AGRICULTURAL CREDIT IN CANADA

by Julia L. Wooster
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FARM CREDIT ADMINISTRATION
Economic and Credit Research Division
WASHINGTON, D. C.

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Preface

THE collection of material on phases of foreign agricultural credit most pertinent to certain operating problems confronting the Farm Credit Administration yields much general information which may prove of interest to students of agricultural finance and offer points of departure for further study. For this reason and also because no comprehensive surveys of the organization and operation of agricultural credit systems in foreign countries have been made in recent years, the Farm Credit Administration is publishing a series of reports incorporating such information.

The first report, *Agricultural Credit in Germany*, emphasized the accumulated farm mortgage experience of that country. The second, *Agricultural Credit in Denmark*, dealt mainly with cooperative associations specializing in the provision of mortgage as well as short-term credit.

This, the third, describes the structure of agricultural credit in Canada before World War II. It is particularly interesting to see how that country, a neighbor with similar cultural background and tradition as well as a topography and natural conditions not far different from those of the northern United States, has attacked the problem of extending credit to the farmer.

Thanks are extended to Dr. J. E. Lattimer of the Economics Department, MacDonald College, Ste. Anne de Bellevue, Quebec, for taking precious time to review the manuscript and to Dr. William H. Moore, senior economist, Farm Credit Administration, for his critical comment.

Agricultural Credit in Canada

Sources of Agricultural Credit

DURING the early formative years of the Dominion of Canada when the country was in the throes of westward expansion, the farmer bought his machinery and implements on time from dealers, borrowed other operating capital from ordinary commercial sources, and obtained his long-term credit from private individuals and mortgage, trust, or insurance companies.

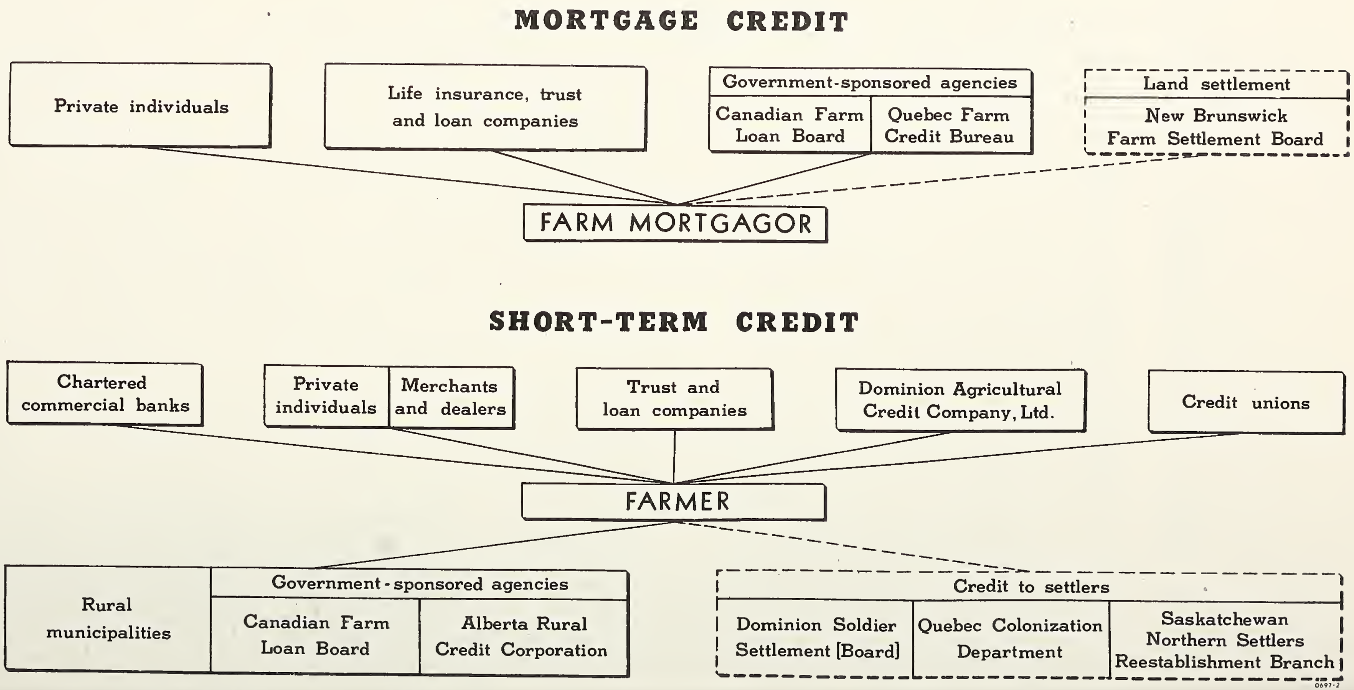
Although governments did not begin lending to agriculture on business principles until the second decade of this century, they have always played an important part in the promotion of agriculture and the extension of emergency financial aid whenever necessary. Land settlement schemes have been undertaken by the Dominion as well as Provincial governments, and both have been active in providing various forms of assistance to numerous agricultural activities: the financing of fruit, producers', and warehouse associations—in fact, making grants to agricultural associations of all kinds; the encouragement of dairying, livestock production, and the growing of specialty crops; advances for permanent improvements such as drainage; and loans to farmers for seed grain and feed. The last-mentioned type of aid has become perhaps the most widespread form of relief assistance and has been especially prevalent in the Prairie Provinces.

Several Provincial governments initiated agricultural lending activities just before or during World War I owing to the continued demand for more abundant funds at lower rates of interest, the need for more specialized credit facilities, and the pressure of economic circumstances and conditions.

The *farm mortgage lending agencies* established were the British Columbia Agricultural Credit Commission, the Manitoba Farm Loans Association, the Saskatchewan Farm Loan Board, and the Ontario Agricultural Development Board (p. 21). Legislation providing for the formation of rural cooperative credit societies to serve as sources of *short-term operating credit* to farmer-members was passed in three Provinces, and there were formed the Manitoba

Figure 1

SOURCES OF AGRICULTURAL CREDIT AT THE TIME OF CANADA'S ENTRANCE INTO WORLD WAR II



Rural Credit Societies, the Alberta Cooperative Credit Societies, and the Ontario Farm Loan Associations (p. 27). For reasons explained more in detail elsewhere in this report, all of these systems have been discontinued or have gone into liquidation with the exception of the Alberta Cooperative Credit Societies which still operate as members of the Alberta Rural Credit Corporation (p. 32), created to supervise and coordinate their activities.

The Provinces of British Columbia, Nova Scotia and New Brunswick established agencies for lending against farm mortgage security with the aim of encouraging *land settlement*, but of these only the New Brunswick Farm Settlement Board has survived. The Dominion Government's experiment in land settlement credit—the Soldier Settlement Board—is no longer active over the scope originally planned.

The sources of agricultural credit which were active in Canada at the end of 1939 are shown in figure 2.

The relative importance of most of these sources in the 1941 total indebtedness of Canadian agriculture is not definitely known. Unquestionably, however, the great bulk of both long-term and short-term debts is owed to private lenders among which institutional sources seem to be more important than individuals as far as the western Provinces are concerned. In the eastern parts of the Dominion, individuals have played a somewhat greater role as a source of credit to the farmer, but it is impossible to ascertain whether they or private lending agencies supplied the larger amount.

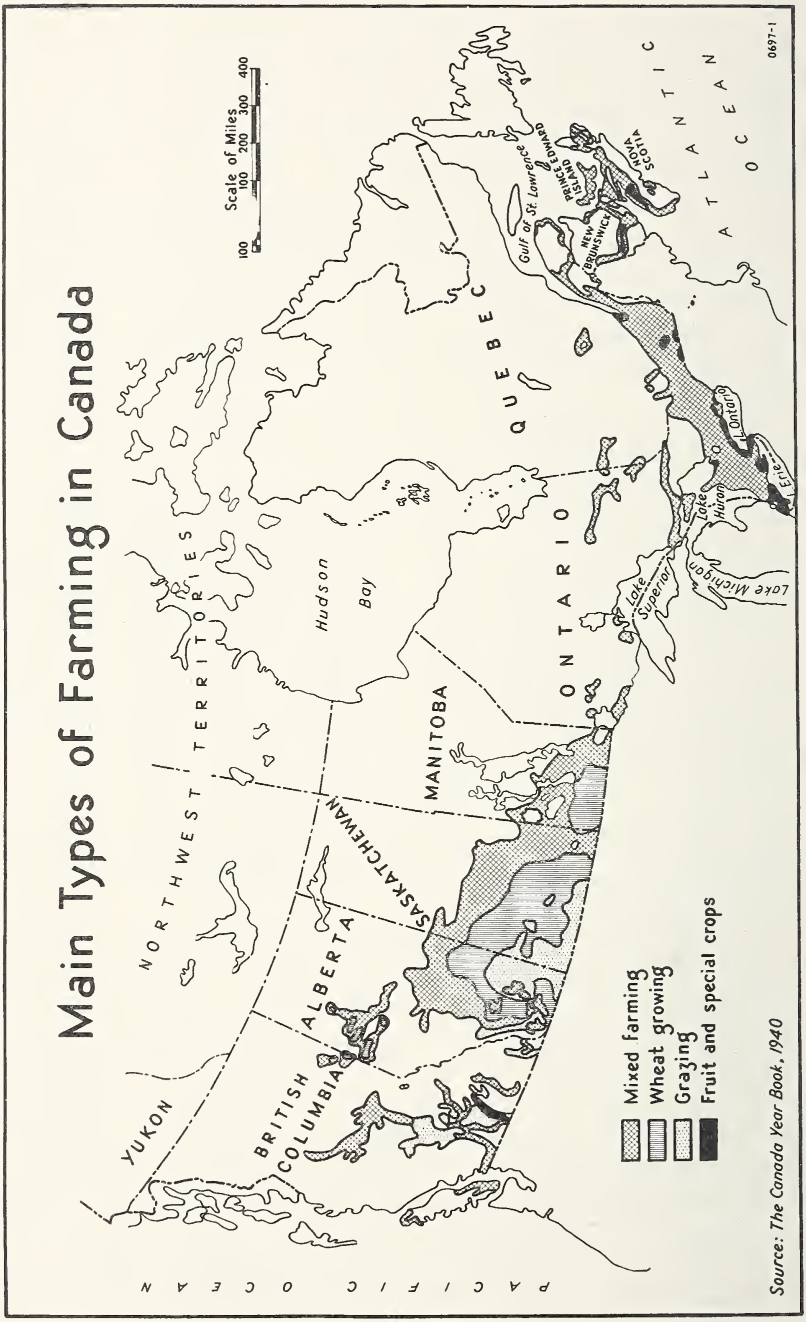
Farm Mortgage Credit

Statistics which give some indication of the relative importance of the various sources of farm mortgage credit are available only for the Prairie Provinces.

The distribution of 1936 indebtedness shown in table 1 should not be taken as representative of the importance of the sources involved with respect to their activity in making new loans. The Canadian farm mortgage credit set-up is passing through a stage of transition which may lead ultimately to a somewhat different distribution of indebtedness by sources: The Provincial systems of mortgage lending established twenty-odd years ago have either completely collapsed or are now in the process of liquidation, and what has been said of the Province of Ontario is equally applicable to the rest of Canada.

"The insurance companies, mortgage corporations, and trust companies have almost entirely withdrawn from the farm mortgage field in Ontario and are not likely to begin making new loans on farms as long as the (Dominion)

Figure 2



Main Types of Farming in Canada

Source: *The Canada Year Book, 1940*

Farmers' Creditors Arrangement Act remains in force. Although this act does not at present apply to debts incurred after May 1, 1935, the "cut-off" date might be advanced, as has been done in the past. The Province of Ontario no longer makes new loans, and the Commissioner of Agricultural Loans is engaged only in administering outstanding mortgages, selling foreclosed farms, and liquidating the lending activities of the Agricultural Development Board. Consequently, the farmer in search of new credit must obtain it either from a private individual or from the Canadian Farm Loan Board, a Dominion agency." [1]

Thus, for example, in British Columbia 95 percent of new mortgage loans are granted by the Canadian Farm Loan Board and this agency appears to be the only source of such credit in Nova Scotia. Farmers in Quebec, however, do have another source of credit—the Quebec Farm Credit Bureau, which was set up in 1936 and is the only Provincial agency in existence at the present time. The lending operations of this agency have been rather heavy and as of June 1, 1941, total loans amounted to 42 million dollars. On the other hand, as may be seen from tables 2 and 3, the Dominion Canadian Farm

TABLE 1.—*Comparative importance of farm mortgage* [1] *lenders in the Prairie Provinces, 1936*

Lender	Farms as a percentage of total number reporting mortgages			
	Manitoba	Saskatchewan	Alberta	Prairie Provinces
	Percent	*Percent*	*Percent*	*Percent*
Private individuals	32.64	24.44	30.18	27.62
Loan companies	21.12	27.94	20.53	24.46
Government	17.69	13.66	16.13	15.11
Insurance companies	11.01	13.38	10.58	12.10
Trust companies	9.57	7.64	5.74	7.35
Railway companies	.73	4.64	7.25	4.85
Banks [2]	1.30	4.70	3.73	3.84
Other companies	1.09	2.01	4.00	2.50
Municipalities	4.03	.83	.84	1.35
Unspecified	.81	.74	.99	.83
Total	100.00	100.00	100.00	100.00
Number of farms involved	19,499	62,160	38,659	120,318

[1] Includes mortgages resulting from agreements of sale.
[2] Although commercial banks are not allowed by law to lend on mortgage security, many of them have had to accept mortgages as their only guaranty for temporarily uncollectible short-term debts.

Source: *Census of the Prairie Provinces, 1936.* Vol. 1, Population and Agriculture. Table 206, pp. 352, 826, 1274.

NOTE.—The percentages shown in table 1 are based on the number of loans made. An estimate based on the total amount involved given in the reply to *FCA and USDA Joint Survey of Agricultural Indebtedness, March 1, 1938,* from Consul G. G. Fuller, Winnipeg, Dec. 31, 1938, follows:

	Percent		Percent
Private individuals	36	Machinery companies	1
Insurance companies	21	Commercial banks	1
Mortgage and loan companies	21	Canadian Farm Loan Board	6
Trust and loan companies	10	Provincial farm loan boards	4

[1] Reply to *FCA and USDA Joint Survey of Agricultural Indebtedness, March 1, 1938,* from Consul Warwick Perkins, Toronto, May 17, 1938.

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Loan Board during the 11 years of its existence loaned out only 43 million dollars.[2] The amount of new mortgage credit from private individuals is unknown; life insurance, trust, and loan companies which in the past supplied considerable amounts have loaned very little, if any, during recent years.

The loan conditions of new mortgages contracted shortly before Canada's entry into the war were as follows: The Canadian Farm Loan Board[3] loaned in all Provinces for periods not to exceed 25 years at 5 percent. The Quebec Farm Credit Bureau charged

TABLE 2.—*Loans disbursed by the Canadian Farm Loan Board, by years, 1929–30 to 1939–40*

Year ended Mar. 31	First-mortgage loans	Second-mortgage loans	Total mortgage loans	Year ended Mar. 31	First-mortgage loans	Second-mortgage loans	Total mortgage loans
	Thousand dollars	*Thousand dollars*	*Thousand dollars*		*Thousand dollars*	*Thousand dollars*	*Thousand dollars*
1929–30	2, 630		2, 630	1936–37	9, 269	1, 805	11, 074
1930–31	3, 518		3, 518	1937–38	4, 652	612	5, 264
1931–32	1, 996		1, 996	1938–39	4, 041	298	4, 339
1932–33	1, 276		1, 276	1939–40	4, 131	212	4, 343
1933–34	559		559				
1934–35	538	9	547	Total	38, 802	4, 168	42, 970
1935–36	6, 192	1, 232	7, 424				

Source: *Report of the Canadian Farm Loan Board for the year ended Mar. 31, 1940.* Ottawa, 1940. Schedule, B, p. 14.

TABLE 3.—*Loans disbursed by the Canadian Farm Loan Board, by Provinces, as of Mar. 31, 1940*

Province	First-mortgage loans	Second-mortgage loans	Total mortgage loans
	Thousand dollars	*Thousand dollars*	*Thousand dollars*
British Columbia	2, 280	61	2, 340
Alberta	7, 859	541	8, 401
Saskatchewan	6, 250	1, 026	7, 276
Manitoba	4, 499	654	5, 153
Ontario	4, 314	432	4, 746
Quebec	10, 398	1, 193	11, 591
New Brunswick	1, 037	68	1, 105
Nova Scotia	1, 340	86	1, 426
Prince Edward Island	825	107	932
Total	38, 802	4, 168	42, 970

Source: *Report of the Canadian Farm Loan Board for the year ended Mar. 31, 1940.* Ottawa, 1940. Schedule C, p. 15.

[2] It may be seen that these figures represent a rather small volume of lending when compared with the mortgage indebtedness of Canadian agriculture at the end of 1937 which has been estimated in this report at 1 billion dollars. (For details, see pp. 35–38.)

[3] Quebec, in keeping with its rather paternalistic attitude towards agriculture, has subsidized interest payments on loans obtained by Quebec farmers from the Canadian Farm Loan Board. In 1931 the Provincial government was authorized to contribute to the interest payable by borrowers up to 1½ percent—thus reducing to 5 percent the rate actually paid by the mortgagor. In 1935 the legislation was amended so that the interest payable would not be more than 3 percent.

2.5 percent on its loans which were repayable over 39½ years.[4]

The conditions on which land settlement credit has been granted by Government agencies are not described here owing to the special nature of such credit.[5] A discussion of the most important phases of this subject is given in appendix I.

The almost universal term for mortgages other than those placed with Government agencies was 5 years since borrowers have the legal right to pay off mortgages at the end of that period. In Quebec interest rates for private mortgage loans were running from 6 to 7 percent. In Ontario private individuals lent on first-mortgage security at 5 percent and second at 6 percent; in the Prairie Provinces they made loans at rates ranging from 5 to 12 percent but usually charged about 7 percent. Insurance as well as trust, mortgage, and loan companies charged from 5 to 9 percent, the most frequent rate being 6 percent. In any event, the figures in table 4 indicate that the rates paid by farm mortgagors in the Prairie Provinces were mostly in the neighborhood of 6 and 7 percent.

TABLE 4.—*Number of farms in the Prairie Provinces reporting mortgages, according to the rate of interest, 1936*

Rate of interest (in percent)	Farms as a percentage of total number reporting mortgages			
	Manitoba	Saskatchewan	Alberta	Prairie Provinces
	Percent	*Percent*	*Percent*	*Percent*
4 or less	2.45	1.02	1.11	1.28
4½	.70	.09	.10	.20
5	16.75	8.57	12.61	11.19
5½	1.85	1.27	1.22	1.35
6	34.95	30.22	34.98	32.52
6½	2.32	2.27	2.37	2.31
7	27.87	29.94	22.70	27.28
7½	1.09	.96	1.14	1.04
8	8.21	21.21	17.82	18.01
8½	.08	.24	.24	.22
9 or more	1.19	1.44	2.99	1.89
Unspecified	2.53	2.77	2.71	2.71
Total	100.00	100.00	100.00	100.00
Number of farms involved	19,499	62,160	38,659	120,318

Source: *Census of the Prairie Provinces, 1936.* Vol. 1, Population and Agriculture. Table 205, pp. 352 826, 1274.

[4] This rate was raised to 3 percent effective March 17, 1941, and the amortization period was lowered to 25 years.

[5] Although the land settlement authorities of the Dominion as well as of several Provincial Governments for many years constituted sources of special types of farm mortgage and long-term credit, the ultimate objectives of the schemes involved differ from those of schemes aiming to supply established farmers with mortgage credit on business principles so much as to preclude an unqualified comparison of the loan conditions.

Short-Term Credit

Short-term agricultural credit is supplied in great part by private lenders such as the chartered commercial banks, private individuals, local stores, and farm-implement dealers.

The most important source are the *chartered commercial banks*, of which there are 10 operating under the Federal Bank Act. Their total loans to agriculture in 1939 amounted to 268.4 million dollars.[6] Each of them has numerous branches throughout the country so that every village of any size has at least 1 bank. Thus risks are spread over a wide area and there is available to every local branch a vast reservoir of credit on which it may draw. As the administrative policy of the main banks gives recognition to able men throughout the system, there is also a reservoir of seasoned personnel from which to select local managers who are entrusted with handling loans to customers at their own discretion. They may arrange the amount of a loan and the terms of repayment in accordance with the borrower's need, his ability to make good, and his moral character.

In Ontario these chartered banks lend against promissory notes for periods ranging from 30 days to 6 months, usually at about 6½ percent per annum. Occasionally they accept such security as stocks, bonds, or life-insurance policies, in which case the interest

TABLE 5.—*Number of farms in the Prairie Provinces reporting debts covered by liens, according to the rate of interest, 1936*

Rate of interest (in percent)	Farms as a percentage of total number reporting liens			
	Manitoba	Saskatchewan	Alberta	Prairie Provinces
	Percent	*Percent*	*Percent*	*Percent*
4 or less	1.24	0.32	0.64	0.53
4½	2.29	.01	.02	.30
5	7.35	3.43	4.29	4.19
5½	.60	.07	.05	.13
6	33.73	25.11	38.37	30.19
6½	.40	.32	.27	.32
7	33.90	41.12	28.18	36.31
7½	.11	.07	.72	.27
8	12.94	21.72	18.01	19.49
8½	.09	.02	.05	.04
9 or more	1.92	1.43	3.20	2.02
Unspecified	5.48	6.36	6.21	6.70
Total—	100.00	100.00	100.00	100.00
Number of farms involved	5,476	24,808	13,047	43,331

Source: *Census of the Prairie Provinces, 1936.* Vol. 1, Population and Agriculture. Table 207, pp. 353 827, 1275.

[6] The short-term indebtedness of agriculture at the end of 1937 has been estimated at 600 million dollars. (See p. 38.)

rate charged may be as low as 4 percent.[7] In the Prairie Provinces they make loans from 3 months to a year at rates around 7 percent. It would appear from the data in table 5 that the rates charged by other sources granting short-term loans secured by liens do not vary much from those imposed by the chartered banks. Usually interest rates in the Western Provinces are from ½ to 1 percent higher than those in the East.

It is well nigh impossible to obtain accurate information as to the rates charged by *individuals* in most Provinces on their loans against chattel mortgages or personal notes. As far as Ontario is concerned, it has been reported that they would not be likely to lend at less than 7 percent per annum.[8] In the Prairie Provinces private individuals lend for periods from 3 months to 3 years at rates anywhere from 5 to 40 percent.

In the Prairie Provinces, *private lending agencies*, e. g., the trust and loan companies, advance funds for improvements and seasonal operations to those farmers who have already obtained mortgage loans from them. Such companies lend for a term of 3 years at 6 percent, while the rates at which machinery manufacturers take chattel mortgages are as high as 8 percent. The Dominion Agricultural Credit Company, Ltd., finances over 3-year periods range livestock operations at 6 percent per annum for amounts not exceeding $1,000 to an individual. In addition, in certain parts of Manitoba it makes feeder loans for periods of 6 to 18 months at about 5 percent, this figure varying with the amount of assistance given and the risk involved.[9]

As a source of operating funds to the farmer, *credit unions* must also be taken into account.[10] From the modest beginning of the

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[7] Reply to *FCA and USDA Joint Survey of Agricultural Indebtedness, March 1, 1938*, from Toronto, op. cit.

[8] Reply to *FCA and USDA Joint Survey of Agricultural Indebtedness, March 1, 1938*, from Toronto, op. cit.

[9] The Dominion Agricultural Credit Co., Ltd., with headquarters in Regina, was organized in 1931 under a Dominion charter, but operations have been confined to the Prairie Provinces. Operating capital is supplied by banks, railroad, trust and life insurance companies. The larger part of its business is done in Manitoba where there have been good crops for the past 10 years, in contrast to Saskatchewan which has suffered widely from drought. Current operations in Alberta are restricted to furnishing livestock to former satisfactory customers. (Letter from H. O. Powell, Vice President and General Manager, Dominion Agricultural Credit Co., Ltd.)

Early in 1933 the company engaged in sheep raising on a profit-sharing basis with farmers; it purchased and retained ownership of the stock while the farmer provided pasture and care. (Report of the Royal Commission on Banking and Currency, 1933, Ottawa, p. 47.)

[10] For a brief but adequate survey of the history, Provincial enabling legislation, and financial status of credit unions in Canada, see A. H. Turner, *Credit Unions in Canada*, Economic Annalist, 10 (6) : 84–88 ; 11 (1) : 4–8. December 1940 and February 1941.

Caisse Populaire[11] founded by Alphonse Desjardins at Levis, Province of Quebec, in 1900, the credit-union movement has grown to such an extent that in 1940 there were about 1,100 credit unions with a membership of nearly 200,000 and total assets of more than $22,000,000.[12] While it is not known how many of these credit unions are strictly rural, what proportion of membership is made up of farmers, and what percentage of loans granted is for purely agricultural purposes, there are indications that the credit union is becoming increasingly important to farmer-members as a source of short-term operating funds.

Direct Government activity in the field of short-term credit consists mainly of the crop or livestock and emergency loans made by rural municipalities. Many of these—especially seed loans—have now taken on the character of outright grants.

The Central Alberta Rural Credit Corporation (p. 32), the only Provincial *Government-sponsored agency* providing short-term credit at the beginning of World War II, charges 7 percent for its crop and livestock financing loans; duration varies from 3 to 9 months, with 6 months the most frequent. The Dominion-sponsored Canadian Farm Loan Board was authorized in 1934 to make advances for seed grain, fodder, fertilizer, and harvesting expenses. It has been reported that the board makes emergency loans to its mortgagors without interest for one-third of the crop[13] and seasonal loans for the purchase of seed at 5½ percent, taking a lien against the crop as security.[14] However, the volume of such lending seems to be insignificant.

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[11] For a description of the aims, organization, and policies of the original Caisses Populaires as well as a brief account of their history, see appendix II.

[12] A. H. Turner, op. cit., p. 6.

[13] Reply to *F. C. A. and U. S. D. A. Joint Survey of Agricultural Indebtedness, March 1, 1938,* from Winnipeg, op. cit.

[14] Letter by John K. Davis, American Consul General, Vancouver, enclosed with reply to *FCA and USDA Joint Survey of Agricultural Indebtedness, March 1, 1938,* from Consul Reed Paige Clark, Victoria, June 24, 1938.

Government Sponsored Farm Mortgage Credit

As has already been stated, the Canadian Farm Loan Board and the Quebec Farm Credit Bureau are the only Government-sponsored agencies currently active in the provision of farm mortgage credit. Dominion legislation creating a Central Mortgage Bank to aid in the adjustment of outstanding mortgages and to provide further credit of this type was passed in 1939. Although actual operation of the bank was held in abeyance pending the end of the war, the organization and activity authorized are described in this section, since such an institution will not only be quite new in the field of Canadian finance but probably also of great significance in shaping the future structure of the farm mortgage credit system.

The Canadian Farm Loan Board

During the first decade and a half of this century, a period of great agitation for the provision of better credit facilities for the farmer, pressure was exerted for a nation-wide system to operate throughout the Dominion. On three occasions bills were introduced in Parliament (1909, 1910, and 1912–13) but failed of passage because none seemed to satisfy all interested parties.[15]

A special committee appointed to inquire into agricultural conditions reported in January 1923 that there could be no doubt of the need for credit to farmers on more advantageous terms. It seemed that Canadian farmers had to pay more for long-term credit than those of many foreign countries or fellow citizens in other occupations although comparable security was offered. Attention was called particularly to the successful provision of long-term credit through the facilities created in the United States. Since farm financiers agreed that certain credit needs were not satisfied by existing sources, a Government investigation of the facilities existing in Canada, the United States, and elsewhere was recommended to solve the question of whether and to what extent an agricultural credit scheme should or could be incorporated into the Canadian banking system.

In accordance with this recommendation, such an inquiry was conducted by H. M. Tory, president of the University of Alberta, and his report submitted to Parliament in 1924 (*Report on Agricultural Credit*, Sessional Paper No. 142, 14 Geo. V, 1924). In his conclusions

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[15] James B. Morman, *Farm Credits in the United States and Canada*, New York, 1924, p. 242.

regarding long-term mortgage credit, he stated that some plan of amortization was absolutely necessary for those farmers who were heavily indebted, especially those in financial difficulty as a result of overexpansion during and after the war, but he expressed the opinion that the Provinces were probaby not in a position financially to develop such an undertaking.

The Provincial systems established earlier to provide farm mortgage credit began to show signs of weakness and indications were that curtailment of activities was inevitable. It must be remembered also that farm mortgage credit agencies were set up in only four of the Provinces and that in the others there had been no attempt at a satisfactory answer to the problem of sufficient and specialized credit for the farmer. Finally, after years of constant demand and appeal to meet an existing need on the one hand and of careful consideration and study on the other, the Federal Government entered the field of farm lending with the passage of the Canadian Farm Loan Act in 1927.

The Canadian Farm Loan Board was created by this act as an independent national organization to make long-term loans to farmers against the security of their farms. It consists of not less than three nor more than five members, one of whom must be the Deputy Minister of Finance or the Comptroller, Government Guaranty Branch, Department of Finance, and is presided over by a chairman known as the Farm Loan Commissioner. The board originally appointed Provincial boards through which it was to function locally, but in 1935 these elements of dual control were removed by substituting a chief executive officer (the branch manager) appointed by the Federal board to administer operations. It was provided, however, that a local loan advisory council of not more than three members, of which the executive officer would be chairman ex officio, could be appointed at the discretion of the board. Under the Canadian Farm Loan Act of 1927, enabling legislation had to be enacted by the Provincial governments before lending could be initiated, and by 1929 operations had begun in all but three of the Provinces (Saskatchewan, Ontario, and Prince Edward Island). In 1935 the board was authorized to proceed without enabling legislation and operations were soon extended throughout the entire Dominion.

The initial capital of the board was supplied in part through an advance by the Dominion of $5,000,000 to be free of interest for 3 years, but subject thereafter to a rate of 5 percent, later reduced to 3½ percent. This amount was to be repaid from the profits made after operations were well under way. Subsequent capital of the board was to be obtained by the issue of stock in shares of $1 each, of which the Dominion Government was required to take an equivalent of 5 percent of the total loans made and every Province an amount equal to 5 percent of the loans made within its boundaries. Borrowers also were to purchase shares to the extent of 5 percent of the amount borrowed, which stock had to be paid for at the time the loan was made and was retired only after full repayment of the advance. All shareholders were to participate in any profits from the board's operations. Provinces and borrowers were released from the requirement of stock subscription by the Farm Loan Act Amendment Act of 1935. Provision was made for the Dominion to buy at par the shares previously subscribed and held by the Provinces in which operations had been carried on and for the retirement of borrowers' shares by crediting an equivalent amount as payment on their indebtedness.

The board was to raise its loan capital through the issue of mortgage bonds in an amount not to exceed 20 times the paid-up capital stock subscribed by borrowers according to the original act, by the Dominion Government according to the amendment of 1935 which rendered it the sole shareholder. The Minister of Finance at first was allowed to purchase and hold these farm loan bonds to an amount of $15,000,000. In 1934 the maximum of farm loan bonds which might be held at any one time was increased from $15,000,000 to $40,000,000. In addition, the Government was authorized to guarantee principal and interest of the bonds to the extent of $30,000,000. These amounts were raised to $50,000,000 and $40,000,000, respectively, in 1935.

The board lends on first mortgage security to farmers actually engaged or shortly to become engaged in the operation of the farm offered as security, for the following purposes: "To purchase farm land; to purchase fertilizers, feed, livestock, tools, machinery, and any implements and equipment necessary to the proper operation of the farm; to erect farm buildings or to clear, drain, fence, or make any other permanent improvement tending to increase the productive value of the land; to discharge liabilities already accumulated; and for any purpose which in the judgment of the board may be reasonably considered as improving the value of the land for agricultural purposes." [16] Originally, the board was permitted to lend up to 50 percent of the value of the land and 20 percent of the value of the permanent insured improvements as appraised by the board.[17] Since 1935, however, loans have been limited to 50 percent of the appraised value of land and buildings.

The Canadian Farm Loan Act Amendment of 1934 gave the board power to make additional advances for a period not exceeding 6

[16] Canadian Farm Loan Act, 1927. 17 Geo. V, c. 43. Sec. 7, par. 2.

[17] For appraisals the board relies on its own staff of appraisers, but at the same time it makes use of service offered by the Soldier Settlement of Canada (p. 53).

years against a second mortgage on the farm land already accepted as security for the first mortgage and of a lien on the borrower's livestock and equipment. These second mortgage loans were made for purposes very similar to those of first mortgage loans.[18] Apparently it was felt that it would be to the interest of borrower and lending agency alike if that portion of the credit requirements which exceeds 50 percent of the value were subject to repayment over a short period.

The maximum loan limit for first mortgage loans was reduced from $10,000 to $7,500 in 1934, and to $5,000 the following year; according to the 1934 legislation, second mortgage loans were not to exceed one-half the amount of the first mortgage and the aggregate of both loans was not to exceed two-thirds of the appraised value of the land and buildings mortgaged nor the absolute amount of $7,500. This limit was reduced to $6,000 in 1935.

Interest charges were to be fixed by the board at a rate sufficiently above that of its bonds to provide for operating expenses and reserves for losses. In 1940 the board was borrowing at the rate of 3½ percent and reloaning at 5 percent on first mortgage loans and 6 percent on second. The original interest rate charged borrowers was 6½ percent per annum (5 percent straight interest and 1½ percent to cover administration costs and provide for reserves). This was reduced to 5½ percent in 1934 for all first mortgages made after October 12 and then again the following year to the current rate of 5 percent. The interest of second mortgage loans may not exceed the rate current on first mortgage loans by more than 1 percent. The original rate charged by the board was 6½ percent but was reduced to 6 percent in 1935. Arrears are subject to an additional charge of ½ percent.

The 1927 act stipulated that all loans were to be repaid in equal annual or semiannual installments of principal and interest with amortization over periods of either 23 or 32 years. In 1935 all first mortgage loans were made payable upon the terms and within such period of not more than 25 years as prescribed by the board, but any loan running more than 5 years had to be repaid in equal annual or semiannual installments of principal and interest. Repayment seems usually to be according to one of the following 3 plans: For each $100 loaned there may be 24 annual installments of $7.25 or 49 semiannual installments of $3.57; 15 annual installments of $9.64 or 30 semiannual installments of $4.78; or 10 annual

[18] Second mortgage loans are made "to enable the debtor to pay existing liabilities; to purchase livestock, tools, machinery * * * and equipment * * * to erect farm buildings or to clear, drain, fence, or make any other permanent improvement * * *; for such other purposes relating to the development and operation of the farm as the board approves" (Canadian Farm Loan Act Amendment Act, 1934. 24–25 Geo. V, c. 46).

installments of \$12.96 or 20 semiannual installments of \$6.42. Prepayment of all or any part of a loan may be made on any installment date.

The duration of second mortgage loans may not exceed 6 years. Interest only is paid from the time the loan is made to the next installment-paying date. For example, in Ontario annual installments fall due on June 1 or December 1; a farmer obtaining a loan in September pays interest on the total amount until December 1 of the same year. Thereafter, 5 equal annual installments of principal with interest on the outstanding balance are required.

By virtue of the Canadian Farm Loan Act Amendment of 1934, the powers of the board were extended to enable it to take additional security on livestock or implements if necessary to insure the safety of the loan and to grant, where advisable, such extension, composition, or scheme of arrangement as might be deemed proper. In addition, the board was authorized to make short-term loans to its mortgage clients to cover the cost of seed grain, feed, fertilizer, or harvesting expenses.

In cases where a farm mortgagor had effected debt consolidation under the Farmers' Creditors Arrangement Act of 1934 (p. 45), the board was empowered to arrange for an unusual transaction which would supply him with the current operating capital needed and probably not otherwise obtainable. The board could make a loan adequate for these purposes not to the mortgagor but to the mortgagee up to one-quarter of the amount of the mortgage he held, provided that the proceeds were disbursed to the farmer and the mortgage was assigned to the board as security for the advance. The mortgagee was allowed to charge the farmer a rate of interest higher than the latter paid on the mortgage, but in any case not more than 1 percent greater than that charged the mortgagee by the board. The advantage to the mortgagee was obviously not only that of increased receipts from interest, but also that accruing to him from the continued operation of the mortgaged property. Such advances were limited to 1 year with possible extension for another.

The Quebec Farm Credit Bureau

To provide low-cost funds to farmers and to facilitate operations under the Dominion Farmers' Creditors Arrangement Act (1934), the Quebec Legislature in 1936 passed the Farm Credit Act creating the Quebec Farm Credit Bureau. The opportunity offered to farmers to pay off outstanding mortgages contracted at high interest rates by obtaining a loan from the newly formed agency at 2½ percent interest was widely advertised. It has been stated that the two main objects of the law were: "To enable the farmer to get out of debt and keep out of debt; and secondly, to make it possible for farmers' sons to set themselves up on a farm without being strangled from the outset by a burden of interest payments that the farm is incapable of carrying."[19]

Although the Farm Credit Act provided that the bureau could issue mortgage bonds, it has obtained loanable funds more cheaply by borrowing exclusively from the Provincial government. Soon after operations were begun, it was discovered from the number of applications submitted that the initial capital of $10,000,000 made available by the Province would not be sufficient. Early in 1937 the authorized loan capital of the bureau was raised to $15,000,000, then to $25,000,000, and finally to $27,000,000 in 1938.

The bureau lends against first-mortgage security up to 65 percent of the value of the farm, as determined by the bureau, to farmers already on the land for such purposes as the purchase of livestock, machinery and equipment, construction and repair of buildings, etc. Loans up to 75 percent are made to those acquiring a farm, but the maximum loan to any one individual in either case is $6,000. Supplementary loans of shorter duration are granted on second mortgage security. However, the combined first and second mortgage loans may not exceed 75 percent of the value or the amount of $6,000. Insolvent farmers may obtain loans in order to facilitate compromises and arrangements of indebtedness under the debt adjustment facilities provided by Dominion and Provincial legislation. It is an interesting feature of all loans made by the bureau that to avoid misuse of the funds granted the cash is paid not to the farmer but directly to the third party involved.

The original rate of interest charged was only 2½ percent; amortization of principal was at the rate of 1½ percent over a period of 39½ years, with repayment in 79 equal semiannual installments. Overdue installments bore interest at 5 percent. The law also provided for an alternate plan requiring amortization at the same rate over a period of 30 years with payment of the balance due in one lump sum. The act was amended during the legislative session of 1940, and since March 17, 1941, the interest rate on new loans has been 3 percent and amortization payments must be made at the rate of 2.71 percent over a period of 25 years. The borrower is by no means obligated to a long duration, but has the right to repay at any time his principal or any part of it.

In refinancing an insolvent farmer who is indebted to more than 65 percent of the value of his farm, the bureau will lend an amount

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[19] Albert Perks, *Farm Loans in Quebec*, Quebec, 1937, p. 3. (Pamphlet enclosed with reply to *FCA and USDA Joint Survey of Agricultural Indebtedness, March 1, 1938*, from Consul John Randolph, Quebec, August 6, 1938.)

up to 75 percent provided the creditors agree to being paid off and, in case of a scaledown to accept the maximum as final settlement of their claims. Consent on their part is entirely voluntary and if even one objects, no loan or payment will be made. When such an agreement is reached, the borrower finds himself with a 25-percent equity in his farm and with but one creditor whose terms are more in keeping with his ability to pay.

Another important phase of the bureau's lending is the purchase of property to set up farmers' sons in enterprises of their own. As stated above, the Farm Credit Bureau will lend 75 percent of the value of the farm to be bought and pay this amount directly to the seller. Ordinarily, the latter may be trusted to allow for payment of the remaining 25 percent on easy terms, but another method for covering this portion of the purchase price is widely used. The father as an established farmer may borrow up to 65 percent of the value of his farm and, unless he is already committed up to this limit, can obtain sufficient funds in this way to cover the remaining 25 percent of the value of the farm real estate to be bought for the son. However, there still remains the problem of equipping the new farm with livestock, machinery, etc. The bureau solves this by insisting that the new farm be in the same parish as the father's so that the latter can lend or give the son the livestock he needs and the two can cooperate in using the same equipment and machinery as well as in sharing the work required by both enterprises.

The bureau exercises some slight supervision of the farms on which it has lent by sending out inspectors each summer to check on current conditions. Often, if the owner-operator is old, the bureau persuades him to retire in favor of one of his sons.

As a byproduct of this credit scheme, a great service has been rendered farm owners in the matter of title clarification. In Quebec property has been handed down from father to son for generations and many sales have been made without any thought of duly registering the transfer. This confusion and lack of records often lead to lengthy and costly searches in connection with Federal loans. In the case of a loan from the bureau, the Province of Quebec pays for title searching in the registry office and for the certificate of research, but the borrower must pay all other expenses and fees incident to title determination.

By June 30, 1938, the Farm Credit Bureau had paid out 5,593 loans amounting to 13.8 million dollars.[20] By February 1941, 16,000 loans amounting to almost 37 million dollars had been made against mortgages valued by the bureau at 67.5 million dollars (at 86.5 million

[20] Alexis Gagnon, *La nouvelle Loi du Prêt agricole du Québec,* Le Crédit Agricole 7 (1) : 213–238, December 1939, p. 214.

dollars by the borrowers themselves).[21] By March 16 the number of loans granted had climbed to 17,662 and these amounted to 40.1 million dollars. From that date to June 1, 1941, 758 loans totaling 1.6 million dollars were made under the new loan conditions.[22] Capital losses of the bureau during 4 years of operation were only $1,700 and only 25 farms had to be repossessed.

The success experienced so far is attributable in part to the fact that the costs of organization and administration are borne by the Provincial government. Among these is a 1-percent loss of interest arising because loans to farmers are made at a lower rate of interest than that at which the Government itself can borrow. The estimated cost to the Government is said to be in the neighborhood of $325 per $1,000 spread over 40 years, or a little more than $8 per year per $1,000.[23]

It is felt that this cost is not too high when compared with the possible alternative expense of maintaining an average-sized farm family on direct relief. Then, too, there are substantial social gains accruing not only from keeping a family on the farm where it can engage in productive labor but also from the healthier outlook and better morale fostered in the younger generation of the farming population.

An attempt is being made now to operate the bureau on a strictly businesslike basis. As important elements in the expected continued success of the bureau, the following economic factors are cited: (1) It was founded in 1937 when the value of farms was the lowest in years; (2) the increased value of agricultural products due to the war, which in turn will increase the farmers' power of repayment and the value of the farm mortgaged; (3) the decrease in capital investments due to the regular sinking fund payments and the advance payments on capital." [24]

The Central Mortgage Bank of Canada

Despite official attempts at alleviation, the farm-debt problem remained a grave one, particularly in the Prairie Provinces which are almost wholly engaged in agriculture. As it was clearly recognized that new measures to combat the serious condition of indebtedness were necessary, a new agency to facilitate mortgage-debt adjustment throughout the Dominion, and at the same time to serve as a source of loanable funds to other mortgage-lending institutions, was created by

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[21] C. E. Genereux, *Farm Loan Plan Offers Stability,* Financial Post, Toronto, February 8, 1941.

[22] Letter from M. Paul Comtois, Manager, Quebec Farm Credit Bureau, Quebec, June 13, 1941.

[23] C. E. Genereux, op. cit.

[24] C. E. Genereux, op. cit.

the Central Mortgage Bank Act of June 3, 1939. Organization of the bank was disrupted and finally suspended owing to Canada's entrance into World War II. Since the new bank was to be owned, controlled, and financed by the Dominion Government, the treasury could not very well undertake to supply the necessary funds under conditions of war emergency. Therefore, on November 15, 1939, the Minister of Finance announced that the Central Mortgage Bank would hold actual operations in abeyance for the time being. The organization completed prior to the outbreak of war will not be destroyed and certain investigatory work will be carried on. The legislation will stand in the hope that after the war the mortgage bank may assume active functioning.

The enabling act provides that the bank be administered by a board of directors composed of a Governor (Governor of the Bank of Canada), a Deputy Governor (Deputy Governor of the Bank of Canada), the Deputy Minister of Finance, and three other directors appointed by the Minister of Finance. The capital of $10,000,000 is to be subscribed entirely by the Minister of Finance. In addition, the bank is authorized to issue debentures, guaranteed by the Dominion of Canada, to the amount of $200,000,000.

The bank will lend not to individual borrowers directly, but to those mortgage, loan, trust, or insurance companies which enter into a membership agreement with it. Such cooperation is entirely voluntary on the part of these agencies since they are under Provincial jurisdiction and may avail themselves of the benefits of this Federal legislation only if Provincial laws do not restrict their activities too narrowly. If they do become members of the Central Mortgage Bank, they are required to adjust all farm mortgages held currently and executed prior to January 1, 1939.

The adjusted mortgage may not exceed 80 percent of the "fair value" of the property as determined by the Central Mortgage Bank. Reduction of the outstanding mortgages held by the member company is effected by deducting all interest arrears in excess of 2 years and whatever principal, interest, or other charges remain over and above the maximum permissible after adjustment.[25]

When such a scale-down is made, the Mortgage Bank will deliver to the member company fully registered, nontransferable, guaranteed debentures equal to 50 percent of the total amount written off the adjusted mortgage. These debentures bear interest at 3 percent per annum and are to be amortized within 20 years by semiannual install-

[25] Mortgages on nonfarm homes executed prior to January 1, 1936, must also be adjusted if the amount owed does not exceed $7,000 for a 1-family home and $12,000 for a 2-family home, unless the mortgage secures a loan obtained under the Dominion Housing Act of 1935 or the National Housing Act of 1938.

ments of principal and interest. The amounts necessary for these payments are supplied the bank out of unappropriated sums in the Consolidated Revenue Fund.

To furnish member companies with additional funds, the Central Bank may buy securities held by them on the condition that these securities bear interest at a rate at least 1½ percent lower than the maximum rate charged on mortgages. The total of such obligations purchased may not exceed in amount the principal of the mortgages adjusted by the particular company.

The duration of the adjusted mortgages is to be 20 years beginning not later than the date on which the instrument effecting adjustment is executed, unless it falls into a category for which a shorter term has been approved by the bank. Interest is not to exceed an effective rate of 5 percent per annum in the case of farms, 5½ percent in the case of nonfarm homes. Repayment is spread over the 20 years in equal annual installments covering principal and interest.

Special adjustment procedures are provided for grain-growing farms so that if and when pertinent regulations are issued, payments may be made in kind on a crop-share basis instead of by fixed cash installments.

Member companies may also borrow from the Mortgage Bank against the security of new mortgages which they have taken. Such new farm loans must have first mortgage security and must not exceed 50 percent of the fair appraised value of land and buildings as determined by the member company. The mortgage is payable on such terms and within such period under 20 years as the bank may prescribe; however, if the mortgage runs longer than 5 years, amortization in equal annual or semiannual installments is required.

The interest rate which a member company may charge on new mortgage loans made with funds obtained from the bank or on renewals of adjusted mortgages will be determined from time to time by the bank. These rates, however, may not exceed by more than 2 percent per annum the average yield—as calculated by the bank on the basis of daily market prices over the preceding 3 months—of Dominion of Canada perpetual bonds or other similar long-term obligations.

History of Government-Sponsored Farm Credit in the Provinces

For many years before the entrance of Provincial governments into the field of farm mortgage lending, farmers had been faced with a difficult credit situation since capital was scarce and interest rates were high. During the last two decades of the nineteenth century farm mortgage loans were usually made for periods of 15 to 20 years at interest rates ranging from 9 to 15 percent.[26] When interest rates in general declined somewhat at the beginning of this century, farmers were on the whole unable to take advantage of any such reduction owing to the long term of their mortgages. Repeated appeals for relief lead to a Dominion law giving borrowers the privilege of paying off loans at the end of 5 years. This was some help whenever a new mortgage could be obtained at a lower rate of interest. However, rates were still high. Besides, as a result of this legislation, the chief lending agencies adopted a 5-year period as the normal length of their loans and at the end of the period could refuse to renew them at the former terms and could impose new ones of their own choosing. The farmer usually had to accept the terms dictated or lose his farm.

From 1900 to 1912, the demand for better credit facilities for farmers either from the Provincial governments or the Dominion mirrored the agitation in the neighbor to the south for a Federal system of rural credit. Although the Dominion was not yet ready to act in this respect, several Provinces were interested in the possibility of setting up their own schemes of agricultural credit. Therefore, when the American and United States Commissions were sent to Europe from the United States in 1913 to study rural credit and agricultural cooperation, delegates from the western Provinces of Alberta and Saskatchewan and from the eastern Provinces of Ontario and Nova Scotia were sent along with the American Commission. The reports and recommendations submitted upon their return in all likelihood had no little influence in producing and shaping the legislation of those Provinces in which definite action was taken soon afterward.

Mortgage Credit

Legislative action by British Columbia in the field of farm mortgage lending on business principles preceded that of any other Province, but operations under it were not very significant. The Manitoba Farm Mortgage Act of 1917 was the first important law providing for a farm mortgage credit system and constituted the model after which legislation in Alberta, Saskatchewan, and Ontario was patterned. Quebec established its Farm Credit Bureau (p. 15) as late as 1936; Nova Scotia, New Brunswick, and Prince Edward Island have made no attempt to create similar local lending agencies.[27]

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[26] James B. Morman, op. cit., p. 239.

[27] Systems established by certain Provinces in connection with land settlement are discussed in appendix I.

Organization and Provision of Funds

Management of the lending agencies established by the Provinces was in the hands of boards having a membership of from three to five appointed to varying terms of office by the Provincial government. Although it is safe to assume that in making such appointments the Provincial governments did not merely select government officials but also followed suggestions from farming interests at large, specific provision for farmer representation was contained in the legislation only in the case of Manitoba where the Union of Municipalities and the Grain Growers' Association each elected one member to the board. In British Columbia two of the five board members had to be engaged in farming, which, however, does not necessarily mean that they represented farmer groups.

The *British Columbia* Agricultural Act of 1915 created an Agricultural Credit Commission which obtained its loan capital through an appropriation of $50,000 from the Provincial consolidated revenue fund and by issuing bonds guaranteed by the Province. A sinking fund was established to provide for redemption of these bonds, and all net earnings up to $100,000 were set aside as part of a reserve fund. Although the board maintained its own accounts and banking arrangements, it operated in close association with Provincial authorities and all its activities were subject to the approval of the Lieutenant Governor in council.

In *Manitoba* a Farm Loans Association, managed by the Manitoba Farm Loans Board, was established under the Farm Loans Act of 1917 with all the usual powers of a financial corporation. Because private capital was being devoted in the main to war effort, most of this agency's loan capital was made up of Government funds or was obtained under Government guarantee. The share capital of $1,000,000 prescribed by the act was entirely out of proportion and was reduced in 1921 to $550,000 with 110,000 shares at $5 each. Only borrowers and the Provincial government could own shares in the association and originally every borrower had to purchase stock equal to 5 percent of the value of the desired loan. This provision was eliminated in 1921. One-half of the share capital was purchased by the Government which in addition could advance to the association an amount equal to the paid-in capital of its members.

The board was also authorized to raise up to $12,000,000 by issuing bonds against first mortgages, the issue at any one time not to exceed 95 percent of the value of the mortgages held as security. The rate of interest on these securities was not to be more than 5 percent. The bonds were guaranteed as to principal and interest by the Provincial government. Pending their sale by the association, the Province was allowed to advance or guarantee a loan not to exceed $1,000,000 at any one time.

The *Saskatchewan* Farm Loans Act of 1917 was administered by the Saskatchewan Farm Loan Board which received its loanable funds from the Government, but operated independently. The capital advanced to it from time to time by the Provincial treasurer was obtained through the sale of Provincial bonds, debentures, and other securities. The sum which could be raised in this manner was originally $5,000,000, but was increased from time to time and finally set at $20,000,000 in 1931. The total amount advanced, however, was not to exceed the amount of mortgages held by the board.

The *Alberta* Farm Loan Act passed in 1917 was modeled directly after the Manitoba law and provided for the creation of a board with an executive officer to be known as the Commissioner of Farm Loans. This statute was never put into operation and was superseded in 1929 by legislation enabling the Canadian Farm Loan Board to function in the Province.

The *Ontario* Farm Loan Act passed in 1917 authorized the Provincial treasurer to advance funds to townships in Ontario on the security of their bonds to make loans to farmers, chiefly for providing land drainage and other permanent improvements. The results under this enactment were relatively insignificant and it was superseded by more extensive legislation in 1921.

The Agricultural Development Board, created under the Act for the Promotion of Agricultural Development (1921), secured funds for making long-term loans by issuing debentures to an amount of $500,000 and farm mortgage bonds—the latter secured by the mortgages held—in such denominations and at such rates of interest as it deemed proper. The Province advanced funds obtained from the Ontario Savings Office and its branches in exchange for these securities which bore a slightly higher rate than the Government had to pay to Savings Office depositors.[28]

Administrative expenses of the board were to be paid out of the consolidated revenue of the Province instead of being covered by interest rate margins as in the other Provinces.

[28] In 1921 an Act to Finance Agricultural Development authorized the Provincial treasurer to found a Government savings bank—known as the Ontario Savings Office—and to open offices throughout the Province for the purpose of accepting deposits from any person or corporation. The funds received from this source were to constitute the loan capital advanced by the Province to the Agricultural Development Board for both its long- and short-term (see discussion on p. 28) lending activities. Interest on deposits was originally 3 percent per annum but was reduced to 2½ percent on May 1, 1933. (*Report of the Royal Commission on Banking and Currency in Canada*, op. cit., p. 25.)

Loan Purposes

Loans by all these mortgage lending institutions were made to farmers, actual or prospective, to buy land for agricultural purposes, to erect farm buildings, to pay off charges existing against the land at the time of purchase, to cover the cost of clearing, draining, or construction of tile drainage, to purchase livestock and implements, to pay off any liabilities incurred for improvements, to further develop or increase the productivity of the land.

Lending Policies

In all four Provinces, if the loan proceeds were used for any purpose other than that for which the loan was granted, the lending agency could declare the debt immediately due and payable or take other steps to protect its investment. Borrowers were not tied irrevocably to the duration stipulated in their loan contracts, and in all cases had the privilege of making prepayments on their loans, without, however, being released from the obligation of meeting the next regular installment in full.

Long-term first mortgage loans were made by the Agricultural Credit Commission of *British Columbia* to individual farmers for the usual purposes up to 60 percent of the value of the land, in amounts from a minimum of $250 to a maximum of $10,000. Amortization was by semiannual installments of principal and interest over 20, 30, or 36½ years.

Two other types of loans on first mortgage security were available: (1) Loans of 3 to 10 years' duration for amounts not exceeding $2,000 to an individual or $10,000 to an agricultural association which were not necessarily on an amortization basis, being repayable on terms set by the Commission; (2) a single season loan repayable within 1 year for the maximum amounts mentioned above, requiring both real estate mortgage security and a promissory note from the farmer or association.

Although the rate of interest on loans was not fixed, it could not exceed by more than 1 percent the rate at which the Government borrowed, this margin being allowed to cover administrative expenses.

The maximum individual loan which the *Manitoba* Farm Loans Association could make was $10,000, and was not to exceed 50 percent of the appraised value of the land plus improvements. An amendment of 1923 provided that farmers already indebted to the association could borrow up to $300 per quarter section for the purchase of seed grain, this additional loan to become a part of the original principal. The rate of interest charged to borrowers, which includes a margin for administrative expenses, was originally 6 percent, but was raised to 7 percent in 1921, and then reduced in 1925 to $6\frac{1}{2}$ percent. All mortgages were repayable on an amortization plan of annual installments over a period of 30 years. The privilege of prepayment at any date on which installments were due was granted on any mortgage which had been in force for 5 years.

Loans by the *Saskatchewan* Farm Loan Board were granted against first mortgage security on farm land for not more than 50 percent of the value of the property as determined by the board. All loans were repayable in annual installments over a period of 30 years.

The rate of interest charged the borrower was to be sufficient to pay the cost of raising the board's loan capital. The Government borrowed at 5 percent and charged the board $5\frac{1}{3}$ percent. The latter charged farmers $6\frac{1}{2}$ percent, thus leaving a margin of $1\frac{1}{6}$ percent with which to meet costs of administration and build up a reserve against losses. Borrowers continued to pay $6\frac{1}{2}$ percent until 1931 when the rate on all mortgages held by the board was reduced to 5 percent for the 4 years from November 1, 1931, to October 31, 1935. The rate in 1936 and 1937 was 6 percent.

When applying for a loan in *Ontario*, the applicant had to appear in person before the board or a local qualification committee and submit evidence that he was a British subject at least 21 years of age and a resident of Ontario for 3 years, that he had a minimum of 3 years' experience in farming, that he was of good character and ability, and that he was actually—or intended to become—engaged in farming the land on which the loan was to be made.

The board was allowed to lend up to 65 percent of the value of the property with a maximum loan limit of $12,000. Repayment was to be in equal annual installments, covering principal and interest within a period not exceeding 20 years. The original rate of interest, $5\frac{1}{2}$ percent, was lowered to 4 percent in 1934.

History

Operations under the *British Columbia* Agricultural Act of 1915 were not begun until the following year. By the close of 1920 a total of 385 loans amounting to $737,000 had been made but there was a deficit of $64,919. The functions of the commission were then assumed in part by the Land Settlement Board (p. 52) which also took over its loans and assets. After this experience, the Province devoted most of its efforts to the field of land settlement rather than farm mortgage lending on business principles. The Land Settlement Board in turn ceased making new loans when operations by the Canadian Farm Loan Board were inaugurated in the Province in 1929.

The *Manitoba* Farm Loans Association made the bulk of its loans between 1917 and 1922. By June 30, 1923, approximately 8.6 million dollars had been loaned and although the demand for loans was still quite strong the Government was not in a financial position to go further into the scheme at that time.[29] Soon operations declined and practically ceased with the appearance of the Canadian Farm Loan Board in November 1929. By the end of 1931, a total of 4,142 loans amounting to 10.5 million dollars had been made; however, at that time only 10 percent of current loans were in good standing.

The Manitoba Farm Loan Board still holds many old mortgages; it accepts new ones only when it resells a foreclosed farm—in which case the mortgage is limited to 50 percent of the value of the land. In 1930 an amendment provided for the appointment of a Commissioner to take over management of the Farm Loans Association and wind up its affairs. The Province has assumed its liabilities and has arranged to make good any losses.

While the *Saskatchewan* Farm Loan Board displayed great activity until 1923, from that date on its business was curtailed owing to smaller appropriations by the Government. In 1930 an inquiry into its activities showed that instead of a declared surplus there existed in reality a deficit of over 2.5 million dollars. Since 1931, the energies of the board have been devoted almost exclusively to cleaning up loans and agreements of sale. It is possible that Manitoba's example may be followed and a commission appointed to wind up the affairs of the board.[30]

In *Ontario* by 1934 over 17,600 loans totaling $62,000,000 had been made, but weaknesses had appeared. In theory, the Province was to use Savings Office deposits to provide the loan capital of the Agricultural Development Board. However, in the depression following 1929, these deposits were being withdrawn or reduced just at a time when the demand for loans was increasing. When this source of capital failed, funds had to be advanced directly by the Province in an increasing amount. Farmer-borrowers were already in arrears to the board, and when the board began to fall behind in its interest payments to the Province, lending operations were suspended. No new loans have been made since 1934. In 1935, the Agricultural Development Amendment Act reduced the board to 2 members and empowered it to make such composition, extension, or scheme of arrangement as it deemed advisable. It was also authorized to appoint local committees to advise it upon problems arising in connection with loans already made. Payments were then extended over 30 years; the board could accept installments of interest without principal for 3 years and also consolidate obligations to be repayable

[29] James B. Morman, op. cit., p. 253.

[30] W. T. Easterbrook, *Farm Credit in Canada*, Toronto, 1938, p. 110.

in annual installments within 30 years. Although no complete write-offs occurred, some scale-downs were made under the Farmers' Creditors Arrangement Act of 1934.

Short-Term Credit

The first but unsuccessful attempt to establish a rural credit system in Canada was made in British Columbia as early as 1898.

The Agricultural Credit Act of 1898 was passed in response to the request by farmers for cheaper credit than that available from banks and loan companies. Loans were to be made by the Government through local associations of 20 or more farmers for specific purposes such as fencing, draining, purchase of livestock, farm implements, etc. These associations were patterned after the Raiffeisen system in Germany and liability was unlimited. A borrower was required to have the endorsement of 2 members to secure a loan. The Government was to lend at 3½ percent to the association which in turn was to charge its borrowers 5 percent, the difference of 1½ percent being used to cover expenses and create a reserve for losses. No loans were ever made under this scheme, however, for farmers were not ready to accept the cooperative principles involved, especially that of unlimited liability.

Effective local government action to create short-term credit facilities for farmers has occurred in only 3 of the 9 Provinces of the Dominion, namely, Manitoba, Alberta, and Ontario. In Quebec, no parallel legislative action was taken nor were comparable Government-sponsored agencies set up. Credit was available from the Cooperative People's Banks (appendix II) which, although not intended specifically to provide funds to agriculture, have since their inception been a significant source of short-term credit for their farmer-members.

Organization and Provision of Share Capital

With the object of making credit available to farmers unable to borrow from commercial banks, the *Manitoba* Legislature in 1917 passed the Rural Credits Act authorizing the organization of rural short-term credit societies anywhere in the Province upon the written application of not less than 15 farmers.

Before operations could begin 35 members had to subscribe at least $100 each of capital stock and pay in not less than 25 percent of this amount.[31] The liability of each member was limited to the amount of stock he owned. The Provincial government and the municipality in which the society was to operate were each authorized to subscribe an amount equal to half the total subscribed by individual shareholders and were allowed to issue debentures to pay for

[31] According to 1923 legislation. Under the 1917 law 50 members were required to subscribe at least $5,000; in 1918 these figures were lowered to 35 and $3.500.

their subscription. To provide further capital the Province was authorized by an amendment of 1923 to lend to any society an amount equal to, but not exceeding, 20 times its paid-up capital and surplus assets.

The business of such society was conducted by a board of nine directors, three of whom were elected by the individual subscribers, three were appointed by the subscribing municipality, and three by the Lieutenant Governor in council. At least one had to be a graduate of the Manitoba Agricultural College or a Provincial officer engaged in agricultural work or instruction. Business was conducted by the secretary-treasurer of the society who was the only paid officer, all others receiving simply their expenses.

The *Alberta* Cooperative Credit Act of 1917, as amended from time to time until March 1922, was almost identical with the Manitoba law, the slight differences relating to organization and interest rates. A society could start operations with 30 members subscribing not less than $3,000, with 30 percent paid up. Thereafter, an additional 20 percent of the stock became due the first of each calendar year until all was paid up.

Provision was made in the act for the Lieutenant Governor in council to guarantee the securities, obligations, or financial undertakings of any society. The municipality in which a society operated could also offer guarantees up to one-half the total amount of stock subscribed by the shareholders. When the scheme was reorganized in 1931 (see discussion on p. 32), the amending legislation provided that at least 15 farmers had to apply and subscribe a minimum share capital totaling $2,250, of which 20 percent had to be paid in. The balance could be covered by promissory notes payable in 4 equal installments and bearing interest at 6 percent. These were to be made out to the societies for the full amount of the advance and were payable not earlier than September 1 and not later than the following January 1. No society could begin business before 25 farmers had subscribed for shares in the capital of the society to a total of at least $3,750, with 20 percent in cash. Each society was to have a board of 7 directors, 4 elected by members and 3 appointed by the Provincial treasurer. Information received from the Alberta Cooperative Credit Office indicates that no additional societies were formed under these new conditions.

The *Ontario* Farm Loans Act of 1921 was also based upon the Manitoba legislation of 1917. It authorized the formation of local farm loan associations of farmers who, on the basis of their collective security, could apply to the Agricultural Development Board (p. 23) for the sum to be advanced to individual farmers. Thirty members were necessary to form an association and each had to subscribe a $100 share of stock and pay 10 percent of this in cash. The local municipality and the Provincial government were each to subscribe an amount equal to that subscribed by individual farmers. All stockholders participated in naming from among themselves three members of the board of directors. Two others were appointed by the municipality and two by the Lieutenant Governor in council.

Provision of Loanable Funds

In *Manitoba*, arrangements were made with the chartered commercial banks to advance at the rate of 6 percent interest the amounts needed to make the loans approved by the societies and guaranteed by them. The banks loaned at this rate until February 1920 when the societies began to agitate for lower interest charges. In reply, the banks not only refused to lower their rate but maintained that they could not continue to lend at 6 percent; in addition, they voiced the complaint that the societies had departed from their stated purpose of assisting farmers unable to borrow from banks and had trespassed into the latter's sphere of activity by organizing in some of the older districts of the Province where, of course, membership would include farmers who had formerly been bank customers. After several attempts at settlement, the banks made a compromise offer to lend at 6½ percent. No conciliation was reached and the banks ceased to cooperate. The Provincial government then decided to lend directly to the societies. From May 1920 the Government undertook to supply whatever funds were needed, up to $3,000,000, from consolidated revenue funds. However, loans to societies were not to exceed 20 times their paid-up capital and surplus. Funds for lending were also obtained from the Manitoba Savings Office, a public savings bank conducted by the Provincial government, set up the same year and operating from 1924 to 1932 when depositors' accounts were taken over by the chartered commercial banks.[32]

The *Alberta* cooperative credit societies were authorized to obtain loanable funds from chartered commercial banks, financial corporations, or private individuals, but actually they appear to have confined themselves to the banks as sources of capital.

The funds used by the *Ontario* Agricultural Development Board for making loans to members of the farm loan associations were obtained from the Ontario Savings Office, a Government savings bank established in 1921 and still in existence (p. 23, footnote 28).

[32] *Report of Royal Commission on Banking and Currency in Canada*, op. cit., p. 25. Savings office deposits were guaranteed by the government both as to principal and interest and could be made by anyone, in person or by mail, at any of the branches established; the rate of interest paid was 4 percent.

Loan Purposes

Short-term loans were granted in Manitoba, Alberta, and Ontario for the usual operating purposes, such as the purchase of livestock and poultry, implements and machinery, or feed and other supplies; the financing of crops or other legitimate farming operations of seasonal nature.

Lending Policies

The *Manitoba* Rural Credits Act of 1917 set no maximum loan limit, but according to a 1923 amendment individual loans were not to exceed $2,000 each. Although as a rule loans terminated on December 31 of the year in which they were made, renewal for another 12 months was granted in case the production cycle for which the loan was obtained carried over into the next year. As security the society took a lien on all the borrower's chattels and in addition the borrower usually gave his note for the amount of the loan. The note was then endorsed by the society to the banks—later to the Province. One-seventh of the interest paid by the borrower was allocated to the local association to cover expenses and build up reserves. Since the maximum rate of interest permissible was 7 percent, the highest possible interest earned by a lender was 6 percent. The society was given the power to take possession of the security if it was endangered in any way by the borrower or if he defaulted payment. Penalties were imposed for the improper use of loan proceeds or diversion of any chattels on which the rural credit society had a lien.

Under the *Alberta* Cooperative Credit Act (1917) the maximum interest rate permissible was 7½ percent, one-half of 1 percent going to the society for operating expenses. Thus the banks, which provided most of the funds, could receive 7 percent. In 1924, to build up a common reserve for losses incurred by any society, one-fourth to one-half of 1 percent was added to the interest payable by the borrower; the sums accumulated in this manner were to be deposited with the Provincial treasurer and invested at his discretion. Under the 1931 legislation the rate of interest payable by borrowers on loans was not to exceed 7½ percent; 6 percent was to be retained by the bank, 1 percent was allotted to the corporation reserve fund and one-half of 1 percent went to the local society for expenses.

The security taken after 1931 covered any property acquired by use of the loan and all other personal property of the borrower. In addition the latter had to agree to market all his grain and livestock jointly under his name and that of the secretary-treasurer of the society; and he was to pay over as much of his sales proceeds as the secretary-treasurer might require to apply on the reduction of his loan. Thus, the Provincial supervisor was in a very strong position to enforce collection. However, renewals were allowed where the borrower could show satisfactorily that he was unable to pay on the due date.

Although the lending policies prescribed for the *Ontario* farm loan associations were modeled exactly after those in Manitoba, it appears that the interest rate actually charged association members was lower than the legal maximum since the current rate in 1923 and 1933 was reported as being 6½ percent.[33]

History

The number of *Manitoba* rural credit societies grew rapidly, increasing from 10 in 1918 to 74 in 1922. In this year, an investigation of the societies was initiated and the Jackman-Collyer report issued. The report was condemnatory of the handling of society funds, poor administration and lack of supervision and indicated the possibility of large losses to the Government. In 1923 an amendment to the Rural Credits Act gave the Lieutenant Governor in council authority to place those societies unable to repay their loans under a supervisor who was to act as administrator and assume the powers and duties formerly held by the boards of directors. By August 31, 1924, 25 societies were being managed by this supervisor.

Because of circumstances stemming from the agricultural depression, a succession of poor crops, and oversized loans in many cases, another inquiry was initiated in 1928. The report showed the societies to be indebted to the extent of $2,486,000 ($1,985,000 principal and $501,000 interest). In accordance with the committee's recommendations, the Government wrote off $1,109,000 ($759,000 principal and $350,000 interest), thus leaving the societies with an outstanding indebtedness of $1,377,000 ($1,225,000 principal and $152,000 interest).

In 1929 a Continuing Debt Adjustment Board was set up with power to write down loans in cases where reductions were found necessary, and by the end of 1933 the total amount outstanding had been reduced to $1,275,000 ($969,000 principal, $306,000 interest). Shareholders at that time numbered 5,097 in all.

After 1933, the Provincial treasurer was authorized to arrange compromise settlement of loans and in the 3 years from 1934 to 1936 a total of $256,082 was written off. Some reductions were the result of direct compromise cash settlements, but a large part was arranged under the Farmers' Creditors Arrangement Act of 1934. As a result of such write-offs and more active collection policies, the outstanding principal of loans on April 30, 1936, was only $775,609. As an in-

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[33] James B. Morman, op. cit., p. 375; *Report of the Royal Commission on Banking and Currency in Canada,* op. cit., p. 46.

centive to repayment, the Provincial government from May 1, 1932, agreed to grant a credit of $1.30 for every $1 paid. This has remained in effect and undoubtedly has served to stimulate payments when they are at all possible.

To effect a considerable saving on overhead cost, in August 1932 a merger was brought about between the rural credit societies and the Manitoba Farm Loans Association, the long-term lending agency in liquidation since 1930 (p. 26). Owing to the different legislation under which these two schemes operated, the rural credit societies remained under the jurisdiction of their own administrator, but an appropriation was granted the Manitoba Farm Loans Association to pay for the cost of supervision, and its personnel was responsible for collections and accounting work. By a final amendment of the Rural Credits Act in 1933, the charters of 73 societies [34] were revoked, and a receiver was appointed to liquidate their assets.

Lending operations by the *Alberta* cooperative credit societies did not really begin until 1922 and their growth was rather slow. The higher rate of interest and the use of funds provided by the banks undoubtedly had a restraining effect upon the societies' rate of expansion and inspired in them a rather conservative policy.

Nevertheless, loose lending practices crept in, and in order to eliminate the possibility of losses, the entire scheme was reorganized in 1931. A Central Alberta Rural Credit Corporation was set up to consolidate the existing societies as members. Its capital consisted of that of each member society plus an equal amount subscribed by the Provincial government. The idea of a common reserve was retained and each society was required to contribute annually to the Corporation's fund to cover losses incurred by any society.

With Manitoba's experience serving as an object lesson, great emphasis was placed upon the necessity of adequate and proper security and upon the importance of supervision. The policy of the supervisor since then is said to have been one of great care and he has found that a margin of at least 0.5 percent is necessary to cover the loss factor and 1.1 percent to cover costs of administration, or 1.6 percent in all. In Manitoba the 1 percent margin was scarcely sufficient to cover operating expenses alone.[35]

In June 1941 the capital and reserves of the Alberta Rural Credit Corporation amounted to $338,000. In addition to 38 active societies there were 2 whose affairs had been placed in liquidation and 2 which engaged only in financing the production of sugar beets. Membership was aproximately 1100. Outstanding loans at December 31, 1940, equalled $1,325,642; new loans of $120.158 were granted during

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[34] One society made arrangements for voluntary liquidation.

[35] W. T. Easterbrook, op. cit., p. 114.

the year and repayments amounted to $154,273. Substantial losses have occurred in the southeastern part of the Province where drought conditions have been severe during the past 10 years. However, societies operating in normal farming areas have prospered and operated satisfactorily. No new societies have been formed since 1930 nor any new members taken in.[36]

In *Ontario* the farm loan associations apparently made little progress "partly because of the difficulty of fostering cooperative effort, and partly because the need in most cases was insufficient to warrant the trouble involved."[37] What lending was done by these societies was unimportant in volume and ceased in 1934 when the Agricultural Development Board, from which they had obtained their funds, stopped making loans. (See discussion on p. 26.)

Reasons for Failure

"The history of Provincial government experiments in this direction [the field of *farm mortgage lending*] is the history of experiments that have failed. Government lending bodies in Manitoba, and later in Saskatchewan and Ontario, commenced auspiciously, faltered, and fell."[38] The failure of these provincial systems was apparently inevitable as the result of a combination of external agricultural conditions and internal weaknesses. The war boom inspired great expansion in agriculture, especially in the Prairie Provinces where farmers concentrated on enlarging their wheat output. With the collapse of the post-war boom, the dwindling of foreign export markets and the incidence of the 1921 depression, farmers began to have financial difficulties, and as these continued and spread, debtors were increasingly unable to meet the payments on loans which had been contracted so optimistically through the facilities provided by the newly established Provincial systems.

Although poor administrative and lending policies were undoubtedly the most important single reason for failure, there were other contributing factors. First of all, borrowers were apt to be little concerned about meeting their financial obligations when Government funds were involved and to take the attitude that the Government could wait indefinitely for its money. Another important reason was that a large number of the loans made were used to pay off prior mortgages, many of them already badly in arrears, held by private individuals and mortgage companies or simply to consolidate all outstanding debts. Funds used for these purposes

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[36] Information contained in a letter received from the Supervisor of Cooperative Credits, Edmonton, Alberta, June 17, 1941.

[37] W. T. Easterbrook, op. cit., p. 90.

[38] W. T. Easterbrook, op. cit., p. 101.

were not put to productive use and there existed the grave danger that new short-term loans would be contracted once all the old ones had been refunded. According to Easterbrook [39] this practice has been of some significance in the history of the whole problem of agricultural credit. An early settler or new farmer in establishing himself on the land incurred a number of small debts and often consolidated them by means of a mortgage loan. Thus freed of short-term debts, he borrowed for operating expenses and soon the need for further consolidation arose. In many cases the entrance of the Provincial government schemes into the lending field coincided rather closely with this development, and the mortgage debt along with the others incurred in the meantime were funded again, this time by a loan from a Government-sponsored lending agency. In the next phase of this progression, some form of adjustment became necessary.

The duration of the loans made was also a contributing factor. It was felt that a 30-year period for an agricultural loan was too long for safety since farm income is subject to wide fluctuations and over such a period of time a borrower is bound to suffer bad years in which arrears will accumulate and as likely as not restore the debt to its original amount. During this period also the farmer may become too old to work his land properly or the security against which the loan was made may fall in value.

Many of the mortgage loans granted by the Manitoba Farm Loans Association during the depression of the early twenties were made to maintain the borrowers' position rather than for legitimate and healthy expansion. When the borrower was unable to meet his interest and principal payments, rather than foreclose the association capitalized the arrears and granted a new mortgage loan for the total amount. As a result, losses were carried for quite a while and were not forced into view until 1930 when the association was faced as well with new depression difficulties.

In Saskatchewan investigation revealed that politics had been responsible for many loans which should never have been made, that a high proportion of loans were bad, and some loans were being carried as current on which nothing had been paid in interest or principal for 10 years.

To some extent all of the Provincial systems appear to have been guilty of the same abuses—the absence of efficient management free from political pressure, the lack of proper supervision and regular, impartial audits, inadequate provision for reserves, general slackness in lending practices, and a tendency to postpone the taking of

[39] W. T. Easterbrook, op. cit., p. 219, footnote 45.

losses. The difficulty of ascertaining the true position of these agencies enabled them to carry on for a while under conditions which would have spelled outright bankruptcy to a business concern.

Provincial experience with *short-term lending* was just as unhappy as that described above. The attempt in Ontario never really got under way; that in Alberta survived and now functions under great restrictions, but only because of the lesson taught by events in Manitoba.

Statements in the literature are emphatic in declaring that the failure of the Manitoba rural credit societies was due chiefly to the lack of proper supervision not only through neglect but also through ignorance. The local boards seemed lacking in sufficient knowledge of financial risks involved and in ability to set up and put into practice sound lending policies. The lack of adequate supervision was evident throughout the system—no overhead control was ever established over the local boards which became the ultimate authority in granting loans. Borrowers were given loans in excess of their capacity to pay; many loans were used to pay off liabilities when returns from the season's operations were not sufficient to cover them. The Jackman-Collyer report condemned the operations of the societies because no appropriations had been made to cover bad debts, directors were allowed to borrow heavily, and a lethargic attitude was taken toward overdue loans. Neither had systematic audits and inspections been maintained. "Nowhere has the need for close supervision on the part of those responsible been more clearly evident." [40]

Extent of Indebtedness

As far as can be ascertained, no attempt to measure total agricultural indebtedness in Canada has ever been made. The 242,850 farms reporting mortgage debts in 1931 showed an outstanding indebtedness of $671,776,500. Of this number, 208,460 (85.8 percent) were "fully owned" and reported a mortgage debt of $566,016,900, which represented 40.9 percent of the total value of "fully owned" mortgaged farms and 19.1 percent of the value of all "fully owned" farms.[41] According to the figures given in table 6, two-thirds of all farms were free from mortgage debt in 1931, but these probably had an unsecured indebtedness of substantial proportions, particularly in the eastern provinces where a great deal of interfamily financing still exists.

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[40] W. T. Easterbrook, op. cit., p. 101.

[41] *Seventh Census of Canada, 1931,* Vol. 8, Agriculture, p. lx.

TABLE 6.—*Agricultural mortgage indebtedness, 1931*

Province	All farms		Fully owned farms [1]		Value of fully owned farms [1]		Mortgage debt of fully owned farms	
	Total number	Reporting mortgage debt	Total number	Reporting mortgage debt	Total	Reporting mortgage debt	Amount reported	Percent of total
	Number	*Number*	*Number*	*Number*	*Thousand dollars*	*Thousand dollars*	*Thousand dollars*	*Percent*
Prince Edward Island	12, 865	4, 250	12, 055	4, 049	39, 981	13, 731	4, 633	0. 8
Nova Scotia	39, 444	4, 049	37, 037	3, 848	75, 299	14, 742	5, 962	1. 1
New Brunswick	34, 025	5, 912	31, 835	5, 623	70, 679	15, 957	6, 104	1. 1
Quebec	135, 957	41, 923	126, 120	40, 167	618, 679	239, 857	91, 782	16. 2
Ontario	192, 174	70, 818	156, 678	64, 263	850, 749	403, 096	180, 544	31. 9
Manitoba	54, 199	18, 710	37, 769	15, 067	177, 658	95, 354	47, 163	8. 3
Saskatchewan	136, 472	55, 955	90, 250	41, 757	599, 845	344, 339	131, 241	23. 2
Alberta	97, 408	35, 003	70, 751	28, 152	422, 753	221, 331	85, 766	15. 1
British Columbia	26, 079	6, 230	21, 211	5, 534	104, 188	36, 886	12, 822	2. 3
Canada	728, 623	242, 850	583, 706	208, 460	2, 959, 831	1, 385, 293	566, 017	100. 0

[1] The term "fully owned" applies only to farms owned entirely by the operator. It does not include farms operated by managers or the owned portion of "partly owned, partly rented" farms.

Source: *Seventh Census of Canada, 1931.* Vol. 8, Agriculture. Table XI, p. xii; table XXIII, p. lxi; table 23, pp. 56, 89, 159, 228, 412, 552, 607, 678, 742.

Further census data are available only for the Prairie Provinces where a quinquennial census was taken as of June 1, 1936. A comparison of these data with those reported for 1931 is made in table 7.

TABLE 7.—*Mortgage indebtedness in the Prairie Provinces, 1931 and 1936*

Province	Number of farms reporting mortgage debt		Number of fully owned farms reporting mortgage debt		Total amount of mortgage debt [1]		Amount of mortgage debt on fully owned farms	
	1931	1936	1931	1936	1931	1936	1931	1936
	Number	*Number*	*Number*	*Number*	*Thousand dollars*	*Thousand dollars*	*Thousand dollars*	*Thousand dollars*
Manitoba	18, 710	19, 499	15, 067	15, 672	59, 224	51, 323	47, 163	40, 111
Saskatchewan	55, 955	62, 160	41, 757	44, 982	175, 770	188, 118	131, 241	134, 154
Alberta	35, 003	38, 659	28, 152	29, 914	107, 519	108, 403	85, 766	82, 479
Prairie Provinces	109, 668	120, 318	84, 976	90, 568	342, 513	347, 844	264, 170	256, 744

[1] Reported on owned land and buildings only.

Source: *Seventh Census of Canada, 1931.* Vol. 8, Agriculture. Table 23, pp. 552, 607, 678. *Census of the Prairie Provinces, 1936.* Vol. 1, Population and Agriculture. Table 103, pp. 257, 696, 1152.

From an examination of these figures it would appear that both the number of farms reporting and the amount of mortgage indebtedness increased slightly from 1931 to 1936. Total mortgage debt rose a little over 5 million dollars, or something like 1 percent, while the amount reported by owner-operators actually declined partly, perhaps, owing to scaledowns. Unquestionably the wheat-growing Prairie Provinces suffered somewhat more intensely from the agricultural crisis and the depression than did the rest of the Dominion where agriculture is more diversified. It may be safely concluded, therefore, that the rate of debt increase for the rest of Canada did not exceed, if indeed it equaled, that of these three western Provinces.

The 1936 census of the Prairie Provinces also gives information on the amount of debt covered by liens for all farms. The amounts shown in table 8, however, are undoubtedly but a small proportion of short-term agricultural lending which is largely a matter of personal credit and granted more often than not against a promissory note or the borrower's word.

TABLE 8.—*Amount of debt covered by liens on all farms in the Prairie Provinces, 1936*

Province	Farms reporting liens	Amount of debt
	Number	*Thousand dollars*
Manitoba	5, 476	2, 361
Saskatchewan	24, 808	12, 386
Alberta	13, 047	5, 684
Prairie Provinces	43, 331	20, 431

Source: *Census of the Prairie Provinces, 1936.* Vol. 1, Population and Agriculture. Table 103, pp. 257, 696, 1152.

An estimate of agricultural indebtedness in the Prairie Provinces at the end of 1937 given by W. J. Waines [42] cites a mortgage indebtedness of over 500 million dollars and debts other than mortgages of almost 300 million dollars, or total agricultural indebtedness of 800 million dollars. This mortgage-debt figure is much more inclusive than the corresponding census figure as it covers interest arrears, accumulated charges, etc. The figure for debts other than mortgage includes such items as tax arrears and relief advances, both of which are sizeable sums.

TABLE 9.—*Estimated agricultural debt in the Prairie Provinces, Dec. 31, 1937* [1]

Type of debt	Manitoba	Saskatchewan	Alberta	Prairie Provinces
	Million dollars	*Million dollars*	*Million dollars*	*Million dollars*
Mortgages and agreements of sale	81. 0	279. 5	167. 0	527. 5
Relief and agricultural aid advances	2. 0	37. 0	11. 5	50. 5
Tax arrears	7. 5	27. 0	22. 0	56. 5
Implement companies	5. 0	16. 0	9. 0	30. 0
Oil companies	0. 2	3. 0	0. 6	3. 8
Retail merchants and liens	5. 0	40. 0	30. 0	75. 0
Banks, finance corporations and miscellaneous	8. 0	30. 0	25. 0	63. 0
Total	108. 7	432. 5	265. 1	806. 3

[1] The amounts shown include arrears of interest payable but exclude write-offs of both principal and interest reported under debt-adjustment legislation or otherwise arranged.

Source: W. J. Waines, *Prairie Population Possibilities*, Ottawa, 1939, p. 55.

[42] W. J. Waines, *Prairie Population Possibilities*, Ottawa, 1939. p. 55.

This estimate for the Prairie Provinces shows mortgage indebtedness as 54 percent more than the 1931 census figures. Other things being equal, the mortgage indebtedness for Canada as a whole would be that much above the figure given in the 1931 census, or a little more than 1 billion dollars. Similarly, according to the figures appearing in table 9, "other indebtedness" was approximately 53 percent of the mortgage debt. If we could estimate by analogy, then, "other indebtedness" for the whole of Canada would be that much of the estimated mortgage debt arrived at above, or 548 million dollars, giving us an approximation of 1.6 billion dollars as the total agricultural indebtedness, inclusive of accumulated arrears, etc., at the close of 1937.

To be sure, there are indications that the relative proportion of secured and unsecured debts varies in the different Provinces and also, according to data given in table 6, that the degree of mortgage indebtedness as a percentage of the value of all farms (fully owned farms only) varies widely, ranging from 7.9 percent in Nova Scotia to 26.5 percent in Manitoba. Besides, the Prairie Provinces have suffered more from the effects of the depression than other parts of the Dominion. For these reasons, the application of indebtedness trends apparently prevailing from 1931 to 1937 in the Prairie Provinces to Canadian agriculture as a whole ordinarily would not result in a truly representative figure for both the mortgage and total Canadian agricultural debt at the end of 1937.

However, the three Prairie Provinces alone accounted in 1931 for 46.6 percent of the total mortgage debt on fully owned farms. Furthermore, in Ontario, which accounted for 31.9 percent of the total Canadian mortgage indebtedness in 1931, the degree of mortgage indebtedness on fully owned farms was 22.2 percent of the value and thus very close to the weighted average for the Prairie Provinces, which was 22.0 percent. Assuming from this comparison a similarity in the debt structure and indebtedness trends in the Prairie Provinces and Ontario, application of the prevailing 1931–37 trends to 78.5 percent of the total 1931 mortgage indebtedness should not yield greatly unrepresentative 1937 figures for Canada as a whole. It must be emphasized though that, as an alternative to giving no indication at all of the probable size of indebtedness, the estimates above are offered only as very rough approximations.

It is doubtful that any increase in the total farm debt of Canada has occurred from 1937 to 1941 since about two-thirds of the debt reduction achieved by scaledowns under the Dominion Farmers' Creditors Arrangement Act fall within this period and since new lending has been definitely curtailed.

Measures for the Relief of Indebtedness

The first appearance of any sort of government action attempting adjustment of farm indebtedness occurred in the early twenties in Saskatchewan and Alberta where measures were taken to overcome minor and supposedly temporary difficulties. The worsening of the agricultural situation owing to drought and crop failure at the beginning of the thirties, the growth of a widespread general depression, the subsequent deepening of financial difficulties, and the absence of refinancing facilities all combined to produce conditions which demanded provision for some form of mediation between debtors and creditors and forced action on the part of provincial governments. In Ontario, Quebec, and the Maritime Provinces, the measures taken applied to home and property owners in general and no distinction was made between farmers in distress and any other class of debtor; in the Prairie Provinces, legislation designed specifically for the adjustment of farm debts was passed and more or less permanent bodies of negotiation were set up.

A Federal policy of uniform farm-debt adjustment in all Provinces was out of the question owing to the diversity in the structure and degree of indebtedness, in the sources and forms of credit, and in the relative proportion of secured and unsecured debts. Therefore, the policy adopted in 1934 under the Dominion Farmers' Creditors Arrangement Act was one of detailed treatment of individual cases with provision for compulsory adjustment in the event that no voluntary agreement was reached. Federal organs were set up in each of the provinces where they adapted their practices to particular needs and local conditions.

The basic concept underlying the Federal debt-adjustment legislation, which will be discussed in detail below, is that of conciliation, while capacity to pay and productive value are the chief considerations in actual application. At first there was misunderstanding of the act—some farmers believed that their debts were to be completely erased and some creditors were inclined to consider it a means of repudiation granted the debtor class. Apparently this situation was remedied, however, as soon as the act began to function and it was demonstrated that it was to the best interests of both debtors and creditors that arrangements be made.

Provincial Measures [43]

British Columbia.

The Mortgagors' and Purchasers' Relief Act, 1932, provided that no action to recover principal owed could be taken by a creditor except with the permission of a judge who had the authority to stay action or allow it to proceed, according to his discretion; the act did not apply to interest or interest arrears. The act was amended in both 1933 and 1934, the more important changes taking place in 1934. Under the new procedure a preliminary inquiry is held by the registrar of the court and his report and recommendations are then submitted to the judge who may refuse permission to institute proceedings or may impose such terms and conditions as he deems advisable. The act was extended to cover interest as well as principal but applied only to instruments executed before April 13, 1932. Creditors could sue for failure to meet interest payments only if taxes were in arrears 1 year or more (which really meant 2 years at least since creditors may not start action until December 31 of any year and taxes are due at the beginning of the year). An amendment in 1935 exempted any instrument to which the Canadian Farm Loan Board was a party. This legislation was to be in effect until 30 days after the close of the first legislative session of 1938.

Nova Scotia.

In 1933 the legislature passed a Mortgagors' and Purchasers' Relief Act which applied to mortgages, contracts, or agreements for sale or purchase of land entered into earlier than April 1 of that year. This act was in force only until May 1, 1934.

Quebec.

In 1933 legal provision was made for those who were unable to meet principal payments on their mortgage obligations and who had met all current charges (interest, taxes, insurance premiums) to ask for relief on contracts entered into before March 1, 1933. The judge to whom the petition was made could either order a stay of proceedings or allow them to get under way, but his decision was final and without appeal. This legislation was replaced in 1936 by an Act respecting Moratorium and Safeguarding Small Property. If all taxes except those of the current and 2 preceding years, all fire-insurance premiums and interest (at 5 percent) on the principal had been paid, the debtor could be granted an extension to May 1, 1938.

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[43] A full, detailed account of Provincial measures taken to provide for debt adjustment and moratoria is given by W. T. Easterbrook, op. cit., chap. IX, pp. 138–153.

Ontario.

The basis of existing legislation was the Mortgagors' and Purchasers' Relief Act of 1933. Under the provisions of part I proceedings against those in default of principal payments on mortgage contracts and agreements for sale or purchase of land made before March 1932 could not be initiated except by permission of a court judge who had the power to grant an extension for such time and on such conditions as he saw fit. Part II dealt with the payment of interest, taxes, insurance, and other charges due on these contracts. The judge could grant relief to a debtor for a period not exceeding 6 months, after which the debtor was required to make monthly payments sufficient to pay in annually at least 75 percent of the aggregate amount of interest, taxes, insurance, and other charges due that year.

Subsequent amendments to this act have served to extend its operations to June 30, 1938.

Manitoba.

Manitoba in its debt-relief action occupies a midway position between the other Prairie Provinces and the rest of Canada. It went further than the moratorium and protection legislation discussed above and actually set up a body to attempt the negotiation of settlements. The measures taken in Saskatchewan and Alberta were of wider scope in that they provided for detailed intervention on the part of the provincial agencies created and compulsory imposition of terms when no voluntary agreement was concluded between debtor and creditors. However, none of this provincial legislation provided for compulsory scaledown, a procedure which later became an outstanding feature of Federal action.

In 1930 Manitoba appointed a director of adjustment to act as mediator between debtor and creditors and to help bring about a friendly arrangement without recourse to legal proceedings. An act of 1931 provided for a debt-adjustment board consisting of a commissioner and two assistants. On the application of either debtor or creditor, the commissioner could confer with them and attempt to arrive at some arrangement acceptable to both. When no agreement was reached, the debtor could apply to the commissioner for a certificate which would prohibit the creditor from taking action except with permission of a county court judge or by written authority of the commissioner.

This act was superseded by the Debt Adjustment Act of 1932. According to the provisions of this act, a creditor must apply for a certificate to proceed against a debtor. The board attempts to bring about a mutually acceptable agreement but if this fails, it must either issue a certificate, which would enable the creditor to start proceedings, or refuse one and thus prevent action from being taken against the debtor. It has no power to write down debts but by refusing certificates it can stay proceedings almost indefinitely. This legislation affects only contracts made prior to April 1, 1931.

By 1933 it had become evident that despite the work of the board in negotiating moratorium agreements, there existed an increasing need for substantial reductions in indebtedness and something more than postponement legislation was required. The board suggested that a "real effort be made to persuade the larger creditor interests to adopt a general policy whereby a portion of interest arrears would be waived." [44] In 1937 a scheme of adjustment for the drought area similar to that in Saskatchewan (p. 43) was put into operation and in that year the Province wrote off over 1.25 million dollars of seed grain and relief indebtedness in the drought-area municipalities. The loan companies made reductions of almost $2,650,000, of which approximately 1 million dollars was in the drought section. In addition, the Continuing Debt Adjustment Board made (1937) reductions in the accounts of the Manitoba Farm Loans Association and the rural credit societies involving a cancelation of indebtedness of almost 2 million dollars.[45]

Settlements arranged with the aid of the board during 1937 and 1938 involved a debt reduction of about $102,000. An additional reduction of about $223,000 was reported in connection with new agreements made by mortgagees.[46]

Saskatchewan.

The first legislation dealing with the adjustment of debts in Saskatchewan was that passed in 1914 giving the Lieutenant Governor in council power to postpone the payment of debts in order to protect the property of those in the Army. This measure was administered by the Department of Agriculture and it was renewed from year to year until 1926.

In 1929, an Act to Facilitate the Adjustment of Agricultural Debts was passed to provide for adjustment of debts by agreement. A permanent debt adjustment bureau was set up and a commissioner appointed to attempt agreements between debtors and creditors without recourse to legal action. Arrangements between the commissioner and resident debtors could be made whereby the latter would transfer to him full handling of their crops, livestock, and chattels for five years and he would arrange for sale proceeds and earnings to be applied

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[44] Report of the Debt Adjustment Commissioner for the Fiscal Year ending April 30, 1934—as reported by W. T. Easterbrook, op. cit., 146.

[45] W. T. Easterbrook, op. cit., p. 146.

[46] W. J. Waines, op. cit., p. 75.

on the payment of the debts in accordance with the act. In 1931 all such agreements were canceled and the legislation was replaced by an Act to Facilitate the Adjustment of Debts.

Under this new legislation the commissioner when appealed to by a debtor was given the power to issue certificates prohibiting proceedings by the creditor without permission from a judge of the district court or the consent of the commissioner. After a certificate was filed, the commissioner was empowered to deal with all or any of the debtor's property as he saw fit. A change in principle was introduced in the amendment of 1932 in which the creditor was required to give the commissioner 20 days' notice of intention to take legal action. The Debt Adjustment Act of 1933 created a board with the power to make settlements or issue permits to allow proceedings to go forward; such a permit was necessary before any action could be initiated against a debtor. In case no agreement was reached between the debtor and creditors, the board could determine the conditions of a settlement. If the debtor failed to cooperate, the board issued a permit. Whether a permit was issued or refused, the board had the authority to impose such terms as it deemed proper upon the debtor or creditor or both.

In December 1934 the permit system gave way to the system of notice of intention still in use. The creditor forwards a 30-day notice of intention to proceed to the board and the clerk of the district court, and the latter informs the farmer. In theory, the burden of proof is shifted from the creditor to the debtor who must present sufficient reason to prevent action from proceeding. A prohibition order may be issued when an action does not concern property, a certificate when it does. As long as the certificate remains in effect, no action or proceedings may be taken against the property, and sale, conveyance, or mortgage by the debtor of this property is impossible without the board's permission. If the creditor refuses to agree to a settlement proposed by the debtor, a certificate or a prohibition order is in all likelihood issued. Where no protection is given to the farmer, the creditor is allowed to proceed.

In the fall of 1935 the Premier of Saskatchewan suggested a general adjustment plan requiring the cooperation of the loan companies, rural municipalities, and the Provincial government which proposed the striking off in the drought areas of arrears of taxes, government relief, and back interest for the previous 2 years. On September 28, 1936, the Government announced an arrangement with the Dominion Mortgage and Investment Association [47] to put this plan of voluntary adjustment into effect. The underlying principle

[47] The Dominion Mortgage and Investment Association includes all of the important insurance, trust, and loan companies which are conducting business in the Prairie Provinces.

was to supplement the individual adjustments being made under the debt adjustment board by a comprehensive scaling down of such debts in the drought area and, as far as possible, throughout the marginal areas of the Province.[48] The members of the association agreed to reduce the rate of interest on all mortgages in the Province to 6 percent from January 1, 1937. In addition, in the drought and marginal areas, the agreement provided for the cancellation of unpaid interest on mortgages and agreements of sale up to January 1, 1935. Unpaid interest for 1935 and 1936 and outstanding principal were to be consolidated and repayment was extended over a 10-year period with interest at 6 percent.

The Provincial and Federal Governments agreed to cancel all relief and agricultural aid in the drought area advanced during the 15 years prior to January 1, 1935. The municipalities in the drought area agreed to cancel arrears of taxes, except those for 1935 and 1936, while the Provincial Government agreed to cancel arrears under the Public Revenue Tax to January 1, 1935.[49]

At March 15, 1938, the write-offs and cancelations made to farmers under this plan were as follows:

Interest arrears on mortgages and agreements	$27, 129, 510
Seed, grain, and relief claims	31, 258, 512
Tax arrears	23, 222, 640
	$81, 610, 662

In addition, tax credits of about $1,488,600 were set up for those taxpayers who were not in arrears and received no tax cancelation.[50]

Alberta.

In 1923 an Act to Facilitate the Adjustment of Agricultural Debts authorized the appointment of a director to aid resident debtors and their creditors to arrive at some settlement either in full or through composition. Where certificates had been filed, no proceedings could be inaugurated without the permission of a district judge or the director.

In 1931 an Act to Amend and Consolidate the Debt Adjustment Act set up a board of review to which a creditor could apply as well as to a judge when a certificate had been filed. This act was amended and consolidated in 1933 and there was set up a debt adjustment board which, at the application of a farmer or his creditor, could attempt to bring about an amicable arrangement. Unless a permit

[48] To aid in planning this work, the Province was divided into three sections: (1) the drought or "red" area consisting of 158 rural municipalities; (2) the marginal or "blue" area consisting of 18 rural municipalities; (3) the rest of the province or "white" area.

[49] For further details of this entire scheme, see W. T. Easterbrook, op. cit., pp. 149–150; W. J. Waines, op. cit., pp. 66–71.

[50] W. J. Waines, op. cit., p. 70.

was granted the creditor, no action of foreclosure, seizure, or distress in connection with contracts made before July 1, 1932, could, with certain exceptions, be taken.[51] When the board refused to grant a permit, it had the authority to direct the debtor in the management of his property, determine the basis on which he should pay his creditors and order him to do so after current operating costs and other expenses had been covered.

The Agricultural Industry Stabilization Act of 1935 widened the exemptions from seizure for farmers to cover subsistence, operating costs for a year, livestock and machinery required for a 12-month period, and other costs of production. Provision was made for the appointment of a special official who was to represent and act for debtors and of local advisory committees throughout the Province to work in close cooperation with the debt-adjustment board in facilitating and effecting compromises or arrangements. The debt-adjustment act and the stabilization act did not apply to debts incurred after July 1, 1932; neither would they apply to farm mortgages which, in the opinion of the board, had been adjusted under the Farmers' Creditors Arrangement Act to within the ability of the farmer to pay and which did not carry interest at a rate in excess of that charged by the Canadian Farm Loan Board.

The Debt Adjustment Act of 1937 extended application of the relief legislation to all indebtedness of residents of Alberta contracted before July 1936. Between July 1, 1935, and July 1, 1937, 12,524 applications, representing an estimated indebtedness of $15,114,400, had been handled and there had been effected settlements resulting in an estimated write-off of $3,000,000.[52]

The Postponement of Debts Act of 1937 provided a moratorium to debtors against corporate creditors until March 1, 1938. The Tax Consolidation Act of 1927 as amended through 1936 had arranged for adjustment of debts owed the government for seed, grain, relief and tax arrears.

A proposal by the Dominion Mortgage and Investments Association (p. 43, footnote 47) for a general debt reduction plan similar to those operating in Manitoba and Saskatchewan was rejected by the Alberta government. Nevertheless, it appears that individual borrowers may take advantage of the terms set forth in the proposal.

The Dominion Farmers' Creditors Arrangement Act

All Provincial debt-adjustment legislation was aimed primarily at securing an extension of time or possibly better terms. Scale-downs of indebtedness that did occur were the result of voluntary agreement

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[51] For these exceptions see W. T. Easterbrook, op. cit., p. 246, footnote 72.
[52] W. T. Easterbrook, op. cit., p. 153.

between the debtor and individual creditors under the guiding hand of the adjustment board, but no attempt was ever made to call in all creditors as a group and negotiate a collective compulsory settlement or composition which is the outstanding feature of the Federal legislation.

The Farmers' Creditors Arrangement Act, 1934, was drafted for the specific purpose of aiding farmers who are unable to meet their liabilities by providing them with simple, inexpensive machinery and procedure whereby they may propose to their creditors, without actually going into bankruptcy, some composition, extension of time, or scheme of arrangement of their affairs. Provision was also made for taking care of cases in which compromises or rearrangements were out of the question. (See discussion on page 47.) The chief object of the law, however, was to enable overburdened farmers in not too desperate a situation to remain on their farms and continue operations under somewhat more favorable conditions.

The administration of the act is entrusted to the Dominion Minister of Finance, all necessary expenses being paid out of unappropriated money in the consolidated revenue fund. The Governor in council of a Province appoints an official receiver for each county or district, or for a group of counties or districts. Provincial boards of review consisting of three commissioners appointed by the Governor in council are also set up. The chief commissioner must be a judge of the Provincial superior court; of the others, one is to represent the interests of the debtors and one those of the creditors, but they do not appear as advocate for either debtor or creditors in matters that come before the board. The appointment of each is based on the soundness of his judgment and his knowledge of conditions.

Any farmer who is unable to meet his liabilities may go to the official receiver with a list of his assets and liabilities, showing the amount and type of each obligation. The receiver will assist him in preparing the proper statement and in formulating some proposal for a composition, extension of time, or scheme of arrangement to be made. Both statement and proposal are sent to the creditors and a meeting is arranged. Secured creditors must concur in any adjustment of the debt owed them unless a board of review formulates and confirms another plan of settlement. (See discussion on p. 47.) As soon as a proposal has been filed, it serves as a stay of proceedings and no action can be taken against the farmer for 90 days; this period may be extended by court order if necessary. The property of the debtor then is considered as being under the authority of the court until final disposition of any proceedings in connection with the proposal. Any proposal approved by the debtor and his creditors becomes binding on all parties.

If no satisfactory arrangement is reached with the aid of the receiver, the case is referred to a board of review on the application of either the debtor or one of the creditors. The board then endeavors to formulate a proposal and submits it to both parties. In this connection, it must give due consideration to the ability of the debtor to perform the obligations prescribed and to the productive value of the farm. The board may decline to draw up a proposal in a case where it feels it cannot do so in fairness and justice to both parties. When it does submit a plan which is approved by the creditors and debtor, the proposal is filed in the court and is binding on all persons concerned. Should the creditors or debtor refuse to approve the proposal, the board may confirm it either as originally drawn or as amended and file it with the court, whereupon it will become binding on both creditors and debtor just as in the case of a proposal voluntarily accepted by both parties. This act was to apply in a province only after proclaimed to be in force by the Governor in council.

The act also provides that whenever a rate of interest exceeding 7 percent per annum is stipulated in a mortgage on farm real estate, the mortgagor has the right to pay off the principal at any time, with an additional 3 months' interest in lieu of notice; if the mortgagee refuses to accept payment in full, he is no longer entitled to charge interest at a rate exceeding 5 percent per annum. This provision became effective immediately on the passing of the act. Its purpose was to release farmers from mortgages with high rates of interest in order that they might take advantage of credit available at lower cost, particularly from the Canadian Farm Loan Board.

By amendment of 1935 the act may not apply to any debt incurred after May 1, 1935, without the consent of the creditor.

The act also contains provisions intended to bring the benefits of bankruptcy legislation to the farmer without subjecting him to what might be termed the indignity of the bankruptcy court. The farmer whose liabilities are out of all proportion to his assets may apply to the official receiver in his judicial district and make an assignment to him, thus securing the benefits of bankruptcy legislation under the Farmers' Creditors Arrangement Act, but without the disadvantages that usually pertain to bankruptcy proceedings where the debtor's assets are sold off and he gives up possession. Thus, assistance is made available to the farmer who is so hopelessly involved that without this legislation he could get relief and a fresh start only through the bankruptcy court as well as to the farmer who still possesses sufficient assets but is in default and in need of some rearrangement of his debts. To the former, the benefits of bankruptcy are provided since the official receiver in his district has the power to take his assignment and deal with it summarily and inexpensively; to the latter, the machinery for adjustment described above is available.

By March 31, 1941, boards of review and official receivers had disposed of 44,282 cases which represented a total indebtedness of 264.9 million dollars; total reductions amounted to 99.9 million dollars.[53] The estimated annual saving on interest was reported as 7.6 million dollars. Secured debts were reduced by 36 percent, unsecured by approximately 52 percent. As is to be expected, the most drastic scale-downs occurred in the Prairie Provinces, the debts handled being reduced by 45 percent in Alberta and Manitoba, and by 41 percent in Saskatchewan. Quebec was the most conservative, its reduction amounting to 21 percent. For the Dominion as a whole, the average reduction was about 38 percent. According to the distribution reported, about 60 percent of the cases disposed of were settled amicably.[54]

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[53] The Farmers' Creditors Arrangement Act, 1934, *Statistical Review of Cases Disposed of to March 31, 1941.* (Enclosure to letter from Mr. Charles A. Port, Department of Finance, Ottawa.)

[54] Letter from Mr. Charles A. Port, Department of Finance, Ottawa, June 20, 1941.

Appendix

I. LAND SETTLEMENT CREDIT

Elaborate land settlement credit schemes were established in the second decade of this century by the Provinces of Nova Scotia, New Brunswick, and British Columbia. Although the New Brunswick Farm Settlement Board was the only one of these still active in 1941, a brief description of all three is given below because they are examples of advancing land settlement credit through specially created Provincial agencies rather than directly through Government departments as has been the recent practice in Ontario, Quebec, and Saskatchewan.

The Dominion Soldier Settlement Board established in 1917 is known at the present time as the Soldier Settlement Department of the Immigration Branch, Department of Mines and Resources. Although this agency no longer makes loans to establish new settlers on the land, it probably still advances short-term funds to those already established under its jurisdiction. In addition, it carries on many administrative duties and performs various other services. Since activity under the Soldier Settlement Board was rather extensive before 1924 when lending operations were restricted, and since the whole venture forms an interesting episode in the history of the provision of land settlement credit, its organization and operation will be discussed in some detail.

The activities of the Ontario Department of Northern Development and the Quebec Colonization Department have evolved not so much as efforts to establish new settlers on the land but rather as what may be called "credit to settlers" arrangements under which short-term advances or outright grants were made. The Saskatchewan Northern Settlers Reestablishment Branch was set up to take charge of resettling and rehabilitating farm families which trekked northward from the dried-out areas of the southern part of the Province. Manitoba and Alberta did not suffer as disastrously as their sister Province, and as far as can be ascertained no land settlement experiments were attempted. Operations of the Ontario Department of Northern Development were suspended in 1936, but the other two are still functioning subject to the financial restrictions placed upon them by war conditions.

History of Provincial Systems

Nova Scotia.

The Act for Encouraging of Settlement on Farm Lands passed in 1912 was designed chiefly to help new immigrants from the British Isles to become landowners, but its provisions were extended to residents who desired to buy farms or improve their holdings. The Government did not loan to settlers directly; it operated through established loan companies already engaged in farm-mortgage lending which were to make advances under its supervision.

When a settler applied to the Department of Industries and Immigration for a loan, two appraisals of the farm took place, one by a Provincial appraiser and one by the lending company. If all conditions were satisfactory the company advanced a loan up to 40 percent of the appraised value. When the situation warranted it, the Government gave the company a guaranty for an additional 40 percent and thus raised the company's total loan to 80 percent of the appraised value. The settler had to have cash equal to 20 percent of the appraised value and enough to furnish his home and provide stock and equipment. Mortgages at first ran for a period not exceeding 15 years, but this made the annual amortization payments too heavy. In 1919 the act was amended to increase the period of repayment to 30 years. The borrower was allowed to pay off his debt in whole or in part at any time. The rate of interest charged ranged from 6 to 7 percent.

By an amendment of 1913, the Governor in council was authorized to purchase and subdivide farm lands; repair, alter, or erect buildings; prepare, till, and seed the land; purchase stock and implements; and then sell the real estate, stock, and implements to settlers.

Operations under this act ceased in 1925 and no further legislative action was taken until the Canadian Farm Loan Board entered the scene in May 1929.

New Brunswick.

The Act to Encourage the Settlement of Farm Lands was passed in 1912 and a Farm Settlement Board of 3 members created with authority to purchase and hold real estate, to improve it by erecting houses and buildings, to take over any public forest lands suitable for farming, and to sell farms and farm land to settlers at a price not exceeding its cost to the board. The Lieutenant Governor was authorized to borrow $100,000 for 20 years at 4 percent and repayment was provided for in the following manner: A sum of $5,000 was to be set aside and invested annually out of the current revenue of the Province to pay the principal of the loan; the interest accruing was to be used to pay the interest on the debt as far as it would go; the remainder was to be paid out of the current revenue of the Province.

If the price of the farm to be bought were less than $1,000, the settler had to make a down payment of 25 percent of the price; if in excess of $1,000, the initial payment was 35 percent. The balance was to be amortized over a period not to exceed 10 years, with interest at 5 percent. In case of default on the part of a purchaser, the board could take possession of the property after 1 month's notice in writing.

The board was authorized to take over forest land which was unsuitable for timber, clear it, divide it into farm tracts, erect the necessary buildings, and sell to settlers at a price sufficient to cover costs.

In 1927 this legislation was repealed and reenacted with the following changes: A limit of $3,000 was set on the price of improved farms to be bought and the settler was required to pay 25 percent of the purchase price. If all other conditions were satisfactory, the Farm Settlement Board advanced 75 percent of the value and purchased the property, taking a deed in its own name. The applicant then received an agreement of sale under which he was granted permission to occupy the property. The amount advanced to him was repayable in equal annual installments, with interest at 5 percent. The first payment was not due until 2 years from November 1 following the date of the transaction, and the total amount was to be repaid within 25 years.[55] At the expiration of the agreement, the applicant was given a deed to the property. The buildings had to be kept insured by the occupant, and in case of fire the proceeds were either applied on the amount owed to the board or to assist in rebuilding, as circumstances directed.

The New Brunswick settlement scheme remained active even after 1929 when the Canadian Farm Loan Board began operations in the Province. A new law—the Farm Settlement Board Act—was passed in 1937, but few substantial changes were made. One of the 3 members of the board was to be the Superintendent of Immigration and serve also as secretary of the board. All loans were to be amortized over a period not exceeding 30 years from November 1 immediately following the date of the agreement of sale. An amendment of 1939 reduced the interest rate from 5 to 3 percent, effective on and from May 1, 1939. It further provided that all expenses incurred in administering this act were to be paid out of the current revenues of the Province.

No new loans have been made since the beginning of 1940 because of war conditions, but the board continues to service outstanding contracts and dispose of real estate holdings.

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[55] W. T. Easterbrook, op. cit., p. 83.

British Columbia.

To increase agricultural production and promote land settlement, especially among returned soldiers, the Land Settlement Act of 1917 created a Land Settlement Board of three or more members to be appointed by the Lieutenant Governor in council. The Minister of Finance was authorized to pay out of the consolidated revenue of the Province the moneys appropriated by the legislature for the purposes of the board.

The board was empowered to make loans on the security of first mortgages on agricultural lands after it was satisfied that the land was fit for agricultural production, the loan was desired for productive purposes, and the borrower was likely to be able to meet his obligations. Loan limits ranged from $250 to $10,000, and the amounts advanced were not to exceed 60 percent of the appraised value of the farm. In the case of improvement loans, however, the loan was paid out in installments and the total amount could be 60 percent of the appraised value after all improvements had been completed. The interest rate varied with, but could not exceed by more than 1½ percent, the rate at which the bonds were issued.

Two kinds of loans were made: (1) Loans to individual farmers for from $250 to $10,000 with amortization by semiannual installments over 15, 20, or 25 years; the borrower could prepay on any interest paying date one or more installments subsequently due; (2) loans of not more than $5,000 to an individual or $10,000 to an agricultural association for periods from 3 to 10 years. These loans were not necessarily amortized and their terms and conditions were set by the board. If a borrower defaulted on principal or interest payments or used the loan for other than the stated purpose, the board could take possession of the property after 1 month's notice.

In 1925 the board received interest-free advances from the Province which also agreed to meet the expenses and losses incidental to operations under the act. In 1928 the interest rate on loans outstanding was reduced to 6 percent and provision made for funding the indebtedness of individual borrowers at a rate not exceeding 6 percent; the period of time for repayment was also extended. The interest rate on all accounts was further reduced as of June 1, 1936, to 4½ percent.

No new agricultural loans have been made by the Land Settlement Board since the Canadian Farm Loan Board began operations in British Columbia in 1929. Its operations are now confined to the collection of accounts and the closing out of its activities as soon as possible.

History of the Dominion Soldier Settlement Board

The Soldier Settlement Board was created in 1917 to administer the Dominion Soldier Settlement Act, which had as its primary purpose the establishment of ex-service men on the land. As will be seen below, the authorized scope of activity was greatly extended by the 1919 amendments to the act, and operations went forward at a rapid rate under the direction of the board until 1924.

By an order in council of August 17, 1923, the Soldier Settlement Board was placed under the Minister of Immigration and Colonization and began to function also as the Land Settlement Branch of that department.[56] The purpose of this move was to enable the board—or the Soldier Settlement Branch, as it was then termed—to utilize the experience gained in its settlement activities with soldiers to extend aid and advice to newly arrived, inexperienced immigrants. Eventually the board assumed direction of all the schemes entered into by the department to establish settlers in Canada, among which the Three Thousand British Family Scheme and the New Brunswick Five Hundred British Family Scheme attracted special attention. As a result of this development, soldier and general land settlement activities over a period of years have been conducted as complementary operations to eliminate duplication of public services.

Gradually the Land Settlement Branch took on the performance of other services. It makes appraisals for the Canadian Farm Loan Board and the boards of review under the Farmers' Creditors Arrangement Act (1934) and carries out a variety of rural investigations for other departments of the Government since it already had a substantial and trained field staff which could carry on such activities efficiently at hardly any extra cost.

Those eligible for loans under the act of 1917 were Canadians who had served overseas, British subjects who had fought in the allied naval or military forces and had been honorably discharged, or the widow of any soldier who had died in active service. The board was authorized to lend an amount not exceeding $2,500 to aid in the settlement of soldiers on free Dominion lands in the western Provinces, on lands already owned by the settlers, or to assist in the purchase of land. At the request and recommendation of this board, the Minister of the Interior could give a settler, if he fulfilled certain conditions, a free entry for not more than 160 acres of public land. Loans were granted for such purposes as the purchase of agricultural land, the clearing of encumbrances, improvement of agricultural

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[56] In 1937 it was made the Immigration Branch of the Department of Mines and Resources.

lands, erection of farm buildings, purchase of livestock, machinery and equipment, and such other purposes as the board might approve. The rate of interest was fixed at 5 percent, the loans being repayable by annual installments over a period not exceeding 20 years.

Funds for this system of farm mortgage lending were advanced directly from the Dominion treasury. Loans to settlers were not made in cash but in payments for material, improvements, etc., so that all money was spent under direct supervision of the board.

The 1919 and 1920 amendments to the act provided for loans of different size to 3 classes of settlers: (1) To settlers buying land through the board, up to $4,500 for the purchase of land; up to $2,000 for the purchase of livestock, implements, and other equipment; and up to $1,000 for the erection of buildings and other permanent improvements; (2) to settlers on Dominion lands in the western Provinces, up to $3,000 for the purchase of livestock, equipment, and for permanent improvements; (3) to settlers who already owned agricultural land, up to $3,500 (but not exceeding 50 percent of the appraised value of the land) for the paying off of encumbrances; up to $2,000 for the purchase of livestock, implements, and equipment; and up to $1,000 for buildings or other permanent improvements.

In determining the amount to be loaned on a farm under schemes (1) and (2), the productiveness of the land, the value of any additional security given, and ability of the applicant were all taken into consideration. No rigid ratio was set up between the value of the security, which was determined by inspection and appraisal, and the amount of the loan. The latter was really determined by the board which, of course, had to be satisfied that the security offered justified a certain loan. Then, in the light of other conditions, it advanced what it considered necessary but safe—and thus might have loaned considerably more than 50 percent of the appraised value.

Loans for the purchase of land or permanent improvements were repayable in not more than 25 annual installments. On loans for livestock and equipment no interest was charged for 2 years, after which time the principal became repayable in 6 annual installments if made on unimproved land, in 4 if made on Dominion land. Livestock and equipment loans on improved land were subject to interest and repayable in 6 annual installments of principal and interest.

Loans continued to bear interest at 5 percent. A soldier settler had the privilege of prepaying all or any part of his loan at any time.

The greatest amount of credit under the act as amended was granted during 1919 and 1920 when prices of farm products were far above normal. In 1920 and the following year, prices for farm products fell precipitously, those for livestock declining as much as

50 percent. And, of course, the value of land also declined. Farmers suffered to a great extent and many soldier-settlers were unable to meet payments of their debt to the Dominion Government. Consequently, there was a widespread demand for revaluation of both the land and chattels mortgaged to the board. The Dominion Government did not favor revaluation because of the financial losses it would have involved, but in June 1922 it passed amending legislation to give relief. Short-term loans, the maximum duration of which had been either 4 or 6 years, were consolidated with long-term loans, both being made repayable in 25 years by annual installments. This was equivalent to treating cases as if all loans were for 25-year periods dating from October 1, 1922. As a result, farmers felt their obligations in the future would be such that they could meet them readily when due.

As an additional measure of relief, the interest on either a chattel mortgage or a consolidated loan was made payable from October 1, 1922, so that a farmer was granted an interest exemption for 4, 3, or 2 years according to whether he was established on the land in 1919, 1920, or 1921. These regulations were beneficial in stemming the abandonment of farms which had been going on and in January 1923, 86.4 percent of the settlers were still on their farms.

Further relief was necessary in 1925, however, when a reduction in indebtedness with respect to livestock loans was granted. An amendment of 1927 to the Soldier Settlement Act authorized the board to determine the depreciation of the lands bought by soldier-settlers and to credit their accounts as of the standard payment date in 1925 with the amount of such depreciation.

Owing to the low prices paid for agricultural products in 1930–1933, the majority of settlers were burdened with accumulated interest-bearing arrears. The remedial legislation covered not only soldier-settlers but also civilian settlers and settlers under the "Three Thousand" and "New Brunswick British Family" schemes. The "Bonus Legislation" amendment of May 1933 established a dollar-for-dollar bonus on payments made on arrears or any installments due and payable between March 31, 1933, and March 31, 1936, and installments due 1 year thereafter, provided such payment took place prior to March 31, 1936. The legislation excluded indebtedness arising from contracts entered into after January 1, 1933. Another section of the amendment remitted all interest charges accruing during 1931 and 1932 and any payments which had occurred were applied on reduction of principal.

In the spring of 1924 regulations were imposed which limited the benefit of the Soldier Settlement Act to those who had asked for a loan prior to March 31, 1924. By the end of that year the number of returned soldiers established on the land was 30,609. Of these, 24,171 had received loans while the remainder were settlers on soldier grants of free Dominion land to whom no loans had been made. From this time on new loans to soldier-settlers fell off sharply each year, numbering only 92 in 1926 and 29 in 1927.

By 1928 loans to new settlers had practically ceased and whatever loans were granted by the board were short-term advances for taxes, seed, feed, etc., repayable from the proceeds of the next season's crop.[57]

The Three Thousand British Family Scheme was inaugurated in 1925 and provided for settlement on lands owned by the Dominion Government, the British Government advancing up to £300 per family for the purchase of chattels. Loans were on an amortization basis for periods of 25 years with interest at 5 percent. A total of 3,346 families came forward under the scheme but there were 1,556 withdrawals. At March 31, 1937, there were 1,665 families operating their farms under this scheme.

The New Brunswick Five Hundred British Family Scheme was the result of special legislation in 1927 to encourage the settlement of British immigrants in New Brunswick. An agreement was entered into by the British, Dominion, and New Brunswick Governments for the settlement of 500 families in New Brunswick over a period of 6 years beginning in 1928. The Provincial Government supplied the farms, the British Government advanced up to $1,500 for the purchase of chattels, and the Dominion Government was responsible for administration and supervision.[58] The loans were made for a period of 25 years on an amortization basis with interest at 5 percent. By March 1937, although a total of 359 families had come forward, there had been 134 withdrawals, so that only 216 families were operating under this scheme at that date.

Since other settlement and colonization activities administered by the Soldier Settlement of Canada are of minor importance in vol-

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[57] According to figures for 1928, a total of 31,360 returned soldiers had availed themselves of the aid extended through the Soldier Settlement Board. Of these, 6,652 obtained soldier grant entries without loans and 24,708 were given funds which amounted to $110,755,948. (*Seventh Report of the Soldier Settlement Board of Canada, December 31, 1928*, Ottawa, 1929, p. 7.)

At March 31, 1937, there were 17,810 active settlers with loans, 1,750 properties under lease, and 832 farms on hand for resale, representing a total of 20,385 properties under administration or a net investment of $50,346,796. (*Report of Soldier Settlement of Canada for the fiscal year ended March 31, 1937*—Reprint from the *Annual Report of the Department of Mines and Resources,* pp. 315–333—Ottawa, 1938, p. 317.)

[58] In August 1935 the Dominion Government took over the lands occupied by settlers and agreed to pay the government of New Brunswick the principal sums then due.

ume and offer nothing different from the financing methods adopted under the Soldier Settlement scheme, no discussion of them is included in this account.

II. COOPERATIVE PEOPLE'S BANKS OF QUEBEC (LES CAISSES POPULAIRES)

The first successful cooperative short-term credit system organized in Canada was introduced in 1900 by Alphonse Desjardins at the town of Leirs, not far from the city of Quebec. The Caisse Populaire or People's Bank as established in Quebec was an adaptation of the Luzzatti Bank of Italy to a Canadian milieu.[59] Although these banks admit to membership people engaged in occupations other than farming and are even organized in cities, they seem especially suited to rural communities because they aim to promote thrift and create a source of credit in a small territorial unit, such as a town or parish where all the people know each other. Conditions for successful development were favorably present in the rural communities of the Province of Quebec where the people are closely bound by social, racial, and religious ties.

Anyone—man, woman, or child—may become a member of a People's Bank as long as the moral requirements of honesty, loyalty, sobriety, and industry are satisfied. The banks cater to those with small savings to deposit and those who wish small loans; each confines its activity to its own particular area where the personal character of every member is known.

Loans are made to members (shareholders) on notes or personal security and although the banks typically lend for short terms, they also grant loans for longer terms on the security of first mortgages on real estate. As far as acceptable, the borrower sets his own loan conditions, adapting duration to need and repayment to income and ability. In the case of mortgage loans, after the borrower has repaid part of the loan, he may obtain another advance under the same contract so long as the total due does not exceed the amount of the original loan. Interest is paid quarterly and any arrears in such payments in turn bear interest at the same rate at which the loan was granted. The interest rate is specified by the bank but this too will vary according to the circumstances of the borrower, length of duration, size of loan, etc. In 1938, interest rates on loans ranged from 4 to 6 percent.

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[59] For details on history, organization, and importance of the Luzzatti type of credit cooperative, see Myron T. Herrick and Ralph Ingalls, *Rural Credits*—Land and Cooperative, New York, 1919, ch. XXV, pp. 346–363; and N. W. Hazen, *Agricultural Credit in Italy*, Foreign Crops and Markets 31 (10); 296–325, pp. 315–317. September 1935.

Funds for the banks' operations are obtained chiefly from two sources—shares subscribed and deposits made by members. Shares are usually $5 each, payable in small installments. To become a member, an applicant must subscribe to at least one share. The maximum number which any member is allowed to take may be fixed according to the resources of the bank. Shares may be withdrawn at any time on 30 days' notice even when only partly paid up. The shareholder's liability is limited to the value of his shares in the bank.

Deposits, which are accepted only from members, may also be withdrawn at any time although some of the banks require a few days' notice. The rate of interest paid on deposits varies from 3 to 4½ percent.

The business of the bank is conducted by three committees elected by the general assembly of members which convenes annually and at which each person has but one vote no matter the number of shares he owns. The three bodies are a board of administration or management consisting of at least five members, a credit committee of three members, and a board of supervision of three members. Members of all committees serve for 3 years with one term expiring each year, but each is eligible for reelection by the general assembly.

The board of administration elects a president, vice president, and secretary who serve also as officers of the bank. It passes upon applications for membership, dismisses members who no longer qualify, makes recommendations to the general assembly on measures which in its opinion seem to be essential to the prosperity of the bank, and when necessary, it also acts as a board of arbitration and appeals. In addition, this board hires employees, authorizes administrative expenditures, determines the distribution of profits—in fact regulates all activities concerning the internal organization and functioning of the bank.

One of the officers usually assumes the duties of manager, who actually conducts all business transactions but who is under the immediate supervision of the board of administration and the credit committee. He makes disbursements in the name of the bank after they have been authorized by the board of administration; every request for a loan is sent to him for final action after it has been reviewed by the credit committee. The manager is usually required to offer reasonable security for the proper performance of his duties.

Members of the credit committee may not belong to any other committee; neither are they allowed to borrow from the bank themselves or endorse loans for others. It is the delicate task of this committee to approve or reject loans requested by members and to make sure that advances are made only for productive purposes or emergency needs. The committee carefully supervises repayment of all loans and demands satisfactory explanation of any defaulted payments. If the delinquency is due to unforeseen circumstances, of course, leniency in keeping with the personal atmosphere of the bank is exercised.

The chief functions of the board of supervision are to examine accounts and to check the soundness and value of securities. Upon discovery of mismanagement or serious violation of the bylaws, the board may call an extraordinary general meeting. Under like circumstances it may even suspend members of the credit committee but must immediately call and report to a general assembly.

A Cooperative People's Bank must allocate 20 percent of its yearly profits to a reserve fund for extraordinary losses until the total amounts to twice the sum of members' shares and deposits. The entrance tax of 10 cents levied on each share subscribed is also used to build up the reserve fund. A provident fund, too, is maintained to cover operating losses; 10 percent of annual net profits are allocated to this purpose until the fund equals half the amount of liabilities. In case of liquidation, whether voluntary or forced, the reserve fund is not distributed to the shareholders but is contributed to some public purpose designated by the Lieutenant Governor in council. Thus, no group is ever tempted to dissolve a bank in order to enjoy the savings accumulated by its predecessors. Profits remaining over and above contributions to these funds are distributed among the shareholders according to the number of paid-up shares and to the time during which such shares have been paid for in full during the year.

The People's Banks had no legal status until 1906 when the Quebec Syndicates Act was passed. Since 1925 they have been operating under the Cooperative Syndicates Act and its amendments.

In February 1932 the Quebec Federation of Regional Unions of People's Banks (Fédération de Québec des Unions Régionales de Caisses Popularies) was founded chiefly as a central propaganda organization and also to arrange for and coordinate the yearly inspection of the banks which was stipulated by law. It appoints inspectors but these must be approved by the Provincial Government. At the time of organization, the Federation comprised the four regional unions of Quebec, Trois-Rivières, Gaspé, and Montreal. Since that date the two regional unions of Sherbrooke and Rimouski have been formed and have become members. The affairs of the Federation are regulated by a general assembly of representatives from the regional unions apportioned according to the number of affiliated banks and by an administrative council composed of two delegates from each of the unions. In recognition of the service rendered by the People's Banks, the Quebec legislature on February 19, 1932, passed a law authorizing the Provincial government to make an annual advance of $20,000, over a period not to exceed 10 years, as a contribution towards the expense of the rigid inspection system set up and to aid in their further expansion. Early in 1937 this amount was raised to $40,000 and then $50,000 (April), to be advanced over a period of 5 years.

At December 6, 1940, there were reported to be 560 banks with 114,365 members and total assets of $21,000,000.[60]

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[60] Eugène Poirier, *Page d' histoire: 1900–1940,* Revue Desjardins, 7 (3) : 37. March 1941.

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