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DOUBTFUL LOANS BY HOME BANK IN WAR PERIOD

Former Officer Says He Called
Sir Thomas White's Atten-
tion to Bank's Position

WAS GIVEN ALL FACTS

Former Finance Minister Says
He Feared Effect of Collapse
on War Effort

Startling charges respecting the Home Bank situation made by W. N. Machaffie, now of Stratford, but formerly Western manager and later assistant to the president of the bank, have given a new angle to the inquiries being made. Hon. W. F. Nickle has requested G. T. Clarkson, the interim liquidator, to give close attention to them when making his audit of the bank's books and to report his findings. If the statements are verified, action will be taken, according to Mr. Nickle.

Among the disclosures are that as far back as 1914 certain high officials of the bank expressed alarm regarding the institution's position, and an investigation was commenced at the instigation of the three Western directors—T. A. Crerar, John H. Kennedy and John Persse—as a result of startling information conveyed to them by Mr. Machaffie, then manager of the Winnipeg branch. Subsequently this information was laid by these directors before Sir Thomas White, then Minister of Finance, who instructed Z. A. Lash, K.C., to look into the accounts referred to and advise him. The accounts concerned were those involving large loans to Sir Henry Pellatt, of Toronto; A. C. Frost and Company, of Chicago; and the King Shoe Company, Toronto.

Sir Thomas White, in a statement regarding Mr. Machaffie's allegations, said that he was satisfied at the time that matters had been arranged in a businesslike manner, including payment of interest on the Pellatt account and the receipt of additional securities to guarantee it. In 1916 Mr. Machaffie came to Toronto, at first in an advisory capacity. Desiring an inspection of head office, an inspection was instituted which, he claims, showed a discrepancy, but the man who discovered it, Mr. Machaffie claims, was soon afterward ordered to a far-away branch, and he subsequently resigned.

Mr. Machaffie stated that in 1916 he had discussed the famous Frost account with President M. J. Haney, telling him how wrong it was to add unpaid interest to such an account. According to Mr. Machaffie, he was told that the interest must be added "in order to make a showing." Mr. Machaffie had discussed taking over the general management with the board of directors, but his nearest approach to this office was when he became assistant to the president. Again he urged head office inspection, but nothing came of it, and, according to his own description of events, he was virtually frozen out of his position.

Dividends from Deposits.

In 1918, shortly after his retirement, he wrote to Sir Thomas White outlining what he conceived to be the critical position of the bank. This letter claimed that the bank's dividends for the years ending May, 1916, and May, 1917, were "based on the addition of interest to doubtful accounts." He further alleged that in each year some 30 per cent. more than the amount of dividend was added to the Frost account alone. He charged to the Minister of Finance that it was evident that the actual cash disbursed in dividends came out of the increase in deposits.

Sir Thomas replied, saying that he would take the matter up immediately. Again Mr. Lash was summoned and apprised of the allegations made.

Charges Denied.

Sir Thomas was soon in receipt of a report from the bank's board of directors, which made what may be characterized as a sweeping denial of the statements in the Machaffie complaint. This report, "unanimously adopted by the board," said the Pellatt account, for instance, had been reduced by nearly \$300,000, and that the balance had been fully secured by additional collateral. The report claimed there was ample security in the timber lands and limits for the claims of the bank in the Frost account, and confidence was expressed that no loss would be entailed. The report further stated the board's opinion that no loss would result in connection with the New Orleans bond account. No dividends had been paid out of capital, said the directors. It was claimed that the annual earnings were considerably more than twice the amount of the dividend. Denial was made that false statements had been sent out. According to Sir Thomas White, he was given "assurance that the position of the bank was steadily growing stronger, and that the management was efficient and satisfactory, and that the business of the bank was progressing in a very satisfactory manner."

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