

SASKATCHEWAN LAND BANK'S BONDS

Analysis of the Market for Such Securities—Some Important Considerations for the Promoters

BY H. M. P. ECKARDT.

The parties who are promoting the Saskatchewan Land Mortgage Credit Association expect, apparently, that the bonds issued by the association will have a better market in London than the bonds issued by any other Canadian corporation. In an article published by the London Financial Times on September 18th, 1913, reference is made to their claims to the effect that "if they had the machinery which the Canadian Pacific Railway has for borrowing money, or as good a system of a different character, they could borrow at a lower rate than the Canadian Pacific Railway." There will be a marked disposition in expert financial circles to doubt this statement. The Canadian Pacific borrows cheaply, for one reason, because of its record and reputation—it is not altogether a matter of possessing good machinery for floating debentures and stocks.

What the Promoters Ask.

What the promoters ask from the provincial government is put under four heads. They ask for legislation arranging for the formation of the credit associations; for a small sum of money for organization purposes; for government supervision of the issuing of the bonds; and, last but not least, for the government's endorsement and guarantee of the bonds. In order to arrive at a satisfactory idea as to the market which these bonds will command, it is necessary to discuss their character and to take account also of the volume or amount that may be issued.

In brief the plan is to form associations of farmers in the various districts of the province. Every farmer who joins a local association of this kind is to be responsible for the borrowings of his fellow members. Of course, it is presumed that the officers of the local association will be careful to grant loans only to farmers who will carry out the obligation to pay. But the officers may not, and in case of a newly-settled region like Saskatchewan, it is reasonably certain that they will not, be able to confine the loans to good borrowers only. So there is foreshadowed an annual loss which must be covered by a special annual charge on the members.

Pledge for Total Debt.

If the membership of an association is not large and its officers make serious mistakes in lending, the consequences might be very disagreeable for all who join it. Thus each borrower is required to pledge his possessions, not only for his own debt, but for the total debt of the local association with which he is affiliated. In all probability, the successful farmer, able to stand on his own feet and make progress, would rather continue to deal with the loan companies and the banks, even at a little higher cost, than go into a scheme like that. So it is necessary to take account of the possibility that in each local association the members would consist largely of the weaker or poorer farmers, and if that turned out to be the case the chances are that the movement would not be very successful.

Pay Off Existing Mortgages.

In any event the bonds issued by a small local association of this kind would not perhaps command a very good market in London or elsewhere, even if guaranteed by the province. In order to have the bonds issued by associations of this kind come on the market under the best auspices, it would be necessary to have the local associations united by means of a central association which would undertake the work of issuing the bonds and through which the liability for the bonds would be spread in every case over all the local associations.

So, let us assume that the bonds would thus be covered generally by the property of all the members of all the local associations and also that they bear the guarantee of the provincial government. We then arrive face to face with the question what would be the probable volume of the bonds issued or put in circulation? As the farmer, in order to be able to borrow from the local association, must pledge his land, it follows that he would have to pay off his existing mortgages. So the first effect of the scheme, if it goes into operation, would naturally be to replace the existing 7 per cent., 8 per cent. and 9 per cent. mortgages with new mortgages to the association at a lower rate. This promises to be a large operation. It is impossible to discover the aggregate amount of the farm mortgages current in Saskatchewan, but it must be enormous.

On page 503 of its issue of September 20th, 1913, *The Monetary Times* gave a list of trust and loan companies which, during 1912, invested over \$61,000,000 in that pro-

vince. Of course, a large part of this would not be farm mortgages, but no doubt a good many are included; and as the figures represent only one year's investment and take no account of the mortgage loans made by life insurance companies and private individuals, the total, if it could be ascertained, would be a great deal larger.

Estimates of Loans.

Saskatchewan comprises 155,000,000 acres of land, of which about one-twelfth is under cultivation; and new land is being taken up at the rate of about 1,000,000 acres per annum. If the proposed land bank is to serve all comers, it would have to provide, not only for the large existing indebtedness, but also for a large list of new applications each year. As the homesteading, etc., has been going on for some years, it is probably right to say that 1,000,000 additional acres each year would be available as security for mortgage loans. If past experience is any guide, there would be applications from the owners of at least half this land at say \$10 an acre. This would mean an additional \$5,000,000 per year and the figure is probably too low.

These figures indicate that the volume of bonds to be issued by the association would be very large indeed—that is if the farmers of the province generally joined the movement for cheap loans. In London, where the principal market must necessarily be, they would be taken as practically direct obligations of the provincial government. They would be considered in conjunction with the large issues of railway bonds now current with the government's guarantee or endorsement, and with the direct loans negotiated by the province for other purposes. Also, the attitude of the London financiers would be governed to some extent by the information they had as to the class of farmers joining the association.

Value of Provincial Guarantee.

If the best farmers joined, the bond issues would have better credit, but if the associations were comprised principally of weak and heavily encumbered members, even the provincial guarantee would not induce London to take the bonds in substantial amounts. Under any circumstances, it is not likely that the market would be ready to put up many millions of dollars for this purpose, until the scheme had been proved successful in operation. Under conditions such as have prevailed during the greater part of 1913, it is likely that there would be much difficulty in inducing London to provide any considerable amount of cash.

A large increase in Saskatchewan's borrowings must necessarily operate to raise the rate of interest which the province must pay; and there is the question whether the rate on the bonds would not have to go to 5 or 5½ per cent., after the amount issued had reached certain proportions. If the rate on the bonds got too high, when the expenses of the associations, and the losses from bad loans were added thereto, the cost of borrowing in that manner would be so high as to threaten the success of the whole scheme.

PACKING APPLES AND PEARS

The price received for an article depends much on the manner in which it is presented for sale. This has become especially true in regard to food products, whether offered in the natural or manufactured state. Fruit-growers have recognized this change in public taste, and have, during recent years, greatly improved their methods of putting up fresh products. Reputable apple-growers no longer think of marketing their products in second-hand barrels or boxes, or those that are soiled or clumsily made. It is regarded important not only that the packages suggest contents of fine quality, but that when opened the fruit shall present an undamaged and otherwise attractive appearance.

The packing of fruit in barrels and boxes involves a few general principles, easily mastered in the case of barrel-packing, but more difficult when box-packing is concerned. In the opinion of Mr. Alex. McNeil, Chief of the Fruit Division at Ottawa, it is not too much to expect that a season's practice will make a fair box-packer, working on right principles. To teach just how the packing of apples and pears in barrels and boxes should be done, Mr. McNeil has prepared an illustrated pamphlet on the subject, which is designated Bulletin No. 34 of the Dairy and Cold Storage Commissioner's Series. In his letter of transmission, Mr. J. A. Ruddick, the Dairy and Cold Storage Commissioner, points out that this work contains a large amount of new material, setting forth the more recent developments in fruit packing. The book constitutes an exhaustive treatise of sixty-seven pages, showing many helpful illustrations. It is published for free distribution to all who apply for it to the Publications Branch of the Department of Agriculture at Ottawa.

The Traders' Building Association has increased its capital stock from \$600,000 to \$1,205,000.