

Co-operative Credit Associations

The essentials of a plan for the extension of short-term agricultural credit

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At the recent meeting of the Joint Committee of Commerce and Agriculture H. W. Wood, president of the United Farmers of Alberta, put forward a proposal for the formation by farmers of co-operative credit circles, i.e., associations or groups of farmers formed to "pool their credit" for the purpose of obtaining loans from the banks for farming operations, livestock purchases, etc., the primary objects aimed at being: (1) To enable farmers to obtain a



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sufficiency of credit to adequately work their land, and (2) to secure lower rates of interest in consideration of the collective obligation which would be given to the banks.

As an outcome of the discussion in the joint committee of the whole subject of rural credits, a resolution was passed recommending that a meeting be arranged between the representatives of the banks and those of the farmers' associations, with the object of reaching an understanding respecting the policy of the banks as regards western rural credits. Among matters specially mentioned in the resolution, as to which an understanding would be desirable, was that of the view which the banks might be expected to take of the proposed co-operative credit associations.

A preliminary meeting between the farmers and bankers was promptly brought about, and arrangements made for a meeting at a later date to fully discuss all issues. From what I have seen of the attitude of the representatives of both interests I am confident that the enunciation of policy which the banks will be prepared to make will be acceptable to the farmers.

In the meantime I am asked by the editor of The Guide for an expression of my personal views respecting the possibilities of a system of co-operative credit associations throughout the West. And as the attitude of the banks towards this proposal would necessarily depend wholly on just what lines it would be intended to follow in the organization and operation of such associations, I have pleasure in responding to the editor's request. I shall hope that what I have to say will aid Mr. Wood and his friends to formulate the proposal in a shape which will make it generally acceptable.

On the broad general question I should like at the outset to draw particular attention to the fact that there are now in existence in the province of Saskatchewan—formed wholly on the initiative of the banks—three co-operative associations extending credit to farmers of limited means to start them in stock raising, the loans being secured by chattel mortgage on the stock. These associations have now been in operation long enough to demonstrate their success in a highly satisfactory degree. They have not only rendered it possible for farmers to obtain credit which they could not otherwise have obtained, but to do so at a rate of seven per cent.—one and two per cent. lower than the prevailing rates for farmers' individual borrowings.

Why, therefore, should a banker question the feasibility of extending the principle of co-operative borrowing, to provide for all the requirements of farmers in the way of floating credit? This question of feasibility is one which can only be determined by the farmers themselves. It depends altogether on how far they are willing to go in this form of co-operation. As to how far it would be necessary to go in order to attain a satisfactory degree of success my own mind is clear.

Pooling of Assets an Essential

It will not suffice merely to pool their credit. The men most in need of credit are the farmers of small means whose credit needs some fortifying. Consequently they should be prepared to pool their assets, and also to submit to regulation by the directors of the association not only as to their bank credit, but their credit from others than the bank.

Chattel mortgage and bank credit are the least important items in a farmer's credit costs.

As Mr. Musselman, secretary of the Saskatchewan Grain Growers' Association, very clearly pointed out at the meeting of the joint committee, the dearest credit a farmer takes is that for his store account, purchases of implements, lumber, etc. And the credit which kills is that taken when he goes into debt to acquire more land than he can efficiently work. If the average farmer carried no more land than he could properly farm, and if he obtained all his floating credit from the bank, the rate paid on his mortgage and bank loans would be a matter of minor importance. Nevertheless, under the conditions last mentioned his position would warrant more favorable borrowing rates, and with lower borrowing rates as well as lower costs of purchases the total gain would be very great.

As already indicated, it is the small farmer—the man on a quarter-section—who is most in need of assistance in obtaining credit, the many half-section men would be benefited by the power to borrow co-operatively. The principal reason the quarter-section farmer finds it difficult to obtain bank credit is because in all three provinces his land and equipment are exempt from execution, while in Saskatchewan the law even prevents farmers from mortgaging exempt chattels. This being so, it is extremely doubtful whether the collective obligation of a number of farmers possessing nothing but exemptions would carry appreciably more weight than their individual obligations for separate borrowings.

So I am forced to the conclusion that before a co-operative credit association could borrow freely to provide credit for small farmers, a pooling of the assets of their members would be necessary, by means of a mortgage—which would usually have to be a second mortgage—of their land and possibly also their chattels.

Overcoming Exemption Handicap

In this connection it should be borne in mind that while the exemption acts permit of some dis-



READY TO ADD THE STANCHING

honesty, they were not designed for that purpose but merely to protect honest men from losing their means of livelihood thru the action of rascals—creditors—creditors animated solely by a determination to summarily collect a debt regardless of the consequences to the debtor.

I am going to assume that no one will question the duty of the individual to pay his debts, and that once it has become clear that a man is a failure on the land he should be turned to some other occupation and the proceeds of the sale of his farming assets used as far as necessary to pay his debts. If this is admitted, then there could be no objection to a mortgage of exemptions in favor of a co-operative credit association, since it is to be presumed that the danger of any farmer being unnecessarily sold out by such an association would be non-existent.

At first sight there may be some demur at the view that exemptions should be made realizable at the hands of the co-operative association. I would point out, however, that this provision is necessary quite as much for the protection of the other members of the association as to strengthen the credit of the association with its bank. So essentially necessary do I deem it to be that without it I altogether question the possibility of getting the stronger class of farmers to join in the movement, particularly where they have unencumbered assets which would be put at jeopardy for the debts of others.

Moreover, even if there were a sufficient number of financially responsible members in an association to ensure the collectibility of bank loans to other members, this would not meet the requirements of a bank. No bank would care to deliberately take the risk of having to call on a lot of good farmers to pay the debts of bad ones. Therefore, I again emphasize that in order to obtain a complete measure of success there must be a pooling of assets as

the foundation of a co-operative credit association—the association must have security at the start on the lands and equipment of its members.

Association Should Regulate All Credit

There is one aspect of the problems of western farmers on which a banker ought to be able to speak with knowledge, namely that of finance, and I want to say here—what has been said often elsewhere—that the financial difficulties of innumerable good farmers are traceable to liabilities incurred thru buying more land than they can efficiently operate. In the boom period from 1906 to 1912 there was no restraining farmers from buying additional quarter and half sections. A man couldn't wait until he had his first holding of land and his equipment paid for before plunging into further debt to acquire more land. And more land usually meant the necessity for more horses and implements—debts on top of debts, interest on top of principal.

From this has arisen one of the chief difficulties which banks have encountered in extending credit to western farmers. I am aware that the extent of this difficulty will be questioned by many, but with a full sense of responsibility, and carefully avoiding overstatement, I have no hesitation in saying that to my own knowledge cases such as I have described are numbered by thousands.

Then there is another and very large class of farmers who buy lumber, implements, etc., in excess of their immediate needs and ability to pay—men who succumb to the "Science of Salesmanship"—and are always harrassed by the collector at threshing time. Farmers in this class are legion.

A co-operative credit association therefore should have power to regulate the taking of credit by its members for more land, additional equipment, improvements, etc. Objections may be urged to this on various grounds, but I am thoroughly convinced that such a regulation would be enormously beneficial to the members of the association.

No Practical Difficulty in Regulation

Nor would there be any practical difficulty in applying such regulation effectively. Most farmers are accustomed now to map out for their bankers a program of expenditures for each new season, and the procedure would be for each member to furnish the directors of the association with a statement of assets and liabilities at the end of the season, on forms supplied by the association, accompanied by: (a) Particulars of the acreage cropped in the past season and to be cropped in the new season; (b) An estimate of the expenditures to be made for farming operations and for equipment and improvements; (c) An application for the banking credit required to carry him thru until his crop can be marketed. The application should embody an undertaking not to incur any liabilities for purposes other than those specified in the estimate of expenditures furnished to the association, without first obtaining the sanction of the directors.

Such an undertaking would in most cases effectually protect the man who is an easy victim of the persuasive sales agent—the man who would unwittingly trade his farm for a threshing machine, and the man who could be talked into buying a new implement or wagon when with a few dollars spent on repairs the old one would give good service for a considerable time longer.

Our western farmers as a class will not enjoy the full fruits of their labors until they have succeeded



THE EFFICIENT FARMER GETS THE PIE

in putting themselves in a position where they can obtain all their floating credit from institutions organized for the express purpose of dispensing credit, namely, the banks, and get the full cash discount on all their purchases. As I have already pointed out, cheap banking credit is at present the

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