LOANS TO BANK DIRECTORS AND THEIR FIRMS.

ACTION IN UNITED STATES TO RESTRICT DIRECTORS' LOANS; WHAT SUCH LEGISLATION INVOLVES; EXHIBIT OF CANADIAN BANKS IN THIS MATTER; CANADIAN DIRECTORS' VERY MODERATE LOANS; THE LARGEST BANKS SHOW MOST FAVOURABLY; EXCESSIVE LOANS TO DIRECTORS UNKNOWN IN CANADA.

Attention has been drawn by some recent events to the question, as to the extent of the loans made by banks to their "Directors and the Firms of which they are Partners." The immediate circumstances which have inspired journalistic comments on this matter were associated with banks in the United States, but the question has been asked, whether similar conditions do not exist in Canada as those which have had such deplorable results across the line where twelve ex-bank directors are in gaol charged with breach of trust owing to their having "borrowed" excessively large sums from the banks of which they were officials.

Owing to the alleged frequency of this practice a Bill was recently passed by the Legislature of the State of New York, which has received the signature of the Governor, limiting the amount a bank may loan to any borrower to 40 per cent. of its capital stock and surplus (reserve fund), and providing that where such loans exceed one-tenth of capital stock and surplus (reserve fund), the excess must be secured by collateral worth at least 15 per cent. more than the amount thereof.

The extent of the loan permissible to one borrower under this new Act is certainly very liberal, so far so indeed as to be hardly worthy to be praised as an effort to prevent banks putting too many eggs in one basket.

To render such legislation effective would necessitate each bank having a public inspector as constantly on duty as the rest of the staff, like Inland Revenue officers are in distilleries and tobacco factories.

There have been occasions in Canada, in years long past, when there was a danger of some one director borrowing an excessive amount for the use of himself or his firm. In the earlier years of banking in Canada there were no bank shareholders available for the directorate who had any practical experience as bankers, and very few, indeed, if any, who had studied the principles and practices of banking. In the papers being published monthly by the New York "Bankers' Magazine" the writer, who is the Nestor of Canadian banking, tells of a Board of Directors who considered a proposal to place each deposit in a separate receptacle so that it would be always available and no "run" would cause inconvenience! It is known that, in this city, when there was a pressure for money beyond the available resources a director saw a large pile of new, unsigned notes and he demanded why these were not utilized, not knowing there was any limit on the circulation! Those days are past. The bank directors in Canada to-day, as a rule, have some knowledge of the theory and the conditions and the practice of banking, thanks, largely, to the information and comments of the financial Press.

When the vast change was made in the form of the monthly bank statement, a new column was introduced in which are given the, "Aggregate amount of loans to Directors and Firms of which they are Partners." From the March 31st statement, we have compiled a table, which appears in this issue, giving the amount of the loans to directors and their firms made by each bank in Canada, showing the percentage of such loans to the capital and to the total current loans and discounts in Canada.

A very striking and gratifying feature in this statement is the remarkably small average percentage of the loans to directors and their firms to the total current loans and discounts and to the capital. Out of $422,351,186 of loans in Canada only $10,607,294 were made to directors and their firms, the ratio being the bagatelle of 2.37 per cent. The average of directors' loans to capital is 12.2 per cent. and to capital and reserve fund combined 7.4 per cent.

By dividing the banks into two groups, those 16 whose capital is over $2,000,000, those 18 with a capital of $2,000,000 and under, we get the following significant and instructive results:—

	Capital. $	Directors' loans. $	Current loans. $
16 Banks with			
Capital over $2,000,000..	66,779,616	7,261,293	334,789,300
Average capital, etc.....	4,173,000	453,830	20,924,000
Percentage of Directors' loans................			
To capital..............	10.87 %	....	....
To current loans.........	....	....	2.16 %
18 Banks with			
Capital of $2,000,000 and under................	14,783,264	2,746,001	87,561,886
Average capital, etc.....	821,200	152,555	5,470,000
Percentage of Directors' loans			
To capital..............	18.57 %	....	....
To current loans.........	....	....	3.13 %

The above comparisons demonstrate that, the directors of the 16 largest Banks in Canada, whose average capital is $4,173,000 and current loans $20,924,000, borrow less proportionately to the capital and current loans of the Banks under their control than the directors of the other 18 banks whose average capital is only $821,200 and the average of whose current loans is $5,470,000.