

that there is a moral hazard in loaning as there is in fire insurance, and the best of land may be poor security in the hands of a dishonest or incompetent farmer. My opinion is that until the earning power and value of farm land becomes more clearly established and until the borrower's capacity to manage his farm is more readily ascertainable by a continuous record in the past, there will always be large losses on farm mortgages unless there is imposed the principle of collective liability for individual mortgages by groups or associations composed of members of the borrower's community. This is the principle on which the American Farm Loan Plan is based and the foregoing conditions apply less truly to agriculture in the United States than in Canada.

A Bill drafted at the last session of Parliament, but not presented, a copy of which is attached hereto, was based on the principle of collective liability by associations of farmers. The following were the principal points on this Bill:-

1. An administrative Board to be called the Dominion Rural Credit Board should be organized, composed of five members.

2. There should be incorporated, companies, not exceeding four for the whole of Canada, to be called Rural Credit companies, each with a minimum subscribed stock of \$500,000 on which at least \$100,000 has been paid.

3. There would then be formed Rural Credit associations composed of ten or more individual farmers. The capital of these associations would be not less than \$5,000, of which borrowing members would subscribe and pay at least 5% of the loans obtained through the association. Membership in these associations would be obtained only on a two-thirds vote of the directors.

The foregoing is the skelton of the machinery contemplated by the Bill. The Government was authorized to subscribe to the whole or any portion of the stock of the four Rural Credit companies. This would mean a minimum payment of \$400,000, assuming that none of the subscriptions are obtained from the public, but all from the Government. The said subscription and payment would call for repayment to the Government in annual instalments of

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