"	"	"	May 12, 1936	-----	300. 00
"	"	"	Nov. 12, 1936	-----	300. 00
"	"	"	May 12, 1937	-----	300. 00
"	"	"	Nov. 12, 1937	-----	300. 00
"	"	"	May 12, 1938	-----	300. 00

Incomplete papers in this loan:

Appraisal (1)

Application note dated

Windstorm insurance

Renewal of the following expired insurance policies:

\$10,000 fire, Fireman's Fund expired Dec. 5, 1932.

5,000 " The Home " " " "

Yours very truly,

ZIE

INVESTMENT DEPARTMENT.

EXHIBIT No. 1318-20

LINCOLN SECURITIES COMPANY



CHICAGO, ILL. DECEMBER 15, 1930 No. 2079

Handwritten signature: Charles C. Marshall

Handwritten amount: 200,000

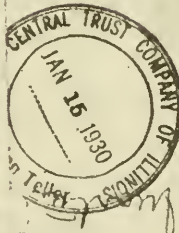
THE SUM OF \$200,000 AND 00/100 CTS

DOLLARS

CENTRAL TRUST COMPANY OF ILLINOIS
CHICAGO

Handwritten initials: R. W. S.

INCORPORATED IN THE STATE OF ILLINOIS
DECEMBER 2, 1904



Large dotted stamp: 200,000

Handwritten signature: Charles C. Marshall

EXHIBIT No. 1348-21

[From files of Illinois Bankers Life Assurance Co.]

THIS AGREEMENT, made this 28th day of February, 1930, by and between ILLINOIS BANKERS LIFE ASSURANCE COMPANY, Monmouth, Illinois, a life insurance corporation organized and existing under the laws of the State of Illinois, party of the first part, and AMERICAN CONSERVATION COMPANY, of Chicago, Illinois, a corporation organized and existing under the laws of the State of Illinois, party of the second part, WITNESSETH, That:

WHEREAS the said first party has about One Hundred Ten Million Dollars (\$110,000,000) of insurance which it desires shall be rewritten upon the legal reserve plan, and said second party has an effective organization capable of handling such work;

NOW, THEREFORE, FOR AND IN CONSIDERATION of the foregoing, it is expressly understood and agreed as follows:

1. The party of the first part hereby retains and employs the party of the second part as the exclusive transfer agent of the party of the first part in the work of re-rating and or transferring policyholders of the party of the first part to the Ordinary Life Return of 50% of Premium Plan and Twenty Payment Life Return of 70% of Premium Plan. Such employment shall cover all of the states and territories of the United States, and shall continue for a period of three (3) years, beginning the first day of March, 1930, and ending the twenty-eighth day of February, 1933.

2. The party of the second part hereby accepts said employment and agrees that it will immediately employ a sufficient number of men to enter upon said work, that it will establish schools of instruction for such men and will thoroughly train them for the said employment.

3. The party of the second part further agrees that it will give its best endeavors in assisting said first party in preparing a good workable plan of transfer.

4. Said party of the second part further agrees that, during the period of this contract, it will not, except with the consent of said first party, enter into any other transfer contract with any other life insurance company, association or fraternal organization, but that it will devote the entire energies and talents of its officers and organization to the successful carrying out of this contract.

5. Said party of the second part further agrees that, within thirty days after this contract goes into effect, it will have not less than seventy-five (75) men ready to take the field in effecting the work of transfer; and it further agrees that it will transfer not less than Five Million Dollars (\$5,000,000) of insurance per month, for a period of not less than sixteen (16) months.

6. The party of the second part further agrees that it will cause its representatives to make diligent and consistent solicitation for the purpose of effecting the transfer of the protection of the above designated policyholders of the party of the first part, and the second party further agrees that it will select and employ as such representatives only those whose character and methods of operation shall not be a discredit to the party of the first part.

7. Said first party shall have the right to name a supervising director, who shall be employed at the expense of said first party. Said first party shall have the power to approve or disapprove all of the men placed on the work of transfer and all of the plans and operations of the campaign, and shall have the right to remove any man from the work without it being necessary to cite or prove cause for such removal.

8. It is further understood and agreed that, upon the conclusion of the first solicitation of all of the present policyholders of the party of the first part, the party of the second part will start a complete second solicitation of all of the policyholders who did not exchange upon the first solicitation. Upon conclusion of the second solicitation, further solicitation will be made during the period of this contract with a view of completing the transfer of as many policyholders as possible.

9. The party of the first part hereby covenants and agrees to pay to the party of the second part as full compensation for all services rendered by said party of the second part or its associates or employees the sum equal to seventy percent (70%) of the first year's premiums paid by all the policyholders of the party of the first part re-rated or transferred to the said Ordinary Life or Twenty Payment Life Plans.

It is further understood and agreed that, whenever the premium of any policyholder re-rated or transferred, as above set forth, shall be payable annually, the commission hereinbefore referred to shall be payable within twenty (20) days

after the receipt by the party of the first part of such annual premium; and whenever such premium is payable in installments, the commission hereinbefore referred to shall also be payable in installments within twenty (20) days after the receipt by the party of the first part of each installment of the premium aforesaid. In making all settlements, the party of the first part agrees that it will use and follow the forms furnished by the party of the second part so as to enable the party of the second part to keep accurate records of the commissions paid on transfers effected.

10. It is further expressly agreed that the party of the second part shall be the exclusive transfer representative of the party of the first part for the period as above set forth; that no person shall be permitted to solicit or effect the transfer of protection of any such policyholder of said party of the first part except with the consent and under the direction of the party of the second part; that all transfers of protection sent directly from the policyholder transferring his protection or from any transfer representative to the party of the first part, or received by the party of the first part from any person other than the party of the second part, shall be returned to the office of the party of the second part for recording, and upon each of said transfers the said party of the second part shall be entitled to commission provided for in the ninth paragraph hereof. After such recording by the party of the second part, such transfers shall be returned to the party of the first part.

11. The party of the first part further agrees to provide the party of the second part with original and duplicate cards showing the names, addresses, amounts, dates of birth, rates of premiums and such other information as may be necessary or desirable in effecting the transfer as above set forth.

12. The party of the first part further agrees that it will furnish the party of the second part with letters of authority for the use of field representatives of the party of the second part, together with all printed literature, application blanks, rate books, specimen certificates, interim certificates and forms as are necessary to enable the party of the second part successfully to complete its work.

13. It is further expressly agreed that, in the event any policyholder who transfers becomes suspended and later is reinstated, the party of the second part shall receive its regular commission, the amount specified in paragraph nine of this contract, provided that any transferred policy lapsed more than three months may be reinstated by the company there shall be no liability hereunder for commission to the party of the second part.

14. The party of the second part hereby expressly undertakes and agrees to pay all expenses of its agents in connection with the securing of transfers, increased insurance and new business as herein set forth, and expressly covenants to hold the party of the first part harmless on account thereof and for any acts of its agents.

15. In further consideration of the premises, the party of the first part hereby retains and employs the party of the second part as agent for the purpose of securing new policyholders for the party of the first part and securing applications for additional or increased insurance from the present policyholders of the party of the first part at any time during the life of this contract, provided that the said second party, and its agents, shall be subject to the rules and regulations of the said first party, as set forth in its rate book, or subsequent rate books of said first party, the same as applies to the soliciting agents of said first party.

It is expressly understood and agreed that the party of the first part retains the right to engage agents of its own selection, whenever it deems it so necessary, for the purpose of securing new policyholders for the said party of the first part, and the party of the second part shall have no claim for commission on the securing of such new policyholders by the present agents of the party of the first part or by any agents appointed by the party of the first part during the term of this contract.

The party of the first part covenants and agrees to pay the party of the second part, as full compensation for all new business written and all additional or increased insurance secured from present policyholders, a commission of seventy per cent (70%) of the first year's premiums on business written on the Endowment at Age 85 Continuous Premiums Plan and Endowment at age 85 Paid up in 20 Years Plan.

It is further agreed that said second party, through its field representatives, shall, during the time this contract is in effect, produce in insurance written with new policyholders and increased insurance written upon the lives of present policyholders an amount not less than Five Hundred Thousand Dollars (\$500,000) of such new business and increases per month.

16. The party of the second part hereby further agrees that upon receipt from the party of the first part of data cards carrying the names and addresses and such other information as may be desirable on all policyholders who have discontinued their insurance with the party of the first part during the past five years, the said party of the second part shall cause its representatives to call on all such lapsed policyholders wherever they may be located, in an endeavor to reinstate them, and the compensation for such work shall be the same as that contained in the above paragraph for the writing of new or increased insurance.

17. It is agreed that in the event of a policyholder who has exchanged his policy for a new legal reserve policy, is not satisfied with the transfer the company reserves the right to restore the original policy and any commission allowed for transfer together with any balance due the company on such transfer shall be remitted to the Company.

18. The party of the second part agrees that each representative employed by them in this work shall be bonded for an amount not less than Five Hundred Dollars (\$500.00) with an acceptable bonding company, and the party of the second part further agrees to furnish bond to the party of the first part for an amount not to exceed One Hundred Thousand Dollars (\$100,000) upon demand by the party of the first part that such bond be furnished.

19. It is understood and agreed that said second party shall not be entitled to any renewal commissions.

20. Said first party shall have the right to cancel this contract at any time upon thirty days' written notice to said second party of its intention so to cancel. In the event of such cancellation, said second party shall be entitled to receive the full commissions set forth in paragraphs nine and fifteen hereof earned prior to such termination.

21. It is further agreed that all books, cards and records furnished by said first party to said second party, and any copies of the same made by said second party, shall, at the termination of this contract or upon demand, be returned to said first party by said second party; and said second party agrees that it shall never make use, or permit any use to be made, of said records or the information contained therein other than for the purpose of carrying out the purposes of this contract as above set forth.

IN WITNESS WHEREOF, the parties hereto have caused these presents to be duly executed by their proper corporate officials and their respective corporate seals to be hereunto affixed, all the day and year first above written.

ILLINOIS BANKERS' LIFE ASSURANCE COMPANY,
By A. T. SAWYER.

Attest: _____

AMERICAN CONSERVATION COMPANY,
By _____

Attest: _____

MINUTES OF A MEETING OF THE BOARD OF DIRECTORS OF ILLINOIS BANKERS' LIFE ASSURANCE COMPANY, HELD DECEMBER 12, 1930.

A meeting of the Board of Directors of Illinois Bankers Life Assurance Company was held on December 12, 1930, all of the Directors being present.

A proposed rider to the contract of February 28, 1930, between Illinois Bankers Life Assurance Company and American Conservation Company was presented. On motion duly made and seconded, the officers of the Company were authorized and directed to execute in the name of the Company, and to attach to and make a part of the said contract of February 28, 1930, the said rider, which is in words and figures as follows:

RIDER

DECEMBER 12, 1930

It is hereby agreed by and between the parties to a certain contract, dated February 28, 1930, wherein the ILLINOIS BANKERS' LIFE ASSURANCE COMPANY, a corporation of Monmouth, Illinois, hereinafter referred to as Party of the First Part, and the AMERICAN CONSERVATION COMPANY, 720 Bell Bldg., Chicago, Illinois, hereinafter referred to as Party of the Second Part:

That the Party of the First Part agrees to pay to the Party of the Second Part, effective December 8, 1930, on new business and increases written for the Party of the First Part, first year commissions as follows:

Endowment at 85—Ordinary and Twenty Pay.....	80%
Juvenile—Ordinary and Twenty Pay.....	80%
Home Guardian.....	80%
Twenty Year Savings Endowment.....	80%
Bankers Special.....	80%

and renewal commissions of 7½% from the second to the fifth policy year, inclusive, and 5% for the sixth policy year, on all of the above named policies except the Bankers Spécial, on which a renewal commission of 25% shall be paid for the second policy year only.

This Rider to be attached to and become a part of contract dated February 28, 1930.

ILLINOIS BANKERS LIFE ASSURANCE COMPANY,
 By W. H. WOODS, *President*.
 A. T. SAWYER, *Secretary*.
 AMERICAN CONSERVATION COMPANY,
 By HERBERT G. SHIMP, *President*.
 _____, *Secretary*.

EXHIBIT No. 1348-22

[Submitted by Illinois Bankers Life Assurance Co.]

CERTIFICATE OF LOAN

THIS CERTIFIES that the ILLINOIS BANKERS LIFE ASSURANCE COMPANY, of Monmouth, Illinois, has loaned on Policy No. 000000 the sum of Three Hundred (Company authorized to fill in Policy Number.)

Ninety-eight and 04/100 Dollars, which, with any additional loan, shall be a lien on said policy until paid; simple interest at the rate of six percent per annum to be added thereto until the end of the distribution period of said policy, at which time the profits accruing to it shall be used toward the payment of said loan, and any excess paid in cash or used as set forth in the policy, at the option of the insured. Should the profits not fully pay the loan, the amount remaining unpaid at that time may be continued as a loan, interest as aforesaid and the dividends accruing on the policy, to be thereafter payable annually. In event of my death or failure to make any payment when due to said Company before said loan is fully paid, the amount remaining unpaid shall become due and be deducted from the amount payable under said policy.

Dated at Pawnee, Illinois.

Sept. 12, 1930.
 (Effective Date of Transfer)
 JOHN DOE.
 (The insured)

Witness: Harry Roe.

EXHIBIT No. 1348-23

[Prepared by Illinois Bankers Life Assurance Co.]

Tabulation of Insurance Transferred from the Assessment to the Legal Reserve Plan by the American Conservation Company, together with the New Business written by them in conjunction with the Transfer, showing the premiums collected and the commissions paid

Year	Pols. Transferred		New Business Written		1st Yr. Premium Collected—Trans. Business	1st Yr. Premium Collected—New Business	Commissions Paid
	No.	Amount	No.	Amount			
1930.....	18,215	26,491,542	751	1,031,643	714,206.83	6,015.69	454,243.74
1931.....	16,751	24,107,457	647	1,234,588	1,109,976.16	14,007.54	815,161.12
1932.....	2,957	3,961,244	6	5,500	231,903.12	1,460.10	181,888.43
1933.....	1,148	1,510,989	22	48,000	66,008.80	376.70	48,416.34
1934.....	263	417,400	4	17,000	31,405.84	236.99	22,269.91
1935.....	1	3,000	2	8,000	1,696.16	466.85	1,500.00
	39,335	56,491,632	1,432	2,344,731	2,155,196.91	22,563.87	1,523,479.54

Note:—The Premiums were arrived at by dividing commissions paid on transferred business by 70% and the commission paid on new business by 80%. There was no tabulation of the first year premiums collected on the transferred business and new business.

The Amount of Insurance transferred shown above represents the face of the policy only and does not include the Guaranteed Additions. There are no runs on the Guaranteed Additions issued. There are runs, however, on the Guaranteed Additions in force at the end of each calendar year. The amounts in force are as follows:

Year:	Amount guaranteed additions	Year—Continued.	Amount guaranteed additions
1930.....	\$6,123,737	1933.....	\$10,770,990
1931.....	12,138,004	1934.....	10,918,015
1932.....	11,137,730	1935.....	11,210,066

LNTwomey/ba
10/24/39

EXHIBIT No. 1348-24

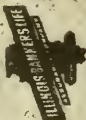
[Prepared by Illinois Bankers Life Assurance Co.]

Memorandum Regarding Certificate of Loan Account

Year	Amt. of Certificates of Loan Received	Reversals, Payments, Surrender Values Applied to Certificates of Loan, etc.	Balance of Certificates of Loan End of Year
1930.....	\$6,086,143.14	\$268,174.12	\$5,817,969.02
1931.....	7,123,109.53	2,129,223.47	10,811,855.08
1932.....	1,955,265.83	3,478,756.82	9,288,364.09
1933.....	1,209,424.28	2,043,149.97	8,454,638.40
1934.....	580,456.41	981,384.79	8,053,710.02
1935.....	286,461.42	597,433.27	7,742,738.17

LNTwomey/ba
10/20/39

EXHIBIT NO. 1348-25



Illinois Bankers Life Assurance Company

MONMOUTH, ILLINOIS

SURVIVORSHIP FUND CERTIFICATE

TO BE ATTACHED TO AND FORMING A PART OF POLICY NO. 000000

THIS IS TO CERTIFY THAT **JOHN DOE** the Insured, under the above numbered policy issued by the Illinois Bankers Life Assurance Company, in exchange for a policy of insurance originally issued by the Illinois Bankers Life Association and in force at the date of exchange, shall participate as of the **12th** day of **September**, 19**38**.

The Survivorship Fund shall be increased by interest at three and one-half per cent. per annum compounded annually, by such excess interest earnings, if any, as may be declared by the Company on funds so held, and by such other amounts, if any, as may be apportioned from time to time by the Company to said fund.

In ascertaining the equitable share of each policyholder in the Survivorship Fund so held, the Company shall take into account among other things the amount originally transferred to the credit of the policy, with accretions thereto as aforesaid and the apportionment of funds from policies terminated (and not subsequently reinstated). The said apportionment, when made by the Company, shall be binding upon the insured and upon anyone claiming under him.

In the event of the termination of said policy, for any cause, prior to said date of distribution, all right of the insured to participate in such Survivorship Fund shall cease and determine. All amounts surrendered by such termination shall remain in the Survivorship Fund for the benefit of continuing policyholders and shall be equitably apportioned to policies in force.

Payments hereunder shall be first applied to the liquidation of the amount of the Certificate of Loan, if any, on said policy, at the date of distribution and any excess shall be payable in cash to the policyholder.

It is understood and agreed that except as herein provided, the Insured shall have no interest in the funds of the said Illinois Bankers Life Association, transferred to the undersigned Company by virtue of the contract of reinsurance between the said Association and the said Company, executed and approved November 19, 1929.

IN WITNESS WHEREOF, The Illinois Bankers Life Assurance Company has caused this Certificate to be issued and signed by its President and Secretary at its Home Office in Monmouth, Illinois, this **First** day of **December**, 19**31**.

ATTEST: _____ SECRETARY
 _____ PRESIDENT

COPY

EXHIBIT NO. 1348-26

[Prepared by Illinois Bankers Life Assurance Co.]

Memorandum Covering the Items Requested by Mr. Leary on November 21, 1939

1. Number of Active Cases in the Survivorship Fund, December 31, 1937----- 15, 483
 Number of Inactive Cases in the Survivorship Fund, December 31, 1937----- 16, 057
 Total----- 31, 540
2. Survivorship Fund at the end of each year, 1930 to 1937, inclusive:

End of year	Original Survivorship Fund	Interest	Total
1930-----	\$791, 418. 22		\$791, 418. 22
1931-----	1, 792, 499. 90	\$45, 218. 51	1, 837, 718. 41
1932-----	1, 972, 221. 13	123, 780. 48	2, 096, 001. 61
1933-----	2, 052, 423. 17	199, 602. 64	2, 252, 025. 81
1934-----	2, 076, 596. 55	278, 856. 38	2, 355, 452. 93
1935-----	2, 076, 780. 75	373, 395. 55	2, 450, 176. 30
1936-----	2, 076, 780. 75	455, 879. 99	2, 532, 660. 74
1937-----	2, 067, 429. 22	545, 224. 75	2, 612, 653. 97

3. Certificate of Loan Principal and Certificate of Loan Interest, by Years:

Year	Certificate of Loan Principal	Interest
1930-----	\$5, 817, 969. 02	\$121, 274. 46
1931-----	10, 811, 855. 08	520, 317. 02
1932-----	9, 288, 364. 09	410, 683. 33
1933-----	8, 454, 638. 40	372, 044. 78
1934-----	8, 053, 710. 02	425, 195. 36
1935-----	7, 742, 738. 17	432, 511. 29
1936-----	7, 518, 667. 77	465, 216. 47
1937-----	7, 316, 454. 37	481, 129. 61

4. The Not-Admitted Asset Item, "Premium Notes, Policy Loans and Other Policy Assets in Excess of Net Value and of Other Policy Liabilities on Individual Policies" is represented by the following formula applied to individual policies:

Premium Notes, Accrued Interest thereon, Policy Loan or Lien, Accrued Interest thereon, Due Premiums and Deferred Premiums, less, True Policy Reserve, Reserve on Additions, Disability Reserve, Double Indemnity Reserve, Premiums Paid in Advance, Unearned Interest, Cost of Collection and Dividend Reserve.

The above calculation must be made on each individual policy. The results which are plus are added together and represent the item, "Premium Notes, Policy Loans and Other Policy Assets in Excess of Net Value and Other Policy Liabilities on Individual Policies," appearing on Page 4 of the Convention Annual Statement of a Life Insurance Company.

5. Survivorship Fund, December 31, 1937----- \$2, 612, 653. 97
 Survivorship Fund, December 31, 1938----- 552, 839. 37

Payments from Survivorship Fund

Applied to Certificate of Loan Indebtedness during 1938-----	\$2, 013, 755. 66
Paid in Cash during 1938-----	99, 122. 54
Total-----	\$2, 112, 878. 20

6. The Asset Item in the Statement of Policy Loans and Liens divided between Certificates of Loan and Other Indebtedness:

End of Year	Certificates of Loan	Other Indebtedness	Total
1930.....	\$5,817,969.02	\$5,506.00	\$5,823,475.02
1931.....	10,811,855.08	73,118.02	10,884,973.10
1932.....	9,288,364.09	15,491.51	9,303,855.60
1933.....	8,454,638.40	11,464.22	8,466,102.62
1934.....	8,053,710.02	43,629.83	8,097,339.85
1935.....	7,742,738.17	2,311,806.24	10,054,544.41
1936.....	7,518,667.77	3,043,363.56	10,562,031.33
1937.....	7,316,454.37	3,427,367.81	10,743,822.18
1938.....	4,275,663.93	2,790,797.76	7,066,461.69

LNTwomey/ba
12/7/39

L. N. TWOMEY,
Assistant Secretary.

EXHIBIT No. 1348-27

[Furnished by the Illinois Bankers Life Assurance Company, October 31, 1939.]

*Illinois Bankers Life Association—Officers salaries 1925 to 1929*¹

Name	Title	1925	1926	1927	1928	1929 ¹
J. R. Ebersole.....	Vice President & Medical Director.	\$18,000	\$18,000	\$18,000	\$18,000	\$15,900
F. M. Hallam.....	Treasurer & General Manager.	18,000	18,000	18,000	1,500	-----
A. T. Sawyer.....	Ass't Gen'l Mgr. Jan. 1, 1925, to Mar. 21, 1927; Ass't Sec'y Mar. 21, 1927, to Oct. 16, 1929; Treasurer Jan. 1, 1928, to Oct. 10, 1929.	10,800	10,800	10,800	12,000	10,600
R. M. Work.....	Secretary.....	18,000	18,000	18,000	18,000	15,900
W. H. Woods.....	President.....	18,000	18,000	18,000	21,000	18,550
H. T. Martin.....	General Counsel.....	-----	-----	-----	5,500	5,300

¹ To November 19, 1929.

EXHIBIT No. 1348-28

[Furnished by the Illinois Bankers Life Assurance Company, October 31, 1939.]

Illinois Bankers Life Assurance Company—officers salaries 1929 to 1938

Name	Title	1929 ¹	1930	1931	1932	1933	1934	1935	1936	1937	1938
J. R. Ebersole	Vice President & Medical Director	\$2,100	\$18,000	\$18,000	\$18,000	\$18,000	\$7,000	\$6,000	\$6,000	\$6,000	\$3,500
G. E. Fidler	Treasurer March 1, 1938										6,050
F. H. Henning	Vice President from April 1, 1935							11,100	15,600	15,600	15,600
K. B. Kerrady	Vice President from March 1, 1935							5,625	7,500	8,500	10,000
H. T. Martin	General Counsel	700	18,000	18,000	18,000	18,000	18,000	18,000	18,000	18,000	18,000
G. F. Ranner	Treasurer April 1, 1935 to Feb. 1, 1938	1,400	12,000	12,000	12,000	12,000	12,000	9,000	12,000	12,000	1,000
A. T. Sawyer	Treasurer in 1929 and Secretary thereafter	3,575	30,000	30,000	28,000	24,000	8,000	6,000	6,000	6,000	12,000
W. H. Woods	President	2,100									6,000
R. M. Work	Secretary										

¹ From Nov. 19, 1929, to Dec. 31, 1929.

EXHIBIT No. 1348-29

[Furnished by Illinois Bankers Life Assurance Company 10/31/30]

Association data—November 19, 1929 to December 31, 1938

Year	Expense Allowance to Company	Interest Allowance to Association	Surplus Allocation to Association
	(Accrued 11/19/29	\$147, 113. 99	
1929	\$23, 569. 66	32, 171. 41	\$181, 911. 28
1930	373, 671. 96	264, 695. 06	
1931	159, 180. 97	211, 062. 47	
1932	119, 776. 44	173, 394. 47	54, 567. 62
1933	99, 801. 74	163, 902. 14	28, 319. 04
1934	89, 408. 56	157, 381. 01	17, 529. 22
1935	82, 765. 36	151, 331. 93	4, 441. 83
1936	77, 987. 38	148, 445. 41	None
1937	73, 969. 76	146, 486. 27	None
1938	70, 398. 81	140, 568. 77	5, 280. 85
	\$1, 170, 530. 64	\$1, 736, 552. 93	\$292, 049. 84

ASSOCIATION INSURANCE IN FORCE

Year	No.	Amount	Year	No.	Amount
1929	73, 094	\$108, 365, 571	1934	11, 951	\$18, 182, 932
1930	43, 250	65, 273, 951	1935	11, 271	16, 999, 791
1931	21, 634	33, 090, 927	1936	10, 593	16, 077, 475
1932	16, 016	24, 610, 040	1937	10, 060	15, 234, 882
1933	13, 167	20, 192, 882	1938	9, 575	14, 435, 910

EXHIBIT No. 1348-30

[From files of Illinois Bankers Life Assurance Co.]

APPLICATION FOR EXCHANGE OF POLICY

I, John Doe, do hereby apply to the ILLINOIS BANKERS LIFE ASSURANCE COMPANY, of Monmouth, Illinois, for an insurance on my life of \$1,000.00 on the 20 Pay, 70% Ret. Prem. plan. I was born on the 23rd day of May 1878, and desire policy to be issued as of age 40.

Premiums of \$47.49 each are to be paid Annually for 8 years from the date of this application. Premiums thereafter none.

Make Policy payable to Estate, related to me as _____ with right of revocation reserved.

I select the 20-year accumulation period, and I hereby agree on behalf of myself, or of any person who shall have or claim any interest in the policy issued under this application, that in any distribution of surplus or profits, or the apportionment of dividends, the principles and methods which may be adopted by the Company for such distribution or apportionment, and its determination of the amount equitably belonging to any policy which may be issued under this application, shall be and are hereby ratified and accepted.

I further accept the amount if any, apportioned to my policy from the funds of The Illinois Bankers Life Association, and I agree that the portion, if any, of said amount in excess of credit allowed on current premium with other sums similarly contributed, shall be held by the Company and accumulated for the benefit of participating policyholders and shall be distributed as deferred dividends upon participating policies then in force as premium-paying policies, upon the completion of the accumulation period as provided in said policies. Should said apportionment, if any, for any reason be held invalid, the amount credited upon the policy herein applied for shall be charged back as a lien against the said policy.

In consideration of the issuance of the policy herein applied for, I hereby surrender to said Company all right, title and interest in and to Policy or Certificate No. 00000 issued to me by the The Illinois Bankers Life Association and all my interest in the funds of the Association held by the Company for the benefit of the Association members.

In further consideration of the waiver by the Company of a medical examination in connection with this application for exchange, I agree that my original application to The Illinois Bankers Life Association is hereby made a part of any and all policies issued to me on this application for exchange.

Effective date of transfer Sept. 12, 1930.

Dated at Pawnee, Illinois, Sept. 24, 1930.

(Current date)

JOHN DOE,
(Applicant)

Address: *Pawnee, Illinois.*

Witness: HARRY ROE.

EXHIBIT No. 1348-31

[From files of Herbert G. Shimp]

THIS AGREEMENT Made this 2nd day of January, A. D. 1930, between HERBERT G. SHIMP, of Chicago, party of the first part, and JOHN P. NICHOL, also of Chicago, party of the second part, WITNESSETH, That:

WHEREAS, the said party of the first part is desirous of again going into the business of re-rating and transferring policyholders of legal reserve and assessment life insurance companies, and proposes to organize a corporation to carry on such work; and

WHEREAS, said first party is desirous of securing the assistance and co-operation of said second party in securing from life insurance companies contracts of employment for transferring or re-rating policyholders; and

WHEREAS, the said second party is willing to give his best endeavors to said first party in securing said contracts;

NOW, THEREFORE, FOR AND IN CONSIDERATION of the foregoing, it is expressly understood and agreed by and between the parties hereto that said second party shall work with said first party for the purpose of securing from life insurance companies contract of transfer and re-rating of policyholders, which contracts shall be taken either directly by said first party or by such corporation as he may organize or cause to be organized, and that in particular he shall endeavor to secure for such first party a contract with Illinois Bankers Life Assurance Company, of Monmouth, Illinois. Said second party agrees that, for a period of two (2) years, all of his efforts in this regard shall be directed to the securing of such contracts for the benefit of said first party or of such corporation as he may organize or designate.

It is further understood and agreed that, in the event said first party or the corporation which he may organize or designate shall secure any such contract with a life insurance company through the said second party or with his assistance, and particularly if said first party or the said corporation which he shall organize shall secure any contract with the Illinois Bankers Life Assurance Company, of Monmouth, Illinois, said first party will pay to said second party an amount equal to twenty-five per cent (25%) of the first year's premiums paid on any policies of insurance so transferred or re-rated under any contract so secured, which amount shall, from time to time, be paid in cash as collected by said first party or by the corporation which he may organize or designate.

IN WITNESS WHEREOF, the parties hereto have hereunto set their hands and seals, the day and year first above written.

(Signed) HERBERT G. SHIMP [SEAL]
(Signed) JOHN P. NICHOL [SEAL]

EXHIBIT No. 1348-32

SUMMARY STATEMENT OF ARTHUR LEARY

[Submitted by Securities and Exchange Commission]

On July 1, 1931, the American Conservation Company issued its check in the amount of \$30,000 payable to the order of the Continental Illinois Bank and Trust Company. This check was used by the American Conservation Company to purchase three cashiers' checks at the Continental Illinois Bank and Trust Company. Two checks were each dated July 1, 1931 and payable to the order of John P. Nichol in the amount of \$10,000. The first check was endorsed "John P. Nichol, Credit Account, Hugh T. Martin." The second check in the amount of \$10,000

was endorsed "John P. Nichol, payable to the order of Central Trust Company of Illinois, Lincoln Securities Company." The proceeds of this check were credited on the books of the Lincoln Securities Company to Hugh T. Martin Loan Account on June 30. The third check in the amount of \$10,000 was issued to John P. Nichol and was endorsed "John P. Nichol."

On August 3, 1931, the American Conservation Company issued its check in the amount of \$30,000 payable to the order of the Continental Illinois Bank and Trust Company. This check was used by the American Conservation Company to purchase three cashiers' checks at the Continental Illinois Bank and Trust Company, each dated August 5, in the amount of \$10,000, each payable to the order of John P. Nichol. The first \$10,000 check was endorsed "John P. Nichol" and under that endorsement Martin, Sawyer and Nichol. The second \$10,000 check was endorsed "John P. Nichol, Hugh T. Martin." The third \$10,000 check is endorsed "John P. Nichol, Hugh T. Martin."

On August 31, 1931, the American Conservation Company issued its check in the amount of \$20,000 payable to the order of the Continental Illinois Bank and Trust Company. This check was used by the American Conservation Company to purchase two cashiers' checks at the Continental Illinois Bank and Trust Company; each in the amount of \$10,000 dated September 1, 1931, and each payable to John P. Nichol. Both checks are endorsed "John P. Nichol."

On October 7, 1931, the American Conservation Company issued its check in the amount of \$10,000 payable to the Continental Illinois Bank and Trust Company. This check was used by American Conservation Company to purchase cashier's check in the same amount from the Continental Illinois Bank and Trust Company payable to John P. Nichol. The cashier's check was endorsed "John P. Nichol."

On October 22, 1931, the American Conservation Company issued its check in the amount of \$2,000 payable to the order of the Continental Illinois Bank and Trust Company. This check was used by the American Conservation Company to purchase a cashier's check at the Continental Illinois Bank and Trust Company in the amount of \$2,000 payable to John P. Nichol. The cashier's check is endorsed "John P. Nichol. Fuller-Cruttdenden & Co."

On November 5, 1931, American Conservation Company issued its check in the amount of \$10,000 payable to the order of the Continental Illinois Bank and Trust Company. This check was used by the American Conservation Company to purchase a cashier's check at the Continental Illinois Bank and Trust Company in the amount of \$10,000 payable to John P. Nichol. The cashier's check is endorsed "John P. Nichol."

On December 9, 1931, American Conservation Company issued its check in the amount of \$10,000 payable to the order of the Continental Illinois Bank and Trust Company. This check was used by the American Conservation Company to purchase a cashier's check at the Continental Illinois Bank and Trust Company in the amount of \$10,000 payable to John P. Nichol. The cashier's check is endorsed "John P. Nichol."

On December 15, 1931, American Conservation Company issued its check in the amount of \$5,000 payable to the order of the Continental Illinois Bank and Trust Company. This check was used by the American Conservation Company to purchase a cashier's check at the Continental Illinois Bank and Trust Company in the amount of \$5,000 payable to J. P. Nichol. The cashier's check is endorsed "John P. Nichol, Hugh T. Martin."

On January 9, 1932, American Conservation Company issued its check in the amount of \$5,000 payable to the order of the Continental Illinois Bank and Trust Company. This check was used by the American Conservation Company to purchase a cashier's check at the Continental Illinois Bank and Trust Company in the amount of \$5,000 payable to J. P. Nichol. The cashier's check is endorsed "J. P. Nichol, Credit Hugh T. Martin Account."

On February 3, 1932, American Conservation Company issued its check in the amount of \$10,000 payable to the order of the Continental Illinois Bank and Trust Company. This check was used by the American Conservation Company to purchase a cashier's check at the Continental Illinois Bank and Trust Company in the amount of \$10,000 payable to J. P. Nichol. The cashier's check is endorsed "Pay to the Order of Hugh T. Martin, J. P. Nichol, for Deposit Central Republic Bank and Trust Company. Hugh T. Martin."

On February 17, 1932, American Conservation Company issued its check in the amount of \$8,000 payable to the order of the Continental Illinois Bank and Trust Company. This check was used by the American Conservation Company to purchase a cashier's check at the Continental Illinois Bank and Trust Company in the amount of \$8,000 payable to John P. Nichol. The cashier's check

is endorsed "Pay to the Order of Hugh T. Martin, John P. Nichol, Received for the Credit of Hugh T. Martin, Central Republic Bank and Trust Company of Chicago."

On March 2, 1932, American Conservation Company issued its check in the amount of \$10,000 payable to the order of the Continental Illinois Bank and Trust Company. This check was used by the American Conservation Company to purchase a cashier's check at the Continental Illinois Bank and Trust Company in the amount of \$10,000 payable to John P. Nichol. The cashier's check is endorsed "John P. Nichol, Hugh T. Martin."

On March 14, 1932, American Conservation Company issued its check in the amount of \$5,000 payable to the order of the Continental Illinois Bank and Trust Company. This check was used by the American Conservation Company to purchase a cashier's check at the Continental Illinois Bank and Trust Company in the amount of \$5,000 payable to John P. Nichol. The cashier's check is endorsed "Pay to the order of Hugh T. Martin, John P. Nichol for Deposit with Central Republic Bank and Trust Company, Hugh T. Martin."

On April 5, 1932, the American Conservation Company issued its check in the amount of \$10,000 payable to the order of Peoples Trust and Savings Bank. This check was used by the American Conservation Company to purchase a cashier's check at the Peoples Trust and Savings Bank, dated April 5, 1932, for \$10,000 payable to John P. Nichol. The cashier's check is endorsed "John P. Nichol."

On May 4, 1932, the American Conservation Company issued its check in the amount of \$2,500 payable to the order of Peoples Trust and Savings Bank. This check was used by the American Conservation Company to purchase a cashier's check at the Peoples Trust and Savings Bank, for \$2,500 payable to John P. Nichol. The cashier's check is endorsed "John P. Nichol, Hugh T. Martin."

On June 2, 1932, the American Conservation Company issued its check in the amount of \$12,500 payable to Continental Illinois Bank and Trust Company. This check was used by American Conservation Company to purchase two cashier's checks at the Continental Illinois Bank and Trust Company, each dated June 2, 1932: one in the amount of \$10,000 payable to the order of John P. Nichol, and the other in the amount of \$2,500 payable to the order of John P. Nichol. Each check bears the endorsement "John P. Nichol."

The total amount of the above checks is \$430,000.

"EXHIBIT No. 1348-33," introduced on p. 6855, is on file with the Committee.

EXHIBIT No. 1348-34

[From files of Illinois Bankers Life Assurance Co.]

[Copy]

FEBRUARY 19, 1930.

Mr. ROBERT E. DALY,

c/o Missouri State Insurance Dept., Jefferson City, Missouri.

DEAR MR. DALY: It has just come to my ears that Mr. Anderson, actuary of the Illinois Insurance Department, is leaving that office the first of June. Possibly this information has been before you for some time but I just heard it. I do not know whether or not it is common knowledge so that I will ask that you keep the matter confidential unless you have already received the information from some other source. It occurs to me that you might be interested in this position. You, of course, know what the job is and it is my understanding that the salary is about \$4,800 a year.

If you are interested in the matter we are in a position to give you our support from a political angle and from the standpoint of the life insurance companies of the state. You are, of course, well known to the personnel of the Illinois Department but I would be very glad to have the opportunity to render you some active assistance if you so desire.

I wish that you would let me know immediately what your position is in this matter. You might wire me *c/o* Illinois Bankers Life Assurance Company, Monmouth, Illinois.

With very kindest regards and best wishes, I am,

Yours very truly,

HENRY G. SELLMAN, *Actuary.*

EXHIBIT No. 1348-35

[From files of Illinois Bankers Life Assurance Co.]

E. H. HENNING
W. R. BAKER

LAW OFFICES

HENNING & BAKER

Brotherhood Building, Kansas City, Kansas

NOVEMBER 3, 1931.

Personal.

Mr. H. G. SELLMAN,
Illinois Bankers Life Assur. Co.,
Monmouth, Illinois

DEAR SELLMAN: I have your letter of October 27th.

I do not believe it would be advisable for me to write the Illinois department with reference to the proposed examination of the Illinois Bankers Life Assurance Company. Of course, if the department desires to make it strictly a home examination we have nothing to say about the matter. However, I still feel that at least two other departments should participate in that examination. I do not anticipate that Oklahoma, Iowa or Texas would take any drastic action in the event an outside state did not participate but I believe it will help materially in our application for admission to California and Washington if the examination is in the nature of a convention or joint examination.

I had not planned on going to the December meeting of commissioners but if you and Mr. Martin should consider it desirable I can probably arrange to do so. Undoubtedly Mr. Daly can take care of the matter so far as the commissioners at the convention are concerned.

Kindest personal regards.

Sincerely,

WILLIAM R. BAKER.

WRB-C

"EXHIBIT No. 1348-36" appears in text on p. 6876.

"EXHIBIT No. 1348-37" appears in text on p. 6876.

"EXHIBIT No. 1348-38" introduced on p. 6877, is on file with the Committee.

EXHIBIT No. 1348-39

[From files of Illinois Bankers Life Assurance Co.]

STATE OF MICHIGAN

DEPARTMENT OF INSURANCE

LANSING, Feb. 26, 1931.

HON. WILLIAM R. BAKER,
% *Henning & Baker, Kansas City, Kansas.*

DEAR MR. BAKER: I am in receipt of your letter advising that the Illinois Bankers Life Assurance Company has now an authorized paid in capital of \$200,000.00 and is qualified for admittance to this State.

We would not admit this company without a hearing inasmuch as the reinsurance of the Illinois Bankers Life Association was a most vicious one in the opinion of this department. Further, the Illinois Bankers Life Association owes the State of Michigan \$1,500.00 for taxes and we have written them repeatedly requesting payment, nevertheless we have had no reply to our letters. Consequently, I would hesitate to admit any life-insurance company of such a character when I have to consider our statute which says that the Commissioner of Insurance may admit such company if satisfied that such applicant is *safe, reliable, and entitled to public confidence.*

Naturally, I would be delighted to see you at any time, and if you wish to forward the application I will be very pleased to set a date for hearing.

With kindest regards, I am,
Very truly yours,

C. D. LIVINGSTON, *Commissioner.*

EXHIBIT No. 1348-40

[From files of Illinois Bankers Life Assurance Co.]

(Stamped:) Received Aug. 9, 1930.

Copy to Illinois Bankers Life Assurance Company Monmouth, Illinois.

AUGUST 4, 1930.

WILLIAM R. BAKER,
Attorney at Law, Brotherhood Building, Kansas City, Kansas.

DEAR SIR: Referring to yours of the 19th ultimo, with which you enclosed tax statement of the Illinois Bankers Life Assurance Company for 1929, together with a check of that company in the amount of \$108.98 in payment of taxes, and in which you request that I send you the necessary forms so that the company may make application for admission to the state, you are advised that I am not complying with your request for the reason that I do not care to license a company to operate in this state from whom it has been necessary to use force to make collection of the premium tax lawfully due the state.

Yours very truly,

CMM/jed.

GEO. P. PORTER,
State Auditor and Commissioner of Insurance.

"EXHIBIT No. 1348-41" appears in text on p. 6878.

EXHIBIT No. 1348-42

[From files of Illinois Bankers Life Assurance Co.]

NOVEMBER 11, 1929.

HON. E. FORREST MITCHELL,
Insurance Commissioner, San Francisco, California.

DEAR SIR: We note from a review of the annual statement submitted to this Department that the Illinois-Bankers Life Association of Monmouth, Illinois, is duly authorized to transact business in your State. You have no doubt received a copy of the proposed contract of reinsurance between the Illinois Bankers Life Association and the Illinois Bankers Life Assurance Company, which will be voted on by Members on November 19th.

We are directing this communication to you in order that you may be informed that this Department opposes certain of the terms and conditions of the proposed contract of reinsurance and its approval by the Director of Trade and Commerce of the State of Illinois with whom we have filed our protest. We object to the approval of the proposed reinsurance contract because in our opinion it would place in control of a few stockholders, the entire business of the company amounting to in excess of \$100,000,000 of insurance and over \$7,000,000 of assets without fair monetary consideration to the assessment members and at the expense of the members themselves.

We wish to call your attention to the provisions of Section 4, whereby it is provided that the Company shall have the right to fix the rates and amount of premium assessments and also provides that the policies are yearly renewable term policies. These policies were issued on the basis of a level stipulated premium, represented to be whole life insurance and though these rates, according to their valuation, were insufficient to provide the full reserve, we believe that the reserve to be properly set aside for those members should be the full amount of the trust fund after payment of all claims on account of assessment members.

This section also provides that the Association shall contribute to the expenses of the company during the first two years, 25% of the assessments and premiums paid by the members and after the first two years, 22½%. A review of the annual statement submitted to this Department indicates the renewal expense to be less than 20% and if an actual apportionment of expenses was made as regards first year and renewal expenses, we believe the cost would be less than 15% of the entire premium and assessment income.

Section 5 provides that the present funds of the Association shall be considered as Trust Funds for the benefit of the members and that these shall be credited with certain accretions. The accretions are provided for in the second paragraph of Section 5. This paragraph provides for interest at the rate of 4½% on the reserves accumulated on the so-called individual reserve policy, at the rate of 4% on the accumulated savings, and at the rate of 3½% on the remainder of such funds. The statement of the Illinois Bankers Life Association shows reserves set aside for the individual reserve policies and the accumulated savings of approximately \$370,000 on these funds the company agrees to credit 4½% and 4% interest. The balance of the funds amounting to approximately \$6,800,000 will be credited at the rate of 3½%. We are unable to see any equity in such an apportionment when it is noted that the interest income, including rents, averages a net rate of 4.8%.

Section 6 of the proposed contract of reinsurance provides that after deduction has been made for the 25% expenses the first two years and 22½% thereafter, and the excess interest earnings or otherwise, the surplus earnings of the company, exclusive of dividends paid or apportioned to participating legal reserve policyholders and interest earned on the capital and unassigned surplus, will be apportioned on the basis that the total assessment premium income of the year bears to the total renewal premium income of the Company. It may be noted that this provision of the contract assures the few stockholders a very favorable interest earning on their own investment, and in actual practice, we believe that the members would benefit very little for some years to come from any apportionment of surplus in the manner described.

We object further to the approval of this proposed contract of reinsurance because of the fact that a small number of individuals own the entire stock of the company which is capitalized at \$100,000 and a contribution of \$50,000 to surplus. The requirements of the laws of this state for life insurance companies is now \$200,000 and for companies writing a combined life and accident business, \$300,000. If the contract is approved, the company cannot comply with the requirements of our laws and therefore cannot be licensed to transact business in Michigan. We would, of course, still have supervision of the affairs of the assessment members, but unless the company was licensed in this state, we would have little or no jurisdiction over its operations.


We hope that you will understand that this Department is in favor of any reorganization or contract of reinsurance whereby the provisions of such reorganization or reinsurance will place the organization upon a sound basis, but we cannot approve of a proposition of this kind which appears to us to be both unfair and inequitable. We are calling these things to your attention, believing that you are desirous of being informed concerning the attitude of different departments on various questions and if you are in agreement with the view set out in this letter, that you might join us in our protest.

Very truly yours,

(Signed) J. E. REULT, *Actuary.*

EXHIBIT No. 1348-44

HOTEL STANTLER ST. LOUIS
 200 ROOMS, 670 BATHS



ST. LOUIS, MISSOURI
 HOTEL STANTLER
 PENNSYLVANIA
 NEW YORK

St. Louis Mo.
 Wednesday evening

Mr. Woods

have been with Mr. Reed
 in the town today but he would
 go to Springfield with me.
 I tried but in
 the production of the contract
 is not a fair one and shall
 be returned. It is clear
 can not be done. There
 seems to be nothing further
 to be done in this direction
 now.


I am leaving tonight for
 Keppelman &
 a so will there in the morning
 I don't know whether to go to
 with him but will

EXHIBIT No. 1348-44—Continued

HOTEL STATLER ST. LOUIS

870 ROOMS, 670 BATHS

ESTABLISHED 1892
HOTEL STATLER
ST. LOUIS, MO.
L. O. STATLER, Proprietor
HOTEL STATLER
1007
PENNSYLVANIA
ST. LOUIS, MO.



Washington, Bureau of National Affairs, October 1934

decide when I see in
 in the morning, that is
 I can get here before
 leave for Atlanta
 expect to be in Monument
 Monday

Yours
 Henry J. ...

"EXHIBIT No 1348-45" appears in text on p. 6880

EXHIBIT No. 1348-46

[From files of Illinois Bankers Life Assurance Co.]

APRIL 25, 1930.

Mr. HUGH T. MARTIN,
*General Counsel, Illinois Bankers Life Assur. Co.,
 Monmouth, Illinois.*

DEAR MR. MARTIN: I have your letter of April 24th with reference to the question of capital stock in connection with your admission to the state of Indiana. The capital stock requirement, imposed upon foreign companies, of the Indiana statutes would appear to be mandatory. It may be, however, that Mr. Wysong would consent to the admission of the company with the understanding that the capital would be increased to \$200,000.00 within the next three or six months. I shall be pleased to take this matter up with him, however, before communicating with him further I would like to have you advise me of your acceptance of his second requirement relative to an examination of the company.

I conferred with Commissioner Yenter yesterday at Des Moines and encountered considerable difficulty. He is quite dissatisfied with the nature of the reinsurance contract and has some question in his mind regarding the equity of the transfer contract and he suggested that the simplest way to straighten the matter out entirely was to make a very brief examination of the stock company extending it primarily to the reinsurance of the assessment association and the terms of the transfer contract. I told him quite frankly that we had practically secured the consent of the commissioners of Oklahoma, Indiana and Texas for admission to those states and that the calling of an examination at this time might result in a delay in departmental action elsewhere and suggested that before he committed himself definitely to that requirement, he arrange for a conference with you or Mr. Sellman, or both of you, a representative of the American Conservation Company, preferably Mr. Shimp, and myself, at Des Moines, suggesting that in such a conference we could take up the two contracts in detail and at least explain our position. He consented to this arrangement and will advise me on Tuesday what date, after Wednesday of next week not later than the fore part of the week following, will be satisfactory to him. I anticipate the conference will be on Thursday or Friday and, upon receipt of this letter, I wish you would communicate with Mr. Shimp and see if your affairs cannot be so arranged as to permit you to meet me at Des Moines on the date that Mr. Yenter will set Tuesday. There may be some actuarial discussion regarding the reinsurance contract and for that reason I believe it advisable for Mr. Sellman to attend the conference. I can meet you at the Savery Hotel and will endeavor to set the hour of the conference sufficiently late as to permit us to have a preliminary discussion among ourselves. We should have several copies of the reinsurance contract and transfer contract with you as well as the formal approval of the Illinois Department, the latter, however, is in my file and I will bring it with me.

I am in receipt of the forms from the Texas Department together with a letter from Commissioner Tarver in reply to my letter of the 14th. He requests that I hold the forms until he has definitely determined what action he proposes to take. However, I anticipate hearing from him further in reply to my letter of the 21st and as soon as I have heard from him I will forward the forms to Mr. Sellman.

I trust I may be able to hear from you not later than Monday in order that I may advise Commissioner Yenter regarding our conference at Des Moines:

Sincerely,

WRB
 (Typed) William R. Baker.

WRB-C
 CC—

Mr. Sellman,
 Mr. Shimp.

"EXHIBIT No. 1348-47" appears in text on p. 6880

EXHIBIT No. 1348-48

[From files of Illinois Bankers Life Assurance Co.]

REPURCHASE AGREEMENT

WHEREAS, in consideration of the agreement to repurchase hereinafter expressed, The CHATHAM PHENIX NATIONAL BANK and TRUST Co. of the City of New York has this day at the instance of Illinois Bankers Life Assurance Company paid for and acquired—\$75,000 Grimes County, Texas, Ser. "D" and "E" Special Road 5½% Bonds, due \$3000—1947; \$3000—1948; \$69000—1950; \$35000 New England Gas and Electric Assn. 5% Debenture Bonds due 1950; \$22000 General Gas and Electric Corporation 5% Notes due 1935; \$15000 Central Gas and Electric Company 5½% Notes due 1933; \$3000 B. F. Goodrich Company 6% Gold Debentures due June 1, 1945; at a price of \$150,000.00 plus accrued interest to date, now therefore it agrees to resell said bonds to Illinois Bankers Life Assurance Company, on or before March 13, 1931, at a price of \$150000.00 plus interest at 4%, and the said Illinois Bankers Life Assurance Company hereby agrees to repurchase from the CHATHAM PHENIX NATIONAL BANK and TRUST Co. on or before March 13, 1931 the said bonds at a price of \$150000.00 plus accrued interest at 4% to the date of repurchase.

CHATHAM PHENIX NATIONAL BANK and TRUST Co.,
E. C. D. Earembx, *Vice-President*.

ILLINOIS BANKERS LIFE ASSURANCE Co.,
By H. H. Woods, *President*.

Dated, New York, Nov. 13, 1930.

EXHIBIT No. 1348-49

[From files of Illinois Bankers Life Assurance Co.]

Main Office
149 Broadway
Corner of Liberty Street

ROBERT P. BREWER
Vice-President

Charter Member
New York Clearing House
Capital Surplus and
Undivided Profits
Over \$35,000,000

CHATHAM PHENIX NATIONAL BANK and TRUST COMPANY,
New York, March 2, 1931.

Illinois Bankers Life Insurance Company, Monmouth, Illinois.
Attention Mr. W. H. Woods, president.

DEAR SIR: We have received from the Chicago office of our Corporation \$25,000. Fox Film Corporation 6% secured gold notes due April 15, 1931, being numbers M38951/30. We understand that we are authorized by you to hold these bonds and/or the cash that may result by payment to us when the bonds are due on April 15, 1931 as security for a certain repurchase agreement between our bank and your company, providing for an arrangement wherein our bank purchased from you certain bonds specified in the agreement, until the said repurchase agreement shall be fully carried out and Chatham Phenix National Bank and Trust Company reimbursed in accordance therewith.

We further understand that the \$10,000. cash deposit of your company now carried on our ledgers will not be drawn down while said repurchase agreement is outstanding, and that this deposit may be regarded by us as in the same status as the \$25,000. par value Fox Film Corporation secured 6% gold notes, as above mentioned.

We are glad to place our facilities at your use in this matter, and it is our desire to co-operate with our customers to the full extent of sound banking practises.

Yours very truly,

R. P. BREWER,
Vice-President.

RPB-CS

(Stamped:) Received, Mar. 4, 1931.

"EXHIBIT No. 1348-50" appears in text on p. 6899

EXHIBIT No. 1348-51

[From files of Illinois Bankers Life Assurance Co.]

[Copy]

UNITED STATES POST OFFICE,
Sycamore, Ill., Aug. 17, 1938.

Policy 311908

Illinois Banker Life Assurance Co., Monmouth, Ill.

GENTLEMEN: Yours of the 11th inst at hand.

In 1930 your high pressure salesman so explained the plan of re-insurance so that I thought that after the 22nd of this month the policy which I hold would be worth \$1,000 to my beneficiary at my death. In other words that the survivorship fund and deferred dividend would be enough to liquidate the loan, and am very much surprised at the status at the present time. Had I have known just what I do now I could have withdrawn from the company at the time of the change in 1930, and taken insurance through our Postal Employees and done much better, but I thought the Ill. Bkrs. was better than it has proved to be as you have so carefully explained in the letter I have before me.

In your letter of May 27, 1937, in answer to an inquiry of the status of affairs at that time you stated that "No premiums are payable on your policy after August 22, 1938, and thereafter the policy will participate in annual dividends and the death benefit will be the face of the policy, \$1,000, less any indebtedness, and subject to the provisions of the policy regarding indebtedness." I did not realize at this time that the interest on the indebtedness had become so much, nor was any notice of interest due stated upon my premium due notices received each quarter of all the eight years I have been paying these premiums, else I might have paid the interest and thus kept the value of the policy up.

There is one thing you did not state in your letter of explanation and that is the cash value of the policy after Aug. 22, 1938. I do not like to pay for \$348 worth of insurance for the rest of my life at \$35.26 per year. That is the reason I took a twenty pay life policy. I consider I can invest it elsewhere and be surer of what I am going to get.

You will therefore write me at once stating what you will pay me for the surrender of the policy after Aug. 22 and how soon after I can expect settlement.

Respectfully,

(Signed) SPAFFORD S. WARREN
(Spafford S. Warren).

EXHIBIT No. 1348-52

[From files of Illinois Bankers Life Assurance Co.]

[Copy]

MOLINE, ILL., August 5 1938.

ILLINOIS BANKERS LIFE INSURANCE CO.,

Monmouth, Ill.

(Att.: Mr. L. N. Torrey, Ass. Act.)

Just returned from a two weeks trip and had a very pleasant (NOT) surprise when I read your letter and other notices of my indebtedness to you.

My wife and I were told by your agent Mr. Ralph M. Waterbury that the note which I signed was merely issued so that I could not draw out the cash value until 7½ years, and, that the premiums would clear the note if paid in full to Aug. 12, 1938.

Well I suppose there are a lot of other poor dumb bells like myself who signed the note without reading or realizing what they were doing. I would not have changed the policy over if I had known (what I do now).

I feel very much like sending my policy and all that goes with it, and also the information as to how you are working the poor fools on the change of policy plan, thru your false, lying agents.

Well according to you I owe \$243.54—and the cash value is \$476.00—which leaves a balance of \$232.46. Send that and have it over with.

(Signed) DAVID B. LANDEN.

EXHIBIT No. 1348-53

[From files of Illinois Bankers Life Assurance Co.]

[Copy]

GOLCONDA, ILL. R. 3, Aug. 2, 38.

#3159602 BIA

ILLINOIS BANKERS.

SIRS: In reply to your letter about my policy being due, I do not care to take out any more Insurance in your company as your agent certainly misrepresented things when I taken out my 20 yr. policy. He made me think I would have a \$1,000 paid up Insurance on August 2, 38 or that I could cash it in for same. thing over \$500 if I wanted two. So therefore I would be afraid to risk any more Insurance in your company. We have skimped trying to keep it payed thinking I had something we could depend on latter. So you can just send me what cash value is on my policy and oblige.

(Signed) MARY WALKER.

P. S. I do not intend to take out any more Insurance with you.

EXHIBIT No. 1348-54

[From files of Illinois Bankers Life Assurance Co.]

[Copy]

WINSLOW, ILLINOIS, April 4, 1938.

Policy No. 314377

ILLINOIS BANKERS LIFE ASSURANCE Co.,
Monmouth, Ill.

DEAR SIRs: The way I see this situation, is, that March 28, 1938, is the distribution date of the Survivorship Fund and therefore is the settlement date of the policy, policy loan etc. So then I should be entitled to a paid up policy for \$2,000.00 less the Net Balance of Indebtedness (\$676.65) or \$1,323.35 without any indebtedness. When settlement is made and indebtedness is paid, it constitutes payment and I cant see why you should expect me to pay interest on it for the rest of my life. I would be willing to exchange this policy for a paid-up insurance policy on the above basis (\$1323.35). If that is not possible, please forward blanks for cash settlement.

Please be advised that the signature on photostatic copies of Application for exchange of Policy and Certificate of Loan are not mine. Note the misspelled Christian. (Christan).

Yours very truly,

(Signed) CHRISTIAN A. BIDLINGMAIER
Christian A. Bidlingmaier,
Winslow, Illinois.

EXHIBIT No. 1348-55

[From files of Illinois Bankers Life Assurance Co.]

[Copy]

INDUSTRY, ILL., Sept. 5, 1938.

Policy #315561

ILLINOIS BANKERS LIFE,
Monmouth, Ill.

SIRS: In answer to your letter of Aug. 10th regarding my insurance policy, I wish to say that I was in no way responsible for the change that was made in my insurance policy, and I do not see why I should have to stand such a loss as you state in your letter.

I was informed by the man that made the change that the Deferred Dividends and the Survivorship Funds would be ample to take care of the loan and I would get a paid up policy for two thousand dollars (\$2000.00) or a good cash value when it was paid up, but instead, it was not enough to take care of the interest.

You state in your letter of a death benefit of only six hundred seven dollars and ninety one cents (\$607.91) as of Aug. 21-1938 and yet you will continue to charge me interest at the rate of seventy seven dollars and ninety four cents (\$77.94) per year.

Why should you do that when you have already taken the indebtedness from the face value of the Policy?

I should receive a paid up policy for six hundred seven dollars and ninety one cents (\$607.91) without having to make any further payments to you of any kind.

Please let me hear from you at your earliest convenience regarding a paid up policy, without any restrictions what-so-ever, for I cannot afford to cash in my policy nor can I take out any more insurance.

It seems to me I certainly have paid a plenty for this insurance, having paid over one thousand dollars (\$1,000) in the last eight years, and previous to that I was in the old insurance co. for over twenty years.

Hoping to receive a favorable reply, I am

Respectfully,

(Signed) LARKIN GORSUCH.

EXHIBIT No. 1348-56

[From files of Illinois Bankers Life Assurance Co.]

[Copy]

W. L. DRAGOO

CORONER, SANGAMON COUNTY

SPRINGFIELD, ILL., *March 26, 1938.*

Re: Policy No. 314228.

ILLINOIS BANKERS LIFE ASSURANCE CO.,
Monmouth, Illinois.

(Attention L. N. Twomey.)

DEAR SIR: Your letter received this morning together with the application for additional insurance.

Seven and one-half years ago when your agent, H. B. Brown, changed my policy to a \$2,000 twenty pay policy and at which time a loan of \$571.20 was placed against the new policy which was to keep me from borrowing that amount which might have accumulated had this been a twenty pay policy from the beginning. Now when I changed this policy Mr. Brown made it very clear to me, of course, that I was not borrowing the \$571.20, not even one cent of it, but that there would be an interest of six percent charged on this amount and a higher rate paid for the remaining seven and one-half years, and the earnings on the policy would be sufficient to absorb the interest; and that at the end of twenty years I would be given a \$2,000 paid-up policy, and at that time the loan would automatically be taken care of by the company and the death benefit at anytime after that would be \$2,000.

I called Mr. Lump at your office here in Springfield and asked him about my policy in July of 1937. He wrote your office and I have a reply to his letter that was written him explaining my policy. This letter was written July 20, 1937, to Mr. W. D. Lump, Springfield, Illinois. One paragraph reads in part as follows: "The death benefit before March 12, 1938 if the policy is maintained as a premium paying contract will be \$2,052.63. In computing this benefit we have deducted the certificate of loan and interest and the policy loan from the 20th year guaranteed additional insurance as shown near the middle of the first page of this policy." Naturally after reading that paragraph I would feel that my policy was worth \$2,000 or more.

Referring to the front page of the policy it shows that at the 20th year the policy would be worth \$2,928. The next day after this policy reaches the 20th year you advise me the policy is worth only \$1,443.91 and that it will be necessary for me to pay \$33.37 interest annually to keep this policy worth the said amount, or I have the privilege of paying you \$40.76 annually for life time to make my policy worth the \$2,000.

To me this seems very unfair. I have other insurance policies and I have talked to several insurance men regarding this policy. It seems as none are able to explain the situation. No one ever heard of a policy being worth over \$2,000 in the 19th year and after it reaches the 20th year drop like this one has.

Again referring to the first page of the policy in the 20th year which shows at that time is worth \$2,928. At the time this policy was converted to a twenty pay policy your agent, Mr. Brown, advised me of the increase of the 20th year and after deducting the amount of \$571.20, which I never did borrow, the policy would still be worth \$2,000; and that the policy holders would participate in the annual earnings of the company. Now as the value of it is worth \$2,928 in the 20th year and you deduct the indebtedness from this which leaves better than the \$2,000, what right have you to claim the face of my policy is worth only \$1,443.91, and that I will have to pay annual interest of \$33.37 to keep it from decreasing each year, or that I will have to pay an annual premium for life of \$40.76?

The reason I converted this policy to a twenty pay when the proposition was put to me and also converted one for my wife, Ruby P. Drago, at the same time was to get away from paying assessments when we were older and our earning power had ceased. According to your figures we still have an indebtedness on the two policies of between eleven and twelve hundred dollars which is very disappointing.

If you can explain this situation to me before Apr. 12, 1938, I will be glad to have you do so.

Yours very truly,

(Signed) W. H. DRAGO.

WLD/cs

Emma Thorpe
Policy No. 313181

CLINTON, ILLINOIS, April 9, 1937.

ILLINOIS BANKERS LIFE INSURANCE CO.

In reply to your letter of April 29—There nothing more I can say or do. I have nothing to do with. My husband hasnt had any work to speak of for five years or more, and has none at all now. We had to go on relief 3 years ago, and I went out to work at any thing I could find to do. So I could obtain enough money to pay my premiums, because it was represented to us that it would be worth \$1,000 as a death claim or if I was still living at the end of the 20 year I could draw 10.00. And he also pictured to us how nice it would be to have \$1,000 paid up for life. I have positive proof I am telling the truth so help God. If I wasn't telling the absolute truth I would even dare to put this in pen and ink. I will see an Attorney what can be done with any one that goes through the country and misrepresents things to innocent people. You know it was misrepresented to us, But you think we are ignorant, well I will admit we are very ignorant to let any one do us this way. At the time this happened 7 years ago, our local insurance agt here made the remark, That fellows is getting those people in bad but they dont know it, And he certainly knew what he was talking about, But we just ignored, So if you feel justified in doing one of your policy holders of 28 years I believe it is. It will have to stand as it is, you know relief don't buy insurance. I would settle for a decent cash settlement as we are, in need.

(Signed) EMMA D. THORPE,
708 E. Main Clinton, Ill.

This is the third letter I have written you, And you havent once mention that you were sorry it was misrepresented us. You just ignored every truth Ive told, And I know why you have my money. And besides you are up holding your man that you sent out to defraud people.

(Signed) EMMA D. THORPE.

[Copy]

HUGO, OKLAHOMA, 2-28-38.

ILL. BANKERS LIFE ASSN.,
Monmouth, Ill.

DEAR SIR: In regard to the matter concerning policy No. 32446, Stafford, your special agent gave me reasons for changing my old policy to a twenty year life. (Date of change 2-15-31).

He said when my policy matured on Feb. 15, 1938, there would be no more payments. That the dividends on the policy would take care of the loan. He also told me if I so desired I could draw a cash value of \$500.00 and still have a policy worth \$500.00 to be paid at my death.

In my old policy I had a \$1000.00 policy with payments of \$11.36 per year. As I understand your letter after having paid \$31.88 per year for seven years I must still pay \$15.12 per year for life to have a \$1000.00 policy value.

Stafford certainly misrepresented the policy to me in presence of witness, or I misunderstood your letter.

What about my dividends in the future? I understand the policy to say they are to be added to the face of the policy or paid in cash as I desire. I would like an explanation concerning the policy if I don't want the extra insurance.

Respectfully yours,

(Signed) STYRLING R. JACKSON,
Gen. Del., Hugo, Okla.

[Copy]

ADAIR, OKLA., April 15, 1938.

ILL. BK. LIFE ASSURANCE CO.
Monmouth, Ill.

GENTLEMEN: I sure am at a loss to understand what kind of a settlement you are trying to make on my policy No. 309299. I thought that I had some thing but from your letter it seems that I really had nothing.

I wish to call attention to the table on page 1 of said policy where you state that the amount payable in case of death the 20th year would be \$3248.00 yet you state in your letter that have had only \$1138.18 then and now due as a death benefit.

I have been paying a good premium of \$44.57 per \$1000.00 for the past 7 $\frac{3}{4}$ years. During that time I have paid \$732.22 yet you tell me that I can only collect \$342.18.

Before the change on my policy I paid \$446.39. Something must wrong somewhere and there isn't any thing to all this bunk about an insurance policy being a saving.

You have collected over \$1178.00 from me and I seem to have had no consideration in getting this from the policy for the amount paid before and the increased premium paid since.

I would like for you to show me where it has ever been any advantage to me to have the policy changed to its present form.

Just to be plain with you about it, I believe it was a grand graft to swindle people out of some money.

I have never been as disappointed in a deal in all my life and I must say that the policy does not figure this way to me, nor did Mr. Bartlett your agent give me any such information.

Don't think that I misunderstand him for I did not or I would of never changed the policy.

Yours truly,

(Signed) LENDEN COMER.

[Copy]

TEXOLA, OKLA., March 5, 1938.

ILLINOIS BANKERS LIFE ASSURANCE CO.
Monmouth, Ill.

GENTLEMEN: I am writing in regard to my policy No. 309296. I didn't know that there was any loan against this policy until after I had sent in the premium that pd. it up. The agent I changed policies through misrepresented this plan to me. He made me think that in changing my old policy No. 82609 for the 20 yr. pay plan that I would be given thirteen (13) years full credit on the new policy and at the end of the 20th year I'd have my Insurance paid out without any debts against it. I have no doubt but what the agent meant for me to misunderstand this. I expected an agent of this company to be a reliable man so accepted what he told me in good faith, when I received my new policy I didn't look it over but just laid it away. I thought no more about it until my policy was pd. out then I seen what I had got into. I was satisfied with my old Insurance and would not have made this change if I had understood that there was to be a loan against the new policy. I don't want to let this loan and interest run on as it is now but I can't possible continue paying premiums so would not be interested in Insurance on the loan. I want to know what is the Best settlement I can get without being out any further expense. I want to clear my policy of

this indebtedness but have no resource from which I can settle it except from the value of my policy. I'd appreciate it if you'd send me information in simple terms on the following questions so I'll fully understand all the advantages of my 20 year pay Policy is to me now that it has reached maturity.

First: (a) What is the exact cash value of my policy at the present date, less all indebtedness?

(b) If I should draw all the cash I can, could my beneficiary at my death draw the difference between the cash I get plus indebtedness and the \$2000 face value of Policy?

(c) If I decide to draw the cash on my policy how should I proceed?

Second: Could I change back to my Original policy of straight life Ins. No. 82609 at the same old premium rate of \$9.78 per qt. and then change the premiums I've pd. on the new policy back to the old one, the credit beginning at the date I made the exchange. This credit would pay premiums on old Insurance for about 19 yrs. and at the end of that time I would again resume the qt. premiums?

Third: How much pd. up Insurance, clear of all debt, would my 20 year pay policy now purchase? Would this paid up Insurance pay cash dividends each year? If so, how much?

Fourth: If I leave my policy just as it is now, would the accumulations on it keep up the interest and pay some on the principle of loan.

I am very much disturbed over my policy and very anxious to get this loan settled and Interest stopped. Please write me immediately, Advise me and help me to understand what would be the best method of settling this.

Yours truly,

RICHARD S. JARVIS,
Tulsa, Okla., Box 33.

[COPY]

TULSA, OKLAHOMA, August 8, 1938.

ILLINOIS BANKERS LIFE ASSURANCE COMPANY,
Monmouth, Illinois.

(Attention Mr. L. N. Twomey.)

GENTLEMEN: In reply to your most amazing letter of July 27th, there are several questions I should like to propound.

1. There seems to be no provision made for immediate repayment of the policy loan, should the policy holder wish to, but must, according to the application for additional insurance, pay the interest for the rest of one's life, otherwise it is deducted from the credit of the policy. Please advise on this point.

2. If the policy loan is not repaid, it would seem that the paid up insurance is not much. Please advise just how much paid up insurance I would have on the policy.

3. Please advise what would be the cash withdrawal on the policy.

4. Is it true that the additional insurance which you wish me to take has no maturity, as the application seems to indicate.

Will you please advise immediately about the above questions, as they are things I must know before deciding what to do about the policy. I also take this opportunity of saying, that I am greatly disappointed about the survivorship fund and the great amount of interest charged to me. It was represented to me, at the time you asked me to rewrite my policy that the dividends would take care of the interest charged, and that the survivorship fund should pay the most of the loan. The way it has worked out, you have charged me a rather large amount for 12 years protection before the policy was rewritten for which I had already paid under the then existing rates.

Very truly yours,

(Signed) GERRY HONOMICHL.
(Gerry Honomichl.)

[Copy]

PARK RIDGE, ILL., Aug. 29, 1938.

ILLINOIS BANKERS LIFE ASSURANCE Co.,
 Monmouth, Illinois.

(Attention of Mr. L. N. Twomey.)

GENTLEMEN: Yours of Aug. 8th at hand. It looks to me as tho your agent put one over on us. I admit signing the Certificate of loan, but to the best of my recollection nothing was said in the preliminary talks about any loan being declared at any time from face of policy. I had supposed I was paying for \$1000.00 insurance and it almost takes my breath away to find I was paying for a trifle over \$500.00. Herewith is copy of agent's work sheet which I happened to keep. To change to a 20 payment plan pay 29.86 first year and \$57.26 for only 7 years thereafter. Then policy is fully paid up for \$1000.00 for life. Has then a cash value of \$688.00 which means that in 8 years a guaranteed estate of \$1000 has been created for an investment of \$390.68 or a profit of \$619.32 if eight payments were made. \$1000.00 always paid any year of death. Signed J. F. Prybe. Nothing here about any loan to be deducted. If the cash value is not \$688.00 at the present time how much is it? Also the statement of \$1000.00 payable any time of death must have been wrong. As I see it now only a trifle over \$500.00 would have been paid in case of death. Interest of \$28.27 per year has been accumulating on a loan which I never had.

As I understand it now my policy is good for \$514.47 at the present moment less \$28.27 per year if I do not carry it on. If I make application for \$485.53 of insurance the policy immediately is worth \$1000.00 in case of death any time after Sept. 17th without any deductions and that \$28.27 will be added to face of policy each year. Is this right? Now then, my policy states under guaranteed additions that beginning the 13th year amount paid would be \$1521.00 and so on up to \$1802.00 at the 20th year. What does this mean? Have I not already reached the 20th year. I was given credit, as I understood it, for 12 yrs and have been paying for 8 yrs. under the present plan. Am I right?

According to your letter my policy at the end of the 20th year which I understand is right now is worth \$514.47 in case of death before Sept. 17th. It looks to me as though something is all wrong or I do not understand my policy or your letter of Aug. 8th. Please advise.

Yours sincerely,

(Signed) (MRS.) FLORENCE L. HARRIDGE.

[Copy]

LOUISVILLE, ILL., Aug. 19, 1938.

ILLINOIS BANKERS LIFE ASSURANCE Co.,
 Monmouth, Ill.

DEAR SIR: When I wrote you for information concerning my policy five years ago I expected you to tell me the truth and abide by it. Your reply to my request at that time does not correspond with the way you write it up now. I should have dropped the policy when it went on the legal reserve, but your slick tongue agent made me believe it was much better! Also I have letters you wrote that the policy gave me *exceptional Life Insurance* value. The following is word for word the last paragraph of your letter written to me five years ago. "On August 19, 1938 (that is today) the guaranteed additional insurance ceases and the policy returns to its face value for this certificate of loan will have been adjusted. Free from indebtedness or with this eliminated on that date your policy will have a cash value of \$531 or if not cashed out at that time this amount may be left as paid-up insurance for \$1000 whenever death may occur with no more premiums to pay. The dividends in which the policy continues to participate after that time may be left to accumulate at compound interest or will be forwarded to you in cash, whichever you may elect on that date."

What has happened that the Certificate of Loan has not been adjusted free from indebtedness on this date Aug. 19, 1938? You say nothing about a paid-up \$1000 policy with no more premiums to pay, nor the dividends to be left to accumulate or forwarded in cash.

Now you tell me I can continue my full protection for a premium of \$26.48 annually or \$7.01 quarterly. I shall not continue the policy under any consideration. My children and I have almost gone hungry to keep up the premiums on the policy all thru the depression years. When a veal calf brought \$2.50, a big cow \$15, and 2 sows weighing 400 lbs. each brought \$17 and a few cents for the two. We would not have gone thru this strain if we had known there was nothing in it for us. Grafters don't care who suffers just so they get the money. There will come a time in the sweet bye and bye when the grafters will do the suffering. My husband died over seven years ago. We have had a hard battle to make our way (myself and 4 children) but not once have we stooped to the relief program. I may be poor but am not a parasite or a grafter.

I am surrendering the policy for the cash value which you designate \$220.50. Hope you are satisfied if I am not.

Yours for no more insurance

(Signed) MRS. MARY KAMPSCHRADER.

[Copy]

AUGUST 22, 1933.

In re: #313192

MARY KAMPSCHRADER,
Route #1, Louisville, Illinois

DEAR MADAM: The loan certificate attached to your policy is not a loan whereby you received any cash; the assessment policy which you had did not carry any reserve. You exchanged to the full legal reserve plan and to set up a reserve for the number of years for which you were given credit this Certificate of Loan was signed. This is the amount of reserve which should have been built up, had you been paying your present rate from August, 1918 until August 1930 during the 12 years we have predated your legal reserve policy. This Certificate of Loan is a lien against the policy, however, if death should occur this loan is taken care of by the guaranteed additions which you will note on the face of the policy.

In as much as your former policy had not terminated in a claim by death at the time of the exchange, you are entitled to share in the assets of that assessment association provided your insurance is continued in force on the legal reserve plan with this company until August 8, 1938. On the date of transfer your share of that assessment association was set aside in the form of a Survivorship Trust Fund. This is being increased by compound interest plus the benefit of the Survivorship whereby all transferred policyholders who die or lapse their policy automatically forfeit their share in the funds to be so distributed on that date. Your share of this Survivorship Trust Fund supplemented by the deferred dividend fund, will be applied to adjust this non-negotiable Certificate of Loan on August 19, 1938.

The guaranteed additional insurance ceases and the policy returns to its face value for this Certificate of Loan will have been adjusted. Free from indebtedness, or with this eliminated on that date your policy will have a cash value of \$531 or if not cashed out at that time this amount may be left as paid-up insurance for \$1000 whenever death may occur with no more premiums to pay. The dividends in which the policy continues to participate after that time may be left to accumulate at compound interest or will be forwarded to you in cash, whichever you may elect on that date.

Yours very truly,

Manager Conservation Department.

FAL:BAL

EXHIBIT No. 1348-57

[Submitted by American Conservation Co.]

AMERICAN CONSERVATION COMPANY

LIFE INSURANCE SERVICE

307 North Michigan Avenue, Chicago

Aid Association for Lutherans, Appleton, Wisconsin-----	Fraternal.
American Insurance Union, Inc., Columbus, Ohio-----	Fraternal.
Bohemian Roman Catholic Central Union of Women, Cleveland, Ohio.	Fraternal.
Bohemian Slavonic R. C. B. U., Cleveland, Ohio-----	Fraternal.
Central Life Insurance Co. of Ill., Chicago, Ill-----	Legal Reserve.
Central Life Insurance Co. of Ill., Chicago, Ill. (Conser- vation).	Legal Reserve.
Central States Life Insurance Co., St. Louis, Mo-----	Legal Reserve.
Gulf States Life Insurance Co., Dallas, Texas-----	Legal Reserve.
Illinois Bankers Life Assurance Co., Monmouth, Ill-----	Assessment Company.
Italo-American National Union, Chicago, Illinois-----	Fraternal.
Manhattan Life Insurance Company, New York, N. Y--	Legal Reserve.
North American Swiss Alliance, New York, N. Y-----	Fraternal.
Our Home Life Insurance Co., Washington, D. C-----	Legal Reserve.
Pacific States Life Insurance Co., Denver, Colorado-----	Legal Reserve.
Slovak Evangelical Union, Chicago, Illinois-----	Fraternal.
Southland Life Insurance Co., Dallas, Texas-----	Legal Reserve.
The Catholic Knights of Ohio, Cleveland, Ohio-----	Fraternal.
The Life Insurance Co. of America, Columbus, Ohio----	Legal Reserve.
The Life Insurance Company of Detroit, Detroit, Mich--	Legal Reserve.
The Maccabees, Detroit, Michigan-----	Fraternal.
The Service Life Insurance Co., Omaha, Nebr-----	Legal Reserve.
The Widows' Fund of Oasis & Omar Temples, Charlotte, N. C.	Assessment Society.
The Western Catholic Union, Quincy, Illinois-----	Fraternal.

EXHIBIT No. 1348-58

[Submitted by Herbert G. Shimp, president]

American Conservation Company Schedule

Year	Insurance written	Commission received	Commission paid	Operating expense	Gross profit	Taxes paid	Net profit	Investment acct.	Re: Cap. P. & L. inv. acct.
1930.....	\$28,539,567	\$480,053.25	\$340,413.56	\$55,972.26	\$83,667.43	\$10,526.58	\$73,140.85	0	0
1931.....	47,335,043	875,585.00	647,211.06	115,479.50	112,894.44	16,228.80	96,665.64	0	0
1932.....	30,088,014	727,599.30	421,157.73	126,212.33	180,229.24	23,743.48	156,485.76	0	0
1933.....	17,424,025	590,428.17	345,669.94	128,257.45	116,500.78	16,814.61	99,686.17	0	0
1934.....	11,748,252	204,011.98	102,033.25	78,256.25	23,722.48	2,470.60	21,251.88	\$99,247.44	\$97,424.94
1935.....	9,054,325	139,817.48	82,558.59	93,631.00	36,372.11	8,712.29	45,084.40	1,822.50	
1936.....	23,175,177	519,119.01	266,253.93	124,503.08	128,362.00	19,000.00	109,362.00	3,651.19	4,573.29
1937.....	11,227,489	321,387.46	198,160.05	89,462.45	33,764.96	4,679.14	38,444.10	924.10	
1938.....	5,347,218	146,781.64	77,313.91	61,055.74	8,411.99	884.13	7,527.86	5,800.75	5,800.75
Totals.....	\$183,939,110	\$4,004,783.29	\$2,480,772.02	\$872,830.06	\$651,181.21	\$99,701.35	\$551,479.86	\$82,511.98	\$82,511.98

EXHIBIT No. 1348-59

[Submitted by Herbert G. Shimp]

AMERICAN CONSERVATION COMPANY

LIFE INSURANCE SERVICE

307 North Michigan Avenue, Chicago

DECEMBER 4, 1939.

Legal reserve companies

	Date of Contract	Commission	New Business Commission
Illinois Bankers Life Assurance Co	2-28-30	70%	70%
American Insurance Union, Inc	6- 9-31	50%	60% plus 9 renewals @ 5%
Pacific States	7-26-32	70%	Graded.
Manhattan Life Insurance Co	2-26-35	50% plus 9 renewals	None written.
Life Insurance Co. of America	8-31-35	65% ^{7 1/2%}	60% plus 9 renewals @ 5%
Life Insurance Co. of Detroit	2-26-36	70%	Graded.
Gulf States Life #1	3-30-36	55% amended to 60% 9-25-36.	None written.
Gulf States Life #2	6- 1-37	60%	None written.

I hereby certify the commission rates set forth above are correct commissions named in the contract executed with the above named companies on contract forms per attached copy of contract.

AMERICAN CONSERVATION COMPANY,
By HERBERT G. SHIMP.

AMERICAN CONSERVATION COMPANY

LIFE INSURANCE SERVICE

307 North Michigan Avenue, Chicago

DECEMBER 4, 1939.

Fraternal companies

	Date of Contract	Commission	New Business Commission
The Maccabees	12- 4-33	60%	60%
Aid Association for Lutherans	12-20-33	60%	None written.
Catholic Knights of Ohio	1- 9-35	50%	60%
Widows Fund	3-14-32	65%	65%—9 renewals @ 5%
Womens Bohemian Roman Catholic Central Union	10-10-35	60%	60%
Western Catholic Union	5-15-36	65%	60%

I hereby certify the commission rates set forth above are correct commissions named in the contract executed with the above named companies on contract forms per attached copy of contract.

AMERICAN CONSERVATION COMPANY,
By HERBERT G. SHIMP.

EXHIBIT No. 1348-60

[From files of American Conservation Co.]

NOVEMBER 15th, 1932.

RAYMOND T. SMITH,
10 South LaSalle St., Chicago, Illinois.

DEAR SIR: The undersigned American Conservation Company, an Illinois corporation, (hereinafter referred to as the company), hereby makes you the following proposal:

1. If you will agree to use your best efforts to assist the company to secure an agreement with the Central Life Insurance Company of Illinois, Chicago,

Illinois, whereby the company shall be employed to obtain the rewriting of policies in the Central Life Insurance Company of Illinois, heretofore issued by the Security Life Insurance Company of America, Richmond, Virginia, the business of which has heretofore been reinsured in said Central Life Insurance Company of Illinois;

2. The company will agree, in consideration of your agreement, as above stated, to pay you, as full compensation for your services, a sum equal to five per cent of the first year's premiums paid upon each policy in the Security Life Insurance Company of America, which the company shall rewrite in the Central Life Insurance Company of Illinois.

3. Not later than the tenth day of each calendar month, the company will deliver to you a statement showing the amount of first year's premiums upon all policies rewritten during the preceding calendar month, and will pay to you the amount due under the terms of this agreement, as, if and when commissions due the company are received from the Central Life Insurance Company of Illinois.

4. You are to have the privilege of examining the books, records and files of the company, either in person or by duly authorized representative, at all reasonable times, insofar as the same relate to any business transacted by the company for said Central Life Insurance Company of Illinois, and to make and retain such copies thereof as you may desire.

5. If you will note your acceptance of this proposal in the space provided below, it will constitute a written contract between us containing all of our understandings and agreements with respect to the matters hereinabove specified.

Yours very truly,

AMERICAN CONSERVATION COMPANY,
By (Signed) HERBERT G. SHIMP,
Herbert G. Shimp, President.

ACCEPTED this 15 day of November 1932.

(Signed) RAYMOND T. SMITH.
Raymond T. Smith.

EXHIBIT No. 1348-61

[From files of American Conservation Co.]

JUNE 16, 1932.

Personal.

Mr. RAYMOND T. SMITH,
10 S. La Salle Street, Chicago.

DEAR SIR: In consideration of your efforts to assist us in obtaining a contract for transferring the business of the Chicago National Life Insurance Company which the Pacific States Life are re-insuring, our company agrees that when the contract with this company has been signed, that we will give you a contract paying you 5% of the first year's premiums paid by the policyholders transferred by our company. It is understood that from this amount you are to take care of any commission to which Mr. A. A. McKinley may be entitled.

Yours very truly,

AMERICAN CONSERVATION COMPANY,
By HERBERT G. SHIMP, President.

HGS:BMW

EXHIBIT No. 1348-62

[From files of American Conservation Co.]

AMERICAN CONSERVATION COMPANY
LIFE INSURANCE SERVICE
307 North Michigan Avenue, Chicago

DECEMBER 12, 1932.

Mr. WILLIAM HORDES,
510 Hoan Building, Detroit, Michigan.

DEAR MR. HORDES: We are attaching hereto a contract for your execution covering personal production in the exchange of Security transfers effected by you in Wayne County, Michigan.

Our understanding is (and Mr. Waterbury has been so instructed) that you are to be permitted to select from the cards for Wayne County, cards representing not to exceed one million of insurance, and the contract attached hereto is for the commission which you are to receive in exchanging this business.

In addition to your personal contract, we agree to pay you 5% commission on the premiums collected during the first year of all exchanging policies of the Security Life on all business in Wayne County, Michigan, exchanged through our organization, including your own production, such commission to be paid you within twenty days after we have received our commissions from the Central Life Insurance Company of Illinois.

It is, of course, understood that for this 5% you are to cooperate with us and aid us in licensing our men in the State of Michigan.

If the above corresponds with your understanding and is acceptable, your signature at the bottom of this letter and on the carbon copy attached hereto will constitute a contract and a definite understanding as to the obligations of each of us.

Yours very truly,

(Signed) AMERICAN CONSERVATION COMPANY,
Herbert G. Shimp,
Herbert G. Shimp, President.

Accepted this 13th day of Dec. 1932.

(Signed) HORDES & KAUFFMAN, INC.,
WILLIAM HORDES, Pres.
William Hordes.

EXHIBIT No. 1348-63

[From files of American Conservation Co.]

AMERICAN CONSERVATION COMPANY
LIFE INSURANCE SERVICE
307 North Michigan Avenue, Chicago

JULY 28, 1936.

Mr. FRED P. CORY,
1427 White Street, Ann Arbor, Michigan.

DEAR SIR: This letter will serve to confirm the arrangement made with you by Mr. Frank S. Mack, which arrangement provides that you are to cooperate with our Mr. J. D. Foute, and any other of our field men placed in Ann Arbor territory, for the purpose of readjusting the policies of the Detroit Life.

For this continued cooperation we agree to pay to you Five (5%) per cent of the first year's premiums on all business rewritten by our Mr. Foute in Ann Arbor.

No renewal commissions are to be paid on this work and the commission of Five (5%) per cent is to be prorated over the first year in the manner in which the insured pays premiums, and are only payable if, as and when new premiums are paid on the new policies by the policyholder exchanging.

Sincerely yours,

(Signed) AMERICAN CONSERVATION COMPANY,
HERBERT G. SHIMP,
Herbert G. Shimp, President

ACCEPTED: (Signed) Fred P. Cory.
Date: August 3, 1936.

AMERICAN CONSERVATION COMPANY
LIFE INSURANCE SERVICE
307 North Michigan Avenue, Chicago

JULY 2, 1936.

Mr. ARAGO F. GUCK,
317 Ashmun Street, Sault Ste. Marie, Michigan.

DEAR SIR: This will confirm the arrangement made with you by Frank S. Mack whereby you agree to give your full support and endorsement to the work of readjusting the policies of the Detroit Life and will cooperate fully with our representative in your county, William H. O'Connor.

In return for this cooperation the American Conservation Company agrees to pay you 5% commission on the premiums of all policies rewritten in Chippewa

County, this commission to be paid during the first year of the new policy only and to be paid only if, as and when the premiums have been paid during the first year by the policyholders whose policies are rewritten.

We are sending you this letter in duplicate and would ask that you kindly sign the duplicate copy and mail it to us if this is in accordance with your understanding.

Sincerely yours,

(Signed) AMERICAN CONSERVATION COMPANY,
HERBERT G. SHIMP,
Herbert G. Shimp, *President*

Accepted this 3rd day of July 1936.

(Signed) ARAGO F. GUCK, *Signature.*

AMERICAN CONSERVATION COMPANY
LIFE INSURANCE SERVICE
307 North Michigan Avenue, Chicago

JUNE 8, 1936.

Mr. O. B. LAFRENIERE
Ishpeming, Michigan.

DEAR MR. LAFRENIERE: This will confirm the arrangement made with you by Frank S. Mack whereby you agree to give your full support and endorsement to the work of readjusting the policies of the Detroit Life and will cooperate fully with our representatives in your county, S. J. Waesco, M. J. Waesco and F. R. Carlin.

In return for this cooperation the American Conservation Company agrees to pay you 5% commission on the premiums of all policies rewritten in Marquette County, this commission to be paid during the first year of the new policy only and to be paid only if, as and when the premiums have been paid during the first year by the policyholders whose policies are rewritten.

We are sending you this letter in duplicate and would ask that you kindly sign the duplicate copy and mail to us if this is in accordance with your understanding.

Sincerely yours,

(Signed) AMERICAN CONSERVATION COMPANY,
W. WHEELER,
W. Wheeler, *Secretary.*

Accepted this 22nd day of June 1936.

(Signed) O. B. LAFRENIERE.

WHEREAS, on or about the 20th day of June, 1936, the undersigned, Hildur Stenstrom, entered into an agreement with the American Conservation Company, 307 North Michigan Avenue, Chicago, Illinois, whereby the American Conservation Company agreed to pay the said Hildur Stenstrom, five percent of the first year's gross premiums paid on all business transferred in her territory by Mr. Fred M. Blair of the said American Conservation Company, which agreement is evidenced by a letter of the American Conservation Company, under date of June 15th, 1936, and

WHEREAS, a dispute has arisen between the said American Conservation Company and the said Hildur Stenstrom as to the assistance and cooperation rendered by the said Hildur Stenstrom in the matter of business transferred in her territory, and it is the desire of both parties to said agreement to terminate the same.

NOW, THEREFORE, IN CONSIDERATION, of the payment to me of the sum of Two Hundred (\$200.00) Dollars, the receipt of which is hereby confessed and acknowledged, I do release, acquit and discharge the said American Conservation Company and/or The Life Insurance Company of Detroit, of and from any and all claims that I now have or hereafter may have by reason of any commissions due me now or hereafter and by reason of any claimed breach of said agreement, it being my intention hereby to release, discharge and acquit the said American Conservation Company and/or The Life Insurance Company of Detroit absolutely and forever.

Dated at Crystal Falls, Michigan, this 1st day of December, A. D. 1936.

(Signed) HILDUR STENSTROM.

In presence of: (Signed) C. D. DWYER.

(Signed) LILLIAN WAYTULONIS.

AMERICAN CONSERVATION COMPANY

LIFE INSURANCE SERVICE

307 North Michigan Avenue, Chicago

JUNE 15, 1936.

Miss HILDUR STENSTROM,
Crystal Falls, Michigan

DEAR MADAM: This letter will confirm the arrangement completed with you by Mr. Frank S. Maek whereby the American Conservation Company agrees to pay you 5% of the first year's gross premiums paid on all business transferred in your territory by our Mr. Fred M. Blair.

In consideration of this payment you agree to cooperate fully with Mr. Blair and to be of such assistance possible to him in rewriting this business.

If this agreement complies with your understanding, we would appreciate it very much indeed if you would sign the attached copy and return to us for our files.

Sincerely yours,

AMERICAN CONSERVATION COMPANY,
(Signed) HERBERT G. SHIMP,
Herbert G. Shimp, *President*.

ACCEPTED: This 20 day of June 1936.

(Signed) HILDUR STENSTROM.

EXHIBIT No. 1348-64

[From files of American Conservation Company]

MARCH 9, 1936.

LEVIN, LEVIN and DILL,
Attorneys-at-Law, 3620 Barlum Tower, Detroit, Michigan.

GENTLEMEN: In conformity with the resolution unanimously adopted by the Board of Directors of the American Conservation Company at a meeting held on February 26, 1936, at which all of the members of the Board were present and voting, a certified copy of which said resolution is hereto attached, I hereby commit the American Conservation Company to the payment to you of the contingent fee in the manner and to the extent specified in said resolution and you may accept this letter, together with a certified copy of the resolution referred to, as constituting an agreement by and between the American Conservation Company and yourselves, binding the American Conservation Company to do and perform the things provided for in said resolution upon your acceptance thereof, to be indicated by affixing your signature at the point indicated on a carbon copy of this letter also enclosed.

Respectfully,

AMERICAN CONSERVATION COMPANY,
By (Signed) HERBERT G. SHIMP, *President*.

ACCEPTED:

LEVIN, LEVIN and DILL,
By THEODORE LEVIN.

CERTIFIED COPY OF RESOLUTION OF BOARD OF DIRECTORS OF AMERICAN
CONSERVATION COMPANY

I, W. Wheeler, do hereby certify that I am the elected, qualified and acting Secretary of the American Conservation Company, a corporation duly and regularly organized and existing under and by virtue of the laws of the State of Delaware and that I am the custodian of the records and seal of said corporation.

I further certify that the following is a true and correct copy of the Resolution unanimously adopted upon motion duly made, and seconded, by all of the members of the Board of Directors at a meeting of said Board on the 26th day of February, 1936:

WHEREAS, the officers of this corporation, for a period of more than two years, have negotiated with the Reconstruction Finance Corporation, the Detroit Life Insurance Company and the Insurance Department of the State of Michigan in an effort to obtain for the corporation a contract to rewrite and conserve the business of the Detroit Life Insurance Company, and

WHEREAS, the said officers have, during the course of said negotiations, been required to retain counsel at Detroit for the purpose of aiding them in their negotiations, and

WHEREAS, said officers have been able to retain the services of such local counsel upon a contingent basis, based upon the execution of a contract by virtue of which the corporation would be permitted to rewrite and adjust the business of the Detroit Life Insurance Company, and

WHEREAS, the acts and things done by the officers of the corporation in connection with the matters above recited have been with the full knowledge and consent of the present Directors of this corporation, and

WHEREAS, there has been a contract duly executed by the parties thereto and approved by the Commissioner of Insurance of the State of Michigan under the terms and provisions of which the corporation will rewrite and adjust the business of the Detroit Life Insurance Company now reinsured and assumed by The Life Insurance Company of Detroit,

Now, therefore, be it resolved that the President of the corporation be directed, authorized and empowered to cause to be paid, out of the funds of the corporation, to the firm of Levin, Levin and Dill, said firm being the local counsel at Detroit, Michigan heretofore referred to, or its assigns, said contingent fee as the same shall be due and owing to said firm and being in an amount equal to ten per cent (10%) of the first annual premiums, or fractional parts thereof, received by The Life Insurance Company of Detroit on policies of insurance reinsured and assumed by it under its contract with the Receiver of the Detroit Life Insurance Company which were on a premium payment basis on October 31, 1935 and which may be rewritten, to the extent of their original amounts, or lesser amounts, said fees being payable as, if and when the commissions payable to the corporation have been received by it. It being understood and agreed that such fees are in full payment for all services rendered the corporation by the firm of Levin Levin and Dill during the period between November 1, 1933 and October 1, 1935, said firm having rendered no services of any kind or character, directly or indirectly, to the corporation since the latter date to the date of this meeting.

And I do further certify that the above Resolution has not been, in any wise, altered, amended or rescinded and is now in full force and effect.

Dated this 9th day of March, 1936.

(Signed) W. WHEELER,
Secretary, American Conservation Company.

EXHIBIT No. 1348-65

AMERICAN CONSERVATION COMPANY

CHICAGO, ILL.

AUG 5 1933

No 7051

193

100

\$250

DOLLARS

AMERICAN CONSERVATION COMPANY

Dorothy M. Newman

PER. & V. P.

PAID TO THE ORDER OF *Cash*

J. M. ...

THE SUM OF \$250.00 IN CASH

BOULEVARD BRIDGE BANK
OF CHICAGO

NATIONAL BOULEVARD BANK

THROUGH CHICAGO TRADING HOUSE CO. CLEARING

AUG - 7 33

TO THE NATIONAL BANK

PAY TO THE ORDER OF

ANY BANK OR BANKER

236 OF CHICAGO ILL 2-86

Dorothy M. Newman

EXHIBIT No. 1348-66

[From files of American Conservation Company]

[Copy]

ERNST & ERNST,
Chicago, March 1, 1937.

BOARD OF DIRECTORS,
American Conservation Company,
307 North Michigan Avenue, Chicago, Illinois.

GENTLEMEN: In connection with our audit of the accounts of your company for the period from inception to December 31, 1936 we noted several disbursements which we desire to call to your attention.

They are detailed as follows:

Items included in legal expense:

1931

Sanders, Child, Bobb & Westcott	
Invoice marked "H. G. Shimp account"-----	\$1, 800. 00
Invoice to H. G. Shimp-----	1, 125. 10

1932

Morton, Blanchard & Ter Velle—no invoice-----	2, 000. 00
Morton, Blanchard & Ter Velle—no invoice-----	2, 500. 00

1933: Morton, Blanchard & Ter Velle—no invoice-----	935. 17
---	---------

Items included in special services and expenses:

1933

October—check to cash-----	\$5, 000. 00
Checks to currency and H. G. Shimp—Account R. R. Haffner--	1, 500. 00

Inasmuch as these items were not properly supported and had not been previously approved, we feel it proper that the Board of Directors take appropriate action at the present time.

Yours very truly,

E & E GFB
Certified Public Accountants.

GFB/BK

"EXHIBIT No. 1348-67", introduced on p. 6943, is on file with the Committee.¹

"EXHIBIT No. 1348-68," introduced on p. 6944, is on file with the Committee.

EXHIBIT No. 1348-69

[From files of American Conservation Company]

Office of the President

AMERICAN INSURANCE UNION INC.,
Columbus, Ohio, June 13, 1933.

MR. HERBERT G. SHIMP,
American Conservation Co., 307 N. Michigan Avenue, Chicago, Illinois.

DEAR MR. SHIMP: Today Mr. Bernard, Mr. West and I went over to the Insurance Department and had a conference with Judge Warner and Mr. Robinson. I told them very frankly we were looking for more business for the Company and, as stated before, we would like to have the Union National business. Judge Warner's reply was that while they had about six direct offers, they had considered all of them with the view of doing what they thought was the best for the policyholders of the Union National—"as well as all policyholders" was the way he put it; that they had come to the conclusion that the Lincoln National's offer was preferable and had recommended to the Court that the Lincoln National's offer be accepted and that the Court had tentatively approved their recommendation. He said the Lincoln National Executive Committee was having a meeting today for the final approval and the signing of the contract.

¹ In lieu of this exhibit see "Exhibit No. 2261" which was entered in the record on February 13, 1940, and appears infra on p. 7093.

All three of us were of the opinion that they were afraid of undue criticism if they gave it to our Company. Two other Ohio Companies from Cincinnati were bidding. The American Central wrote in yesterday offering to submit a bid, but were informed that it was too late. One of the Cincinnati Companies—the Federal Union, which was a bidder—I am informed, will probably be looking for shelter itself in the near future. I am also informed that the Detroit Life is ready for reinsurance.

We were all agreed that we did not know of a thing that could have been done that we did not do which would have changed the result.

Very truly yours,

C. S. YOUNGER,
President.

CSY-FM

Office of the President

AMERICAN INSURANCE UNION, INC.,
Columbus, Ohio, June 13, 1933.

Mr. HERBERT G. SHIMP,
307 N. Michigan Avenue, Chicago.

DEAR MR. SHIMP: This will acknowledge receipt of your letter of the 10th inst. in which you state you tried to reach me by phone while I was in Cincinnati. I was attending the centennial meeting of the Cincinnati Law College at which Judges Day and Stevenson of our own Supreme Court were being given honorary degrees. It was a reunion of all the classes, there being practically three hundred lawyers in attendance. I regret to have missed your call.

Relative to your conversation with Mr. McAndless, will say that while negotiations were going on, looking toward the reinsurance of the Union National, before action was taken in receivership, which not only involved the Lincoln National, but some other companies as well, I did talk to the Fort Wayne people. Their answer was that they were not interested. Later, after receivership was on, the Assistant Secretary, Mr. Kalmbach, called at my office relative thereto. I thereupon informed him that American Insurance Union, Inc. had submitted an offer to reinsure the business. His reply was that if I insisted he would not submit a bid but he also said that he was in communication with the Secretary who was in the East and the Actuary of the Company and was awaiting their telephone calls. Later two of the gentlemen were seen at luncheon in the Deshler grill with Judge Warner and Mr. Robinson. We were afterwards informed that the Ohio Department officials were insisting that they place their bid for the business.

We have all been disappointed at the delay with which this matter has been confronted. As soon as I have any report to make, following an interview with the Department, I shall be glad to report.

Very truly yours,

C. S. YOUNGER, *President.*

CSY-FM

JUNE 14, 1933.

AMERICAN INSURANCE UNION, INCORPORATED,
Columbus, Ohio.

(Attention C. S. Younger.)

GENTLEMEN: This will acknowledge your favors of the 13th, and to say that I am disappointed is putting it very mildly indeed. For the life of me I cannot quite understand why it is that the Ohio Commissioner gave no more consideration to an Ohio company than he evidently gave to our proposal. I am quite certain in my own mind that no Commissioner of any other state with whom we have ever had any connection would consider an outside company in a reinsurance agreement of this kind if there were any local companies financially able to handle the deal.

Of course, what, in effect, this decision really means is that we can expect no consideration at the hands of the Ohio Department and for that reason I think it behooves us to get out of Ohio as quickly as we can, or else get out of the stock, and I assure you that it will be my continuous effort to do one of these two things as rapidly as possible. There certainly is no justifiable reason for rejecting without consideration the proposal which we submitted.

Yours very truly,

HERBERT G. SHIMP.

GB

Office of the President

AMERICAN INSURANCE UNION, INC.,
Columbus, Ohio, October 3, 1934.

Mr. HERBERT G. SHIMP,
President, American Conservation Company,
307 N. Michigan Avenue, Chicago, Illinois.

DEAR Mr. SHIMP: This will acknowledge receipt of your letter relative to Federal Union. In reply will state I invited Judge Warner to lunch today to discuss this matter. He had a copy of the Cincinnati Enquirer charging him with misfeasance, malfeasance and nonfeasance. Of course he is much perturbed about the matter. After, as he says, giving them all this time to put their house in order, for them to take this position.

I told him as soon as he was able to discuss the matter of contract, which I thought he would be within the next 30 days, we are ready on a moment's notice to go into conference with him on that subject.

I asked him particularly how he was suited with the procedure thus far with the Lincoln National contract relative to the Union National liquidation. His reply was that he thought very favorable of that plan of contract. I especially mentioned it in order to ascertain his views and I am giving you his reply. This, of course, allows the Department to administer the assets and puts the responsibility for same on the Department. He seems to like that. This would give us the business and them the assets. I told him we would be ready to start to service the policyholders on 24 hours notice if the contract was entered into and approved.

He says he is asking the Attorney General to appear Monday in opposition to a temporary Receivership at Cincinnati. He says also he is going to ask for an immediate hearing on the merits of the case. Of course both sides will want the necessary time to prepare for the hearing, which will probably be ten days or two weeks. I shall keep you advised of the progress of the case.

Very truly yours,

C. S. YOUNGER,
C. S. Younger,
President and General Counsel.

CSY-MF

OCTOBER 4, 1934.

Personal and confidential.

Judge C. S. YOUNGER,
President, American Insurance Union, Incorporated, Columbus, Ohio.

DEAR JUDGE YOUNGER: This will acknowledge your letter of the 3rd outlining the Federal Union situation and enclosing clipping.

There is no reason why we would not be perfectly agreeable to a contract which would permit the Department to handle the assets of the Federal Union. In fact, we would much prefer that the Department handle these assets rather than to have to handle them ourselves.

If you will recall, however, you advised us that the Department was insistent that whoever took over the business of the Union National should also take over all of the assets, and when this matter was discussed with reference to the Federal Union it was you who suggested that our proposal provide for the taking over of the assets. There is no reason why we shouldn't concede to the Department's preference. In fact, it would take a lot of work, trouble and worry off of our hands from which we would receive no profit in any event.

I think we ought to keep after this contract. If we don't we are going to lose this business, and if there is anything that can be done in any way, shape or form to assure us of receiving the business it should be done without delay. If you think I can be helpful in any way I shall be more than pleased to come to Columbus.

Our Mr. Barney was in Cincinnati yesterday and I have a letter from him in which he advises me that he had a talk with Judge Williams and that Judge Williams told him that Commissioner Warner had advised him that under no condition would he approve a contract with the American Insurance Union, Incorporated. Judge Williams told Mr. Barney that they had asked the Commissioner to approve our contract. You probably can ascertain whether this is true or not.

In any event, I think you should know for your own personal information, that we have an opportunity to dispose of our stock in this company. We do not want to dipose of it if there is any opportunity for us to build a life insurance company. We can build a life insurance company if we can acquire the business of the Federal Union or of some other company, but if the Department's attitude is as is indicated by the statement which Mr. Barney says was made by Judge Williams, then there is no reason for us to make the sacrifices that we are making to hold on to this stock. We had much better sell it and forget it.

I should appreciate it very much indeed if you would give me your sincere personal opinion regarding our ability to acquire this additional business because we will be guided largely by your opinion in the matter.

Very sincerely yours,

HERBERT G. SHIMP.

HGS:GB

OCTOBER 23, 1934.

Capt. WILLIAM R. BAKER,
Brotherhood Building, Kansas City, Kansas.

DEAR CAP: In accordance with our telephone conversation this morning, I am wiring Theodore Levin that either Monday or Tuesday, next week, will be convenient for you and I to be in either Detroit or Lansing. As soon as I have heard from him I will notify you so that your plans can be made accordingly.

I hope you will succeed with Bennett and that we will get that contract. We surely need it.

I presume you will talk with Merriam before the week is over in view of the fact that he said they would be ready the latter part of this week to make some definite decision. If we can have word from him it will be helpful.

Bill returned from Columbus this morning where he was yesterday and they sold about \$100,000 worth of bonds. There is nothing new at Columbus except the suggestion that someone ought to talk to Warner and offer him a job with the A. I. U. Inc. He has no job or no chance to get one after the first of the year, so we are informed, and it might be helpful in getting an agreement to move out of Ohio and also helpful with the Federal Union deal. What is your reaction on this subject, and who do you think should approach Warner? Both Judge Younger and Paul Bernard say that they would not do so, but Eldridge and Bill and I think that this is a smart move.

Mrs. Shimp's address (meaning my wife) is c/o Mrs. R. C. Eyth, 11202 Morrison Street, North Hollywood, California. My mother's address is c/o Mrs. D. B. Alden, 1206 Wooster Street, Los Angeles, California. Eldridge wasn't quite sure which address it was that you wanted.

Will see you next week.

Sincerely,

HERBERT G. SHIMP.

HGS:GB

EXHIBIT No. 1348-70

[Scheduled by: Securities and Exchange Commission Insurance Study staff]

American Conservation Company—Commissions received

Contract	1938	1937	1936	1935	1934	1933	1932	1931	1930	Totals
Western Catholic Union.....	\$31.80	\$7,867.62	\$1,250.49							\$9,149.91
Gulf States Life Insurance Company.....	15,106.16	130,864.85	67,717.39							219,688.50
The Life Insurance Company of Detroit.....	1,197.06	153,965.90	306,323.62							461,425.53
Women's Bohemian Roman Catholic Central Union of U. S. A.....	368.93	12,862.69	109,983.21	\$8,003.03						131,227.86
The Life Insurance Company of America.....		193.97	11,752.16	15,920.55						27,866.48
Manhattan Life Insurance Company.....	166.32	170.87	416.44	1,643.09						2,401.72
The Catholic Knights of Ohio.....		-21.43	20,164.83	48,388.70						68,532.10
Central Life Insurance Company of Illinois Con- servtion Contract.....	56.12	170.92	1,400.74	12,361.84	\$3,726.43					17,716.05
Our Home Life (Illinois Bankers Life Assurance Company).....			12.86	6,238.25	29,035.88					35,286.99
Aid Association for Lutherans.....			77.46	36,689.09	59,010.21					95,699.30
The Maacabees.....				6,438.48	28,525.81	\$4,544.47				39,536.22
Central Life Insurance Company of Illinois.....				1,487.22	35,227.27	252,414.45	\$7,076.04			296,204.98
The Widows' Fund of Oasis and Omar Temples.....					1,600.26	29,853.72	19,935.67			48,389.65
American Insurance Union, Inc.....					8.82	21,855.73	32,357.08			54,221.63
Illinois Bankers Life Assurance Company.....	15.98	88.15	9.81	2,642.23	22,154.58	241,461.01	432,533.88	\$84,630.21		830,809.68
North American Schweitzer Bund.....	5,111.36				24,692.72	43,298.79	185,696.63	790,954.79	\$480,053.25	1,527,452.35
Central States Life Insurance Company.....	58,391.91									58,391.91
The Service Life Insurance Company.....	11,675.51									11,675.51
Bohemian Slavonic Roman Catholic Benevolent Union.....	13,059.82	2,632.75								15,692.58
Italo-American National Union.....	41,392.82	6,447.02								47,839.84
Slovak Evangelical Society.....	207.85	294.04								411.89
	\$146,781.64	\$321,387.46	\$519,119.01	\$139,817.43	\$204,011.98	\$590,428.17	\$727,599.30	\$375,585.00	\$480,053.25	\$4,004,783.29

EXHIBIT No. 1348-71

[Scheduled by Securities and Exchange Commission Insurance Study staff]

American Conservation Company—Agent's commissions from February 13, 1930, to December 31, 1938

Contract	Years ended December 31—								Totals	Percent- age of Com- mis- sions Re- ceived	
	1938	1937	1936	1935	1934	1933	1932	1931			February 13, to December 31, 1930
Western Catholic Union	\$1.77	\$3,328.27	\$1,419.54							\$4,749.58	52%
Gulf States Life Insurance Company	7,828.65	63,295.16	34,248.94							105,372.75	48
The Life Insurance Company of Detroit	445.10	77,226.18	104,364.48							182,035.76	40
Women's Bohemian Roman Catholic Cen- tral Union of U. S. A.	-190.63	8,466.84	37,632.90	\$7,895.65						53,804.76	41
The Life Insurance Company of America		45.01	5,193.47	7,385.58						12,624.07	45
Manhattan Life Insurance Co.			5,224.86	914.90						1,139.76	47
The Catholic Knights of Ohio		23.57	11,457.25	24,905.60						36,386.42	53
Central Life Insurance Company of Illinois— Conservation Contract		79.46	1,097.26	5,259.00	\$2,127.29					8,563.01	48
Our Home Life (Illinois Bankers Life As- surance Co.)			15.02	3,035.66	14,400.10					17,450.78	49
Aid Association for Lutherans			-70	18,763.13	29,466.40					48,248.83	50
The Maccabees			148.93	5,946.31	10,985.67	\$8,178.08				23,268.99	59
Central Life Insurance Company of Illinois				365.73	12,482.44	90,814.79	\$4,081.68			107,744.64	36
Pacific States Life Insurance Company					662.64	9,481.44	7,147.07			17,231.15	36
The Widows' Fund of Oasis and Omar Temples					12.14	9,729.89	12,409.19			22,151.22	41
American Insurance Union, Inc.			31.70	2,376.99	115,610.39	227,155.55	\$70,018.45			415,193.08	50
Illinois Bankers Life Assurance Company			3.51	1,086.49	8,005.80	14,903.05	64,848.72		\$172,926.90	552,994.24	36
North American Schweitzer Bund	2,165.09									2,465.09	48
Central States Life Insurance Company	34,156.87									34,156.87	58
The Service Life Insurance Co.	6,305.00									6,305.00	54
Bohemian Slovania Roman Catholic Benev- olent Union	5,374.70	2,551.19								7,925.89	50
Irish-American National Union	15,963.48	8,213.72								24,177.20	50
Slovak Evangelical Society	97.42	142.41								239.83	58
Totals	\$72,447.45	\$163,371.81	\$195,837.16	\$75,508.05	\$30,489.47	\$246,717.64	\$315,642.21	\$361,288.22	\$172,926.90	\$1,684,228.91	-----

EXHIBIT No. 1348-72

[Scheduled by Securities and Exchange Commission Insurance Study staff]

American Conservation Company—Special commissions paid

Contract	1938	1937	1936	1935	1934	1933	1932	1931	1930	Totals
Western Catholic Union.....	\$2.44	\$602.68	\$92.61							\$697.73
Gulf States Life Insurance Company.....	2,646.35	11,527.35	3,119.12							17,192.82
The Life Insurance Company of Detroit.....	1,447.40	20,801.94	57,411.24							79,660.58
Women's Bohemian Roman Catholic Central Union of U. S. A.....	25.05	1,040.54	8,901.50	\$639.64						10,606.73
The Life Insurance Company of America.....		8.51	892.30	1,093.52	\$4,777.93					1,994.33
Aid Association for Lutherans.....				2,916.65	2,301.99	\$353.32				7,694.58
The Macaebes.....				414.93	9,088.44	71,893.45	\$547.18			3,070.24
Central Life Insurance Company of Illinois.....				1,388.77		3,835.16	2,844.80			82,917.84
Pacific States Life Insurance Company.....						8,322.25	20,152.99			6,908.58
American Insurance Union, Inc.....					302.62			\$3,797.45		32,575.31
Illinois Bankers Life Assurance Company.....					4,844.18	14,548.12	81,970.55	282,125.39		551,125.55
North American Schweitzer Bund.....	126.55			597.03						100.00
Bohemian Slavonic Roman Catholic Benevolent Union.....		100.00								1,406.00
Italo-American National Union.....	708.96	697.04								1,406.00
Slovak Evangelical Society.....	9.71	10.13								19.89
Totals.....	\$4,866.46	\$34,788.24	\$70,416.77	\$7,050.54	\$21,543.78	\$98,952.30	\$105,515.52	\$285,922.84	\$167,486.66	\$796,543.11
Dividends Paid.....	1 \$45,000.00	\$49,854.43	\$134,890.00	\$97,500.00		\$40,000.00	\$130,600.00	\$135,000.00		

1 Stock Dividend.

EXHIBIT No. 1348-73

[Scheduled by Securities and Exchange Commission Insurance Study staff]

Herbert G. Shimp—Loans with Illinois Bankers Life Assurance Company

Date Made	Collateral Loan #	Amount	Rate	Loan Due	Date Paid	How Paid
9/28/29-----	1 Z	15,000	6%	Demand	1/26/31	By taking of new collateral loan #4 Z.
1/16/31-----	4 Z	30,000	5½%	1/12/32	3/22/32	By taking of new collateral loan #10 Z.
1/26/31-----	20,000	5½%	2/20/32		2/23/32	By taking of new collateral loan #8 Z.
12/23/31-----	6 Z	17,500	5½%		5/21/32	5/21/32
2/23/31-----	8 Z	17,500	5½%	1/12/33	3/17/33	By taking of new collateral loan #16 Z.
3/22/32-----	10 Z	50,000	6%	8/19/32	2/21/33	By taking of new collateral loan #14 Z.
5/21/32-----	11 Z	17,500	5½%	8/20/33	10/13/33	By taking of new collateral loan #21 Z.
2/21/33-----	14 Z	17,500	5½%	1/12/34	8/ 1/34	
3/17/33-----	16 Z	50,000	5½%	2/20/34	12/14/33	
10/13/33-----	21 Z	17,500	5½%			
	Mortgage					
6/13/35-----	1 J	10,000	6%	5/31/40	Outstanding	
6/25/35-----						
7/15/35-----						

American Conservation Co.—Loans with Illinois Bankers Life Assurance Company

Date Made	Collateral Loan #	Amount	Rate	Loan Due	Date Paid	How Paid
11/16/31-----	5 Z	74,700	5½%	12/30/31	12/30/31	By taking of new collateral loan #7 Z.
12/30/31-----	7 Z	75,202.15	5½%	2/28/32	2/29/32	By taking of new collateral loan #9 Z.
2/29/32-----	9 Z	75,202.15	5½%	5/29/32	5/28/32	By taking of new collateral loan #12 Z.
5/28/32-----	12 Z	68,202.15	5½%	8/26/32	2/21/33	By taking of new collateral loan #15 Z.
2/21/33-----	15 Z	15,500	5½%	8/13/33	5/31/33	By taking of new collateral loan #17 Z.
5/31/33-----	17 Z	26,000	5½%	8/ 1/33	9/ 8/33	By taking of new collateral loan #20 Z.
9/8/33-----	20 Z	21,500	5½%	2/ 1/34	12/14/33	

SUPPLEMENTAL DATA

The following exhibit was entered in the record on February 13, 1940, in lieu of "Exhibit No. 1348-67," see text, p. 6943.

EXHIBIT No. 2261

Memorandum of fees received from American Conservation Company by Henning and Baker (a partnership) during the period 1931 to April 1, 1935 (date of dissolution of partnership).

1931:	Retainer (Apr. to Dec., Inc. @ \$100.00 per mo.)---	\$900. 00	
	Commissions, A. I. U., Inc.-----	3, 140. 36	
			\$4, 040. 36
1932:	Retainer (Jan. to Nov. Inc., @ \$100.00 per mo.)--	1, 100. 00	
	Commissions & renewals, A. I. U., Inc.-----	19, 746. 52	
	Commissions, Pacific States Life, Chicago National Life-----	1, 139. 17	
			21, 985. 69
1933:	Retainer (Dec. 1932 to Dec. 1933, Inc. at \$100.00 per mo.)-----	1, 300. 00	
	Commissions & renewals, A. I. U., Inc.-----	8, 982. 27	
	Commissions, Pacific States Life, Chicago National Life-----	414. 24	
	Commissions & renewals, Central Life Ins.-----	13, 649. 27	
			24, 345. 78
1934:	Retainer (Jan. to Dec., Inc. @ \$100.00 per mo.)--	1, 200. 00	
	Commissions & renewals, A. I. U., Inc.-----	467. 26	
	Commissions & renewals, Central Life-----	2, 773. 12	
	Commissions & renewals, Pacific States Life-----	515. 13	
			4, 955. 51
1935:	Retainer (January, February and March @ \$100.00 per month)-----	300. 00	
			300. 00
	Total-----		\$55, 627. 34

Memorandum of fees received from American Conservation Company by William R. Baker during the period beginning April 1, 1935 to December 18, 1939.

1935:

Retainer (April to December, inc. @ \$100.00 per month)-----	\$900. 00
Expenses re: Detroit Life Ins. Co.-----	335. 85
Commissions & renewals, Pacific States Life-----	992. 67
Supervision agreement re: Life Insurance Company of America-----	11, 500. 00
Acquisition & sale of stock re: Life Insurance Company of America-----	15, 000. 00
Expenses re: Board of Dir. meeting 12-13-----	27. 05
Commissions re: Central Life Ins-----	1, 453. 65

\$30, 209. 22

1936:

Retainer (Jan. to June, Inc., resigned)-----	600. 00
Commissions & renewals, Pacific States Life-----	988. 38
Commission, renewals & expenses, Life Ins. Co. of Detroit-----	16, 075. 64
Expenses re: reinsurance & transfer, Detroit Life Ins. Co.-----	615. 82
Commissions & expenses, Gulf States Life-----	2, 011. 19
Expenses re: Board of Directors meeting and Federal Union Life Ins.-----	81. 70
Expenses re: American Thrift Assur. Co., Omaha-----	36. 15
Expenses re: Iowa assessment association-----	92. 43

20, 501. 31

1937:

Renewals, Gulf States Life Insurance-----	1, 887. 59
Renewals, Pacific States Life-----	13. 28
Commissions & renewals, Life Ins. Co. of Detroit-----	6, 551. 52

8, 452. 39

1938:

Fee of \$225.00 a/c attendance stockholders meeting Detroit & various misc. matters and expenses--	372. 80
Commission & renewals, Life Ins. Co. of Detroit--	952. 51

1, 325. 31

1939:

Fee & expenses, attendance stockholders meeting at Detroit-----	336. 35
Fee & expenses, trip to Chgo. a/c various matters-----	114. 10
Renewals, Gulf States Life-----	21. 28

471. 73

Total-----

\$60, 959. 96

Total received by Henning & Baker-----

\$55, 627. 34

Total received by William R. Baker-----

60, 959. 96

Grand Total-----

\$116, 587. 30

The following exhibit, entered in the record on February 13, 1940, is printed herewith in connection with testimony, supra, p. 6829.

EXHIBIT No. 2262

HUGH T. MARTIN

President

ELDRIDGE H. HENNING

V. Pres. & Gen. Counsel

HUGH D. HART

V. Pres. & Dir. of Agencies

ARTHUR T. SAWYER

Secretary

GEORGE E. FIDLER

Treasurer

ILLINOIS BANKERS LIFE ASSURANCE COMPANY

HOME OFFICE—MONMOUTH, ILLINOIS

FEBRUARY 6, 1940.

Mr. GERHARD A. GESELL,

*Special Counsel, Insurance Section, Monopoly Study,
Security & Exchange Commission, Washington, D. C.*

DEAR MR. GESELL: With regard to your inquiry as to the officers of the Assessment Association who converted or failed to convert their Assessment policies to Legal Reserve policies, beg to advise that at the date of reinsurance, November 19, 1929, the following were the officers and directors of the Association:

W. H. Woods, President

Dr. J. R. Ebersole, Vice President and Medical Director

Robert M. Work, Secretary

A. T. Sawyer, Treasurer

Hugh T. Martin, Counsel

Neither Mr. Woods nor Dr. Ebersole converted his Assessment policy. Both had reached an age when their mortality expectation did not justify urging them to take insurance with the new Company, as the conversion was without medical examination.

Mr. Work died on January 19, 1930, before the plan of conversion was developed.

Mr. Sawyer converted his Assessment policy to a pre-dated Twenty-Payment Legal Reserve policy on February 10, 1931. He executed a Certificate of Loan, and his Assessment policy was converted to a Legal Reserve policy on the same basis and on the same plan as that submitted to the other policyholders who converted to the Twenty-Payment Legal Reserve policies.

Mr. Martin had an Assessment policy on a One-Year Renewable Term basis. The policy was not entitled to any distributive share of the funds of the Association. It was already on a full Legal Reserve rate and was not converted.

As to the junior officers, Stephen E. Hinshaw and A. W. Barnes did not convert their Assessment policy.

Dr. H. Glenn Ebersole converted his Assessment policies to pre-dated Twenty-Pay Legal Reserve policies on December 30, 1930. He executed Certificates of Loan and his Assessment policies were converted to Legal Reserve policies on the same basis and on the same plan as that submitted to the other policyholders who converted to the Twenty-Payment Legal Reserve policies.

Very truly yours,

E. H. HENNING,
Vice President.

EHH
HLM

The following exhibit, entered on February 13, 1940, appears at this point in connection with testimony supra, pp. 6933 and 6935.

EXHIBIT No. 2263

R. T. NELSON, *Chief Deputy*
 R. R. HAFNER, *Actuary*
 LORENZ JOST, *Chief Examiner*
 FRANK W. YOUNG, *Special Deputy*
 H. A. MILLER, *Special Deputy*
 WM. M. MURRAY, *Special Deputy*

DIVISION SUPERVISORS
 HIRAM McCULLOUGH—Small Loans
 J. O. BROWN—License
 GEO. E. HAAS—Casualty
 MARY C. LUESCHEN—Fire
 B. W. RISSE—Fraternal
 JAS. U. CULLEN
 Mutual Benefit
 Assessment Life
 E. S. HAMM—Securities
 H. F. FULTZ—Policy forms
 G. W. HUBBARD—Taxation

STATE OF ILLINOIS

Henry Horner, Governor

DEPARTMENT OF INSURANCE

Ernest Palmér, Director

Roy L. Davis, Assistant Director

SPRINGFIELD

STATE OF ILLINOIS,

County of Sangamon, ss:

R. R. Haffner being duly sworn, deposes and says that he is now Actuary of the Illinois Insurance Department, which position he has held since June 16, 1930, and that he has read the testimony of Herbert G. Shimp, President of the American Conservation Company, and of Arthur J. Leary, Assistant Investigator for the Securities and Exchange Commission, in the Verbatim Record of the Proceedings of the Temporary National Economic Committee dated December 22, 1939, and reported on pages 353 to 355 inclusive, relative to certain checks drawn to cash in 1933 by the American Conservation Company and described in said testimony as aggregating \$1500.

Affiant further deposes and says that he had no knowledge of any such checks and that no part of any money represented by such checks was ever received by him directly or indirectly.

Affiant further deposes and says that since he became Actuary of the Illinois Insurance Department he has performed no services of any kind or character for the said American Conservation Company or for Herbert G. Shimp and likewise has received no compensation, fees or commissions of any kind or character from the said American Conservation Company or from any one connected with said company.

Affiant further deposes and says that the only money or check ever received for expenses from the said American Conservation Company or Herbert G. Shimp was for the expenses incurred in making trips to Chicago and to Detroit in February, 1936 in connection with the offer of a position with The Life Insurance Company of Detroit, which expenses amounted to \$65.00 and which was paid by check of said American Conservation Company made payable to affiant and which was endorsed by him, said check representing travel expenses only.

R. R. HAFNER.

Subscribed and sworn to before me this 13th day of January 1940.

GLADYS V RALEIGH.

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