

# Six Per Cent Farm Mortgages

The Governments of Manitoba, Saskatchewan and Alberta are working on a plan to provide mortgage money at Six per cent for farmers in all three provinces. It is expected that the Money will be available by Spring

"Cheap money for farmers" has been a subject of discussion for many years past in this country. It has been talked of by politicians, it has been advocated by leaders of the organized farmers, it has been investigated by royal commissions and has frequently appeared in the press and occasionally been discussed in the pulpit.

But now for the first time cheap money seems to be actually in sight. Six per cent. money on farm mortgages is cheap money today. When the Dominion Government is paying five per cent. interest on war loans of the magnitude of \$100,000,000, it cannot reasonably be expected that farm mortgages in Western Canada can be secured at a lower rate than six per cent. Even this rate, however, will be a saving of from one to two and a half per cent. in Manitoba and from two to four per cent. in Saskatchewan and Alberta. It will, therefore, mean a very considerable saving in hard cash to the farmers of the three provinces if the scheme now under way comes to a successful consummation next spring, as it will give them mortgage loans at slightly under six per cent.

Hon. Edward Brown, provincial treasurer of Manitoba, in consultation with the provincial treasurers of Saskatchewan and Alberta, has been working on a government scheme for farm mortgages for some months past. The various systems in operation thruout Europe and other parts of the world before the war have been examined, but none of them were followed in detail as it was considered that different conditions in this country required alterations in systems successful under other conditions. In more closely settled countries. The plan which the various governments have agreed upon will be uniform thruout the three provinces. There is nothing just like it in any other part of the world. It is designed specially to meet Western Canadian conditions and has no connection with the Federal Government. Each of the three provinces will carry on its scheme independently of the others, but it is expected that the system itself and its administration will be uniform thruout.

## The Amortization Plan

As announced by Mr. Brown, all the mortgages will be upon the amortization principle which has proven so successful in Australia and New Zealand. Loans will only be given for twenty, thirty or forty year terms, principal and interest to be repaid in equal annual instalments. For instance, a \$1,000 mortgage for twenty years will call for a repayment of \$87.22 per year, including principal and interest, which at the end of the twenty years will pay off the entire obligation. On a thirty year mortgage of \$1,000 the annual payment will be \$71.02, and on forty year mortgage for \$1,000 the annual payment will be \$63.27.

Ordinarily it would be expected that the farmers in Western Canada would not care to assume mortgages running from twenty to forty years, but the new scheme provides for this objection by permitting any farmer to pay off his mortgage in full at any half yearly period. He will therefore get the benefit of the low rate of interest and the small payments and yet have the opportunity of discharging his mortgage whenever he is in a financial position to do so.

## Rural Credit Association

The plan which the government proposes to follow is to create an organization in each province, which in Manitoba will be called "The Manitoba Rural Credits Association," with head office in the Legislative Buildings at Winnipeg. This association will have full charge of the administration of the rural credit scheme and will be under a board of management consisting of five members. The chairman or commissioner will be the only permanent official. He will be appointed by the government. Two members of the board will be nominated by the Union of Municipalities and the other two by the government. It is provided that two of these members shall be Liberals and the other two shall be Conservatives. These four members of the board, aside from the commissioner, will meet only as required for the transaction of business and will not be permanent salaried officials.

## Municipal Local Option

The local option plan has been decided upon and the municipality has been selected as the unit. After the necessary provincial legislation has been enacted no money will be loaned to any farmer until the municipality in which he resides has submitted a by-law to the electors and received a majority vote in favor of it, which will then bring the act into operation in that municipality. The municipal council will then appoint a committee which may consist either of its own members or otherwise, to supervise all loans applied for by farmers in that municipality and recommend such loans to the board.

The secretary-treasurer of the municipality will receive all applications for loans as a part of his regular duties and without any extra remuneration from the government, tho there is nothing to prevent the municipality from arranging extra payment for him for this work. Each municipality which approves of the by-law will by so doing guarantee the government

against loss on mortgages placed in that municipality to the extent of five per cent. of the money loaned in that municipality. This is taken as a precautionary measure to improve the security of the bonds which will be issued and it is not expected that there will be any losses.

## Money Raised by Bond Issues

One of the first questions that will naturally be asked, where is the money coming from to loan on these mortgages? The proposal of the government is to raise the necessary money by offering five per cent. bonds on which both principal and interest will be guaranteed by the government for sale thruout the province and in the money markets of the world. It is expected that these bonds will sell at par at the present time and that the money required will therefore cost the government about five per cent. It is

**A THIRTY YEAR MORTGAGE**  
Showing how the payments for each year will be made up under the proposed scheme.

Year	Principal Balance	Interest 5%	Principal Repayment	Reserve 0.79%	Total Payments
1	\$1,000.00	\$50.00	\$13.12	\$7.90	\$71.02
2	986.88	49.34	13.88	7.80	71.02
3	973.00	48.65	14.69	7.68	71.02
4	958.31	47.92	15.53	7.57	71.02
5	942.76	47.14	16.43	7.45	71.02
6	926.35	46.32	17.38	7.32	71.02
7	909.97	45.45	18.39	7.18	71.02
8	893.58	44.53	19.46	7.03	71.02
9	877.12	43.56	20.58	6.88	71.02
10	860.54	42.53	21.77	6.72	71.02
11	843.77	41.44	23.03	6.55	71.02
12	826.74	40.28	24.37	6.37	71.02
13	809.37	39.07	25.78	6.17	71.02
14	791.59	37.78	27.27	5.97	71.02
15	773.32	36.42	28.85	5.75	71.02
16	754.57	34.97	30.52	5.53	71.02
17	735.25	33.45	32.29	5.28	71.02
18	715.36	31.83	34.16	5.03	71.02
19	694.90	30.13	36.13	4.76	71.02
20	673.87	28.32	38.23	4.47	71.02
21	652.14	26.41	40.44	4.17	71.02
22	629.70	24.39	42.78	3.85	71.02
23	606.52	22.25	45.26	3.51	71.02
24	582.66	19.98	47.88	3.16	71.02
25	558.18	17.59	50.65	2.78	71.02
26	533.13	15.06	53.58	2.38	71.02
27	507.55	12.38	56.68	1.96	71.02
28	481.37	9.54	59.97	1.51	71.02
29	454.60	6.56	63.42	1.04	71.02
30	427.26	3.38	67.11	.53	71.02
					\$2,130.00

NOTE.—In making the calculations in even dollars and cents a small difference (.37 cents) occurs which would be absorbed in actual practice.

expected further that the expense of administering the act will not be quite one per cent. additional so that the cost of the mortgages will average under six per cent. on thirty year loans, including all costs in connection therewith.

It is intended by the governments that the Rural Credits Association shall never become commercialized, and as it is likely to become a good paying proposition in future years all the capital stock and shares of the Association are to be held either by the government or by farmers who have borrowed money on mortgages from the association. Every farmer who gets a loan from the association must become a shareholder to the extent of five per cent. of his loan, in other words, when a farmer borrows \$1,000 from the association by giving a first mortgage on his farm, he will receive \$500 cash and \$50 in paid up shares in the association. It is expected that these shares will pay a fairly good dividend, depending entirely on the profits of the association. No dividends will be declared until a reserve account has been created equal to twenty per cent. of the paid up capital.

## Where Profits are Expected

The profit in the conduct of the association it is expected will come thru the cheapness of administration and from the fact that a margin is provided for by a lower rate of interest on repayments than are charged on the original loan. In brief, this is the plan. The bonds which will be issued to raise the money for these mortgage loans will be for periods of ten years only. The repayments on the mortgages will go into a sinking fund, the purpose of which is to pay off these mortgage bonds when they become due. The whole plan has been framed so that the repayments on these mortgage loans will go into the sinking fund at a guaranteed interest of three per cent. This sinking fund until such time as it will be used will be invested in Dominion Government war bonds or provincial, municipal or school district bonds, which bear interest at the rate of five to six per cent. This is where the Rural Credits Association should be able to earn its profits, and whatever profits are earned will be for the benefit of the shareholders, all of whom

must be borrowers. These shares will only be held by farmers so long as they are carrying a mortgage. Whenever they pay up their mortgage these shares will go back to the government to be allotted to other farmers. The idea is whatever profit or loss there is in the operation of the scheme will be enjoyed or endured by those who are carrying the mortgages.

## Government to Advance \$1,000,000

To set the scheme in operation in Manitoba the government will arrange to borrow from the banks at five per cent. the sum of \$1,000,000, and the government will also arrange to subscribe for \$100,000 worth of stock in the association. By the time the \$1,000,000 is loaned out on farm mortgages, five per cent. of it or \$50,000 will have been subscribed in stock by the various borrowers. The government will then proceed to issue guaranteed five per cent. bonds which will be free from all local taxation and which may be issued to the extent of \$9,000,000.

To keep down the cost of administration the government will provide that the Land Titles Offices will make no charge for investigating titles and registering mortgages beyond the regular registration fees that are placed by the Rural Credits Association. The government in Manitoba will also provide that the accounting work in connection with the mortgages shall be done in the office of the comptroller general without any charge to the association. These are two big items and will undoubtedly reduce the cost of administration to a very considerable degree.

## Loans for Proper Uses

It will be provided for in the legislation that money will be loaned by the Rural Credits Association on first mortgages on occupied farms only for the following purposes:—

- 1—To provide for the purchase of land for agricultural uses.
- 2—To provide for the purchase of equipment, fertilizers and livestock necessary for the proper and reasonable operation of the mortgaged farm. The term "equipment" to be defined by the board.
- 3—To provide buildings and for improvements on the land. The term "improvements" to be defined by the board, who may vary same in different cases.
- 4—To liquidate the indebtedness of the owner of the land mortgaged existing at the time, or indebtedness subsequently incurred for the purposes mentioned in this section, the board to at all times first approve such expenditure.

## Strict Regulations

Some of the special provisions of the plan are as follows:—

The smallest loan that will be granted is \$500 and the largest \$10,000. No loan will be granted to exceed 50 per cent. of the value of the land appraised for agricultural purposes, and the earning power of the land will be the principal feature in the appraisal. No persons except farmers actually engaged in farming, or those about to engage in farming, will be able to secure loans. If the board has any reasonable doubts as to the ability of the applicant as a farmer the loan will not be granted.

No borrower will be permitted to sell or transfer his shares in the association. These shares remain permanently attached as a part of the mortgage contract. If he sells his farm the board has power to transfer the mortgage and also the shares to the purchaser if they approve of him. In the case of death the mortgage and the shares may go on to the heirs. Every applicant for a loan will use a regular prescribed form on which shall be stated the objects for which the loan is to be used and penalties will be provided for wilful mis-statements.

Altho the mortgages are to be placed at six per cent. and each borrower will agree to make all payments promptly and in full, the act will provide for defaults. It is the plan to charge eight per cent. interest on all overdue payments. If a borrower neglects to pay his taxes or any other charges that come ahead of the first mortgage, the Rural Credits Association Board will pay them for him and the borrower will be charged eight per cent. interest on whatever amount is paid in this way.

All buildings are to be kept insured in some company satisfactory to the board. It will be provided in the mortgage that if any borrower expends any part of his loan for purposes other than those specified in his application, or violates his mortgage contract in any way, the board will have power to declare his mortgage due and payable at once.

## All Payments in December

All payments on these mortgages will be made on the first day of December so that there will be a uniform day when all payments will fall due. The idea is to reduce the amount of work in handling the scheme and to fix the date of payment when it will be most satisfactory to the farmers to meet it.

It is the intention of the government that the Rural Credits Association shall be authorized to receive deposits. There is a possibility, however, that the

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