

London Advertiser April 23/24

HOME BANK 1922 PROFITS REPORT TO GOVERNMENT WAS 'PADDED' BY \$800,000

G. T. Clarkson Testifies in
Probe Into Failure of Financial
Institution.

TELLS OF HEAVY LOSSES

Bank's Liabilities Over Assets
At Time of Close Ex-
ceeded \$9,000,000.

Canadian Press Despatch.
Toronto, April 22. — Toronto
Star today says it is informed
that bailiffs may be employed
after May 1 to collect from the
shareholders of the Home Bank
of Canada who refused to pay
the double liability.

Canadian Press Despatch.
Toronto, April 22.—In 1922, the year
previous to the suspension of the
Home Bank, the profits of the insti-
tution were overstated by \$800,000, in
the report to the Dominion govern-
ment, according to the evidence of G.
T. Clarkson, the liquidator, here to-
day at the inquiry before Justice Mc-
Keown, sitting as a royal commis-
sioner. In 1921 the profits were
"padded" by \$155,000, said Mr. Clark-
son. The excess of \$9,000,000 of li-
abilities over assets, which exists at
present, said the liquidator, was in
addition to the loss of capital and
reserves, which had been wiped out.
Sir Thomas White, former minister
of finance for Canada, presented the
correspondence between himself and
others on Home Bank affairs during
his regime as minister of finance.
These letters are in addition to those
already before the commission,
which were on the public file of his
department. Sir Thomas will be
cross-examined on these letters at
Ottawa on Thursday. The commis-
sion sits here tomorrow morning, and
goes at noon back to Ottawa for the
continuation of the investigation
Thursday.

Mr. Clarkson, examined today as to
what should have been the attitude
of an auditor called to examine the
bank accounts in 1916, admitted that
he should have found many accounts
to have been "serious." He pointed
out, however, that it was easy to
state in the light of after-events
what an auditor should have done,
and therefore he did not feel bound
to give a judgment.

It developed during the evidence of
Mr. Clarkson that many loans were
made by the bank as far back as
1916 from which not a cent of in-
terest was collected, and yet in the
report to the government this interest
was capitalized and added as profits
to the bank during the year. Mr.
Clarkson told of various years where

the reported statement showed bank
profits which were really reduced
beyond the vanishing point by the
interest which had not been paid.
Much of this interest was not paid
when the bank closed its doors, and
is now a liability against the assets
of the bank.

Crerar's Letters Read.

Letters from Hon. T. A. Crerar to
M. J. Haney, when the latter was
president of the bank, showed that
Mr. Crerar and other western direc-
tors of the bank had protested against
the appointment of the late J. Cooper
Mason as general manager. The direc-
tors in the west wanted Mr. McHaffie
appointed general manager. Mr. Mc-
Haffie, it was shown later, protested
to the minister of finance about the
conduct of the bank. Evidence was
also submitted to show that the de-
posits grew from \$9,554,000 in 1916
to \$15,247,000 at the time the bank
closed, exclusive of government de-
posits.

Mr. Clarkson gave evidence concern-
ing the \$39,646 loan to C. A. Barnard
of Montreal, one of the directors. Mr.
Barnard controlled the Fidelity Trust
Company of Montreal. No interest
was paid directly, but there were
stocks handed over. A note of the
Fidelity Company was given for
\$262,500, and President Daly of the
Home Bank borrowed \$182,000 from
United States banks and deposited
most of it with the Fidelity Company.
There were other transactions to
cover the amount resulting in a loss
to the bank.

"There was over \$200,000 lost on
accounts which were reported to Sir
Thomas White as being all right?"
asked R. J. McLaughlin, K.C.

"That was just a play on words,"
replied Mr. Clarkson.

Mr. Clarkson said that T. L. O'Con-
nor, who was secretary to Mr. Daly,
president of the bank, borrowed
\$130,000 from the bank. This had
never been returned.

Returning to the discussion of the
Barnard transactions Mr. McLaugh-
lin suggested that the loss to the
Home Bank caused by the continued
dealing between the bank and Mr.
Barnard, one of the directors, and
the various interests of Mr. Barnard,
was about \$1,300,000. Mr. Clarkson
said that was approximately correct.

Deceived by Returns.

In 1910 the Home Bank had stock
in the Chicago-Milwaukee electric
railways. The railway went into the
receivers' hands, but the bank kept
the stock on its books at face value,
although it had fallen badly. Mr.
Clarkson said the loss was \$450,000,
but it was not carried on the Home
Bank books as a loss.

The government and public had
been deceived by the returns made
in this respect.

A. C. Frost in 1910 wanted money
for British Columbia timber limits.
He secured a loan of \$700,000 from
the Home Bank and took off their
hands some of the Chicago-Milwaukee
Railway Company stock at a book
value of \$500,000. Mr. McLaughlin
said that evidently Frost paid \$500,000
more for the Chicago-Milwaukee
bonds than they were worth in order
to get the loan from the Home Bank.
Mr. Clarkson recalled that Frost
had told him that he had hoped that
a reorganization would make the
bonds worth while.

No real interest had been paid on
the \$700,000 loan to Frost, said Mr.
Clarkson, from its inception to the
present day. There were cross-
entries in the books concerning the
interest, but no actual money was
paid for the use of the \$700,000.

Lost Heavily in Deal.

Mr. Clarkson said the bank had put
over four million dollars into the
Frost accounts, including the Fort
McNeill Timber Company and the
Western Canada Pulp and Paper
Company. He said there was a loss
to the bank of over two millions on
these transactions. Mr. Clarkson
said he would not discuss the value
of assets in these companies, and
was not pressed to disclose their
value.

He said that in 1920 when the bank
reported to the minister of finance
that the Frost advances were re-
duced, that they were really in-
creased by \$418,000. Dealing with the
Pellatt transactions, Mr. Clarkson
said that many of the securities in
the hands of the bank consisted of

industrial stocks and shares in land
companies.

"At one time," said Mr. Clarkson,
"these concerns were undoubtedly
solvent, but the lands have been held
too long. There has been little de-
mand for them. Their value has been
seriously impaired so far as the
obligations for bank advances are
concerned."

"The fact is," said Mr. McLaugh-
lin, "these transactions were not
good banking."

Mr. Clarkson concurred.

Profits Never Earned.

Mr. Clarkson said that in 1915 the
Home Bank reported \$276,940 to the
government as profits which were
never earned. In 1916 the bank re-
ported \$133,406 earnings while there
was \$210,000 interest reported in the
credit which was not collected. In
1917 there were earnings of \$142,000
reported, although interest to the
amount of \$205,000 was not collected.
In 1918 there was \$228,963 shown as
profit, although the actual profit was
\$167,857. There was a discrepancy
also in 1919.

In 1920 the amount of profits shown
by the bank in its report was \$268,895.
Mr. Clarkson discovered they
should have been reported at \$205,760
which would include some unauthor-
ized writing up of interest and real
estate.

"In 1921," declared Mr. Clarkson,
"they padded the profits by \$155,000."
That year continued the witness there
was a writeup of \$238,000 on uncol-
lectable interest. The actual profits
were \$60,271 so that the uncollectable
interest written up amounted to four
times the real profits.

"So that in that year they padded
the profits in all about \$400,000 at a
time when they were reporting to Sir
Henry Drayton, minister of finance,
that everything was all right?" said
Mr. McLaughlin.

"Yes," said the liquidator. "In 1922
the bank reported a profit of \$275,000
while there was an annual loss of
\$156,000," said Mr. Clarkson.

"The profits were that year padded
by nearly a million dollars?" asked
Mr. McLaughlin.

"Overstatement is better," suggest-
ed Mr. Lafleur.

"I would say \$800,000, as they wrote
off \$200,000," replied Mr. Clarkson.

"I suppose there was an audit each
year?" asked the commissioner.
"Yes."

Total Loss \$9,500,000.

Mr. Clarkson told of the deposits
in the bank. On May 31, 1915, there
were deposits of \$9,554,000; 1916, \$10,-
133,000; 1917, \$12,600,000, exclusive of
\$4,000,000 government deposits. At
the time the bank suspended there
was \$15,247,000 on deposit exclusive
of government deposits.

Mr. Clarkson said the total losses
of the bank were \$9,000,000 or \$9,500,-
000 besides the capital and reserve
funds of the bank. He thought that
from \$7,500,000 to \$7,750,000 had been
lost since 1916. One million dollars
had been lost in small western in-
vestments.

It was explained that Sidney Jones,
one of the creditors of the bank, had
declined to appear before the com-
mission unless compelled to do so, as
he is now under indictment. It was
explained that he will not be asked
questions which would prejudice his
case before the courts.

PUBLIC ARCHIVES
ARCHIVES PUBLIQUES
CANADA