

## FARMERS LOAN AND SAVINGS COMPANY.

When we wrote last week about this company and warned shareholders that they must be prepared to lose a part of their share capital, it was hardly suspected by any one outside of the interim liquidator and his staff that such an exposure of the state of its affairs would be made as that of Wednesday, reported elsewhere. The lack of proper system which characterized the management of the company, the viciousness of its methods in dealing with loans in arrear, the curious lethargy or obtuseness of the directors in accepting year after year assurances from the easy-going manager and declaring dividends which were never earned, form a startling page in the history of Ontario loan companies.

According to the report of Mr. Osler, the interim liquidator, a balance sheet had not been taken off since the company was organized, and the method of book-keeping was such that it kept in the background for a long time the fact that a large amount of the company's assets was not bringing in any revenue. The company's method of arriving at profits was "to take the whole amount of capital stock, reserve fund and borrowed money—assume that these brought in a rate of interest, 7 per cent. in earlier years, down to 6 per cent. latterly—take this total as profit, charge the amount up to investment account, crediting investment account with the money actually paid in." Here is rule of thumb, surely! The result of this stupid and deceptive procedure was that the company for years took credit for more income than it earned. It is small consolation to be told that this sort of thing was done in ignorance and incapacity, and not with fraudulent intent. Investment account, we are told, was treated in a way which can best be described by an illustration. Suppose a loan of \$10,000 made in 1890, at six per cent. No interest is paid on it for five years. But year by year the interest is added, until the loan stands in the books of the company in 1891 at \$10,600; in 1892 at 11,200, and so on until in 1895 it appears in the books of the company at \$13,000. But worse than this, it appears that such an account was treated as if the interest had been paid. It is difficult to understand how the directors permitted the declaration of dividends of late years, when they should have known that many of their loans were yielding no interest. However, can they not be made to pay for their delinquency.

This expose will be tolerably sure to have the effect of making shareholders and investors enquire into the methods by which our mortgage loan companies conduct their business. And naturally they will desire no repetition of Farmers' Loan Company book-keeping. What they may well desire to see done—and it is an eminently proper method of book-keeping, pursued by several loan companies in this city—is separate columns in the ledger of the company for charges of interest and for payments of interest and payments on principal, or whatever equivalent method will show the state of a loan at any given time. Then, at certain periods a clear distinction should be made in the books between loans which are current and on which interest is being received, and loans which are dormant or yielding no interest. Some companies distinguish these respectively as "loans" and "real estate." The actual condition of the company appears to have been a revelation to the late president, Mr. Mulock, and to the other directors, no less than to the public. Mr. Mulock, for the last ten years, kept on steadily increasing his investments in the company, and encouraging his immediate connections to do so, till their joint holdings foot up to \$100,000. This was done in the belief that the company was in a sound condition, and

earning the dividends it was paying. Mr. E. B. Osler, the interim liquidator, expresses a doubt that "any of the officials of the company knew the position of the company until recently." It may be taken as proved that Mr. Mulock did not know, and this may be true of the other directors. But this excuse can scarcely be available for the manager. A bad system of bookkeeping may be responsible for much; it may have deceived the directors into believing that interest put down in the mortgage registers was interest earned and received; but it is difficult to believe that the manager could have been under any such delusion, for even if he assumed, without detailed proof, that a certain average rate of interest was earned, he could not have failed to know that it was not received. Worse than even this happened, no doubt, without the knowledge of the directors. Somebody received deposits which were not entered in the ledger. The figure of \$7,000 is mentioned by Mr. Osler, which seems to fit in here. Further investigation will of course be necessary, for there are 150 depositors' pass-books not yet examined out of 400. In these cases Mr. Osler thinks the directors did not know what the manager and clerical staff, or some of them, had done; it is possible, nay, probable, that his opinion accords with the facts. These revelations open up possibilities hitherto unexpected. Ignorance of the facts, in those who ought to know, may show that there was no intent to sanction wrong-doing; but if used as a defence, where it is necessary to trust to the fidelity of others, it becomes an implied self-accusation of negligence. To constructive negligence the directors of the Farmers' Loan may, and some of them do, plead guilty. One of them, at least, showed his good faith in believing in the statements put before him by constantly increasing his holding of the stock. When such things are possible, there is clearly some want in the system.

Then where were the eyes of the auditors, who year after year certified to having "examined the books and securities of the company" and to have found them "correct and in accordance with the above statements"? One of the statements in question is that the company had investments worth \$2,216,510 in 1895, reduced to \$2,194,807 in 1897. Another is that the income from investments was from \$115,000 to \$130,000 in several recent years. What means did the auditors take to ascertain the truth of these? A business-like analysis ought to have shown the unsound condition of the company. And if auditors are not to make thorough enquiry, what are they good for?

## WOOL PRODUCT DECLINING.

There has been within recent years a marked decline in the world's supply of sheep. A bulletin of the United States Department of Agriculture issued some months ago placed the aggregate decrease in numbers at 23,458,355 sheep since 1893, to which the United States contributed 9,385,344 sheep, or about two-fifths of the amount. The fact of this falling off in American herds of sheep formed a strong argument in the hands of protectionists, which, as Canadians know to their cost, resulted in a heavy duty upon foreign wool.

Recent statistics obtained from the Ontario Department of Agriculture show that in this province, which from the standpoint of sheep breeders, is by far the most important in the Dominion, in 1896 there were 995,616 sheep over one year in age, as against 1,095,995 in 1895, and 853,732 sheep under one year, as against 926,740 sheep the previous year. The total number of sheep in Ontario in 1896 was estimated at 1,849,348, as against 2,022,735 in 1895 and 2,015,805 in 1894.