

### **Composition of Banking Funds—(continued)**

argued by a prominent western statesman that these deposits belong to the people, and that therefore the people have a right to say how they shall be loaned. This is inaccurate. The deposits belong to some of the people, and the banks are in the position of trustees for the individuals to whom the deposits belong.

### **Fundamental Principles of Banking Credit**

Now the first obligation of the banks towards their depositors, beyond any room for argument or question, is to lend their moneys safely.

Recognizing the above duty to their depositors as paramount, the obligation next in natural sequence—an obligation alike to depositors and the public, implied by the terms of their charters and of the Bank Act—is to employ the country's banking funds only in accordance with principles of banking recognized as sound, having due regard for the credit needs of a new country.

The necessity for maintaining a substantial proportion of their assets in the shape of cash and quickly convertible investments is obvious. The remaining funds of a bank should be employed only in the production and distribution of commodities, and in no case loaned against fixed assets such as lands and buildings. (The lending of money against the last mentioned kind of property is the special function of land mortgage and investment companies.) It is important to state this principle before proceeding to consider the subject of rural banking credits.

Then the allocation of that portion of the funds of banks available for production and distribution must always be determined by competition—competition among banks for the best and safest business; and competition among those who need banking accommodation, to establish the merits of their claims to credit, on the score of a record of integrity, industry, intelligence, thrift, progressiveness, coupled with evidence of ability to repay. No man has a right to borrow from a bank merely because he needs money even for a legitimate purpose. The burden must always rest on the applicant for credit to first establish his claim thereto; and if his claim should be a really good one, the circumstances would indeed be extraordinary if his record did not suffice to make the fact clear. This is a consideration which is often lost sight of by farmers who complain of their inability to obtain bank credit.

A loan to a farmer who can be relied on to use it to improve his position is a contribution to the general welfare. On the other hand, credit extended to an incompetent and indolent farmer who is doomed to go broke, involves an economic loss to the country even though the bank should succeed in getting repaid. It is therefore the positive duty of a bank to avoid knowingly extending credit to a farmer who will not use credit advantageously, no matter what security he might offer.

### **Credits to Grain Growers**

The question, however, of first importance to farmers is: What does constitute a basis for credit to them? What considerations determine whether a farmer can get credit from a bank, and the amount?