

# BANK(ING) NOTES

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VICTORIA, B.C.  
2021

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## Eckardt on Canadian Banking

**Homer Mark Philip Eckardt (1869 – 1918) wrote a number of articles on banking for the Financial Post.**

### “Banking organization”<sup>1</sup> (May, 1908)

The Canadian Bank of Commerce the other day created the new office of superintendent of central branches, with headquarters in Winnipeg. This directs attention to one of the peculiarities of organization enforced upon the banks in Canada, because of the immense extent of territory served by each important bank. [...] A large number of the branch offices in the Dominion are situated at great distances from the head offices. Though the telegraph is available for communication with distant offices, there are always some matters demanding to be dealt with through letter-writing or personal interview between branch manager and head office executive, and in that event the great distances are sometimes inconvenient. Several of the larger institutions had for some time previously followed a policy of making territorial divisions of their business, so far as superintendence and inspection of offices are concerned. Such offices as superintendent of Maritime branches, of central, and western branches, have been created. Also it has been the custom to appoint inspectors for particular districts – men having special knowledge of, or experience in the business of the respective districts, being appointed inspectors.

Even before these new territorial titles were created, the banks had been obliged, or thought it advisable, to recognize in some way the natural desire of their customers in far away sections of the country to have resident among them officers with a little more authority than the ordinary branch manager possessed. They met this in some instances by appointing as managers of their principal branch in such places as Winnipeg, Victoria or Vancouver, men in which the executives placed more than ordinary confidence. Though these principal managers may not, perhaps have been vested with control or authority over the other branches in their districts or territories, some of them nevertheless exerted a large influence on the business. They did so partly because of the prestige of their positions as managers of important central branches, and partly because of the special weight attached to their recommendations and advice by the general managers. Thus there came about insensibly a sort of exaltation of the office of manager of a principal branch in a far-away province. Later this was followed by the appointment of the special officers with territorial designations. Quite probably one reason for the development was that it had a tendency to check the agitation for local banks, which spring up perennially, and which have resulted in the organization of several new banks in the past few years. Several banks have elected Winnipeg men to their boards; and one or two have

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<sup>1</sup> From Eckardt, H. M. P. (1908, May 3). BANKING ORGANIZATION. *The Financial Post of Canada*, p. 9.

a sort of subsidiary board of directors in Winnipeg – this with the object of gaining western goodwill and business.

### “The double liability”<sup>2</sup> (April, 1909)

**Before the advent of deposit insurance, shareholders in Canadian banks could lose up to *twice* the amount they had invested in the bank, in the event of a failure. This *double liability* was unpopular in some quarters.**

It seems likely that when the matter of extending the bank charters for another ten years comes up in Parliament something will be said about the double liability clause. Although there is not, apparently, any active propaganda or campaign for the abolition of the feature, some thoughtful persons are questioning whether the retention of the clause will not operate to hamper Canada quite materially in procuring the new banking capital necessary for financing the inevitable expansion ahead of her. [...] In the July, 1908, number of the Journal of the Canadian Bankers' Association there was an article by Professor R. E. Macnaughton, in which he pleaded for abolition on the ground chiefly that the clause injured the investment qualities of Canadian bank stocks, preventing many of the best classes of investors participating in the profits arising from banking operations, and that it gave the depositor too much of an advantage over the shareholder. Professor Macnaughton mentions, in the course of his argument, that the depositor gets 3 per cent. for his money, and that “a purchaser of shares in any of the leading banks will not, at the price he has to pay for such shares, get much more than 4 or 5 per cent.” and he concludes very naturally that the difference in interest is not great enough to compensate the shareholder for the liability to loss of 200 per cent.

It should be observed, however, that with one or two exceptions, the rates of earnings and rates of dividend paid by the leading banks have tended steadily upwards; and while a purchaser of shares may get but 4½ per cent. on his investment for the time, he has a very good chance of receiving a better rate of return in the course of a couple of years through an increase in the dividend rate.

Then, again, that he may at intervals of a few years see other successive increases in the dividend rate; and the probability is that at the end of 10 or 15 years he will be getting perhaps 8 or 10 per cent. on his original investment, his stock will have appreciated in value, and he may have received from time to time stock bonuses, when new capital was created.

This, of course, represents his participation in the profits of the banking business. The depositor has no right to claim anything but his principal sum and interest at a rate which will not exceed 3 per cent., and may very likely be 2½ in the course of a few years.

We may suppose that most of the well-established banks would be inclined to favor the retention of the double liability because, for one thing, it has an influence

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<sup>2</sup> From Eckardt, H. M. P. (1909, April 3). THE DOUBLE LIABILITY. *The Financial Post of Canada*, p. 10.

in checking the organization of new banks. Parliament and the people generally are now of the opinion that it is not in the best interest of the country to have too many new banks coming into existence. Therefore, the minimum of paid-up capital required for a new bank was raised to \$500,000 at the last revision, and the advisability of raising it still further was recently discussed. Imagine what a rush to organize new banks there would have been in the period 1902 to 1906, if there had been no double liability attaching to bank shares. In addition to the eight which obtained charters and began business, there probably would have been a number of others, perhaps ten or a dozen, and their frantic struggles to get business would have speedily created a situation a great deal more menacing than actually did develop. That is one way in which the clause works for the stability and soundness [of the banking system].

Though many small investors are not aware of the double liability when they buy banks shares, the parties controlling blocks of capital have full cognizance of it; and generally a number of them have to be enlisted before a new bank can have hopes of starting. It ensures a more careful and thorough enquiry as to the need for the new institution, and as to its prospects in the way of profitable operation.

Again, it should not be forgotten that the double liability has a direct bearing on the note issuing privileges. The fact that the Bank of British North America, which is not subject to the liability, is only permitted to issue notes up to 75 per cent. of its paid-up capital without depositing specific security, infers plainly enough that our legislators considered the extra liability of the stockholders the justification, in part, for the generous note-issuing rights conferred on the banks. It would be a matter exceedingly to be deplored if for any reason those issue privileges should be impaired or lessened. They are of vital consequence to many important borrowers.

Then it is open to question whether the liability operates materially to prevent the stronger banks from getting new capital when they want it. Not many investors who buy Bank of Montreal stock, for example, give any thought to the double liability attaching to it. The same with other banks that have accumulated large reserve funds and established an enviable record. The liability hardly figures at all in their case. Should they wish to get new capital, which their stockholders in Canada were unable to provide, it is very likely they could get it abroad if the need for it was pressing enough.

### **“The advantage of a stable rate”<sup>3</sup> (November, 1909)**

In the high money period of 1906-7 there was some complaint from the depositing classes regarding the deposit rate of three per cent. allowed by the banks. As a matter of fact, the existence of that uniform rate throughout all parts of the Dominion is one of the things the critics point to when they seek to prove that the banking business of Canada is in the grip of a baleful monopoly. Some of them wax eloquent over the injustice of the banks in paying their depositors only three per cent.,

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<sup>3</sup> From Eckardt, H. M. P. (1909, November 13). The Advantage of a Stable Rate. *The Financial Post of Canada*, p. 3.

while charging small borrowers seven and perhaps eight per cent. in particular instances.

It should be remembered that a question like this cannot be fairly judged by merely taking into consideration a few superficial facts. Every banker knows that there are a host of things to be taken into account in arriving at the relation which should exist between the deposit and discount rates. [...]

In England, the principle which banks follow is the policy of paying for deposits so much under the Bank of England or London market rate. Thus the margin of profit is fairly uniform, but the deposit rate fluctuates considerably. There have been times in which depositors got more than 3 per cent on their balances, but they have not been of long duration, and they have, on the other hand, been forced to take very low rates for considerable periods of time. Sometimes the rate has fallen to one per cent., and even below that. It is hardly to be supposed that Canadian depositors would wish to have a method like that applied to their balances. If it were, they would very likely find that their income from interest was noticeably lessened.

One important difference in the classes of deposits in Canada and England exists in the fact that in this country the deposits cost more, over and above the interest rate, than they do in England. The English banks get a larger proportion of their deposits in large blocks, while in this country much of the total consists of small balances, some of which are worked rather actively. Then, besides, there are always a goodly number of branches in small places, the deposits of which cost considerable, owing to the fact that the branch expenses, in the way of salaries, rents, etc., [must] be applied to a small total of deposits.

There is another important reason why the margin between the deposit rate and the average discount rate needs to be wider than in England. It is the greater risk here of loss in the discounts. England is a highly developed country in which the banks have the opportunity of employing the most of their resources in advances representing little or no risk. In Canada it is otherwise. The country is developing rapidly. Among the business enterprise which the banks must assist are always some destined to fail, though they may at different stages present an appearance of real prosperity. And the people on the whole are adventurous in their borrowings. So it comes about that every Canadian bank must mark off from the rates it receives in discounts a certain per cent. to cover its losses from bad debts. [...]

It is a fair inference that the stability of the deposit rate in the Dominion and its maintenance at a level fair to depositors and borrowers alike, have helped materially to bring about the steady and satisfactory growth of our banking power, and at the same time to stimulate our industrial and commercial expansion. The rate has been high enough to attract into the banks practically the whole increase of deposit capital taking place in our country. And it has been low enough to permit the banks to advance monies to the mercantile and industrial interests at moderate rates.

When it is said that the banks charge certain small borrowers as much as 7 or 8 per cent. for accommodation, it should be borne in mind that at none of the branches does the aggregate of loans bearing those rates of interest amount to a large figure. [...] It is always the case that the large loans bear the lowest levels of interest, and

taking any bank as a whole, it will be found that the loans drawing high rates make a very small proportion of the total. Of course, in the city offices the loans are nearly all at low rates. Often enough there is a special risk attached to the loans bearing 8 per cent. – sufficient to make the actual profit on them no greater, or less than the profit on the 5 ½ or 5 p.c. discounts.

One curious incident in the writer's experience shows that other things besides security sometimes operate to cause the charging of a high rate of discount. At a country bank in Ontario, years ago, a farmer who came in and applied for a loan savored very strongly indeed of the stable, or of something worse. The clerks in the office noticed it at once when he came into the bank. He was admitted to the manager's room and remained there quite a time. When he had got his money and gone, the manager, who was an old man, came out evidently excited over the bad smell he had had to submit to. After telling the accountant how bad it was, he wound up by saying: "Never mind; I charged the fellow 10 per cent. for his b-----y note, anyway."

### **"The Canadian system of branch banks"<sup>4</sup> (December, 1909)**

In framing banking laws, legislators in the Republic and legislators in the Dominion have followed different ideas. With the theory that it is best for the country, and that the popular will requires it, Congress has set at a low figure the minimum of capital that a national bank must have. Twenty-five thousand dollars capital suffices to start a new national bank. The various States also have power to charter new banking institutions. Many of them have set the minimum of paid-up capital so low as \$10,000, some as low as \$5,000. Under the federal laws, branches are not allowed. In some few States they are permitted, but not encouraged. In most of the States the laws are either actively or passively hostile to the establishment of branches. As a result of this policy there were on April 28, 1909, 22,491 banks, each with a separate organization and full list of directors and officers.

The Dominion Parliament has proceeded with the view that the interests of the country were best served by strong banks that possessed the full confidence of all classes of the people. It has therefore fixed the minimum of capital for a new bank at \$500,000. And before the bank can begin business, it must have \$250,000 capital actually paid in, and it must deposit that amount in cash with the Receiver-General of Canada. The Receiver-General returns the money without delay, accompanied by a certificate of permission to begin business, provided the incorporators have complied with the other provisions of the Bank Act. [...] It should be noted that the provincial governments have no power to charter banks. Control of banking legislation lies entirely with the Dominion Parliament.

But, tho the legislators do not favor the indiscriminate organization of new banks, they like to see the existing banks pursuing an active policy of branch

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<sup>4</sup> From Eckardt, H. M. P. (1909, December 23). The Canadian System of Branch Banks. *The New York Independent*, p. 1421.

extension. That attitude suits the banks admirably. In the past few years they have pushed their offices into hundreds of small places in the East and in the West. These offices are run at small expense. A new branch may start with a manager and one clerk, and, as the business grows, the staff will be increased. At these country branches of the larger banks there is no attempt whatever made to keep the loans or the deposits within certain limits, or in any kind of relation with each other. The bank is there, and is to do all the business it can do, no matter whether loans exceed deposits or not. A savings department is started and deposits received from one dollar upwards. Interest at three per cent. per annum is allowed, being credited semi-annually. The poorest people may have savings accounts if they want them, and they may carry balances not exceeding one or two dollars. Wage-earners, town housewives, farmers, their wives and children, make up the bulk of the names in the savings bank lists. No restrictions are placed upon withdrawals; they are paid on demand up to any amount. The pass-books, however, contain a clause under which the bank reserves the right to exact ten, or at the most, fifteen days' notice of withdrawal. The notice has never been exacted in recent years, not even during the course of the American panic of 1893, nor in that of 1907. The people everywhere have implicit confidence in the stability of the banks and nearly everybody uses them. When a chartered bank opens a branch in a little village which has had previously no banking facilities, except the government's postal bank, it invariably happens that the post-office depositors gravitate to the chartered bank, this notwithstanding that the rate of interest paid is three per cent. at both depositories. The reason the chartered bank is preferred is because money can be deposited in and withdrawn from it with less trouble and delay, and in most cases the depositors consider that their funds are practically as safe with the bank as with the government.

The Canadian branch discounts all the good paper which its locality can furnish, without any regard to the amount of deposits held there. But the United States local bank must regulate the amount of its loans by the amount of its deposits. When it has loaned out its funds it must decline to take more paper, even when the would-be borrowers are sound and worthy of credit. Therefore it quite commonly happens that in manufacturing towns the large borrowers are obliged to apply to note brokers or to large banks in New York or Boston for the accommodation they need. Also it is the case that many large borrowers are beholden to as many as twenty or thirty banking institutions for the credits they work on. Not one of these institutions will feel itself under any obligation to support the borrower should a crisis occur such as happened in 1893 and in 1907. In Canada, every large borrower will have in his home town the branch of some great bank, which carries his whole account from year end to year end. Each year he submits the details of his position to the bank and gets his credit. The bank supports him thru all kinds of weather, so long as he is sound and worthy. During a panic he is under no anxiety at all. Probably he will not even have his discount rate changed.

So it happens, owing to the fact that all the branches are permitted to do all the good business that is offered to them, that the list of branches of a great Canadian bank will present some startling inequalities of loans and deposits. [...] Speaking



generally, it is the case that in the East, in the farming districts and in the small places, the deposits have a tendency to exceed loans. But whenever there are important manufacturing industries located, the loans are likely to exceed the deposits by a considerable sum. In Western Canada the shoe is on the other foot. There, the great majority of branches show loans in excess of deposits. It is so because farmers are heavy borrowers, and as the country is new, deposits are scarce. [...]

It should be borne in mind that the rapid development of Western Canada in the last few years has been one of the chief causes of the rapid extension of branch banks in the East as well as in the West. The banks which own the most branches and do the bulk of the business in Western Canada are Eastern banks; that is to say, they have their head offices in Montreal or Toronto, and their stock is owned in small lots by thousands of investors living in Ontario, Quebec, and the Maritime Provinces. There are about fourteen or fifteen of these banks, the managers of which have their eyes on Western Canada more or less all the same. When a new town or village springs into existence, thru the building of a new railway line or the settlement of a colony of farmers or miners, there ensues a race among some of these banks to establish branches. If the place is very small, the first one to open may be allowed to have the field to itself; but if the population is five hundred or more, and good prospects of growth exist, then two or three banks may tumble into it and fight each other hotly for the available business.

There have been so many new towns placed upon the map in Western Canada lately that the number of branches established there has grown quite rapidly. In less than three years the Western branches have increased from 432 to 654. I have already explained that new branches in the West usually have a considerable excess of loans over deposits. It can be understood, then, how when a bank had established, say, twenty or thirty new branches in the West, that it would find them absorbing quite a large amount of its funds. It would perhaps solve the problem thru opening a series of branches in quiet places in the East, where there were no manufacturing industries and where the demand for loans would not be great. In this way it would be accumulating fresh deposits in the East which would furnish the funds required by the new branches in the West. [...] It is quite easy to see that both kinds of localities in the Dominion benefit thru the establishment of the branches. The Western locality benefits thru being supplied with ample funds for carrying on its business, and the Eastern locality gets banking facilities which it values highly. [...]

The manager of a branch bank in a Canadian town nearly always takes an active part in the schemes that are set on foot for encouraging the development of the place. He will most likely be an active member of the local board of trade. In quite a large number of towns the manager of one of the local branch banks holds the chairmanship or presidency of the board of trade. To all intents and purposes the local manager is a citizen of the town, and is as much interested in its growth as any of the others.

From the head office of a large Canadian bank one may get a most interesting and absorbing view. Every day statements and reports from the branches come piling in, showing the gains and losses of deposits, the increases and decreases of loans, at

many different points, not only in Canada, but in the United States, in Newfoundland, Mexico, the Bermudas, Cuba and Jamaica – for the Canadian bank branches and agencies extend into all these countries. [...]

It is most interesting to watch the manner in which the branches are planted. Every one of the progressive banks is open to consider the establishment of a branch at any place that is suggested. Suggestions come from two sources. First, the managers of the existing branches suggest places where, in their opinion, the bank might with advantage plant branches. If the general manager is impressed with the arguments they put forward, he issues the necessary instructions and appoints the officers and clerks required for manning the new establishments. Secondly, suggestions come from villages and hamlets not having banks. The business men of one of these places will ask a big bank to open a branch in their village. They will present figures showing how much business is done by them; the number of bushels of wheat or oats shipped out; the quantity of cheese marketed; the freight receipts of the local railway station; the population of the place. Finally, they will perhaps hand in an undertaking by themselves to keep their accounts at the branch (if opened) and help it with their influence.

The banking executives do not ask much in the way of profits from these small branches. A couple of hundred dollars a year clear gain would perhaps be considered satisfactory enough. Plenty of the branches are run at a loss for several years in the hope that they will develop sufficiently to bring the balance of profit and loss on the right side.

Sometimes the business men of a village or town which already has a bank will ask another institution to go in and compete. If they promise a certain amount of support, they will have little difficulty in getting the competition they desire.

At crop-moving time, when a large amount of extra currency is needed in the wheat districts, the banks make with ease large advances to the flour-milling and grain-buying interests, because those borrowers take the proceeds of their loans in the banks' own notes, and circulate them among the country people. [...] If the banks had no circulating rights, or if their rights were as valueless as those of the national banks of the United States, many hundreds of would-be borrowers would have to go without accommodation at this season, and those who did get loans would have to pay a higher price for them.

Another essential difference is that in panics or stormy weather the banking offices cohere, or stand together. There could not be a rush of the country bankers in Canada for the cash held in the reserve centers, for the very good reason that the country bankers have no power to demand it. The executive of each bank directs the disposal of its cash resources. So each aggregation of branches is under the control of a calm and experienced mind. Some sixteen or eighteen gentlemen in Montreal and Toronto can get together in a crisis and in a few hours arrange a policy which will be followed by practically all the banking offices in the Dominion.

Another difference is seen in the composition of the staffs of officers and men. In Canada all the men, from junior to general manager, are professional bankers. [...] While in the States there are a great many banks which are managed and ruled by

men who made money in some other kind of business and who with it bought up or took up bank stock to give them control of a bank. [...] It is quite common to hear an American bank president, or vice president, in any part of the country, speak of “my bank.” [...] That is not seen in Canada at all. [...] There is not a president or a general manager of any large Canadian bank who would think of speaking of the institution he served as “my bank.” A glance at the stock lists explains at once why this is so. Every large Canadian bank is owned by a large number of small proprietors. [...] The directors, even when taken altogether, do not own more than one-sixth or one-tenth of the outstanding stock. So it comes to pass that the officers regard the bank as being comprised of the head office and branches, and as being owned by thousands of investors in every part of Canada, and in Great Britain and the United States, as well.

Finally, it may be said that the United States bank clerk, in the country towns and cities, lives at home. He is a local youth, and when he is taken on the staff of the bank in his home town, he stays there. In Canada it is not so. Probably four-fifths or five-sixths of the employees are living away from home. A youth may be taken on the staff of the branch in his home town as a junior, but the chances are that he will not remain there more than one or two years. An opportunity for promoting him to a higher position in another branch occurs, and he gets his transfer orders. In nearly every case he obeys them willingly and readily, because the move is a step upward. Thus it comes about that at all Canadian bank branches the men are young fellows away from home. The managements of the different banks are anxious, in their own interests, to keep their men from drinking, gambling, and other evils. They do a great deal to ensure comfortable living quarters and to ensure that the clerks shall not be unduly exposed to temptation. In furtherance of this object, and also with the object of increasing the loyalty and good will felt by the men to the bank, the great banks have latterly followed a policy of erecting at numerous country points branch buildings equal to the best in town, quite often having the upper portions devoted to home-like quarters for the unmarried members of the staff.

### **“Investing the new deposits”<sup>5</sup> (February, 1910)**

One of the most interesting parts of Mr. McLeod’s address to the shareholders of the Bank of Nova Scotia at the last annual meeting is that wherein he points out the danger connected with the recent rapid accumulation of deposits by the banks. As everybody knows, the growth of this department of our banks has been very rapid. Quoting Mr. McLeod, “The pressure of rapidly growing deposits sets up a keen competition among banks for borrowing accounts. Such competition inevitably results in a growing disregard of sound credit requirements, and greater concessions are accorded customers with a view to inducing them to increase their borrowings.” [...]

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<sup>5</sup> From Eckardt, H. M. P. (1910, February 5). Investing the New Deposits. *The Financial Post of Canada*, p. 10.

It is well known that the really strong banks of the country employ methods similar to those described by Mr. McLeod as in vogue at the Bank of Nova Scotia. Appropriations are made in good years for losses on the loans and discounts, even when they appear to be sound and clean; profits are set aside regularly year after year to provide a reserve against possible depreciation in the value of investment holdings of bonds – this regardless of whether market conditions are booming or otherwise; large sums are taken annually from current earnings and applied to write down premises account, and the executives do not rest easy until they have the item in their books at a figure around 50 per cent. of the valuation, on a conservative basis, of the properties, and even then they continue the appropriations with the aim of reaching ultimately the point at which the premises will be valued at a merely nominal figure; applications for new loans, and for increase of existing loans, are subjected to the closest and most carefully scrutiny, and the liability accounts are watched with unflagging care for signs of weakness.

But, though the best managed banks are following these methods, it is idle to say that all the banks in Canada are doing so. One can see very plainly from the published statements that they are not. The margin between their dividends and their earnings does not permit them to make the appropriations that should be made to write down the book value of their premises, safes, furniture, etc., and it is to be feared that it will turn out in the cases of some that the elements of their rapid growth of loans and discounts are not of a “firm and time-defying fibre.”

### **“Costly bank buildings”<sup>6</sup> (December, 1910)**

From time to time stockholders of Canadian banks have complained that too much money has been expended by these institutions upon fine buildings. [...] When a shareholder considers the matter fairly and takes into account all the circumstances connected with it, he will probably hesitate to make up his mind that his money has been wasted. And it is just possible that he might conclude that the policy followed by the directors is likely to prove wise and economical.

In the first place, due consideration should be given to the matter of durability of the buildings. No one can view the great structure fronting on Place D’Armes Square without being impressed with its solidity. Above ground and under ground, it is built to last. One hesitates to estimate how long this building will serve the purposes it is presently filling. But it certainly appears as if it would be many years before the shareholders of the Bank of Montreal are called upon to provide anything of consequence to meet expenditures on bank premises for the head office. It may be that in twenty-five or thirty years from now the building will stand practically as it does to-day. And it is likely enough that in fifteen years’ time nobody will refer to it or think of it as an extravagant building. On the contrary, the whole body of the shareholders may then regard it as eminently a common-sense affair. The same

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<sup>6</sup> From Eckardt, H. M. P. (1910, December 17). Costly Bank Buildings. *The Financial Post of Canada*, p. 15.

might be said about the expensive Winnipeg building. Long before its utility has passed, barring accidents and great disasters, it will be taken to be suitable and economical rather than magnificent and expensive. In other words, it will become more clearly apparent in a few years that the banks which have expended large sums in erecting what are to-day described as magnificent premises have been building for the future.

Of course, it may be that within the next ten or twenty years there will be a slump in the cost of labor and of building materials; but the bank executive that deferred building till that happened might in the end be obliged to pay double prices for what it wanted. If labor and materials increase in cost during the next ten years as much as they have increased during the last ten years, these great buildings now built and being built will then appear to be inexpensive.

There is to be considered the prospective growth of the banks and of the cities in which they erect the fine buildings. Ten years from now, the Bank of Montreal might have assets of six or seven hundred millions; its yearly profits might amount to between three and four millions, or they might be five millions. Montreal, Toronto, Winnipeg, will all have grown extensively. Under those circumstances, quite likely it would develop that buildings less solid or less costly than those actually erected would be out of keeping with the circumstances of the banks, or inadequate for their purposes.

And finally, bank shareholders might bear in mind the fact that a very fine bank building usually has a considerable effect in attracting depositors and other customers. Depositors and discounting customers like to go into a building like the Bank of Montreal in Montreal, to transact business. It is commonly known among bankers in Toronto that those banks which recently erected fine buildings in the city received as one result thereof an extraordinary amount of new deposits, so the expenditures have a tendency to pay for themselves in that way.

### **“Starting new banks”<sup>7</sup> (December, 1910)**

Although the amendments to the Bank Act, as introduced by the Prime Minister, contain no provisions for increasing the minimum of capital subscriptions, and cash payments thereon, required from new banks, they nevertheless will serve, if they pass in their original form, to increase the difficulties with which the promoters or organizers of new banks must contend. Some critics had suggested that it might be well to stipulate that before a new bank be allowed to commence business it should have a subscribed capital of \$1,000,000 and a laid-up capital of \$500,000, thus doubling the present requirements. The government has not seen fit to make this change. However, the clause which stipulates that the promoter and his immediate associates shall stake their own funds, in large measure, in the promotions and organization expenses, may have a deterrent effect upon new promotions of this kind. For it is provided that when the promoter’s efforts to organize a new bank prove

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<sup>7</sup> From Eckardt, H. M. P. (1910, December 31). Starting New Banks. *Financial Post of Canada*, p. 3.

futile, he must return to the subscribers the whole of the funds paid in by them, without deduction of any kind except as may be authorized by the subscribers. In other words, the subscribers to the stock may, if they feel like it, force the promoter and his particular friends to bear the whole expense of an abortive attempt to establish a new bank. Indeed, it seems altogether likely that the subscribers would, in most cases of the kind, be apt to take that course. They would not be disposed to authorize the application of their moneys towards the payment of expenses from which they could derive no benefit.

Then the requirement that the stock certificates and other documents issued in connection with the promotion and organization of a new bank shall have printed upon them a statement of the law regarding the double liability, is of a character to make the task of procuring stock subscriptions more difficult. This change has been advocated for some time. It has its justification in the fact that the Sovereign and Farmer's Banks placed stock by means of agents in the country districts among people who are not familiar with the important features of the Bank Act. It is safe to say that many of these rural subscribers were not aware of the double liability clause when they entered into their undertakings. It is well known that investors have an aversion to buying stock in undertakings of any kind in cases wherein the stock is subject to assessment, or calls, or where only a part is paid up. Farmers are as cautious as other investors in this matter. And if the terms of the double liability clause are printed on the documents set before them, in such prominent fashion as to strike their notice of attention, it seems probable enough that they will be somewhat less disposed to subscribe for new bank stock. It is right and proper that the law should aim in this way at informing the ignorant or badly posted possessors of capital as to the nature of the obligations they take upon themselves when they subscribe to or purchase shares in a new banking enterprise.

### **“The rest fund fad”<sup>8</sup> (January, 1911)**

That a bank's solidity and prosperity are measured by the size of its rests is more than a popular notion. When an institution has built up out of profits a rest equal or nearly equal to its capital, all the while maintaining regular dividends, the fact must be taken as a decisive evidence of solidity and prosperity if it be assumed that the book valuation of its assets is on a conservative basis. Then the maintenance of a regular dividend and the steady upbuilding of the market price of the bank's stock are important considerations. It might be said that this is exactly what the general managers and directors are there for – to handle and deal with the assets in their care in such a manner that the property of the owners will give steady and satisfactory returns and steadily increase in value. They must do this while maintaining the credit and strength of the bank on a high basis.

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<sup>8</sup> From Eckardt, H. M. P. (1911, January 14). “The Rest Fund Fad”. *The Financial Post of Canada*, p. 20.

It might be observed also that large systematic additions to the rests out of profits constitutes a most advantageous method by which the stockholders may contribute fresh capital. Capital provided in this way is not subject to the risk of the double liability, and it is also not subject to the same taxation as that paid in for the purchase of new stock. Then another important consideration [...] is that a large rest – equal or nearly equal to the capital – tends to neutralize the double liability on the stock, always presuming that the assets are truthfully and conservatively valued.

In Canadian banking it is regarded as essential that there shall be a large and safe margin, over and above the amount of the capital stock, between the assets and the liabilities. This margin takes various forms – rest, profit and loss balance, secret reserves. It must be there or in process of accumulation, otherwise the public will properly conclude that the bank is not solid or not prosperous. One reason this margin is required is that the commercial loans and discounts might suffer considerable shrinkage in value owing to an unfavorable industrial and mercantile situation.

### **“Amalgamations and banking credit”<sup>9</sup> (February, 1911)**

With the general public, to quite an extent, size passes for strength. On the other hand, most bank managers know that while large figures confer a certain amount of prestige, they may not in every case spell strength. Similarly, it is usually assumed, when two banks enter into an amalgamation, that both are in every case strengthened by the transaction, whereas it is the case that amalgamation sometimes weakens the position of one or other of the parties directly concerned. For example, two weak banks might join forces and the combination might still be deplorably lacking in strength. Also, a strong bank might absorb a smaller or weaker concern, and the transaction might be the reverse of beneficial for the stockholders of the strong bank. In other words, the strong bank might be to some extent weakened by the absorption. This would be the case if from any cause the assets of the smaller concern were taken over at a valuation which the course of subsequent events showed to be too high.

There might easily be a very considerable loss encountered through taking over another bank. Before a bank does so, it of course makes a careful examination of the assets that are to be purchased. However, it is not as familiar with the losses and discounts taken over as it will be a year or two after the transaction is consummated. Accounts which look good to a bank manager when carried by another bank sometimes develop very disagreeable symptoms when he has succeeded in getting them transferred to his own ledgers. So with the stuff taken in connection with amalgamation. Some loans and accounts which looked attractive and sound when acquired would prove to be a cause of loss. And sometimes the directors of a bank that has acquired another bank are obliged to appropriate considerable sums in order to get the assets so acquired written down to conform to conservative valuations.

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<sup>9</sup> From Eckardt, H. M. P. (1911, February 25). Amalgamations and Banking Credit. *The Financial Post of Canada*, p. 17.

Then sometimes there is the case that a large bank makes an excellent bargain in its absorption of another concern. In other words, it may acquire the additional assets at a very cheap price. When that is so, it may be that the stockholders of the absorbed bank lose what the stockholders of the absorbing bank gain. Thus it may be seen that amalgamation contains possibilities of loss as well as possibilities of gain; it may weaken as well as strengthen. In short, amalgamation has some of the characteristics of a lottery.

### **“The small depositor”<sup>10</sup> (April, 1911)**

Branch managers are sometimes puzzled over the question whether certain accounts should be retained or thrown out. Fifteen or twenty years ago the lines were drawn more severely between desirable and undesirable accounts. It was required by some banks that every account in their books should be profitable, directly or indirectly. Of course, it was the case, in spite of this requirement, that there were a considerable number of unprofitable small accounts carried by the most exclusive Canadian banks. At almost every town there are some small tradesmen whose business life consists of a constant struggle to meet maturing bills. They deposit every day or every second day, and every day sees one or more debit entries pass through the account. Usually they are not able to pay maturing bills in full. They may manage the small ones, but on all others they make payments on account. At the end of each day the balance at credit of such an account will perhaps be a mere fraction of a dollar. It may also be the case that the customer's credit is poor, and that he is not strong enough to supply other than occasional bills for discount. Such an account in itself would doubtless be a source of loss to a bank. The branch manager might seek to put it on a paying basis by instituting a charge of fifty cents per month, or a dollar a month if a large number of entries passed through the account.

The recent rapid expansion of the banks in regard to branch offices would naturally have an effect in moderating the attitude of the banks towards small customers. When a new branch appears in a town or village, the officers are usually anxious to get accounts into the ledger, and they are not too particular about excluding those likely to be unprofitable. The willingness of the newcomers to accept everybody and everything will have its effect upon the branch or branches which were previously established in the locality. Probably they will not wish to lose even those accounts which were regarded as of doubtful value.

It is not only the small traders at the towns and villages whose accounts are open to question. In the uptown branches in the larger cities and in the suburban branches there are doubtless many accounts operated by parties who issue a great many cheques while maintaining but a small average balance. However, banking competition is so keen that if one bank were to undertake to rid itself of such customers, they would be cordially received by others in the same neighborhood.

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<sup>10</sup> From Eckardt, H. M. P. (1911, April 10). THE SMALL DEPOSITOR. *The Financial Post of Canada*, p. 15.



One of the most striking evidences on the effect of banking competition in Canada in benefitting small depositors is seen in connection with the savings bank business. When the Canadian banks began some 25 years ago to institute savings departments, they required that the savings accounts should not be operated as current accounts. In those days, the savings bank cheques were altogether drawn in the form of receipts. They began with the words "Received from the ----- Bank." The customer was supposed to make withdrawals from the account in person, and he was supposed to present his passbook on each and every occasion. If anything happened to prevent his attending at the bank personally, the bank would accept his written order, but before doing so the circumstances were inquired into.

The brisk competition waged among the banks for savings bank accounts has resulted in bringing about some startling changes. Nowadays the small depositor can open a savings account even with a conservative bank, and he will be given a chequebook which differs only from the book of cheques applicable for drawing on a current account balance in the fact that the words "Savings Department" will be inscribed upon them. If he uses this privilege of drawing in moderation, he may get interest at three per cent. on his minimum monthly balance and have at the same time much of the advantage enjoyed by the possession of a current account. He need not carry a large balance in the account.

### **"The rest – its relation to the loans or risks"<sup>11</sup> (July, 1911)**

Canadian holders of banks stocks sometimes manifest a disposition to criticize the banking executives for continuing to add to the rests large amounts appropriated from current earnings after the rests have been built up to an equality with the paid-up capital. Thus, the shareholders of a bank which has a rest equal to or greater than its capital may say at the annual meeting, "The rest is now quite large enough. Why do you not increase the dividend?" [...]

[Banks persevere] in the policy of building up the rest, or reserved profits. By doing so, they have sought to buttress or support the capital stock. A proportionately large rest does this in the most effective and the most satisfactory way. Next, the diversion of a certain proportion of the current profits to the rest fund enables the proprietors to re-invest their profits in the business in such a manner as to escape the double liability. In other words, the annual transfer of a substantial amount of current earnings to the reserve fund serves to minimize or reduce the risk pertaining to the shares on account of the double liability clause of the Bank Act; at the same time, it operates as a contribution, by the proprietors, of fresh capital, to which the double liability does not apply.

Assuming that the management of the bank is good and careful, it may be taken for granted that each addition of \$100,000 to the rest from current earnings represents for the future an increase of annual profits, amounting to \$4,000. That is

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<sup>11</sup> From Eckardt, H. M. P. (1911, July 22). The Rest—Its Relation to the Loans or Risks. *The Financial Post of Canada*, p. 6.

to say, when a bank with a capital of \$2,000,000 sets aside \$100,000 of its earnings to increase the rest, it thereby ensures an annual increase of profits amounting to at least \$4,000, or 1-5 of 1 per cent. on its capital. The bank can make at least 4 per cent. on this new capital. It is on a wholly different footing from the funds received from depositors, inasmuch as no cash need be held against it and no provision for its return or repayment is required. This means that by merely adding \$100,000 per year to the rest out of profits, the directors may ensure an increase of 1 per cent. in the bank's dividend every five years. They may also find that the profit fund available for increase of the dividend is otherwise increased through the growth of the bank's deposits.

This calculation, as to the benefit which the stockholders may expect to derive from the annual reservation of a fixed amount of current earnings, is, of course, based upon the assumption that the executive of the bank make such further annual reservations of profits as will suffice to meet all losses from bad debts as they accrue, without drawing upon the rest at all for that purpose. This would necessitate the building up of a contingent reserve, behind the rest, upon which drafts might be made in those years of commercial trouble or depression in which the losses from bad debts reach exceptional proportions.

During late years the business and risks of the Canadian banks have increased very rapidly. In fact, the risks have increased more rapidly than the capital. One way in which the rest protects the capital is in its standing between the capital and the risks. If there is wholly exceptional loss, not provided or prepared for, the rest may be drawn upon to meet it. It is reasonably certain that in persevering in the policy of adding to the rest after it became equal to the capital, the directors of the banks doing so have been actuated in part by the desire to have the rest proportioned in some degree to the risks. The risks, as all bankers are aware, comprise practically all the assets except the specie and legals. But in some of the items of the assets the risk is so small that it could perhaps be disregarded. It is well known that the risks are chiefly found in the current loans and discounts.

### **“Bank loans to the merged industrials”<sup>12</sup> (August, 1911)**

One of the interesting features of the merger movement among the Canadian industrials is the effects which have been produced upon the relations of the merged industrial companies with their bankers. [...] For example, take the current number of Houston's Annual Financial Review and examine the position of some of the principal industrial consolidations as portrayed there. Looking down the list as arranged in the index, the Amalgamated Asbestos Corporation first strikes the attention. Examining the balance sheet of this corporation as at December 31st, 1910, it is seen that among the liabilities no bank loans are specified. There is an item “Bills Payable \$575,922” under the head of which advances from banks might be included.

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<sup>12</sup> From Eckardt, H. M. P. (1911, August 5). Bank Loans to the Merged Industrials. *The Financial Post of Canada*, p. 18.

But one naturally assumes that these bills were given in the course of business or trade for goods purchased. On the other hand, among the assets appears the item "cash \$74,031." This most probably represented cash in bank. The question arises, how has consolidation, in this case, affected the relations of the merged industries with the banks? In other words, do the merged companies, since consolidation, lean more or less heavily upon their bankers? One may assume, judging from the fact that a large amount of capital was received through the issue of bonds and preferred stock, and from the fact that no bank loans are specified in the liabilities, that the companies now require or use less bank accommodation. However, in this case, the matter is not as clear as in others.

Next, take the Canada Cement Co. In the balance sheet, also, as at December 31st, 1910, there are no bank advances whatever, but on the other hand, a balance of cash, \$916,169, is shown. None of the individual companies constituting the Canada Cement Co. published balance sheets; but it is exceedingly probable that a number of them carried large loans with their bankers, and we may assume with some confidence that the net indebtedness of the bankers to the consolidated company, as at December 31st last, of nearly a million dollars, represents a reversal of position. In other words, one may hazard the assertion that prior to the consolidation, the companies were indebted to the banks on balance. Of course, the position now is that the purchasers of the bonds and stocks issued by the company have provided the capital which paid off the banks. [...]

It is necessary to bear in mind in this study that the banks have made, and are now carrying, very large advances or loans, from which these merged industrials benefit indirectly. For example, the bank loans, now current, negotiated by the purchases of the recently issued merger securities must reach large figures. These securities figure as collateral against advances to brokers, and to individuals and companies.

### **"The banks and real estate"<sup>13</sup> (October, 1911)**

In the monthly bank statements published at Ottawa there are three columns in which the investments of the banks in real estate and their expenditures thereon appear. The most important of these headings is, of course, bank premises. Indeed, it is the only one under which investment actually takes place. The other two headings are "Real Estate Other Than Bank Premises," and "Mortgages on Real Estate Sold by the Bank." It would be contrary to the letter and spirit of the Bank Act for a bank to buy real estate for an investment or a speculation as the private individual buys it. The law specifies only a few methods by which a bank can acquire real estate or mortgages, and it stipulates that real estate so acquired shall not be held longer than seven years. [...]

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<sup>13</sup> From Eckardt, H. M. P. (1911, October 7). THE BANKS AND REAL ESTATE. *The Financial Post of Canada*, p. 19.

It is well known that the banks look upon their real estate and mortgages as being so much dead wood. Almost invariably they acquire these properties through bad debts. A bank will open an account with a business man in the belief that he will make a success of the enterprise in which he is engaged. For one reason or another, because the customer lacks business ability or because he encounters misfortunes, this debtor begins to lose ground. The bank sooner or later realizes that its funds advanced to him are in jeopardy. The man cannot pay his loans or credits. He may have a good residential property or other real estate which may or may not be encumbered. The bank demands additional security and the customer gives a mortgage on his fixed or immovable property. Insolvency follows; the mortgage remains in the bank's books. The bank may afterwards acquire title to the property. Usually it is the case that the value of the security has to be written down on successive occasions. When a sale is finally effected, the asset goes off the books. Some of the mortgages and real estate held by the banks are almost unrealizable. They are carried year after year, appropriations being made from profits to write them down. It is the aim of every well managed bank to have these two items kept as low as possible. The executive officers and managers would be glad in most cases to have them cleaned out altogether.

However, although their mortgages and real estate other than premises do not cause them to figure conspicuously in the real estate market, the banks nevertheless are a considerable factor in that market. In Montreal, nearly all of the important banks have now succeeded in providing themselves with premises or property on St. James street, which will suffice for their immediate needs. But from time to time purchases are made of real estate parcels for the purpose of providing up-town branches. In Toronto, several imposing buildings are under way and just completed; and holders of desirable corners down-town and up-town no doubt include certain of the banks in their lists of possible purchasers.

But in Western Canada the banks have been relatively a more important factor in the real estate market. In Vancouver, Calgary, Edmonton and other rapidly growing cities and towns, the purchase by the banks have been numerous. In some cases, in the East as well as the West, it may be that a bank will buy a property with the intention of erecting a building to serve as premises in the course of a few years. It may in the meantime carry the asset as "real estate other than bank premises," and transfer it to [the] premises account when the building is erected. West of Lake Superior they have made some purchases which could be turned over at large profits if speculation had been their object. I have heard of more than one instance in the West where a bank has bought a parcel of real estate a few years ago for premises, the parcel perhaps being larger than it really needed for the purpose; and values have risen so extensively that the bank could now sell only a portion of the holding and get back very nearly the purchase price for the whole parcel. And many of the premises erected and bought in this part of Canada could be disposed of at large advances over the cost.

However, such increase of valuation does not figure at all in the profit and loss account of the banks. It is an unwritten law among the bankers that the book value

of the premises shall not be written up, no matter how much the property represented by the account rises in value. On the contrary, the book value is steadily written down. In such a case as I have mentioned, if a bank bought a property for, say, \$100,000 for premises, and afterwards sold one-third of it for \$75,000, the effect would be that the remaining two-thirds would stand on the books at \$25,000, which figure would perhaps represent less than one-fourth the value. In all probability, even this small book value would be further reduced by annual appropriations. In considering these opportunities for selling at a big profit, the bank has always to remember that if it sold, it would have to buy another property for its premises, and it might not be able to get one that was so advantageous in a business sense without paying a very large sum. One bank in a western city sold a part of its premises property a number of years ago. Increase of its business afterwards compelled it to buy the same property back at more than double the price at which it had sold.

### **“The banks and the government ‘Fours’”<sup>14</sup> (November, 1911)**

It is quite probable that the sudden jump in the amount of Dominion Government \$4 notes in circulation, which occurred in August and September, will set some people thinking that it would be a good thing for the country if the Government assumed a larger share of the business of supplying paper currency. The total amount of Dominion notes outstanding reached \$103,409,329 on September 30th. This represents an increase of about \$900,000 for the month, and it follows an increase of \$2,100,000 in August. The Government “fours” in circulation, taken by themselves, increased \$900,000 in August and \$4,900,000 in September. The large increase in September was due, of course, to the fact that the banks were up to the limits of their authorized issues. Government “fours” seemed to be their only recourse.

However, they procured the small Dominion notes through exchanging large Dominion notes. Thus in September the bank holdings of legal tender notes of the denominations of \$5,000 \$5,000,000; and in August they decreased \$50,000. So the circulation of the “fours” largely represented a change in the denominations of the Dominion notes outstanding. It represented also a change in another respect. A somewhat larger proportion of the Government notes outstanding remained in the hands of the general public as distinguished from the banks. Of the total circulation of \$103,409,329 on September 30th, the banks held \$83,121,254, while the public had \$20,288,075. In other words, the banks held four-fifths and the public had one fifth. At the end of July, the outstanding circulation of Government notes amounted to \$100,431,110, the banks holding \$84,400,035. The banks then held more than five-sixths of the total amount, and latterly they have held about that proportion of the Government’s notes in circulation.

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<sup>14</sup> From Eckardt, H. M. P. (1911, November 11). The Banks and the Government “Fours”. *The Financial Post of Canada*, p. 17.

With the advent of October there would be seen a diminution in the volume of “fours” in circulation. As the banks were able to issue<sup>15</sup> their own notes, subject to the 5 per cent. tax, up to an extra amount of \$27,000,000 or \$28,000,000, they would not be disposed to re-issue the Government “fours” which were received over the counter. Probably some banks which considered that their shareholders should not be subjected to the loss involved through the issue of the excess notes would continue to pay “fours,” but the probability is that most of them will submit to the loss for the sake of meeting the convenience of their customers and the general public.

At any rate, the familiar “fives” and “tens” of the banks have been displacing the awkward and inconvenient “fours” since the excess issues became lawful on the 1st October. But it is not to be supposed that the “fours” will disappear as rapidly as they came into the field. The extra amount of \$6,000,000 called into use in August and September represents 1,500,000 notes, and they would be well scattered. Probably the greater part went into the western wheat fields. At the present time it is safe to say that the Winnipeg banks are sending huge parcels of these notes to the office of the assistance receiver general in Winnipeg, and asking for \$5,000 notes in exchange.

What the banks have to consider is that the general use of these Government “fours” in the early fall will cause people to think that the Government should issue “fives” and “tens” and go into active competition with the banks in the business of note issue. And this, of course, would have a tendency to produce an agitation for the weakening of the gold reserve carried against Dominion notes. Indeed, the argument has already been heard that the country should save interest charges by reducing its gold reserve.

Under these circumstances, it seems as if the policy of increasing their capital stock will commend itself more and more to the banking executives as the pressure for currency increases. It has been suggested that the date for the going into effect of the right of extra issue might be advanced from October 1st to September 1st. In other quarters, it has been suggested that free or untaxed issues of the bank might be allowed to exceed the paid capital – that they might be based on the amount of assets or deposits.

If the date of the going into effect of the extra rights were advanced to September 1st it would not represent the bestowal of additional privilege among the banks. They pay a big tax for those rights, a tax greater, in fact, than the privilege is worth. And if the extra issue power is meant to provide currency for the crop moving, it might just as well go into effect in September, the first month in which the western crop appears on the market in heavy volume.

But the extension of the general or ordinary issue power of the banks is a different matter. That would represent a substantial addition to the privileges of the banks. Among the bankers themselves are plenty of men who think the banks should scrupulously avoid the appearance of seeking new privileges. Indeed, it is open to

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<sup>15</sup> During most of the year, banks were limited in the issue of their notes to the amount of paid-in capital. Since Canada’s economy at this time ran largely on wheat, at harvest-time banks were allowed to issue a greater amount of notes than normal, subject to a tax. Wheat was harvested in the fall.

question whether the banks should not, in their own interests, refuse to accept new privileges in the way of note issue, even if the Government proffered them. Then, when in the course of time a government arises in Canada which is pledged to make war on special privilege of every kind, the banks will not be so vulnerable to its attacks, and there will be a stronger probability of Canada's retaining a currency system which has the most beneficent effects upon all classes of borrowers and depositors.

### **“Interest on savings deposits”<sup>16</sup> (December, 1911)**

In the United States some savings banks pay interest quarterly, and some pay it half-yearly. In Canada the general practice is to pay it half-yearly. In the case of the American banks paying interest quarterly, they require that deposits shall be in their possession during the whole quarter if they are to draw interest. Quarterly interest days are 1st January, April, July and October. If a depositor lodges \$300, or any amount, on 10th January, the interest does not commence to run until 1st of April. And similarly, if the customer withdraws a sum on or about the 15th March, he loses interest for the whole quarter on the amount withdrawn. An extreme case of hardship would be that of a depositor who placed his money in the bank on 10th January, and drew it out on the 15th June. His funds would be there over five months, but he would not be entitled to any interest whatever.

In Canada, on the other hand, the interest on a deposit commences to run on the first day of the succeeding month; and a depositor only loses interest for a part of one month when he withdraws funds in the course of the month. Some Canadian banks pay interest on deposits from the date on which they are made. The American savings banks allow interest for each quarter on the minimum balance shown at any date in the quarter. The Canadian banks allow interest for each month on the minimum amount on deposit at any date in the month. [...]

Then there is the circumstance that many Canadian depositors are allowed to issue cheques on their savings accounts. This is an important privilege not enjoyed by the savings depositor in the United States. And there is the matter of notice. In Canada the term of notice prescribed in the savings bank pass books is 10 days or 15 days. It is, however, never exacted, and in the opinion of some bankers it is a dead letter. In the States the term of notice is 30 days or 60 days, and it is enforced whenever a panic or big crisis occurs. Thus, the United States depositors are not permitted to have their funds at the very time when the best bargains are offering in the investment market. So on the whole, one might conclude that the 3 per cent. paid in Canada in many instances is worth quite as much as the 4 per cent. nominally allowed by some savings banks in the United States.

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<sup>16</sup> From Eckardt, H. M. P. (1911, December 16). INTEREST ON SAVINGS DEPOSITS. *The Financial Post of Canada*, p. 10.

## **“The rise in circulation”<sup>17</sup> (December, 1911)**

It is generally assumed that the large increase of the bank note circulation in September and October, 1911, was altogether due to the phenomenal activity of Canada’s trade and industry. In banking circles, however, it is well-known that some part of the increase of circulation shown in the Government bank reports resulted from the action of the banks in storing the “notes of other banks,” or sundries as they are called, in their vaults so as to ensure that the branches would have an adequate supply of currency for counter purposes. Of course, it is understood that the general prosperity has been the main factor in bringing about the expansion of the note issues of the individual banks; but the other development referred to has served to intensify the demand for currency.

### **WHY BANKS HOARD “SUNDRIES”**

This policy of hoarding the notes of other banks is a natural consequence of the rise of the bank note circulation. When a bank’s own issues are practically level with its capital, it must take some steps to provide a reserve of currency for its branches. And naturally it proceeds to accumulate this reserve as economically and conveniently as possible. The most economical and the most convenient method of doing so is to have each branch apply all receipts of cash coming over its counter to the purpose of meeting its own daily payments, and if its receipts are more than sufficient for its own needs, to hold the surplus available for any special or extraordinary need of its own that might be in sight, or for the needs of other branches in its immediate neighborhood. Each bank has a legal and moral right to do this. When it comes into possession of the notes of other banks, which comprise the greater part of the daily counter receipts, the bank pays for them through giving credit in its books, or in some other manner; and if it chooses, in its own interest, not to exercise its right of presenting the notes at once for redemption, it can scarcely be said that it is committing an offence. The banks that issue the notes which it is holding in its vaults would doubtless be glad to redeem them and so have the issue power available for their own purposes. But these banks can exercise no compulsion on the holders of their obligations. They must stand ready to pay them when presented, but they cannot compel holders to make presentment.

## **“Government and bank notes in competition”<sup>18</sup> (January, 1912)**

Among the recent news items from Ottawa is one which will have an especial interest for the bankers. It relates to the note issues of the Dominion Government. The new Minister of Finance is quoted as saying that he has under consideration the issue of a five dollar Canadian Government note. This, of course, is a natural result of the shortage of bank notes experienced in 1911. The chartered banks, being up to

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<sup>17</sup> From Eckardt, H. M. P. (1911, December 23). THE RISE IN CIRCULATION. *The Financial Post of Canada*, p. 18.

<sup>18</sup> From Eckardt, H. M. P. (1912, January 20). Government and Bank Notes in Competition. *The Financial Post of Canada*, p. 20.



the limits of their authorized issues, and confronted with a demand for more currency, were obliged to turn to the Government. The only notes which the Government had to meet the demand from the banks were ones, twos and fours. The ones and twos were utterly unsuitable, and the fours were exceedingly awkward. But the case was so urgent that large quantities of the fours and of the ones and twos were taken and paid into circulation. [...]

Some people imagine that on the basis of an equal competition the Government could get its notes into circulation and displace the bank notes to a considerable extent. But that is a mistaken notion. The Government ones and twos enjoy an extensive circulation, because the banks are prohibited by law from issuing notes less than \$5. So there is no competition in the issue of small notes. The Government fours came into competition with the bank five dollar notes; but until the bank note circulation reached its limits, the fours had no run at all. And while the banks have plenty of free issue power available, the new Government fives would fare little better than the fours.

The Government has but limited opportunities of getting its notes into circulation. The only means of doing so would be to have the various departments pay everything by cash in Government notes, instead of by cheques, as at present. So as far as the spending departments are concerned, the payment of cash by the Government would be a nuisance to its creditors. Except in the cases of workmen employed by the Government, its creditors would much rather have cheques than cash. And to pay cash would be more inconvenient to the departments; also their risks of loss and defalcation could be greater. Then, Government notes might be put into circulation through having the Post Office and Dominion Government Savings Banks pay withdrawal cheques in cash, instead of by cheques on the Bank of Montreal and a couple of other banks. True, this policy would necessitate the keeping of a considerable amount of cash at the thousands of post offices, and it would perhaps lead to an increase in the attempts at burglary in the small places; but it would result in an increase in the amount of Government notes outstanding. However, the only way to ensure a rapid rise of the Government's issues to important figures would be through prohibiting the banks from issuing their own notes, in other words, through taking the right of issue from them.

### **“Heavy loan expansion”<sup>19</sup> (February, 1912)**

In the twelve months just ended, the increase of the domestic mercantile loans of the banks proceeded at a remarkably steady pace. [...] In every month, excepting May, an increase is shown. It appears that the demand for credits was consistently strong throughout the year. Naturally the expansive movement was more active in the late summer and early fall. [...] This movement reflects the preparation of the

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<sup>19</sup> From Eckardt, H. M. P. (1912, February 17). HEAVY LOAN EXPANSION. *The Financial Post of Canada*, p. 15.

crop movement on the part of manufacturers, merchants, etc., and the actual financing of the harvest by the millers, elevator companies, and other grain dealers.

Probably the advances to the grain interests would be about at the high level around October 31st. However, although the loans of the banks are always at high figures in October and November, it is well to bear in mind that in those months the proportion of short date advances on shipments of grain rises considerably. The country dealers and agents of the Winnipeg grain companies are then shipping large quantities to the terminals and drawing bills at sight or at short date on the Winnipeg houses. At nearly every branch bank in the grain growing districts of the west, these drafts are freely purchased. The aggregate of advances in this form current on any given day in the active shipping season will be measured in millions of dollars.

Although these advances serve to swell the total of the current loans and discounts, they represent an asset possessing unquestionable liquidity. One large bank might have a couple of millions outstanding in these grain drafts; but the funds are almost as readily available as if they were employed in Wall Street call loans. The bank's money comes in automatically in four or five days after it makes the advance. This circumstance should be borne in mind in considering the loan expansion always recorded in the fall months. A fairly large proportion of the increase is represented by quick assets.

#### WHEN THE BIG FREIGHTERS STOP

After navigation closes at the beginning of December the loans to the grain trade take on an altered complexion. There are still a considerable number of drafts forwarded to Winnipeg from the country branches, and the grain firms are taking up these drafts through the winter months; but the reductions in the grain loans are not so large nor so frequent as they are in the season in which the big lake-freighters are clearing from Fort William and Port Arthur.

#### **“The circulation of small notes”<sup>20</sup> (February, 1912)**

With reference to the \$1 and \$2 notes issued by the Dominion Government, it was remarked recently by a Toronto writer that the Treasury is never called upon to redeem them. An increasing volume of these notes is required for making change in the country's daily business; and therefore, when the circulation of these notes in any particular season increases a half million or a million dollars, the Treasury officials are warranted in expecting that the enlarged circulation will prove to be permanent. While this is correct enough, generally speaking, it yet remains a fact that the issues of \$1 and \$2 notes fluctuate to some extent according to the season of the year. For example, there is usually a marked movement of contraction in January and February, when the bank note issues are contracting. And also in the fall, when the bank note circulation is growing, expansion also occurs in the Dominion \$1 and \$2 notes.

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<sup>20</sup> From Eckardt, H. M. P. (1912, February 24). The Circulation of Small Notes. *The Financial Post of Canada*, p. 20.

But there is a difference in the methods of financing the movements of the bank and Government note circulations. When the bank note circulation is coming in, the banks are obliged to pay cash for a considerable portion. They can effect the redemption of a part only of their special or extra issues of notes by means of book entries. It is always necessary to pay a considerable portion in "legals." The Government is in different position. When the banks send in for redemption the small bills of the Government, they generally ask for \$1,000 and \$5,000 government notes in exchange. So redemption of the small notes by the Government consists nearly altogether of exchanging the liability of the Treasury from bills of one denomination to those of another. [...]

As regards the fractional currency, it can be said that it is relatively very profitable to the Treasury. [...] The torn, soiled and worn ones and twos are sent in to the Receiver-General in large parcels, especially in December, January and February. The small bills used for change in the crop financing then come piling into the banks, and the latter pass them on to the Receiver-General. But the amount of torn fractionals sent back to the Receiver-General's office is comparatively small. Many holders of twenty-five-cent notes will probably not take the trouble to collect the amount from the Government when the notes in their possession are worn out or badly mutilated. Even with the \$1 and \$2 notes there is a considerable percentage destroyed in circulation, and this percentage would naturally be high in the case of the 25-cent notes. Examination of the record of fractional notes outstanding reveals the fact that a movement of contraction is never seen. In the five and a half years from July, 1906, to December, 1911, there is no month in which a decrease is shown. The increase of circulation proceeds steadily at the rate of about \$5,000 per month.

## The failure of Canada's Central Bank (no, not that one)

In late 1887, a Canadian bank called the Central Bank suspended payments. This is what happened next.

### “The Central Bank suspends”<sup>21</sup> (November 15, 1887)

TORONTO, November 15. – The street was full of rumors to-day regarding the Central bank, and from 2 o'clock up to 5 there was a run on it by depositors and bill holders. At a meeting of the directors in the evening it was decided to suspend. Their announcement reads as follows:-

TORONTO, November 15.

In consequence of the present money stringency, the Central bank has not been able to realize on its assets promptly enough to meet immediate demands upon it. It has, therefore, for the present, suspended payment.

By order of the Board.

A. A. ALLAN,  
Cashier.

### THE DECISION APPROVED

At 8 o'clock a meeting of the managers of the banks doing business in this city was held and the following resolution passed:

Owing to there not being time to acquire information sufficient to estimate the amount of assistance necessary to aid the Central bank, this meeting approves of the decision of the directors of the Central bank to suspend in the meantime, in order to enable them to realize on their assets.

The bank managers will meet again in the morning to see the statement to be submitted by Mr. Allan. Whether the bank will resume or not will depend on their action.

### PARTIES INTERESTED

The Central was started in March, 1884, has a paid up capital of half a million, and did a very large business particularly in small accounts. It had, however, two or three large accounts, notably one with the Niagara Central railway, involving \$100,000. Sylvester Neeson and other men of the Niagara peninsula are on this paper, but at present the money cannot be realized. Other losses, or rather lockups, have been made. The Central also lost by three or four stock brokers. David Blain is the president. He holds \$20,000 in stock. He is also a depositor and a creditor of the concern. The Central has half a dozen branches throughout Ontario.

### A STATEMENT OF AFFAIRS

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<sup>21</sup> From THE CENTRAL BANK SUSPENDS. (1887, November 16). *The Montreal Gazette*, p. 1.

The following is a statement<sup>22</sup> of the affairs of the Central Bank of Canada at the end of September, as published in the Government returns (the October statement is not yet to hand):-

Capital authorized	\$1,000,000	
Capital subscribed	500,000	
Capital paid up	500,000	
<i>Liabilities.</i>		
Circulation	\$476,495	18.44%
Other deposits payable on demand	927,130	35.89%
Other deposits payable after notice or on a fixed day	1,177,436	45.58%
Due to other banks in Canada	1,559	0.06%
Other liabilities	884	0.03%
Total	\$2,583,504	100.00%
<i>Assets.</i>		
Specie	\$54,210	1.71%
Dominion notes	166,021	5.23%
Notes of and cheques on other banks	192,810	6.08%
Due from other banks in Canada	41,364	1.30%
Due from agencies in foreign countries	7,688	0.24%
Due from agencies in the United Kingdom	7,326	0.23%
Dominion government debentures	29,710	0.94%
Loans, discounts or advances other than Canadian held as collateral securities	54,502	1.72%
Loans to municipal corporations	5,973	0.19%
Other current loans to the public	2,560,152	80.68%
Notes overdue not specially secured	11,917	0.38%
Overdue discounts secured	23,439	0.74%
Other assets	17,951	0.57%
Total	\$3,173,063	100.00%

<sup>22</sup> I've corrected the totals to match the figures written for the line entries. The original article listed total liabilities as \$2,582,621 and total assets as \$3,173,676. I've also added the '%' column to help the interested reader tell at a glance the relative weights of various line items. Since Assets = Liabilities + Equity, using the correct totals, the Central Bank's total Equity as of September, 1887 was \$589,559.

## “There are various causes assigned”<sup>23</sup> (November 18, 1887)

There are various causes assigned for the suspension of the Central bank, not the least of which is mismanagement. The directors were all new to the business and showed lack of judgment in various essential matters that more experienced men would not have been guilty of. In order to rapidly extend its business, they paid 5 per cent. interest on deposits, 2 per cent. higher than the other banks. This brought in considerable money, over two million dollars, but left little or no margin for profit. Again, with a paid-up capital of \$500,000, the bank was not in a position to stand the strain of heavy accounts, such as the Ontario Lumber Co., of which H. H. Cook is president, \$150,000; and the Niagara Central railway, in which President Blain is interested, \$100,000, these two sums being exactly half its paid up capital. Both are amply secured, and it is understood that they will be transferred to another bank, which will re-discount their paper and hand the proceeds over to the Central. Besides the above, loans of about \$60,000 had been made to directors.

The fact is, the management showed great want of shrewdness and tact by attempting to

### DO A BIG BUSINESS WITH A SMALL CAPITAL,

and when stringency came they were unable to draw back quickly enough. Within six months the Central borrowed \$100,000 from the Standard bank on call, giving ample security and paying a higher rate of interest than the Standard was discounting its own customers' paper for at long dates. This was only a temporary drop in the bucket, and then they tried to meet the stringency by forcing circulation in Montreal and elsewhere. Then, as the currency came back through the other banks in a shower, they began to think the Central was cornered. The Bank of Commerce came in for a large share of these notes. Depositors would draw their money from the Central bank in Central bank currency, and take it a few doors up Yonge street to the Bank of Commerce and demand change. This became monotonous that the Bank of Commerce, on Tuesday, gave orders to its staff not to change any Central bank bills, but to accept them only from depositors.

### THIS LED TO THE CRASH

It is broadly stated here that the other banks had no friendly feelings towards the central. It was rushing things too fast to please them, and taking away many of their depositors by allowing a larger rate of interest. Some people say that the refusal of the banks on Tuesday to come to the Central's assistance was simply another way of freezing it out of existence. The Central will apparently have to fight it out alone, or in other words to realize on its assets and pay off its creditors as quickly as possible. Whether this will end in resumption of business or liquidation cannot be known until the books are squared. [...]

The directors of the Central are [...] Torontonians, except K. Chisholm, who resides at Brampton. The head offices of the bank are in Toronto, with branches in Brampton, Durham, Guelph, Port Perry, Richmond Hill and Sault Ste. Marie.

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<sup>23</sup> From THE CENTRAL'S COLLAPSE. (1887, November 18). *The Montreal Gazette*, p. 1.

Agencies were also opened in Chicago, New York, and London, England. Some of the largest shareholders are in Toronto. [...]

Yesterday the first business done was to close all the bank's branches in the province and get in their business, and the whole staff were hard at work all day. [...] A large number of the best customers of the Central made application yesterday to open accounts with other banks, and, being good people, were willingly accepted. Unless, therefore, the Central can resume business soon, they will lose all their good customers and might as well go into liquidation.

The Great Northern Telegraph company had their account with the Central, Mr. Dwight, [who is also a director of the Central bank,] being one of the directors, and one of the most peculiar features of yesterday was the refusal of the Great Northwestern to accept Central bank bills under any consideration. This evidence showed the value the directors of the Great Northwestern places on their manager being a director of the Central.

Several retail business houses took Central notes at par, and brokers were paying from 80 to 90 cents [on the dollar] for them, but the banks refused to accept them at all. There is no doubt in people's minds that the Central will shortly be able to meet the demands of depositors and redeem its circulation, but there is a strong belief that it will never regain public confidence unless a new board of directors and managers are appointed. [...] There was a slight panicky feeling on the street yesterday, and a very little scare would have precipitated a run on some of the other institutions. People's nerves will, however, get time to settle to-day, and no doubt any panicky feeling will, by to-morrow morning, have subsided.

### **“Two separate meetings”<sup>24</sup> (December 14, 1887)**

Two separate meetings, one of shareholders and that other of the creditors of the Central bank, [were] held in the Board of trade rooms here to-day. [...] The condition of the bank's affairs proved to be much worse than expected, the shareholders learning that they have to lose the entire amount of their stock and that the double liability clause will also come into effect. Such a condition of affairs was scarcely expected, but when it was shown the shareholders and creditors became almost frantic. Charges of criminal conduct flew about, men grew excited, called each other bad names and denounced the directors, and more than one spoke in a weak voice and with tears in his eyes. [...]

President David Blain called the shareholders' meeting to order at 10.30. [...] He said the real cause of the troubles need not now be directly stated, as the shareholders and securities of the bank might be injured. There was need of money, stringency came on the market, and the bank had to suspend, money not being possible to get. As to the charge that the directors were not prompt enough when the crisis came, he said an effort was at once made to get the bills redeemed and business

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<sup>24</sup> From THE CENTRAL'S COLLAPSE. (1887, December 14). *The Montreal Gazette*, p. 5.

resumed, but assistance could not be got from the other banks. Bills to the amount of \$200,000 had been redeemed, and there was money on hand for more. [...]

Mr. Archibald Campbell, of Montreal, the provisional liquidator, [...] said that all the creditors would surely be paid in full, but that the stockholders would lose their stock and suffer under the double liability clause. This was like a bombshell. Mr. Campbell then read this:

*General Statement.*

*[Liabilities.]*

Circulation	\$289,000
Due to other banks in Canada	\$157,500
Due to banks in the United States	3,100
Due to banks in London, Eng.	20,100
[Total due]	\$180,700
Outstanding drafts, held principally by other banks	3,500
Deposits	1,722,800
Profits accrued and reserved	65,000
Capital stock	500,000
Rest	45,000
Total liabilities	\$2,806,000

*Assets.*

Notes and cheques on other banks on hand	\$25,900
Due from other banks in Canada	142,700
Dominion Government stock	29,700
Loans	2,591,300
Bank furniture	16,400
Total nominal assets	\$2,806,000
Assets immediately available from other banks	\$119,000

**THE RAILWAY LOAN**

With reference to the Central's loan of \$100,000 to the St. Catherines & Niagara Central railway, Mr. Blain explained that there was ample security to cover all possible loss, including St. Catherines' bonds to the extent of \$80,000, when the road was completed.

**A RAKING OVER**

Joseph Simpson, knitting mill man, who had \$17,000 in stock, gave Mr. Blain and the directors a terrible raking over. He demanded explanations for such "scandalous transactions," called on the directors to disclose what they feared not to hide, spoke of what he said were cases of big amounts of money lent to men on little security, such as \$120,000 to a Toronto broker, and demanded to know the bank's position.



Mr. Torrance, of Montreal, said that a memo from Mr. Campbell showed that the directors had only \$48,000 stock at [the] time of the failure, or one-twentieth of the total. He grew indignant, called it disgraceful and said the directors had left the sinking ship.

#### THE PRESIDENT'S DEFENCE

President Blain attributed much of the trouble to his bad health and inability to attend to business. The Friday before the suspension he deposited the last \$10,000 of his wife's money to bolster up the bank.

#### THE DIRECTORS' RESPONSIBILITY

Mr. Campbell said the directorate's responsibility was: Blain, \$10,000; Trees, \$6,000; A. Mitchell McDonald, \$120,000; C. Blockett Robinson, \$23,000; Chisholm, \$24,000, and Solicitor O'Brien, \$6,000.

Then followed a stormy time. Ex-Ald. Crocker said all the directors should be in the penitentiary. Vice-President Trees explained his position to such an extent that the meeting exculpated him, as he laid all the blame on Cashier Allen, "who was not fit to walk the earth," and "who had systematically deceived the directors."

#### THE CREDITORS' MEETING

IN the afternoon a meeting of creditors was held. The crowd crammed both rooms, and 2,000 creditors and shareholders could not get in. Those outside in the rotunda demanded entrance, but the vote of the people seated inside decided not to go to the rotunda. Mr. Blain was called bad names and called for order in vain. Finally the meeting adjourned to the Rotunda, and the crowd acted like a mob. All was disorder, hooting and yelling: Mr. Blain got on a chair and seemed fit to faint, so violent were the demonstrations. [...] The following expressions were used by Accountant W. Robins, who would not sit down: "These people are hounds and are baying at me;" "You are a fool;" "Go home and wash your face, you dirty blackguard." Robins [...] was called a fool and finally hooted down. The meeting broke up in confusion.

### **"What is wanted"<sup>25</sup> (December 23, 1887)**

What is wanted is that the criminal law of Canada should be made so stringent, if it is not so already, that bank boodlers of all kinds can be reached and punished when guilty of such breaches in fidelity and trust as are revealed in connection with the Central Bank catastrophe. But there is another point deserving of consideration. The principle of Government supervision over banking institutions is established by the Banking Act. It is clear that the time has arrived when the supervision should be made more effective. [...] Experience has shown, more particularly in the case of insolvent banks, that the monthly returns which they are compelled by law to make to the Government are sometimes misleading, not to say fraudulent, and cannot inspire the public with confidence in our banking institutions, especially those with small capital. The last monthly return sent from the Central Bank showed that

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<sup>25</sup> From THE CENTRAL BANK FAILURE. (1887, December 23). *The Manitoba Free Press*, p. 1.

institution to be in apparently a satisfactory condition, with \$15,000 to rest. The revelations now made show that practically it was insolvent months ago, that the last return was false and misleading. The president of the bank, when he signed it, did not know whether it was correct or not. In view of such disclosures, can the Government or the people be expected to have confidence in the average bank return?

### **“The Central Bank and its lesson”<sup>26</sup> (December 27, 1887)**

Some of the shareholders of the Central bank have expressed a very natural indignation at the wreck which has been made of their investment, and a desire that those responsible for the mismanagement should be punished if they have in any way transgressed the law. But though the management of the affairs of this institution was about as incapable and stupid as it well could be, we very much doubt that either the cashier or the directors have incurred any of the penalties provided in the banking act. The truth is that [the] act fails to protect shareholders and creditors of banks in the very point at which they are most liable to attack, namely, commercial loans, and it fails for the simple and sufficient reason that no law can cover the danger.

The monthly statements of the condition of the accounts required to be furnished to the Government, and for deceptions in which penalties are provided, merely set forth the volume of current loans and make no pretence of showing their value, whether they are good or worthless, so that a bank cashier or board of directors can keep the public in ignorance of the institution by renewing worthless paper from time to time and entering it in the total of “current loans, discounts and advances.”

The Central bank statements to the Government appear to have been accurate enough and a true transcript from the books; where they misled was in creating the impression that the current loans were practically good assets, and that the only doubtful accounts – and therefore the only risk of loss in sight – were those of the over-due notes secured and unsecured. Against this kind of deception it is really impossible to guard. A Government bank inspector would be helpless to rectify the evil and remove the danger, for it would be beyond his power, and beyond his province, too, we believe, to appraise the value of the current discounts and determine what shall be classed as good and what as bad.

The protection upon which shareholders and creditors must rely is the character and ability of the management. In the case of the Central bank, we know, from the confession of more than one director, that loans to a large amount, which subsequently proved bad, were made without their knowledge, but this cannot be pleaded as an excuse for the gentleman who consented to serve on the board. When they accepted the office of director they knew, or ought to have known, that it carried serious responsibilities, the neglect of which is not only a breach of faith to the shareholders, but may involve heavy losses to all concerned in the institution.

The board of a bank ought to be composed not simply of men who have a large pecuniary interest in the success of the institution, but of men having some

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<sup>26</sup> From THE CENTRAL BANK AND ITS LESSON. (1887, December 27). The Montreal Gazette, p. 4.

knowledge of banking, in touch with mercantile affairs, and acquainted with the changing phases and conditions of trade, and between the board and the practical bankers who manage affairs there ought to be the closest communication. The directors of a bank may err in the appraisal of its assets, they may fail in making provision for bad and doubtful debts at the close of the year's business to write off a sufficient sum, but the failure of an institution will never occur from mistakes of this nature. It is only by systematic neglect to provide for losses, by the subterfuge of carrying as current loans assets known to be worthless, or the grossest kind of mismanagement in making loans at the outset, that bankruptcy is at all likely to be produced, unless there is deception on the part of the cashier.

The monthly bank statements do, however, serve a useful purpose, and experience in the case of institutions which have suspended prove them to be accurate except in respect of the value of current discounts, to which we have alluded. They show the amount of circulation outstanding, its contraction or expansion from month to month, and so afford an index to the trade movement within the country, the activity or sluggishness of business. The amount of public deposits, the condition of the foreign exchange balances, the extent of the available assets, are also set forth, and much valuable information bearing on the money market and important to all classes of traders is afforded.

The statements are good enough, so far as they go, and fall short only in the important particular that they convey no absolutely safe knowledge of the character of the loans. But that knowledge cannot under any circumstances be had by this means; the past history, reputation and standing, the character of the directorate and practical management of an institution is the only guide to this knowledge, which must be taken on trust, and in respect of which the trust is seldom betrayed.

The lesson of the Central bank failure is not that Government inspection should be established, but that at the head of our banking institutions shareholders should place men of ability, probity, industry, trained knowledge, and acquaintance with banking and mercantile affairs. The Central bank failure could not have occurred if the management had been capable; and an incapable management will wreck an institution, the most rigid banking law to the contrary notwithstanding.

### **“The swindles are something enormous”<sup>27</sup> (January 29, 1888)**

Most sensational developments are daily being unearthed by the liquidators of the Central Bank, assisted by their lawyers. It is beginning to dawn upon the people that this concern was one of the most outrageous swindles ever perpetrated in this country. Not only has it become known that several of the directors overdrew their accounts to the extent of \$100,000 and over, but it now appears that there was an organized conspiracy to rob the public through the medium of the Central Bank.

The swindles are something enormous. Mr. D. M. MacDonald, it is reported, borrowed some \$112,000 and gave no security whatever. He is now on United States

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<sup>27</sup> From TORONTO NEWS. (1888, January 29). *The Buffalo Morning Express*, p. 13.

soil. David Blain, the president, although drawing no money for himself, is accused of having “winked at” his fellow directors doing it; he is also in “the land of the free.” Mr. K. E. Strachan Cox, the baseball man, got in the bank to the tune of \$150,000, and is also “at large” in Buffalo from last reports. Cashier Allen, upon whom rests all the blame, has also absconded. It is likely to come very hard on the directors remaining in the city. It appears that a report of the bank’s affairs was sent into the Government showing a profit of \$600,000. The report was sworn to and approved by the directors. The judge who is investigating the case says he will call upon the directors to make good every cent of the \$600,000. [...]

Mr. E. S. Cox’s connection with the Central Bank has been the means of hurting his business to such an extent that he was compelled to close all deals in his establishment last Saturday. Mr. Cox left the city on Wednesday and presided over a special meeting of the International Baseball Association, of which he is president, at Buffalo on Thursday. He has not been in Toronto since. [...] Cox & Co. had about the largest business in their line in town, and had agencies in all large towns. The firm has been in existence for seven or eight years, and employed a large number of clerks and telegraph operators in their city office and branches.

### **“A warm reception”<sup>28</sup> (August 28, 1888)**

Edward Strachan Cox, the ex-broker of Toronto, Ont., who was arrested at Niagara-on-the-Lake last Sunday, for embezzling \$10,000, which he had held in trust for the Central Bank of Canada, and disposing of other securities of the bank to the amount of \$135,000, was taken to Toronto yesterday afternoon on the steamer Cibola. The people of that city, especially those who had lost all their savings by the wrecking of the bank, had long been anxious to see him, and on learning of his arrest, and that he was to be brought back to the scene of his financial exploits, they prepared to meet him and give him such a reception as would long remain green in his memory.

Were they glad to see him when the steamer reached her landing? Well, rather, but Mr. Cox probably wished they had been less demonstrative in their greetings.

There was an enormous crowd on the dock. The appearance of Sergt. Reburn and Officer McGrath on the gang-plank with their prisoner between them was the signal for a rush in that direction, and the other detectives present closed in on each side of Cox. “The crowd pushed forward in one mass,” says a special dispatch from Toronto, “and big Mat. Evans yelled ‘To Kingston<sup>29</sup> with him.’ The cry was taken up, and all was in a confused uproar. The crowd broke wildly over the accumulated fruit on the dock, shouting and tramping on the wrecked peach-baskets and pushing about excitedly. Meanwhile Cox, between the two detectives, walked quickly to a hack that was twenty paces away. ‘Mob the thief,’ ‘Duck him,’ yelled the crowd, while one irrepressible chimed, ‘See the robber passing by’. The hack drove away quickly and was pursued by some of the most excited of the crowd for a short distance. Altogether

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<sup>28</sup> From A WARM RECEPTION. (1888, August 28). *The Buffalo Courier*, p. 6.

<sup>29</sup> Site of a famous penitentiary.

it was a hot time for Cox, and had it not been for the protection afforded him by the detectives the crowd would have dealt with him harshly. The punishment for the crime of which Cox is accused is imprisonment for a term not less than two nor more than fourteen years.”

The Toronto *World* of yesterday gave the following additional facts connected with this case:

“The immediate cause of Cox’s arrest is embezzlement. [...] A warrant has been in Inspector Stark’s keeping at headquarters ever since 20 January last for Cox’s arrest. [...] The warrant recites that ‘on November 7, 1887, E. Strachan Cox, being a trustee of the sum of \$10,000, the property of the Central Bank of Canada, for the use of the said bank, did unlawfully and with intent to defraud, convert and appropriate the same to his own use.’ The arrest of Cox will not only startle the city of Toronto, and in fact the whole Dominion, but will revive interest in Central Bank affairs, which, like the lawyers and judges, have been on vacation during the heated term. The liquidators, it is known, were threatening to lock some one up, and those who were on the inside were anxiously awaiting to see who it would be. Some folks there were who said it would be three or four of the directors of the ill-starred bank, while others hinted that it was President David Blain whom the liquidators were after. Be that as it may, Mr. Blain has kept well out of the way ever since those mutterings were first heard, and he is understood to be still at a sanitarium at Avon Springs, near Rochester, N.Y.

### **“The banking law of Canada is defective”<sup>30</sup> (October 15, 1888)**

Mr. David Blain, who was president of the Central Bank of Canada at the time of its suspension, was recently examined in New York in relation to the affairs and management of the institution, and in the course of his evidence expressed the opinion that “the banking law of Canada is defective; the Government should have checks over banks by means of inspection.”

This is a truly remarkable statement for Mr. Blain to make, What possible use could a Government inspection have served in the case of the Central bank when the directors of the concern, the men charged with its management, are forced to confess that they knew practically nothing of the affairs? Mr. Blain, in his deposition, throws the whole responsibility for the wreck upon the cashier Mr. Allen, who, he says, disobeyed instructions, allowed customers to far exceed the limit of their accounts, and issued deposit receipts when no moneys or securities were held against the same.

If Mr. Allen was either forced, or of his own will disposed, to commit criminal irregularities, to exceed every rule of prudence, and to ignore the instructions of the board, he certainly was capable of manipulating the books as to render detection by Government inspection impossible. [...] The wreck of the Central bank was produced not by the absence of a Government inspection, not by any defect in the banking law, but by the crass stupidity and neglect of the directors of the institution. They appear,

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<sup>30</sup> From BANK INSPECTION. (1888, October 15). *The Montreal Gazette*, p. 4.

from Mr. Blain's evidence, to have known little of the condition of the accounts and to have trusted implicitly to the cashier, issuing instructions to that officer, it is true, but refraining altogether from ascertaining whether these were observed. [...] When a cashier is given unlimited power and proves dishonest, there is but one end to the institution – a disastrous collapse – but if the board of the Central bank had discharged its duties, the weakness, or worse, of Cashier Allen would have been kept in check, and possibly he might have proved even a capable officer.

### **“Settled to-day”<sup>31</sup> (February 6, 1894)**

The big suit by Mr. Henderson against the old Central bank directors for mismanagement was settled to-day, the defendants agreeing to pay to him the following sums: David Blain, who was president, \$850; ex-Ald. Trees, \$750; Mr. Howard, \$50; H. P. Dwight, \$650, and Robinson, \$700. The same gentlemen agreed to pay various small sums to other shareholders who sued them. The total they will have to pay is about \$10,000, including \$6,000, a portion of the costs.

### **“After twelve years”<sup>32</sup> (January 28, 1902)**

In the exchequer court yesterday morning E. L. Newcome, K. C., moved for an order determining the question of distribution of the sum of \$4,000 in the hands of the receiver general under the winding-up act in the case of Hogaboom vs. the King. Taylor McVeity for the Hogaboom estate, which owned the unrealized assets of the insolvent Central bank, claimed costs on the ground that they had succeeded on their petition. [...] Judgment was directed to be entered for \$8 in favor of the Hogaboom estate, with \$100 costs to be paid out of the fund in the receiver's hands. The defendants representing the bank's shareholders and creditors get their cost out of the fund; the crown gets its costs, and the balance of the fund goes to the creditors of the bank. This is the end of twelve years' litigation in the Ontario and Dominion courts.

### **“Canada's bank failures”<sup>33</sup> (January 24, 1911)**

Canada's list of bank failures is attaining dimensions that might be called respectable if not for the fact that the story of each collapse seems more disgraceful than the last. Looking over the list, no case comes to mind where the folly and criminality of a bank wrecker were so brilliantly combined as in W. R. Travers. The Ontario Bank collapse was a bad affair, but its manager sought to shift some of the blame upon the negligence of directors. The manager of the Farmers' Bank seems content to assume the whole responsibility of the failure, and admits looting the

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<sup>31</sup> From FROM THE QUEEN CITY. (1894, February 6). *The Montreal Gazette*, p. 1.

<sup>32</sup> From AFTER TWELVE YEARS. (1902, January 28). *The Ottawa Citizen*, p. 10.

<sup>33</sup> From CANADA'S BANK FAILURES. (1911, January 24). *The Saskatoon Daily Phoenix*, p. 4.

institution in a manner whose boldness is unequaled. It may be that when the full story comes to light others will be implicated with him, and sinister reasons for his otherwise inexplicable conduct may be known.

One incident of the failure vividly recalls a somewhat similar episode of the failure of the Bank de Ville Marie at Montreal. A gentleman who had a deposit in the Hochelaga branch of the institution was in the bank the very afternoon of the collapse. He saw the manager rush out of the office and hurry up the street. As the depositor was going out he met the manager returning, accompanied by a couple of nuns. They went to the counter, chequed out the deposit of the sisterhood to which they belonged, and as soon as they had departed the door was closed and a note announcing the suspension was in the window. The sisterhood did not profit, however, by the solicitude of the bank manager, for the nuns were compelled to refund the money. This failure was a bad one, and for his share in it the president, Weir, was sent to prison for two years. His punishment, however, was not satisfaction to the depositors, who received little or nothing from the wreck.

Probably the worst of Canadian banking failures was that of the Bank of Upper Canada, which spread shame and ruin from one end of the province to the other. Bad management rather than criminality was responsible for this failure, the cause being tersely described in the words: "Lending money to the Family Compact." The manager and directors of the bank advanced many large sums to men of good family all over the province who desired to engage in business, irrespective of their ability to manage it. The directors apparently thought that blood would tell, and that a gentleman was always the proper person to lend any amount of money to. One after another their enterprise collapsed, and each failure was another blow to the bank. If the bank had confined its operations to Toronto, where at one time it owned the whole of St. John's ward, it might have remained solvent. The final collapse followed an insane piece of banking. Drafts amounting to \$1,000,000, drawn by local Grand Trunk railway officials upon London, were returned dishonored, and the Bank of Upper Canada closed its doors.

The Commercial Bank of Kingston was ruined by dealings with the Great Western railway company, whose account was permitted to grow from a very small one to the largest on the books of the bank. The railway company raised money in England with which to build a line across the state of Michigan, connecting Detroit and Milwaukee, but soon it needed money faster than it could be secured in the old country, and the Commercial Bank very kindly advanced what was needed. When the railway's obligations reached the sum of \$1,200,000, the bank called a halt and tried to collect. The obligation was repudiated by the English directors, who alleged that the money had really been borrowed by the Detroit and Milwaukee railway company. A lawsuit showed that the borrowers were officials in both companies, and the Great Western was relieved of its responsibility. A run on the bank followed, and the doors were closed. Subsequently the depositors were paid in full, and the Merchants' Bank purchased the salvage.

The Central Bank failure is still fresh in the memory of thousands of citizens who lost their money owing to the manager's practice of lending large sums on

insufficient security. The Federal Bank was also closed, but all the creditors were paid in full. The Ontario, Sovereign and Farmers' are other instances of criminality or mismanagement that particularly concerned the people of [Toronto]. In Montreal, the Mechanics', the Metropolitan, the Exchange, the Consolidated and the Banque du Peuple left financial scars that took many years to heal. In the case of the Banque de Peuple, a few years of reckless management brought disaster, after half a century's sound banking. The Maritime Bank of St. John and the Commercial Bank of Manitoba are instances of bank failure due to pushing and reckless enterprise. A feature of the failure of most Canadian banks is that the loss is usually spread over a wide area, which is due to the branch bank system. In the United States, generally speaking, the effect of a bank failure is local.



# The Farmers Bank Failure

## “Farmers Bank suspends payment”<sup>34</sup> (December 20, 1910)

After an eventful existence of less than four years in the world of finance, the Farmers Bank, with its head office at Toronto and thirty branches in Ontario, will this morning fail to open its doors. While all branches were kept open today until the close of banking hours at 3 o'clock, the bank was practically in a state of suspension from the moment when it defaulted to the Toronto Clearing House this morning for the amount of its debit balance to the other banks, the sum being in the neighborhood of \$20,000.

Under the provisions of the banking act, a bank is considered to be suspended when it is unable to meet its liabilities. [...] Nominally, under the act a defaulting bank has ninety days' grace in which to resume its payments, and if it succeeds in doing so it is again in good standing, but instances where a bank in difficulty has been able to avail itself of this provision have been rare indeed, and the chances are understood to be remote for any other conclusion to its troubles than the winding up of the institution.

“Because of the newspaper publicity and the remarks of the judge at Lindsay, the Farmers Bank is temporarily put out of business,” were the words used by Mr. W. R. Travers, vice-president and general manager of the Farmers Bank, when asked tonight for a statement. [...] “The judge's remark started a run on the bank and its branches all over the country, and as we did not wish to give anybody the preference, we have decided to close the doors tomorrow morning, in order to give us an opportunity to ascertain our real position. The suspension may be for only a few days, four or five, perhaps. Under the Banking Act we have 90 days in which to make good our liabilities. This is the only statement that I can make at the present time.”

Mr. Travers, who was obviously affected by the severe strain under which he has been laboring for the past few days, seemed to hold the press primarily responsible for the bank's difficulties, and spoke with considerable bitterness of the undesirable publicity which the affairs of the bank had received as a consequence of the revelations in the trial at Lindsay.

When the bank failed to meet its obligations to the other banks through the Clearing House this morning, it devolved upon the manager of the Merchants Bank, Cassmer A. B. Patterson, in his official capacity as chairman of the Clearing House, to notify Mr. Duncan Coulson, of the Bank of Toronto, that the Farmers Bank had defaulted, Mr. Coulson being chairman of the Toronto section of the Canadian Bankers' Association. Mr. Coulson, in turn, notified Sir Edward Clouston, of Montreal, the president of the association. Sir Edward immediately instructed Mr. John Knight, the secretary of the association, to come to Toronto, and Mr. Knight will arrive in the morning to take charge of the bank's affairs, pending the appointment of a curator. [...]

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<sup>34</sup> From FARMERS BANK SUSPENDS PAYMENT. (1910, December 20). *The Montreal Gazette*, p. 1.

The Farmers Bank was projected some five years ago. [...] Even before the bank was fully organized troubles beset its hearth. Some of the subscribers to the stock became alarmed and sought to have their subscriptions cancelled, bringing suit to that end, but the courts refused to relieve them.

The disturbing factors were later bought out by other stockholders. Some disquieting rumors were abroad at the time concerning the methods which were being used to finance the bank. It was alleged that notes were taken in payment for stock, these notes being discounted at a heavy rate in order to get the money for the deposits. In the bank's statement these notes were entered as capital paid up, while they also appeared on the other side of the ledger as current loans.

This fact was drawn to the attention of the Department of Finance, and argued as a reason why the Government should refuse to issue a certificate to the bank, but the objections were overthrown and on November 30, 1906, the bank was incorporated. A month later, at the beginning of 1907, the bank opened its doors for business.

From time to time since the inception of the bank, well-informed financial men have expressed doubts of its stability, but it remained for the bank conspiracy trial at Lindsay last week to focus public attention on some of the investments of the bank and the methods followed in its management. Three former employees of the bank at Lindsay, who left in a body, joined the staff of the Home Bank and were placed in charge of a new branch, were charged with conspiring to destroy the credit of the Farmers Bank by telling depositors that the institution was shaky, thereby inducing depositors to withdraw their money and place it in the Home Bank.

In the course of the hearing, Mr. Fitzgibbon, chief accountant and inspector of the Farmers' Bank, was placed on the stand, and in cross-examination gave some startling details regarding some of the investments [that] were brought out. It was shown that Mr. Travers and Mr. Fitzgibbon had taken to Syracuse \$150,000 in notes of the bank, which were momentarily lent to the directorate of the People's Mutual Life Co., in order that the latter might buy at 130 \$100,000 of the capital stock of the bank, although at the time the stock was being bandied about Toronto at 35 to 40. At one time the stock tumbled as low as 11. Another interesting investment was that in which the Farmers' Bank, with only \$567,000 paid-up capital, put \$535,000 into the Keeley Mining Co., according to the evidence of Mr. Fitzgibbon. The disclosures led Judge Harding, who tried the case, to make some scathing and caustic remarks, and it was the public attention of these comments that started the run on the out-of-town branches. [...]

By the October return to the Department of Finance, the main features of the Farmers Bank Statement<sup>35</sup> were as follows:

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<sup>35</sup> I've added the '%' column for ease of interpretation.

	<i>[Capital.]</i>		
Capital authorized		\$1,000,000	
Capital subscribed		584,500	
Capital paid up		567,797	
	<i>Liabilities.</i>		
Notes in circulation		\$455,290	22.20%
Due to provincial Government		26,635	1.30%
Deposits payable on demand		214,669	10.47%
Deposits payable after notice		1,278,631	62.34%
Balances due to other banks		500	0.02%
Other liabilities		75,356	3.67%
Total		\$2,051,081	100%
	<i>Assets.</i>		
Specie		\$6,825	0.26%
Dominion Notes		13,046	0.50%
Note circulation security		26,250	1.00%
Notes and cheques of other banks		35,228	1.34%
Due from banks in Canada		7,909	0.30%
Due from banks in U.K.		4,535	0.17%
Due from banks in other countries		15,726	0.60%
Bonds and debentures		545,976	20.79%
Call and short loans		489,131	18.63%
Current loans in Canada		1,143,442	43.54%
Overdue debts		67,484	2.57%
Bank premises		157,971	6.02%
Other assets		112,672	4.29%
Total		\$2,626,195	100%

### **“It is an open secret”<sup>36</sup> (December 21, 1910)**

The suspension of the Farmers’ Bank of Canada, which was announced yesterday, holds unusual interest for people living along the border line between the United States and Canada. It is an open secret that a number of the more timid people from this side deposit their money in Canadian banks under the illusion that the banks are backed by the Canadian government and that they, the depositors, cannot suffer any financial loss as a result. This, of course, is not true and, as people are

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<sup>36</sup> From THE FARMERS’ BANK FAILURE. (1910, December 21). *The Port Huron Times-Herald*, p. 4.

beginning to realize this fact, each year sees a less amount of American money going to Canadian banks.

There is no doubt that there are many good features connected with the Canadian banking laws, but, on the other hand, there are many features which would not be tolerated in a state or national bank in the United States. The suspension of payments by the Farmers' bank was, it appears, the result of evidence given at a trial of some former members of the staff of the bank who were accused of conspiring to injure its credit. It appears that three of the former employees of the bank in the Lindsay, Ont., branch went over to the Home Bank of Canada, taking with them a large number of depositors on the representation that the Farmers' Bank was unsafe.

Prosecution was brought against these three former employees by the Farmers' Bank, on the charge that while still in the employ of the Farmers' Bank, they conspired to injure the credit of that bank. The defense was that if there was any reflection on the Farmers' Bank, it was justified in the interests of the public, and in the proceedings such disclosures were made that caused the presiding judge to comment severely on the bank's investments, especially those of a mining character.

The statement was made in court that the bank had advanced to a single mining company in the Cobalt district a sum of over half a million dollars, more than half its subscribed capital. The total subscribed capital of the bank was less than a million dollars, and of this amount, it appears, about \$567,000 had been paid up. The shareholders in the bank were people in towns and villages principally, who had from one to ten shares.

Under our banking laws the largest amount which, under any circumstances, could be loaned to a single company would be twenty percent of the capital and surplus, which would be less than half the amount which, it is claimed, was loaned by the Farmers' Bank to a Cobalt mining company. And this loan could only be made under certain defined conditions. It would appear from the revelation made, following the closing of the bank, that it did not have sufficient capital to assume the burdens it undertook. The failure of this bank will emphasize the need of further legislation in Canada strengthening its banking laws.

### **“\$150,000 in a bag”<sup>37</sup> (December 22, 1910)**

Evidence showing just how near the Farmers' Bank came to losing \$150,000 is recorded in the minutes of the testimony taken before the New York state superintendent of insurance in his enquiry into the fight for control of the People's Mutual Life association, head office Syracuse, N.Y. The evidence showed that John Tevis secured a loan of \$150,000 from the Farmers' Bank, giving as collateral 25,000 shares of stock in the Big Vein copper mine. The evidence also showed that the original cost of this stock to Mr. Tevis had been \$2,350. W. R. Travers began to doubt the sufficiency of the security when the money was on its way to New York state, and recalled the \$150,000 back to the Farmers' Bank at Toronto.

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<sup>37</sup> From FARMERS' BANK TRANSACTION. (1910, December 22). *The Ottawa Citizen*, p. 12.

### PUT \$150,000 IN A BAG

The first transaction ended with the recall of the money to Toronto. Negotiations were renewed and there was no shipment of money involved in the second attempt to complete the transaction. Mr. Travers and an assistant put the \$150,000 in a satchel, took it to Syracuse and deposited it in the First National bank. They stayed over Sunday and eventually took the money back after several visits to the bank to secure it.

### A STOCK DEAL

The state superintendent of insurance of New York, in examining Travers at the time in reference to a conversation he had with Tevis in Syracuse on the occasion of the second trip, was told by Travers:

“Well, the conversation then was that if I would make him a loan on the collateral, the new directors of the People’s Mutual would give an agreement that I could charge up against the deposit the value of 1,150 shares of stock.”

Superintendent – “Whose stock was [it] that you were going to sell?”

Travers – “The Farmers’ Bank of Canada.”

Superintendent – “Treasury stock not issued?”

Travers – “It was the stock subscribed by Mr. Chatman.”

Superintendent – “He had not taken up his option or fulfilled his agreement?”

Travers – “It is different with us. The subscription stands until you cancel it, and every bank is very sensitive about reducing its subscribed capital. That has been standing here in his name.”

Superintendent – “And you wanted somebody else to take it and pay for it?”

Travers – “I wanted somebody else to take it and pay for it.”

Superintendent – “And it was understood between you and Mr. Tevis that day that if the deal went through, the People’s Mutual would take that stock of Mr. Chatman’s, that is, the stock that Mr. Chatman had subscribed for?”

Travers – “I don’t know that we mentioned Mr. Chatman’s name particularly. Mr. Hunt said he would be the treasurer of the company, and they would take 1,150 shares of stock.”

Superintendent – “And if the company did take it, you would keep the \$150,000 that was to be deposited with you as part of the transaction.”

Travers – “Yes.”

Travers took the money back to Toronto with the understanding that the stock deal was not closed, though he had signed a certificate of deposit of the \$150,000 with the First National bank. He discovered later that his bank had received no consideration for the certificate of deposit, and would not until the whole transaction was completed. The Farmers’ Bank had not, and never has had since, any securities of the Peoples’ Mutual Insurance association.

To the superintendent in further examination the witness said that the books of the Farmers’, however, showed that it technically owed the Peoples’s Mutual \$150,000 plus interest.

Superintendent – “What was the consideration passing to your bank for the issuing by you for it of the certificate of deposit for \$150,000, dated Dec. 20, 1909, and running to the People’s Life Insurance Association and League?”

Travers – “The return of the currency with the agreement that I had – that it would be converted<sup>38</sup> into the stock of the bank.”

### **“Generally anticipated”<sup>39</sup> (December 22, 1910)**

Apparently, the suspension of the Farmers’ Bank of Canada had been generally anticipated, for not in Toronto or in those places where branches were located [...] was there any sign of panic or excitement around the offices, except perhaps at Allenford, where the farmers of the district are depositors, and many of them congregated around the closed office. At Millbank the Metropolitan Bank opened a new branch office.

The Canadian Bankers’ Association took charge of the head office [in Toronto.] In case arrangements cannot be made for the bank’s continuance at the end of 90 days, the courts will be asked to appoint a receiver for its winding up. Until either one or the other of these alternatives is adopted, those who have deposits with the bank will not be able to get their money, and it will be some time before the actual position of the shareholders will be known. Depositors are not guaranteed, but must depend on the realization of assets for their accounts. The note redemption comes first, and other claims after this. The depositors rank as creditors, and must wait for realization of assets before getting payment. [...]

When interviewed with respect to criticisms which had been made regarding his comments about the Farmers’ Bank during the recent trial, Judge Harding, Lindsay, said last night: [...] “I did my duty in commenting upon conduct which I thought was highly dangerous, that is, for a bank to tie up almost the whole of its available capital in the transaction, and that, a transaction from which they could not easily obtain any money. [...] I did my duty without fear or favor, and care not for the bank or any individual.”

Contrary to what happened when the Ontario and Sovereign banks went under, there is no disposition on the part of the other banks to fly to the rescue this time. “That day has passed,” a banker is quoted as saying yesterday. “They have stepped in on past occasions when they felt it necessary to ensure a certain amount of stability and so help themselves, but nothing of the sort will take place where the Farmers’ Bank is concerned.”

This, however, does not affect the value of the bills of the bank, which are perfectly good and redeemable at any bank. Provision in the Bank Act is made for the redemption of the notes of any bank which has failed or suspended payment.

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<sup>38</sup> By “paying” \$150,000 for 1,150 shares of Farmers’ Bank stock, People’s Life would essentially be paying \$130.43 a share, considerably higher than the value shares were trading at, which as stated in another article, ranged from \$11 to \$40.

<sup>39</sup> From LITTLE EXCITEMENT. (1910, December 22). *The Windsor Star*, p. 2.

Each of the Canadian chartered banks, for its circulation, has to deposit with the Dominion Government five per cent. of the total amount of its outstanding circulation. This amount is deposited with the Government, which allowed 3 per cent. interest to each of the contributing banks. The October bank statement showed that the notes in circulation amounted to \$95,992,866. Five per cent. of this amount would be over \$4,750,000, against which the bills of the Farmers' Bank in November only totalled \$428,490.

### **“False returns”<sup>40</sup> (December 22, 1910)**

W. R. Travers, vice-president and general manager of the Farmers Bank of Canada [...] was charged with making false returns of the bank's financial condition to the Department of Finance at Ottawa. [...] The penalty is seven years imprisonment. Toronto dispatches say that it is charged Travers “particularly did falsely state in each of the monthly returns to the Minister of Finance the amounts of railway and other bonds, debentures and stocks in Canada, and the amount of current loans in Canada, held by the said bank as part of its assets.”

### **“The necessity for government inspection”<sup>41</sup> (January 13, 1911)**

The lesson of the Farmers Bank failure, as of other recent bank failures, is the necessity for government inspection. Many bankers argue that such inspection would be impractical, at least without an enormous staff, because of the great volume of business transacted by the banks and their branches. But the cases referred to show the fallacy of this argument. It was not necessary to examine the accounts of every merchant or manufacturer to know that there was something seriously wrong with the institution. A speculation of \$550,000 in a silver mine of unproved value, a loan of \$40,000 to a manager, extensive and reckless speculations on the stock market, are things which an expert would at once recognise as signs of danger, as signs that the bank was not conducted upon sound principles. [...] The fact that government inspection might fail in one case out of ten is no reason why the investing public should not have the benefit of inspection in the other nine cases.

Another objector says that the present system operates through the law of the survival of the fittest. The weak banks die, leaving the strong to survive. This is rather poor consolation to the shareholders, who invest their money in good faith under a system authorised by the law. The whole object of the banking act is to give security to shareholders and creditors, coupled with facilities for the obtaining of money to be used in legitimate industrial and commercial enterprises. When the law does not provide for inspection, it fails at a vital point. [...] How is the shareholder, who is often a woman or a person unskilled in finance, to choose between one bank and another? They all do business under the same law, and with the same apparent

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<sup>40</sup> From TRAVERS MADE FALSE RETURNS. (1910, December 22). *Syracuse Post-Standard*, p. 6.

<sup>41</sup> From INSPECTION OF BANKS. (1911, January 13). *The Saskatoon Daily Phoenix*, p. 4.

safeguards. Their notes and buildings and office fittings all look the same to the unskilled investor.

A possible answer to this question is that the investors should select the larger and older banks. If it is to be a question of size of capital, where is the line to be drawn? There are comparatively small banks to-day that are as safe as their big rivals. There are strong and successful banks that have grown up from all beginnings.

Then what is to be done as to the chartering of new banks? It has been proposed that the process shall be discouraged by increasing the minimum capital. But the size of capital alone is no guarantee of safety. By increasing the minimum capital we may exclude men of enterprise and integrity, but of comparatively small means, without increasing the security of the investor. It is not in the public interest that new banking enterprises should be discouraged. Competition is as good in banking as in any other business.

The only way to protect the public is to increase the strictness of the law, and governmental inspection is one means to this end. [...] With the fear of a government inspector before their eyes, managers and directors would not speculate in the stock market, buy mines whose value has not been ascertained, or make loans of the bank's money to themselves.

### **“The flaw in the Bank Act”<sup>42</sup> (January 18, 1911)**

The recent general manager of the Farmers' Bank has gone to penitentiary for six years, and we presume the apologists for the present (and contemplated future) style of the Dominion Bank Act point to this penalty as something creditable to the Act and this country. On the contrary, the fact is, in a sense, a discredit to the Act and to our country. Under a proper bank act, little likelihood should exist of any bank manager getting into penitentiary.

The present Bank Act provides penalties enough. The draft of the proposed new Act provides more. Stopping at that, the thing is silly. Penalty is not the ideal. Penalty is little better than useless. No banker ever at the start admits to himself that he intends to break the law; and so possible penalties have no terrors for him while he is making the initial mistakes of judgment which when resulting in loss to his bank, and to further mistakes by himself in efforts to retrieve the damage, lead him finally to perjured bank statements in order to keep his job. No banker ever at the start admits that he can possibly become a thief; and so possible penalties have no terror for him while he makes a slight temporary use of the bank's funds to tide him over a little stringency in some private speculation, and thus drifts into a hole into which he keeps pulling the bank's funds down after him, hoping every desperate moment that a lucky turn in affairs at the next moment will pull him up. No banker ever at the start admits to himself that for the sake of some friend or business ally or personal associates he would imperil his bank's assets; so possible penalties have no terrors for him when he allows his bank to become leagued with some speculative

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<sup>42</sup> From THE FLAW IN THE BANK ACT. (1911, January 18). *The Ottawa Evening Journal*, p. 6.



financial enterprise which drags it in deeper, little by little, until he has half a million dollars invested in a Keeley mine; with false returns necessary in his bank statements to conceal the nature of the speculation.

Penalties neither deter the first insidious mistake in bank management; nor help shareholders who come to a loss of double or more the money they invested in a bank enterprise, nor comfort the business public which gets a general jolt from a bank failure. Punishment is not the essential. The essential is prevention.

The proposed revision of the Bank Act does profess something of an attempt at better prevention than heretofore. A proviso is made for an appointment of an auditor by shareholders of any bank, at their annual meeting. This sounds well.

It is mere sound. It is sound and fury, signifying nothing. Annual meetings of banks are, as everybody knows, merely dummy meetings, except as regards the ideas of the directors. Occasionally some bumptious shareholder asks questions. Generally he is heard in decorous silence, and business proceeded with. The directors and their proxies are always in absolute control.

Now, nothing in the past has existed to prevent directors appointing a special auditor. Only one bank has ever done it, and the rest of the bankers look upon the man who did that as a crank. The proposed new law gives to the annual meeting of a bank no more power than such a meeting already has. And the power will be exercised no more in the future than in the past. Directors will not suggest such an action, because the way directors always think of such things is that nothing is wrong, and nothing needs to be done. Bumptious shareholders will not succeed in getting an appointment made, because the directors will interpret the suggestion as a vote of want of confidence.

Since confederation, shareholders in Canadian banks have lost forty million dollars in bank failures. Every failure has been due to shortcomings in the head office of the bank. In nearly every case, an independent inspection or audit – an inspection or audit by an outsider – would have stopped the trouble in time.

An inspector or other official subject to the general manager of a bank is useless as a watch-dog as regards the bank head office. He sees there only what general managers are willing to let him. He knows that if he is impertinent enough to attempt to see more – and there may be nothing to see – he is going to lose his job. Four-fifths of the civilized world recognize this in their bank legislation, and provide for either government inspection of banks, or independent audit. Canada belongs to the one-fifth class, and suffers for it. The wretched story of the Farmers' Bank failure and its innocent victims should cap a climax in Canada to the ending of a vicious lack in our bank law. Let's get in out of the rain.

## “The report of Sir William Meredith”<sup>43</sup> (February 27, 1913)

The report of Sir William Meredith<sup>44</sup>, the commissioner who investigated the Farmers’ Bank, was laid upon the table of the House yesterday afternoon. The report deals first of all with the history of the bank from its incorporation in 1904, when the capital stock was fixed at a million, and details the proceedings that marked its organization – details that have become familiar as a result of the court proceedings that followed the failure of the bank.

The commissioner reports that the incorporators had no experience in the business of banking or in any other business in which they would have acquired the knowledge essential to the successful launching of a bank. The commissioner details the agreements and resolutions that marked the early period of the bank’s history, and concludes that “it appears clear from these agreements and resolutions that what was intended was to sell the charter of the bank to Travers and to put him in control of its organization and business, and that the provisional directors should abdicate their functions and act in accordance with his directions, and that is what followed.”

### TRAVERS’ METHODS

When Travers undertook to secure the necessary subscriptions, in a number of cases, says the report, a promissory note was given by the applicant for the full amount of the subscription, payable in most cases in twelve months to the order “of the provisional directors of the Farmers’ Bank of Canada.” In many cases, however, no payment in cash was made at the time of the application or up to the time of the allotment. On the 4th of July, 1906, a resolution calling for the selling of stock on a cash basis was rescinded, and the commissioner comments:

“I have no doubt that one reason at all events, and probably the main one, for accepting promissory notes was that Travers might be enabled by means of them to raise money to make up the cash deposit which had to be made as one of the conditions precedent to the issue of the certificate of the treasury board.”

On Sept. 5, 1906, authority was given to give the notice of the meeting of the subscribers for organization as soon as the Government deposit should have been made. This authority was given to Travers, and he was authorized to do all other acts necessary for calling a meeting. Commissioner Meredith adds: “It is not open to question that \$500,000 of the capital stock had not then been subscribed, and that \$250,000 had not been paid by the subscribers.”

“The declaration that the list of subscribers,” says the report, “correctly set forth as to each subscription ‘the amount paid in thereon’ and the statement that the \$250,000 deposited to the credit of the Minister of Finance and the Receiver-General was paid out of the moneys paid in, and which actually had been received in respect of the shares, was literally true, but calculated to deceive the Minister of Finance as to the real facts, and was intended to do so.

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<sup>43</sup> From SIR WILLIAM MEREDITH ON FARMERS’ BANK FAILURE. (1913, February 27). *The Ottawa Journal*, p. 3.

<sup>44</sup> Sir William Ralph Meredith (1840 – 1923).

“The fact was that two sums amounting to \$100,000 had been borrowed by Travers from the Trust & Guarantee Company on the security of promissory notes made by applicants for shares which had been endorsed to him by the provisional directors for the express purpose of raising money to be used in making the deposit.

“Although the form of applying the money borrowed in the way I have indicated was gone through,” says Sir William, “the real purpose of the transaction was to enable Travers to represent to the Treasury board that a much larger sum had been paid in than had been actually received on account of the shares, and Travers intended that as soon as the deposit of \$250,000 was returned to the bank, the loans should be paid off and the subscribers’ notes be discounted in the various offices of the bank, and that was in fact done, about \$60,000 having been repaid in December and the remainder in the March or April following. That in thus dealing with these notes the provisional directors and Travers were guilty of a breach of trust, does not, I think, admit of doubt, and for the manner in which the money borrowed was applied there was neither justification nor excuse.

#### TREASURY BOARD DECEIVED

“My conclusion on this branch of the enquiry,” continues Sir William, “Is that the treasury board was induced to give its certificate by false and fraudulent representations on the part of Travers, and that if the facts I have mentioned as to the way in which the \$250,000 was made up had been disclosed, the certificate of the treasury board would not have been given.” [...]

The commissioner finds that one of the first [actions] of Travers after the certificate had been obtained was to make a fraudulent entry as to the expenses incurred by the provisional directors, and that “the subsequent management of the affairs of the bank was characterized by gross extravagances, recklessness, dishonesty and fraud, and has resulted in the entire loss of the paid up capital and the whole of the deposits, a record unparalleled in the history of any bank in Canada, or, as far as I am aware, in any other country.”

### **Eckardt on the failure<sup>45</sup> (April 8, 1911)**

A few weeks ago, when the public was discovering how rotten was the condition of the Farmers Bank affairs, there was talk of a movement or transfer of deposits from the chartered banks to the Dominion Government. Some parties said that the farmers throughout Ontario were drawing their funds out of the banks and putting them into the Post Office Savings Banks. Considerable talk of this kind was heard in the latter part of December and January.

It will be interesting to ascertain what measure of truth these rumors contained. It will be remembered that the statement of the chartered banks for December 31st, 1910, revealed an unusual drop in the deposits. Taking all classes of deposits, the fall in that month amounted to \$17,000,000. We were told that this was largely due to the Farmers Bank revelations. The decrease in notice deposits

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<sup>45</sup> From Eckardt, H. M. P. (1911, April 8). FEAR UNFOUNDED. *The Financial Post of Canada*, p. 4.

amounting to about \$7,000,000, it was said, was particularly due to loss of confidence on the part of depositors.

#### CAUSE OF LOSS IN DECEMBER

Unfortunately for the credit of those who circulated these stories, it happened that most of the loss in deposits was experienced by the Bank of Montreal. In all probability it occurred because of the withdrawal of special deposits. If there had been any noticeable weakening of depositors' confidence, it is not at all likely that the Bank of Montreal would be the chief object of their suspicion. Some banks which were inferior, in standing and credit, to the Bank of Montreal, would have been called upon to face the brunt of the attack.

When the depositors living in the country districts withdraw their funds from a bank because of fear of its solidity, several courses are open to them. What they are most likely to do is to redeposit the monies at once in another chartered bank which has their confidence. Obviously, when this course is followed there would be no drop in the deposits of the banks as a whole. For what one institution lost, others would gain, and the grand total would not be materially altered.

#### NO PROBABILITY OF HOARDING

Next, the farmer might hold in his possession, or hoard, the bank notes paid to him as satisfaction for his deposit. However, Canadian farmers are not much in the way of carrying large sums of cash in their houses or on their persons. The risk of robbery and murder is too great.

Then the depositor might buy securities; but it is not at all likely that farmers would follow that course to any noticeable extent. They do not understand stocks and bonds; and therefore they are shy of that type of investment.

Finally, the might – and some persons can declare they did – deposit their funds with the Government, and thus find the security they require. If there had been any strong movement of this kind, it would find reflection in the totals of deposits held by the government savings banks.

It has been a matter of common knowledge that the total of deposits held by the two departments of government savings banks has been steadily decreasing month by month during the past few years. The reason for the decrease existed in the superior facilities provided by the chartered bank branches. The rate of interest being the same, the opening of a chartered bank branch in their immediate locality has been the signal for country depositors to proceed leisurely to transfer their funds from the post office to the chartered institutions.

Let us see if there has been any indication that these conditions were reversed or changed by the Farmers Bank revelations. [Consider] the deposits in the post office and Dominion Government savings banks. [...] Prior to December, 1910, the balances had been falling by an average of about \$100,000 per month. [...] In December, 1910, the month in which the Farmers Bank failed, the decrease was \$226,000. But in January, 1911, the month in which the bank scandal was most freely discussed by the press, the government deposits rose \$158,000, the increase occurring chiefly in the post office. In February the order of decrease reappeared, but the fall was slight. So it may be presumed, if the government savings banks benefited from this bank

failure, that the benefit was not pronounced, and that the force of the episode as a disturber of the deposits of the chartered banks is now spent.

### **“The new bank bill”<sup>46</sup> (May 9, 1913)**

The new bank bill, which has been under consideration by the banking and commerce committee, is now disposed of and will be reported to the Commons. Inspection, the storm centre of the bill, was taken up. [...] Hon. Mr. White proposed changes with a view of strengthening external audit. By his amendment, the general managers of all the banks will by ballot every year select a list of forty chartered accountants. This list is to be then passed upon by the minister, and if he disapproves of any auditor, he can strike his name from the list. The shareholders then select the bank’s auditor for the year from this list, and if one-third of the shareholders are dissatisfied with the auditor appointed, they can petition the minister, and he will select a new auditor from the list.

### **“The list of auditors”<sup>47</sup> (September 15, 1913)**

The list of auditors eligible for employment on the external audit provided for under the new Bank Act has been prepared. Under the terms of the act, the list is prepared by the Bankers’ Association, subject to the approval of the Minister of Finance. The Minister has indicated disapproval of the eligibility of two of the gentlemen named, Mr. J. B. Robertson, as auditor of the Dominion Bank, and Mr. W. E. Stavert, as auditor of the Bank of Montreal.

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<sup>46</sup> From REPORT BANK ACT BACK TO COMMONS. (1913, May 9). *The Victoria Daily Times*, p. 3.

<sup>47</sup> From LIST OF AUDITORS UNDER BANK ACT. (1913, September 15). *Montreal Gazette*, p. 20.