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THE BORROWER'S OWN PLEDGE.

When the matter of the secret liens was being threshed out in committee at Ottawa a number of the members evinced considerable hostility to the Bank Act clauses which cover them. The ground taken by these members was that the secret lien worked an injustice to the general body of creditors. Mr. Waldron cited the case of a manufacturing company which failed for \$86,000. There were English creditors with unsecured claims for \$10,000.

The bankers of the company, however, had everything covered by their secret lien, and, presumably, other creditors would get nothing. Apparently it was the desire to prevent the occurrence of cases of this kind which moved the committee to pass the amendment requiring that liens given by farmers on threshed grain should be registered. The Western members objected strenuously to this amendment. Mr. Aikins, the member for Brandon, pointed out that the registration would necessitate a fee of \$10 or more, and that the amendment would practically nullify the clause; but, notwithstanding the protest, the amendment was passed.

It should be said that the secret lien, or borrower's own pledge, as it is often called, is used extensively. Loans to wholesale dealers in grain and other produce, to lumber companies, and to manufacturers, are often based on this security. In the case of the grain and other produce loans, it does not appear that the secret lien works injustice to the general body of creditors.

Take the wholesale grain merchant, for example. Everybody who has dealings with him is aware that his bankers advance to him practically all of the funds he uses in buying grain, and that the bank holds the grain as security for its claims. Even if his elevators are bursting with grain, the fact would not influence parties

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to give him credit, since everyone supposes or knows that the grain is pledged to the bank. Again, grain and produce generally is a cash commodity.

The party who buys and sells it in wholesale manner must deal for cash, and thus it might be said that he has no creditors other than the bank. These circumstances probably explain why the secret lien works satisfactorily on the whole, so far as outside creditors are concerned, in the cases of the wholesale produce dealers.

The banks at times suffer losses when they give credit in this way to undeserving parties; but outside creditors have not suffered to any noticeable extent.

In case of secret liens given by manufacturers there are more complications, for the simple reason that the manufacturer is apt to have more outside creditors.

There may be unpaid vendors of raw material; and various other parties may have extended credit to the manufacturer. However, even in this case, the parties extending credit will be mostly business men, who are well aware that the manufacturer is obtaining advances from the bank, and who surmise that the bank probably has all the bills receivable, and perhaps a lien on the raw material and material in process.

There would be some distinction made when the raw material used by the manufacturer consisted of a commodity which is customarily bought and sold on credit. In that case the presumption would be that there were unpaid vendors; and it is not likely that the bank would make any advances on the borrower's own pledge of the stuff, unless the banker knew that the vendors had been duly satisfied.

When the manufacturer's raw material consists of something which is invariably bought and sold for cash, the justification for the secret lien is more apparent.

Then there are no unpaid vendors of raw material to be considered; and, as regards the sundry outside parties who extend credit to him, they probably do so, not on the strength of the merchandise contained in his