

VERBATIM NOTES
OF
COMMISSION OF ENQUIRY INTO CIRCUMSTANCES
THAT LED TO THE COLLAPSE OF THE FINANCIAL INSTITUTIONS
IN THE 1990s

HELD AT
THE JAMAICA PEGASUS HOTEL
81 KNUTSFORD BOULEVARD, KINGSTON 5

ON
WEDNESDAY, MAY 4, 2011

PRESENT WERE:

COMMISSIONERS

Mr. Charles Ross
Mr. Worrick Bogle

COUNSEL FOR THE COMMISSION

Hon. Justice Henderson Downer (Retired)

SECRETARY TO THE COMMISSION

Mr. Fernando DePeralto

REPRESENTING JAMAICAN REDEVELOPMENT FOUNDATION

Mrs. Sandra Minott-Phillips - Attorney-at-Law
Mr. Gavin Goffe- Attorney-at-Law

REPRESENTING MR PATRICK HYLTON

Mr Dave Garcia - Attorney-at-Law

REPRESENTING FINSAC LIMITED

Mr. Bryan Moodie - Attorney-at-Law
Ms. Danielle Chai - Attorney -at-Law

GIVING EVIDENCE

Mr. Elon Beckford

1 **May 4, 2011**

2 **COMMENCEMENT: 9:30**

3 COMM. BOGLE: Good morning ladies and gentlemen. This
4 hearing is now in session and for the
5 records may we have the names of the
6 attorneys present.

7 MR. GOFFE: Sandra Minott Phillips and Gavin Goffe
8 instructed by Myers Fletcher & Gordon,
9 we appear for Jamaican Redevelopment
10 Foundation Inc.
11 MR. GARCIA: Dave Garcia representing Patrick Hylton.

12 MR. MOODIE: Bryan Moodie and Danielle Chai
13 instructed by Messrs Samuda and Johnson
14 representing FINSAC.

15 COMM. BOGLE: Thank you. This morning, at the request
16 of Mr. Hylton's chamber on behalf of BOJ
17 we have asked Mr. Elon Beckford to
18 return for cross-examination. So Mr.
19 Beckford, can you please come forward.

20 MR. GOFFE: Mr. Commissioner, could I point out that
21 when we broke the last time I actually
22 had not completed the cross-examination,
23 so I go first.

24 COMM. BOGLE: Okay.

25 **Mr. Beckford sworn**

1 Building Society, I want to look at their
2 loan approval process a little closer. And
3 in doing so, I would like to focus on some of
4 the debtors who have given evidence at this
5 Commission of Enquiry where their loans
6 emanated from Horizon. Now, I want to start
7 with DEBTOR1. Prior to

8 9 July 1994, did you have a personal
9 relationship with DEBTOR1?

10
11 A: I don't know what you mean by personal
12 relationship, please explain.

13 Q: Do you know DEBTOR1?

14 A: Yes, sir.

15 Q: Could you describe the nature of your
16 relationship with him prior to July
17 1994?

18 A: The dates, I am not going to get into
19 any dates but all I would say I know him
20 and there was some time that a group of
21 us had invested in an agricultural
22 project, that is basically it.

23 Q: Would you describe him as a business
24 partner of yours?

25 A: I would say he was one of the investors

1 in the project, we were all independent
2 shareholders, so I didn't have any
3 personal relationship, all we were we
4 were shareholders in a common company,
5 that was the extent.

6 Q: Shareholders in a company?

7 A: Yes, and again I want to point out the
8 shareholding was not held by me
9 personally, it was held by one of our
10 investment companies, so it was one of
11 our investment companies that had an
12 investment in a company, was a
13 shareholder in a company which he was
14 also a shareholder.

15 Q: When you say 'our' you are referring to
16 you personally or are you referring to
17 the Horizon Group?

18 A: When I say 'our', remember now, the
19 Horizon Group had different interests so
20 it would have been one of the Horizon
21 Group companies that had interest in a
22 particular project and just to point out
23 that we subsequently sold our shares in
24 the investment and after that we had no
25 further dealing with it.

1 Q: But you personally did not...

2 A: No.

3 Q: Now, do you recall, do you remember
4 DEBTOR1's account with Horizon, it
5 was in the name of DEBTOR1COMPANY
6 ?

7 A: I just can't recall the details, sir,
8 because I didn't deal with the accounts
9 on a day to day basis, I know at one
10 stage he had a borrowing relationship
11 with us, but I don't remember the
12 details, I can't recall any of those
13 details because I had no need to refresh
14 my mind or anything, and I don't have
15 any records anyhow.

16 Q: Okay. From your knowledge or from your
17 recollection, would you say that he was
18 a typical customer of Horizon or
19 alternatively was he a typical
20 developer, customer of Horizon?

21 A: Well he was, I have no reason to
22 remember him as anything but being a
23 typical customer; I would think based on
24 my recollection, he maybe was one of the
25 developers that I was dealing with and

1 maybe the first time in the Horizon
2 context, a lot of the other developers I
3 had worked with previously elsewhere,
4 but I was maybe dealing with him in our
5 context as a developer for the first
6 time.

7 Q: When you gave evidence before this
8 Commission you spoke about good loans
9 becoming marginal and you also spoke
10 about good loans becoming bad ones?

11 A: Correct.

12 Q: Would you consider DEBTOR's loan to
13 have been a good loan?

14 A: What I am willing to say that all our
15 loans at the time that were booked in
16 were good loans and the reason for that,
17 as I said we had a rating system and if
18 a loan fell below a particular rating we
19 would not have booked the loan; as I
20 said pretty much all the loans we
21 booked, we booked only good loans at the
22 inception.

23 Q: Could I ask the witness to be shown this
24 document please.

25 (Document shown to witness)

1 Mr. Beckford I just handed you a letter
2 from DEBTOR to you as Chairman of
3 the Horizon Merchant Bank dated July 13
4 1994?

5 A: Right.

6 Q: Do you recall receiving this letter.

7 A: I don't recall receiving it but I see my
8 notes and hand on it so I can say some
9 of these scribblings here or writings
10 here look like me.

11 Q: Could I ask then that it be entered into
12 evidence, I am not sure how you wish to
13 number it, if you wish to number it in
14 relation to DEBTOR or in relation to
15 Mr. Beckford?

16 COMM. BOGLE: In relation to Mr. Beckford, so we will
17 put EM.

18 MR. GOFFE: Mr. Beckford you said this is your
19 handwriting on this document?

20 A: Well it looks like my handwriting.

21 Q: In this letter DEBTOR says.

22 Dear Mr. Beckford

23 Re loan of \$X Million, and then I see
24 handwriting where it says \$X Million.

25 It says:

1 **Enclosed please find the following,** and
2 it says title Volume/Folio (PROPERTY1) to
3 be used as collateral; and

4 **2. Valuation report for Volume/Folio,**
5 **(PROPERTY1)**

6 **3. Article and Memorandum of Association**
7 **for DEBTOR1COMPANY.**

8 **Trusting you will find the same in**
9 **order.**

10 **Yours sincerely.**

11 Mr. Beckford, is the letter consistent
12 with a first borrowing by **DEBTOR1COMPANY**
13 ?

14 A: Well, as I said, when I said first
15 borrowing, I don't know when it started.

16 Q: Let me explain what I mean by first
17 borrowing. I mean not in terms of the
18 first facility but the beginning of the
19 relationship between **DEBTOR1COMPANY**
20 and
21 Horizon Merchant Bank.

22 A: Well, we started operating before 1994,
23 so I don't know if there was a loan
24 prior to 1994, I don't remember.

25 Q: Would it be normal for Horizon to have

1 granted a loan to **DEBTOR1COMPANY**
2 without having the Article
3 and Memorandum of Association?

4 A: Yes, because Legal, and again remember
5 now this is something between Legal and
6 Credit Admin, they would deal with those
7 details so I wouldn't expect Legal to
8 authorize the disbursement of any loan
9 before they satisfy themselves about the
10 relevant documentation.

11 Q: So based on the fact that **DEBTOR1COMPANY**
12 was sending you and Horizon
13 the Article and Memorandum of
14 Association in 1994, is it safe to
15 assume that there was no borrowing
16 relationship prior to 1994?

17 A: I couldn't say that, maybe previous
18 relationship could have been paid off
19 and was restarting and all his documents
20 have been returned so I don't have a
21 basis to come to that, that it was a
22 conclusive thing, yes, it could be an
23 assumption that one could make but one
24 could not make it as a conclusive
25 decision but, yes, it is a reasonable

1 assumption one could make.

2 Q: Okay, let's look at the handwriting on
3 this, I see handwriting in the right
4 hand side towards the top right hand
5 side, it says \$000,000 per month, and I
6 am not sure what that word is, is that
7 word 'clearing'?

8 A: I am not sure what that is either, I am
9 not sure.

10 Q: August 31, 1994.

11 A: I guess that maybe could be
12 'commencing'.

13 Q: And there is an arrow and it says 'not
14 exceeding thirty six months' and do you
15 see below that where it says 'first
16 project', is that your handwriting
17 still?

18 A: Yes, I think so, it looks like it.

19 Q: And you see where it says there, I think
20 that should be 'regd' -- probably short
21 for registered -- '1989 but not
22 operated'?

23 A: Yes.

24 Q: Do you see at the bottom left hand side
25 where it says 'Rate - 70'?

1 deal with notes, so this would have been
2 a note going out to the Credit Admin and
3 other people to do their processing. So
4 just treat that as a referral come to
5 you, passed on to be actioned by the
6 officers.

7 Q: Let me show you the commitment letter,
8 it's already in evidence?

9 A: But what about the credit proposal?

10 Q: Coming to that.

11 A: But Commissioner, the issue though as it
12 relates to individual borrowers and the
13 details, you will recall, I mean you
14 would expect that -- I hope we don't
15 waste, well spend too much time on those
16 details because I really can't recall a
17 lot of those details and I was never
18 dealing with those details, so as it
19 relates to the role of the Commission, I
20 think our time could be better spent
21 focusing on some more fundamental
22 things, because things like loans and
23 the details, all of those records speak
24 for themselves and they are there, so I
25 am not sure what is the real value I

1 will be adding as it relates to details,
2 but if there are policy issues that the
3 organization would like me to help them
4 with that would be useful but let's not
5 bagged down going into details when
6 those are there for records and really
7 won't change the price and so on.

8 Q: I am showing the witness DEBTOR1.54, that is
9 the commitment letter dated -- well
10 Mr. Beckford could you assist us with
11 the date of that commitment letter?

12 A: It is dated June 1994.

13 Q: June 1994?

14 A: July sorry.
15 COMM. BOGLE: What number?

16 MR. GOFFE: DEBTOR1.54.

17 COMM. BOGLE: Mr. Gaffe, just before you continue, can
18 you say what is the purpose of the
19 cross-examination, where you intend to
20 go, based on the suggestion of Mr.
21 Beckford and based on the documents that
22 you are bringing forward now, we would
23 have dealt with them with DEBTOR1,
24 what are you trying to achieve, what are
25 we trying to achieve?

1 MR. GOFFE: I have no difficulty. The first point
2 is that DEBTOR1 has given certain
3 evidence before this Commission which
4 only Mr. Beckford can say whether it is
5 correct or not.

6 COMM. BOGLE: But the document, for instance, let us
7 use the one for argument sake, this
8 document was put in when DEBTOR1
9 came, it was not refuted by anyone, Mr.
10 Beckford is simply going to read it and
11 he can't refute it or not, I don't see
12 what he going to add to that.

13 MR. GOFFE: Let me remind the Commissioner, DEBTOR1
14 did try to refute that letter, he
15 said he didn't recall borrowing at 70%,
16 he said it wasn't his first borrowing,
17 that it was a restructuring but no
18 document or evidence to support that.
19 The files do not -- the evidence which
20 we do have is not consistent with it
21 being a restructuring and I am trying to
22 find out if in fact it was. That is one
23 point but on a more general note, Mr.
24 Commissioner, certainly it seems to be
25 well within the remit and terms of

1 reference of this Commission to examine
2 the circumstances under which loans were
3 granted in the first place. Now, we have
4 before us, sir, a rare opportunity of asking
5 a banker and providing him with the documents
6 which would have been before the Credit
7 Committee or the Board as it were at the time
8 that the loans were granted. We have a
9 positive statement from Mr. Beckford where he
10 has said that because of certain
11 circumstances good loans turned bad, and he
12 has called DEBTOR1's loans and all the others
13 and remember I think Horizon has -- there are
14 more debtors at this Commission from Horizon
15 than from other financial institutions, I
16 think, I may be wrong but certainly, we must
17 be in a position to test the statement that
18 all the loans were good loans including
19 DEBTOR1's, including DEBTOR2's and to find
20 out the basis on which that statement has
21 been made and to test the accuracy of that
22 statement and I think the only way we can do
23 that is by going
24
25

1 through this process that we are going
2 through now. All of the credit, the
3 proposals and the internal communication
4 which the Commission asked Mr. Beckford
5 to bring, if I recall from the letter
6 which was sent summoning him to the
7 Commission, Mr. Beckford did not come
8 with any documents because he said he
9 didn't have any. It can't be that if I
10 am giving him the very documents, some
11 of them addressed to him with his
12 handwriting on them that this is not a
13 useful use of the Commission's time to
14 see what was going through the bank's
15 mind when it was granting these loans
16 which are the very subject of this
17 Commission of Enquiry; that is the
18 reason why I am asking these questions.

19 COMM. BOGLE: Which is reasonable but I will ask you
20 to try and move as quickly as possible
21 based on time and so on.

22 MR. GOFFE: I certainly intend to do that.

23 A: May I just say something as well. As I
24 said I don't have all the information
25 but based on -- I think we also have to

1 be fair to all sides because if any of
2 these matters are in court with the
3 Foundation, I think those matters should
4 be disclosed to the Commission as well
5 so if any of these borrowers have a
6 legal matter in court, with JRF, I think
7 that should be disclosed at this stage
8 as well.

9 COMM. BOGLE: I take it that when the persons for
10 instance, DEBTOR1 came to give
11 evidence, all those information would
12 have, I hope, come to the Commission.

13 A: Okay.

14 MR. GOFFE: Now Mr. Beckford, having looked at that
15 letter, that commitment letter, and also
16 having looked at the letter to you of
17 July 13, 1994, are you in a better
18 position now to state whether
19 DEBTOR1's rate of 70% was an original
20 interest rate or was a restructuring of
21 an existing facility?

22 A: I cannot say from this, that is why I
23 would need to see the proposal before I
24 could answer that conclusively.

25 Q: If I could get that document. Hold on to

1 so on, I did not make any decisive
2 statement, because I mean fourteen years
3 I don't remember everything in fourteen
4 years, so in that response I did start
5 out but went on to put a number of
6 different possibilities on the table and
7 I remember coming down to say, I can't
8 say definitively but it is possible, but
9 I wouldn't worry about that.

10 Q: You wouldn't worry about it. Okay, sir.
11 Mr. DePeralto, could you retrieve that
12 commitment letter and replace it with
13 this please.

14 (Document shown to witness)

15 Mr. Beckford, I handed you a document
16 with some handwriting on it which has a
17 receipt stamp on it of August 3, 1994;
18 your name appears at the top left hand
19 corner of it, can you say whose
20 handwriting this is?

21 A: I am not sure, but I really don't know,
22 I am not sure,

23 Q: For the benefit of the Commissioner I
24 will say that this was taken from
25 Horizon Merchant Bank credit file?

1 things are being properly scrutinized.

2 That is basically what it says.

3 Q: Any particular reason why this is
4 addressed to you?

5 A: Come on counsel, don't waste time, the
6 letter was addressed to me, clearly it
7 has these notes on it, I would have
8 forwarded this to somebody. This is a
9 letter that came to me, all I would have
10 done is make some notes on the letter
11 and forward it to the President or the
12 Senior Credit Officer.

13 Q: Forwarded DEBTOR1's letter, I am
14 asking you if there is any reason that
15 the letter, EB2 or this handwritten note
16 is addressed to you for you to answer
17 these questions?

18 A: If I referred this letter to an officer,
19 isn't that a natural flow from that?

20 Q: I don't know, I don't work at Horizon.

21 A: What I am trying to say if the letter
22 was addressed to me and I forwarded it
23 and the note came back to me to say, do
24 you have any better -- that's
25 reasonable, but you are asking why it

1 was addressed to me.

2 Q: Was it your job, your function, to
3 respond to these queries?

4 A: No, most times what you would do,
5 because remember, one of the things
6 about business development, when you are
7 doing business development you go
8 looking loans, if you get a referral,
9 because when you see this, this is a
10 referral to the process.

11 Q: I did not get the answer though, were
12 you supposed to answer these questions?

13 A: No, what I think the officer is saying,
14 based on the information we have so far,
15 before I go back to the customer -- no,
16 no, what they say, if you can help me
17 with these, give me what you have before
18 I go to the customer, that is basically
19 it.

20 Q: So you had personal knowledge of what
21 the structure would be? The question I
22 am asking you, sir, is why were the
23 questions being directed to you for you
24 to answer and not say a discussion
25 between the Credit Committee and the

1 borrower, the proposed borrower?

2 A: Come counsel, counsel, think for a
3 moment, if senior counsel....

4 Q: Could you answer the question please Mr.
5 Beckford?

6 A: Chairman, let us just establish
7 something. If we are going to go into
8 yes and no, stop wasting my time because
9 what you can do is send me the questions
10 and I will answer them because there is
11 no need -- what we are trying to do is
12 help the Commission to have an
13 understanding, this is not about yes or
14 no answers, I don't see what this
15 excitement is about.

16 Q: I think I asked you three times and you
17 have not answered it.

18 A: And I am trying to explain.

19 Q: I will be patient, I was trying to move
20 it quickly but I will be patient.

21 COMM. BOGLE: Let him answer it.

22 MR. GOFFE: Sorry, I will be patient, I am giving
23 you a chance to answer the question.

24 A: The point I am making, what I am trying
25 to explain, if a principal refers

1 something to another member of the team,
2 before you go back to the customer,
3 isn't it logical that you would say to
4 the person doing the referral, do you
5 have any better particulars before you
6 go and talk to the customer? That's just
7 so. So what I am trying to say, it was
8 not expecting any specific answer from
9 me, it was just a query, do you have any
10 information on these areas. That is
11 what it was all about.

12 (Document passed to Mr. Beckford)

13 Q: I have just handed to you, sir, the
14 financial statements of New World
15 Realtors Limited for the year ended
16 December 31, 1993. Could I ask
17 Mr. Commissioner, that this be entered
18 as EB3. And I would just point out that
19 according to this Balance Sheet,
20 DEBTOR1COMPANY didn't have a lot of
21 money, isn't it, Mr. Beckford?

22 A: I don't know.

23 Q: You don't know, okay. I will move on.
24 Now, Mr. Beckford, Horizon granted or
25 disbursed the loan some time -- I think

1 the date from recollection was
2 August 12, 1994, I think it disbursed the
3 first tranche which was \$X Million of the \$X
4 Million facility. Now, when you had given
5 evidence you had said that records would
6 show that you had many borrowers who had
7 perfect records, or excellent records of
8 paying their loans until the interest rates
9 went up. Having said that, I want to show you
10 this letter and I want to know if you still
11 maintain that position. This is a letter
12 dated December 12, 1994 from DEBTOR1COMPANY
13 to Horizon Merchant Bank. Could I ask that
14 it be entered as EB4, Mr. Chairman. It says.

15 **Attention Mr. XXXXX**

16 **Re Demand Loan \$X Million**

17 **DEBTOR1COMPANY**

18 **We are presently experiencing a little**
19 **difficulty with our receivables; hence our**
20 **payment which became due on the 30th of**
21 **November is still unpaid.**

22 **Please note that we are making every**
23 **effort to settle our account speedily.**
24
25

1 **We beg for your patience and**
2 **understanding in this regard.**

3 It appears on the face of the record
4 that in respect of a loan granted or
5 disbursed in August that difficulties
6 were encountered by November. That said,
7 sir, are you still of the view that you
8 would find that most of Horizon
9 customers had excellent records of
10 repayment until the rates increased?

11 A: Absolutely.

12 Q: Are you still of the view that granting
13 a loan to DEBTOR1COMPANY
14 at 70 percent was
15 sustainable for DEBTOR1COMPANY?

16 A: Yes, I am sure once we approved it, it
17 was sustainable.

18 Q: Okay. Speaking of interest rates, isn't
19 it true that Horizon Merchant Bank had
20 the highest or among the highest
21 interest rates in the market at the
22 time, around 1993/1994?

23 A: No, we were within our peer group.

24 Q: Okay. Would you be surprised if I told
25 you that for the quarter ending

1 September 1994, according to the Bank of
2 Jamaica's records, the average lending
3 rate was 61.3 percent?

4 A: Well...

5 Q: You would be surprised?

6 A: I don't know what average, is it average
7 for the commercial banks?

8 Q: The average for the commercial banks?

9 A: I was not a commercial bank.

10 Q: So there were different averages for
11 commercial banks as against merchant
12 banks, I am asking?

13 A: Yes.

14 Q: So merchant banks had higher interest
15 rates than commercial?

16 A: Absolutely, yes.

17 Q: But certainly as it relates to deposit
18 rates, would you be surprised to know
19 that the average for deposits
20 \$100,000.00 and over for that same
21 period was 34 percent for six to 12
22 months, deposits?

23 A: And again, I will just ask, I don't know
24 what that average is about, average for
25 what, for who, for what sector, for

1 what, I don't know so I can't be
2 surprised; I have no basis to respond to
3 that.

4 Q: But you do recall saying that Horizon
5 Merchant Bank, because it was a
6 indigenous financial institution, not
7 because it was indigenous but because it
8 was small, that they were not going to
9 be giving up their profitability, they
10 were not going to be sacrificing
11 profitability?

12 A: I said no such nonsense.

13 Q: You remember saying though - forget the
14 reasons for it - you remember saying
15 that Horizon was not going to be
16 sacrificing profitability?

17 A: No.

18 Q: You don't remember saying that?

19 A: All I am saying is what I was putting, I
20 was explaining interest margins and
21 those things and putting them in
22 context. I don't remember what the exact
23 wording was and so I won't say yes or
24 no. What I was doing was putting things
25 in context and you have to take things

1 in its total context.

2 Q: Sure, no problem, we will help you to
3 put it in context. Now, I have just
4 handed a letter to you from DEBTOR1-
5 COMPANY, signed by DEBTOR,
6 addressed to you as
7 Chairman of Horizon Merchant Bank, dated
8 March 17, 1995. Could I have this marked
9 EB5. I will just go through it quickly,
10 Mr. Beckford. It says:

11 **Dear sir,**

12 **Re PROJECT1, repayment of X**

13 **Million Dollars (XM)**

14 **Presently we are in trouble with you due**
15 **to non-payment for the last two months.**

16 **While we were making every efforts to**
17 **address the problem it would appear that**
18 **we are not able to do so.**

19 **Our problem is in our financial ability**
20 **to complete the subdivision and collect**
21 **outstanding monies owing. In addition**
22 **to the slow sales, due also to the in-**
23 **completed infrastructure.**

24 **Please be advised that from the loan**
25 **received from you, 50% was used for**

1 as EB6.

2 Now, I just want to make one observation
3 in relation to this. It says it is dated
4 the 18th of October, 1996, but I think
5 that we will see when we go through the
6 document, I think that date ought to be
7 1995 from context.

8 Now, Mr. Beckford, this Credit Proposal
9 Summary was the only one I was able to
10 locate and it speaks to an increase in
11 the credit facility to be extended to
12 DEBTOR1COMPANY. On the box where
13 it says or the space for **Date of last**
14 **Review** is blank, would you conclude then
15 that this was the first Credit Proposal
16 Summary submitted in relation to New
17 World Development?

18 A: Absolutely not.

19 Q: Would you expect, if there had been a
20 prior Credit Proposal Summary that that
21 date would have been filled in, the Date
22 of Last Review?

23 A: Not necessarily.

24 Q: Not necessarily, okay. Risk
25 Classification and date, there is a

1 letter 'B' there, explain to us what
2 that means please?

3 A: Well, it says 'B'.

4 Q: Yes, what does 'B' mean?

5 A: It comes after 'A' and so you have 'A'
6 and 'B'. I am not being facetious, 'A'
7 'B'.'C', so the rating system would be
8 'A' 'B' 'C', so you have a 'A' grade
9 loan and you have grade 'B' loan. That
10 is what that means.

11 Q: Okay, thank you very much for that. So
12 then 'B' means it is not as good as 'A'?

13 A: Yes.

14 Q: But not as bad as 'C'?

15 A: Exactly.

16 Q: Why would 'C' not - it was a good loan
17 originally, what is the characteristic
18 which would make it 'B' as opposed to
19 'A' or opposed to 'C'?

20 A: I don't have all that now. We had a set
21 of guidelines that we used, but just
22 looking at this I think the fact that he
23 had some delay in completing the
24 infrastructure on the first advance,
25 that would have affected his rating.

1 Q: But somebody who had - again, I think
2 this was in October of 1996, somebody
3 who had already written two letters
4 complaining about failure to pay would
5 still maintain a 'B' rating?

6 A: Remember Mr. Goffe, you had a technical
7 staff that was looking at certain things
8 and after they assessed those things and
9 they add them up, then they get the
10 rating. It was not a thing that they
11 just pulled out of the air.

12 Q: Okay. Where it says **Security -- Total**
13 **Collateral Value**, what is that? Could
14 you read the handwriting which comes
15 after that, the bottom section of the
16 first page. The word 'completion',
17 what's the word after that?

18 A: Page 1?

19 Q: Yes, the first page where it says
20 'Security'.

21 A: Which one are you talking about?

22 Q: I am looking at the Credit Proposal
23 Summary?

24 A: Oh, the document itself?

25 Q: Yes. What is the word that comes after

1 'completion'?

2 A: Collateral completion value.

3 Q: That's value?

4 A: Completion value of \$XX **Million**.

5 Q: So your collateral was the completion

6 value as opposed to the actual value at

7 the date of this credit proposal?

8 A: It would be both. I mean, I am sure they

9 - remember now the valuation and all

10 that would go with the credit proposal,

11 so what you would have is a current

12 value and an estimated value and

13 completion. You normally have both.

14 Q: But your security, this is in

15 anticipation of it being completed.

16 A: What I am saying is you will have an

17 existing value, so the existing value

18 could be \$XX Million or \$XX Million and

19 when it is complete it would move to \$XX

20 MILLION and so *on*.

21 Q: My question is, in relation to the

22 collateral which the bank considered it

23 had, did it consider that the collateral

24 it had was based on the completion value

25 as opposed to the current value?

1 A: It is basically based on the current
2 value.

3 Q: Okay, thank you. Now, this loan was
4 expected to be -- well, look at the
5 credit proposal itself, it gives the
6 impression that projected pay-out would
7 have been by March 31 1996; again,
8 that's part of the reason why I think
9 that the date at the bottom of the first
10 page should be 1995. Now, is this a
11 typical credit proposal at Horizon?

12 A: No, and that's what I wanted to make.
13 This clearly is a working draft on the
14 file, because you will notice that there
15 is no - you see here "Approved/declined
16 by"

17 Q: Yes.

18 A: It is not signed. The only signature you
19 see here is the signature of a Credit
20 Manager who was putting something
21 together.

22 Q: Okay.

23 A: That would then be taken to the
24 President who would make some changes,
25 then it would go to the Credit

1 A: Absolutely.

2 Q: The paragraph which says Risks, and let
3 me read for you:

4 **The project is near completion and the**
5 **company has generated sufficient sale to**
6 **pay us out. The risk therefore is not**
7 **great.**

8 **Recommendations.**

9 **I am recommending the increase in this**
10 **facility in order to complete the**
11 **development as the ability to repay is**
12 **there.**

13 In hindsight, Mr. Beckford, would you
14 say that those were accurate assessments
15 or analyses of the situation?

16 A: Again, because this is not the final
17 project proposal document I cannot say
18 what was the final...

19 Q: I am not asking you about final, I am
20 asking in relation to the assessments
21 and analyses.

22 A: You see, this is an officer expressing a
23 view.

24 Q: Yes.

25 A: That view doesn't become a corporate

1 view until it is acceptable by the
2 Credit Committee. So I am not sure if
3 that was what finally went through on
4 the final document, maybe the wording
5 was changed.

6 Q: The question I am asking you is in
7 hindsight, was this a reasonable view?
8 I am not asking if it was the bank's
9 view, I am asking you based on this
10 officer's assessment, was this a
11 reasonable assessment?

12 A: All I am just saying, this...

13 Q: I asked you one question you know, Mr.
14 Beckford.

15 A: Just take it easy. Based on what the
16 officer is seeing the officer can
17 express his personal view. I have not
18 evaluated that to express an opinion
19 with the officer's view and so until I
20 have gone through and done my
21 assessment, I don't wish to express a
22 view on it because he having written
23 this, if I did a review on this, maybe I
24 would have changed the wording because
25 there are certain questions I would have

1 asked.

2 Q: Would you be surprised to learn that
3 that increased facility was actually
4 approved on October 26, 1995?

5 A: I wouldn't be surprised.

6 Q: You would not be surprised?

7 A: No. But what I am saying is that I
8 cannot say this was the final proposal
9 which guided the approval process.
10 That's all I am saying.

11 Q: Okay. For the Commissioners' benefit
12 the approval is LP52, that's the letter
13 dated October 26, 1995. If the
14 Commissioners would like to see a copy I
15 have one here.

16 COMM. BOGLE: LP52.

17 MR. GOFFE: 52.

18 Now, Mr. Beckford, the document just
19 handed to you is a letter dated September
20 12, 1996 from Assistant Manager - Credit
21 at Horizon Merchant Bank Limited to Mr.
22 Stephen Johnson, Attorney-at-Law.

23 Mr. Commissioner, could I ask that it be
24 entered as EB7. This letter says to
25

1 Mr. Johnson.

2 **Re: DEBTOR1COMPANY.**

3 **The captioned customer has defaulted on**
4 **its loan.**

5 **Kindly make formal demand for payment of**
6 **the outstanding balance. You are also**
7 **instructed to proceed to auction if**
8 **payment is not received.**

9 Signed by Horizon Merchant Bank Limited
10 Would you accept, Mr. Beckford, that
11 within the space of a year of the
12 increased facilities that DEBTOR1-
13 COMPANY had defaulted and the bank
14 was looking to recover that as a bad
15 debt, would you accept that?

16 A: What I will accept is that the record
17 speak for itself that there was a delay
18 in meeting the obligations and the
19 credit process was being followed.

20 Q: Having seen all of that, Mr. Beckford,
21 are you still of the view that DEBTOR1-
22 COMPANY was a good loan?

23

24 A: Yes.

25 In relation to - you had made the point,

1 Mr. Beckford, that Horizon Merchant Bank
2 never compounded interest, is that
3 correct, you remember that?

4 A: No, I don't remember saying that.
5 Compounded interest?

6 Q: Yes.

7 A: Well, it depends on what you mean by
8 compounded interest.

9 Q: Okay, tell me the respect in which
10 Horizon compounded interest.

11 A: Well, the point I was making is that we
12 did not have an add-on interest, but
13 what we did was compounded interest. Our
14 loans were all demand loans which would
15 be interest on the face amount, but if
16 your interest is outstanding and you had
17 to restructure a loan, sometimes we
18 structure the loan inclusive of
19 outstanding interest. But the point I
20 am making is that we did not use an add-
21 on system. And when we talk about
22 compound we talk about add-on.

23 Q:: Thank you for that clarification. But
24 you accept that Horizon always reserve
25 the right to compound the interest in

1 interests. So I don't remember.

2 Q: I mean, I don't want to take too much
3 time, the records are here and the
4 Commission will see that that right in
5 fact was there.

6 A: What I am saying is that...

7 Q: For the Commissioners' benefit, I could
8 just refer to "DEBTOR1.50", "DEBTOR1.51",
9 "DEBTOR1.53" those are mortgages. All three
10 of those are mortgages which contained the
11 clause of compounding of interest. You can
12 also take note, Commissioners of
13 DEBTOR2.17(a) through to (e), all of those
14 are Promissory Notes which also contained
15 the position about compounding of
16 interest.

17 A: Commissioners, I just said to Counsel
18 the only reason I raised that, I know at
19 one stage there was of lot of debate
20 about whether or not those
21 documentations were going to be amended.
22 That's why I said I wasn't going to make
23 a statement, but once it is there you
24 know you take it as gospel. Definitely,
25 we have the right to.

1 Q: Let's turn to DEBTOR2. Now, quickly
2 you remember DEBTOR2 - sorry, before
3 I do that. Could you let us know,
4 please, the company that was jointly,
5 there was a joint shareholding, what was
6 the name of that company with DEBTOR1?
7

8 A: That was ABC Limited.

9 Q: ABC LIMITED?

10 A: Yes. That was the company in which the
11 Horizon entities had taken a
12 shareholding with DEBTOR1 along with
13 other investors; that's the point I was
14 making, and then what we said, we
15 subsequently sold our shares in that
16 investment.

17 Q: But did Horizon also lend money to
18 ABC LIMITED?

19 A: That's why we sold. We did not lend
20 until we sold our interest.

21 Q: And you are positive about that?

22 A: All I am just saying is that as far as
23 the Merchant Bank is concerned, I said
24 that the Merchant Bank did not lend any
25 money to Morant Farms until we sold our

1 interest.

2 Q: Was the Merchant Bank the shareholder in
3 the company?

4 A: Not at all.

5 Q: It was the Building Society?

6 A: No, none of those entities.

7 Q: What was the name of the entity which
8 was a shareholder of ABC LIMITED?

9 A: It was Horizon Venture Capital.

10 Q: Now to DEBTOR2. DEBTOR2 gave
11 evidence before this Commission that in
12 May of 1994 he received a loan from
13 Horizon Merchant Bank and Horizon
14 Building Society in the amount of
15 \$XX million. The purpose of the loan
16 was to assist in completing DEVELOPMENT1;
17 to cover interest expenses during
18 construction; legal and commitment fees,
19 and also to purchase a piece of land on
20 Waterloo Road. That original rate of
21 interest was 65 percent per annum. Is
22 that surprising to you sir, or is it
23 just 70 percent that is surprising?

24 A: No, as I said wouldn't say the 65%
25 wouldn't be surprising. Again as I said

1 you have to look at the date and my
2 surprise would be based on the date so
3 that wouldn't be surprising.

4 Q: Would not be surprising? I want to be
5 sure. Would not be surprising as an
6 original rate of interest.

7 A: Well, again I raise the point -
8 remember I said it in the response. You
9 have to look at the credit, what were
10 the conditions of the credit, how the
11 facility was going to be serviced, how
12 it was going to be repaid. You have to
13 look at all the funding options, so it
14 depends.

15 Q: DEBTOR2 was - I am saying DEBTOR2,
16 I mean DEBTOR2COMPANY. These
17 construction companies received that
18 arrangement where the banks would make
19 provisioning facilities for the interest
20 on the loan. Now the documentation from
21 Horizon Merchant Bank indicated that
22 DEBTOR2 ought to have made monthly
23 payments towards interest and the
24 principal should have been repaid from
25 the sale of the lots. DEBTOR2 said

1 he is responsible, he is still
2 responsible but you are...

3 Q: Who would pay the interest, was it the
4 bank would pay itself or was it --

5 A: I was saying...

6 Q: Let me finish my question. or was it
7 that he should have paid the bank from
8 moneys the bank loaned him?

9 A: Yes, that's what I am saying.

10 Q: Which one is it?

11 A: He would be paying from moneys which the
12 bank loaned him.

13 Q: So he was still required to make a
14 monthly payment?

15 A: Yes, right, that's the point.

16 Q: So if he failed to make a monthly
17 payment, regardless of where the sums
18 came from he would have been in breach
19 of his arrangement with Horizon Merchant
20 Bank?

21 A: That's right.

22 Q: And the documentation is accurate, or
23 rather accurate reflects the arrangement
24 between DEBTOR2COMPANY and Horizon, to the
25 best of your recollection?

1 accurate. You see you have to
2 understand if I said that I will cover
3 you for twelve months and the units are
4 completed and when they are completed
5 they sit there for months and they are
6 not sold then you are going to have a
7 default because you are moving to
8 another level.

9 Q: I am talking about the interest now you
10 know, Mr. Beckford.

11 A: Yes, I am saying the interest during
12 construction. That's all I am saying.
13 That, that should be added.

14 Q: Where they required to pay interest
15 during construction?

16 A: Yes, sir.

17 Q: Yes, they were. Then let me ask the
18 question again. Is the statement that:
19 **the method of servicing interest ensured**
20 **that the company was never delinquent on**
21 **its loan.** Is that an accurate
22 statement?

23 A: During construction, that's all I am
24 saying; that, that should be added to
25 complete it.

1 Q: Was it accurate if no payment was being
2 made? What was it that made sure that
3 the company was never delinquent?

4 A: Again, as I said the statement there,
5 all you had to do is just add to that to
6 get absolute accuracy during the
7 construction phase, that's all, and then
8 you have an accurate statement. We are
9 all looking at semantics and little
10 games but if you wanted meat and the
11 essence of what, that's it, just add.

12 Q: You understand that he is saying that he
13 didn't have to pay you any money at all
14 during the construction phase?

15 A: Yes.

16 Q: And that's an incorrect statement isn't
17 it?

18 A: No. What I am trying to say, I cannot
19 say yes or no but based on what we went
20 through already, the credit when it's
21 approved would indicate the parameters.
22 Let me tell you what I am talking.
23 Remember I went through this.

24 Q: It is okay, Mr. Beckford.

25 A: No, but I think....

1 Q: It's lost on me, it is okay, we'll move
2 on. I don't understand how those two
3 statements can be reconciled but I will
4 move on.

5 A: Okay.

6 MR. GOFFE: Mr. Commission, this actually might be
7 an appropriate time now for us.

8 COMM. BOGLE: Yes. We will have our ten-minute break. 9

10 B R E A K. 11

12 Ladies and gentlemen, this Commission is
13 now back in session.

14 Mr. Beckford, just a reminder that you
15 are still under oath.

16 Mr. Goffe.

17 MR. GOFFE: Yes sir. I am afraid my machine is
18 taking a little while to bring up the
19 transcript but hopefully I can continue
20 with another line.

21 Mr. Beckford, we were looking at
22 DEBTOR2's financing and part of the
23 evidence which DEBTOR2 gave was that
24 the interest rate really did not matter
25 much to him at all. In fact he said

1 fifty per cent or whatever the rate was.
2 So I was just using that to explain how
3 our credit evaluation process worked. I
4 wasn't saying that you can't survive
5 outside of that.

6 Q: Did you find that the developers were
7 not particularly concerned with the
8 rates of interest that Horizon was
9 charging?

10 A: I found everybody had concerns about the
11 interest rate. The honest truth, I can't
12 remember anybody who would sign a
13 commitment letter without trying to find
14 out if that's the best rate, can you do
15 something else, and so on and so forth.
16 But I think the point which I think the
17 developer would be trying to say once
18 they evaluated their project and if they
19 felt that the project could sustain a
20 higher interest rate then they would be
21 more comfortable in taking on the
22 obligation. But I don't know of anybody
23 who signed, I can't recall almost
24 anybody signing any facility without
25 trying to see if they can negotiate a

1 better rate.

2 Q: Now in relation to that threshold, the
3 evidence at this Commission thus far in
4 relation to Horizon debtors is actually
5 more in line with the rates trending
6 downwards on them as opposed to trending
7 upwards. I say that because DEBTOR1
8 started at seventy per cent; DEBTOR2
9 started at sixty-five per cent and he
10 ended up around the forties and fifties
11 by the time that the takeover took
12 place.

13 Now bearing that in mind, what would you
14 attribute, to what would you attribute
15 the inability of these Horizon
16 developers to service their good loans?

17 A: Okay. Again it is understanding how a
18 construction loan works. Where most of
19 the developers experienced difficulties
20 is on completion of the project they had
21 difficulties finding purchases for the
22 new housing units. So if the project is
23 completed and you cannot find purchasers
24 for the units that's what was the big
25 difficulty, so that was the overriding

1 thing.

2 Q: Are you prepared to accept that if
3 Horizon developers who have given
4 evidence before this Commission that it
5 was not the rising interest rate which
6 caused their projects to fail?

7 A: No, I am not willing to accept that and
8 I'll just explain again for the
9 Commissioners.

10 Q: You are not willing to accept?

11 A: No, I am not because you see what
12 happened, I tell you is the other side a
13 lot of those units could not be sold
14 because the people could not afford the
15 mortgage rates. So that is the other
16 side of the interest rate, that's what I
17 am saying. So that's the point I am
18 making.

19 Q: In relation to the rates being charged
20 to the developer, do you accept that the
21 rates which Horizon Merchant bank and
22 Building Society were charging to the
23 developer were not going up whilst the
24 projects were being completed?

25 A: I thought you were going on to commend

1 the outstanding management and
2 leadership at Horizon...

3 Q: I leave that to you, sir.

4 A: ...that we were moving our interest
5 rates in those directions. But
6 honestly, what I am saying here, we were
7 doing everything we can, and later on I
8 am sure it will come out, I'll explain
9 how we were able to bring down some of
10 those rates and so on, but the issue
11 here is that again, Counsel, bear in
12 mind that what was happening to the
13 developers, when you have thirty, forty
14 million dollars sitting there and you
15 are not selling any units and interest
16 is going on it every day, every month,
17 whether it is forty or fifty or sixty
18 per cent, what's going to happen, they
19 are going to get to the point where
20 sooner or later the cushion which they
21 had and the institution had start
22 disappearing. When we talk about the
23 impact of the interest rate that's what
24 we talk about, the impact.

25 Q: The impact of the interest rate, you are

1 now referring to the interest rates of
2 the purchasers, not the developers.

3 A: No, no, but what I am saying is how it
4 affected the developer is that when you
5 are a developer, and having done some of
6 that myself at a personal level, the
7 most scary thing is to have a scheme
8 sitting there completed and seeing the
9 interest clock running every day and no
10 sales coming through. It creates - it's
11 very uncomfortable. That's what I am
12 talking about, the impact. So when you
13 are adding on interest at fifty percent
14 a day going on to your loan it
15 multiplies pretty fast so it must create
16 some discomfort when the sales aren't
17 going through. That's all I am saying.

18 Q: Did Horizon Merchant Bank have any
19 particular expertise in terms of
20 assessing the viability of residential
21 development?

22 A: Yes, we had very competent team of
23 consultants with special skills that we
24 had access to, to assist in that area.

25 Q: And on that basis you would expect that

1 Horizon would have a smaller share of
2 the number of developers whose loans
3 turned from 'good' to 'bad' and who have
4 testified at this Commission?

5 A: I don't think we can use the testifying
6 at the Commission as an indicator I am
7 not sure.

8 Q: Let me take back the testifying to the
9 Commission. In relation to the
10 developers in general, whether they have
11 testified or not because it is a very
12 good point you make that there are very
13 many who have not testified, but in
14 relation to those who were bad debtors
15 and whose accounts were transferred to
16 FINSAC, would you expect that Horizon
17 would have a lower percentage of those
18 debtors?

19 A: I don't have any basis to arrive at any
20 position there. All I will say though,
21 in my submission, if you will all recall
22 I did make it very clear that when we
23 look back at our structure over the
24 years and doing a critical assessment of
25 our operations, we did make it clear

1 that we had a high concentration in
2 construction loans in our operation, and
3 I did state that in my submission.

4 Q: And in fact you said that you were
5 fortunate. You remember that?

6 A: I don't remember what I said but as I
7 said what I wrote is written but I don't
8 remember what I said in any
9 cross-examination. But the point I am
10 making is that I did document that in my
11 presentation.

12 Q: I crave your indulgence one second,
13 Mr. Chairman. I am still not fortunate
14 to have the transcript as yet. Now, I
15 want to remind you of this statement and
16 ask you if you are still of this view.

17 **'No good developer had ever had any**
18 **problems when the interest rates were at**

19 **manageable levels"**. Stand by that
20 statement, sir?

21 A: Yes, I mean that's a general statement,
22 yes. I mean you...

23 Q: So in terms of these **developers**, is it
24 that they were not good or were their
25 rates not manageable?

1 A: The rates within the context that I was
2 referring, and remember I was dealing
3 with rates in the 20's and 30's, so yes,
4 the rates were not manageable. So I was
5 trying to make the point that dealing
6 with the thing -- when I talk about
7 interest rates, let's come off the
8 developers, I am dealing with the
9 interest rates structure within the
10 total completion of a project. So that
11 includes the impact the interest rates
12 also have on the purchasers to take off
13 the units off developers. So when I make
14 the statement here...

15 Q: Do you agree that the interest rate to
16 the purchaser was not manageable,
17 similarly the interest rate to the
18 developer was not manageable?

19 A: Yes. What I have said, it impacted
20 negatively on the overall viability of
21 the project, that's really the bottom
22 line.

23 Q: Okay.

24 A: Yes.

25 Q: So again the statement was: *"No good*

1 decisions were taken because we were
2 working on the assumption that sooner or
3 later the interest rates were going to
4 come down because if we saw these
5 interest rates going on indefinitely we
6 wouldn't have made those loans, and I
7 have made it very clear. So each time
8 you made those loans you are making deep
9 down some assumptions that those
10 interest rates cannot be sustained at
11 those levels. And that's the essence of
12 it. The last time I spent a lot of time
13 on it and I don't think we should maybe
14 go back over all that again.

15 Q: I only have the records for commercial
16 banks interest rates.

17 A: You are not comparing apples with apples
18 so maybe you should not use it then, I
19 don't know.

20 Q: Is it likely that the average lending
21 rates for commercial banks were trending
22 downwards whilst the average lending
23 rates for merchant banks were trending
24 upwards?

25 A: No. As I said I don't have the basis of

1 the analysis to make a comment one way
2 or another because the assumptions,
3 maybe putting data together, can give
4 you different outcomes so it would be a
5 little wholeheartedly difficult to try
6 and even comment on that.

7 Q: Would you agree though that as a banker
8 it is likely that they would both be
9 trending in the same direction?

10 A: Generally. But as I said again, and I
11 keep on saying for example -- that's why
12 I am saying you are taking me into
13 technical issues. If there was a law,
14 when the BOJ changed the reserves in
15 respect of the merchant banks and
16 commercial banks, you would get a
17 different thing. If there was a
18 difference in what percentage of the
19 merchant bank deposits were getting
20 interest versus what percentage the
21 commercial banks were getting, and those
22 things were not always in unison, they
23 were all always different. So all I am
24 saying is, you would have to be looking
25 at the total context before you could

1 arrive at a conclusion. So you just
2 can't look at the end result and arrive
3 at a conclusion.

4 Q: I don't have sufficient copies for the
5 Commission but if I could just ask for
6 some assistance where this is concerned.
7 I actually have the economic data from
8 the Bank of Jamaica Website which might
9 be of some assistance. I am not going to
10 ask any further questions to the witness
11 but certainly I would like to have it
12 there, just for the records to point out
13 that from what I am seeing here, the
14 highest interest rate for commercial
15 banks, average lending rate which was
16 the quarter ending March 19, 1994, it
17 was 66.9%, that was the peak in...

18 COMM BOGLE: 66 -- repeat that for me, please?

19 MR. GOFFE: 66.9% that was peak in the quarter ended
20 March 1994. At the same time the
21 following year it was 48.82, and went
22 back up in 1996, quarter ended March
23 1996 it was 58.27. For the month of
24 March 1997 it was 47.92. And then just
25 for completeness to take us up to

1 March 1998, it's 44.17. I say that to
2 make the point that we have heard a lot
3 about interest rates trending upwards
4 and in some respect certainly prior to
5 1993 and 1994 that comment might have
6 been accurate. The developers, I am
7 looking at, commenced their borrowing
8 with Horizon Merchant Bank around '94/95
9 when rates were at their highest. They
10 went in and borrowed money at 70 and
11 65%. Sorry, it's one document.

12 COMM BOGLE: Everything is together?

13 MR. GOFFE: Mr. Commissioner, it's one document.
14 Each report, they do it by year so you
15 will see from 1993 moving on onwards and
16 up until 1995 I think, you will see that
17 it was quarterly and then I think
18 thereafter it became a monthly report.

19 COMM BOGLE: All right.

20 MR. GOFFE: The point I was making, sir, was that
21 whereas some developers who had started
22 their projects prior to 1993 and may
23 have been borrowing at 20 and 30% may
24 have fallen within that theory which
25 Mr. Beckford has put forward about

1 threshold, the borrowers who have
2 actually testified before this
3 Commission do not fall within that category.
4 Their arrangements started, on the evidence
5 that we have before this Commission, between
6 1994 and 1995 when interest rates were at
7 their highest, their facilities trended
8 downwards, not up. And so, the point I am
9 trying to understand is what really
10 accounted for these developers having such
11 difficulties and again, the
12 concentration with Horizon Merchant Bank is
13 something which I believe the Commission
14 needs to take a very careful look at.

15 In response to the question from
16 Commissioner Bogle as to whether -- yes,
17 Commissioner Bogle said: "In one case a
18 developer was signing onto a loan over 70%.
19 In your view could a construction company pay
20 70 odd percent on their borrowings and would
21 have survived?" Then Mr. Beckford's response
22 starts off by saying that: "It starts off
23 with a
24
25

1 big development at 20 odd, 30 odd percent
2 through no fault of the borrower or no fault
3 of the institution, through no fault of the
4 borrower and through no fault of the
5 developer, what you have now is this higher
6 interest rate". He didn't actually answer the
7 question until Mrs. Minott-Phillips asked
8 for a specific answer and Commissioner Bogle
9 said that he understood the answer to be no,
10 that it couldn't survive. "Yes,
12 Commissioner Bogle, the answer was
13 effectively, no".

14 Mr. Beckford, are you familiar with the
15 term "ever-greening"?

16 A: Yes, sir.

17 Q: Could you explain to us what your
18 understanding of ever-greening is?

19 A: Basically I guess it would be a practice
20 of ongoing -- I would say it's almost
21 like going to the Paris Club. You
22 remember when as a country we used to
23 go to Paris Club?

24 Q: Sorry, I wasn't born then.

25 A: Okay, good. That's the best reference 1

1 can give you. It's like Jamaica going to the
2 Paris Club, that would be my best
3 description of evergreen.

4 Q:

You could break it down for me.

5 A:

6 In those days what we used to do year after
7 year we would go and restructure the
8 country's debt.

8

9

9 So would you define 'ever-greening' as a
10 restructuring?

10 A:

11 Yes, that would be part of the fair amount
12 restructuring.

12

Q

13

.

13 Would you say then that Horizon Merchant
14 Bank did a lot of ever-greening?

14

A:

15 No, not a lot but we did some.

15

Q:

16 You did some?

16

A:

17 Yes, and I said that in the submission. You

17

Q:

18 didn't actually use the word, I was hoping
19 that...

19

A:

20 You are trying to see if I know
21 economics or any of these things?

21

Q

22

.

22 You know a lot.

22

A:

23 No, I don't know.

23

Q:

24 Would you say that in the case of DEBTOR1
25 and in the case of Mr. DEBTOR2, that there
was ever-greening?

1 A: Absolutely not.

2 Q: If you follow the files you could never
3 qualify those as evergreen. You saw the
4 stages which the loan went from one
5 level to the next? Even the limited
6 documentation which you gave here which
7 is only a part of the files certainly,
8 these would never qualify as
9 ever-greening?

10 A: Absolutely not.

11 Q: But they are in the structure?

12 A: Yes. What I am just saying, the reasons
13 for the--you see, you have to look at
14 the reasons for the restructuring.

15 Q: What would have made it ever-greening
16 then?

17 A: Is that when you are restructuring
18 without any of the fundamentals
19 changing.

20 Q: Did you see any of the fundamentals
21 changed in DEBTOR1's case?

22 A: Yes. What you were seeing there is
23 overrun on construction, delays in
24 construction, those were some of the
25 fundamentals changing. In other words,

1 evergreen is where you are basically
2 restructuring the loan with no -- say no
3 additional new money is being paid out,
4 for example, that to me would be a
5 typical evergreen. In order words,
6 somebody is past due, you consolidate
7 your past due interest, you restructure
8 new fund, no delay, no set back, no
9 nothing. That to me would...

10 Q: So the fact that developers got into
11 difficulties and tried restructuring, it
12 means that there was no ever-greening?

13 A: That's right, absolutely not.

14 Q: Were there any capital injections which
15 were made by the developers at the point
16 which they experienced difficulties?

17 A: I can say that I can't recall. Oh, come
18 on, I have been a good witness. If you
19 continue that is what I will do, I will
20 have to start saying I can't recall to
21 everything and we can press on.

22 (Laughter)

23 Q: Now. Commissioner Bogle asked this
24 question. Could a part of those
25 attractions -- and this is now we are

1 talking about competing in the market
2 for deposits, could part of those
3 attractions be that you were
4 compromising interest rates, interest
5 rates that you charged as against
6 interest rates that you charged those
7 people in order to woo them to you which
8 might have created the liquidity
9 problem? Your answer: "No. It wouldn't
10 create so much -- at that time, the
11 liquidity problem was a profitability
12 problem, but the reality is, remember
13 now, when you are building a new
14 institution with fairly thin relatively
15 small equity base, you are not going to
16 compromise your profitability. So we
17 did not compromise our profitability,
18 what we did was made prudent decisions".

19 A: All right, let me just explain again.

20 Q: No, let me ask the question first.

21 A: T am sorry, I thought you were waiting
22 for a response.

23 Q: I am suggesting to you, sir, that part
24 of the difficulty faced by those
25 borrowers and you have testified here

1 today whose loans originated with
2 Horizon Merchant Bank was that Horizon
3 was not prepared to compromise
4 its profitability because it was a new
5 institution with a fairly thin
6 relatively small equity base.

7 A: I am...

8 Q: You accept that suggestion or you don't?

9 A: No, sir. Chairman, I think in fairness
10 to clarity I should go on to explain.
11 You have to take the two parts. There is
12 a part of the response further down
13 which you are omitting and you will also
14 have to take the context in which the
15 question was asked. Remember what the
16 Commissioner was putting to me was the
17 fact that maybe part of our difficulty
18 was that we were being so aggressive on
19 the interest rates that we were giving
20 up margins to attract business. And what
21 I went on to explain to him that we
22 didn't have the luxury of going out
23 there and doing that okay, so that was
24 the point. Then the second point I went
25 on to later, subsequently, I went on to

1 explain why we were able to compete is
2 because we were a small shop, very
3 efficient and therefore we could operate
4 with a smaller spread and smaller net
5 interest margin and that was the basis,
6 and I went on to say if we were not
7 competitive a lot of the borrowers would
8 have been in a position to look at other
9 options. So you have to take the total
10 response, don't just pick out piece and
11 then put into context.

12 Q: And you thought that the interest rate
13 offered to your customers was a
14 competitive one?

15 A: Within the context, and based on what
16 the options were at that time. Remember
17 we were talking about the peak period
18 but also which I am sure will come out
19 later you mentioned that you saw a
20 pretty aggressive reduction in our
21 interest rates subsequently and that
22 also somehow fits back into a particular
23 model and a particular program. It was
24 not being done in a vacuum.
25 In the context of when the developers

1 started facing difficulties, do you now
2 say to the developer, I am not going to
3 go any further, this 70 odd percent
4 doesn't make any sense, let's call it a
5 day, let's put the project up for sale?
6 Or do you sit together, and most of
7 those, it was not our decision alone,
8 it's a joint decision, what do you want
9 to do? Do you want us to call it a day?
10 Do you want to abandon it? Do you want
11 us to turn in the keys or do you want us
12 to try and find a way to get it
13 completed?

14 Q: Now, are you saying, sir, that when a
15 loan was in default but the project was
16 not completed that the decision as to
17 what to do was a joint one?

18 A: No, sir, and let me explain...

19 Q: Okay.

20 A: No, no.

21 Q: You have given a perfect answer, that's
22 fine.

23 A: No Chair, I think we need to, because we
24 want to get the facts, this is not a yes
25 and no thing, we are not playing games

1 here. Yes, the point I was making is
2 that a development, the nature of the
3 development -- and I spent a lot of time
4 explaining, what happens when you have a
5 difficulty, and I was responding
6 specifically to how do you move from
7 rate 'x' to 'y' because that becomes a
8 part of the consideration, you then sit
9 with the developer and you say okay, we
10 can call it a day, we can go to the
11 market.

12 Q: All right, stick a pin there so.
13 Remember I am not speaking about moving
14 from 'x' to 'y'.

15 A: I know, but I am just dealing with the
16 context why you would have that
17 conference. So you would sit down and
18 say okay, we have some challenges here,
19 I now have to move your rate to 75, 80%
20 whatever it is.

21 Q: Again, sir, remember I am not speaking
22 about an upward moving rate.

23 A: I understand, but what I am saying, we
24 started at 'x', we had some difficulties
25 and I did make the point that that

1 context was largely about how you are
2 dealing with interest rates, you have to
3 go back to the whole of that build-up to
4 that. That was what led to that
5 response. So when you have to move a
6 developer's interest rate, what I am
7 trying to say is that this could now
8 adversely affect the project and it's at
9 that time you would sit and say here are
10 the implications, the market rates have
11 gone up, I don't have a choice and I
12 have to move the rate here, these are
13 the implications and then you go through
14 and then you say, do you want to go with
15 the higher interest rate? Do you want to
16 call it a day or do you want to try for
17 a buyer? That's the part I am talking
18 about, that's where the consultation
19 takes place.

20 Q: And you considered that to be prudent
21 banking?

22 A: Yes, of course, absolutely.

23 Q: Now, in the situation where interest
24 rates are not moving up in fact, they
25 are moving down, in that circumstance,

1 it is still a joint decision?

2 A: Remember in life -- counsel remember, in
3 life somebody has the last word and the
4 banker has the last word. So when we
5 talk about joint decision you talk about
6 consultation and you know the bank has
7 the last word, certainly, so don't get
8 carried about joint decision. What we
9 are saying there is consultation. So
10 what you do, you then say to the
11 customer, these are the circumstances
12 and based on 'A', 'B' this is the call.
13 I mean we have called loans, several
14 loans and you saw these things, you see
15 that we were not afraid to do that, but
16 most times, when we really call a loan
17 if that borrower wishes to be honest
18 they will most times...

19 Q: Repeat, say that again? Repeat that last
20 sentence you said again.

21 A: No, most times when we call a loan, if
22 the borrower wishes to be honest they
23 will sit back and say they understand
24 because we basically clearly show to
25 them that's the best option. So it's not

1 a thing where we have to go behind your
2 back, because we are not afraid to sit
3 with you and tell you why we have to
4 call the loan. That's what I am saying.

5 Q: You had some borrowers who weren't so
6 honest?

7 A: Nothing to do with honesty. What I am
8 trying to say, sometimes people are in a
9 difficulty, and you have to say to them
10 your best bet is to get out now, don't
11 wait. And that's what a good banker
12 does, you guide the person. You said
13 based on what we have seen here in front
14 of us it would be in your interest now
15 to get out and sometimes now they will
16 say okay, we can't find a buyer, you
17 find one. That's all I am talking about,
18 that's what I am talking about, the
19 consultation.

20 Q: Looking back at it now, sir, the benefit
21 of hindsight, would you say that any
22 mistakes were made in the handling of
23 any of the development loans that
24 Horizon Bank had?

25 A: As I had indicated in the paper, the

1 only thing that we would have done
2 differently is that we would have
3 reduced the level of concentration and
4 remember I said that's what it is,
5 that's basically the bottom line.

6 Q: In relation to DEBTOR1's matter where
7 you had seen a lot of the other paper
8 work, do you think that any mistakes
9 were made in the handling of his
10 development?

11 A: The honest truth is, I would have to
12 review the whole file, I can't deal with
13 this, because when you look at some of
14 notes I see in front of me, you are
15 dealing with a developer who has an
16 exposure and the total lots sold, lots
17 were 19 million and the request here was
18 for a loan of 10 million, you know. So
19 all I am saying is just going on that, I
20 mean you are dealing with a situation,
21 without further analysis, you would say
22 these were sales. Now, what I don't
23 know, for example, did people back out?
24 Did he fail to finalize these sales? I
25 don't know. But what I am just saying

1 is, if you just look at the summary
2 submission here, I wouldn't be in a
3 position, without a detailed analysis to
4 come to a conclusion one way or the
5 other.

6 Q: I forget to ask you this question. Now,
7 on the first exhibit I gave to you, the
8 July letter, your handwriting on it
9 says, "First project", you remember
10 that?

11 A: Yes, again you will have to...

12 Q: Where would have been the information
13 coming from to form that?

14 A: I don't know, that's why I am saying I
15 would have to see the total.

16 Q: But from the bank's perspective it was
17 DEBTOR1's first project?

18 A: No, no, you have to read it again. The
19 first project was registered in 1989,
20 but not operating. So all I am saying
21 is, that could have come out of some
22 discussions or some questions or
23 something or whatever. I would have to
24 have the whole thing to see what it
25 meant.

- 1 Q: I am suggesting to you, sir, that the
2 registration is in relation to the
3 company and the operation is in relation
4 to the company?
- 5 A: I don't know.
- 6 Q: But the part about it being the first
7 project is referring to some of
8 DEBTOR1's experience in business?
- 9 A: Except though, if you read the note it
10 doesn't say, it says: Registered but not
11 operated, okay, all right. And it says,
12 first project so you might be right, I
13 mean I am not going to say to you, yes,
14 but as I said I don't have any basis
15 to...
- 16 Q: Would you be surprised to learn that
17 DEBTOR1 has come to this Commission and
18 said this was not his first project?
- 19 A: Yes, it's possible.
- 20 Q: Would you be surprised?
- 21 A: All I am saying I don't know, because
22 all I am saying is, I can't recall why I
23 wrote first project you know, I don't
24 know why that note was made.
- 25 Q: Certainly, it would have been based on

1 information received?

2 A: All I am saying I cannot recall why I
3 wrote that.

4 Q: Could it be based on information
5 received from DEBTOR1 or his company,
6 would it not be?

7 A: All I am saying is, I got a request,
8 more than likely this was something that
9 was sent to me, I would have maybe asked
10 a few questions, put a few notes on it
11 and forward it. All I am saying is, I
12 can't recall why I wrote that and I
13 would be surprised if this was his first
14 project because he has been around in
15 real estate development for years from I
16 can remember, I don't know. But it
17 could relate to something else and it
18 could be something else, I don't know.

19 MR. GOFFE: Mr. Commissioner, I think those are the
20 questions I have for this witness.

21 COMM BOGLE: Thank you, Mr. Goffe. Any of the other
22 attorneys?

23 MR. MOODIE: Mr. Commissioner, I think my learned
24 friend has covered the areas that I
25 intended to cover so I have no further

1 questions of this witness.

2 COMM BOGLE: Thank you. Mr. Garcia?

3 MR. GARCIA: Commissioner, I don't have any questions
4 for the witness, however I had a
5 conversation with Mr. Michael Hylton,
6 Queens Counsel, who indicated to me that
7 he had not received the email setting
8 out the schedule that indicated that
9 Mr. Beckford was scheduled to come today
10 and in fact, as it so happened I was
11 having a conversation yesterday evening
12 with Mr. Hylton and he indicated that to
13 me. And so I forwarded a copy of the
14 email to him. I appreciate that the
15 Commission might not agree that he had
16 not received it because his name was on
17 the list of recipients of the e-mail, I
18 am not sure why that happened but he
19 indicated to me that having only last
20 night discovered that Mr. Beckford was
21 going to be present today he was not in
22 a position to be present this morning.

23 COMM BOGLE: Okay, thank you. Of course, we will have
24 to investigate why he didn't get it
25 because as you said, he is listed as one

1 of the recipients and surely we would
2 have tried our best to ensure that he
3 got it because we know that a request
4 came from him for Mr. Beckford to
5 return. So that we will have to look
6 into. At this time then the hearing
7 today is adjourned until tomorrow
8 morning at 9:30. Thank you very much,
9 have a good afternoon.
10 MR. BECKFORD: Commissioner, just in my standing, I
11 think in all fairness to me there are
12 some things I need to put on the record.
13 I was only notified and summoned to be
14 here, on Monday afternoon I saw the
15 document. I had to cancel a number of
16 things today to be here and I think
17 that -- as you know, I had indicated to
18 the Secretary I had some other things
19 that I kept putting off, I put off the
20 last time to make my first appearance
21 and therefore I cannot guarantee my
22 availability for the rest of this month
23 because I have put off several overseas
24 trips and programmes to facilitate the
25 first presentation and again today 1

1 have canceled about three or four other
2 things. You see, I have to kind of work
3 hard for a living.

4 COMM BOGLE: Okay, I understand your situation and we
5 will see. As a Commission we will
6 discuss the matter and take whatever
7 decisions. Again, have a good afternoon
8 everyone and tomorrow morning at 9:30 we
9 will resume. Thank you very much.

10 A D J O U R N M E N T
11 **ADJOURNMENT TAKEN AT 11:30 A.M.** 12

13 Continued...

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15 continued

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