Rural Credits in Western Canada Analysed

Comparison With the Federal Farm Loan Scheme of the United States — Distrust of Political Control—Cost of Funds of Provincial Governments —Outline of Plans in the Canadian Provinces.

WANTED, a creditor who (1) will lend money at a low rate of interest; (2) refrain from pressing too sharply for its repayment; and (3) allow borrowers to repay at any time convenient to them. These are the words of the president of one of our western grain growers' associations, who in a more or less jocular vein, thus described what the farmers wanted.

In an instructive address at the recent annual convention of the Farm Mortgage Bankers' Association of America, at Minneapolis, Mr. Hume Cronyn said that it might well be asked, whether, under existing conditions, there was any crying need for a government, at the expense of the general taxpayer, to embark upon a scheme for the benefit of a particular class. Perhaps the reasons were best given, he said, in the grain grower's remarks noted above. Mr. Cronyn, who is managing director of the Huron and Erie Mortgage Corporation, London, Ont., continued:—

There can be little doubt low rates and wide privileges of repayment are ideal conditions for a borrower, but not always a possibility with the commercial lender who must make his business yield some profit and who cannot compel his debenture holders to accept repayment before the due date of their securities.

As to item (2) it is open to question whether even a government can afford to have its mortgage debts remain long overdue, or whether it is in the true interest of the mortgagor for it to do so.

Beyond these outstanding attractions, we cannot blind ourselves to the fact that in Canada, mortgage lenders as a class are not exactly objects of popular affection. Along with the coal merchant, the plumber and the medical specialist, they enjoy the reputation of charging all the traffic will bear. Perchance, indeed, they have inherited along with their business reputation of those Shylocks who were its originators. There are in this, as in all other walks of life, men of that unreasonable narrow character whose unvarying reply to the pleadings of an unfortunate debtor is based upon the incontrovertible statement: "It is so nominated in the bond."

Western Provinces Try Experiment.

Whatever the reasons, the four western provinces of Canada, Manitoba, Saskatchewan, Alberta and British Columbia, have placed upon their statute books measures which they believe will enable them to lend money to the farmer at rates below those now current on mortgages repayable by amortization over a long period of years, with large privileges to the borrower of anticipating his payments before these fall due.

Of the provinces named, all save Alberta have completed their organizations and have made a start in the business of money lending.

The general lines followed in all the provinces are as follows:—

1. Agricultural associations have been formed under the control and management of permanent officials, and subject to governmental or legislative supervision.

2. These associations are offering to the investing public bonds running from 10 to 30 years, which bonds are either direct obligations of the province, or are secured by a deposit of mortgages and the unrestricted guarantee of the province.

3. The funds thus obtained are to be lent upon first mortgages of improved farms, repayable by amortized payments spread over a period of from 20 to 40 years. In no case must an advance exceed one-half of the value of the security as determined by the association.

4. The rate of interest charged the mortgagor must not be more in British Columbia than one and one-half per cent., nor in the other provinces more than one per cent. above the rate at which the association or province floats its bonds.

The farmer for so many years has seen coin from his own purse handed over by his government to railroads, in the shape of a bonus, or to manufacturers by way of a tariff, we might expect him to bear with equanimity the idea that at least some portion of the public funds will be diverted for his special benefit. Let it be said, to his credit, the western farmer through his various associations and their official organ, the Grain Growers' Guide, has put himself on record against special privileges and insists that provincial loan associations must be placed on a self-sustaining basis, even though this involves a substantial increase in mortgage rates.

Provincial, Not National in Scope.

In comparing the rural credit system so far as it has been established in Western Canada, with the United States Federal farm loan act, the outstanding difference arises from the fact that the United States measure applies to practically every portion of the country, and is controlled by a federal body. In Canada, the Dominion parliament has not yet dealt with the idea, although a federal measure has been mooted in the press and at the late convention of the Liberal party in Winnipeg was adopted as one of the planks of its platform, but to date each province has been left free to provide some measure which may be effective within its own borders.

The next contrast, and one which must have an important bearing on the Canadian situation, arises from the fact that our provinces find the moneys needed for this purpose either by a direct obligation and pledge of the credit of the province, or by a guarantee of the bonds issued by their agricultural associations. In the United States, as I understand the act, the loanable funds are not supplied from the Federal treasury, nor are the bonds issued by the farm loan banks guaranteed by the country at large, unless, indeed, one is to treat the subscription by the United States of stock in the land banks to be in the nature of an indirect guarantee. In the United States it is evidently believed a market can be found for bonds secured by a deposit of farm mortgages, with the triple guarantee of the mortgagors themselves (up to the amount of their double liability on stock held) the Federal farm mortgage associations, and the Federal farm land banks.

Strain on Provincial Treasury.

The Canadian method involves, if it proves successful, a constantly increasing strain on the financial resources or credit of the provinces interested. Official records show that in Manitoba alone institutional mortgage investments aggregate $117,000,000, over one-half being credited to mortgage companies. Of this amount about $60,000,000 are represented by farm mortgages. Should the declaration of peace be followed by renewed immigration, this latter sum might easily be doubled within a few years. To care for even a fair proportion of that amount might embarrass the most sanguine of provincial treasurers.

A third difference is the absence in Canada of anything corresponding to the United States Federal land banks. These institutions are unnecessary under the plan adopted as the provincial farm loan boards (with the aid of governmental machinery and credit) can, over an area restricted by provincial boundaries, perform the functions which in the United States are divided between the Federal board and land banks.

Amortization not New.

Those of us whose business may be threatened by governmental competition will be thought to look with a jaundiced eye on the whole proposal. Were it not for the need of earning profits for our shareholders (and incidentally our salaries) there are some of us who would be only too glad to offer our borrowers all the advantages which are claimed by these governmental methods. There is not, and has never been, any difficulty about making farm loans on the amortization plan. As explained earlier, the custom of limiting the duration of mortgage loans to five years arose largely, if not altogether, from the Dominion law so long in force,