

4—In lending to farmers in newly settled countries losses by bad debts are abnormally large.

5—There is little, if any, difference between the rates accorded the best farmer and those accorded merchants at small country points.

If the banks had to lend at lower rates it would simply mean that numerous branches would have to be closed, to the serious injury of farmers in sparsely settled districts. It is a fact that, while no increase is at all likely, higher rates than those now charged would be necessary in order to make country banking in the West only reasonably profitable at the present time.

I should be prepared at any time to satisfy representatives of the farmers' associations as to the facts upon which my statements respecting interest rates are based.

As was the case in Ontario, so it will be in our Northwest. With the progress of settlement and the consequent increase in the volume of banking business, and with the rise in the average of farming efficiency and the resulting decrease of banking losses, will come a reduction of bank interest rates—a condition which will be welcomed as much by the banks as by their customers. This fact stated conversely means that lower interest rates cannot come without more and better business.

Co-operative Credit Associations

In my opinion, if our English-speaking farmers could be induced to join in forming Co-operative Credit Associations based on the assumption by each member of a moderate liability for the borrowings of the other members, and regulation by the association of the total credit commitments of each member, an immediate reduction of bank interest rates would ensue. But whether or not Co-operative Credit Associations could be successfully organized in English-speaking farm communities, the fact stands out that it rests largely with the farmers themselves to accelerate the bringing about of conditions which will render lower interest rates possible.

Profits of Canadian Banks

A digression here may be permitted to me in view of the fact that criticism of the banks' western interest rates is partly founded on the mistaken belief—widely prevalent among all classes of the community—that banking is immensely profitable. As dividends to bank shareholders are based on the par value of their holdings of capital stock, bank earnings are usually quoted at a percentage of the capital, and consequently both dividends and earnings look much larger than they really are. The "reserve fund" of a bank, however, is just as much a part of the shareholders' investment as is the paid-up capital, and obviously it should be taken into account in reckoning earnings.

In 1915 the earnings of the twenty principal banks ranged from 10 to 21 per cent. on "capital," and the total earnings of these banks amounted to 14 per cent. on their combined capital. Their combined capital was \$78,000,000, but their reserve funds amounted to \$108,660,000, or as much as their capital. Moreover, of these reserve