Dollars and Cents

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BANKING ∴ INSURANCE ∴ FINANCE

MANITOBA'S RURAL CREDITS

IT is readily admitted that agriculture is the basic industry upon which the prosperity of Canada—particularly Western Canada—is founded. This being so the financial requirements of the farmer have always been a matter of great interest to governments and financial institutions. The farmer of Western Canada needs credit and must have credit if he is to use his abilities to the best possible advantage. Politicians urge him to "produce more" and the city folks join in the chorus most heartily, because they know quite well that if the farmer quits producing the country's business would soon be at a standstill.

From the financial man's point of view the farmer is in a class by himself. He needs credit upon conditions quite different form those upon which the manufacturer or the tradesman need it. The farmer often needs financial asistance in two different ways—long term credits and short term credits. The long term credit is better understood if we refer to it as raising money on real estate mortgage, such money to be repaid at the end of a number of years. Instalments of the principal may be agreed to be repaid during each year that the loan remains unpaid. Money secured from a real estate mortgage is ordinarily used for the purpose of making permanent improvements to the farm, such as constructing new buildings, etc. Short term credits are better understood if we refer to them as loans made by the banks to the farmer during the cropping season. They usually run from six to nine months and the money borrowed in this way is used as a rule for purchasing seed grain and for paying expenses incurred in planting and harvesting the crop. When the crop is harvested the farmer is expected to pay back the loan.

The Farmer's Grievance

From these descriptions it is fairly easy to understand the difference between short term credits and long term credits. In the matter of short term credits the farmers had a very distinct feeling of dissatisfaction for many years and they felt that they were receiving practically no encouragement from the financial institutions of the country. As a result the Canadian banking system was severely attacked and is still being attacked. Supporters of the banking system have persistently maintained that the system was all right but that the farmers were somewhat to blame for the fact that loans were sometimes refused to them by the bank manager. Banking is a business which must be operated along very strict business lines. There are two sides to every loan that a banker makes, no matter whether the borrower is a farmer or a city man. In making the loan the banker is using some other persons money—he loans to the borrower money which some depositor has placed in the bank. The bank is responsible to that depositor for that money and as a general rule the depositor may go to the bank any day and withdraw the amount deposited. Just realize what that means. It means that in the first place the loan must be a safe one and in the second place it must be repayable within a short time so that if the depositors want their money the bank will be able to pay it.

The last bank report shows that total deposits in Canadian banks amounted to $1,866,515,866—and practically all of that money could be asked for by the depositors at a moment's notice. Of course, we understand that the likelihood of such a thing happening is equal to one chance in a million, but times of depression come without much warning and the banks have to be prepared. On examining the bank report referred to we find that the banks have loaned to their customers $1,682,795,528, from which it will be seen that the loans made by the bank are almost equal to the deposits received.

Banker Must Be Careful

The banker cannot loan money to a farmer for a very long period, the banking system was never intended for that purpose. The mortgage companies are the proper institutions from which to secure long term mortgages. The banker cannot loan money to a farmer unless he is very sure that the farmer will be able to pay his note when it is due. The banker must make safe loans for he is using other people's money. The banker cannot loan money for more than a few months at a time because he must be ready to pay back his depositors at almost any time. As a result of these facts, many good farmers were unable to get financial assistance, through no fault of their own and through no fault of the Canadian banking system, but solely because there was no connecting link which would bridge the difficulties which existed.

It remained for a Manitoba legislator, G. W. Prout, M.P.P., to provide that very necessary connecting link. Mr. Prout is often referred to as the "father" of the rural credit schemes in Manitoba and very properly so because the conscientious, consistent and energetic efforts which he has displayed both in getting the Rural Credits Act passed by the Manitoba legislature and in assisting in the promotion of the movement once the act was passed, have undoubtedly materially contributed towards the great success which has been achieved.

Manitoba's Rural Credit Scheme

The Manitoba Rural Credit Act provides for the creation of rural credit societies wherever they are needed, provided the farmers are prepared to organize themselves. Fifteen or more farmers may form an association and as soon as fifty members have been secured for the association the government will permit it to commence business. Each member must subscribe for a $100 share in the society and pay up at least $10 on his subscription. The provincial government then subscribes for an amount equal to one half of the amount subscribed by the farmers and the municipality in which the society is being formed also subscribes for a similar amount. This makes up a total capital of $10,000 to commence business with made up as follows:

Subscribed by 50 Farmers	$5,000
Subscribed by Provincial Government	2,500
Subscribed by Municipality	2,500
	$10,000

The association is managed by a board of nine directors, three chosen by the farmers, three by the municipality and three by the government. The scheme is absolutely co-operative so that the directors are able to go to the bank manager when they decide how much they wish to borrow for the season, backed by a capital of $10,000 in addition to the actual pledges of the individual borrowers. The act fixes the rate chargeable by the bank at 6 per cent and the society is not allowed to charge more than 7 per cent. Members of the association apply to it for such loans as they require and their applications are passed upon by the directors. The total amount of money likely to be required is ascertained and the directors arrange with the society's banker to furnish this money as it is

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