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Prospective Borrowers and Big Ideas

WOULD-BE *customers of the Canadian bank sometimes forget that a borrower must have a credit basis—Something more than the mere ability to get loans and discounts is required to create wealth*

By H. M. P. ECKARDT

IN his recent address at the Finance Forum, Sir Edmund Walker referred to the fact that many of the rich men of the Dominion owed their wealth in large measure to the support accorded them by their bankers. If the banks had not extended credit when and as needed, the parties referred to could never have created their fortunes. The process by which the banks make possible and encourage the creation of wealth was also referred to by Mr. Joseph Henderson, vice-president of the Bank of Toronto, in the evidence given by him last year before the Banking and Commerce Committee of the Ottawa House.

The members of the committee were discussing the old question as to whether local banks or branch banks were better for the community; and as a means of illustrating how beneficial the operations of the branch banks proved to be, Mr. Henderson mentioned Peterborough and Cobourg. "In the latter case," he said, "the branch bank took in hand one of the small industries of the place and helped it along. The man was capable and successful. He did not have very large capital. He commenced in a very small way; by the assistance of a branch bank he was enabled to build up one of the largest car-building industries in the country."

Relations with the Bank.

In industry and trade in all parts of the Dominion the same process has been repeated hundreds of times. A manufacturer establishes himself in a small way and makes a connection with a chartered bank. In a few years he demonstrates to the satisfaction of his bankers that he is capable, prudent, and dependable. Step by step he enlarges his operations. As he enlarges, it becomes necessary to ask the bank for heavier lines of credit. Because they have confidence that he will put the funds to good use and make them fructuate or increase, the bank responds to his successive requests for enlargement of credit. For a number of years the loans are very large; but by and by the increment of profits begins to over-bear the annual re-investment in plant and equipment, and the bank loans come down. Eventually the manufacturer works himself into a position in which he is largely independent of any particular bank, perhaps independent of banks in general. Possibly he takes rank among the country's millionaires.

The same thing is seen in trade. Here are two steady-going, capable and bright young men in the employment of wholesalers or jobbers. They set themselves to study all the points in connection with conducting a big mercantile establishment, in the meantime saving up their money. After a number of years they combine their accumulations and set up in business for themselves. They can do nothing of consequence until they succeed in finding a bank which is willing to discount their good trade bills.

At first the bankers are extremely cautious—before they will extend credit at all freely the new men must demonstrate that they can conduct a business of their own prudently and successfully. Consequently, the bankers demur or baulk at discounting the paper of weak purchasers. In that way the merchants are probably forced to confine their transactions to purchasers of a fairly good class, and perhaps they are saved from over-extensive losses in bad debts. The confidence of the bankers being fully retained, and even increased, the means are available for steadily expanding the business; and in course of time these customers of the bank become great merchants.

Case of the Merchant.

In the case of the merchant, as in that of the manufacturer, probably it would have been entirely impossible to have amassed great wealth but for the active support of the banks. If the banks had not been standing there, ready to supply funds as needed from day to day, the new wealth could not have been created, and the country, as a whole, would have been poorer. It should be borne in mind that the manufacturer and the merchant in the process of amassing their millions are developing the resources of the country and enabling scores or hundreds of others to make a living. As a matter of fact, their operations will inevitably enable a certain number of others having dealings with them or employed by them to amass wealth in turn, and so the circle widens.

The two illustrations above mentioned serve to show also that banks exist, not for the benefit of the rich exclusively, but for any who can demonstrate that they have business ability and a good equipment for making a success of what they undertake. Both the manufacturer and the merchant in the foregoing illustration started in a small