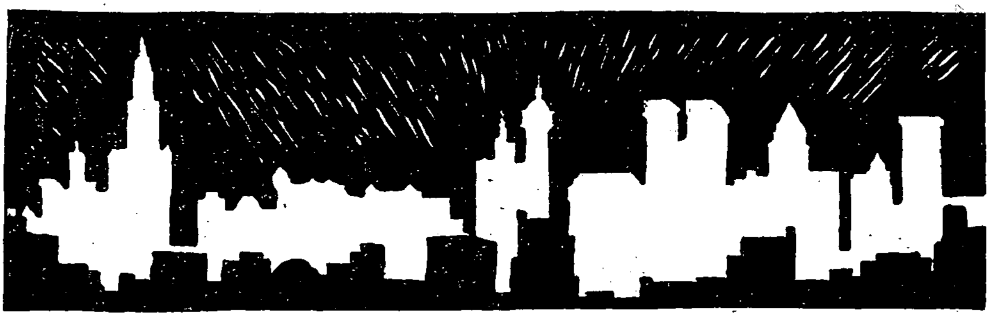

Downtown

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Brokers' Loans

WALL STREET ordinarily regards a pessimist as out of place, and probably a dyspeptic, to use the succinct phraseology of one of its leading bankers recently. Yet there have been certain tendencies in recent months that are regarded with misgivings, if nothing more serious, by conservative and far-sighted business men and economists who are certainly not dyspeptics. Chief of these tendencies is the speculative mania raging in the stock markets, not only in New York, but in London, Paris, and other foreign centres, together with the rapidly mounting total of bank loans against securities as collateral, more briefly known as brokers' loans.

Probably everyone enjoys seeing a good old-fashioned bull market on the stock exchange, dyspeptics included; but not everyone can contemplate without concern a speculative carnival which carries the prices of stocks to levels far above current investment values. Experience has shown, from the time John Law floated his Mississippi bubble down to the last big boom in Florida land, that sooner or later economic forces have a way of asserting themselves, and in the long run values — usually present, going values — alone make prices. The severity of such post-boom price adjustments usually varies directly in proportion with the rapidity of the advance which preceded it; and in the course of catastrophic declines in the stock market it often happens that many innocent bystanders are injured. Even though the adjustments may not embarrass banks, they often do exert a harmful influence on trade. And when trade slows down, unemployment problems arise, the line forms in front of the soup kitchens, discontent rises to the surface in labor circles, and frequently the political and social results are most unfortunate. That is why so much criticism of the huge expansion in brokers' loans has emanated lately from ordinarily conservative circles. The ability of brokers to borrow readily from the banks, and the willingness of the banks to supply all the credit needed have been the prime movers in the great ascension in the stock market since 1924.

Ordinarily a bank loan secured by good stock exchange collateral, of a readily marketable nature, is one of the safest investments a bank can make. An advance of $1,000,000 by a bank to a member of the New York Stock Exchange usually is made in one of two ways — on a demand loan or a time loan. In either event it is customary for the broker to deposit securities with the banker with a present market value of from $1,250,000 to $1,500,000, depending upon the nature of the securities, upon their marketability, and upon a reasonable intrinsic value — which, lately, has often meant a material discount from the current market value. There have been many instances this year when the banks were valuing stocks in their collateral envelopes at $150 a share when the current market value was from $180 to $200 a share, and then only lending up to 75 per cent of this discounted