

"A convincing proof of the earnestness of this declaration in 1893, with regard to the operation of the banking system in the extension of banking facilities throughout the west, is to be noted in the fact that to-day there is a branch of a chartered bank established at every discernable point of vantage throughout the western provinces.

War-Time Conditions

"The main complaint in the criticism of Canadian banks in the west, now under review, concerns the extension of credit, but there are some side references that require a word in passing. For instance, we read: 'During the dark days of 1914, after war was declared, the banks—— sent great sums of money to New York to take advantage of the interest rates of call loans which was caused by an active stock market.'

"It is not necessary to refer to statistics on this point. The activity of the New York Stock Market following the outbreak of war in July, 1914, and indeed the activity of stock markets throughout the financial world, was the activity of confusion. Moreover, the New York Stock Market was closed on July 30th, 1914, and remained closed until December 30th, 1914, during which period transactions of every form were suspended. This would not necessarily mean that all call loan business was also suspended, but its limited prosecution, under these conditions, could not affect the needs of the west. A call loan is at all times an investment of the most temporary character, as the term itself indicates.

"The observation that the managers of branch banks have very limited discretionary powers in the matter of extending accommodation is justly taken. These powers must necessarily be restricted to amounts that seem inconsequentially small compared with a bank's assets. 'Western bank managers have mighty little authority,' our complaint declares. 'They are hardly better than head clerks, and every transaction that contemplates the expenditure of more than a very few thousand dollars has to be decided upon by eastern directors.'

Limiting the Loans

"The reason for this curtailment is explained by a very simple calculation in arithmetic. Take a chartered bank having a paid-up capital of five million dollars, operating one hundred branches under the direction of one hundred local managers, acting independently of each other in the best interests of their customers and the institution they represent. If each manager should lend out one thousand dollars each week for one year, towards the end of the year the bank would find its entire capital converted from a reliable and ready form of asset into a quantity of bills receivable from a grateful clientele of varying degrees of financial responsibility, each note being accordingly an instrument of more or less uncertainty as to its immediate realizable value. Of course this situation would be impossible unless all the loans were made for an equal term of one year. Nevertheless, of necessity all bank loans of any importance must be passed upon by a central authority; but, aside from this, the local manager is boss in his own territory.

"The term 'accommodation' does not belong to the vocabulary of business or banking. For that matter it does not belong to the terminology of the railroad either, since it is commonly declared that the worst service is afforded by 'accommodation' trains. Probably if it were removed from railway time tables and banking literature there would be fewer complaints finding expression in the columns of the press. The term is misleading. It fosters the deduction that one of the functions of a bank is to be 'accommodating' in the matter of lending out money, and this notion is in fact confirmed by the laws applying generally to the lending of money. A pawnbroker takes an article to pledge as security for his loan; a money-lender takes a chattel mortgage; a loan company takes a mortgage.

"But a bank is not permitted to make advances on any of these forms or instruments of security. So, when a citizen is tied up in every other direction, he is inclined to look towards a bank for accommodation of the credit that no longer

holds any legitimate claim for consideration by previously consulted facilities for borrowing.

"Many a business concern has been rehabilitated by the timely advance of a loan from a bank, but that loan was not made as an 'accommodation.' It was advanced because, after circumstances and conditions had been fully inquired into, the enterprise was found to be sound at bottom and worthy of encouragement as a business proposition.

Helping the Farmer

"If there is any out-and-out accommodation being extended, as a matter of policy in banking, it is in the advances made to farmers for seed, fertilizers, machinery and stock to develop production from the land. The security here is altogether intangible. The loan is made entirely upon prospects altogether beyond the control of the bank. But there may not have been enough of this, or otherwise the criticism of banking under review would not have raised a complaint that 'the farmer of Saskatchewan to-day requires liquid credit. He does not need mortgage money in a very urgent degree. The function of a mortgage company is entirely different from that of a bank. A farmer puts a loan upon his property to buy more land, erect new buildings, or otherwise effect permanent improvements that will add to his capital. He borrows from the banks when they will unbend far enough to accommodate him—to carry on his season's operations, and to provide him with sinews of war until he can get his crop to the market. Sometimes the banks come through in this respect; more often they do not.'

"A consideration of the particulars cited in this instance invites the conclusion that the complaint does not concern the refusal of any bank, in any instance, to put a farmer 'on his feet' with regard to the advancement of a small initial capital. It has to do with the higher finance of extended farming operations. The case outlined is that of a farmer who has mortgaged his farm to buy more land; perhaps he has erected buildings which may be again mortgaged; also, he may have bought farm implements on the instalment plan, and as these remain under a lien until fully paid for, it follows that the borrower approaches the bank with all his material assets in hypothecation, and the produce of his farming operations under an assessment in advance to pay off the overhead incurred in increasing his obligations to carry on farming in a more ambitious way. A mortgage company would not 'touch' this form of a proposition, nevertheless we are told that—'sometimes the banks come through in this respect.' The bank is here expected to take a risk that no other financial corporation would, or legitimately could, assume. If the crops do not 'come through' the bank must either double its loan and hope for better harvest next season, or add immeasurably to the chance of an initial loss by refusing further accommodation. If the borrower fails to 'come through,' the bank may take what recourse it may at the risk of 'getting in wrong' with the neighboring community.

"Where a bank does not 'come through in this respect' the refusal is not to be taken as an evidence of an entire lack of sympathy for the needs of the applicant for a loan. Every branch bank carries some loans of this description, but the amount must necessarily be carefully scaled into the volume of more ordinary and regular business. Therefore a perfectly friendly and obliging local manager may sometimes have to extend a customer instead of the loan requested, the explanation that he has put about all the trust in the good intentions of Providence towards his section of the country for the forthcoming season that a strict regard for the rules of sound finance will conscientiously permit him to manifest.

Functions of Banks

"Every discussion on banking should proceed from a consideration of the main functions of banking. 'It is not by augmenting the capital of a country, but by rendering a greater part of that capital more active and productive than would otherwise be so, that the most judicious operations of banking can increase the industry of a country,' declared Adam Smith in his 'Wealth of Nations,' 1776.