

THE LAWS OF CREDIT AS APPLICABLE TO THE BANKER.—Continued.

THE banker, in Canada as in England, not only discounts bills drawn by the merchant or manufacturer on his customer, but makes temporary loans to enable the former to carry on his business.

There are different modes in which this is done.

In Scotland and in some parts of the North of England, there is a system of cash credits, by which, on the amount of a loan being fixed, and the required security given, the loan is allowed to form part of and to be included in the customer's current account. The customer's cheques are honoured to the amount of the credit, over and above any sums he may have deposited.—In fact, the account is allowed to be overdrawn to that extent. This term "overdrawn," however, is never applied to such accounts in localities where loans are effected by this means, except when cheques are honoured to an amount beyond the credit. Then the account is called overdrawn.

The custom of the Banks in London is entirely different.

The party to whom a loan is granted, makes a promissory note for the amount, and either obtains an endorser or joint promisor, or gives security on property, real or personal. This note is then discounted, and the proceeds placed to his credit.

With few exceptions this custom prevails universally in Canada.

A person in the produce trade, desiring a loan for the purpose of buying a stock of grain, arranges with the banker for an advance, offering security in the shape of an endorser or otherwise. If the advance is agreed on, promissory notes of the borrower are discounted, and the proceeds placed to his credit, as is done in London.

In transactions of this kind, (and our staple exports—produce and lumber—are all moved to market by means of such advances) the banker has to consider first the solvency and reliability of the person primarily responsible. The transactions are generally heavy, the loan being sometimes for amounts far beyond the whole means of the applicant. It is therefore of the first consequence to know that he is clear of debt, else the banker's money may be applied to paying off other liabilities. He must also be, without question, engaged in the trade, so that the banker may have confidence that the proceeds of the loan will really be expended in the purchase of a marketable commodity—say wheat, or lumber—and not applied to build a house or buy a farm, or pay for a ship. For if the banker can be certain that his money will be used for the purchase of wheat, flour, or other merchandise, including ships when the same are built for sale—and that his customer is honest—all the risk he runs is in the fluctuation of the market during the time the loan runs. The banker, in such cases, reasons thus:—my customer wants fifty thousand dollars; I know he is worth only ten, and that his endorser is worth only ten more; but I am sure he will put my money into merchandise, and am sure he will devote the proceeds of the sale—whatever they may be—to repay the advance. The risk, therefore, is simply that of a fluctuating market. If it falls twenty per cent, my customer will lose all he is worth; if it falls forty per cent, his endorser will lose all he is worth too. My debt will be good even if things are as bad as this, and worse they cannot be, unless under very extraordinary circumstances. Ten to one, however, the fall—if markets do fall—will be less than half of either of these amounts.

In considering the security of endorsers, it is all-important to be sure of their bona fides. Many a man can stand a loss on his own account with cheerfulness, who would be terribly tempted to evade the debt, if it were contracted on account of another. Experience has proved that men with a fair reputation for honesty have repeatedly resorted to shifts and compromises, if not to downright dishonesty, in order to evade payment of debts contracted by endorsement. There has been a low tone of morality current in this country with regard to obligations of this sort. Persons have not considered that in endorsing a note they have entered into this engagement, viz.:—If the promisor does not pay, I will. They have been too much in the habit of considering the endorsement a mere form, and of looking upon it as a very great hardship, and, indeed, of downright injustice, if they were called on to fulfil the engagement. And, as persons consider themselves justified in resorting to almost any means to defeat an unjust claim, endorsers have felt no scruple in making away with property, executing fraudulent preferences, and swearing false oaths, in order to defeat the claim

of a creditor holding them under such an obligation. That this course is scandalous and unwarrantable, and that the view on which it is founded is unreasonable and unjust, we do not need to point out to any man of sense. The endorser guarantees payment, and is as much bound as the original party; the debt, in fact, lies upon him as much, and to the same extent, after default is made, as upon the other.

It would be well if bankers, on taking the security of endorsers, sometimes reminded them of the nature of the obligation.

A banker will do well to consider whether there is any business connection between the endorser and the promisor, so as to make them virtually partners.

He will also consider on what ground the endorsement has been given: whether for a money consideration, or as an act of friendship, or because of an obligation to return for similar favours. In each of these cases, the value of an endorser's guarantee depends largely on the total amount for which he has become responsible, not only for the party offering the note, but for all who have been similarly favoured. Many a man in consideration of 2½ per cent, will endorse paper for five times as much as he is worth. Others are so good natured that they can refuse nobody that asks them, and get involved in the business of half the people in the town they live in. Men of this class are specially liable to be called on when enterprises for the "good of the locality" are in progress, and money requires to be raised to carry them on. The penalty for refusing is to lose caste with the circle who manage the town affairs, hence they not unfrequently become liable for enormous sums, which they could no more pay than they could clear off the debt of the Province. There is nothing that a banker requires to be more careful about than relying on the security of a man who makes too free with his name.

It is impossible to judge of the value of the guarantee unless the banker is made acquainted, at all times, with every other endorsement that the party has given. This, it is evident, is practically impossible.

As to endorsements in return for a similar obligation, they amount practically to the endorsement of one partner for another. Unless the promises and endorsements bear only a small proportion to the total business of each, the parties are so involved in one another's affairs that the failure of the one almost certainly brings down the other. The paper, in fact, would be nearly as safe if it only bore one name.

The whole system of endorsing, as it has been practised for many years back, is, with few exceptions, so loose and unsound as to be practically worthless. Many banks have found out this by bitter experience; hence, unless endorsers can show satisfactory reasons for coming under the obligation, and can demonstrate their ability to fulfil it, if necessary, they are very chary of risking their money on so uncertain a security.

Of late years it has become more common for endorsers to take security, in which case their guarantee acquires a value which no other circumstance could have given it.

Advances to purchase or manufacture lumber, are made either by discounting notes endorsed by the house to whom the lumber is to be consigned, or by discounting drafts upon them, such drafts being authorized by letter of credit. In this case both parties have an interest in the business,—an interest, however, which is clearly definable, and does not amount to a partnership.

Such engagements are not liable to the objections which attach to some of the endorsements formerly named, for the endorser (or acceptor as it may be) generally takes security in the shape of a lien on the timber. All that the banker has to do in such cases is to satisfy himself of the responsibility of the parties.

In some cases, a banker may be asked to make advances on the promissory notes of a customer without collateral in any shape. Such loans may be the safest in the banker's books, for there are firms whose strength is ample for any engagements they would enter into under any circumstances. In such cases, however, the matter should be clear beyond question. If there is a doubt, the banker should take the benefit of it himself, and not give it to his customer.

Notes of the description we have now mentioned are not to be stigmatized as "accommodation." This odious name properly belongs to such, and to such only, as have not a foundation in commercial business.

If a man wants to "raise the wind" to pay a dunning creditor, or to speculate in shares, or to buy land, or for any purpose which will not put him in funds to meet the engagement,—a note so given is accommodation, no matter who draws the money. But if the note represents an advance to a person who is buying wheat, pork, or lumber, or any commodity which would meet with instant sale in the market, and is discounted expressly and in good faith for that purpose,—such a note is not "accommodation," but "business."

The Judges of the Upper Canada Court of Queen's Bench, however, have lately made a distinction between notes in which the acceptor draws the money, and others in which the funds are paid to the endorser,—reckoning the latter a legitimate transaction, and the former "accommodation."

This distinction is not to the point. It is the object of the discount that determines the character of the transaction. The real point of difference in the case is not who draws the money, but how it is spent.

THE NORTH WEST TERRITORY.

IN various ways the great question of the opening up of the North-West territory has come before the public of late, and we think it opportune to notice the matter at length. There are comparatively few topics which can be discussed by the people of Canada of greater interest to them than this one, on which so much has been said and written, and apparently to so little purpose, that at length the mere mention of the subject became a downright weariness. Canadians have rightly placed a high estimate on the North-West territory. To them it has been a promised land, rich in agricultural and mineral wealth; but it seemed one on the possession of which they were hardly destined to enter. All sorts of difficulties stood in the way: the territory was remote—buried in the heart of a continent—reported to be almost inaccessible—a howling wilderness, fit abode only for reckless *voyageurs*, fur hunters and savages—and a wealthy and powerful corporation, with a great old charter, so completely shut it up, that to outsiders it appeared as dismal and full of terrors as ever was that famous Doubting Castle under the occupancy of the old, grim, stony-hearted Giant Despair. It is remarkable that, while the people of Canada were thus hoping that the domain of the North-West would one day be added to theirs, and that its commerce would increase their riches, the American people were entertaining precisely similar views, and had taken prompt action to carry them out. They were not disposed to let the prize be carried off by Canada, and as early as twenty-one years ago opened up communication with the Red River people. Since then the volume of commerce between the settlement and St. Paul has been annually on the increase, until at length the exports from British territory, which find their way to the States, amount to more than \$1,000,000.

Notwithstanding the great importance of this question, it is one concerning which too little is generally known in the Province. It is proposed to annex this territory to Canada, and as a matter of course open up a road thither on British soil. But as to the real value of the country thus to be incorporated—as to the terms which Canada ought to make with the Hudson Bay Company for transferring its rights thereto—whatever these may be—as to the difficulties in the way of opening up the route and its probable cost—and the immediate advantages to be derived by Canada from such opening up—these are matters of which but little is known; and it will be our view in the present series of papers to throw what light we can on this important topic. In view of the statements made at the recent meeting of the London Court of Directors, and of the patent policy of the Company, to drive the hardest bargain possible for their land, it is probable that little will be done in the way of a final adjustment of their claims and opening out of the territory before another year. But in the meantime preliminary negotiations are likely to be entered into—the subject will probably come up in parliament—and as something will be done in the matter before very long a sketch on the subject of the Company's possessions will be well-timed now.

They say themselves—and our information leads us to believe they have not at all exaggerated the matter—that the "territory embraces an estimated area of more than 1,400,000 square miles, or 190,000,000 of acres, of which a large area on the southern frontier is well adapted for European civilization. The soil of this portion of the territory is fertile, producing in abundance wheat and other cereal crops, and is capable of sustaining a numerous population. It contains 1,400 miles of navigable lakes and rivers, running for the greater part east and west, which constitute an important feature in plans for establishing the means of communication between the Atlantic and Pacific oceans, across the continent of British North America, as well as for immediate settlement in the intervening country. The territory is, moreover, rich in mineral wealth, including coal, lead, and iron." Through this territory stretches a great fertile belt of 40,000,000 of acres of the richest soil—as fine land, if not finer, than the best wheat-growing sections on the entire continent,—the westerly limit of which is the Rocky Mountains, where we come to the auriferous region. It is now well known that gold has been found in paying quantities on the eastern slope of the mountains, and extending along the North Saskatchewan to Edmonton. Between this point and the mountains miners have been at work for the past three years—each year we hear of better returns—and we are convinced that gold mining is but in its infancy in that quarter.