

Monetary Times

Trade Review and Insurance Chronicle
of Canada

Address: Corner Church and Court Streets, Toronto, Ontario, Canada.
Telephone: Main 7404, Branch Exchange connecting all departments.
Cable Address: "Montimes, Toronto."
Winnipeg Office: 1208 McArthur Building. Telephone Main 2663.
G. W. Goodall, Western Manager.

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WHY LOAN COMPANIES FAIL

THE case of the Dominion Permanent Loan Company has been an unfortunate one for investors; judgments recently made have all been adverse to the shareholder. As a consequence loan company legislation has been subjected to much criticism. The Toronto Globe on February 10th, contained an editorial which calls for still fuller publicity and for a stricter limitation of the proportion of the assets of a loan and mortgage corporation which may be put at the disposal of any single borrower. Section 135 of the Loan and Trust Corporation Act provides that "the registrar or any person authorized under his hand and seal shall, with the approval of the minister, have, at any time within reasonable business hours of every day except holidays, access to the books, vouchers, securities and documents of a corporation, and any officer or person in charge, possession, custody or control of such books, vouchers, securities or documents refusing or neglecting to afford such access, shall be guilty of an offence, and the corporation, if registered, shall be liable to have its registry suspended."

Again in section 135 it is provided that "the attorney-general, of his own motion or upon an application being made to him in writing, may appoint some competent person to make a special examination and audit of the corporation's books, accounts and securities, and to enquire into the conduct of the business of the corporation generally."

These clauses place the responsibility entirely upon the executive branch of the provincial government because it fully empowers it to obtain the information necessary to ascertain the company's financial condition. A government, of course, finds itself in a difficult position in regulating the business operations of financial institutions. On the one hand there is the tendency to reduce the government's work to the mere collection and publication of such information as it is empowered to obtain. The other extreme is restrictive legislation so severe that legitimate business operations are hampered. In the former case the onus of detection would fall to a large extent upon other companies in the same line of business and these are always averse to openly criticizing the standing of a competitor. An effective result may be obtained, however, by the development of

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a sense of unity of interest among corporations in the same business, such as loan companies. Such a unity of feeling and of action is found among the Canadian banks and is partly the result of legislative powers conferred upon the Canadian Bankers Association.

The other companies, however, have not power over an institution which may set the established principles of sound management at defiance for this reason. The government's administrative branch should have sufficient power to enforce compliance with the law and should take into its confidence representatives of loan companies of unquestioned business standing. The Ontario Act provides for comprehensive reports and a new form has been submitted for still further detailed information. The mere publication of such information, however, as pointed out above is not sufficient and before any measures injurious to loan companies and to the public which they serve are adopted some further measure of co-operation between the government and companies as a whole should be attempted.

This refers, of course, just to the province of Ontario, but there are few loan companies whose head offices are located outside of this province and in legislation of this kind Ontario may very fittingly take the lead.

In an article in *The Monetary Times* last week reference was made to possible protection to depositors by means of Dominion or Provincial legislation. This is applied to private bankers, departmental stores and other institutions which accept deposits, as well as loan companies. As a matter of fact the protection in the case of the vast majority of loan companies is quite adequate. In Ontario for instance, they are required to report unclaimed deposits. The cash on hand of Ontario companies as at December 31st, 1917, was almost 40 per cent. of the deposits and the cash together with government securities; municipal debentures and debenture stock more than equalled deposits; and the claims of depositors are preferred claims.

The remedies which are proposed by Mr. William Proudfoot, K.C., leader of the Ontario Opposition, are too drastic to permit of the successful carrying on of business in Ontario. He suggests that an official should be appointed to pass upon their investments and to make a thorough investigation into the affairs of each company at least twice a year. Mr. Proudfoot was a member of the special committee considering the amendment of the Loan and Trust Corporations Act, and he is issuing a minority report.