The Journal of Commerce
FINANCE AND INSURANCE REVIEW.

MONTREAL, AUGUST, 8, 1879.

THE CONSOLIDATED BANK.

On the 4th day of June last the directors of the Consolidated Bank submitted to the shareholders a statement bearing date May 10th, 1879, from which it appeared that, after appropriating the sum of $727,265.31 for ascertained losses, depreciation in securities, etc., the unimpaired capital of the bank was $3,026,869.49. On the 16th day of July following, the acting General Manager, and all the directors, concurred in estimating the value of the properties of the shareholders at from $1,250,000 to $1,500,000. On the 1st of August the bank closed, and the valuation put upon its capital stock by those engaged in buying and selling it was $300,000. At the time the exhibit was made showing the capital of the bank to be $3,026,869.49 an apology was offered for reducing the nominal capital, $3,471,936.70, by 40 per cent., making it $2,083,162.02, on the ground primarily that some reduction was necessary "in order to secure the resumption of dividends"; next, that the times were such that an excess of caution was justifiable; and, following this, that the board of directors had really made an excessive allowance for impairment of capital. This was set forth very clearly in a statement apart from the general exhibit, and submitted therewith, which showed a "surplus" after making all proposed reductions of $943,707.47; this surplus and the reduced capital, $2,083,162.02, together making the apparent capital, as already stated, $3,026,869.49. That all parties concerned were aware that the statements submitted were understood to affirm the valuation named is proved by the unchallenged comment of one of the stockholders present at the meeting, which was in these words: "According to the report before us the stock at present should be worth 80 to 84."

We have, then, on the 4th of June an official statement in writing, read before the shareholders and outspokenly interpreted by them as a valuation of the stock of the bank at $3,026,869.49, and we have a valuation seven weeks later by the same officials of $1,250,000, or, the outside figure named, $1,500,000. During the interim no financial crash took place, no sudden or sharp declines in merchandise or produce, or properties of any kind was recorded; no heavy or unforeseen losses were or could have been made by the bank's clientage. Yet the bank lost, according to its own figures, corroborated by verbal interpretation, from $1,500,000 to $1,750,000; that is, 50 per cent. of its entire capital; or, putting it in another way, about 25 per cent. of every dollar due them from all sources—the total amount of loans, investments, discounts, etc., being, according to the published statement, $6,970,317.01. The sum of all the losses made known by failure since the date of the first report referred to is made up as follows:

Ascher & Co.	$525,000
Davidson Bros. & Co.	42,000
Fish, Shepard & Co.	170,000
Henry Beattie & Co.	130,000
Bernard Furniss & Co.	120,000
Other failures, say	200,000

These losses account for 80 per cent. of the amount of the discrepancy between the two statements now in question; and, if it be assumed that the directors had no knowledge that these firms were insolvent, then they must be acquitted in the public mind of wilful deception. But that assumption must be made in the face of the fact that street rumor had been busy with the names of several of these houses for a long time past, and it must be reconciled with the admission to us directly, on the part of the senior member of one of the firms named, that four years ago he owed the Bank over $40,000, which he avowedly could not pay, and which had been carried for him since under constant discount, with the full understanding that he was unable to pay the principal, and was not to be called upon to do so.

All the figures given, however, only account for decreased valuation of the capital of the Bank down to $1,500,000. What explanation may be forthcoming of the disparity between this estimate and that of the stock exchange, namely, $300,000, it is impossible to conjecture, but, until a full investigation of its affairs shall prove to the contrary, the directors have a right to claim that their own valuation is all right, and that on the Stock Exchange all wrong. The public will assuredly think differently, and its opinion will have the excellent backing that thus far all disclosures have tended to confirm the Stock Exchange estimate and disprove that of the Directors.

Setting this matter aside as one that it is now premature to discuss, since official investigation may throw upon it unsuspected light, we would revert to the known condition of affairs already cited, and seek to discover how it came about.

The first incentive for money lenders to relax the care and thoroughness with which they would ordinarily scrutinize collaterals is a superabundance of loanable capital. This incentive has been operating for years past throughout the commercial world but especially in England, whence it has extended to this country. It occasioned, first, a very low average rate of interest and, next, the absorption as collateral of properties not necessarily of questionable value but of a less and less available character, as competition to lend became more eager. Losses ensued, as was inevitable when, through bad harvests, natural re-action from over-trading, and other causes, values fell. The losses were certain to come; money lenders had to suffer them; and the only question was how they should be distributed. Those loan institutions which can show small losses compared with the extent of their business must be commended for good management, while those whose losses are disproportionately large must accept the reproach, apart from every other consideration, of relatively incompetent management. But it should be borne in mind that, if every bank and other money lending institution in the country, had been managed with the utmost skill, the issue could only have been that losses were divided amongst them somewhat more evenly. So, then, whenever it now transpires that those who have been employed by capitalists to lend their money have incurred serious losses in so doing it is but right to accept the misfortune as in