

See pp. 59, 115 + 123

HEARING

BEFORE THE

COMMITTEE ON INTERSTATE COMMERCE

UNITED STATES SENATE

SIXTY-NINTH CONGRESS

FIRST SESSION

ON

S. 2929

A BILL TO AUTHORIZE THE REFUNDING OF CERTAIN EVIDENCES OF INDEBTEDNESS ISSUED BY CARRIERS IN INTERSTATE COMMERCE AND FOR OTHER PURPOSES

MARCH 19, 25 AND 31, 1926

PART 2

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HEARING

1911

COMMITTEE ON INTERSTATE COMMERCE

UNITED STATES SENATE

COMMITTEE ON INTERSTATE COMMERCE

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1911

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## INTEREST RATES FOR CARRIERS

FRIDAY, MARCH 19, 1926

UNITED STATES SENATE,  
COMMITTEE ON INTERSTATE COMMERCE,  
*Washington, D. C.*

The committee met at 10.30 a. m., in its hearing room, in the Capitol, on call of the chair, Senator James E. Watson, (presiding).

Present: Senators Watson (chairman), Cummins, McLean, Fernald, Goff, Fess, Pine, Gooding, Howell, Sackett, Couzens, Bruce, and Wheeler.

The CHAIRMAN. The committee will be in order. I believe this was to be an executive session.

Senator GOODING. I understood that Senator Couzens wished some witness to be heard.

The CHAIRMAN. Where is Senator Couzens?

Senator GOODING. I do not know. I will call him.

The CHAIRMAN. If you will. I do not know of any witness that is to appear this morning. I believe we were to take up bill S. 2929, "To authorize the refunding of certain evidences of indebtedness issued by carriers in interstate commerce, and for other purposes," on which we have already held hearings.

Senator COUZENS. I was detained a few moments, and am sorry I was not here on time.

The CHAIRMAN. I believe Senator Gooding thought you wished some witnesses to be heard on this bill.

Senator COUZENS. I understand when we adjourned the former hearings, and I believe you were not here perhaps, Mr. Chairman, at the close, that it was understood representatives of Kuhn, Loeb & Co. and of the National City Co., the reorganization managers of the Chicago, Milwaukee & St. Paul Railway Co., would be heard.

Mr. THOM. Mr. Chairman and gentlemen, former Senator Frelinghuysen was to have been here this morning, and I understand he is on his way here now and will likely be here in a moment, and I think perhaps he wishes to say something. There he is now.

The CHAIRMAN. Senator Frelinghuysen, did you wish to say something?

### STATEMENT OF JOSEPH S. FRELINGHUYSEN, RARITAN, N. J.

Mr. FRELINGHUYSEN. Mr. Chairman and gentlemen of the committee, I am interested in this bill because I represent corporations that are large investors in the bonds and stock of the Chicago, Milwaukee & St. Paul Railway Co. I am also interested in the bill because I believe it is only a simple act of justice and relief to those railroads that are now paying the Government 6 per cent interest on tremendous amounts that have been borrowed from the Govern-

ment. I believe that they should at least have relief to the extent of paying the same amount at which the Government secured this money.

The whole object of this proposed legislation, as far as the Chicago, Milwaukee & St. Paul Railway Co. is concerned, is to relieve the stockholders of the tremendous burden that is being imposed upon them under the reorganization plan of Kuhn, Loeb & Co. I am a member of a committee, known as the Jameson defense committee, that is opposed to the Kuhn, Loeb & Co. reorganization plan. We are opposed in principle to the tremendous commissions and underwriting profits that are to be paid to these reorganization bankers. We believe that the owners of the Chicago, Milwaukee & St. Paul Railway Co., I mean the former owners, the stockholders, are entitled to a reorganization that will be as economical as possible.

The direct result of this proposed legislation would be to preserve, in my opinion, to many thousands of stockholders of the Chicago, Milwaukee & St. Paul Railway Co. the retention of their stock, because as against \$32 a share proposed to be assessed on the common stock by this reorganization plan, and which many of the small holders would not be able or willing to pay, the result of this proposed legislation would be a reduction of their assessment practically to \$7 or even \$5 a share, and might remove entirely any assessment.

Under the reorganization plan of Kuhn, Loeb & Co. they propose to assess the stockholders of the Chicago, Milwaukee & St. Paul Railway Co. \$70,000,000 on \$230,000,000 worth of stock. Of that \$70,000,000 the sum of \$55,000,000 is to be taken to pay the Government, and \$5,000,000 to be reserved for expenses and maintenance, and \$10,000,000 is to be reserved for commissions and for expenses, we will say, for underwriting profits.

Now, the stockholders for that assessment of \$70,000,000 will get \$60,000,000 in income bonds, which are prior to the stock. For the \$15,000,000, after commissions that they get, \$5,000,000 is taken care of in bonds, but \$10,000,000 they contribute for commissions, and—

The CHAIRMAN (interposing). Is this reorganization—  
 Senator GOODING (interposing). Just one moment, if you please, Mr. Chairman, because this is the clearest statement of the situation we have had.

The CHAIRMAN. That is all right. I just wanted to understand a point. But go ahead, Senator Frelinghuysen.

Mr. FRELINGHUYSEN. Now, we are testing in the courts this matter, or asking for intervention in Chicago—our committee, which represents a minority interest it is true, but \$20,000,000 of bonds that we own and have deposited with us—is fighting this plan. We represent some 50,000 to 100,000 shares of stock, which we own and have joined with us.

We are opposing the acquisition of the Terre Haute Railroad by the St. Paul at least, which imposes a burden of \$1,000,000 on the property, and a railroad which is already struggling to earn its fixed charges.

Senator WHEELER. That is a little road down in Indiana.

Mr. FRELINGHUYSEN. Yes; the Chicago, Terre Haute & South-eastern Railway Co.

Senator GOODING. I wonder if we might have this in the shape of a clear statement in our record.

Senator BRUCE. Oh, yes; the committee reporter is sitting here by me and is taking it down for our record.

Senator GOODING. I understand, but I meant if we could have it given without interruption.

Senator BRUCE. Oh, I understand.

Mr. CHAIRMAN. You may proceed with your statement.

Mr. FRELINGHUYSEN. But that is a legal question with which we have nothing to do so far as this bill is concerned. I might say that the Interstate Commerce Commission is also making an investigation of the management of this railroad. So if Kuhn, Loeb & Co. are to be paid these excessive commissions, the matter must pass the approval of the Interstate Commerce Commission before they will be permitted to enjoy such benefits. Therefore I would suggest to the committee that calling a representative of Kuhn, Loeb & Co. before your committee and bringing that controversy before the Senate, as to what Kuhn, Loeb & Co. should or should not have, would only confuse the situation. And you must remember that there is now \$250,000,000 of other indebtedness of other railroads tied up in this matter which it is very necessary should be relieved.

For instance, there is the New York, New Haven & Hartford Railroad Co. with \$91,000,000 involved, struggling along to finance itself under a clean reorganization, asking their own citizens, their own business men, to take their bonds and avoiding these tremendous commissions. Then there is the Boston & Maine Railroad Co., with the result of the reorganization depending upon this relief.

Now, gentlemen of the committee, the Government has taken from these railroads \$40,000,000 in excess interest, in interest charged over and above what the Government secured the money at. During the period of control the railroads have paid the Government \$40,000,000 more than it cost the Government to secure the money. That is a matter of record and is in a brief that we are going to file with you gentlemen.

Now, I want to say to you that we are fighting the Kuhn, Loeb & Co. plan bitterly, and are going to fight it in the courts, but—

Senator BRUCE (interposing). That applies only to the Chicago, Milwaukee & St. Paul Railway Co., as I understand it.

Mr. FRELINGHUYSEN. Yes, sir. But I say to you gentlemen that we will take care of that in the courts, and that the Interstate Commerce Commission will take care of it, and that it is unnecessary to bring these people here and try that case again before your committee.

Senator BRUCE. Could not this bill give absolute relief to all other railroads and conditional relief to the Chicago, Milwaukee & St. Paul Railway?

Mr. FRELINGHUYSEN. The merit of this bill is that necessarily when you adopt this interest-reduction measure then the Kuhn, Loeb & Co. plan fails and the necessity for assessing the Chicago, Milwaukee & St. Paul Railway Co. stockholders \$70,000,000 is at an end; that therefore the stockholders of this railroad will immediately receive the benefit of this legislation, and you will not force that burden on them.

Now, gentlemen of the committee, I am looking at this measure in the business light. We are fighting the Kuhn, Loeb & Co. plan,

and I can not see that any benefit will be secured by bringing representatives of those people here before your committee.

Senator GOODING. Excuse me, but the people that you yourself had here at the former hearing made this suggestion, if you will remember, at the last hearing.

Mr. FRELINGHUYSEN. Well, I know, and I suggested that if you wanted them here you should subpoena them. Somebody asked "Why are they not here?" It is because they are not as enthusiastic about this plan as we are; because they are anxious to carry through their reorganization plan for this road. They are looking to the bonds and not to the stockholders. The Roosevelt people are here, and they have 300,000 or 400,000 shares of the stock of the Chicago, Milwaukee & St. Paul Railway which they represent, and they are anxious for this proposed legislation because it will relieve the stockholders.

The CHAIRMAN. Does the reorganization of the Chicago, Milwaukee & St. Paul Railway Co. go on whether or not this bill is passed?

Mr. FRELINGHUYSEN. I do not think their proposed reorganization will go on because, in the first place, I do not think the courts will approve it; and, if they did I do not think the Interstate Commerce Commission would approve it. There are many other conditions arising in reference to this matter. I think the recent decision in the Van Sweringen case, protecting the interests of the minority, is a situation that is related closely to this, and that the interests of the minority in the St. Paul Railway should be protected also. Therefore I think the Interstate Commerce Commission is committed to the proposition of protecting the interests of minority stockholders in the St. Paul Road.

Senator WHEELER. It ought to be at any rate.

The CHAIRMAN. Has this interest rate reduction any relation to the commission proposed to be paid to Kuhn, Loeb & Co. in the Chicago, Milwaukee & St. Paul Railway Co. reorganization?

Mr. FRELINGHUYSEN. It would make it unnecessary to pay that commission, in my opinion.

Senator GOODING. It seemed to me that if there is no stipulation to that effect that it might not result as Senator Frelinghuysen thinks.

The CHAIRMAN. There is no stipulation or agreement, underhand, subterranean, or otherwise, that the amount to be obtained by this interest reduction shall go to Kuhn, Loeb & Co. in payment as a part of their commission.

Mr. FRELINGHUYSEN. Absolutely no.

Senator GOODING. The facts are that if Kuhn, Loeb & Co. go on with the reorganization of this railroad they will control it. That is the danger in the situation.

Senator BRUCE. If the brokerage charge is a reasonable charge under all the circumstances I do not see any objection as to whose benefit this inures.

Mr. THOM. Well, Senator—

The CHAIRMAN (interposing). Had you finished, Senator Bruce?

Senator BRUCE. I had not finished when Mr. Thom started to speak, but I thought may be he would clear up something in my mind.

Mr. THOM. I beg your pardon.

Senator BRUCE. Oh, that is all right. If it is necessary to call a representative of Kuhn, Loeb & Co. and the National City Co. before this committee as to paying a fee and seeing that it is a reasonable one, I do not see any objection. But I would want to be satisfied that the brokerage fee to be paid is a reasonable one. If we can not be satisfied on that I suggest that we approve this bill immediately as to all railroads except the Chicago, Milwaukee & St. Paul Railway, and approve it conditionally as to that road.

Senator GOODING. That would be an unfortunate situation. I am afraid we would not be able to get it enacted by the Senate under those circumstances.

Senator BRUCE. I do not know about that.

Mr. THOM. Had you finished, Senator Bruce?

Senator BRUCE. Yes, that is all.

Mr. THOM. Senator Frelinghuysen, may I ask you this question: If it is not true that a large portion of this expense money is based upon the necessity for the underwriting syndicate taking care of this \$55,000,000?

Mr. FRELINGHUYSEN. Yes.

Mr. THOM. And that if that \$55,000,000 did not have to be taken care of the necessity for that underwriting syndicate would be removed.

Mr. FRELINGHUYSEN. I so stated and thought I had made myself clear as to that.

Senator GOODING. Yet, Mr. Chairman, I am quite sure it will help in the passage of this bill if we will call the representatives of Kuhn, Loeb & Co. before this committee.

Mr. THOM. Mr. Chairman, will you hear Mr. Dick, who represents Roosevelt & Son?

The CHAIRMAN. The committee will be glad to hear Mr. Dick. Please give to the committee reporter your full name, and whom you represent.

#### STATEMENT OF FAIRMAN R. DICK, REPRESENTING ROOSEVELT & SON, NEW YORK CITY

Mr. DICK. It will be seen that the passage of this bill will reduce the assessment upon the stockholders from \$70,000,000 to about \$15,000,000, and will therefore enable the small stockholders to preserve their equity without undue hardship. It would also reduce the extent of reorganization by the saving in the banker's commissions that are necessary under the payment of \$70,000,000. The reduction of this amount to approximately \$15,000,000 will not only save the banking commission on the \$55,000,000 refunded by the Government, but the amount remaining is so small that there is no practical possibility of any banking commission whatsoever.

Senator COZENS. May I interject right here: Both Mr. Thom and you emphasize the fact that if this debt is refunded that is owed to the Government it will leave only \$15,000,000 to be raised. Now, is that \$15,000,000 to be raised predicated upon the theory that you want \$70,000,000, and the other \$15,000,000 was to be used, \$5,000,000 for rehabilitation of the railroad, and \$10,000,000 for underwriting managers' expenses, lawyers' fees, etc.? In other

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words, if the \$55,000,000 is waived by this plan, the \$15,000,000 to be used for what is the

Mr. DICK. The St. Paul road needs a certain amount of working capital and for rehabilitation.

Senator COUZENS. Yes; but this plan provides \$5,000,000 for rehabilitation, and \$10,000,000 is to go somewhere.

Mr. DICK. I beg pardon, Senator, but the plan provides \$3,500,000 compensation for the reorganization managers, lawyers' fees, pay of committees, etc. Then there is a further sum of—

Senator GOODING (interposing). Do you call that a reasonable fee for that work, the sum of \$3,500,000, and especially—

Mr. DICK (continuing). I said the reorganization managers, lawyers' fees, pay of committees, and so on.

Senator GOODING. Well, go ahead.

Mr. DICK. I should like to go on with that.

The CHAIRMAN. You may proceed with your statement.

Mr. DICK. There is an additional \$10,000,000 which is available to paying expenses of reorganization, such as foreclosures, fees to receivers, stamps on new certificates, printing new certificates, underwriting fees, and so on.

Senator COUZENS. I understand all that, but if this \$55,000,000 due the Government is refunded why raise \$15,000,000.

Mr. DICK. Because they still have to pay the receiver his fees.

Senator COUZENS. But they will not have to pay the underwriting fees?

Mr. FRELINGHUYSEN. May I answer that?

Senator COUZENS. Yes.

Mr. FRELINGHUYSEN. The sum of \$3,500,000 is provided in the reorganization plan for underwriting fees.

Senator COUZENS. No; the \$3,500,000 is not for underwriting.

Mr. FRELINGHUYSEN. For commissions, and—

Senator COUZENS (interposing). No; I disagree with you on that. That is not my understanding.

Mr. DICK. May I finish this thing?

Senator BRUCE. May I just suggest to you that you will get along much more satisfactorily if you will attempt to answer the questions. I merely make that suggestion to you, Mr. Dick, because of my observation of hearings before committees.

Mr. DICK. I thank you.

Mr. FRELINGHUYSEN. The sum of \$3,500,000 is set aside in the reorganization for Kuhn, Loeb & Co., but whether it is for commissions or underwriting, I do not know. But that is their stipend or compensation. Six million dollars more is set aside for paying expenses, which I take it is for underwriting and reorganization expenses. Now, as to that question whether it shall be given to Kuhn, Loeb & Co., will rest with the courts and with the Interstate Commerce Commission. It will be decided in the fight we are making against this reorganization plan, but whatever benefits you give the railroad in the matter of interest reduction, goes to the other railroads, and removes the necessity of this \$15,000,000 payment, and in my opinion removes largely the necessity of underwriting expenses. There has been retained in here \$15,000,000 because \$5,000,000 is for general expenses and maintenance, and \$10,000,000 is in-

involved for the purposes I have mentioned in this reorganization plan, Sena. Couzens.

Now, we are to take care of that. The immediate necessity is to make unnecessary this underwriting, to give to the stockholders these benefits and let us fight it out in the courts, and also to give directly to the railroad and its stockholders these benefits, and the other railroads likewise, that are asking for relief here at your hands.

Senator GORE. I understood Senator Couzen's question to be directed more at an analysis of what these costs and charges will be made up of, if that is possible.

Senator COUZENS. That is right.

Senator GORE. Now, you can approximate a receiver's fees, and you can approximate attorney's fees, in the estimation of those who have been through such litigation; and is it not possible to furnish this committee with substantially an analysis of that character? That is what Senator Couzens, I think, wants.

Mr. FRELINGHUYSEN. I think it is there, but I just want to say that 75 per cent of these bondholders and a large percentage of the stockholders have filed under this plan, they have agreed to it, and it is now in the courts. The courts will determine that. I do not think that this committee should take a hand in a matter that is now a legal fight, that is now in the courts, as a reason for delaying or of hearing other witnesses. I think the whole question here is the principle involved of relieving the railroads of the excessive interest rates, and that that is the one question that the committee should now consider. Of course, if you want to raise the other question and to call witnesses, why, of course, you have that right.

Senator FERNALD. How could it be of any value to this committee to call these people down here? That is a matter for the courts to determine and for the Interstate Commerce Commission to determine. We have delayed this matter for some years, and up until this time this year, and it looks like it might be delayed much further. I think we ought to get to work and take some action.

Senator BRUCE. I suggest that you let Mr. Dick finish his statement.

The CHAIRMAN. Go ahead, Mr. Dick.

Mr. DICK. I have stated that a commission on \$55,000,000 to be refunded to the Government would be removed, and that the amount remaining would be so small that there is no possibility, practically speaking at least, of any banking commission on it. But if this bill fails of enactment it will mean that the small stockholders, who are unable to pay the large assessments under the reorganization plan, will be forced to forfeit their stock or to sell it for whatever it will bring, and all stock forfeited by stockholders will go to the banking underwriters together with the cash commission provided for in the reorganization plan. The defeat of this bill would be the best assurance of the payment of commissions and forfeiture of stocks to the underwriters, disaster to stockholders.

Senator COUZENS. I agree to that proposition, but all I ask is that some assurance to that effect, more than just merely an oral statement from a minority group of stockholders, should be given to this committee.

Senator GOODING. And we must have it if we may expect to pass this bill. Mr. Chairman, if we want to present this matter properly, on the floor of the Senate, we must have that information.

Senator COUZENS. I think so.

Senator CUMMINS. Who entered into a contract by which stock was to be forfeited? Did the stockholders themselves agree to forfeit their stock if they did not pay the assessment.

Mr. DICK. Senator, the mortgage is being foreclosed. When you foreclose a mortgage, the owners of the property are out.

Senator CUMMINS. I understand the rule, and that they will be sold out. That is the only forfeiture that could occur to the stockholders.

Mr. DICK. That is right, Senator. Answering your question. Senator Couzens, I will say:

That of the \$70,000,000 to be raised, approximately \$55,000,000 goes to the Government of the United States, and there is \$16,000,000 to be used for the following purposes:

To provide for additions and betterments, new equipment and other capital expenditures; working capital; settlement of claims; expenses of foreclosure and of the receivership over which the court has jurisdiction, including compensation and expenses of trustees; organization, franchise, and other taxes, including stamps; compensation and expenses of engineering and accounting experts; expenses in connection with printing, engraving and listing of certificates of deposit, new securities, etc.; advertising; syndicate commissions and all other expenses of the reorganization (including those hereinafter mentioned), etc.

The CHAIRMAN. Mr. Dick, I understand that this sum of \$3,500,000 is to go to Kuhn, Loeb & Co.; is that in payment of their commission?

Mr. DICK. The \$3,500,000 is a fund, and it is figured that \$1.50 per share on the existing preferred stock and common stock of the railway company will be set aside to provide for the compensation of the reorganization managers and the committees, and the fees and disbursements of their counsel, and all depositaries and sub-depositaries, any balance of said sum to be paid over to the new company as additional working capital.

The CHAIRMAN. What is this \$6,500,000 set aside for, for the same purpose?

Mr. DICK. I read that.

The CHAIRMAN. I know, but I am asking you to answer the question without reading it.

Mr. DICK. Kuhn, Loeb & Co. charge a commission of approximately \$500,000.

The CHAIRMAN. Just for themselves?

Mr. DICK. Yes, sir; and the National City Co. is to get approximately \$500,000. I think it makes a total of \$1,100,000 to be divided between Kuhn, Loeb & Co. and the National City Co.

Senator COUZENS. That does not appear in the record.

The CHAIRMAN. Is that according to the terms of any writing?

Mr. DICK. That is according to this plan.

Senator GOODING. That was not presented to this committee before.

The CHAIRMAN. I am trying to find out what Kuhn, Loeb & Co. gets.

Mr. DICK. I will give it to you.

Senator CUMMINS. I suppose Kuhn, Loeb & Co. can not make an agreement with Congress.

Senator GORR. But they would be estopped from claiming any more than that.

Senator GOODING. We will have a member of the Interstate Commerce Commission before our committee before we can bring this bill out. There is no use of going on the floor of the Senate unless we are ready to clearly explain it, otherwise it would be beaten.

Senator CUMMINS. I agree with Senator Frelinghuysen that it is not a question of what Kuhn, Loeb & Co. are going to get out of it—although that is a very interesting matter—but the question is whether the Government ought to charge these people more than 4 per cent or 4¼ per cent.

Senator BRUCE. Yes; but this bill is one of the steps by which they get their commission.

Mr. FRELINGHUYSEN. Oh, no; they—

The CHAIRMAN (interposing). Whether or not this bill is enacted into law or not the Chicago, Milwaukee & St. Paul Railway reorganization plan will go on and Kuhn, Loeb & Co. will get their fee, will they not?

Mr. FRELINGHUYSEN. As one of the bitter antagonists of Kuhn, Loeb & Co., fighting this plan through the courts, I will say to you that the greatest encouragement you could give to Kuhn, Loeb & Co. would be to fail to pass this bill, because this bill renders unnecessary their underwriting, and will have a tendency to enable us in our fight in the courts, to make Kuhn, Loeb & Co. disgorge.

Senator GOODING. I agree with you, but—

Mr. FRELINGHUYSEN (continuing). Let me say further: If you want to go laboriously into an investigation of the whole St. Paul Railway system, methods of management, reorganization, and so on, you are going to do it by calling Kuhn, Loeb & Co. here before you on this proposition. You are now having that investigation through the Interstate Commerce Commission, which will protect the Government's interests and rights. We, of course, will appear, opposing Kuhn, Loeb & Co.'s plans, if you have the hearing; our lawyers will seek to appear, and undoubtedly there will be an airing of this matter in a hearing which is to be held very soon in New York. The commission has employed Mr. Fisher, of Chicago, to prosecute the case, and we have employed private counsel, and it will all be aired in the courts. But you would be carrying on a supplemental investigation—

Senator GOODING. Oh; no.

Mr. FRELINGHUYSEN. How can you go into that matter which is before the courts?

The CHAIRMAN. We just want to find out, if we can, how much commission Kuhn, Loeb & Co. will get out of it.

Senator BRUCE. It is no more than a public service commission does—when it authorizes the issuance of certificates.

Senator WHEELER. I should not feel like voting for the bill when it came on the floor of the Senate unless the matter is cleared up.

Senator BRUCE. Is the Government to give their return and then let a great big amount of it be paid to some banking firm?

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Senator COUZINS. I think the friends of this measure in making this attack are aiding the measure unless those who oppose the suggestion are heard on the measure.

Senator GOODING. I can not support it with the spirit. I should like to support it on the floor—and certainly there is no question of my sincerity in behalf of this measure—unless I am satisfied before I go on the floor as to all the surrounding conditions and am able to properly champion it.

Mr. FRELINGHUYSEN. I sat on this committee for six years, and therefore had some experience with the turn of such investigations and while I am opposed to Kuhn, Loeb & Co. and hold no brief for them, yet I say to you that if you go into the question of Kuhn, Loeb & Co.'s commission, which I do not think the committee has anything to do with, it will lead you into an investigation of the whole question.

Senator GOODING. Well, I am through with the discussion.

Mr. FRELINGHUYSEN. The committee can do as it pleases, of course, but I certainly think it would be unwise so far as the principle of this bill is concerned.

Senator GOODING. Mr. Chairman, if we are through with this discussion I suggest that the committee do now go into executive session.

Mr. THOM. Just one minute, if you please. There has been one thing that has been clearly stated, but I wish to say something because of the question asked by Senator Bruce. If this bill is not passed there will be the absolute assurance of the necessity for these or some expenses adequate to carry through the reorganization on the basis of payment to the Government of \$55,000,000. So that the failure of passage of this bill will be assurance of large compensation to the managers for this reorganization plan, whereas if the bill is passed, there will be no necessity for that part of it.

Senator GOODING. Let me ask you: when is this money due to the Government from the Chicago, Milwaukee & St. Paul Railway Co.?

Mr. THOM. Senator Frelinghuysen, do you know that?

Mr. FRELINGHUYSEN. I think Mr. Dick has the figures.

Mr. DICK. I think under the terms of the note to the Government the receivership made all these loans due and payable. However, under the reorganization, whether they were due and payable or not, the reorganization will settle the question.

Senator GOODING. Why should they want to settle. If they can get their money now at 6 per cent, why is it necessary to provide this reorganization plan to pay the Government? There is no necessity for doing that. No other railroad is doing that.

Mr. DICK. The St. Paul Railroad is in bankruptcy and the junior mortgages are being foreclosed. The junior mortgagees are taking income bonds, and being in that position, and in return for that they say to the stockholders: You must pay off this Government debt.

Senator GOODING. Is that a part of the wrecking scheme, in your judgment?

Mr. FRELINGHUYSEN. I say it is.

Senator GOODING. Let us put the cards on the table here and get after things from the bottom up.

Senator HOWELL. This is rather shocking, to think that somebody proposes to pay the Government what they owe the Government, and that it is a wrecking arrangement. The United States Government has not got what is due it from anybody scarcely, and here is one case where there is a chance to get what is due it.

The CHAIRMAN. That is the reason we are investigating it.

Senator GOODING. Mr. Chairman, I move that the committee do now go into executive session.

The CHAIRMAN. The hearing is closed, and the committee will now go into executive session.

Those who are not members of the committee will please retire from the room.

(Whereupon, at 11.40 a. m. the committee went into executive session, and after a time adjourned subject to the call of the chair.)

## INTEREST RATE FOR CARRIERS

THURSDAY, MARCH 25, 1926

UNITED STATES SENATE,  
COMMITTEE ON INTERSTATE COMMERCE,  
*Washington, D. C.*

The committee met at 10.30 o'clock a. m. in the committee room, 212 Senate Office Building, on call of the chairman, Senator James E. Watson (chairman) presiding.

Present: Senators Watson (chairman), Fernald, Gooding, Couzens, Goff, Pine, Sackett, and Pittman.

The CHAIRMAN. The committee was called for consideration of the bill for the reduction of rates of interest on moneys due from certain railroads to the Government. Upon invitation, a representative of Kuhn, Loeb & Co. is here for the purpose of making a statement.

### STATEMENT OF JEROME J. HANAUER, OF KUHN, LOEB & CO., NEW YORK

The CHAIRMAN. With whom are you associated, Mr. Hanauer?

Mr. HANAUER. I am a partner in the firm of Kuhn, Loeb & Co.

The CHAIRMAN. Do you desire to make an uninterrupted statement, or are you willing that we shall interrupt you from time as we desire.

Mr. HANAUER. Mr. Chairman, I should like the privilege of making an uninterrupted statement, showing our connection with this whole transaction from the very beginning to the present day, giving you absolutely all the information at my disposal. After that, of course, I shall be delighted to answer any questions any member of the committee may wish to ask.

The CHAIRMAN. Very well. Will you proceed?

Mr. HANAUER. In the beginning, Mr. Chairman and Senators, I want to say that we greatly appreciate the opportunity you have afforded us to come and tell about our connection with the Chicago, Milwaukee & St. Paul Railway Co. and its proposed reorganization, for the purpose of clearing up misunderstandings which seem to have arisen and to contradict some misstatements which have been made. We are also glad to have an opportunity to speak in favor of this bill for the reduction of interest and extension of the time for the payment of the debt of these weaker railroads.

The firm of Kuhn, Loeb & Co. has had banking connections with the Chicago, Milwaukee & St. Paul Railway Co. for about 50 years. Since 1909 the National City Bank, or the National City Co., has been connected with Kuhn, Loeb & Co. in the financing of that prop-

city. There has never been any continuing cost of any kind, but we were enabled through changing administrations in all these years to maintain the association through the service which we were able to render. We have never at any time been represented on the board of directors of the company and have had absolutely nothing to do with the operations of the property.

As we and the National City Co. had sold to investors both in the United States and in Europe practically all of the outstanding bonds of the company, we were naturally very much interested and very much disturbed at the declining earnings of the company in the years following Government control. That was especially true in 1922, when freight rates were reduced. Of course, at that time nothing could be done about it. Everyone was hopeful that conditions would change, that the earnings would improve, and we have always had in mind a situation which would permit of the refunding, in the usual manner, of the bonds due in June, 1925.

In the early summer of 1923 the company was in need of funds, and came to us, and we and the National City Co. arranged for a loan of \$5,000,000 to carry them over for need at that time. It went along until toward the end of 1923, when they came to us again and said, "We need for the year 1924 considerable additional money. We must have \$2,000,000 at once to carry us over our January 1 needs." We immediately loaned them \$2,000,000 and then arranged with them to purchase, subject, of course, to the approval of the Interstate Commerce Commission, an issue of \$14,000,000, 10-year, 6 per cent bonds. That gave them sufficient money to repay their floating indebtedness and, according to their estimates, carry them through the year 1924 and to include January 15, 1925. Those bonds were successfully sold, and they are now selling at 104½ in the market.

At the time of arranging this \$14,000,000 bond transaction the company furnished us with a statement, a statement which was an estimate of their cash requirements and their cash income for the year 1924, which showed estimated earnings that would have been considerably in excess of fixed charges for that year—some millions more—also that, with this loan, they would have at the end of the time—in fact, it was figured up to January 15, 1925—when some larger payments for equipment trusts, etc., were due they would and it was necessary to have a very comfortable cash balance.

With that picture we were quite confident that when the time came for the refunding of the maturity of the first of June it could be handled in the same manner in which the New Haven handled the extension of their bonds in 1922, with our help and with the help of certain other bankers. However, a very few months elapsed—

Senator COUZENS Would you mind an interruption there, Mr. Hanauer?

Mr. HANAUER. I am afraid I have a one-track mind.

Senator COUZENS. All right; go ahead.

Mr. HANAUER. Won't you kindly make a note of it, and I shall be very glad to answer afterwards.

I think four or five months of the year had elapsed when it became very evident that the estimates of earnings made—in perfect

good faith—in my opinion—at the time of the flotation of the \$14,000,000 bonds in January, 1924, would be away below the estimates, many millions below the estimates. It was thought that the earnings for the remaining part of the year would make that up, and we went along still hoping, discussing at that time several plans for the refunding of the 1925 maturity when it came due.

However, toward the end of 1924 it became very evident that they would not earn their fixed charges and that as far as the estimate of earnings was concerned, it had been some four or five million dollars overstated. The actual figures reported by the company showed a deficit of over \$1,700,000.

That was a very bad situation when it was contemplated refunding the loan which, if it could be refunded at all, would mean a considerably higher rate of interest. A company that is not earning the interest on its low rate bonds finds it a very difficult thing when they contemplate paying a higher rate.

We thereupon said to the directors of the company who were represented by a committee, that we felt that they should, for their own protection, for their own guidance, and for our information, employ a firm of accountants and expert engineers to give an entirely independent view of this picture in the hope that it would give us something to show to the holders of the 1925 maturity which would induce them to refund, something on which we could say to them, "If you make this refunding, why, at the end of the refunded period you can count upon getting your money, and getting the interest in the meantime." We recommended the firm of Coverdale & Colpitts, a firm of very great reputation. They have done a great deal of satisfactory work. They were the accountants and engineers who, at the time of the New Haven refunding and extension had made a report similar to the report which we now were recommending. I understand that the officials of the company considered certain other names but eventually they did employ Coverdale & Colpitts to make this investigation.

At that time we were asked to suggest to these expert engineers the things that we were required to know in order to be able to decide whether we could present to the holders of the maturing bonds a picture which would induce them possibly to renew. These bonds were, of course, scattered all over the world; \$11,000,000 of them were held in France. They were in franc and sterling denominations; but some of them probably were held over here, and they were held by literally thousands of people.

We thereupon prepared a questionnaire which we handed to these experts; and I will take the time to read that, because it clearly shows what was in our minds at the time. This questionnaire, which was submitted to them in writing, said:

1. Can the company be successfully operated and solvency maintained, assuming—

- (a) That the French loan could be renewed at the same rate of interest?
- (b) That 6 per cent interest may have to be paid thereon?

We did not say anything about any rate above 6 per cent to them. The New Haven loan in 1922 was extended at 7 per cent. [Reading:]

(c) That in the case of either (a) or (b) it would be necessary to pay off 10 per cent of the bonds, who would not renew on any terms?

That turned out to be the situation in the New Haven case; about 10 per cent of the people would not renew them, and they had to be paid off. [Reading:]

(d) If in case (a), (b), or (c) it would be necessary to pay to all bondholders, pro rata, 10 per cent of the face value in order to induce extension?

That, again, was the situation in the New Haven case. There everyone received 10 per cent. We were then in hopes that we might still do the same thing. [Reading:]

2. What would the fixed charges be for 1925 without figuring in the increase in the French loan? In this connection the Chicago Union Station Co. and any similar situation must be considered.

3. What are the earnings applicable to interest charges, rentals hire of equipment, taxes, etc., for the year 1924? Are there any unusual items which would not appear again?

4. Depreciation charges.

5. What capital requirements for equipment, etc., are necessary or advisable during the next few years?

6. What is the company's cash position now and what will it be up to and including January 15, 1926?

7. What securities has the company available for sale?

8. What are the yearly cash requirements of the company for all purposes, and what is the amount in addition to earnings available in cash on account of depreciation or otherwise?

9. If the company could increase its gross earnings by \$10,000,000 how much net income should it yield?

10. What is the condition in reference to bad-order equipment and motive power?

11. Are the causes responsible for the company's difficulties of a temporary character or are they more or less due to permanently changed conditions?

12. What effect upon the earnings of the system if they were extended?

13. Are the leases profitable?

Our first information as to the result of this investigation came at about the end of February from the president of the company, who informed us that the report of Messrs. Coverdale & Colpitts would be adverse. From him, and later from Coverdale & Colpitts, we learned that their conclusions were that the extension, on any terms of the 1925 maturity would not meet the company's present problems, that the fixed charges would increase through payments for the use of the Chicago Union Station and otherwise, that the charges for depreciation of equipment had been inadequate, and that, in their opinion, the actual deficit in 1924, considering these adjustments, was \$4,200,000 and not \$1,700,000.

They further stated that the company had, in addition to its fixed charges, cash payments which would have to be made, such as about \$2,600,000 annually for maturing equipment trust installments.

I might say here, to show how nearly correct Messrs. Coverdale & Colpitts were, that the actual operations for 1925, the year following, showed a deficit of between four and four and a half million dollars, and the improvements and equipment and such expenditures made by the receivers during that period would have necessitated, had the company gone on in the usual way, borrowing \$20,000,000, which it would have been entirely impossible to find. But the receivers, by not paying interest on the junior bonds, and by being able to sell equipment trusts for 75 per cent of the amount of equipment which they had purchased, were able to expend upon this property, for the good of the property in its work, an amount

which would have required the company, had it gone on, to find \$20,000,000.

In addition, Coverdale & Colpitts reported the company would have to expend over \$50,000,000 for capital purposes in the next three years over \$20,000,000 of which would be for equipment, necessary to overcome the existing deficiency in ownership. The additional capital expenditures during 10 years were estimated at over \$17,500,000 per annum on the average. It was evident, therefore, that the company not only could not bear an increased interest charge, but that it could not meet its present fixed charges, and did not have the credit to raise the additional money required to give proper service to the communities served.

While these discussions were still going on and we were considering the feasibility of formulating a voluntary plan of reorganization, as both the officers of the company and we believed that a definite decision would not have to be made until toward the end of May, 1925, for this June 1 maturity, we were informed that the counsel for the company had advised the board of directors that it would be entirely improper for them to pay interest due on the series "A" refunding mortgage bonds on the 1st of April when they had this information that they would not be able to pay the interest or the principal on the 1st of June; that the bonds whose interest matured on April 1 were exactly the same kind of bonds, secured under exactly the same mortgage as the June maturity, and that it would be a perfectly improper undertaking on their part to pay April 1 when they knew they could not pay on June 1; that it would be giving a decided preference. That brought about the immediate receivership on the 18th of March.

The company had requested us to consult with the larger holders of its securities, with a view to agreeing upon a prompt plan of reorganization, and this resulted in the formation of the bondholders' committee, of which Mr. Frederick H. Ecker is the chairman. This committee was composed of owners and representatives of a very large amount of bonds, a larger percentage of actual bonds than in my experience I have ever heard of any committee representing in the first instance. Originally this committee was formed by Mr. Frederick H. Ecker, chairman.

I might say that Mr. Ecker was in Augusta, Ga., on a holiday when this thing happened. When informed of it, he immediately came back to see what could be done in the situation.

Mr. Ecker is not only vice president in charge of finance of the Metropolitan Life Insurance Co., which is the largest mutual—I might say the largest of any insurance companies—in the world, but he is president, and has been for two terms, of the Chamber of Commerce of the State of New York. Mr. Ecker's company actually owned \$5,697,000 par value of bonds.

Then, there was Mr. Duffield. Mr. Duffield was president of the Prudential Insurance Co., in New Jersey. His company owned \$2,036,000 of bonds. Then, Mr. Charles A. Peabody, president of the Mutual Life Insurance Co.; his company owned \$6,319,000 of these bonds; Mr. Whitcomb, of the Northwestern Life Insurance Co., of Milwaukee, who had owned for many years \$3,976,000 of bonds; Mr. Fisher, who represented certain trusts of the Harkness

interest, \$2,212,000 of bonds; Mr. Cutler, who represented the Rockefeller Foundation and certain other charitable funds of that sort, \$2,743,000 of bonds.

So that the actual ownership of the people on the committee was about \$23,000,000 of bonds, or over 10 per cent of the entire outstanding issue. In addition to that, we and the National City Bank and others of the committee were in touch with very large holders, holders of, I have estimated, from \$12,000,000 to \$20,000,000 additional bonds. There were \$11,000,000 French bonds which we had been in direct touch with; when I was over in Paris, knowing the situation, I discussed it with the representatives over there.

There was Mr. Knox, who as president of the Association of Savings Banks of the State of New York and president of Bowery Savings Bank, represented about \$4,700,000 of bonds.

So we have an actual ownership there in the committee of \$23,000,000 of bonds, and in addition a representation which would really entitle them to speak, in the first instance, for about 20 per cent, or \$45,000,000, of all these bonds.

Then as to the stockholders' committees: The stockholders' committees were formed by Mr. Mortimer N. Buckner, president of the New York Trust Co. for the preferred stock, and Mr. Donald G. Geddes, for the common stock. These two gentlemen had the support of the Harkness interest, who were by far the largest shareholders in the entire property.

It was very difficult to find who the actual shareholders of the St. Paul were. The company not having paid dividends for a number of years, most of the stock, or a very large part of the stock, was in the names of brokers on the Stock Exchange, and it was almost impossible to find the representative holders.

The stockholders' committees were formed then by Mr. Buckner and by Mr. Geddes, respectively, and the names show that all the men are of the very highest character, of the very highest standing in their communities, men of great ability and absolute integrity.

In the preferred there were Mr. Loasby, president of the Equitable Trust Co., of New York; Oliver C. Fuller, of Milwaukee; Mr. McHugh, who was president of the Mechanics & Metals Bank, and Mr. Harold I. Pratt, who had, I understand, an interest in the property. This was arranged by Mr. Buckner at that time. Then Mr. Geddes invited Mr. George Davison, president of the Central Trust Co.; Mr. Bayard Dominick, who had been one of the governors of the New York Stock Exchange, and Mr. Stanley Field, of Chicago; Mr. Walter L. Johnson, of New York, and Mr. Percy A. Rockefeller.

Promptly after the formation of the committees we proceeded to prepare a plan of reorganization. We were very anxious to have a prompt plan of reorganization adopted, because as nearly as we could figure it was costing this company over \$1,000,000 a year for any delay.

The purpose of our plan was, of course, to be to create a structure which would make the St. Paul railway one of the strongest companies in the country, able to cheaply finance its requirements and thus to provide the best facilities to the territory which the road traversed.

The first consideration in working out the plan was the treatment to be afforded to the Government debt. These loans ran at 6 per cent, and a bill to reduce the rate of interest had failed of passage in Congress. A conference was thereupon arranged between Secretary Mellon, Assistant Secretary Dewey, Director General of Railroads Davis, Mr. Ecker and myself, and Mr. Paul D. Cravath, our counsel. Mr. Mitchell, president of the National City Co., had expected to attend, but at the last moment was unavoidably prevented from doing so.

At this conference the Secretary of the Treasury maintained that he had no power under the law either to reduce interest or to extend the loan for a longer period or to compromise the same. The Director General admitted that he, representing the President, did have such power as to the \$20,000,000 loan made by the railroad administration. Our counsel agreed with these conclusions. It was therefore necessary to limit our discussions to this latter loan of \$20,000,000. However, these discussions were fruitless in the end, and the Director General of Railroads maintained his position that he wished to receive \$20,000,000 and interest for his loan, that he would not consider taking long-time bonds therefor, and that his loan was for sale at par and accrued interest to anyone who might wish to purchase it. It therefore became necessary to provide in the plan of reorganization for the liquidation of the Government debt.

That was for this reason. The \$35,000,000 held, under section 210, by the Secretary of the Treasury, was well secured. There was not question about that, but it was very largely secured by a very large amount of bonds of the same character as these maturing bonds which had not been and could not be paid and which were being foreclosed. So they had to be gotten out of the way. The Director General's loan at the time of the receivership and at the time of these conferences, considering the market value of his security, were worth about \$15,000,000, and we felt that the offer which we then made him and which was now in the plan, of \$17,000,000 in cash and \$3,000,000 in preferred stock for his remaining claim, was a very, very liberal one. At first it was expected that it would be accepted; but the Director General at last said, "No; I want par and interest for my loan."

It therefore became necessary for us to provide in the plan for liquidation of the debt. There is, of course, authority to the Director General that he can take \$32,000,000 of bonds; but that is simply giving him his legal right. That is a collateral which he now has. So we said, "Here is what we can offer you for your loan, and of course you can always take your collateral." This was why the provision was put in—which, of course, we never expected he would accept, because it would have the effect of expanding the capitalization of this company, and we never thought any Government agency would do anything which would bring that about—of changing this \$20,000,000 to \$32,000,000. So we provided that if by any chance they should do that we would have the right to go in and buy up bonds, and thus reduce the capitalization again. But it was never thought that there was any such possibility.

This state of affairs necessitated raising, together with the other moneys required, about \$70,000,000. While this amount, under the plan, is to be provided by the share owners, it is only in small part an

assessment, as for the \$70,000,000 they are to receive. Jointly prime bonds bearing 5 per cent interest for about \$60,000,000 of their payment. The actual net assessment is therefore only \$4 per share, and if one adds, in the case of those who might possibly have to sell their bonds at a discount, that they would probably sell in the neighborhood of 80, that would be an additional loss which would bring the total net assessment up to around \$9 a share—a little different for the preferred and for the common. Considering the sacrifices which the \$223,000,000 bonds were expected to make to take in a bond for 75 years, it certainly was a great privilege for the shareholders to maintain their interest. Technically and legally, of course, the bonds could come in and simply foreclose and take the property away, but it will not be done that way and we never want to do it that way.

Both by circulars to shareholders and in the modified plan it has been stated that small stockholders lacking the facilities to make the necessary arrangements are invited to communicate with the committees representing their stock, as the stockholders' committees and the reorganization managers expect to be able to assist any such stockholders to finance their participation in the plan.

In connection with the compensation and expenses of the reorganization, I would like to state that the compensation of Kuhn, Loeb & Co. and the National City Co. has, in accordance with our fixed policy, in connection with the reorganizations for a number of years, been clearly stated in the plan, and is therefore an agreement between the reorganization managers and the depositing shareholders. It is to be payable only if and when the plan becomes effective. It, as well as all other expenses of the reorganization, is not to be capitalized, as it was not considered advisable to make these charges a burden upon the capitalization of the new company.

We were particularly impressed with that idea, because we understood that that was the view of the Interstate Commerce Commission, that the expense in connection with the reorganization should not be a burden upon the new property or become part of its capitalization. And it is a very, very good idea.

This compensation amounts to \$1,044,000, of which Kuhn, Loeb & Co. and the National City Co. are each entitled to receive one-half. It is figured on the basis of 25 cents per \$100 of bonds comprised in the reorganization—and of course the Government loan is not considered in that figure at all; there is no charge made in reference to the amount of the Government loan—and 20 cents per share for each share of stock. This amounts to not much more than a stock exchange brokerage, and it is less than the fluctuations in the price of the shares in many an hour on the stock exchange, and is only a very, very small part of the advance in the prices of the stocks which has taken place since the receivership and since the plan has been promulgated.

On the date of the receivership the common stock sold at  $6\frac{1}{8}$  and the preferred at  $10\frac{1}{4}$ ; yesterday, in a declining market, it sold at  $10\frac{3}{4}$  for the common and  $16\frac{1}{2}$  for the preferred. The plan further provides for the possibility of underwriting the payment by the shareholders. That is a necessary provision in any plan, but it has been our hope and our belief that, given a continuation of present conditions, it will not be necessary to form any underwrit-

ing syndicate and that, therefore, there will be no necessity for any underwriting commission at all.

If Congress will pass the bill which has been introduced and which you are now considering, we can almost definitely say that there will be no necessity for underwriting. In any case should conditions so change as to require an underwriting, this would, in our opinion, be the same as the sale of the new bonds to a syndicate, and it would have to be approved by the Interstate Commerce Commission.

The other expenses of the plan are difficult to estimate exactly, and depend to some extent upon the length of time that the reorganization will take. They divide themselves into several classes. First, compensation and expenses under the jurisdiction of the Federal court. These are entirely beyond our control, but for the purposes of this statement, in order to get at the grand total, we have estimated them at from \$1,000,000 to \$1,250,000. That is the amount which would come out of the reorganization fund, provided in the plan under this heading.

There are the compensation and the disbursements of the committees. We estimate the compensation of all the committees, bondholders' committees and shareholders' committees, as between three and four hundred thousand dollars. That has not been fixed or agreed upon. There are quite a number of men, men of high standing, but each one will get only a comparatively small amount.

In this connection I would like to say that Mr. Mitchell, president of the National City Bank, and myself, as members of the bondholders' committee, are not to receive any compensation as members of the bondholders' committee whatsoever.

Estimated expenses for depositaries: Depositaries who have received or will have received, in various parts of the United States and even in Paris and London \$233,000,000 of bonds and \$230,000,000 odd of stock; counsel fees, counsel for the reorganization managers, for the various committees, and such expenses—they are estimated at from \$1,300,000 to \$1,950,000.

I should like to explain that I am using minimum and maximum figures on account of the difficulty of estimating exactly, and also because if I estimated definite figures, I would have to estimate them higher than I might otherwise, and would have difficulty later on in cutting them down. That is always an unpleasant duty of the reorganization managers at the end.

Senator GOODING. Might I interrupt you, please?

Mr. HANAUER. I have almost finished.

Senator GOODING. Then go on. But I am going to ask this, that you make a showing as to just what it is going to cost, in your judgment.

Mr. HANAUER. That is coming.

Senator GOODING. That is, as to what the difference will be between reorganization if the bill passes and if it does not pass.

Mr. HANAUER. I will reply to that in just a moment, Senator.

This amount, as I have explained, includes expenses of depositaries in both the United States and Europe. Then there are miscellaneous expenses, mostly for mechanical work which are estimated at from \$330,000 to \$450,000.

The expenses of the new company for organization, preparing of the new securities, taxes, etc., are estimated as from \$975,000 to

\$1,400,000, of which by far the greater part is for the States through which the road runs and to the Federal Government. A detailed statement of all these items have been prepared and is at your disposal.

The total amounts to from \$4,950,000 to \$6,495,000. In considering these expenses it must be kept in mind that it permanently reestablishes the Chicago, Milwaukee & St. Paul Railway Co.; that it refunds a very large amount of short-time indebtedness—\$131,000,000, not counting the Government debt—and that it changes from a fixed interest charge to a charge contingent upon earnings, a very large part of the company's fixed charges, thus reducing the fixed charges to well within the earning power of the company under any conceivable conditions. Looking at it from the standpoint of the corporation and of the public interest, the entire cost of reorganization is less than the additional interest charge would have been if it had been possible to renew the \$48,000,000 maturing bonds on the same terms as the New Haven bonds were extended in 1922 and again in 1925.

In conclusion, I wish to most strongly urge your favorable consideration of the bill which is before you. The Government made loans to railroads in order to be helpful. It has made a profit on the St. Paul loans alone of over \$5,700,000, figured to April 1, 1926, based upon a cost to the Government of 4 per cent for its money. This is a profit of 50 per cent. Surely this situation should not continue. The Government is refunding the loans of foreign Governments, not only at a low rate of interest, but for a period up to 62 years. Surely the suggestion is not improper that it extend for 40 years, at a rate of 4 per cent per annum, these loans to the weaker railroads. To require the repayment in a shorter time, would, in my opinion, not be in the public interest, as it would require too large an annual payment for a sinking fund payment to retire the bonds. The smaller the annual sinking fund necessary the more money will be available to all of the companies concerned to use in the purchase of equipment, also other equipment for the benefit of the users of these railroads.

Gentlemen, I thank you.

Replying to your question, Senator—

Senator GOODING. If you will give us the totals, both ways.

Mr. HANAUER. Assuming that there shall be no underwriting, which we hope and believe, assuming the continuance of present conditions, there would be no difference in the cost one way or the other. The only difference there might be, whether this loan is taken by the Government or by these shareholders, would be in case conditions in the market should get so bad that there would be a doubt whether these prices would remain and would be an inducement to the shareholders to take the bonds. In that event there would have to be an underwriting syndicate, which, as I said before, would have to be passed upon by the Interstate Commerce Commission.

In the one case there would be about \$55,000,000 more of underwriting, or let us say, \$50,000,000, than in the other case. So the excess cost in case there should be an underwriting, if you did not pass such a bill, and if no arrangement could be made with the

Secretary of the Treasury—there is going to be a very delicate negotiation between the bondholders and the shareholders —

The CHAIRMAN. Do you get any part of this reduction as fees?

Mr. HANAUER. My dear sir, not one single penny.

The CHAIRMAN. Nor the other bank?

Mr. HANAUER. Not one, absolutely. Every cent of this goes for the benefit of the property, to the extent to which the interest rate is less than 5 per cent per annum. The difficulty is, the bondholders say, "We are taking these income bonds, and we do not want to have too much put ahead of us. We are glad to have this interest rate reduced to 4 per cent, but if your sinking fund is going to be more than 1 per cent, then we are worse off, because that much cash comes out ahead of us."

And that is the reason we are so anxious to have the 40 years, because 40 years would permit of a 1 per cent sinking fund. The minute you talk about 30 years it would require a sinking fund, to pay them all off by maturity, of 1¾ per cent, and there is going to be difficulty with bondholders, saying, "Yes, that is very pretty for the stockholders." Therefore, we hope the law will say 40 years. If not, why the requirement that it must all be paid off during the life of the loan? Why not a sinking fund of 1 per cent, which would pay off in 30 years about 57 per cent of the loan? The security is perfectly good. It will be ahead of this \$223,000,000 of income bonds.

Senator COUZENS. One of the arguments advanced—I do not know whether it happened in the meetings or not—was that whatever difference the Government made in its interest rate would go to amortize the debt.

Mr. HANAUER. That is exactly what it should do, Senator.

Senator COUZENS. But that would not be so if we only took 1 per cent to amortize the debt.

Mr. HANAUER. Oh, I beg your pardon. The difference that I was thinking of—we are in rather a different position than the other railroads, for this reason: The solvent railroads, whatever they can save below 6 per cent is that much saved, but here we have \$223,000,000 of bonds, which were legal investments for trust funds in New York and other States up to a few years ago, and were bought all over the world. These people are now asked to take bonds dependent upon income. Almost 80 per cent of the bondholders have deposited under the plan, showing that they are willing to do it, but they want to be sure that it is never going to happen again. They do not want any short-time loans outstanding; they want long-time loans outstanding.

Now, under the plan this money was to be furnished by the stockholders buying 5 per cent bonds at par, and so from the standpoint of those bondholders it is not 6 per cent, as you figure, but they say, "We were going to get it at 5 per cent." Now, if the stockholders can save anything by persuading the Government to go below 5 per cent, fine; it certainly helps them. There is a saving there of 1 per cent, certainly. But when anyone talks about the difference between, say, 4 per cent and 6 per cent, then the bondholders say, "That is perfectly true as far as the present rate is concerned, but under our plan they have it taken care of by the stockholders at 5 per cent. It only concerns us. Otherwise we are afraid that the additional amount is

going to come out of money which otherwise would be paid for interest on our sinking fund, which begins at 10 years." And it is going to take a rather delicate negotiation when the time comes to work out. With the other railroads the directors can say to you, "Yes, gentlemen, this is what we will do. But we must keep in mind that here are the holders of \$223,000,000 of bonds, of whom 80 per cent have deposited under a plan which says that if you change this plan so that it is less desirable from our standpoint, we shall have the right to withdraw."

Senator COUZENS. We are not to understand, then, that you want to have the St. Paul receive preferential treatment under this bill?

Mr. HANAUER. No; I should never think of asking that. On the other hand, I should not consider it improper that the Government should treat differently a railroad where the company has gone into the hands of a receiver and where such a tremendous amount of bonds are making a terrible sacrifice. I do not believe any other railroad would object to it. But I have not said that there should be any preferential treatment, because a sinking fund of 1 per cent per annum would pay off 57 per cent of the loan in 30 years—of course, what I would prefer is the full 40 years. If you make it 40 years, that 1 per cent will take care of it; but if you cut it down to 30 it makes a tremendous difference. My point is that that is cash which can otherwise be used for the benefit of the property.

Senator GOODING. It has been stated here by minority bondholders and stockholders that your plan provides for something like eight or nine million dollars in fixed fees. Have you counted on that?

Mr. HANAUER. There is everything in that statement, every kind of expense that we could think of. A statement, which should be here shortly and which will be at your disposal, goes into details; I have given you only the general headings and the results.

Senator GOODING. You have not given the totals there, have you, for your plan?

Mr. HANAUER. Oh, yes; I did. The total would be from \$4,950,000 to \$6,495,000, and that includes everything one can think of.

Senator GOODING. My question assumes, of course, that the bill passes.

Mr. HANAUER. This has nothing to do with this bill at all.

Senator GOODING. Well, if this bill passes, what, then, will be the cost?

Mr. HANAUER. It would not change it at all. Senator, unless it necessitates an underwriting. If there is an assessment for underwriting, if conditions so change that it is necessary to have an underwriting, then, of course—

Senator GOODING. There will be additional cost?

Mr. HANAUER. There would be the additional cost of such underwriting, which would be, however, much smaller if you pass this bill, and we make this arrangement with the Secretary of the Treasury. But if you pass this bill the cash to be raised is so small, comparatively speaking, that personally I do not think you would need to consider the possibility that there would be an underwriting.

Senator SACKETT. What would be the charge for underwriting if the bill should not pass?

Mr. HANAUER. That is a very difficult thing to estimate. It would depend, of course, upon conditions at that very moment, upon

how long it would stand in the breach. The charge would be distributed, of course, over probably five hundred or a thousand different underwriters all over the country, and even in Europe. It is most difficult to estimate, but in round figures from two to three million dollars. I can give you an example, a reorganization some two or three years ago—we had nothing to do with this particular one—where \$18,000,000 was raised. The expense was about \$1,000,000. But if this bill goes through, gentlemen, the St. Paul will be one of the strongest railroads in this country.

Senator SACKETT. The difference of from two to three million dollars would represent the difference in cost if this bill should pass and if it failed to pass?

Mr. HANAUER. Decidedly yes, as we think. We hope to save it in any case, but that is the possibility. Of course, we can not foretell conditions. We do not know when this thing is going to be approved by the courts and the Interstate Commerce Commission, but if I could only go ahead with it to-day I could say to you very definitely, gentlemen, there is not going to be any underwriting.

Senator GOODING. Why do you say the Milwaukee is going to be one of the strongest roads if this plan goes through? Let me make this statement to you: All the rest of the transcontinental railroads have been paying their regular dividends, with the exception of the Northern Pacific and the Great Northern, and they have reduced them very little. All of them have increased their surpluses in their treasuries to such an enormous extent that even the Northern Pacific and the Great Northern would have paid between 7 and 8 per cent if they had paid out of their increased surplus as compared with the five years before the war—say, up to and including 1914. That is, they could have paid that much in the last five years, and some of them could have paid 12 and 15, and one road nearly 20 per cent—all transcontinental railroads.

Now, the Milwaukee has had a greater increase in its volume of business since the Panama Canal opened in 1914 than any of the other transcontinental railroads, with the exception of the Santa Fe.

When all of these other roads have made such a wonderful showing, when they have had the most prosperous years of their history since 1914, how can you look into the future of the Milwaukee and hope for it very much more if there has been the right kind of management of the Milwaukee? Do you know what is wrong?

Mr. HANAUER. Senator, as I said in the beginning of my statement, we have never been on the board of directors or had anything to do with the operation of the Chicago, Milwaukee & St. Paul Railway Co. When I stated that this plan would make the St. Paul one of the strongest railroads of the country I was speaking of its financial strength. The St. Paul's financial structure is terribly top-heavy. Its fixed charges are, on the basis of its present indebtedness, something like \$22,000,000 a year, and they earn around, I think, \$18,000,000. This plan brings the fixed charges down to something like \$14,500,000. So, you see, they would have great credit to go ahead and make gains.

I am not sufficiently a railroad expert to answer your question. I can only refer you to the report of Coverdale & Colpitts, which shows a necessity for the expenditure of a large amount of money during a number of years for equipment and for improvements, and

figuring only a comparatively small increase in the gross, they ought to be prosperous after a number of years. Of course, the general feeling is—in which I must say I agree—that the northwestern railroads should have an increase in their own rates. The reduction in 1922 of 10 per cent was a tremendous hardship to them.

Senator GOODING. Why do you say that when it is perfectly apparent that the earnings of the roads, with the exception of the Milwaukee, have been greater than ever in the history of the world? The Santa Fe increased nearly 20 per cent in the last five years, under a management—apparently to beat section 15 (a)—of extravagance that is criminal.

Mr. HANAUER. Of course, the Santa Fe goes through a different territory. But if my recollection is correct—I have not the figures before me—none of the northwestern railroads have earned anything like the 5¾ per cent, which was believed to be mandatory upon the Interstate Commerce Commission.

Senator GOODING. I received all those records from the Interstate Commerce Commission and placed them in the Congressional Record, showing the rail earnings, and with the exception of the Northern Pacific and the Great Northern, all of them paid 6 per cent and some of them more, saying nothing about the accumulation of surpluses in their treasuries.

Senator SACKETT. Mr. Hanauer, are you at liberty to state what the report of the engineers was as to the St. Paul extension?

Mr. HANAUER. Here is a copy of the report, which I shall be very glad to file with you, if you want it. There is nothing confidential about it. But it is so long ago now that I should not like to answer your question off hand. This report is indexed—

Senator SACKETT. We can find it.

Mr. HANAUER. What is your point, Senator?

Senator SACKETT. One of the questions that you asked those engineers was to the effect of the St. Paul extension—

Mr. HANAUER. Yes; Puget Sound?

Senator SACKETT. Yes.

Mr. HANAUER. Oh, that was very definitely stated, that the Puget Sound had, up to the present, been a drag on the property, that it had not earned any part of its interest. That is one of the main troubles.

Senator SACKETT. What do they predict for the future? That is what I was trying to get at—whether that will be a permanent drag upon the property.

Mr. HANAUER. That depends, of course, upon the development of the northwestern territory. I think they did speak of it.

Senator GOODING. Did they make any report upon the cost of construction there, the character of construction, and all those things?

Mr. HANAUER. No. You see, their report was not for that purpose. Their report was to show what the financial situation was and how we could go ahead and put this company on its feet.

You wanted to ask a question, Senator Couzens, and you were good enough to postpone it.

Senator COUZENS. I have forgotten the question now, but I would like to ask you this: I wonder if there is going to be any assessment of the stockholders if this interest bill passes?

Mr. HANAUER. Oh, my dear sir, it would not only be necessary as a practical matter, but it is necessary under the law. There have been decisions of the courts that if bondholders are making sacrifices you can not simply let the stockholders do nothing. We would have our whole plan upset if we attempted any such thing. The bondholders are getting for fixed interest-bearing bonds, 75-year bonds, dependent upon income. The first five years the interest is not cumulative.

Now, the stockholders must do something. But the assessment can be very, very much reduced. It would be reduced by substantially the amount of the Government debt. It depends upon what arrangement we would make with the Government whether we paid off any part of it or extended the whole of it. The arrangement with reference to that is very carefully shown in the letter which was written by us to the Iselin committee, which said, of course the assessment would be reduced and that it might be possible to provide a little more working capital.

Senator COUZENS. So that when this debt is funded over a period of 30 or 40 years, you will assess the stockholders substantially the same amount, and use the difference for working capital. Is that correct?

Mr. HANAUER. No, sir; a very much reduced amount.

Senator COUZENS. How much reduced?

Mr. HANAUER. The assessment now is on the average, on preferred and common stockholders, \$30 a share.

Senator COUZENS. Let us get down to business. The plan under the present arrangement is for \$70,000,000. What would it be in the aggregate if this \$55,000,000 were refunded? Would it be \$15,000,000?

Mr. HANAUER. I should say, probably \$20,000,000.

Senator COUZENS. You would ante them \$5,000,000 if the Government funded this debt?

Mr. HANAUER. As a matter of fact, it depends entirely on what they get for it. It is very difficult to figure out. But after all, it is going into their property. It comes down to between \$8 and \$10 a share.

Senator COUZENS. Mr. Chairman, I am not prepared to conclude this matter to-day, until I see a transcript of the testimony, because it is obvious that I could not follow the witness and at the same time remember the questions I desired to ask.

Generally speaking, you think this is the best plan to be devised for financing the Milwaukee road at this time?

Mr. HANAUER. I think it absolutely the best plan. It is the soundest plan in the world. Gentlemen, we have had a broad experience in putting railroads on their feet. The railroads we have set upon their feet extend from the Atlantic to the Pacific, from the Great Lakes to the Gulf. There is the Union Pacific, the Central Pacific, the Baltimore & Ohio, the Missouri Pacific, the Wabash, the Chicago & Eastern Illinois, the Texas Pacific, the Denver & Rio Grande, the Hudson & Manhattan, a rather small local property. Every one of those companies is a strong company and giving good service. We are proud of them. The country can be proud of them, and if that is the kind of wrecking that was referred to the other day,

why. I think that the whole country and the St. Paul security holders are lucky that we are going to do that wrecking.

The CHAIRMAN. What will be the difference in the future of this road as between the passage of this bill and the failure to pass it?

Mr. HANAUER. As to the future of this road, it simply means that they would have a little more money to spend on their property if they had to pay 4 per cent instead of 5 per cent for this money.

The CHAIRMAN. It is the financing that you want anyway, whether the bill passes or not?

Mr. HANAUER. Oh, yes. As a matter of fact, in order to save the money loss occasioned by delay, after our failure to do anything with the Secretary of the Treasury and the Director General at that time, we urged and brought out this plan, to our great regret, without being able to consider any refunding of the Government's debt. Because, with the experience we have had, we felt that it was causing a loss of over \$1,000,000 without any certainty that anything could be accomplished.

But, of course, now that the time has gone around anyway and the matter is being considered here, we are very anxious to have the bill passed, for the benefit not only of this railroad but of the other railroads. We are all interested in these railroads, and for the benefit of the country we would urge very, very strongly that the bill be passed. We were urged to attempt to induce the Secretary of the Treasury to go ahead and do this thing without Congress. Certain people thought he had power to do it, but we did not think so.

Senator GOODING. You have been advised, of course, that the minority stockholders and bondholders have stated on more than one occasion here that a conspiracy existed to wreck the Milwaukee?

Mr. HANAUER. Gentlemen, I did not know that you were going to go into that, but I am prepared to go into it.

Senator GOODING. When a statement of that kind comes before this committee, when there is a bill pending before it, it is very proper for the committee to be enlightened, because it is a very serious charge.

Mr. HANAUER. It certainly is.

Senator GOODING. And unless that is cleared up of course this bill can not pass the Senate; it can not even start to pass, in my opinion. I am very anxious to see the bill passed, because I do not believe the Government should be a profiteer off of anyone; I am opposed to that, whether it is the railroads or anybody else. I think it is very important that the railroads should get a reasonable rate of interest, especially from the Government, and they must have it, of course, if they are going to operate successfully. But when a charge of that sensational character is made here we feel that we must know the facts. We are responsible for this legislation, and we are entitled to know the facts, and I would not consent to having this bill reported out unless those things can be made very clear.

Mr. HANAUER. Senator, I am very glad you treat this question so very forcibly. That is the reason I went to such length in my statement to show you step by step just what was done in connection with this whole thing.

There has been no conspiracy. The people connected with the St. Paul, including the bankers, were more anxious than anyone else

to refund the bonds and to avoid a receivership. I have memoranda here, which I made out for my own partners, showing how I hoped the thing could be done during the year 1924. It would have been absolutely impossible for the St. Paul road, without reorganization, to continue and to give service. It needed a large amount of equipment. It was earning numbers of millions of dollars less than its present charges. It was facing increased fixed charges for the Chicago Union Station Co. and other things.

A receivership is a means provided by the law of this country to safeguard every interest. We do not want receiverships. We do not like to sell bonds all over the country and then have companies default. Of course, there were war conditions which brought this thing about. But a receivership and foreclosure is the only effective way, the only way that is just to all shareholders, and the cheapest way in the end to set on its feet any large corporation of this kind. There is great danger in leaning too far backward in not having a receivership. The Denver & Rio Grande tried it, and the stockholders were wiped out entirely; it was a very unfortunate situation.

Senator GOODING. But if you make this assessment now of \$28 or \$30, will not that wipe out quite a large number of stockholders?

Mr. HANAUER. There is no assessment of \$28 or \$30. It is called an assessment, but it is not an assessment of \$28 or \$32 at all.

Senator GOODING. It has been spoken of as an assessment here time and again.

Mr. HANAUER. Yes; I know it is generally called an assessment. But here is what it is. The stockholders are asked to put up, in order to maintain their relative relationship and to induce the mortgagees not to take the property away from them—we all know from our own experience that under a real estate mortgage, if a man has a mortgage on a piece of real estate, and he does not pay, it is foreclosed. It can be taken away from him; and nobody thinks anything of it. But with these large corporations that is not the right way to do it, and we do not want it. Sometimes it is done. It was done in the case of the Denver & Rio Grande. It was done here only recently with a small property called the A. B. & A., where there was nothing left to the stockholders at all.

Here is all the stockholders are asked to do in order to make this a great property, in my opinion in the future. The stockholders have not received any dividends for many years. They had no hope; they were getting further away from it all the time. For four years preceding this receivership this company had just been paying its way by paying its interest out of its assets.

Here is a statement showing the manner in which the company was able to carry on its operations and provide necessary additions to road and equipment: For the period 1921 to 1924, inclusive, the deficit in income was \$20,000,000. The net additions to road and equipment were \$26,000,000—net increases in advances about \$3,000,000. Additional investment \$1,500,000.

That meant that they needed \$51,900,000 during that period to keep going. How did they get it?

They liquidated material and supplies, \$6,900,000—paying their way out of materials and supplies. There was a collection of ac-

crued interest from the Milwaukee Land Co. of \$2,000,000. There was a reduction of net current assets of \$5,785,000, to keep going.

Senator COUZENS. That may have meant bad management in buying excess supplies, equipment, or material that might be sold off.

Mr. HANAUER. It may have seemed so, but there is not any—I am only showing the facts as to how they got along for these four years.

Payment from the Milwaukee Land Co. on account of principal, \$728,000. There was a general item which they used. Then, they sold investments, \$1,522,000. They went to the New York Trust Co. and got \$2,340,000, and they increased their debt by the sale of securities during that period of \$29,000,000.

So you can see how they were able to get along in spite of earning \$20,000,000 less than their interest. But you can not keep that up indefinitely.

Senator COUZENS. It shows terribly bad management.

Mr. HANAUER. It shows very, very low earnings. As I said before, we have had nothing to do with the operation of this property whatever; we were not on the board, but we want to put it on its feet.

Senator GOODING. You were not through with your statement about the stockholders. I would like to have that cleared up.

Mr. HANAUER. Yes. These stockholders, in order to maintain their position, pay under the present plan \$4 a share, and in addition they buy perfectly good 5 per cent bonds.

Senator GOODING. What will that mean a share? Let us get that down. What is the real cash they have to put up for each share?

Mr. HANAUER. The preferred pays \$28; the common pays \$32. They get \$24 for the preferred and \$28 for the common in perfectly good 5 per cent bonds, which in time should sell at par.

Senator SACKETT. Income bonds?

Mr. HANAUER. No, sir; ahead of the income bonds. They are A-1 bonds.

Senator SACKETT. Part of \$14,000,000 interest charges?

Mr. HANAUER. Yes, sir; absolutely. So that the only actual assessment to each stockholder is \$4 a share. Any additional amount it may cost him depends upon whether he sells his 5 per cent bonds which he gets or whether he holds them. If he sells them right away, there is a market at about 80.

Senator SACKETT. That is the point I was interested in.

Mr. HANAUER. So that there would be a loss on his proportion, 24 per cent and 28 per cent, of, say, 20 per cent discount, which increases the immediate assessment to the man who sells to about \$9.

Well, now, compared to other reorganizations in the past—the Missouri Pacific, for instance, its stockholders paid \$50 a share and there was no objection, and you can see now how that property has grown. For the \$50 all the people got were 4 per cent bonds, which were worth about \$60 at the time, and are now selling around \$67. And they were well satisfied, and the result showed they were justified in being satisfied.

Senator FERNALD. Now, you have cleared up that question I was about to ask you, and I think very satisfactorily. The first ques-

tion that Senator Gooding asked, and that is the only one I want to bear in mind—and I think you did answer that, but I want to understand it thoroughly—that there has been some feeling among the members of this committee that your company was to receive a very large amount if this bill went through. Now, as I understand it, it does not make any difference to your people—that is, to Kubn, Loeb & Co.—whether this bill is enacted into law or not so far as what you are to receive.

Mr. HANAUER. Not one cent. As a matter of fact, we want this only for the benefit of the property.

Senator GOODING. Well, if it does not pass there will be all these things to be taken care of, in which event there will be considerable expense. You do not do these things for nothing.

Mr. HANAUER. It is the other way around. If you do not pass this bill there is a chance that we might make more money.

Senator GOODING. Yes; I understand that.

Senator FERNALD. It makes quite a difference.

Mr. HANAUER. If you want to put it the other way I will say this: We do not think there is going to be any underwriting, do not want any underwriting, but there is more chance that there might have to be underwriting and that we might make more money on it if you did not pass this bill.

The CHAIRMAN. After the committee shall have had an opportunity of reading your testimony—and I know that you are a busy man, how busy you are, but this is a matter of importance, and of course we ourselves are very busy—then if we should want you to come back to explain the matter further I take it there will be no trouble in getting you.

Mr. HANAUER. Mr. Chairman, I am willing to give all the time necessary to this subject. I gave up a summer holiday in Europe in order to make this plan possible, and locked myself in a room at the White Sulphur Springs, with Mr. Swayne, our counsel, to try to work it out. I consider on my part that there is nothing more important than trying to work this plan out and to set the company upon its feet if possible. I shall be glad to come back any time, any day next week if that suits you, for we want this committee and the Congress to know that there is nothing about this whole situation that we would not be delighted to have them and the public to know from beginning to end.

Senator COUZENS. I want to ask you, if you can, to briefly tell us what has created all this opposition to your plan of reorganization and the counter plan. There is opposition in the courts and opposition to your reorganization generally.

Mr. HANAUER. I should be glad to attempt to explain that if you like.

Senator COUZENS. I believe there have been charges of crookedness bandied about as to connection with subsidiary roads around Chicago. I do not understand it.

Mr. HANAUER. Well, I should be glad to attempt to explain that. So far as the purchase of subsidiary railroads is concerned I have made an affidavit, which I will be glad to repeat here: That there is not one word of truth in the charge as to the connection of the Chicago & Eastern Illinois reorganization with the reorganization of the Chicago, Milwaukee & St. Paul. The statement was made

in an intervention petition that the Chicago & Eastern Illinois Railroad underwriting has been made by certain people in Chicago, the First Trust and Savings Bank, in order to get the Chicago, Milwaukee & St. Paul Railroad to take the Chicago, Terre Haute & Southeastern Railroad. As a matter of fact that underwriting of the Chicago & Eastern Illinois Railroad was made by the Equitable Trust Co. of New York and not by Chicago people. And we never knew that the Chicago, Milwaukee & St. Paul Railroad was having any thought about taking the Chicago, Terre Haute & Southeastern Railroad. We were not on the board, and as I have said several times, I do not believe—

Senator GOODING (interposing). You are not competent to discuss that, are you?

Mr. HANAUER. I am competent to deny that the matter about which Senator Couzens inquired had anything to do with this matter in the way mentioned. We did not know anything about the lease of the Chicago, Terre Haute & Southeastern. I can only say that since we have been working on the plan we have reports of experts that it is desirable for the Chicago, Milwaukee & St. Paul to retain—

Senator COUZENS (interposing). You say you were never consulted and had no knowledge of the Chicago, Milwaukee & St. Paul Railroad purchasing these two lines?

Mr. HANAUER. Leasing and purchasing?

Senator COUZENS. Yes; leasing and purchasing.

Mr. HANAUER. No, sir.

Senator COUZENS. Is it not common for receivers or other people to go ahead with such things without consulting their bankers?

Mr. HANAUER. No. And there I wish to say, that if you are bankers for a property you can not be on the board of directors. That is the worst thing in the world for best results, because the banker then does not know anything that is going on until it is too late. He should have a representative on the board and have the responsibility, having everything public, of course, but by being there know what is going on. But with the present requirement that can not be done.

As to opposition, that is a very easy thing to discuss. The members of the bondholders' committee are all old bondholders, people who bought these bonds when they were legal investments some years ago; and they have worked out this plan. The opposition to this plan was solely an opposition which says: Don't do anything now. Let us get rate increases. The Government has robbed these companies, and now let us make them raise their rates; so let us not do anything now.

We said: Oh, we want a raise in rates just as much as you do, but we do not want the company to lose over a million dollars a year waiting for such action. We want to go ahead and reorganize the property.

When the gentlemen who had made that suggestion, the Roosevelt committee, gave up that view of it, we had no difficulty in sitting down with them and agreeing upon a slight modification of the plan, which satisfied their clients, and they are now in accord with our plan.

There is one outstanding objection, and that comes from the committee which Mr. Jameson is chairman. Their position is possibly somewhat different than the position of these other investors in these securities, and—

Senator GOODING (interposing). When you say "other investors" do you mean Roosevelt & Co. and Frelinghuysen?

Mr. HANAUER. No; as to the position of Roosevelt & Co., I have already covered that.

Senator GOODING. All right; what about the other?

Mr. HANAUER. Roosevelt & Co. are in agreement with us now and are absolutely backing our plan. Their securities have all been deposited under our plan.

There has been less objection to this reorganization plan, but that objection has probably been a little more noisy than we have ever experienced before. The only people objecting are the so-called Jameson bondholders' defense committee, which was formed many months after our plan was out, was formed after the Roosevelts and ourselves came together and agreed. Their opposition is possibly somewhat different than that formerly offered by others, and for this reason: These large life-insurance holdings and these bonds were investments which were made under the law at the time that they were savings banks and trustees investments. Under the New York law a life-insurance company is absolutely restricted in the class of investments that it can make, but fire-insurance companies are free as the air. The Jameson committee represents very largely the Globe & Rutgers Insurance Co., of which Mr. Jameson is the president. These companies can buy anything they like. As a matter of fact they do buy anything they like. They can buy oil stocks, and they do buy them. They can buy anything.

But look at this situation: Their old holdings in these securities were very, very small, comparatively small I mean. In 1918, they owned \$250,000 of the bonds and 7,500 shares of the stock. You see they own shares as well. But life insurance companies are absolutely prohibited under the law from buying shares. According to the official report of the insurance department of the State of New York at the end of 1925, the Globe & Rutgers Insurance Co. had increased their holdings to \$9,550,000 of bonds and had 11,100 shares of stock. These have been largely purchased in the last year or two. In fact, this fire insurance company had purchased about \$1,250,000 of these bonds after the receivership and when it was known they were not going to pay any interest on them. They bought them at a market price of around 50 cents on the dollar. If these bonds go up only a trifle they have a profit. Almost all of the other people have bonds that cost probably in the neighborhood of 100 per cent each.

I have here a statement that shows that at the end of 1925 they had \$9,550,000 of bonds, while in 1924 they had \$4,450,000 of bonds, having bought \$5,000,000 worth of bonds in the year 1925. And, as I have already said, \$1,250,000 of bonds after the receivership.

I am not criticizing that purchase, but am presenting that statement for the information of the committee.

Senator COUZENS. Why do they oppose your plan?

Mr. HANAUER. Well, I have never had it explained to me, as a matter of fact, why they are opposing our plans. We really do not know. We have had a number of conferences, but—

Senator COUZENS. They have testified here.

Mr. HANAUER. Well, we do not know. If I take as the real plan a plan which they have suggested in a petition in Chicago, which I had never heard of before, they want to set this up on a weak basis. They say: You have given these bondholders 20 per cent of fixed charge bonds. We want 40 per cent.

All right, that will be practically what was earned by the railroad last year, subject to be blown over by the least ill wind that might come along. We give income bonds of a certain class with a certain arrangement about payment of interest. If there comes any cycle of bad times, this company would be safe. Otherwise the fixed charges of the railroad would be practically the same as their earnings last year.

The CHAIRMAN. If you are through, we will now hear the other gentleman, representing the National City Co.

Mr. HANAUER. Pardon me, but do you wish the statement of expenses which has just come in?

The CHAIRMAN. If you please. We wish it made a part of the record.

Senator GOODING. Just let me see it, and then it can go into the record.

Mr. HANAUER. I wish to thank you gentlemen for your courtesies.

Senator GOODING. All right, I wish that made a part of the record.

The CHAIRMAN. The official reporter of the committee is instructed to make it a part of the record.

MEMORANDUM—EXPENSES IN CONNECTION WITH THE REORGANIZATION OF CHICAGO, MILWAUKEE & ST. PAUL RAILWAY CO.

A. Expenses in connection with the termination of the receivership and the foreclosure of the mortgages, over which the Federal courts in charge of the receivership have jurisdiction.

The expenses listed under this heading are subject to the jurisdiction and control of the courts in charge of the receivership. Although these expenses will have to be paid and discharged as a part of the expenses of the reorganization, nevertheless, in view of the jurisdiction of the courts in the premises and in view of the fact that the amount of such expenses must depend in most cases upon the duration of the receivership and the foreclosure proceedings, it is impossible to do more than guess at the probable aggregate amount of such expenses. The expenses under this heading include, among others:

(1) The costs of the causes in the district court of the United States in which the creditors' suit, the suit for the foreclosure of the general and refunding mortgage and the suit for the foreclosure of the Puget Sound mortgage are pending, viz:

(a) The District Court of the United States for the Northern District of Illinois, Eastern Division (primary receivership—the creditors' suit, the general and refunding mortgage foreclosure suit including enforcement of debenture issues, and the Puget Sound mortgage foreclosure suit);

(b) The District Court of the United States for the Western District of Michigan, Northern Division (ancillary receivership—creditors' suit and the general and refunding mortgage foreclosure suit);

(c) The District Court of the United States for the District of Minnesota, Fourth Division (ancillary receivership—the creditors' suit, the general and refunding mortgage foreclosure suit, and the Puget Sound mortgage foreclosure suit);

(d) The District Court of the United States for the District of Montana (ancillary receivership—the creditors' suit, the general and refunding mortgage foreclosure suit, and the Puget Sound mortgage foreclosure suit);

(e) The District Court of the United States for the Southern District of New York (ancillary receivership—the creditors' suit).

(2) Expenses attendant upon the sale of the properties upon foreclosure of the mortgages and in the creditors' suit, including—

(a) The compensation of the special master appointed to make the sale;

(b) The publication of the notice of sale once a week for four weeks in the cities in the various districts designated by the courts;

(c) The publication of notice of the filing by intending bidders of any reorganization plan or plans.

(3) All administration expenses, allowances and disbursements in the above-mentioned causes, including—

(a) Compensation of the special master appointed to pass on claims of general creditors;

(b) Compensation of the special examiner appointed to take testimony in foreclosure proceedings;

(c) Compensation of the receivers, Messrs. H. E. Byram, Mark W. Potter, and Edward J. Brundage;

(d) Compensation of said receivers' counsel: H. H. Field, Esq., Chicago, general counsel; O. W. Dynes, Esq., Chicago, general solicitor; Messrs. Winston, Strawn & Shaw, Chicago, special counsel. Messrs. Hornblower, Miller & Garrison, New York, special counsel;

(e) Expenses, allowances, and disbursements of the plaintiff in the creditors' suit mentioned above, including compensation and expenses of its counsel, Clay Judson, Esq., Chicago (also local counsel in ancillary jurisdiction).

(4) Compensation and expenses of the trustees of the mortgages and other instruments being foreclosed or enforced in the above-mentioned foreclosure suits, and the compensation and expenses of the counsel of such trustees, viz:

(a) Guaranty Trust Co. of New York and Morrel P. Callaway, as trustee under the general and refunding mortgage of the railway company, dated November 1, 1913, securing \$202,417,115 of bonds and debenture bonds outstanding in the hands of the public. Counsel: Messrs. Davis, Polk, Wardwell, Gardiner & Reed, New York; Messrs. Tenney, Harding, Sherman & Rogers, Chicago (also local counsel in the ancillary jurisdiction);

(b) The Farmers' Loan & Trust Co., as trustee under the indenture of the railway company dated July 1, 1909, under which \$33,286,000 of debenture bonds are outstanding in the hands of the public. Counsel: Messrs. Geller, Rolston & Blanc, New York; Messrs. Barry, Johnstone & Peters, Chicago (also local counsel in the ancillary jurisdictions);

(c) United States Mortgage & Trust Co. and William Nelson Cromwell, as trustees under the indenture of the railway company dated June 1, 1910, under which 61,396,500 francs (or about \$11,831,515) of debenture bonds are outstanding in the hands of the public. Counsel: Messrs. Patterson, Eagle, Greenough & Day, New York (for Trust Co.); Messrs. Sullivan & Cromwell, New York (for William Nelson Cromwell); Messrs. Scott, Bancroft, Martin & MacLeish, Chicago (for both trustees) (also local counsel in the ancillary jurisdictions);

(d) Bankers Trust Co., as trustee under the indenture of the railway company dated June 1, 1912, under which \$49,980,800 of debenture bonds are outstanding in hands of the public. Counsel: Messrs. White & Case, New York; Messrs. Follansbee, Shorey & Schupp, Chicago (also local counsel in ancillary jurisdictions);

(e) United States Mortgage & Trust Co., as trustee under the indenture of the railway company, dated December 1, 1915, under which \$35,100,000 of debenture bonds are outstanding in the hands of the public. Counsel: Messrs. Patterson, Bagel, Greenough & Day, New York; Messrs. Scott, Bancroft, Martin & MacLeish, Chicago (also local counsel in ancillary jurisdictions);

(f) United States Trust Co. of New York and Edward W. Sheldon, as trustees under the first mortgage of Chicago, Milwaukee & Puget Sound Railway Co., dated January 1, 1909, securing \$26,175,000 of bonds outstanding in the hands of the public. Counsel: Messrs. Stewart & Shearer, New York; Messrs. Wilson, Melville, Hale & Templeton, Chicago (also counsel in ancillary jurisdictions).

Although for the reasons already stated it is impossible to estimate the amount which will have to be applied out of reorganization funds toward

expenses over which the courts in charge of the receivership have jurisdiction, for the purpose of making an estimate of the total reorganization expenses such amount is now estimated at between \$1,000,000 and \$1,250,000.

B. Expenses of the reorganization which were estimated in determining upon the \$1.50 per share of existing stock of the railway company to be set aside for the payment of such expenses, as provided in the reorganization plan.

The plan and agreement, dated June 1, 1925, for the reorganization of the Chicago, Milwaukee & St. Paul Railway Co., as modified November 19, 1925 (herein called the reorganization plan), provides that out of the payments to be made by the holders of the existing stock of the railway company, as provided therein, "a sum equal to \$1.50 per share of the existing preferred stock and common stock of the railway company will be set aside to provide for the compensation of the reorganization managers and the committee of their counsel and all depositaries and subdepositaries, any balance of said sum to be paid over to the new company as additional working capital, or, if the reorganization managers in their discretion shall so determine, to be returned pro rata to the holders of certificates of deposit for stock."

In determining upon the figure of \$1.50 per share (total \$3,500,148) the expenses to be paid out of the sum so to be set aside were estimated. Such estimates were necessarily approximate when made and the sum equal to \$1.50 was named as the maximum of the aggregate of such expenses when they should be finally determined. Except for the compensation of the reorganization managers, which is fixed in the reorganization plan, it is impracticable at this time to estimate the amount of the various compensation and expenses to be paid out of this fund, as the amount thereof must necessarily depend upon the amount and character of the work required and the length of time it takes to consummate the reorganization. The estimates here made are based upon the assumption that the completion of the reorganization will not be unduly delayed.

The expenses to be paid out of this fund include:

1. Compensation of the reorganization managers (fixed by the reorganization plan), \$1,044,063.39.
2. Compensation of counsel for reorganization managers, Messrs. Cravath, Henderson & de Gersdorff (New York), between \$350,000 and \$450,000.
3. Compensation of the bondholders' committee, of which Frederick H. Ecker, Esq., is chairman (nine members and secretary—Messrs. Jerome J. Hanauer and Charles E. Mitchell are not to receive any compensation for their services as members of the bondholders' committee), between \$150,000 and \$200,000.
4. Compensation of counsel of said bondholders' committee, Messrs. Shearman & Sterling, New York, between \$200,000 and \$300,000.
5. Compensation of the preferred stockholders' committee, of which Mortimer N. Buckner, Esq., is chairman (five members and secretary), between \$75,000 and \$100,000.
6. Compensation of counsel for said preferred stockholders' committee, Messrs. Murray, Aldrich & Roberts, New York, between \$50,000 and \$100,000.
7. Compensation of the common stockholders' committee, of which Donald G. Geddes, Esq., is chairman (six members and secretary), between \$75,000 and \$100,000.
8. Compensation of counsel for said common stockholders' committee, Messrs. Cotton & Franklin, New York, between \$50,000 and \$100,000.
9. The out-of-pocket expenses and disbursements of counsel for the reorganization managers and the committees, of which it is impracticable to make an exact estimate at this time, but which may be roughly estimated at \$50,000.
10. Compensation and expenses of depositaries for bonds, estimates of which are given below. It is not possible to give a definite figure as to the charges of the depositaries for bonds for their services under the reorganization plan, which includes taking in the old bonds, issuing certificates of deposit therefor and later exchanging the new bonds for the certificates of deposit. The depositaries for bonds under the reorganization plan have jointly advised that the minimum amount for which the transaction can be handled, assuming that the new securities will be ready for delivery January 1, 1927, will be \$1.50 per \$1,000 bond, with an additional charge per annum in case the new securities are not ready for delivery by January 1, 1927. Accordingly, the longer the consummation of the reorganization is delayed the larger will be

the charges of the depositaries. Said depositaries have also advised that, in addition, the depositaries should receive \$1 per \$1,000 bond for all bonds deposited through them. Said depositaries have also advised that the foregoing amounts do not include out-of-pocket expenses for postage, insurance, and counsel fee, etc., nor the charges of the respective registrars for the different issues for registering the certificates of deposit. The following estimates are meant to include charges of depositaries, subdepositaries and registrars:

(a) Compensation and expenses of Guaranty Trust Co. of New York, as depositary for general and refunding mortgage bonds, series A and B, due 2014 (total issue in hands of public, \$72,218,000), between \$100,000 and \$125,000.

(b) Compensation and expenses of the Farmers' Loan & Trust Co., as depositary for the 25-year 4 per cent gold bonds of 1909, due 1934 (total issue in hands of public, \$33,286,000), between \$45,000 and \$65,000.

(c) Compensation and expenses of United States Mortgage & Trust Co., as depositary for the 4 per cent 15-year European loan of 1910 bonds, due 1925 (total issue in hands of public, 61,396,500 francs, or about \$11,831,515), between \$20,000 and \$30,000.

(d) Compensation and expenses of the Equitable Trust Co. of New York, as depositary in London and Paris for the 4 per cent 15-year European loan of 1910 bonds, due 1925 (total issue in hands of public, 61,396,500 francs, or about \$11,831,515), included in foregoing item (c).

(e) Compensation and expenses of Bankers Trust Co., as depositary for the 4½ per cent convertible gold bonds, due 1932 (total issue in hands of public, \$49,980,800), between \$75,000 and \$100,000.

(f) Compensation and expenses of United States Mortgage & Trust Co., as depositary for the 4 per cent gold bonds of 1925, due 1925 (total issue in hands of public, \$35,100,000), between \$50,000 and \$75,000.

(g) Compensation and expenses of United States Trust Co. of New York, as depositary for Puget Sound bonds, due 1949 (total issue in the hands of public, \$26,175,000), between \$40,000 and \$60,000.

11. Compensation and expenses of the following subdepositaries for all bonds included in above figures: Boston, Mass., the National Shawmut, Bank of Boston; Philadelphia, Pa., Girard Trust Co.; Pittsburgh, Pa., Union Trust Co.; Chicago, Ill., Illinois Merchants Trust Co.; St. Paul, Minn., First National Bank; Minneapolis, Minn., Minnesota Loan & Trust Co.; Milwaukee, Wis., National Exchange Bank; Seattle, Wash., Seattle National Bank.

12. Compensation and expenses of depositaries for stock whose services correspond to the services of the bond depositaries and include also the making of transfers of certificates of deposit. The following estimates of the compensation and expenses of the depositaries in connection with the deposit of stock under the plan are based upon a rate of approximately \$0.50 to \$0.75 per \$1,000 par amount of stock deposited and are intended to include such additional charges as may be necessary to compensate the subdepositaries and registrars (exclusive of charges for services in connection with the transfers of certificates of deposit as it is manifestly impossible to determine the number of transfers which will be made prior to the completion of the reorganization).

(a) Compensation and expenses of New York Trust Co. as depositary for the preferred stock (total issue outstanding in the hands of the public \$115,845,800), between \$60,000 and \$90,000.

(b) Compensation and expenses of the following subdepositaries for preferred stock, included in foregoing figures: Boston, Mass., the First National Bank of Boston; Philadelphia, Pa., Fidelity Trust Co.; Pittsburgh, Pa., First National Bank; Chicago, Ill., Continental & Commercial Trust & Savings Bank; St. Paul, Minn., Merchants National Bank; Minneapolis, Minn.; Northwestern National Bank; Milwaukee, Wis., First Wisconsin Trust Co.; Seattle, Wash., Dexter Horton National Bank.

(c) Compensation and expenses of Central Union Trust Co. of New York, as depositary for common stock (total issue outstanding in hands of the public \$117,406,000), between \$60,000 and \$90,000.

(d) Compensation and expenses of the following subdepositaries for common stock included in foregoing figures: Boston, Mass., Old Colony Trust Co.; Philadelphia, Pa., Bank of North America & Trust Co.; Pittsburgh, Pa., the Bank of Pittsburgh, National Association; Chicago, Ill., First Trust & Savings Bank; St. Paul, Minn., Northwestern Trust Co.; Minneapolis, Minn., Minncap-

olis Trust Co., Milwaukee, Wis., Second Ward Savings Bank (Little, Wash., National Bank of Commerce.

13. Expenses of bondholders' protective committee, of which George E. Roosevelt, Esq., was chairman, including compensation and expenses of Bank of New York & Trust Co. as depository for said committee and its sub-depositaries, \$63,000.

14. Compensation of Messrs. Root, Clark, Howland & Ballantine, New York, counsel for said Roosevelt bondholders' committee, between \$25,000 and \$100,000.

15. Expenses of stockholders' committee, of which Ernest Iselin was chairman (approximately), \$4,000.

16. Compensation of William Church Osborn, New York, and Lessing Rosenthal, Chicago, as counsel for said Iselin stockholders' committee, between \$25,000 and \$100,000.

17. Compensation and expenses French bondholders' committee, between \$20,000 and \$30,000.

The estimated aggregate of the expenses to be paid out of the \$1.50 per share upon the above basis, including \$1,044,063.39 compensation of the reorganization managers, is between \$2,636,063.39 and \$3,381,063.39.

C. Other expenses of the reorganization, estimated:

1. Preparation of certificates of deposit at rate of approximately \$100 per 1,000 pieces or, assuming all bonds deposited in \$1,000 pieces and all stock deposited in 100-share lots, say, between \$25,000 and \$35,000.

2. Listing fee of New York Stock Exchange for listing certificates of deposit (approximately), \$46,400.<sup>1</sup>

3. Printing plant and agreement of reorganization, deposit agreements modified plan notices, and circular explanatory of plan and relating to the deposit of securities and issue of new securities, between \$50,000 and \$75,000.

4. Publication of notices explanatory of plan and relating to the deposit of securities and the issue of new securities, etc., between \$125,000 and \$200,000.

5. Engineering and accounting experts employed to advise the committee, between \$40,000 and \$60,000.

6. Syndicates: It is expected that, if market conditions continue as they are, it will not be necessary to have the participation in the reorganization of any class or classes of securities underwritten.

7. Miscellaneous: It is impracticable to cover except in a very general way the considerable amount of smaller out-of-pocket disbursements in connection with the reorganization for incidental purposes, such as traveling expenses, postage, telephone and telegraph tolls, extra stenographic services, etc., the amount of all of these items depending upon the length of time it takes to complete the reorganization, say, \$50,000.

The foregoing out-of-pocket disbursements in connection with the reorganization listed under this heading are for the most part dependent for their amount upon the requirements of the situation, e. g., in the case of printing upon the amount of work to be done, etc. For this reason the amount of such expenses can not be exactly estimated at this time.

The estimate aggregate of the above expenses of reorganization under this heading is between \$336,400 and \$466,400.

D. Expenses of the new company, estimated:

1. Organization, franchise, qualification, transfer, recording, and other taxes and governmental charges in connection with the organization of the new company and its acquisition of the lines of railway (depend upon State in which organized, local statutes, etc.), between \$350,000 and \$700,000.

2. Engraving new bonds and stock certificates to be issued in reorganization; use of sinograph machines to sign new securities, between \$75,000 and \$125,000.

3. Listing fee of New York Stock Exchange for listing new bonds and new stock (approximate), \$52,500. (See previous note.)

4. Federal stamp taxes (and Franch taxes) in connection with the issue of new securities \$290,000.

5. Charges of trustees for certifying new bonds, between \$70,000 and \$140,000.

6. Charges of transfer agents and registrars in registering new stock certificates, between \$20,000 and \$40,000.

7. Printing all papers and documents necessary to carry the reorganization plan into effect, including petitions and orders of court, applications to Inter-

<sup>1</sup> Assumes total amount deposited. Efforts to avoid the duplication of charges involved in a listing fee for both the certificates of deposit and the new securities have proved unavailing.

state Commerce Commission and exhibits, new mortgages, certificate of incorporation, by-laws, etc., between \$20,000 and \$50,000.

The estimate aggregate of the expenses to be paid by the new company is between \$977,000 and \$1,397,500.

#### SUMMARY

Estimate of expenses over which courts have jurisdiction, between \$1,000,000 and \$1,250,000.

Estimate of expenses to be paid out of \$1.50 per share, between \$2,636,063 and \$3,381,063.

Estimate of other disbursements in connection with reorganization, between \$336,400 and \$466,400.

Estimate of expenses of new company, between \$977,500 and \$1,397,500.

A total of between \$4,949,963 and \$6,494,963.

The CHAIRMAN. We will now hear Mr. Davis, representing the National City Co. Please give to the committee reporter and for the benefit of the committee your full name, address, and whom you represent.

#### STATEMENT OF PIERPONT V. DAVIS, VICE PRESIDENT OF THE NATIONAL CITY CO., NEW YORK

Mr. DAVIS. Mr. Chairman and gentlemen of the committee, the National City Co., as you know, is joint reorganization manager for the Chicago, Milwaukee & St. Paul Railroad in its plan of reorganization.

I think Mr. Hanauer's statement covered practically everything that you are interested in. However, there are one or two minor points that might be of interest.

The CHAIRMAN. We will be glad to hear you on them.

Mr. DAVIS. This Government debt of \$55,000,000 arose in two different ways; \$25,000,000 of the debt was created in December, 1920; \$10,000,000 or more in the summer of 1922. The reason those loans were made by the Government was to take care of maturing bonds of the Chicago, Milwaukee & St. Paul Railroad, the loan of \$25,000,000 to take care of a divisional bond issue called the Chicago, Pacific & Western bonds, which were due in 1921. The loan of \$10,000,000 took care of two divisional issues which were due on the 1st of July, 1922. Those loans bore 5 per cent interest when they were outstanding, so that when the Government took those loans up and loaned the St. Paul Railroad money at 6 per cent it had already boosted its fixed charges by \$350,000 a year.

Senator GOODING. Let me ask you a question right there, because this subject will be raised on the floor of the Senate and must be answered: If the Chicago, Milwaukee & St. Paul Railroad had had to raise money on account of those bonds at the time it got it from the Government would not it have cost as much or more?

Mr. DAVIS. I was coming to that, Senator.

Senator GOODING. Well, I want to clear that up, because we will have to meet that proposition.

Mr. DAVIS. I make no objection to the Government having loaned money to the Chicago, Milwaukee & St. Paul Railway Co. at that time at 6 per cent, because it was cheap money. As a matter of fact, I appeared before the Interstate Commerce Commission in 1920 to recommend their making this \$25,000,000 loan to the Chicago, Mil-

waukee & St. Paul Railway, because if we had had to sell a refunding bond issue for the St. Paul to raise the money it would have cost in the neighborhood of 8 per cent, and as interested bankers we did not want to see the St. Paul burdened with an 8 per cent charge when 6 per cent money was available.

And I am very glad to say that the Interstate Commerce Commission agreed to that proposition. Of course, as you gentlemen know, in 1920 and 1921 we had the period of lowest prices in the history of the bond market. The New York Central Railroad and the Pennsylvania Railroad at that time were paying 7½ per cent for a 10-year bond issue. And had the Interstate Commerce Commission denied the Chicago, Milwaukee & St. Paul Railway Co. a loan at that time we would have been forced to sell 10-year 7 per cent bonds which would have had to go to the public probably on a 7½ per cent basis, and it would have resulted in an 8 per cent cost to the St. Paul. So I am very glad that the commission authorized the loan.

But you gentlemen understand that the bond market has changed quite a good deal since that time. While 6 per cent money was cheap then it is not now.

Senator GOODING. What are the Class I railroads, such as the Pennsylvania and the New York Central, paying for money now?

Mr. DAVIS. A little over 5 per cent on the roads, and on equipment trust obligations less than 5 per cent.

Senator Gooding, you made a statement here or, in your examination of Mr. Hanauer, spoke about the prosperity of the transcontinental railroads. I have not the figures before me, but I have made some investigations of the difference in the prosperity of the northwestern railroads as compared with the railroads in the southwest, like the Santa Fe and others, and the secret seems to be this: If you take the year 1916, which was the year in which the railroads made the best returns they have ever made, they earned about 6 per cent on the property investment. They did that that year, and had never done it before, and have never done it since. Since that time the freight traffic density of the railroads of the northwestern district decreased 3 per cent. They are not doing more business, but less business. That is, those figures were for the year 1924, while the figures for 1925 are not available as yet.

Senator GOODING. Let me make this statement—

Mr. DAVIS (continuing). Pardon me for a moment. In contrast to that the railroads in the Southwest, the southwestern district, have had a freight traffic density that has increased 45 per cent. I think the contrasting histories of the Santa Fe and St. Paul railroads are found in these statistics.

Senator GOODING. Well, I just got through with a study and placed in the record the increased transportation of all these roads, and the average of them all is very nearly 100 per cent since 1914, while the average as a whole is nearly 36 per cent on our transcontinental railroads, and if the 1925 figures were available it would be fully 100 per cent. All of them are above the average of the railroads of the United States.

Mr. DAVIS. You must differentiate the situation of the northwestern railroads from other railroads.

Senator GOODING. They have had the same as the Union Pacific and the Southern Pacific.

Mr. DAVIS. No.

Senator GOODING. If you take the Chicago, Milwaukee & St. Paul Railroad's whole system, it has had as much as the Union Pacific and almost as much as the Southern Pacific and the Santa Fe, though the Santa Fe is higher than the others. But take the Milwaukee's tonnage as a whole for the year 1914 and compare it with the year 1924 and it has practically increased 100 per cent. Those are figures furnished by the Interstate Commerce Commission.

The question was raised that the Panama Canal had injured the Chicago, Milwaukee & St. Paul Railway Co., and I was interested to see how much the actual tonnage increase was on the St. Paul and the other northwestern railroads, and I think Mr. Byram made that statement in his examination, but I think it is not borne out—that the Panama Canal has injured the transcontinental railroads—because the tonnage of the St. Paul has increased over 100 per cent over 1914.

Mr. DAVIS. It is a fact that reductions in freight rates in 1921 and 1922 under orders of the Interstate Commerce Commission have cost the Chicago, Milwaukee & St. Paul Railway \$20,000,000 a year. That is an amount practically equivalent to their present fixed charges.

Senator GOODING. When the statement is made that freight rates ought to be increased on the western railroads, in the Western States, by the representative of a great banking institution, I have to take some notice of it, because this is what happened when the increases were made. We have a long haul and we had a horizontal increase of from 25 per cent to 30 per cent, or upwards of 33 per cent, I believe. It was not a short haul at all. There is a vast difference between increasing horizontally a long haul and a short haul. Our rates proportionately are higher than anybody else's rates to-day because of that reason. And with the exception of wheat, no attention was paid as to what the product would cost the carrier at the market. It was just a horizontal increase all the way through, and two horizontal increases of something like 70 per cent were made in freight rates, which made it a very serious thing, so far as we are concerned in the West.

I can understand what happened to the New England railroads, where they only have an average haul of 100 miles, that a horizontal increase did not amount to so much to them. But there is a vast difference between operating a railroad with an average haul of 100 miles and one with an average of 1,000 or 1,500 miles. So, of course, I can understand just what happened to the New England railroads. But that did not happen to the transcontinental railroads, and when great bankers talk about increasing freight rates in the West, and when we are already burdened with more than we can well bear, we sit up and take notice right way.

The CHAIRMAN. Have you anything more to say about this matter?

Mr. DAVIS. I think not.

The CHAIRMAN. Very well, we are obliged to you.

Senator GOODING. Mr. Chairman, I should like you to invite Mr. Cox, who has made an investigation of this matter, as well as the

chairman of the Interstate Commerce Commission, to appear before the committee on this matter. I understand it would be convenient to Commissioner Cox to appear here on Monday.

The CHAIRMAN. Very well.

Senator GOODING. If you will also invite the chairman of the Interstate Commerce to come with Commissioner Cox, I should be glad.

The CHAIRMAN. Very well; that may be done. That concludes the hearing so far as the subject we have had under investigation is concerned.

Senator FERNALD. When do you expect to conclude the hearing on that bill, Senator Gooding?

Senator GOODING. I do not know, but I think we will have to hear the Secretary of the Treasury. You have got to have this bill right before it is presented on the floor. I want it all cleared up so I can go on the floor and defend it properly, and unless we have the information it can not be done.

Senator COUZENS. I hope you will be more sure of its being right than you were on the long-and-short-haul bill.

Senator GOODING. Well, I was sure I was right in that, but I will say that I was never sure I had the votes after I saw how busy Uncle Thom and others here got and the rest of the boys. But nobody will doubt that Senator Pittman and a few others of us did the best we could.

The CHAIRMAN. Let us not fight that over again here in this committee.

Senator PITTMAN. There might be some mistake about this bill?

The CHAIRMAN. Yes.

Senator COUZENS. I want to object to the reference constantly made by the Senator from Idaho (Mr. Gooding) that we are robbing the railroads in charging them 6 per cent on the money we loaned them, that we are making an unconscionable profit. I do not agree with him at all on that.

Senator GOODING. Well, I want to say that I do not think the Government has a right to make a profit off of anybody. They all look alike to me.

Senator COUZENS. Everybody can make a profit off of Uncle Sam, but you do not think we should make a profit off of anybody else.

Senator GOODING. I do not think the Government ought to be entering any kind of business and making a profit off of its people. I know that unless railroad costs can be brought down, certainly in this regard, in this country, we have no chance of getting reduced freight rates.

Senator FERNALD. If it is necessary or we think it advisable to ask the Secretary of the Treasury to come, can not he appear here next Monday? Can not we then get this bill settled?

Senator COUZENS. The Secretary of the Treasury will be away for ten days, I understand.

The CHAIRMAN. Well, we will arrange it as best we can.

Senator GOODING. We will get through with the members of the Interstate Commerce Commission and then we can see about having the Secretary of the Treasury appear.

The CHAIRMAN. That is all on this particular subject at this time, but shall we take anything else up?

Senator COUZENS. Do not think we have the time.

Senator GOODING. I have wondered if any of the minority stockholders of the Chicago, Milwaukee & St. Paul Railway Co. would like to be heard.

Senator FERNALD. I have a friend from New England who would like to be heard in regard to the bus bill, and he would only take about 5 to 8 minutes.

The CHAIRMAN. We have a number of gentlemen who are pressing to be heard on the bus proposition, and they are exceedingly anxious to get away. Of course, we want to accommodate everybody, and it is unfortunate that we arranged our program so that this was thrust in upon that hearing, but at that time I did not know about it. One gentleman, Mr. Pratt, has a sick wife at home and is constantly getting telegrams to return, and is very anxious to get away. Two or three Senators are pressing, and Mr. Markel started in on yesterday to testify and we shunted him off because we did not have the time. And it is distressing to keep men away from their families so long.

Senator GOODING. Could not we have a hearing here this afternoon?

The CHAIRMAN. If the committee is willing, I am entirely willing. And we might as well go on until 12 o'clock with the hearing on S. 1734 to regulate interstate motor-bus and motor-truck traffic.

UNITED STATES SENATE,  
March 18, 1926.

HON. JAMES E. WATSON,

*Chairman Committee on Interstate Commerce,  
United States Senate.*

MY DEAR SENATOR WATSON: Inclosed you will find a copy of telegram which I have to-day received from Mr. S. Davies Warfield, president of the Consolidation Coal Co. in behalf of Senate bill 2929.

Sincerely yours,

O. E. WELLER.

MIAMI, FLA.

HON. O. E. WELLER,

*United States Senate.*

I take the liberty of asking your cooperation in the matter of the bill before Congress in respect to the reduction of the interest rate on loans made by the Government to railroads during Federal control to a minimum of 4 per cent. My understanding is that the Secretary of Treasury shall have discriminatory powers in the premises. If the present rate of 6 per cent interest on these loans to the railroads, secured as they are by proper collateral, is reduced it will be of very great benefit to the railroads and consequently to the shipping situation. I hope you may see your way clear to give your support to said bill.

S. DAVIES WARFIELD.

(Thereupon at 11.40 a. m., the committee proceeded to other business.)