
News from Attorney General Robert Abrams

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ABRAMS ANNOUNCES E.F. HUTTON AGREEMENT TO ALTER PAYMENT POLICIES

Attorney General Robert Abrams announced today (Monday) that E.F. Hutton & Company will be required by a consent judgment to pay its New York customers with checks drawn on New York banks, thereby ensuring that customers have faster access to the funds they receive in payments from Hutton.

The consent judgment, signed today by Justice Thomas J. Hughes of Manhattan Supreme Court, follows an investigation launched by the Attorney General's office after the company pleaded guilty to federal charges involving the systematic use of overdrafts by Hutton managers to increase the company's interest income on its cash bank balances.

Hutton was criticized in a report prepared by former U.S. Attorney General Griffin Bell for failing to set up adequate internal controls to prevent overdrafting abuses by company managers.

Mr. Abrams announced in September that his office would investigate specifically Hutton's practices with regard to payments due customers on their accounts, to see whether any of those practices had an adverse effect on New York consumers.

Attorney General Abrams said that "in view of Hutton's apparently inadequate warning system described in the Bell report, I wanted the company to provide sufficient guarantees for the investing public. We wanted to be sure New York customers will be fully protected against the danger of sharp practices such as those used against the more sophisticated banks involved as victims in the recent federal criminal prosecution."

Abrams said that the audit mechanisms established by this agreement will inure to the benefit of Hutton customers throughout the United States.

The Attorney General's investigation found no violations of law. However, under the consent judgment signed today, Hutton is required to

take the following remedial actions with respect to certain business practices identified by the investigation:

-- Within 120 days Hutton will transfer its principal checking account for paying New York customers from the Bank of America in Los Angeles to a New York bank yet to be selected.

-- The company will circulate a memorandum to its management and employees, "reiterating that it is Hutton's policy to remit funds to customers expeditiously and without undue delay."

-- Hutton will set up a system of formal, internal audit procedures to ensure that customers are protected against undue delays or other practices that might interfere with the prompt receipt of funds due them.

-- During the next 2½ years, Hutton will conduct special audits of several of its New York branches to determine if customers are being harmed in this area and report the results of such audits to the Attorney General.

Hutton is obliged by the consent judgment to submit regular reports to the Attorney General, who will continue to monitor the company's compliance.

In addition, Hutton will remit to the state of New York \$100,000 as a condition of the court order signed today.

The matter was handled for the Attorney General by Assistant Attorneys General Harvey Golubock, William Mohr and Howard Newman, under the supervision of Orestes J. Mihaly, chief of the Bureau of Securities and Investor Protection.