MORTGAGE LOANING SITUATION

Decrease of $13,000,000 in Loans Since 1914—Repayments and Government Displacements

"Between the close of 1914 and 1916, the first two full war years," said Mr. S. R. Tarr, editor of Canadian Finance, Winnipeg, at the meeting of the Dominion Mortgage and Investment Association at Toronto, on March 25th, "mid-western mortgages on the books of lending corporations (loan, trust and insurance companies) decreased from $276,109,246 to $273,455,031, that is by $2,654,215, or by a little under 1 per cent. During 1917 the decrease was undoubtedly much more pronounced. While nothing approaching complete information will be available for some months, the annual statements of over a dozen of the largest Canadian loaning institutions of all three classes show a drop of about 3½ per cent. in bulk of mortgage investments last year. These figures, of course, relate to all Canada. But the ratio of decrease would probably hold for the west. While repayments were doubtless proportionately larger on the prairies, owing to unprecendented monetary returns from agriculture, there was considerable now lending (as for instance by several Dutch companies) by way of loans in outlying homesteading districts. A 3½ per cent. decrease in 1917 would mean a drop of about $9,500,000, making year-end institutional holdings of mortgages somewhere about $264,000,000. Since 1914, therefore, the wartime falling-off to the end of 1917 has been over $12,000,000, taking into account only institutional lending. Loans through private channels possibly fell off another $1,000,000. Conservative estimating of the present grand total of prairie mortgage loans would bring a figure of something over $285,000,000, city as well as farm, but not including implement company liens, etc., which latter have been pretty thoroughly cut down during the past two years of agricultural prosperity."

Affected by Government Loaning.

"Naturally enough, in view of phenomenal money returns from western crops, the farm mortgage situation has been one of repayment rather than of new loaning during recent months. The Manitoba situation especially has been affected by government loaning at lower rates than market conditions warrant, resulting in the paying off of loans from the companies, and the placing of mortgages with the government instead. As only $620,000 (out of $1,500,000 approved applications) was put out by the Manitoba farm loans board up to the end of 1917, the displacement has not yet been large. Nor is it likely that the total by the end of 1918 will be over one and one-half million dollars. But the after-war effect of this condition upon the supply of loan funds is certain to be deterrent to an extent far beyond the actual amount displaced. Idle company funds are now being diverted into other channels, notably government securities, and there will be much difficulty in attracting them back to compete in a mortgage field where business is done on a basis apart from money market conditions. The danger to the farmer is that, after the war, while the government itself will not be able to supply the volume of funds eventually required, the loan companies will, to a considerable extent, have been scared out.

Below-Cost Government Competition.

"But for such below-cost competition, present and prospective companies (in order to preserve their agency and administrative organizations intact) would prefer to keep funds in the west at lowered rates. As it is, they are seeking other fields. Alberta, recognizing the situation, has announced a decision not to enter the loan field under present conditions, and Saskatchewan has practically halted. Manitoba keeps at it, though it has been able to get less than $200,000 from investors within its own borders for the Farm Loans Association. (The provincial treasurer in an optimistic moment told a meeting of life underwriters that the school children's savings alone throughout the province would make available over a quarter-million dollars for the scheme.) Saskatchewan did better and received subscriptions of something over $750,000 to its greater production loan. With no further local funds immediately in sight and realizing (as Manitoba has failed to do) the absurdity of lending at a lower rate than has to be paid by the government itself, the Saskatchewan Farm Loans Board has been advising applicants that no further loans can be made in the meantime—the 6½ per cent. rate promised being manifestly out of line with market conditions. Manitoba, however, blindly continues putting out money at 6 per cent., a rate originally based on supposed government ability to borrow at 5 per cent., while recent short-term borrowing has cost the province 7¾ per cent.

"Conducted on sound business lines, government mortgage lending to western Canada's farmers might quite well find justification. There were those in the loan company ranks optimistic enough to hope, when the Manitoba Farm Loans Association was first proposed, that this new development in the loaning field would increase the future incoming of capital, as well as tend to lower rates, for the reason that the government's own participation in the business might put an end to legislative tampering with the security underlying mortgage contracts. Loan company representatives on the joint committee of commerce and agriculture joined in its unanimous vote approving of government mortgage lending, if on sound business lines. Conservative lending institutions prefer a lower rate with assured security to a high rate with considerable risk of loss and of costly delays.

"It is but fair to say that real legislative progress was made a year ago in removing some of the disabilities complained of by lenders and borrowers alike. But it is to be feared that any gain to the Manitoba situation in this particular is more than offset by the provincial treasurer's refusal to recognize any change in world-wide monetary conditions, and by the associations continuing to lend to farmers at a rate of 6 per cent., based upon a supposition that money could be obtained at 5 per cent. and that 1 per cent. would more than cover all administration charges. As to administration costs, no definite information was vouchsafed in the meagre interim report given at the recent session of the Manitoba legislature. But it is known that British Columbia incurred an operating loss of over 3 per cent. under its initial government plan of lending to farmers at 6½ per cent. Since reorganization of its system it has been found necessary for that province to raise its rate to 7½ per cent.

Robbing the Future of Needed Funds.

"Given a fair field and wholesome but not destructive competition, lending companies would be able to go on putting out their available funds with advantage to all, when the borrowing demand again begins to increase. But it spells future trouble to the province as a whole for the government to hand out at 6 per cent. to first-comers certain limited funds obtainable at a low rate that bears no relation to ruling interest. It cannot be kept up, unless at a large direct loan to taxpayers, rural as well as urban. The doing of it even temporarily must tend to divert the attention of lenders to the other fields where there is no government competition, or where (as in Alberta and Saskatchewan) it is to bear some relation to actual money market conditions.

Difficulties in Compiling Statistics.

"Any attempt to compile comparative tables relating to mortgage loans in the three prairie provinces is beset by manifold difficulties. The province of Manitoba prints no official detailed figures whatever as to institutional investments. The other two provinces' figures are differently tabulated in various respects. It is surely high time that full and uniform information as to classes of investments and sources from which they come should be given by all provinces. For seven years Canadian finance has endeavored (by getting into communication with government departments and with the loaning companies) to tabulate the mid-west's investments coming through institutional channels. Its best efforts have failed to achieve accuracy, and the results here submitted are only approximate. Some of the difficulties arise from government returns lumping together in some cases all investments—mortgages, real estate holdings, policy loans, stocks, bonds, etc. It would only befog matters to enter into explanations of the adjustments made in arriving at the final figures presented, covering about 400 institutions in all. This much may be said of them, that they are the only systematic attempt made in any quarter at a joint compilation, and that, over a series of years, they give a fair idea of the investment trend in the prairie provinces."

The clearing house committee of the Chicago Clearing House Association has adopted a resolution recommending to banks that on loans made for the purchase of Liberty bonds the rate be 4¼ per cent. for the first 90 days and 5 per cent. for the succeeding 90 days.