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FORMER MINISTER OF FINANCE DID NOT WANT TO SMASH BANK IF IT COULD BE NURSED BACK

\$8,200,000 Advanced To Save Banque Nationale.

NEWS "HORRIFIED" HON. W. S. FIELDING

Examination of Sir Henry Drayton, Minister of Finance during the Meighen administration, before the Royal Commission investigating the Home Bank, yesterday, brought out some important facts. In answer to questions by Mr. W. T. J. Lee, one of the counsel for the Home Bank depositors, Sir Henry stated that in 1921 he had advanced money to the extent of \$8,200,000 to the Banque Nationale to enable

it to carry on business. "If that had not been done there would have been a bank failure," said Sir Henry.

Warned Mr. Fielding.

No such advances were made to the Home Bank, although examination of Sir Henry revealed the fact that he was far from satisfied with the condition of that institution. When he went out of office, he had drawn the attention of his successor, Rt. Hon. W. S. Fielding, to the condition of the bank. When Mr. Fielding expressed "horror" in regard to the action which had been taken to assist Banque Nationale, Sir Henry said he told him (Mr. Fielding) that he would probably have to take similar action with regard to the Home Bank before long.

Sir Henry appeared before the commission with the private file of communications which passed between him and officials of the bank and others in regard to its condition. It contained statements from the bank all designed to show that the condition of the institution was improving.

Believed the Reports.

When asked if he had believed the statements, he said that he had. He was never satisfied with some of the collateral for the loans, but he had no reason to regard the statements submitted as being anything but true. He pointed out the grav-

ity of taking action which would wreck a bank, but said that if he had been suspicious he would have forced the management to allow him to "put a man into the bank to find out its true condition." He felt that the bank needed "nursing," and pointed out that there had never been any requests for assistance from the officers of the bank, as in the case of the Nationale.

Sir Henry denied any knowledge of advances by the Home Bank to H. J. Daly, its president.

"Did you know that he had got into the bank to the extent of millions?" asked Mr. Lee.

Required Deposits.

"I was very shocked to hear it," replied the former Minister. When Mr. Lee asked if he thought that the bank should have been allowed to continue taking deposits and opening branches when its condition was unsound, he replied that the bank required deposits if it was to continue in business. It was a question of whether the bank should be required to go to the wall or try to better its position.

After the examination of Sir Henry, the Commission adjourned to meet on Tuesday morning next in the King Edward Hotel, Toronto. Before adjournment, it was made clear by Commissioner McKeown that the major part of the enquiry would take place in Ottawa. As counsel for the depositors wished to examine Liquidator Clarkson, and as it was necessary to refer to the books of the bank which were in the custody of the court, there would be an adjournment to Toronto, however.

Sir Henry Testifies.

Sir Henry was examined by W. T. J. Lee, counsel for the depositors. He said that he had first given some attention to Home Bank affairs in January, 1920, his attention being drawn to the file by Sir Thomas White. On January 5, Sir Thomas had written to Mr. Roberts, then secretary to Sir Henry Drayton, asking him to put the matter before Sir Henry. This was done.

On January 7, said Sir Henry, he wrote to Z. A. Lash, counsel for the Home Bank, asking for information regarding the three loans in regard to which complaint had been made. These were the Prudential Trust Loan, that to Pellatt and Pellatt, and the advance to the A. C. Frost Company.

He had received a reply from Miller Lash, son of Z. A. Lash, saying that his father was ill and unable to attend to business, but that the condition of the three accounts and that of the bank generally had much improved.

Opinion of Sir Thomas.

Sir Henry wrote to Sir Thomas White in April, 1921, stating that the board of the bank was convinced that the securities of the Prudential Company were sufficient. He asked for Sir Thomas' views on the subject.

Sir Thomas replied in a letter that it might be advisable to sum-

mon the president to Ottawa to review the position of the bank, particularly in regard to British Columbia timber limits. Sir Thomas believed it advisable "to keep in continuous touch with this bank."

On April 25, 1921, he had received another letter of assurance in regard to the condition of the bank. Also he saw H. J. Daly, president of the bank, at intervals.

Mr. Lee—"When did you see him?"

Sir Henry—"Oh, I'm not sure. I don't keep a diary."

Mr. Lee said that he supposed that Sir Henry did not keep a diary, but he might have an idea of the date.

Sir Henry replied that he had seen Daly a number of times. He had made it his business to get as much information as possible—not only from Mr. Daly but from other bankers, in regard to the Home Bank. The Home Bank was not regarded as being in a good condition, but Mr. Daly always took the ground that it was improving. Mr. Daly came to Ottawa in 1921 and submitted a statement which showed an improvement.

Mr. Lee—"Were you satisfied with it?"

Was Watching Two Banks.

Sir Henry—"I was never satisfied but I felt I had got all I could. It wasn't a question of being satisfied. It was a question of what you could get done. There were two banks which we were watching at the time, La Banque Nationale and the Home Bank."

Reduced Pellatt Accounts.

The statement covering the Pellatt accounts, said Sir Henry, showed a reduction from November 31, 1919 to May 8, 1921, of \$470,977. That reduction, according to the statement, was due to payments amounting to \$914,033, less additional advances of \$499,872. The list of securities submitted was dated May 8, 1921, and had a nominal value of \$3,533,391.

Answering Mr. Lee, Sir Henry

stated that the securities were gone over. A great part of them were for real estate round the city of Toronto. Mr. Daly had always insisted that if the bank were left alone it could always liquidate this debt by the sale of real estate. There had never been an independent valuation of the securities by the department. "The collateral didn't suit me at all," said Sir Henry.

Mr. Lee—"Were you suspicious of the statements?"

Sir Henry—"No, but I couldn't see daylight."

Mr. Lee—"You mean that you thought the bank couldn't get on?"

Reports Were Encouraging.

Sir Henry—"No, but I thought the bank should be nursed. I don't believe in smashing banks. The Home Bank never asked me for assistance, and reports were always encouraging."

Under examination of Mr. Lee, Sir Henry said that in 1921 the Banque Nationale suffered from severe withdrawals and assistance was required to enable that bank to carry on. He believed that if it could be carried long enough it could be saved. When he left office as high as \$8,200,000 had been advanced to the Banque Nationale. "If that had not been done there would have been a bank failure."

The failure of the Home Bank, whose total deposits represented approximately one per cent. of the bank deposits of the country, was never anticipated.

"I never anticipated that the Home Bank would be allowed to fail," he said.

"I did not lend the Banque Nationale eight million odd without knowing what was being done. While no public action was taken we knew what was going on and knew that the money was being spent in the best way to insure the bank against failure."

Fielding "Horried."

Sir Henry said he discussed the matter of the advances to the Banque Nationale with Mr. Fielding when the latter was assuming office as Minister of Finance. "I have to admit he was horrified about the Banque Nationale," Mr. Fielding had been of the opinion that no Minister of Finance should take such steps. "I told him," said Sir Henry, "that before he was finished he would probably have to do for the Home Bank what I had done for the Banque Nationale."

Mr. Lee questioned Sir Henry regarding the disposal of the private file which he presented. It had never been out of his possession. Sir Henry recalled that so far as he knew, the documents before Mr. Fielding were the original complaints from the western directors regarding the three accounts. The public file would show everything that would be useful. The material in the later file showed only continued improvement, and would have thrown any one off their guard regarding the bank's condition.

Took in Millions.

Sir Henry admitted that he had not advised the Home Bank to refrain from opening up new branches and increasing its deposits because of its condition.

Mr. Lee—"From January, 1919, it opened 24 new branches, did it not?"

Sir Henry—"I don't know."

Mr. Lee—"And took in millions of deposits. It seems to me that the Finance Department might have suggested that this should not be done."

Sir Henry—"The bank required deposits to carry on. We had to make up our minds either to put them out of business or let them carry on. They needed deposits so badly that they switched one of the Canadian National Railway deposits to help them."

"Are you going to suggest that, with the statements I had before me, the bank should have been made to fail?" Sir Henry asked Mr. Lee.

Mr. Lee—"Did you know of the drawings of H. J. Daly?"

Sir Henry—"No."

Mr. Lee—"Did you know that he had got into the bank to the extent of millions?"

Sir Henry—"I was very shocked to hear it."

The inquiry adjourned till 10.30 on Tuesday when the evidence of Liquidator Clarkson will be taken at the King Edward Hotel, Toronto.

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