

A Short History of A.G. Becker & Co.

"Although it is within the memory of many men younger than I, it will perhaps startle some of you if I ask you to picture Chicago as still a comparatively moneyless community with its face turned constantly to the East for credit; a community of few banks, the largest of which might make a maximum loan on one account of say \$100,000; a Chicago with no electric lights or electric railways, or automobiles, or typewriters, and with five or six thousand telephones. This is the Chicago in which I first began to deal in paper and the first paper I dealt in consisted of the bills receivable of our merchants, jobbers and manufacturers. I bought it here but I sold it largely in the East, and when I say bought, I use the word advisedly, for that is one thing in which I was really a pioneer. For many years after I entered the business, paper was generally handled on consignment—it was a brokerage business—but I had and held to the theory that I would not ask a bank to buy paper in which I had not shown my confidence by having bought it outright . . .

"I used to walk up and down Lake Street, then one of the principal business streets, and purchase the receivables of the lumber companies that had their offices here; then, with these notes and others in my pocketbook I went around selling them from bank to bank. Generally, the entire stock of paper was in my pocketbook and if the office sold a note a boy had to run out and find me so that the note would not be sold over again."

The preceding is an excerpt from a paper Abraham G. Becker presented to a meeting of Cook County bankers in 1923, explaining the origin of

A. G. Becker & Co. Mr. Becker started the firm after Herman Schaffner & Co., a commercial bank in which he was the junior partner, failed in the crash of 1893. The original capital to start the firm was provided by a \$50,000 life insurance policy given to Mr. Becker by his sister, Herman Schaffner's widow. Robert C. Schaffner, A. G. Becker's nephew, came to work for the firm when he was 17 years old and remained for some fifty years.

Early in the history of the firm, Mr. Becker felt that he wanted to repay, if he were able, the money lost by the depositors of Herman Schaffner & Co. During the firm's first ten years, he took out of the business just enough to support his wife and three children. With the remaining earnings he sought out the depositors of the bank and paid them off with interest. Recognizing the financial hardships caused by the bank's failure, he took care to see that widows and other more needy depositors were repaid first. He continued this voluntary obligation until he had paid all of the depositors he was able to locate.

For nearly twenty years after its beginning, the company's business concentrated on commercial paper. The firm's close association with its commercial paper borrowers opened the opportunity to provide further services and, in 1911, A. G. Becker & Co. made its first public offering of securities. It was a \$5 million issue of 7% preferred stock and common stock for Hart, Schaffner & Marx. While the firm did not immediately become significantly active in underwritings, occasional deals followed—a small debt issue for U.S. Gypsum in 1912 and, in 1915, a preferred stock issue for Hupp Motors.

By this time, the war in Europe was in progress and both sides were turning to the neutral American market for funds. During 1915, Becker negotiated with Ladenberg, Thalmann of New York (now a fully-disclosed correspondent dealer of the firm) a \$10 million loan for the Imperial German Government, evidenced by one-year gold notes—which were paid promptly at maturity. The war also played an indirect part in another unusual piece of business which A. G. Becker & Co. handled for the Hammermill Paper Company. In 1899, a Hammermill paper mill had been built at Erie, Pennsylvania with the backing of German capital. German-born Ernst Behrend ran the business for the German stockholders. In 1916, after becoming an American citizen, Mr. Behrend felt that this was an opportune time to acquire the business for a group of American investors, including himself,

so he negotiated purchase terms with the German interests. Difficulty was encountered in arranging the necessary American financing, and, at the suggestion of a mutual friend, Mr. Behrend came to see Mr. Becker. Plans were worked out for a \$1.5 million note issue with common stock proceeds to be used to make the purchase. There was, however, a serious problem about obtaining physical delivery of the Hammermill stock from Germany, then under tight Allied blockade. One of Germany's technological achievements of World War I provided the answer. The giant submarine Deutschland, which had successfully run the blockade a number of times, dramatically, on its final voyage to America, brought the Hammermill stock certificates and Mr. Behrend's deal was consummated. Mr. Becker soon thereafter became a director of the company and the firm was represented on that board for more than 50 years.

Also, in 1916, the Federal Reserve Act came into existence and commercial paper became the collateral behind the Federal Reserve Notes just before the U.S. entered World War I. At one time, during the war, there was about \$2 billion in commercial paper backing Federal Reserve Notes. With this expansion of credit, there was also a great expansion in business. Immediately at the end of the war, however, when this greatly expanded credit was contracted rapidly, many large companies in the country collapsed. The larger the business, the more money it owed and many corporations could not pay their debts. This situation gave Mr. Becker and his associates an opportunity to enter the brokerage securities business.

In order to serve the firm's large borrowing accounts on the West Coast, by 1919 it had established branch offices in San Francisco, Los Angeles, Portland and Seattle. Offices also were opened in St. Louis to serve the South and in New York to serve the East Coast. Thus began A. G. Becker & Co.'s first geographic expansion.

One of the first offerings we managed after the Bond department (now Corporate Finance) was organized in 1919 was a \$50 million issue of 1-3 year notes of Sears, Roebuck and Co. That was the biggest offering which ever had been financed in Chicago. It was done on the basis of the strong friendship between Julius Rosenwald, Chairman of Sears, and Mr. Becker.