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BANK LIABILITIES $9,500,000 MORE THAN ITS ASSETS

Returns Made Since 1906 Showed Profits Much More Than They Actually Were, Report Shows.

OVERSTATEMENT OF $800,000 IN A YEAR

Liquidator Admits That Auditor in 1916 Should Have Found "Serious" Accounts.

Canadian Press Despatch.

TORONTO, April 22.—The Royal Commission investigating the affairs of the Home Bank of Canada sitting here today, was told by G. T. Clarkson, liquidator of the bank, that the excess of liabilities over assets was nine and a half million dollars plus the capital and reserve funds of the bank. It was also informed that since 1916 there had been returns made to the government each year which showed the profits to be much more than they actually were. In one year there was, what one counsel called "an overstatement," of $800,000. Another counsel preferred to call it "padding" the report to the extent named.

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.

Interest Not Collected.

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 the 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.

Protested Appointment.

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. Machaffie appointed general manager. Mr. Machaffie, 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.

When asked if there had been a general audit in 1916, Mr. Clarkson said that it must have shown that the bank was not earning its dividend without capitalizing interest accounts and that the situation would have been described as precarious or leading into deep water. On what was called the Holmes account which was concerned with South African veteran scripts there was at the time of the closing of the bank an item of $275,000 of which Mr. Clarkson said there could not be collected $25,000. He had not learned that this item was never brought to the attention of the minister of finance. The interest on the Holmes account was placed to the credit of the bank, although there never was any interest paid.

Separate Audit.

Eugene Lafleur, K.C., asked if there had been a separate audit made, would the minister of finance have found out anything. Mr. Clarkson said that conditions far from satisfactory would have been found. Mr. Clarkson said that an auditor then would have found that the loans to the New Orleans Railway were bad.

"As a matter of fact it seemed to be worse then than it is today," said Mr. Clarkson. He also thought that the loans to A. C. Frost would have been called into account by an auditor in 1916, although the actual investment might not have been questioned as there were several reports that the timber assets in British Columbia were more than sufficient to pay off the loan. About an account of the bank with W. G. Mitchell, the witness (Mr. Clarkson) gave the information that J. C. Mason owed Mitchell $235,000 due to Mason's speculation.

The chief commissioner, Hon. Justice McKeown, pointed out to the counsel representing the depositors of the bank that if they were making any charges against the directors of the bank these directors must be notified according to the conditions of the Inquiries Act under which he was operating. A. G. Browning, one of the counsel for the depositors, said they were not making any more charges against the directors than would appear from the evidence as it was brought out.

Worse After 1916.

Mr. Clarkson said the affairs of the bank got worse from 1916 until the time of its collapse. Under examination Mr. Clarkson said that in the account with the Pellatt interests there might be $800,000 collected and if things did not turn out right only $200,000 would be collected for the Home Bank. The total amount of the loans advanced to the Pellatt interests was not given. The range of the yearly returns to the Dominion government were in error from $60,000 to $800,000.

Sir Thomas White produced a heavy dossier of hitherto unpublished personal and confidential letters, memoranda and documents from the files of the Department of Finance during his term as minister. These had been turned over to him after the suspension of the bank, he said, by his former private secretary, who had regarded them as private, although Sir Thomas himself had intended them for the use of the department after he left. On his departure for Rio Je Janeiro last February, Sir Thomas said he left these documents with Sir Edward Kemp, to be made available for the information of parliament if called for. He was under the impression when leaving Toronto that it was not the intention of the government to appoint a royal commission.

Letter From Mr. Crerar.

One of the letters put in by Sir Thomas White as an exhibit was from Hon. T. A. Crerar, on behalf of the Western Canadian directors under date of March 20, 1916. In this letter Mr. Crerar gave the opinion that consequent on arrangements being made in connection with the bank "the situation has materially improved within the past month, and at this juncture with the changes in management recently made, it is better to have the enquiry proceed from within rather than from without."

This letter was delivered to Sir Thomas by the late Z. A. Nash, counsel for the Home Bank, and Sir Thomas replied that he was glad to have Mr. Crerar's assurance that the situation had materially improved.

Correspondence indicated that in October, 1918, Sir Thomas demanded various supplementary information to the report furnished the department by the Hme Bank directors, and this was furnished after some delay owing to the illness of Colonel Cooper Mason, the general manager.

G. T. Clarkson, the liquidator, who was also a witness this morning produced a letter under date of June 14, 1917, from Hon. T. A. Crerar as director to M. J. Haney, president of the bank, disapproving of the appointment of Col Cooper Mason as general manager. Mr. Crerar said that such an appointment could not have been seriously considered. He would be glad to co-operate, he wrote, providing there was no attempt to appoint Colonel Mason. Some time later Mr. Crerar resigned from the directorate

Mr. Clarkson said the livilities of the bank would exceed the assets by from $9,000,000 to $9,500,000.

Mr. Clarkson said the liabilities of dends paid after 1916 had been paid out of capital. The losses of the bank on fresh advances after May 1, 1916, amounted to $4,500,000.

ONTARIO REPRESENTED.

TORONTO, April 22.—When the adjourned investigation by Mr. Justice H. A. McKeown, acting as royal commissioner into the Home Bank, in liquidation, was opened here this morning, it was announced that in view of the fact that criminal proceedings were in progress in Ontario in connection with the suspension of the bank, the attorney general of Ontario desired to be represented. McGregor Young, K.C., appeared as the representative for the attorney general of Ontario.

The Dominion government was represented by Eugene Lafleur, K.C., and H. J. Symington, K.C. Depositors were represented by R. J. McLaughlin, K.C., A. J. Browning, K.C., and W. T. Lee. G. T. Clarkson, liquidator of the Home Bank, and I. E. Weldon, assistant liquidator, were also present.

Sir Thomas White was the first witness. He said he was minister of finance from 1911 until August, 1919, and desired to make a statement. He produced a file of letters in regard to the Home Bank during that time. He said he put these in to bring out the truth. He declared that mis-statements had been made regarding the file he now produced. He said he would be ready to be cross-examined here or in Ottawa.

The commissioner said there was no objection to a statement, but that any cross-examination would take place at Ottawa.

Sir Thomas' Statement.

Sir Thomas read his statement, which was in part as follows:

"I produce the file which I received from Mr. Roberts, secretary of the Department of Finance, Ottawa, shortly after the suspension of the Home Bank. This file contains all of my correspondence on Home Bank matters during my period of office as minister of finance, except that part consisting of the original communication (with enclosures) of Mr. Fisher, K.C., on behalf of the Western directors of the bank, and certain letters which passed between myself and Mr. Fisher and officers of the Home Bank relating to Mr. Fisher's communication, all of which have been upon the public file of the Department of Finance from early in 1916 down to the present time, and which were placed in evidence before your lordship at the first session of the commission at Ottawa recently.

"Shortly after the suspension of the Home Bank last summer Mr. Roberts, who was my private secretary when minister of finance, delivered to me at Toronto the Home Bank file which I now produce. I was greatly surprised to receive it as I had not asked for it and told Mr. Roberts that I had intended that file for the use of the department as it related to the affairs of the Home Bank. He said he had always regarded the file as private. At the time I was under the impression, erroneously, as appears from his evidence, that he had been officially instructed to return the file to me.

File at Disposal.

"As the bank had become insolvent and had closed its doors, it did not appear to me that any useful purpose would be served by sending the file back to the department. I, however, advised the attorney general of Ontario that I had received this file and that it was at the disposal of his counsel at any time. I gave to the press the substance of certain of the letters which were not marked 'private,' 'personal' or 'confidential.' I did not feel at liberty to give to the press the whole file, because a great many letters in it were marked 'private,' 'personal' or 'confidential,' and particularly an important letter marked 'personal,' written to me by a former colleague in the Union government, Hon. T. A. Crerar, on behalf of the Western directors, who had originally brought certain accounts of the Home Bank to my attention.

Ready With Correspondence.

"I returned to Toronto from Rio Janeiro on Thursday night last and sent word to the commissioner that I desired to give my evidence. I also informed counsel for the depositors that I wished to immediately place my correspondence in evidence, as it followed in consecutive order the correspondence already filed, and I further informed such counsel that the giving of evidence as to my correspondence in fragmentary fashion was, in my view, prejudicial to the orderly progress of the inquiry and to the bringing out of the true facts for the information of the commission and of the Canadian public. In this view counsel for the depositors concurred, and I now tender the correspondence and documents connected therewith.

"I am ready to go on with my testimony now or at any other time or place which may suit the convenience of your lordship."

Mr. Crerar's Letter.

The personal letter from Hon. T. A. Crerar, referred to in Sir Thomas White's statement, reads as follows:

Ottawa, Canada, March 20, 1916
(Personal)

"Sir Thomas White, Minister of Finance, Ottawa, Canada.

"Re Home Bank of Canada.

"Dear Sir: You will have learned from Mr. Lash of our visit to Ottawa today to discuss bank matters with you, and our failure to see you through your absence from the city. You will also have learned of the change made at the recent meeting of the board held in Toronto a few days ago, whereby the active management of affairs is placed in entirely new hands through Mr. Haney taking the vice-presidency and assuming direct executive control, with Mr. MacHaffie, the manager in Winnipeg, whom, for the time being at least, he is bringing to Toronto to assist him. By this arrangement I feel quite certain that the knwledge and information concerning the position of affairs desired by the Western members of the board and also the changes they desired when they directed their request to you and which they saw no hope of securing through the then existing management, can now be satisfactorily obtained without calling in outside assistance. In my opinion, the situation has materially improved within the past month, and, at this juncture with the changes in management recently made, it is better to have the enquiry proceed from within rather than from without.

"Owing to the possibility of my being unable to attend a suggested conference with you next week, I am giving this letter to Mr. Lash so that he may place it before you. I add that Mr. Kennedy, with whom I have discussed the views herein expressed, is in agreement with them. Mr. Persse, the other Western director is in the South, and so we have been unable to consult him. I feel, however, that were he here he would be in agreement with us.

"I am, your truly,

"(Signed) T. A. Crerar."

To this letter Sir Thomas replied:

"Ottawa, March 22, 1916.

"Dear Mr. Crerar,

"Re Home Bank of Canada.

"Mr. Z. A. Lash delivered to me this morning your letter of the 20th instant with reference to the affairs and prospects of the above bank. I am glad to have your view respecting these matters and especially your assurance that the situation has been materially improved within the past month."

Request for Assurance.

Among the budget of correspondence produced by Sir Thomas White was a letter under date of Fredericton, Jan. 4, 1916, from D. V. Landry, then provincial secretary treasurer wrote:

"I would beg to ask you confidentially for your opinion on the stability of the Home Bank of Toronto. They have $300,000 of the monies of the province of New Brunswick, being proceeds from the sale of the bonds of the St. John Valley Railway Company. This money they have invested for the Prudential Trust Company, the trustees for the bond holders.

"The Home Bank is now being asked by the Prudential Trust Company to return the said monies to them, and the bank is asking whether we want the money returned to us or to the Prudential Trust Company. The government before giving an official answer, would wish to ascertain the stability of the Home Bank."

No Definite Advice.

To this letter Sir Thomas White replied under date of Jan. 7, 1916:

"I beg to acknowledge receipt of yours of the 4th instant enquiring as to the financial position of the Home Bank of Canada. While this bank is not an institution of large resources as compared with some other Canadian banks nothing has been brought to my attention which would cause me to doubt its stability. I do not feel, however, that I can pass an authoritative opinion upon the financial position of any bank as so much depends upon the quality of its discounts and investments which are not given in detail in the returns under the Bank Act. If you entertain any doubt whatever as to the safety of a government deposit it might be well to distribute it."

Was Not Satisfied

The correspondence produced by Sir Thomas White indicated that on October 31, 1918, he was not satisfied with the statement of the board of directors as filed with the department, and asked for various supplementary information. Sir Thomas wrote to the late Z. A. Lash, of Toronto, counsel for the Home Bank in this connection, mentioning certain charges made against the directors by Mr. McHaffie, who had been assistant to the president.

Wrote to Counsel.

Sir Thomas wrote

"If, as a matter of fact, the capital of the bank is represented by interest amounting in the aggregate to a large sum and added over a course of years to the principal of inactive accounts, a serious question arises as to whether the true position should not be declared and the capital and reserve of the bank written down accordingly. In this connection I require a statement showing how much of the capital and reserve is represented by interest which has been added from time to time to the principal of the three accounts in question and any other account where the principal loaned has exceeded $250,000."

This information was later furnished after some delay owing to the illness of the General Manager, Col J. C. Mason and Sir Thomas acknowledged as as follows:

"I am obliged for yours of the 25th instant furnishing the particulars of accounts required by me some time ago. I shall look over the documents carefully and if I require anything further will communicate with you."

This was the last communication produced by Sir Thomas in regard to the matter. It was dated January 29, 1919.

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