

HIGH SPOTS IN THE EARLY HISTORY OF A. G. BECKER & CO.

Speech by Howell Murray, 1956-58

A. G. Becker & Co. had its roots in the 1870's, in Chicago, when Herman Schaffner and Co. was established as a private bank. In 1876, Chicago had half a million people. By the time A. G. Becker & Co. was founded in 1893, as successor to Herman Schaffner, the population was 1,200,000. The roots of the firm go way back, as you see, to the beginning of Chicago as a financial center.

Herman Schaffner was married to Mr. Becker's sister and Mr. Becker eventually became a junior partner in the Schaffner firm. From 1876 until 1893, Herman Schaffner & Co. handled bills receivable, which were purchased from wholesalers and sold to banks. These bills were the forerunner of what is known today as commercial paper.

At the time, the banking laws of the State of Illinois were very loose and private banks were numerous in Chicago. When the panic of 1893 occurred, Herman Schaffner & Co. became involved, and during the bank run of that year, Mr. Schaffner became depressed and ended his own life. As a result, Herman Schaffner & Co. failed. Everything that Mr. Schaffner owned went to the secured creditors, as did all the assets of the junior partner, A. G. Becker. The liquidation paid out about 10c on the dollar.

Mrs. Schaffner, Mr. Becker's sister, received \$50,000 in life insurance proceeds which creditors could not touch. She loaned this sum to her brother to establish a new business. That was the original capital of A. G. Becker & Co. in 1893. At that time, Mr. Robert C. Schaffner, son of Herman Schaffner, was 16-17 years old, ready to enter Harvard, where his older brother Arthur had gone. As there was no money in the family, he came to work for his uncle. He was the first employee and remained with the firm until his death in 1947, at which time he was Chairman of our board.

Prior to 1893 when A. G. Becker & Co. was founded, it was customary among so-called commercial paper brokers to handle their paper on consignment. That is, they only paid their issuing customers when they received payment from a purchaser. At the very inception of the business, Mr. Becker did something that was very radical, and frowned on by the New Yorkers and others. He said, "I will not handle paper on consignment; I will buy it myself with my own funds" -- and in those days we didn't have the high powered credit department that we have today. Audits were more or less unknown. Mr. Becker made up his own mind about a borrower, paid for the paper with his own money, and then offered it to the banks. That changed the whole conduct of the commercial paper business.

Mr. Becker felt that he wanted to repay, if he were able, the money lost by unsecured depositors of Herman Schaffner & Co. During the first 10 years, therefore, he withdrew just enough money from his business to pay the living expenses of his family, which included, at the time, a wife and three children. With the remaining earnings, he sought out the depositors of Herman Schaffner & Co. -- widows and orphans first, and then

others - and paid them off with 6 per cent interest. This was done in the case of all but two depositors who had made things unnecessarily difficult for Mr. Becker. A son of one of these people told me later that once he heard the facts he didn't blame Mr. Becker for not paying his father. At any rate, by 1902, Mr. Becker had paid off all the creditors of this predecessor firm out of the earnings of A. G. Becker & Co.

In 1902, David B. Stern, another nephew of Mr. Becker, graduated from the University of Chicago and came into the firm. He remained for more than 50 years, ultimately as Chairman of the board, retired from an active association in 1954.

So you had the situation in which an uncle and two nephews were early employees of the firm. Some years later, in 1921, James H. Becker, son of the founder, came into the business. He became president in 1947. In 1924, the year before A. G. Becker's death, the little family management group was expanded to include others; Lester Roth (now deceased), Frank F. Patton (who has since retired), V. A. Johnston of our New York office, and I, were made Vice Presidents of A. G. Becker & Co.

Now going back a little - in 1916, the Federal Reserve Act came into being and commercial paper became the collateral behind the Federal Reserve notes. This was just before we entered World War I. This development had a great effect on our business, which up until then was principally commercial paper.

World War I could not have been won without a great expansion of credit, and commercial paper was the avenue through which that rapid expansion took place. At one time during that period, there were two billion dollars worth of commercial paper backing Federal Reserve notes - which today you can't find in your wallet, because there aren't any. With the expansion of credit, there was a great expansion in business, but money rates were kept low in order for the Government to be borrowing at around 4 per cent.

Immediately on conclusion of the war, however, when this greatly expanded credit rapidly had to be contracted, many large companies collapsed. The larger the business, the more money was owed, and many companies could not meet their maturing obligations. From 1919 to 1922 the Great Northern Railroad, for instance, put out 15-year non-callable 7s, and commercial paper was selling at 8 per cent.

As money rates declined following the war, along with the contraction of credit, the commercial paper business began to fall off. Mr. Becker saw that the commercial paper business was in decline, although, at the time, we were doing business with many of the top companies of the country. The list of our clients read like the Who's Who of American Industry.

This situation gave Mr. Becker and his associates an opportunity not ordinarily available to a small house -- the opportunity to get into the general securities business. During the period prior to the war, when money rates were low and the banks wanted yields higher than those available on commercial paper, the firm had occasionally bought and sold

note issues of half a million, or a million, or even up to 2 or 3 million dollars. If paper rates were 3 per cent, these note issues might be 5 per cent. We handled several of them - for Liquid Carbonic Company, and, I remember, U. S. Gypsum Company, and a number of other issuers.

So, in 1919, we decided to get into the general securities business. Even at 8 per cent money rates, paper was not moving as rapidly as we would like. We were selling half a million a day and had a portfolio of \$20 million. In that situation you are in the banking business, whether you thought so or not. Also, in 1919, in order to service our large borrowing accounts on the west coast, we established branch offices in San Francisco, Los Angeles, Portland and Seattle, all under Bill Eaton, who retired just last year. Bill had been with Naumberg & Co., in New York, and wanted to go west. He came in here and asked for a job, and we sent him out to San Francisco. For several years, we had those west coast paper selling offices.

We opened an office in St. Louis for the same reason. Walter McEvoy, who was with us until his death a few years ago, went down to handle that office. From there we serviced the whole south. We also opened a New York office in 1919.

With these fundamental changes in the business, the organization had to be generally expanded. The first head of our Bond Department was a fellow named Jim Buck, who came to us from Halsey. He brought in Frank Patton and also June Johnston. At the same time, Lester Roth came into the accounting side of the business. So, having no retail selling organization but having an unusual opportunity to originate business, we made an alliance with Ames, Emerich & Co. (which is an entirely different firm than was taken over a year or two ago by Blair & Co.). Mr. Ames and Mr. Emerich were the members of the firm, and they had one of the best security selling organizations in town. But, they had no underwriting or originating ability. On the other hand, we had the originating ability and no retail sales organization. We had two bond salesmen -- Patton and Johnston -- and two paper salesmen (outside the branch offices) -- Gaylord Case and me. So we made a hook-up with Ames, Emerich and began originating a lot of business from 1919 on, and taking Ames, Emerich in as partners. We made them and ourselves a lot of money.

The original conception was that we were going to use our national reputation with the banks as a means to get to private investors. 20 per cent of all the banks in the United States were on our books at the time. So, when somebody from A. G. Becker & Co. visited, he was no stranger. Our house was known, and that was a great advantage. But, at the end of two years, if you had asked us whether we would rather have the bank business, or the private investor business, we would have said, "You can keep the banks, for they easily panic, but the private investor business is there all the time." That was the new basis on which the present A. G. Becker & Co. was built.

Earlier, I mentioned U. S. Gypsum and Liquid Carbonic. As early as 1911, Mr. Becker had financed Hart, Schaffner and Marx, selling preferred stock issues for them for the

amount of their assets and \$15 million worth common against good will. This was perfectly alright. Today, that preferred has been paid off and, of course, the common stock is very valuable.

In 1916, before we had an organized bond department, A. G. Becker & Co. financed Hammermill Paper Co. It is a rather interesting story. Mr. Ernst Behrend was sent over from Germany by his two uncles, who were paper manufacturers, to run the Hammermill Paper Company, which they owned in the U. S. If you know your history, you know that the Kaiser, in 1915-1916, directed that all German nationals bring their investment capital back to Germany. There was pressure on these two German uncles to sell their American investment. Ernst Behrend had by that time become an American citizen and he wanted to buy out his uncles. They had to sell. He shopped all round Wall Street and LaSalle Street for financing. Finally Mr. Schaffner met up with him and A. G. Becker & Co. financed the purchase of the German ownership by the American company. So our banking relations with Hammer mill started in 1916 and have been very close ever since. Mr. Schaffner and Mr. Becker were on the Hammermill board during their lifetimes and James Becker succeeded his father on that board and today still represents A. G. Becker & Co.

The Fred Ruping Leather Company is another issue which we underwrote in those early days.

In 1915, the German Government borrowed a number of millions of dollars in one-year notes which we underwrote and sold jointly with Kuhn, Loeb. These notes were paid off in 1916 before we were at war.

One of the first deals we handled after we had an organized bond department, in 1920, was a \$50 million dollar issue of 1-to-3 year notes of Sears Roebuck & Co. That was the biggest deal at that time which had been financed in Chicago. And it was done on the basis of a friendship between Julius Rosenwald and Mr. Becker, even though Goldman Sachs was on the Sears Board. That was quite sensational at the time.

In 1925, June Johnston went to New York to run our office there, already established for six years. We had by that time purchased the building which we continued to occupy until December, 1955, and rented part of it to Cowen. That was the start of our eastern bond business.

In the meantime, we had some kids just out of college join us -- like McCosh, Mabie and Baird -- and Herb Schaffner, and they all started hopping bells around here. Those four fellows came in about 1919. McCosh, Baird and Mabie have never worked anywhere but A. G. Becker & Co.

Mr. Becker was very successful in both his investments and his business. When he died he owned stock in more banks in Chicago than any other man. He made his success in betting on young men, not only in the underwritings we handled, but in the banks to which we sold our merchandise. There was an period there for some 15 years or so when

there were three or four times as many outlying banks as there are today. A fellow would come out of the Continental or the First and go out to an outlying section and want to start a new bank. The first person he came to see was A. G. Becker, and if A. G. Becker liked him, and had confidence in him, he always bought stock and rode with him.

Now another aspect of the business: we've had our ups and downs. We haven't always hit the ball on the nose. We've lost money on a number of companies, sometimes in great big chunks. Every time we lost money Mr. Becker said "We made a commitment and we'll go through with it." He didn't know the meaning of the word, "welsh." We have given up business on principle -- sometimes a little difficult to do -- but if Mr. Becker didn't believe that a man was 100 per cent honest and able, and particularly honest, he had no time for him.

Another thing about Mr. Becker. It is one thing to hit an oil well and pay off your debts (and that's a very creditable thing to do). But, it is quite different if you work like hell for 10 years, don't know whether you are going to get ahead or not, and still seek out people who have lost money on you, and then have the satisfaction of paying them back with interest. That single feat gave Mr. Becker a standing in banking circles both in Chicago and New York that no man has ever exceeded. That kind of a man at the head of a business could not possibly fail to infect everyone who came into this organization - he did his nephews, he did me, and he did everybody who's followed after him. And his ideals are just as much alive today in this firm as during the days when he walked in the office door. That is a wonderful thing to have said about a firm. You will find as you go around, particularly among older people, that they will give you instances of the kind of integrity that is synonymous with A. G. Becker & Co.

This has been some high spotting of the early history of A. G. Becker & Co. No firm in Chicago goes back as far as we do, although others many have fine histories as well. But there are some things about A. G. Becker & Co. that make it a unique organization. In fact, I know of no other like it. This business is the shadow of one man - Mr. Becker, who was one of the finest gentlemen it has ever been my privilege to know. I consider it a privilege to have worked for him for 10 years before he died.