

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

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

TELLS OF HEAVY LOSSES

Bank's Liabilities Over Assets At Time of Close Exceeded \$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 institution were overstated by \$800,000, in the report to the Dominion government, according to the evidence of G. T. Clarkson, the liquidator, here today at the inquiry before Justice McKeown, sitting as a royal commissioner. In 1921 the profits were "padded" by \$155,000, said Mr. Clarkson. The excess of \$9,000,000 of liabilities 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 commission 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 interest 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 directors of the bank had protested against the appointment of the late J. Cooper Mason as general manager. The directors in the west wanted Mr. McHaffie appointed general manager. Mr. McHaffie, it was shown later, protested to the minister of finance about the conduct of the bank. Evidence was also submitted to show that the deposits grew from \$9,554,000 in 1916 to \$15,247,000 at the time the bank closed, exclusive of government deposits.

Mr. Clarkson gave evidence concerning 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'Connor, 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. McLaughlin 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 reduced, that they were really increased 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 demand for them. Their value has been seriously impaired so far as the obligations for bank advances are concerned."

"The fact is," said Mr. McLaughlin, "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 reported \$133,405 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 unauthorized 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 uncollectable 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 alright?" 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," suggested 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 investments.

It was explained that Sidney Jones, one of the creditors of the bank, had declined to appear before the commission 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.