

A writer in *The Guide* recently, in attacking my suggestion that under conditions existing in the West co-operative credit associations should be founded on a pooling of assets, argued that personal character is the proper basis for credit and that a pooling of assets would be destructive of the independence of the borrower. While, however, character, i.e., possession of the cardinal virtues of integrity, industry, etc., is a fundamental pre-requisite of credit, it is by no means by itself alone a sufficient basis for credit. Ability to repay is also an essential requirement. A bank in dispensing credit will wish to be satisfied that a prospective borrower possesses means of repayment sufficient in extent to meet any normal reverse due to providential causes, as, for example, in the case of a good farmer, a crop failure.

It is a legitimate function of a bank to lend farmers the money required to put in and take off a season's crop, but in order to warrant such credit a farmer's position should be such that with a normal crop the returns therefrom would be sufficient to enable him to provide for all his floating debts—bank loans, mortgage interest, implement notes, etc. Banks do not ask more than this, provided the farmer's land and implement debts are not excessive in relation to the amount of his capital, although, strictly speaking, in order to be a really first-rate risk for credit a farmer's position should be such that even with a crop failure he would still have enough quick assets left—grain, livestock, etc.—to counterbalance his floating debts.

Take a concrete example. John Smith, a grain farmer, at the beginning of a season shows assets and liabilities as follows:—

Assets	Liabilities
Good accounts\$ 210	Owing to bank\$ 600
Grain for sale 660	Mortgage interest 80
	Implement notes due 110
Quick assets\$ 870	Floating debts \$ 790
Seed grain 140	Implement notes not yet due .. 200
Implements 800	Mortgage 1,600
Quarter section 3,000	
Work horses 900	Surplus 3,720
\$5,710	\$5,710

It will be observed that he has enough quick assets with which to clean up his floating debts; that his mortgage indebtedness is moderate; and that his horses and equipment are nearly all paid for.

Assuming him to be reputed a good worker, cultivating his land well and enjoying the confidence of his neighbors, in Manitoba and Alberta he would have no difficulty in getting from a bank the credit necessary for a new season's operations, say \$600 or \$700. (I omit reference to Saskatchewan for reasons which I will explain later.)

Then should he have a bad crop failure, he would be owing the bank \$600 or \$700 which it could not collect promptly without putting its customer out of business, and in actual experience this is a situation which has occurred in thousands of cases during the