



Saskatchewan Department of Agriculture

How Debtors and Creditors May Co-operate

"How can a debtor make satisfactory arrangements with his creditors when the money he has to distribute is less than the amount he is expected to pay?" Many farmers and other debtors who were unfortunate last year will seek an answer to this or a similar question this year.

DEBTORS AND CREDITORS ARE PARTNERS.

Every man who gives credit to another whether it be in the form of a threshing machine, lumber, horses, cash, houses, groceries, land, seed grain or other commodities becomes through such transactions and to the extent of the credit a partner with the debtor. And the partnership imposes responsibilities on each party. It implies co-operation for the purpose of earning enough to enable the "active" partner (the debtor), to buy out in time the interest of the "silent" partner (the creditor). Creditors have for years been forming such partnerships with farmers in Saskatchewan and it is perhaps not surprising that some of the partners on both sides should have misunderstood their relations or have failed to discharge the partnership obligations. When the situation is understood clearly and the responsibilities are faced fairly the results of the partnership will be more satisfactory to all concerned.

PLAIN TALK TO CREDITORS.

Last year when a crop failure in a large part of Saskatchewan was inevitable, many creditor partners as well as many debtor partners faced a serious situation, but by concerted action the difficulties and dangers were reduced to the minimum. Your "partners" on the farms in the west and south-west struggled along through the winter, got seed for their land in the spring, and now have the prospect of a good crop. Of the difficulties many of them had in pulling through the winter you may have heard. The difficulties of others you may never know. A few left the country. Those who remain will in the majority of cases have last year's notes as well as those due this year to meet.

When they could not pay last year you got chattel mortgages and other security as collateral to your claims. You were on strictly business principles entitled to some security in cases where your former security was depreciating, but you were not entitled to a mortgage on everything visible and invisible, movable and immovable, on your debtor-partner's domain to the exclusion of the claims of other creditor-partners. Neither are you entitled to use that chattel mortgage as a club this fall to exact a larger payment than is your share. The only uses to which that "security" should be put are as collateral to strengthen your credit with your bank, and to prevent a loss in the event of your debtor-partner being "sold up" by the sheriff. Even with a good crop this fall very few of the men who were "carried over" last fall will have enough to pay all their due debts this year. The same motive—a sense of partnership—which induced you to carry them last year demands that you treat them with corresponding consideration this year. The fact that a farmer has a crop which will pay your claim in full does not justify you or any other creditor demanding full payment if, by getting it, you deprive some other creditor of a share to which he is entitled, or

jeopardise the interests of your partner on the land with his loan company. Your active partner on the land is still struggling with the handicap of the "lean years." Your duty and interest as partner demands reasonable and considerate treatment this fall.

A FEW WORDS WITH DEBTORS.

There is a "best" way for debtors to conduct their business so as to reduce or avoid friction between themselves and their creditors and between one creditor and another. Last year's unpaid obligations, as well as those maturing this year, will have to be considered and, as far as possible, paid this fall. Fortunately most people are in a position to make satisfactory arrangements with their creditors and those whose revenue is sufficient to meet all maturing obligations will not be interested in this topic. But it is possible that a few suggestions herein for the guidance of both debtors and creditors will help to solve the problems facing the man whose bills will amount to more than his ready cash.

PREFERRED CLAIMS AND ORDINARY CLAIMS.

Debtors and even creditors themselves will agree that a certain class of debts, such as operating expenses, should be given a preference over another class, such as indebtedness for equipment. The former, in the case of farmers, will include such items as wages, threshing, taxes, groceries, twine, rent, blacksmith and repairs. As a general rule the bank loan will for obvious reasons be regarded as belonging to the preferred class, but should not properly be so classified where the money had been loaned to buy equipment. Interest on the mortgage loan should always be considered in the "preferred" class, not because of the loan company, but because it is to the advantage of the borrower that the loan company's interest should not be in arrears. In the "ordinary" class of claims may be included such debts as land, lumber, machinery, live stock and all other items of equipment. Mortgage loan principal also belongs here.

If a farmer has not enough money to pay all claims he should pay all items classed as "preferred" as well as interest on all other debts. If he cannot accomplish this he might pay a part of all his "preferred" claims and interest on all "ordinary" claims. And it is highly desirable that the machinery, live stock and other "ordinary" claims should be paid off as soon as it is possible to do so, as dealers in such commodities need the money for their business. It is very important to make a distribution which will not only show a desire to be fair, but that is fair.

THE EFFECT OF "SECURITY."

The fact of "security" will enter into the question and influence the farmer in his payments. "Security" on a farmer's chattels, as has been stated, should be considered by creditors as "security" only and be used only as collateral, and in the event of an assignment, or if unsecured creditors should "close in" on the debtor. *But it should not be used as a club to coerce the debtor into making larger payments than his cash warrants.* Banks have been permitted to lend money on the security of growing crops; and security on growing crops may be taken to cover advances for seed grain, but for no other purpose can a growing crop be directly mortgaged.

LOAN COMPANIES' LEASES.

As a general rule creditors should not be given security on cut or threshed grain, although there are conditions under which a lease in favour of the loan company would appear to be warranted on the ground that to the extent to which it insures payment of the loan company's interest it protects the farmer from foreclosure action. But interest on mortgage loans should never be allowed to fall in arrears. It may be necessary to point out that this emphatic advice to keep interest and taxes paid up is not given in the interest of the loan company alone, but quite as much in the interest of the farmer and of unsecured creditors. Land is a farmer's wealth and the source of his revenue and if taxes and interest are paid when due there is little danger of the mortgage being foreclosed.

GOVERNMENT SHOULD NOT DIRECTLY INTERVENE.

With a prospect at the present time that every part of Saskatchewan with the exception possibly of a few local areas will harvest a paying crop there should be no necessity for the intervention of the government between debtors and creditors as was the case last year. Nor is such desirable at any time. It is best not only for the farmers of Saskatchewan, but for all the people of Saskatchewan, that they should do their own business in their own way. And certainly the farmers of Saskatchewan were never better informed regarding the business end of farming than at the present time.

SOME NEW LAWS AFFECTING FARMERS.

Perhaps, too, the provincial laws were never more favourable to farmers. As requested by the Saskatchewan Grain Growers' Association in February last, the government recently amended The Exemptions Act so that four horses or oxen or mules are now exempt from seizure instead of three as formerly. Moreover, if a farmer has given a chattel mortgage on all of his stock, only those over and above the number which are exempt from seizure under execution can now be sold under chattel mortgage; and only the sheriff or some other person duly authorised by him for the purpose can seize or sell chattels under a chattel mortgage.

The Farm Implement Commission has reported to the Legislature, and The Farm Implement Act is now in force. In the words of a collection agent of one company, the Act "does not leave the companies a single loop hole."

But perhaps the greatest protection of all comes from the fact that very largely as a result of economic conditions, speculation has temporarily been driven away. So long as it stays away and every purchase is sanely considered from the standpoint of necessity and utility and earning capacity, so long will many difficulties be avoided for all concerned.

MISTAKES SOME DEBTORS MAKE.

Among thousands of letters written by both debtors and creditors during the past year, many interesting points were brought out by the writers in setting forth their position or explaining their action. And it was interesting to note the number of cases in which accounts were handed to lawyers for collection because, according to creditors, debtors did not pay their debts nor pay attention to letters written by creditors. Perhaps no single complaint was more general than this, nor did any act of omission result so often in legal expenses being heaped upon debtors. It is regrettable that this should be the case with men who can least afford it.

Other men got into trouble because they indulged in writing what it was not in their interest to write. There are no doubt creditors whose treatment of those indebted to them leaves much to be desired, just as there are customers whose treatment of their creditors is far from ideal. But when a man is unfortunate and needs the assistance and co-operation of his creditor-partners, he is less likely to get it if he indulge in calling them such names as "blood suckers," "thieves," "rogues" and others as uncomplimentary. If one wish to engage in this pastime, it would be wise to wait until all his notes are paid. Molasses will catch more flies than vinegar, and one can always pay courtesy even when cash is scarce.

Debtors could also avoid trouble by knowing accurately their ability to pay and, if they have to make promises, by remembering that the time of performance will soon arrive and that he who performs what he promises is more popular than he who promises and fails to perform.

COLLECTION EVILS.

"Competition is the life of trade" is changing to "co-operation is the life of trade." But competition in collecting accounts still obtains. Every large selling agency has its expensive collection department, and many farmers know by experience the efficiency of the collection agents just as their employers know their cost.

Implement companies tell us that they are compelled by the aggressiveness of their competitors to keep an efficient collection staff in order to get "their share" of the annual crop proceeds, but would be perfectly agreeable to taking "their share" when debtors cannot pay all, although until methods change they cannot expect to get "their share" unless they go after it. The collection agency is a big expense to the companies which they would gladly save, and certainly no farmer would urge them to keep collectors in the field.

What is the solution? Could debtors in their dealings bring about an improvement by distributing their revenue among their creditors on an equitable basis so that each one would get a fair share? By adopting such a practice and establishing a reputation for fairness and reliability, might not farmers who do so reasonably expect that in a year or two they would cease to be visited by the special collector? "*Dishonest through force of circumstance*," is a phrase sometimes used by creditors, but it merely means, "*Forced by special collectors to give some creditor a preference to which he is not entitled and unable by circumstances to pay the others what he would like to pay them.*" Many a man has got into costly difficulty with his other creditors or his loan company because he was too much influenced by an expert at collecting and paid one creditor more than he could spare without treating others unfairly.

Mutual confidence is necessary, and if there be dishonest debtors, and some think there are a few, they cannot expect to escape attention except by acting so wisely and fairly as to restore confidence. So long as people buy on credit they will have notes to pay in the fall, but could not much of the present difficulty be avoided by being frank with creditors, by laying full and correct information before them regarding assets and the proposed distribution of revenue, and by following unswervingly a fair and equitable plan of paying creditors from the resources at one's disposal? *The more this is done, the sooner will "co-operation" replace "competition" in collection methods.*

REGINA, Sask., August 1, 1915.