MR. BECKFORD: IN THE SECOND ROUND

As the rumors became stronger in late 1997 that further BOJ interventions were likely, our institutions started experiencing higher than normal levels of withdrawals.

Subsequently, Bank of Jamaica intervened in the Workers Bank - our principal Bankers. Immediately this was announced we started experiencing an unusually high demand for withdrawals.

We asked for a meeting with senior officers of the Bank of Jamaica to apprize them of the developments. It was clear from that meeting that Bank of Jamaica would not have been able to provide us with the required support.

Recognizing the force of this development, we called an emergency meeting of the Board of Directors of Horizon and it was decided that we should approach the Financial Sector Adjustment Company (FINSAC)for support.

Based on our understanding of FINSAC's

mandate, we were of the view that we would have met all the requirements for FINSAC's support. Against this background, we approached FINSAC to purchase our real estate development loans as developers were experiencing difficulties in the marketing of completed and uncompleted units. The purchase of those loans along with a few others would have provided us with the required liquidity cushion we needed. We further requested FINSAC to consider an infusion of equity into Horizon Financial Services Limited being a part of the restructuring programme which we had proposed to the Bank of Jamaica.

FINSAC'S RESPONSE

After a review of our operations and various discussions, we made a further formal proposal in which we showed sustainable viability if certain selected loans were purchased in exchange for Government Bonds.

FINSAC's offer was a counter-proposal to facilitate the merger of all the relevant financial entities with Citizens Bank Group which then was controlled by FINSAC. In respect of Horizon Life, the proposal was for Crown Eagle Insurance Company Limited to administer that portfolio.

The relevant heads of agreement was executed on March 5, 1998 and a news release issued setting out broad details of the arrangement. The detailed agreement was subsequently executed.

All the assets and liabilities for the financial entities, Horizon Merchant Bank, Horizon Building Society and Horizon Securities Limited were transferred to Citizens Bank along with all the records for the institution including detailed loan records and documentation for all borrowers.

Mr. Chairman, as we look back at the period the BOJ's intervention in 1995 was a "Game Changer". Most of the Indigenous financial institutions experienced financial liquidity challenges to varying degrees. The institution such as Horizon which had a commitment to contribute to economic growth and development through structured loan programmes had greater liquidity challenges. This was due mainly to the fact that the high interest rate costs adversely affected borrowers at all levels.

The deteriorating liquidity situation and persistent high interest rate among indigenous financial institutions was even more challenging for the newer financial institutions. As one of the newer financial entities having commenced operations in 1991, attracting a profitable base of mainly Blue Chip borrowers was not going to be achieved overnight. Further, with our clearly stated objective to growth through lending to the productive sector the environment was even more challenging for our entity.

This timing coupled with the other realities of the marketplace, our loan portfolio grew with some good loans to emerging borrowers. One of the outcome of the "Shake Out" of the '90's was the fact that some of the emerging businesses were among the early ones to default. It was clear that the high interest rate regime placed excessive pressure on borrowers operating emerging businesses. This resulted in higher default rate on loans made by indigenous institutions and erosion of their capital due to mandatory loan loss reserves introduced by, and I should say new mandatory loan loss reserves introduced by the Regulators during the period.

Some of the unfriendly utterances of the period towards indigenous institutions resulted in the flight of deposits from indigenous institutions to foreign owned institutions which were perceived to have stronger overseas parent company support. Those institutions were able to attract deposits at much lower rates of interest giving them a clear competitive advantage especially in the area of loan pricing.

So during this period it was our considered opinion that the high interest rate policy was not sustainable. The position was influenced by the fact that we were of the view that the policy makers were fully aware of the long-term implications if we were to maintain the high interest rate policy for any prolonged period.

In hindsight, if we honestly believed even for a brief moment that the policy makers knowing and understanding the implications for the collapse of businesses and the disruption of lives, would have maintained the high interest rate policy for such a long period, we would not have pursued lending as the major strategy of our business model.

The interest rate sensitivity analysis was an integral part of our Credit Approval process. Based on our evaluation process most of our borrowers' upper threshold limit was roughly 50% of the rate at which the loan originated. As part of our loan analysis we subjected all loans to a period of higher interest rates at varying rates up to 50% above the rates at which the loans were originally disbursed for a limited period. Any loan that failed this test was not approved. When it was evident that the interest rate policy direction would take borrowers above this threshold, we immediately took the decision to discontinue making commitments for new project loans. However, in respect of existing borrowers, especially those in the construction sector, we made the decision in some cases to work with the borrowers to complete the projects and get them to market as quickly as possible.

The continuing high interest rate having forced us to exit the lending market for regular new loans, our strategic response was to focus on facilitating borrowers who could qualify for National

Development Bank (NDB) loans and Agricultural Credit Bank (ACB) loans. It was strategies like those that contributed positively to our continued viability. The construction and manufacturing sectors were two of the sectors most severely affected by the high interest rate policy and because our portfolio mix had a greater concentration in those sectors the effects were more devastating.

Another major "Game Changer" was the decision of the Bank of Jamaica (BOJ) to introduce new Capital Adequacy standards during the period of continued high interest rates with all the related consequences. One of the major changes was the requirement for varying levels of capital support to be provided in respect of all non-performing loans regardless of the quality of the collateral securing the loan. This immediately created some new challenges for all the indigenous institutions (especially the newer ones) supervised by the Bank of Jamaica. The timing was unfortunate and one could conclude that all the implications were not carefully analyzed.

The need for strengthening of the capital base became urgent. Against this background, we established a new company in 1997 known as Horizon Financial Services Limited which would have managed and operated all the financial entities. The private placement prospectus was developed and we were in discussions with private equity investors both locally and overseas. We wrote to the then Minister of Finance seeking approval to transfer the shares of the Merchant Bank to the new entity. We had no doubt at all that given reasonable time and the support to implement the plan we would have been successful. The Horizon Financial Services would have been listed on the Stock Exchange which was part of the strategic there.

Recognizing the continuing trend and

concerned about the survival of the institutions, the shareholders of several indigenous financial institutions developed a comprehensive plan to merge the various financial institutions into one major financial institution. It was a very attractive proposal, but needed to be facilitated at various levels. There were various levels of scepticism and the concept was never fully supported at some key levels. It should be noted that at the shareholders' level, there were some unresolved issues. Although the market was not very deceptive towards new equity investments at the time, mainly because of the attractive high interest rates, one could conclude that such a mega merged entity it would have gained the attention and the support of the marketplace.

Mr. Chairman, as we reflect on the period we can all look back and say what are some of the lessons? In retrospect one thing is clear there is no substitute for a strong capital base. Horizon, like most of all other indigenous institutions active in the lending business had too low a capital for the risk of operating in the high interest rate environment over a prolonged period. With higher capital ratios institutions such as Horizon would have been able to more comfortably ride through the vagaries of time. In making some general observations, chair, we look back and we recognize that good loans became marginal. Although most loans were repayable on demand, calling a demand loan would not have produced any real change as there were only a few willing and able buyers. In several cases, standby overdraft facilities were not renewed due to no fault of the borrowers, but due largely to the inability of the bank to fund the continuing exposure, thus removing the liquidity support from some borrowers. It was painful to journey with hardworking, honest credible, trustworthy and up to then successful entrepreneurs who lost the will to "fight". It will take generations for us to fully understand what the destruction in the 90's of several enterprises built by blood, sweat and tears of hardworking, trustworthy and credible Jamaicans have done to the psyche of our nation. Lives were destroyed, many lives. We are now producing a new generation of professionals who are frighteningly risk averse. The period weakened our entrepreneurial spirit, energy and passion.

It is well known that the view was expressed by the Regulators prior to the establishment of FINSAC that there were too many financial institutions operating in Jamaica at the time. A view that no objective person would likely disagree.

Against this background one is inclined to wonder if undue influence was exercised by the Regulatory Arm during the early period of FINSAC interventions.

FINSAC was established as an organization to assist with restructuring and strengthening. The expectation was that the restructuring and strengthening of institutions, companies and individual facilities would have impacted positively on the overall economic environment.

Regrettably, as the programme unfolded it became evident that the mandate was modified.

When the interest rates were raised in real levels to support the exchange rate and reduce the level of 'overheating' in the economy, several persons including the presenter of this submission stated that they understood the rationale for the policy shift. It was generally believed that this "shock treatment" would have been for a very short period, maybe a few months, but low and behold this was not to be, it went on for years and years resulting in safe fixed deposits interest rate increasing to rate in excess of 50% and BOJ's overdrafts to lending to prime customers exceeding 120%.

No honest and objective person can argue against the view that the high interest rates were sustained for far too long a period. As a result many institutions, organizations companies, individuals and lives were destroyed.

The Commission should aim to objectively answer the questions: Why did good loans turn bad? Why did the good investments fail? Recognizing that sound banks failed because of bad loans and failed investments.

FINSAC is now history, we need to focus on how we rebuild and rescue lives, rekindle the spirit of entrepreneurship that is so urgently needed to move this country to another level. If this is achieved, we may live to experience our nation getting closer to the realization of the ultimate national economic and social goal, a better quality of life for all. Thank you Mr. Chairman.

COMM. BOGLE: Thank you Mr. Beckford. At this time we will have a ten-minute break and we will reconvene in ten minutes.

B R E A K

ON RESUMPTION:

This Enquiry is now reconvened and may I remind you Mr. Beckford, that you are still under oath.

MR. BECKFORD: Yes, sir.

COMM. BOGLE: I think we have some attorneys that have joined us since we started this morning. May we have those persons and who they represent at this time.

MISS MYERS: I am standing; Margaret Myers, representing the Bank of Jamaica.

MR. GOFFE: Gavin Goffe instructed by Myers Fletcher and Gordon for Jamaican Redevelopment Foundation Inc.

COMM. BOGLE: Mr. Powell, I know you mentioned your name when you were addressing the chair, but could you just give us your name again and who you represent, instructed by.

MR. POWELL: Kevin Powell instructed by Michael Hylton and Associates.

COMM. BOGLE: For?
MR. POWELL: For the Bank of Jamaica.
COMM. BOGLE: Mr. Beckford, arising from your submission there are some questions that we would like to ask of you. Tell us, when the merger took place all the assets and liabilities were transferred to Jamaica Citizens Bank at the time?
A: Yes.
COMM. BOGLE: Do you have a copy of the merger document available?
A: No, sir. At the time of the -- as you said all the assets including the agreement then we had moved from New Kingston to Riverton and our operations were flooded out and during that we lost the only copy we had because that was the only document from that particular field that we had with us and the whole of that particular file was totally flooded out. We do not have a signed copy of the agreement.
COMM. BOGLE: All the records, statements, securities everything that you had for your customers and depositors were handed

over to Jamaica Citizens Bank?

A: Yes, sir. One of the conditions of the merger was that Citizens Bank sent in a full team, they did a total due diligence test, they went through all documentation and everything because we signed the heads of agreement but we did not go through the final agreement until Citizens had completed the due diligence. So they did that and then they took full responsibility and full possession of all the documentation, and at that time all our records were fully up to date and everything was up to date.

COMM. BOGLE: How were your customers informed of this merger?

A: Well, as I said, we signed the heads of agreement on the 5th of March and the statement, a joint statement was issued, a three-way statement was issued by Citizens Bank.

(camera man's phone rings)

COMM. BOGLE: Just a minute, Mr. Beckford. Excuse me sir, can you please speak on the phone outside. We will not have any discussion on the phone inside here. Go ahead.

A: As I said it was for the first thing within hours of the agreement being signed a public announcement was made and thereafter that notifications were sent to all the customers. As Citizens took over, Citizens then made contact with all the customers to the best my knowledge.

COMM. BOGLE: Up to the point of the merger, would you say all of your customers were provided with up-to-date statements of their accounts and so on?

A: Absolutely.

COMM. BOGLE: You mentioned in your statement that at one point you stopped renewing overdraft facilities for some of your customers?

A: I think there is a little misunderstanding there.

COMM. BOGLE: Okay.

A: The point that I was making is that some of our customers, some of the borrowers had overdraft facilities that they would use to give them liquidity support.

COMM. BOGLE: Right.

A: But because of the liquidity situation some of the banks that they had, some of them naturally had it with indigenous commercial banks, some of those banks were not in a possession to renew those overdrafts. So it wasn't us, because we were not in the business of making overdrafts.

COMM. BOGLE: I see.

A: I was just making the point that some of our customers who lost liquidity support because of the banks were not able to renew the overdraft facilities for them.

COMM. BOGLE: The next question. When your customers and the possible borrowers, let's say at thirty percent your sensitivity test is that they should be able to manage up to 45 percent?

A: Absolutely.

COMM. BOGLE: When the situation reached the point where you were informing them that unfortunately the interest rate had to move to sixty percent, what did you expect of those customers at that time?

A: Mr. Chairman, this is where the thing got very painful, because in each case we would deal with the customers, we did as much as we can to work with them. But I think one of the painful parts of the exercise, and this is one of the things as Commissioners that you need to look very deeply at because the whole issue about the high interest rate and the impact and how good loans became bad. I use your same thirty percent, whether it is twenty, twenty-five, thirty, if you look at a lot of the loan records you will see a lot of those borrowers never missed a payment, they were always on time. So twenty-five excellent record, thirty, thirty-five when it got to forty, forty-five, fifty they started selling other things, doing all kinds of things just to keep their heads above the water. But once you got now above that range then it became almost, because they really now - the cash flow had not changed that significantly, but the service requirements jumped. So therefore when we made the point about good loans turning bad we made the point that we were being prudent in making those loans and the records will show that at the relevant time most of those borrowers kept pace with their agreement at the agreed rate without any problem; it was after we started having the significant movement that we started seeing the weakening in a number of what were excellent loans at the time they were booked. And I think this is one of the points, I would submit, to look at the records based on the agreed rate with moderate movements and look what happened after that. And I think that tells the whole story as to where the real story evolves.

COMM. BOGLE: It has been said and surely it has been said in this enquiry some time ago that a major part of the problem emanated from poor management of the institutions, of the financial institutions. What is your comment regarding that?

A: Chairman, one of the things I think, we sometimes mix management with the level of liquidity, strength of the organization and the strength of capital base and we want to put some record on the table. I can speak frankly, having been in the sector for several years. If we look at the management, and I speak for Horizon, when I look at the group of managers I had at Horizon I challenge any other financial institution to find a group of managers that were more competent, more efficient than these managers. As a matter of fact, a lot my managers came to us with good international experience, having worked with some of the banks that people claim were better managed. So they had good, local and international experience. The point I am making is that as it relates to the management it is the outcome that is sometimes used to judge the management and this basis about poor management; the conclusion is being drawn that if you did not have to experience a FINSAC intervention, then you were properly managed and the reality is that is not the whole story because the newer institutions as I made in the paper, basically were lending more and more to the emerging businesses. So if we are dealing with an institution that finances the established business, have the established savers and depositors, in some cases maybe have more than half, more than 50 percent of all the government deposits at zero interest rate, in that situation you don't have to be brilliant to produce good results. So this notion to say that the indigenous institutions were poorly managed, when you look at the empirical data and you take out and analyze for the true impact of the high interest rate and a lot of the good solid emerging businesses that went through that setback, that answers clearly and that would not be a fair conclusion to

Horizon.

COMM. BOGLE: Let me just ask everyone to either turn off their cellphones or put them on silence. We will not be interrupted with cellphones and this persistent person that disturbs this enquiry will be asked to leave the room.

It also has been said, Mr. Beckford, that possibly, part of the reason why the foreign-owned banks survived was because of possibly tighter regulations from their parent company abroad as against the regulations generally applicable in Jamaica at the time, what is your thought?

continued....

A: Chairman, one of the things about the indigenous sector, we live here, we are a part of the real market here and therefore the final decisions are made here. It is of interest to note that when there was the call for the banking sector or the financial institution to invest in the real sector, it should be of note that the indigenous institutions invested in various -- some invested in major products in the real sector. It is well known that several of the international banks sent officers here because the pressure was so intense and the call was so strong to explore and analyze the possibility of investing locally in the real sector, however when the report went back to head office the people in head office were saying we are not interested, in other words, they were not caught up in the -- they were not actively involved in the local context as it relates to the call and therefore within the context of the international level they can clearly say this does conform to our international standard and that was an acceptable response to all the various policy makers. Unfortunately the indigenous institutions were not that privileged to give that as an answer that would be readily acceptable. So the issue about the local institutions versus the foreign as it relates to policies, we at Horizon, we are confident -- as I said most of our senior managers had worked with a lot of the international institutions and we are saying that most of our procedures were in line with the practices and procedures that you would find in all or most of those international banks, so we didn't see any deficiency there as it relates to that, however at the decision making level, the branches of international banks had the additional cushion because they always come back with a response, head office says no and that was the end of the case. The head office was here in Jamaica, we did not have any external head office to refer to, that made a big difference, so that to me, if you ask me, operationally that was one of the key differences as it impacted on the over-all operations.

COMM. ROSS: Couple questions Mr. Beckford. One, you mentioned changes in the Bank of Jamaica Regulations. Did one of those changes affect the accrual of interest on non-performing loans?

A: Yes.

COMM. ROSS: Just remind us as to what was that regulation, when would the bank stop accruing interest on non-performing loans?

A: Okay, Commissioner Ross you will recall -- you will have to bear with me but this is thirteen years ago and I cannot recall all the details but what I can talk about is principle because that is how I made the point in the report without getting into the specifics because I know it was in the late 1990s that that regulation came in. And one of the changes was that once you had a non-performing loan and I will talk a little bit about that, the capital portion was one portion that I remember clearly because prior to that change it was not a requirement to provide capital support for a non-performing loan that was adequately secured, but once the change was made, once it was a non-performing loan, we now had varying levels of provisions in respect to that. As it relates to the issue of the accrual of interest, once the loan went on non-accrual, my recollection was that all the interests that were accrued on that account had to be reversed. In other words, to explain it Commissioner, if I had a loan outstanding of five million dollars, and I have security of twenty million dollars and I have outstanding interest of half a million dollars, once that interest was thirty days past due, then all that interest, it is either thirty or ninety, don't hold me to that but once you reach that threshold, all the interest accrued up to that period had to be reversed, so although you had very good cushion and everybody was happy that the security was adequate, there was no potential loss here, once the loan was non-performing, in other words, the collateral was secondary within the context of that standard, what was important was the performance of the loan and that became the underlying principle, if the loan was not being paid, regardless of how secured it was, it was a bad loan and therefore you cannot accrue any income on that loan and then you know immediately what that would do for your profitability and it follows right through to your capital adequacy.

COMM. ROSS: That is a very interesting point. The other question relates, the other two questions relate to liquidity and solvency. You mentioned that the BOJ had given liquidity support to some institutions, they made it clear at one stage that they would not...

A: No, that was a little bit of misunderstanding. Because we were not a commercial bank, because they normally didn't give liquidity support to merchant banks, just to commercial banks, so what I was saying we had a rule that we wanted to make sure that we were very transparent to Bank of Jamaica so whenever we felt any shift in the marketplace, we would always alert them, so what we did when we saw the changes coming, resulting from the intervention, we then went in and said this is happening. Now, if this were to happen what would happen now. The fact that we had government securities, those could sell but BOJ did not have a programme for formal liquidity support for merchant banks. So what we wanted to do at all times was to look and understand what our options were.

COMM. ROSS: So BOJ was not available as a liquidity support?

A: No.

COMM. ROSS: What about solvency, you mentioned the importance of capital and the fact that the indigenous institutions for most reasons were less or had less fund capital base and of course the changes in regulations which put further pressure on the capital base. At the time of the FINSAC deal, was Horizon -- did it have solvency charges at that point?

A: Yes, and I guess the issue here, the way the solvency standard, once the new regime came in, the capital adequacy was now determined by a series of activities. The number of non-performing loans, the number of months past due, the level of capital that was required for that particular thing and therefore you had different aspects under the Basel System and therefore there was always a debate as to the interpretation of some of those assumptions and I think we will still maintain that we were solvent, I think BOJ will still maintain we were insolvent based on that particular programme because of how we interpreted certain assumptions from those logics that we also know.

COMM. BOGLE: You Mr. Beckford mentioned about the interest rates especially as it relates to new and emerging businesses?

A: Right.

COMM. BOGLE: And the fact that some of them, most of them would have found it difficult to continue with the rising interest rates, would you at this point be able to hazard, if one may put it, a guess or did Horizon at the time have any particular interest rate, that you would say anything above this interest rate to these emerging businesses would be detrimental to them, was there a benchmark really to say well, anything above thirty percent would put them under or anything like that, was a study done by the institution?

A: No, Chair, we did not do a formal study, but as I said we did the interest rate sensitivity analysis, so we knew that once you get above a given interest rate, the ability of that particular project to come out was going to be a difficulty, and that is why in a number of situations, we did as many things as we could. For example, we know that with some of our developers, because in our case we were fortunate, just to divert a little here -- a lot of the developers we dealt we had worked with them before and I had basically worked with them before from my Citizens Bank days, they were successful entrepreneurs, they were successful developers, they had done several schemes, all successful developers, made good money, started building good network, so these were individuals we know of proven track records. So once you started working with them your job was to do everything to work with them to see how you could come out. So what we did, once we had journeyed with a developer, for example, to complete a scheme -- there was one situation where having done the scheme in the merchant bank, we then offered the purchasers of the units through the building society reduced rates of interest for the first two years, in other words, what we say in these situations, I don't remember, but I think we were charging as low as five percent on the mortgages for the earning years of those loans recognizing that the prime rates would come down and people's incomes would grow. So what we were always doing we were trying to work on solutions, because you see, we as a group, we saw that borrower as a part of our team, because we realize that our sustainability was dependent on having successful borrowers. So we had a clear commitment to do everything possible to help the borrowers to succeed and so we were constantly looking at the best pricing, I mean on the manufacturing side, whenever it was possible to access any discount facilities or any special rates from NDB or ACD, for those we had from the agricultural sector, we would quickly do that to try and find a way to cushion the pain on the borrowers.

COMM. BOGLE: As you mentioned NDB and agricultural, how did that work, not a mechanism, but how did you find especially coming towards that period when high interest rates were really taking its toll on your borrowers and you turned to or you encouraged them, I take it, to go NDB and the Agricultural Bank, how did that work?

A: It was a win/win from our point of view, it was good because what it did it gave you back liquidity especially if you were doing interim support to a project, once it went to NDB you get back the funding and then for the borrower, the borrower would now get the benefit of the lower interest rate. It was definitely a very positive strategy. The issue was that it became more and more difficult for a lot of people to meet the requirements to access facilities from that side.

COMM. BOGLE: Why was that?

A: Because of the equity requirements, because the minimum equitty contribution in some cases also were increased.

COMM. BOGLE: Could it be also that for some of the borrowers, the recognition of this move to NDB was a bit late?

A: Yes, and as you know NDB doesn't re-finance, that maybe the problem, because some of us did put forward several submissions at different times to say yes, we understand the mandate of NDB/ACB, but within the context could we change the rules for refinancing and I felt that there was room here, you wouldn't go all the way but we felt that somebody who had done a project maybe two years ago, that did not go to NDB and ACB, I think we did put the case that in that case you have all the invoices, you have all the documentation, we felt that was a good case to accommodate but the rules were clear, any invoice over six months or whatever could not be accommodated through the NDB system, so those were some of the things that were put on the table to say let's look at some of those options, at some of these possibilities to help the members in the productive sector.

COMM. BOGLE: Are there any questions from any of the representatives?

MR. POWELL: My position is as I indicated earlier, I have a difficulty putting questions to the witness now and I would just like to reserve the bank's position to have Mr. Beckford recalled.

MRS. PHILLIPS: Also Commissioner I believe there was one borrower whose facility emanated from Horizon, at least one and we want to be able to certainly go through our records to be able to ask Mr. Beckford about some of the statements that were made.

A: Just to say in that case I could be of no help in that case because as I indicated all the originated and all the documentation were sent to Citizens. As a matter of fact I think it should be clearly understood that once we signed the agreement with FINSAC re the financial entities, FINSAC had no further dealings with us in respect of of the financial entities and we had no further role to play. All the negotiations and everything after that was between Citizens and FINSAC, so any of those issues will have to be cleared with Citizens, certainly not us.

MRS. PHILLIPS: Our questions will be of a general nature in relation to the statement.

COMM. BOGLE: Any other.

Mr. Beckford, the Horizon Financial Services or Horizon Group is made up of a number of entities. In retrospect do you believe that the Horizon might have been served better had you not had so many entities within the Group? In other words, were you stretched in terms of the entities?

A: Chair, there are two sides to that question. As far as Horizon Financial Services is concerned, if you look at what I said here, based on the marketplace and based on the legislative framework in operation, if you clearly understood and had a commitment to give your customers the best possible services, it was necessary to have gone that way. What I mean by that? You take Horizon Merchant Bank, you work with a developer, you originate your finance scheme and so on, but the cash reserve requirements, for example, re a merchant bank versus a building society, there was at one stage where the cash reserve requirements for building societies was zero. Now in that case, how could you look at somebody who wanted a mortgage loan and tell them to borrow it through Horizon Merchant Bank, it would just not be prudent, so you needed a vehicle through which you could clearly make it possible for the customers to get the facility and at the lowest possible price. And one of the things about the Financial Services, you needed basically the same general skills set to do the job adequately, the asset and liability principle was the same, the credit management process was the same so although you had different entities, it is not that you were expanding into new areas and going into other areas and so on, so as far as the financial services, the life came about because there were some clear tax advantages for doing the life. The funds management came about because there was some clear advantage to mobilize funds through the Funds Management System as distinct from the Merchant Bank so the regulatory regime at the time made it that that was the prudent thing to have done within the financial services. You raised the issue of, which we are not looking at but if you were to imply going outside of the financial services as it relates to the wider group, well, that would be another debate for another time, how one goes into non-financial activities and so on but I did say bear in mind that we were operating in an environment where at the highest policy level we were being challenged as financial institutions to find ways and mechanisms to invest in the real sector and the records are there and your research staff and your secretariat staff if they look through the records they will see the number of statements that were made and the number of times financial institutions were challenged to invest in the real sector, the number of times we were told that that was expected of the sector. Later on the sector was told how could you have done such a thing, so the issue of non-financial as I said maybe will be a fuller discussion in another context but within the financial services, I think that to give the best service and give the best pricing and to provide that wholesome service to your customer base, it was necessary to have the network of financial institutions, because if you didn't do that you wouldn't be prudent and it should be noted that although the indigenous institutions were criticized for setting up building societies and life companies in the early days, if you look back a few years later, some of the people, some of the institutions that were being held up as model institutions, today they do have building societies and they do have life insurance companies as a part of the network, so I think what has happened is that the management and the leadership of the indigenous sector should be credited for having the vision and the foresight which basically some of the more established institutions came later and followed the same path which was being condemned in the early days, so I have, looking back in hindsight, we think we were dead right or we believe that that was in the best interest of certainly our customers.

COMM. BOGLE: The question Mr. Beckford, in view -- when one looks at the Agricultural Credit Bank and the National Development Bank and one looks at the merchant banks, when one looks at the cost of running -- looks at manufacturing businesses and agricultural businesses and based on the fact of the cost of money to merchant banks, do you believe that a merchant bank could adequately survive with the loans being made to these institutions at the rates that were being charged at the time and I am thinking of loans above even ten percent.

A: Again, let's look back at the early part of even our own experience. When you look at the early stage of our operations, for us to have attracted even emerging businesses you had to be relatively competitive. So for a manufacturer to have transferred his business from a commercial bank to you you had to be competitive. Now one of the things that was very critical to our success, in our early years, because as I said we were a fairly new institution, we had a very efficient organization and we had shown from our business plan to get the bank of Jamaica licence that we could operate a very efficient organization with a net interest margin of three percent and it is because we were using technology effectively and we were using a tight group of very competent skilled individuals, that was the reason why we were able to attract even in our early years some blue chip customers coming to us because we were able to offer them competitive interest rates, we were able to do that however from day one, we had made a clear commitment that a big part of our strategy was to grow our loan portfolio by targeting aggressively NDB and ACB facilities. So in our business plan that went to the board in the early days of the establishment of our entity, a large part of our loan growth strategy was to go and seek out institutions who needed ACB and NDB facilities and facilitate them through our organization because that then gave us that clear spread.

COMM. BOGLE: One may argue that part of your growth in loans and borrowers was because they might have been having difficulties accessing loans from the other institutions and so you might have been making it a bit too easy for them to get loans from Horizon because they were ill prepared for the level of moneys that they are borrowing. How do you look at that?

A: That we can totally reject, because as I said one of the things that we had going for us is that most of the borrowers we dealt with in our early years were borrowers that we dealt with previously. Now when you are investing in an institution and building an institution, you don't go out to seek out bad borrowers, so the borrowers you go for to get to try and bring in and to make facility to, are people who you know have a proven track record, people who you know have delivered consistently and people you know that you can bank on and those were the people, and that actually was the reason, because two or three of us as a senior officers had worked in other institutions and really knew a lot of the better borrowers and therefore we were able to attract a good number of those better borrowers. Yes, one has to be honest, which is the point I made earlier, when you are starting new you are going to pick up some of the emerging market and yes, you will have a few of the marginal, fifty/ifty, yes you will have some of those but those were minimal; but why we say our growth was driven largely because of our good relationship we had with a lot of previous borrowers, we were able to attract a lot of good quality borrowers into our insitution in the early days of our institution and that was a big part of the difference.

COMM. BOGLE: Could a part of those attractions be that you were compromising interest rates, interest rates that you should charge as against interest rates that you charged these people in order to woo them to you which might have created liquidity problem?

A: No, it wouldn't create so much at that time liquidity problem as a profitability problem, but the reality is, remember now when you are building a new institution with a fairly thin, relatively small equity base, you are not going to compromise your profitability, so we did not compromise our profitability, what you did, was made prudent decisions. In other words what you are saying, for you to get a quality loan you have to price it right. But remember our competitive advantage was on our efficiency side, we were a very efficient organization, because we were making maximum use of technology, we were tightly staffed and we then had people who had very good skills set and we were a relatively small organization, so that was where we got this thing from, we were tightly managed.

COMM. BOGLE: Mr. Beckford, structured companies, developers, suffered greatly during the 1990s, especially the latter part of the

1990s and from evidence given before this Commission so far we know that Horizon was involved in this sector via loans. Did Horizon have any special policy regarding construction companies, developers etcetera in view of the type of financing that they would need, how did Horizon deal with it?

A: I think two things I would say on construction loans and our concentration in that area. One is that that is an area that we had a lot of expertise in and access to expertise.

Continued......

MR. CRAWFORD: The second thing, in respect of, and Commissioner Ross raised that point; in respect of the changes in the Bank of Jamaica guidelines, their capital and questioning their monitoring guidelines, that is where one of the changes came in the latter part because our construction loan up you until then, and that is from Jamaica National Building Society days and my Citizens Bank days, when you book a construction you look at the total package. You look at the cost of construction; you look at the fees but you also factor in the interest expense for the period of the project and therefore that is clearly established so you get a package that you will be able to accommodate and make room to cover the interest payments during the construction, the life of the construction because construction companies don't have the cash flow to generate debt servicing during the development phase. That was a part of how we structured our own loans and we did that successfully and as I said a lot of the developers we financed; we had done several schemes with them which they successfully concluded and making monies so it was a proven system. Now one of the changes that happened in the late 90s is that Bank of Jamaica said that particular system whereby you were now making a provision in the credit facility to service the interest, was not acceptable, was not good practice and therefore that had to change. So that was one of the areas, that immediately -- just about when this came that was one of the new developments that did rear its head in the whole of that monitoring system and assessment system. But when it comes back to what was discretion facility, the facility was there. We were willing to structure a facility that would make provision and room to cover the interest charge during the period of construction and that most developers, would have been attractive to a lot of developers.

COMM. BOGLE: I think that at this Commission here we have heard or we have seen documents to indicate that, I think if I remember right, in one case a developer was signing onto a loan at over 70-odd percent. In your view could a construction company pay 70-odd percent on their borrowings and survive?

A: Chairman, you will notice in the submission I noted this, because you need to understand, you start off with a big development at twenty-odd, thirty-odd percent. Through no fault of the borrower or no fault of the institution - and interestingly enough I think somebody was saying to me yesterday, somebody was calling in on a radio programme wanting to know who was responsible for the high interest rates because they thought the banks were setting the interest rates and I want to make clear, through no fault of the borrower and through no fault of the developer, what you have now is this higher interest rate.

MRS. PHILLIPS: Just a minute. Mr. Chairman, could he just answer the question first and then go on to give his explanation?

COMM. BOGLE: I know. I'll allow the latitude because he is making his presentation and I am asking the questions and I want as much information as possible so I will allow it.

A: So chairman, as I said, what happened in this case, when you are faced with this now as the lender, you sit with the developer. What are the options you have? As I said in the paper, you call the loan and you say I am not lending you any more money because the reality as I said, the funding cost, when you have Bank of Jamaica - again don't hold me to it but I think BoJ CD or Government of Jamaica CD went as high as 55%. So if you are competing with funds at 55% or 50-odd per cent and then you have to put 20 or 25% as cash reserve with the Bank, the effective cost of that money is 70-odd per cent, which is the point I am making here. So when you are charging that you were not even making a spread, what you were really doing was just recovering the effective cost of your money that you were going to give the developer to finish the scheme, but the option you now have, do you now say to the developer I am not going to go any further. This 70-odd per cent doesn't make any sense, let's call it a day, let's put the project up for sale or do you then say you sit together? And most of those it was not our decision alone; it's a joint decision. What do you want to do? Do you want us to call it a day; do you want to abandon it; do you want us to turn in the keys or do you want us to try and find a way to get it completed? As I say the whole idea is to let us see how quickly we can complete it and then try our best to market it. That is why I talk about the pain there was not the developers' pain alone, we were in it together because we were feeling that pain too because we know that, that was almost inevitable; what's the point? But look at the options- and I think I wrote in here. It's a real dilemma. None of the options were attractive. You close down the scheme and you and you lock it up or you find a way to complete it, bring it to market and you keep praying and hoping that the policy makers would wake up and realise that the nonsense of the high interest rates we had to stop it and bring down the interest rates because all of us kept saying this madness cannot continue, the interest rates must come down, the interest rates must come down. So both the developer and the institution kept hoping for the signal that would bring down the interest rate. So although they were finishing the schemes at level 6, if wisdom prevailed and the rates dropped a few months later then that developer could come out and we kept hoping for that to happen. As we said over and over the rates just went on for far too long. Just think what would have happened in this economy if we had backed off those interest, high interests rates twelve months earlier, eighteen months earlier, twenty-four months earlier; maybe we wouldn't have this Commission here today. The fact is it just went on far too long. And that's really the problem; just far, far too long.

COMM. BOGLE: Just one question and this is probably the last question I have.

MRS. PHILLIPS: Mr. Chairman, sorry, I didn't get the answer to your question. In all of that your question was, 'in your view, could a construction company borrow at 70% and survive?'

COMM. BOGLE: The answer was effectively no.

MRS. PHILLIPS: Thank you so much. That's what I wanted to find out. Okay, so the answer was no.

COMM. BOGLE: One of the things that I tried to remember and I have not been able to - I must admit I have not gone into a lot of research, but I cannot remember the bankers coming out as strongly as you are now coming out about the interest

rate during that period possibly behind
closed doors but I cannot remember the
strong voice of the Bankers Association,
etc., against this high interest rate
policy during that period.

A: Chair, there were strong voices but as
you know there are some things that you
negotiate and you discuss. However you
will notice that I tried to be as honest
as I always am in this paper and I
stated that I, as a leader stated in
this paper that I, when we went through
the first shock to defend the exchange
rate, was among those who said we
understood. We understood the decision
but we all thought it was gong to be for
a short period and I think this is what
happened is although people understood
the implication of the high interest
rate, I think what everybody was saying
at this stage, yes, okay, we are having
some over heating, we are having some
challenges we have to shock the economy.
But I am willing, Commissioner, and I
say this in the paper, I want any

honest, objective, truly honest policy maker in this country to look at me in the face and tell me that looking back in hindsight they are of the view that the period of the high interest rate was a reasonable period. I don't think anybody can say that. I think once you are being rational and objective, you must conclude that the high interest rate went on for too long. I don't think anybody is talking about high interest rate shocking the market, or shocking the economy. We understand that and we use that all over the world. All we are saying is, it just went on for far too long and that is the essence of what this discussion is about.

So therefore, sometimes there is a tendency to sweep it under the carpet as the people say, just blaming high interest rate. Nobody is blaming high interest rate for a few months. We know that in our Assets and Liabilities Committee we discussed this, we debated it; we were trying to make decisions; do we go for a funds management strategy or a loans growth strategy, and when we sit back and we look at all the implementations I remember at one of the meetings saying, if this were to go on for twelve months or more everybody would be dead. So I think people understood the implications if it was prolonged. I think the issue is, for some reason, sometimes hard to appreciate, why is it that they kept the high interest rates for so long. I think that really is the issue.

COMM. ROSS: Mr. Beckford, just one last question. You mentioned the 1995 BoJ intervention in commercial banking as being a game changer. In your opinion, was there at the time any alternative to that intervention?

A: That one again, yes I would think that - I know at the regulatory level several attempts were made, in fairness. I know that attempts were made to look at different options, different models were put on the table and I think if all parties involved were working with the same common objective, maybe the outcome would have been different. I think that is diplomatic as I can be.

COMM. ROSS: But you would agree that something had to be done about the institution.

A: Yes this is what I am saying, something had to be done we agree, but I am just saying, a number of options were explored and if everybody was working in the same common objective, I believe the outcome could have been different.

MRS. PHILLIPS: Mr. Chairman, I know that we had said that we would want to reserve our cross-examination but there are in fact a few questions that we could start asking now and then if you would allow us to come back on a later occasion to continue.

And there is just one thing that I wanted to remind the Commission about. At the very outset, after the statement you had asked the witness whether or not he had a copy of the merger document available.

COMM. BOGLE: I did.

MRS. PHILLIPS: I just wanted to remind the Commission that there was a piece of subsidiary legislation put in evidence already in relation to Citizens Bank Limited. I don't know if you recall that. Perhaps that could be ferreted out and we could have another look at it now that this witness as here and there may be, I am not sure if there was, but it may be worth checking that, that particular document may have been among the documents submitted by FINSAC to the Commission.

COMM. BOGLE: I know we got some documents and I think that one of the documents might have been that.

MRS. PHILLIPS: If you to find that we would certainly like to have a copy of it if possible.

COMM. BOGLE: Sure.

MR. GOFFE: Good morning, Mr. Beckford. I have a couple of questions for you here today.

A: I am just curious. You are raising the questions on behalf of?

Q: My name is Gavin Goffe and I am

instructed by Myers, Fletcher and Gordon and we represent Jamaican Redevelopment Foundation Inc.

A: So you are seeking some consultancy advice from me?

COMM. BOGLE: I think what happened, Mr. Beckford, we allow the questions from JRF because of the fact that some of the loans from Horizon did reach JRF and persons have been at this Enquiry mentioning those loans and so it is that matter that they inherited those loans.

MR. BECKFORD: So the questions will be all loan related?

COMM. BOGLE: It should be loan related and to assist them in order to answer possibly questions regarding those loans.

A: It will be my pleasure, sir.

MR. GOFFE: Thank you, Commissioner.

Mr. Beckford, I want to see if I understand if there are different categories of development loans. Now, on the one hand you have developers who have started out at the original rates of interest which may be the 30 percent region and whose rates of interest might have increased whilst the development was ongoing. And then you have another set who would have gone into Horizon Merchant Bank and signed documents with an original interest rate reaching from 50% to as high as I think, 70%, we have seen.

Now in relation to that latter category, the persons who would have applied for a loan at 70% and that loan would have been approved at the rate of 70%...

A: Can I stop you there? I don't know of any such borrower.

Q: Really?

A: I need to explain to you, that's why I say I want to stop you there. There is a difference between originating a loan at 70 and dispersing a loan at 70%.

Q: I am glad you pointed that out. I am glad you pointed that out.

A: I can approve a facility for you when the rate was 30 but by the time you are ready to make the third, fourth or fifth drawn-down the rate is at 70-odd%. It is two different things from originating a loan 70% and I don't remember originating any loans at 70%.

Q: Thank you, sir. Would you remember originating a loan at 50%?

A: The truth is, it is possible but I am not going to say yes or no because it is 13 years ago, but I am dealing with principle. What we had were some thresholds and if we did a loan at 50% it would have been maybe a cash secured loan of somebody we know had the wherewithal or the ability to service it and so on. So I am not going to say yes or no about that. I can't recall that, but am dealing with the principle that before you signed off on any loan, you look at, as I indicated in the Report; the quality of the collateral, the ability to pay and all of those things and then you make the call.

Q: Thank you. I think you have answered quite fully and frankly. But I want to know if it is that you are saying that you don't recall 50% but it could be

possible?
A: Yes.
Q: But you know for a fact that 70% would not have been possible?
A: All I am just saying is, and keep on saying again, don't complicate the originating loan. You will see a lot of promissory notes maybe at 70%; some of them maybe could be a restructuring, some could be refinancing but they are not originating loans. That's important.
Q: I understand that. You made that point quite clearly. I am speaking now about originating loan.
A: As I say I can't recall.
Q: No, but if you could listen to the question so you could kind of understand exactly what I am asking you. The question is, you had said that you don't recall any originating rates of interest being 50% but I thought you had made a stronger statement in relation to the 70%. I want to know if you are treating both in the same way and saying it is

possible but I don't recall, or you are saying that it is not possible that we would have granted a loan with an original interest rate of 70%.
A: It is unlikely.
Q: It is unlikely but it is possible?
A: Yes. I am not going to say at this stage it didn't happen but I am saying it is not likely.
Q: Not likely.
A: Yes.
Q: And that answer applies both to both 50% and the 70%?
A: I did answer the 50 in a different context.
Q: Okay. So 50% is more likely than 70%?
A: Yes.
Q: But they are both possible?
A: You are very bright.
Q: Thank you, very much. (laughter) That's why my mother calls me son.
Thank you very much for that clarification, sir. In relation to the process of whether granting an original rate of interest at 70% or there being a

further drawdown at 70%, at both of those junctures, Horizon Merchant Bank would have had a credit Contract Committee which would have reviewed the credit worthiness of the borrower and their ability to repay at that rate, is that not correct?

A: Yes, except, remember I made an earlier point and I am willing to say that dealing with development loans, any development loan, once you got above 50%, has to be a situation where you sit with the developer and you look at your options. As I keep on telling you, you have to look at your options. That is how it is, you have to look at it with the developer, you look at the bank and you say faced with this dilemma what do we want to do.

Q: The question I have asked you though is if the Credit Committee would consider the credit worthiness of a borrower both when it is granting the loan originally and when there is a further drawdown at a higher rate of interest?

A: What you do, after you approve the loan (sotto voce remark) After you approve the loan, then you make disbursements. Now what will happen in that case, you don't take it back to the Credit Committee every time you want to make a disbursement. However, what you are constantly doing, you are looking at the viability of the project because remember you have already taken, you have decided to go with this developer because you are already satisfied about his track record his everything. So now what you are saying is that you are therefore constantly assessing the viability of the project, but once you get to the point where you say, listen, based on what we are seeing; based on the funds to completion; based on the likely selling price of the unit; based on the margin, the cushion, because this something we do, but if you see that cushion disappearing to a very uncomfortable level then that's when you get it back to the Credit Committee; you have a meeting of the minds, you meet with the developer and then you then make your best considered decision at this stage.

Q: So you are saying then that the Credit Committee would not necessarily have approved a variation then, or a further drawdown at a 70% rate of interest.

A: I keep telling you, Mr. Goffe, there are two things. I approve $50 million for a developer to do a project. As long as you are still within $50 million, that is one thing. So that's really the first control; it was approved at rate X. Now every time we set out to increase lending rates, we go to the Credit Committee, the Assets and Liabilities Committee first makes the call; we then advise the Committee that listen, based on the increasing cost of funds you now will have to increase your lending rate to existing borrowers to X, and to new borrowers to Y, so that's how you would basically approach it.

Now having done that you then do the next thing because you then write to the customers and this is where the problem starts. The none development person is going to be - your monthly payment will increase from X to Y. You then immediately say come in and meet with us then you can maybe extend the period of the loan and you give some options when you are extending it. In the case of the developer, what you do when you increase the interest rate is quickly look at the provisions you have to finance the interest during construction and you then say the provision for interest finance for the project at this new interest rate, will you be able to cover it? Because it depends on where you are in the life of the project. If it is a 12-month project and you have gone nine months of it, it's certainly not as devastating. So it's an analysis we do.

Q: I know but the question I am asking is in relation to the credit Committee now, that's all I am really asking in relation to. What I am trying to get at is, I am trying to determine the circumstances in which the matter would go to the Credit Committee, and if I can just say what I understood from your last answer and you can just tell me if I am correct. What I understood you to be saying is that in some cases, in particular those where the cushion was being eroded, if you needed to increase the interest rate you would go to the Credit Committee to seek approval but there would be other cases where the loan was still thought to be sufficiently secure and that the interest rate could be increased without reference to the Credit Committee?

A: Right. The major reason for going back to the Credit Committee is now to seek permission to increase the facility from fifty million to fifty-one million.

Q: Thank you. The question that I have then is if there is a Commitment Letter and in a Commitment Letter it has a rate of interest of 70% in it, does that mean that the Credit Committee would have had to approve it or could that be one of those situations where it was approved without reference to the Credit Committee?

A: In that case the Credit Committee would approve it, but I can guarantee you that in a number of those cases what you would be seeing is a restructure because we had a standard practice, each time you restructured a loan you issued a new commitment letter. So the fact that it is not a new thing but you just bring everything together.

Q: So the Credit Committee then, we have a Commitment Letter which says 70% interest in it, which means that yes, it could be a restructured debt, but more importantly the Credit Committee would have looked at it?

A: Yes, absolutely.

Q: That means then that the Credit Committee would have looked at that particular borrower and said that this borrower is in a position to service a debt at 70% interest compounded at monthly rates.

A: Well we have never done any such loan. You said compound. We were never in the business of compounding interest; on our demand loan we never compounded interest. I understand the point you are making. What that letter would be saying is that the Committee has looked at the proposal and assuming more than likely they are restructuring, having looked at all the options and the submission for restructuring they would have approved the restructuring.

Q: The question I am asking is not whether...

A: Remember now the restructuring could have a different aspects, so what I am saying is, you cannot just look at the 70% and say I am going to pay because it may state that X amount will be repaid from the sale of X, so you were not looking for fifty million or twenty million of that seventy million to be serviced as a part of the regular programme. You had earmarked how the 70 million was going to be paid back so it is not just to look at the interest rate on the amount, you need to look what are the payment conditions associated with the loan and once you saw that then you can continue.

Q: Okay, so what you are saying then is that it could be a case where the developer would not be able to service a 70% interest rate unless he sold something else?

A: Unless he sold something else. Absolutely. And that would be clearly stated.

Q: And in those circumstances the Credit Committee could still approve the restructuring at 70% even though the borrower did not meet certain tests in themselves but in the hope or anticipation that units would be sold?

A: Yes, assets, other assets would be sold because the reality is, remember the decision is made against the backdrop;

what are your options? You see when you are in a dilemma, none of your options are attractive so now have to say, faced with this workout situation, is it better to go that route or call the loan.

Q: Which is why as I started the question the way I did you know, because you have a dilemma in relation to certain persons who had started at one rate and the rate has gone up. I am not sure that you have the same dilemma where someone has not yet commenced their construction and they are coming for a loan and a Commitment Letter is issued to them at 70%. So I am really focusing more right now on the persons who started their developments at 70%. So in relation to those persons there would have been no dilemma so to speak.

A: If you saw one at 70% there would be a clearly defined basis on how that facility would be handled.

Q: Where would we find that basis, do you think, sir?

A: It would be in the Credit Submission.
Q: The credit Submission?
A: Yes.
Q: And you are saying that part of that consideration as to whether the loan is a good loan is based on the - not only based on the borrower but also based on the hopes of sales.
A: Yes, and sometimes not just on the sale of the particular project. There are times when the borrower may have other real estate which is not part of the development that they are willing to sell and then inject that money into the development. So you see you have to look at the total picture.

Continued.....

MR. GOFFE: But that is from the perspective of the security for the loan.

A: No, repayment. That is the second point I made regarding the whole issue of repaying the loan, repaying the debt.

Q: So you would have approved the financing on the basis that they cannot pay but yet you can recover out of their assets?

A: It would be totally - you get a little slower now and you were very bright awhile ago. I did not quite say that. What I am saying, you see, you are talking about seeing a figure of 70%. I am saying that you cannot take the figure of 70% in a vacuum. All I am just saying, you have to look at the total structure because if I am saying that I am lending you Fifty Million at 70%, right,'X' is for development, right, and we say, okay, it is going to be repaid as follows. Now, that is what you have to look at, how it is going to be repaid.

Q: We have not reached to that point. You spoke about BOJ changing its policy as it related to the loans for developments. If I understand you correctly, you had a developer who would not have sufficient cash flow to be able to service the development loan and so the bank would then make a separate arrangement which would service the interest and perhaps the principal as well on the development loan.

A: Not principal.

Q: Not principal, we thank you. Just the interest on the development loan and that neither of those two loans would need to be serviced other than from the sale of units?

A: Yes, let me put it this way. Just to say that what happens, in structuring a good development proposal you factor into the proposal arrangements, funding for the interest cost.

Q: And in relation to that arrangement for the interest cost, was the developer required to make regular payments in relation to that other arrangement?

A: No, no, no. It is one loan, one loan so what I am saying is, I am lending you Fifty Million Dollars; Forty Eight Million Dollars to build the houses and Two Million Dollars to cover the interest cost for nine months until the project is finished. When you finish the project the proceeds expected is Seventy Million Dollars. You pay off the loan and the rest is profit.

Q: Now, if a commitment letter said in it for development that there should be monthly payments towards principal and interest, remember I said principal and interest, who would be required, what would be the source of funding for those monthly payment?

A: All I will just say, I am not saying it is not possible but you would not see -- it would not be normal for any institution that I have led in my twenty odd years to issue a commitment letter to a developer for development which talks about repaying principal during the phase of development. You would not see that over my signature.

Q: You are sure about it, sir?
A: Possibly, but I am saying that if it happened it would be very unfortunate and it would have been a big oversight.
Q: We will get to that. I want to know, sir, whether or not the requirement - continuing on this vein, in relation to the change of policy, at the time the change of policy took place, what was the effect of that on the arrangement which had already been entered into with the developers?
A: Actually I would just say that that change of policy came just a few months before the merger, so I really did not have to but in new policy guidelines to accommodate that but we were continuing with the old arrangement and defending it because we believed we had a legal obligation to the developers because it was a signed contract between the developers and the bank and it is one that I felt that we had an obligation to honour for new facilities but I never get around to having to write any new

facility on the new guidelines.

Q: So then for a period of time, although you said it is a short period, Horizon would have been in breach of the BOJ's revised policies in relation to construction loans?

A: Remember in any policy guidelines and any guideline that is going to be issued...

Q: The guideline is used to be broken.

A: No, man. Any policy that is issued you always have a grandfather period. Nobody bringing you guidelines and say - you always have a period during which to fall in line.

Q: And the authority that sets the policies gave Horizon Merchant Bank...

A: Quite frankly, I don't have all those details. All I am just dealing with is the principle, it deals with the principle. The principle is, it came in late in the 90s. There would have been a period in which you would be expected to come in line.

Q: Did you disagree with the policy?

A: No, all I am just saying, I was just explaining...

Q: I am asking you a separate question now, if you disagreed with the policy?

A: It is not a matter of disagree. Let me say what happened. One of the things about, and I don't want to use the word 'disagree', one of the things you have to understand, if you are going to operate within a particular context, you are operating in the context of, say, the Jamaican context, if you are going to have a regime to support developers, then you need to have a meeting of the minds which was really my response to Bank of Jamaica. It is really not a matter of 'agree' but to say to them we need to have a meeting of the minds to look at options, how is the best way to accommodate developers. That is really what it is saying and I think there were some options there in accommodating developers.

Q: So then you are saying that the hardship that the developers or the indigenous financial institutions faced in relation to those development portfolios was not because of what existed prior to the BOJ intervention?

A: No, no, no. All we are just saying, I was just giving the Commission an understanding of the dynamics and that is why, if you notice, I did put that on the ...

Q: Let me ask the question another way. If the BOJ policy had come into effect at a much earlier stage...

A: It would be more devastating for the developers.

Q: It would be more devastating for the developers, but would it be more devastating for the banks and the building societies and the financial institutions?

A: Let me just answer you. The answer would be, no and let me tell you why. I basically have been up to then was doing loans for developers for twenty odd years, and no good developer had ever had any problems when the interest rates were at manageable levels. Nobody had difficulty with that method of financing, so I would say the method of financing was not the problem because as I said to you, most of the developers that I financed in Horizon were developers that I financed elsewhere and they executed several schemes successfully and made good moneys with the same financing strategy, so there was nothing wrong with the financing strategy. So, that to me is the bigger issue.

Q: Mr. Beckford, you spoke about international standards. I have one question relating to international standards. Was it an international standard at this time to require unlimited personal guarantees from developers?

A: Let me just tell you one of the things about unlimited personal guarantees. It is a big Jamaican phenomenon, promoted, recommended and supported by the legal profession.

Q: So by that you mean that it was not international standard, it was a Jamaican phenomenon?
A: The honest truth is, based on my - I am not saying other jurisdiction because I am not familiar with it. All I know is that I am sure, maybe they do, but I know that we use it more extensively here than in most other jurisdictions.
Q: You would say that there was a borrower who was a part of your team, who you considered to be a part of your team?
A: All borrowers, that is what I mean. Borrowers are partners.
Q: My friend is going to remind you of what you said.
MRS. PHILLIPS: The witness said, 'In one particular case I recall charging as low as 5% on loans to purchasers in a development. We saw that borrower as a part of our team'.
A: We did it for more than one borrower. That was a misunderstanding, Mr. Chairman. What I meant is that we regarded all of our borrowers as

partners but I was just trying to highlight that one situation, we do within a case to facilitate the successful conclusion of a development. That was the essence of that point.

Q: Would you tell us what case that was?

A: I don't wish to disclose it.

Q: Mr. Commissioner, I don't think that the witness has the option of determining which questions he wishes to answer.

A: It is banker's privilege. Just like how you have lawyer's privilege, I have banker's privilege. I don't know why I should come here and call out the name of a developer. That is stupidness to me. The files are there if you want to review them.

Q: Mr. Commissioner, before you rule on the point. There are many documents there which have been admitted before the commission which would fall under that.

COMM. BOGLE: If you have such a document and you have the information you may present it. But I cannot allow it.

MR. GOFFE: If you will allow me to be heard before you rule on the objection, sir. What I am saying is that there are documents that are already in evidence, correspondence between bankers and their customers which borrowers have used to say that the banks and FINSAC and Jamaican Redevelopment acted in a particular way. It cannot be, with respect, sir, that the privilege doesn't attach to those documents, the privilege doesn't attach to documents which are the subject of court proceedings, the privilege does not attach to anything else, but that in relation to this particular matter which the witness himself has introduced and given evidence of that, he is permitted to make the statement without disclosing who the person is. It might have an influence on other testimony given at this very Commission of Enquiry. I think, sir, that if it is that we are going to be relying on such things as banker's privilege while ignoring all the other privileges in law that there are, then this would not be the appropriate time to start that. And finally, before I close, in relation to a Commission of Enquiry, banker's privilege does not apply.

COMM. BOGLE: Mr. Goffe, we have seen at this Commission quite a lot of documents, I agree with that, regarding borrowers and bankers, and as far as I can remember these were presented by the borrowers, not the bankers and my ruling stands that he doesn't have to answer that.

MR. GOFFE: If I could then, sir, ask could I get a specific ruling, sir, in relation to that question, whether banker's privilege applies to commissions of enquiry.

A: You are reminded that I did not say anything about banker's privilege. I simply said that I will not allow the witness to answer that question. I think it is in the commission's right, it is my right to decide that.

Q: He had said that on the basis of

banker's privilege, you are not allowed, not on the basis of banker's privilege but on some other basis then and I would like to know...

A: I am allowing him not to answer and that is far as I need to go regarding that question.

Q: Mr. Beckford, do you - was it the practice of Horizon Merchant Bank to permit its senior officers to represent the interests of clients of the bank whilst they were employed to the bank?

A: No. But let me just make certain.

Q: I have another question for you.

A: Before you say that one. When you say 'interests' you have to define that but remember now if you are talking about senior officers supporting a borrower in a submission or to do something, that maybe a different thing. You may want to define what you mean by 'interests'.

Q: I got your answer as no. Would that position change after the officer had left the bank? Would they then in the immediate aftermath of leaving the bank

represent the customer against the bank?
A: We have no conflict, there are no clauses in our employment contract that put any such limitation on individuals, what they go for is livelihood after they give up their jobs, sir.
Q: So, you don't consider that to be a conflict?
A: No, that is not important.
Q: I am not asking you if you think it is important.
A: The policy of the bank has no conditions relating to what employees do after they resign to make a living. I have nothing else to say on this particular matter. Let's move on and stop waste time.
Q: I don't think the witness has answered the question. I understand what you are saying in relation to the policies of the bank. I am not enquiring over what the policies of the bank are because the bank could develop policies that have no conflicts. The question I have asked you, sir, if you understand...
A: I do not wish to express a personal

opinion on that matter. Let's move on.

Q: I am not asking you personally, sir, to express an opinion on it. What I am saying is, if even in your capacity as a banker...

COMM. BOGLE: Can you explain the relevance of the question? I am a bit at a loss as to the relevance of it, me being the Commissioner who has to assess the information that we are receiving.

MR. GOFFE: I have no difficulty, sir. We have evidence before this Commission of a former senior official of Horizon Merchant Bank making representations to FINSAC on behalf of a client of the bank in circumstances where that very individual approved the facility for that customer and then later on goes to FINSAC to say why that facility should be treated differently and should not be repaid in accordance with the terms that he approved? That is what I am referring to.

A: I have no knowledge of that development, Mr. Chairman, so I cannot be of any help in that matter.

Q: Which is why I was not asking him about that matter. I was asking him a general question about what the bank considers to be conflicts.

COMM. BOGLE: He said that once the person left the employment, the bank has no regard for what they do, whether they want to go against the bank with a customer or against a customer. What he is saying is that once the person left the employment of the bank, the bank has no restrictions on him. I think that is what was said.

MR. GOFFE: Does the bank have a policy in regard to conflict?

A: Yes, they do once you are an employee of the bank.

Q: Once you are no longer an employee there is nothing you could do that would conflict with the duties that you had to the bank?

A: Stop wasting my time.

COMM. BOGLE: He has answered, Mr. Goffe. He said that when the person is still employed there are situations regarding conflict, policies regarding conflict. When the person has left the bank there is no such policy regarding conflict and so therefore the person is free to do whatever they wish. I think that he has repeated that a number of times. We are just going around.

A: I think that he gets a little tired. His brightness has disappeared.

COMM. BOGLE: Mr. Beckford, please do not say those things.

MR. BECKFORD: You see, I am not being paid by the hour to be here.

COMM. BOGLE: Mr. Beckford, please control your utterances.

MR. BECKFORD: I apologize Mr. Commissioner. You will not hear another word from me, sir, except when questions are asked.

MR. GOFFE: Mr. Commissioner, at this point I think it is a convenient time now for us to take our break.

COMM. BOGLE: There being no other witness at this time we will adjourn for the day and we will reconvene next week Tuesday and it will be at 9:30 a.m.

Mr. Beckford, thank you very much for coming. We will place on notice that you can be recalled.

A: Thank you, Mr. Chairman. I trust that I have been of some help to you.

ADJOURNMENT