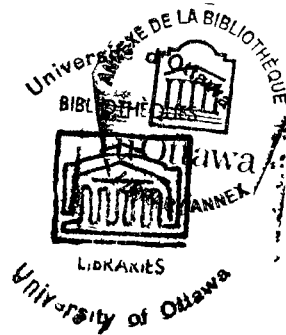


UNIVERSITÉ D'OTTAWA -- ÉCOLE DES GRADUÉS

A CRITICAL SURVEY
OF CANADIAN GOVERNMENTAL AGRICULTURAL
CREDIT AGENCIES IN THE LIGHT OF MODERN FARM CREDIT
REQUIREMENTS

by Walter Fobes

Thesis presented to the Faculty of Social, Economic
and Political Sciences of the University of Ottawa
as partial fulfillment of the requirements for the
degree of Master of Arts.



Ottawa, Canada, 1958

UMI Number: EC55894

INFORMATION TO USERS

The quality of this reproduction is dependent upon the quality of the copy submitted. Broken or indistinct print, colored or poor quality illustrations and photographs, print bleed-through, substandard margins, and improper alignment can adversely affect reproduction.

In the unlikely event that the author did not send a complete manuscript and there are missing pages, these will be noted. Also, if unauthorized copyright material had to be removed, a note will indicate the deletion.

UMI[®]

UMI Microform EC55894
Copyright 2011 by ProQuest LLC
All rights reserved. This microform edition is protected against
unauthorized copying under Title 17, United States Code.

ProQuest LLC
789 East Eisenhower Parkway
P.O. Box 1346
Ann Arbor, MI 48106-1346

LIST OF TABLES

Table	page
I. - Farm Capital Investment Related to Net Value of Production per Person Gainfully Employed in Agriculture by Provinces, 1950.....	69
II. - Number and Amount of Loans Approved by the CFLB in Relation to Total Number of Farms and Sales Value of Land and Buildings, by Province, in Each Census Year from 1931 on..	
Part I.....	89
Part II.....	90
III. - Number and Amount of Loans Applied for and Approved, CFLB, 1929 - 1957.....	94
IV. - Average Size of Loan Applied for and Approved, and Number and Amount of Loans Approved as Percentages of Number and Amount of Loans Applied for, CFLB, 1929 - 1957.....	95
V. - Principal Outstanding as a Percentage of Possible Maximum Loans to the Board from the Minister of Finance.....	97
VI. - Number and Average Size of Loans Approved, CFLB and the Dominion Mortgage and Investments Association, 1950 - 1957.....	98
VII. - Changes in Land, Machinery and Livestock Investment on Canadian Farms by Regions: 1921, 1931, 1941, 1951.....	102
VIII. - Appraised Value, Sales Value and Maximum Loan as Percentage of Sales Value, by the CFLB, of Farm Land and Buildings for the Period 1941 - 1952.....	
Part I.....	105
Part II.....	106
IX. - Appraised and Sales Value of Land and Agricultural Net Income Indices Compared, 1941 - 1952, 1941 = 100.....	109

TABLE OF CONTENTS

Chapter	page
INTRODUCTION.	VIII
I.-AGRICULTURAL CREDIT POLICY.	1
1. Possible aims	1
2. Administration of governmental agricultural credit schemes	6
3. Public versus private agricultural credit	13
4. Farm credit for settlers and immigrants	23
5. Subsidized agricultural credit	34
6. Agricultural emergency credit	37
7. Politics and public credit agencies	38
8. Insured and guaranteed loans	41
9. The family farm and alternatives	42
10. Supervision and education	48
II.-ECONOMICS AND MECHANICS OF AGRICULTURAL CREDIT	53
1. Classification of agricultural credit	53
2. Appraisal of farms for lending purposes	56
3. Agricultural credit related to farm organization	65
4. Influence of farm size and capital structure on farm income	67
5. Ability and methods of repaying loans in relation to farm income	72
III.-THE CANADIAN FARM LOAN BOARD.	80
1. General outline	80
2. Lending operations	83
3. Appraisal policy	96
4. Loan purposes	112
5. Loan ratio	114
6. Maximum loans	115
7. Terms and repayments of loans	123
9. Summary	134
IV.-THE FARM IMPROVEMENT LOANS ACT	136
1. General outline	136
2. Lending operations	145
3. Criticism	155

TABLE OF CONTENTS

III

Chapter	page
V.-THE VETERANS LAND ACT	164
1. General outline	164
2. Lending operations	167
3. Appraisal policy	171
4. Maximum loans and loan ratios	176
5. Terms	182
6. Administration	190
7. Summary	195
VI.-THE CENTRAL MORTGAGE AND HOUSING CORPORATION. .	196
VII.-THE NEWFOUNDLAND FARM DEVELOPMENT LOAN BOARD. .	200
VIII.-THE NOVA SCOTIA LAND SETTLEMENT BOARD	214
1. General outline	214
2. Lending operations	222
IX.-THE NEW BRUNSWICK FARM SETTLEMENT BOARD	237
1. General outline	237
2. Lending operations	244
X.-THE QUEBEC FARM CREDIT BUREAU	252
1. General outline	252
2. Lending operations	259
XI.-THE ONTARIO JUNIOR FARMER ESTABLISHMENT LOAN CORPORATION	272
1. General outline	272
2. Lending operations	281
XII.-THE ALBERTA FARM PURCHASE CREDIT ACT.	289
1. General outline	289
2. Evaluation	296
CONCLUSIONS AND RECOMMENDATIONS	306
BIBLIOGRAPHY	317

LIST OF TABLES

V

Table	page
X. - Loans by Purpose as a Percentage of Total Amount Approved, CFLB, 1954 - 1957.....	113
XI. - Investment Components on Farms in Canada, 1951.....	117
XII. - Average Investment in Land and Buildings per Farm in the three Counties with the Highest Investment of the Province, 1951.....	121
XIII. - Time Used to Process 533 Loan Applications from Ontario, CFLB, 1956.....	128
XIV. - Profit before Taxes, CFLB, 1945 - 1957.....	130
XV. - Administrative Cost Compared with Number of Loans Approved and Outstanding, and Amount Loaned, CFLB, 1937 - 1957.....	131
XVI. - Terms Applying to Different Classes of Loans Extended Under the FILA.....	141
XVII. - Claims Paid to Banks, 1945 - 1956.....	144
XVIII. - Summary of Loans Made, 1945 - 1956.....	146
XIX. - Maximum Amounts of Funds Voted and Actual Amounts Loaned by Lending-Periods, FILA, 1945 - 1956.....	149
XX. - FILA - Loans by Provinces, 1956 and Period 1945 - 1956.....	150
XXI. - Farm Improvement Loans Classified by Purpose, 1956 and Period 1945 - 1956.....	152
XXII. - Loan Classes as Percentages of Total Loans by Provinces, FILA, 1956.....	154
XXIII. - Number of Loans to Full-Time Farmers Approved by the VLA and the CFLB, and VLA - Loans as Percentages of CFLB - Loans, by Regions, 1945 - 1957.....	169

LIST OF TABLES

VI

Table	page
XXIV. - Number of Full-Time Farms Approved for Purchase as a Percentage of Total Appraisals for Purchase under the VLA, 1945 - 1954...	173
XXV. - Average Appraised Value per Acre, Including Buildings, by the CFLB, Compared with Average Cost per Acre, Including Buildings, to the VLA, for the Period 1946 - 1952.....	174
XXVI. - Comparison of Gross Income After Mortgage Payments on a Hypothetical Farm Under two Systems of Mortgage Repayment.....	187
XXVII. - Cash Proceeds Under Share of Crop Agreements Compared with Amounts Due Under the Conventional Repayment Arrangement, VLA, Fiscal Year 1956 - 1957.....	189
XXVIII. - Number of Loans for New Farm Dwelling Structures Under the CFLA, FILA and NHA, 1950 - 1956.....	199
XXIX. - Number and Amount of Loans Approved by the NSLSB and the CFLB, 1944 - 1957.....	223
XXX. - Average Size of Loans Approved by the NSLSB and the CFLB, 1944 - 1957.....	224
XXXI. - Loan Applications Received and Approved and Percentage Approved by the NSLSB, 1950-57.	226
XXXII. - Average Size of Loans Approved and Rejected and Average Rejected Amounts as a Percentage of Average Approved Amounts, NSLSB, 1951 - 1957.....	227
XXXIII. - Average Inventories in Eastern and Western Nova Scotia, Based on Two Samples.....	229
XXXIV. - Average Value of Inventories Calculated from Four Regional Samples of Nova Scotia Farms, 1950 - 1951.....	232
XXXV. - Loans Obtainable Under NSLSB Regulations on the Basis of the Information in Table XXXIV	233

LIST OF TABLES

VII

Table	page
XXXVI. - Number of Purchase Assistances Applied for and Approved, and Farms Held Under Agreements of Sale, NBFBS, 1949 - 1957.....	245
XXXVII. - Number of Farms Purchased by the NBFBS and Average Purchase Price per Farm Compared with Number of Loans and Average Amount per Loan Approved by the CFLB in New Brunswick during the Period 1949 - 1957.	247
XXXVIII. - Number and Average Size of Loans Granted in Quebec by the Quebec Farm Credit Bureau and the CFLB, 1929 - 1957.....	260
XXXIX. - Number of Total Loans and Number and Average Size of Establishment Loans Granted, and Percentage of Establishment Loans of Total Loans, Quebec Farm Credit Bureau, 1937 - 1956.....	262
XL. - Regular and Advance Payments by Borrowers, Quebec Farm Credit Bureau, 1937 - 1956..	267
XLI. - Loans Outstanding, Administrative Expenses and Administrative Expenses as a Percentage of Loans Outstanding, Quebec Farm Credit Bureau, 1947 - 1956.....	269
XLII. - Number and Average Size of Loans Approved by the OJFELC, the CFLB and Members of the Dominion Mortgage and Investments Association in Ontario, 1952 - 1958.....	282
XLIII. - Number and Average Size of Loans Approved as a Percentage of Bona-Fide Loans Applied for, OJFELC, 1952 - 1958.....	286
XLIV. - Administrative Expenses of the OJFELC as a Percentage of Loan Funds Outstanding at March 31, 1953 - 1958.....	287
XLV. - Average Capital Investment in Two Sizes of Mixed Farms, Parkland Area, Alberta, 1954.....	298
XLVI. - Average Returns to Above and Below Average Sized Farms on Fair and Good Soils in the Wanham-Spirit River Area of Alberta, 1953	300

INTRODUCTION

In an age marked by the appearance of bigger and bigger business and the ever growing importance of the corporate form of business organization, agriculture largely has managed to retain its long-established division into many relatively small sole proprietorships. It has done so with public assistance due to its political power and by accepting smaller returns than those received by other industries.

However, farming too has to conform with change and development. Many young farmers leave the industry, and its relative importance in the nation's economy is dwindling. Those that remain need to enlarge their units to scales ensuring an optimum combination of land, capital, labour and entrepreneurship in the light of modern science and technology, no matter which form of business organization they choose. The emphasis is on capital and entrepreneurship. Not so very long ago these factors of production were relatively unimportant in comparison with land and labour. Today, only the best educated farmer equipped with the most up-to-date capital can hope to succeed. Therefore, those possessing the necessary entrepreneurial ability should be permitted to farm whether or not they are now in the industry. Those who lack this entrepreneurial ability could remain in the industry as suppliers of labour at a compensation comparable to other

INTRODUCTION

IX

industries or leave agriculture altogether. The possibility to farm depends on the availability of capital and other factors of production. In order to obtain these factors the entrepreneur is more and more dependent on outside funds which may take the form of equity capital or credit. Equity financing is still uncommon in agriculture. Its advance would probably mean the end of the sole proprietorship or family-type of farm organization as we know it today. Experience shows that the sole proprietor in this period of rapid transition cannot expect adequate credit from private lenders. The latter can choose other and more settled businesses, in which to invest their funds. The individual farmer must, therefore, look to the government to supply him with adequate credit at suitable terms if he desires to enter or stay in the business of farming.

Governments have been in the agricultural credit business for a long time. The writer has taken upon himself, in the following pages, the investigation of existing federal and provincial credit agencies and their usefulness to the requirements of the up-to-date farmer-entrepreneur. The investigation is limited to intermediate and long-term credits which are the only governmental agricultural credits of any significance in Canada.

INTRODUCTION

X

The object of the investigation is twofold:- The first part consists of a critical study of the legislation now in force. This is a straightforward task. In the second part the writer will attempt to analyse the administrations and lending operations of the different agencies according to the capital requirements of farms in the various areas. This analysis will be imperfect and no final conclusions will be drawn from it. However, certain indications will appear on which one may found hypotheses. These hypotheses will then provide the basis for more specialized research in the field.

The possible value of this thesis may therefore lie in giving researchers firstly, a comprehensive survey of governmental agricultural credit agencies as they are, and secondly, open up new inquiries the results of which could decide the fate of these agencies.

While critical articles on the agricultural credit problem appear nearly every week in the agricultural press¹

¹See, for instance, an article by Professor J.C. Gilson of the University of Manitoba: J.C. Gilson's, "Let's Examine Farm Credit", The Country Guide, Vol. 77, No. 4, April 1958, p. 13, 62 - 64.

In an editorial on p. 4 of the same issue it is stated: "Lack of adequate capital has been a chronic ailment of agriculture in Canada for a long time. This lack is one of the major reasons why the majority of our farm population has not been able to enjoy a standard of living comparable to other groups in our economy. As technological advances have swept into farming radical changes in farm organization and operation have become necessary. So much so that the chronic lack of capital is now an acute problem".

See also: Dick Beamish, "Is Farming on the Decline",

INTRODUCTION

XI

and lengthy debates ensue in the legislative assemblies, the writer knows of only four recent Canadian studies of the type attempted in this thesis. They are the Report No. 3 of the Saskatchewan Royal Commission on Agriculture and Rural Life,² the Report of the Nova Scotia Royal Commission on Rural Credit,³ and a chapter on credit in the Report of the Newfoundland Royal Commission on Agriculture.⁴ The agricultural study in the Gordon Commission also contains a critical yet not comprehensive chapter on agricultural credit.⁵ It was composed by the late E.C. Hope who was the Research

Family Herald, Vol. 88, No. 13, March 27, 1958, p. 21.

In this article Professor Dr. Thair of the University of Saskatchewan is quoted as having called the Canadian agricultural credit system an "archaic system of agricultural finance". The quote goes on: "In these days when farm capital requirements are so high, the only way a farmer can make progress towards his goals is by starting with a substantial amount of capital in the first place".

²Province of Saskatchewan, Royal Commission on Agriculture and Rural Life, Report No. 3, Agricultural Credit, Regina, Queen's Printer, 1955, xiii - 131 p.

³Province of Nova Scotia, Report of the Royal Commission on Rural Credit, (Halifax, Queen's Printer), 1957, xi - 91 p.

⁴Province of Newfoundland, "Capital Resources and Credit", Chapter 6, Report of the Newfoundland Royal Commission on Agriculture, 1955, St. John's, Queen's Printer, 1956, p. 336 - 346.

⁵W.M. Drummond and W. Mackenzie, Royal Commission on Canada's Economic Prospects, Progress and Prospects of Canadian Agriculture, Ottawa, Queen's Printer, 1957, p. 112 - 128.

INTRODUCTION

XII

Director of the Canadian Federation of Agriculture at the time of his sudden death at the Federation's Annual Convention in January of this year. In one of the resolutions passed at this convention it was stated that "the need for long-term farm credit is one of the most serious problems facing farmers in this period of agricultural readjustment and change".⁶

The Federation is one of the most ardent speakers for a better farm credit deal for Canadian farmers. Dr. Hope left an impression of the urgency of the problem when he appeared before the Banking and Commerce Committee of the House of Commons during the debates on the 1956 amendments to the Canadian Farm Loan Act.⁷ Hudson dealt with the agricultural credit problem in an article which appeared in the Economic Annalist of the Canada Department of Agriculture in 1954.⁸ At present, the Economics Division of the Canada Department of Agriculture is making a chronological report on agricultural credit agencies in Canada. Easterbrook's history of agricultural credit in Canada from its early beginnings to the time of the great

⁶Part of a Resolution on Long Term Farm Credit, passed by the Annual Meeting of the Canadian Federation of Agriculture, Windsor Hotel, Montreal, January 1958. - A typed copy was received from the Federation's Ottawa office on 28 January, 1958.

⁷Revised Statutes of Canada, 1956, c. 17.

⁸S.C. Hudson, "Financing of Farming in Canada", The Economic Annalist, Vol. 24, No. 3, June 1954, p. 53 - 58.

INTRODUCTION

XIII

depression in the thirties provides general background reading.⁹

In this investigation the writer has pursued the following plan:- The first two chapters give the reader some ideas on ^{the} aims and economics of modern agricultural credit policy as depicted by various writers. As a by-product these chapters provide a general bibliography on the topic.

Each of the following ten chapters deals with one Canadian credit agency. Chapters III to VI deal with the federal schemes which are listed in the order of their importance. The Farm Improvement Loans Act¹⁰ is included because of its great influence in the agricultural credit field, although under this legislation loans are only insured. The federal agencies are followed by the provincial schemes in the usual East to West sequence. Each chapter is divided by various sub-headings the number of which depends on the importance and set-up of the agency under discussion and also on the published or unpublished material available.

The writer has attempted to discuss each credit agency as much as possible in the light of the ideas formed in Chapters I and II, which are really an extension of this Introduction.

⁹W.T. Easterbrook, Farm Credit in Canada, Toronto, The University of Toronto Press, 1938, ix - 260 p.

¹⁰Statutes of Canada, 1944-45, c. 41.

INTRODUCTION

XIV

The investigation takes the form of a broad critical survey. The writer got his information from published material, questionnaires and conversations with officials of some of the lending agencies. In each case the Act was studied. Whenever available, use was made of annual reports and other literature published by or on behalf of the various lending agencies. Consideration was given to any secondary sources of information such as newspaper articles and discussions in the House of Commons. Unfortunately, the writer could not obtain any records of provincial debates on the respective credit schemes. Furthermore, opinions of agricultural economists, farm leaders and other agricultural experts are frequently quoted. Farm management studies and census information is used to give the reader an idea of agricultural organization in the different provinces and areas. Various simple statistical devices, like averages and percentages, are employed in order to get a better and simplified - in many cases maybe too simplified - picture of an existing situation. The writer went back historically as far as deemed necessary to explain the prevailing position of an agency. Some agencies have discontinued statistical series in their annual reports in recent years and unpublished information could not be obtained. Because of this some investigations could not be continued to the present time. In general, several months

INTRODUCTION

XV

elapse before lending agencies publish their annual reports which means that the latest information is often one to two years old. Therefore, some of the effects of recent amendments will not be shown in this survey, and the interested student will have to fill in the missing information as it becomes available.

CHAPTER I.

AGRICULTURAL CREDIT POLICY.

1. Possible Aims.

Boulding has defined agricultural policy as "a pattern of those acts of government, especially of national governments, which specifically concern the agricultural segment of society".¹ He went on to say that "agricultural policy, like that of any other social problem involves all the social sciences, perhaps... all the sciences".²

Agricultural credit policy is but one aspect of agricultural policy. In its broadest interpretation, it deals with the provision of credit to farmers. Governments may either guide or control the extension of agricultural credit or they may extend it themselves. They may also do both. Further discussion will show that economic analysis alone cannot determine the usefulness of any one agricultural credit policy. Sociological, political, legal and other considerations enter into the picture.

¹K.E. Boulding, "Economic Analysis and Agricultural Policy", The Canadian Journal of Economics and Political Science, Vol. 13, No. 3, August 1947, p. 436.

²ibid.

AGRICULTURAL CREDIT POLICY

2

In Canada, governments on the three levels extend loans to farmers. On the provincial level some make loans and others do not. The same holds true for municipalities, but the latter are only in the short-term credit field.

An inquiry into the possible aims of agricultural credit policy must deal with the principles underlying such aims. Opinions on the validity of these principles may differ widely and policy makers will have to decide between their merits and demerits.

Is there any need for an agricultural credit policy? This is the basic question. If there is, then the next questions pose themselves. What form shall it take? Shall governments enter the field themselves or shall they stay out and only control existing private lending agencies? Shall they insure or guarantee loans? If they enter the field, shall they have a monopoly position or shall they compete in the capital market and thus play the role of a complete factor? Shall there be a national policy or shall it be left to the lower governments? One can attempt to answer these questions after an analysis of different aims of agricultural credit policies and their economic implications.

What are the aims? One is certainly the providing of cheap credit to farmers. The cost of credit is the

AGRICULTURAL CREDIT POLICY

3

interest rate that has to be paid for it. A low interest rate means cheap credit. The federal government may borrow from the central bank and lend these funds at an artificially low rate of interest. All governments may make loans out of their consolidated revenue funds. They may also borrow at low cost from the public by selling guaranteed bonds. Or they may borrow cheaply in the short-term money market. One way to give the farmers inexpensive credit is to subsidize it. The government may bear the administrative costs of a credit scheme and thus charge what may be termed a pure rate of interest only. It may absorb the losses by not setting up a reserve fund or by setting up one that is too small. It may also pay part of the going interest rate out of the consolidated revenue fund. In all these cases the taxpayer makes a gift to the agricultural industry.

Another aim of agricultural credit policy may be to provide easy credit. Easy credit differs from cheap credit in that it does not entail funds at a lower interest rate than the going rate. Easy credit means credit at easier terms than the ones normally available. It also means an adequate supply of credit. High appraisal of the collateral ensures larger loans. Lending on a high percentage of the appraised value does the same. High appraisals and high percentages or loan ratios are most

AGRICULTURAL CREDIT POLICY

4

favourable for obtaining large loans. Policies leading in the opposite directions have opposite effects. If these policies oppose each other the effects may cancel out. Credit becomes easier by permitting repayments to be made over a longer term than available from commercial lenders. It becomes easier too, because periodic payments are lower. Total interest payments, however, are higher. Flexible repayments, geared to the farmer's income make the credit burden easier than fixed payments. If governments insure loans fully or partially, private and corporate lenders may be willing to extend funds more easily and cheaply. Governments may provide disaster and emergency credit to farmers that cannot get credit due to the emergency they are in.

Credit to finance farm transfers, especially from one generation to the other, may be considered the main justification for a government credit scheme. Or, maybe credit for the farmer on an inefficient unit. The unit may be inefficient because it does not comprise enough land or capital. It may be suffering from more than one of these defects.

Again, a government credit scheme may be designed especially for the young farmer. It may recognize the need of the beginning farmer for easy credit due to his usually

AGRICULTURAL CREDIT POLICY

5

weak collateral. In a young and sparsely settled country, like Canada, governments may want to extend credits to settlers and immigrants that are eager to open up new areas or to resettle old ones. Government policy may favour the extension of easy and cheap credit to agricultural co-operative societies.

The underlying reasons for all or some of the above points could be sociological ones, like the preserving of the family farm and stopping the flight from the land. Hand in hand with this goes the desire to have a large rural population.

Governments can play a passive role by favouring farmers with moratoria and debt adjustment legislation.

Lastly, agricultural policy may not include a credit policy at all. It will then try to achieve some of its objectives by such devices as parity prices, floor prices or commercial policies.

All these possible aims of agricultural credit policy will be analysed subsequently under various headings. The writer will attempt to draw conclusions as to the justifications of these aims.

AGRICULTURAL CREDIT POLICY

6

2. Administration of Governmental Agricultural Credit Schemes.

In a federal state the question of jurisdiction arises. In Canada, matters of agriculture are treated by both the federal and provincial governments. Most provincial governments have departments of agriculture.³ The two levels take part in formulating agricultural policy. They may, therefore, formulate their own agricultural credit policies.

One of the basic principles of public administration in a free enterprise economy is high efficiency without destroying democratic processes. What does this mean? It means that efficiency must not become so high that the administrator sees only efficiency but cannot understand the wishes of the people. Concentration and centralization ensure high efficiency. Therefore, concentration and centralization should be used up to the point where the administration does not become estranged from the people.

Concentration means to have a few schemes administered by fewer agencies. It means, for instance, not to duplicate services by providing them on the federal as well

³In Newfoundland agricultural affairs are looked after by the Department of Mines and Resources. In Nova Scotia Agriculture and Immigration are combined into one Department.

AGRICULTURAL CREDIT POLICY

7

as on the provincial level. It means, especially in the field of agricultural credit, that the larger the area served by a credit agency, the wider the overall risks can be spread. Fixed costs of administration will also be distributed over a larger amount of business. Farm appraisers will have to travel lesser distances from one farm to the other. Time saving office machinery can be installed and procedures more streamlined. Higher salaries can be paid to officials and, therefore, better service ensured. Administrative costs per loan will be lower. This in turn spells lower appraisal costs and interest rates for the farmer. Streamlined operation probably effects quicker action upon loan applications. Speedy action, as will be seen below, is especially essential for a successful credit administration.

The advantages of concentration are thus obvious. An analysis of centralization versus decentralization is not so simple. The terms need explanation. Various autonomous credit agencies, spread over the country or working in certain regions, do not imply a decentralized system. They imply a lack of concentration. One credit agency having sufficient branch offices to serve the whole region it is supposed to serve, represents a well decentralized system. If there is too much decentralization, branch

AGRICULTURAL CREDIT POLICY

8

offices will not be occupied to their capacities. A waste of resources will thus occur and administrative costs will be up. If there is too much centralization, the system cannot function properly due to lack of contact with the people. Decisions will be made at head quarters without adequate knowledge of local conditions. The same is true if there are many branch offices and the system gives the impression of being decentralized, but the branch offices are only tools of the central agency. They cannot make any decisions and their advice does not count. Such a system is in reality highly centralized. Now, it was stated above that centralization ensures efficiency. Therefore, centralization should take place up to the point where a minimum waste of resources is coupled with optimum efficiency. This point will lie somewhere between extreme centralization and extreme decentralization.

In Canada, the fiscal problem, as it exists between the federal and provincial governments⁴, points to the need

⁴According to Article 92 of the British North America Act, provincial governments can only raise direct taxes for provincial purposes. The Federal Government can raise taxes by any form or mode of taxation. With the need of high federal spending this leaves only relatively small revenues to most of the provinces. See also: A. Milton Moore and J. Harvey Perry, Canadian Tax Papers, No. 6, Financing Canadian Federation, the Federal-Provincial Tax Agreements, Canadian Tax Foundation, 191 College Street, Toronto, 2B, (no publisher), 1953, i - 117 p.

AGRICULTURAL CREDIT POLICY

9

for concentration of any public credit administration.

The Saskatchewan Royal Commission on Agriculture and Rural Life makes some strong recommendations on the necessity to achieve an "integrated, sound farm credit system". It recommends:

That in view of the growing importance of national agricultural policy, the opportunity to increase the total national product, the greater federal fiscal capacity, the prevalence of farm credit problems in all agricultural regions, the existence of national farm credit programs, the greater opportunity to distribute loans nationally to reduce risk, ... the Government of Canada be urged to undertake the development of an integrated national farm credit policy and program.

That ... the federal farm credit program take the form of a Canadian Farm Credit Administration.

That, in view of the advantages of integration and the potential economies in administration, consideration be given to the merit of merging the present administrations ... into ... the proposed Canadian Farm Credit Administration.

That designation of the Federal Government as the appropriate agency to assume responsibility for the proposed farm credit program be considered part of the general task of defining an appropriate distribution of responsibility between Federal and Provincial Governments, ..⁵.

In a brief submitted to the Nova Scotia Royal Commission on Rural Credit by the President of the Canadian

⁵ Province of Saskatchewan, Royal Commission on Agriculture and Rural Life, Report No. 3, Agricultural Credit, Regina, Queen's Printer, 1955, p. 100.

AGRICULTURAL CREDIT POLICY

10

Federation of Agriculture, the following is stated:

There is something to be said for a national farm credit agency. First, is the fact that the lowest interest rate at which funds for loaning to farmers can be obtained is through the Federal Government. Second, is the fact that by loaning in all provinces, the overall risk of the loaning agency is lower than the risk carried by an agency confining its operations to a single province.

However, there are also weaknesses in a national agency unless a real attempt is made by the agency to de-centralize its administration in order to increase efficiency and better serve the regional needs of farmers in the various parts of Canada.⁶

The Interprovincial Farm Union Council expresses a similar opinion. It urges Parliament to investigate:

the possibility of forming one credit administration out of the numerous agencies presently in operation, so designed as to handle efficiently and economically the credit requirements of all farm people for the greatest possible benefit of agriculture and our society as a whole.⁷

⁶H.H. Hannam, President and Managing Director, Canadian Federation of Agriculture, Brief Submitted to the N.S. Royal Commission on Rural Credit, Halifax, N.S., June 25, 1957, (unpublished), P. 11.

⁷Interprovincial Farm Union Council, Submission to the Banking and Commerce Committee of the House of Commons, Ottawa, Canada, April 10, 1956, (unpublished), p. 10.

AGRICULTURAL CREDIT POLICY

11

Professor S. Sinclair of the University of Manitoba stresses the importance of an agency operating on a national scale in connection with the selling of bonds to the public.

He says:

An agency that operates on a national basis can successfully use the farm loan bonds upon which to raise loan funds. These bonds represent the pooled resources of all the borrowers distributed throughout the country. In this way, the risks associated with the loans are also pooled and averaged.⁸

Higher efficiency at no extra cost could be achieved by formation of local advisory committees on a voluntary basis. Such committees could be composed of farmers that are qualified to advise officials of a lending agency on local conditions. Farmers serving on such committees would not be paid. They would be told that they have a great moral responsibility and they should be chosen with this in view. The Canadian Federation of Agriculture recommends the formation of such committees.⁹ Prejudices and local politics could defeat the purpose of these committees. As long as the services of persons of high integrity, impartiality and character can be secured the idea is commendable.

⁸Sol. Sinclair, Government Action for Long Term Credit for Farmers in Western Canada, Brief Prepared and Submitted to the Board of Directors of the Manitoba Federation of Agriculture and Co-operation, January 19, 1955 (unpublished), p. 32.

⁹Canadian Federation of Agriculture, A Statement of Policy Regarding Farm Credit, As Adopted by the Board of

As indicated above, a very important feature of a good credit administration is the speedy granting of loans without sacrificing the necessary precaution. If the farmer can rely on a quick loan service, he will be able to compete with cash buyers. He will be able to compete for choice land for which the demand is strong. Being able to buy with cash means usually a lower price than buying with a seller's mortgage on the land. Even subsequent re-financing will not lower the initial purchase price. A slow loan service contributes to the amassing of land by already wealthy individuals. This is a social problem and will be expounded later on.

Leaving most of the decision on who qualifies for loans to the local office cuts much red tape. Quick legal procedures also help. In all these matters the local office can be of assistance.

One of the most important responsibilities of the administrator is to interpret the legislation he administers. False interpretations of general definitions as well as practices developing over time and finally becoming static, often change the spirit of an Act.

Directors of the Canadian Federation of Agriculture, July, 1957, (unpublished), p.10.

3. Public versus Private Agricultural Credit.¹⁰

Private agricultural credit comprises all credit not extended or guaranteed by governments. Private credit may thus come from private individuals or private corporations. Private corporations in the agricultural lending field are mostly insurance companies, loan, trust and mortgage companies, banks and credit unions.¹¹

What then justifies the existence of public credit agencies? In a liberal system, government should only interfere as a complete factor. It should take over when private enterprise is not able to do the job. This principle provides the basis of the following discussion.

¹⁰See also: Murray R. Benedict, "The Relation of Public to Private Lending Agencies (in Agriculture) and Recent Trends in Their Development", Journal of Farm Economics, Vol. 27, No. 1, February 1945, p. 88 - 103.

¹¹Banks make only short-term commercial loans that are repayable within one year. It is one of the traditional tasks of banks to finance the farmer's operations up to harvest time. Banks are in the intermediate and long-term credit field under two government insured schemes set up by the National Housing Act and the Farm Improvement Loans Act. Credit Unions are co-operative societies. Due to their limited resources they are also predominantly in the short-term credit market. It is hoped that in the future they will be able to play a greater part in the all-important intermediate credit field. Short-term credit does not come under the scope of this survey.

Private lenders may not extend credit to agriculture for two possible reasons. First, they are able to employ their funds more advantageously elsewhere; second, they are not equipped to service the special needs of the agricultural industry. Loans to other industries could be more profitable because they earn either a higher interest or the losses are lower, or because of a combination of the two. Some economists may argue, along classical lines, that in time inefficient farmers will leave the industry and the remaining farms will be able to provide a high enough return to attract funds. This argument does not seem to hold true. In industrialized countries with rising standards of living, farm income constantly lags behind industrial income.¹² This can be explained as follows: The more resources a society can spare for non-agricultural production, the higher is its standard of living. In a primitive society, agricultural production is so low that everybody produces just enough to keep his family alive. In a highly developed society, one

¹²For a study of this phenomenon see: J.R. Bellerby, Agriculture and Industry Relative Income, London, MacMillan & Co., Ltd., 1956, xii - 369 p.

According to the findings of this study, in the exchange between agriculture and industry, agriculture has received a relatively low income per head at all times except during the war and periods of food scarcity caused by war.

man may produce enough foodstuffs to feed thirty other men who are thus freed to produce other than basic consumption goods. Now, in theory, men leave agriculture for other industries as long as earnings in these other industries are higher than those obtained in agriculture. At the point where earnings in agriculture and non-agricultural industries are equal, no movement takes place. If non-agricultural income falls below that of agriculture, a reverse movement sets in and the standard of living drops. Agricultural productivity per man will rise when men leave agriculture attracted by the possibility of higher income in other industries. The following example may illustrate this point: Ten men produce x quantity of food. Productivity rises, so that now eight men can produce x quantity of food. The rise in productivity was brought about due to better capital goods provided by men that had left agriculture in a previous period because of the higher earnings in non-agricultural industries.¹³ The two surplus men leave agriculture to work in non-agricultural industries where they earn enough to buy food from a more productive agriculture plus something exceeding their former earnings on the farm. It is this something which lured them away from agriculture in the

¹³Non-agricultural industries can absorb labour from agriculture because the demand for their products is relatively elastic while that for agricultural products is relatively inelastic.

first place. At the same time the remaining agriculturists share the product of the two industrial workers who now have to exchange part of their product for food. Barring depression, unemployment and war, agriculture's income rises with increased productivity, but it cannot catch up with that earned in non-agricultural industries. This holds true for a dynamic economy. If earnings would become equal, a stagnant economy would be the result.¹⁴

If the foregoing argument can be assumed to hold true on the basis of the experience since the industrial revolution, then agricultural income will lag behind that of non-agricultural industry as long as the standard of living is rising. The only way farmers can improve their income relative to that of non-agricultural industries is to raise their productivity per man remaining in agriculture at a faster rate than non-agricultural industries raise theirs. This will narrow the gap between agricultural and non-agricultural income. As long as there exists a large disparity in productivity between farms, the farms with higher than average productivity may reap incomes that exceed even those of non-agricultural industries by far. Their

¹⁴The basic idea underlying this argument was expressed by Boulding in "Economic Analyses and Agricultural Policy".

AGRICULTURAL CREDIT POLICY

17

productivity may be higher because of a host of reasons, such as better land, farming up to scale, more capital, better management qualities. The farmers with the low incomes need capital, education, etc., that could bring them in line with the average productivity in agriculture. If this capital is forthcoming, individual farm earnings will not be so divergent relative to the prevailing average agricultural productivity, as is the case now.

It follows from the above reasoning that investment funds flow to the non-agricultural industries because their earnings are higher. Governments can raise money at lower rates of interest due to the high rating of their securities. Therefore only governments can provide agricultural credit at suitable terms.

The Canadian Federation of Agriculture uses this argument:

The long term credit needs of agriculture at the present time are very poor, loans are hard to obtain, interest rates are relatively high and the period of repayment is not geared to the long time low rate of earnings in farming. Farms will become more highly capitalized and adequate credit will become an even more limiting factor in the future.

The progress of the nation will be slowed down unless productivity in agriculture keeps pace with productivity in industry. Private and institutional lenders are not willing to do so in the low yielding, high risk investment field of agriculture. Hence there is a real need for the government to do what private business in this case is unwilling

to do.¹⁵

Only an enlightened farm credit policy on the part of the government can solve this problem since private credit agencies will continue to place their investment funds in the cities where earnings are higher and more stable.¹⁶

Another argument used to explain the lower returns to farming is the one based on the type of competition prevailing in agriculture. In text-books of economic analysis agriculture usually provides the example for an industry which comes close to perfect competition. There are many farms, and one farm cannot influence the market in any way. Therefore, the prices are given to the whole industry by the prevailing forces of supply and demand. Product differentiation is hardly possible.

On the other hand, industrial and commercial firms enjoy the extra profits derived from various types of monopolistic competition or monopoly. Furthermore, farmers have to buy their goods required in their productive process from these firms. They sell in a highly competitive market and buy in a highly monopolistic market. Therefore, farmers feel strongly the pressure of the cost-price squeeze.

¹⁵Canadian Federation of Agriculture, Brief Presented to the Royal Commission on Canada's Economic Prospects, Ottawa, March 5, 1950, (unpublished), p. 73, underlining by the writer.

¹⁶ibid., p. 70, underlining by the writer.

AGRICULTURAL CREDIT POLICY

19

Yet another argument is based on the income and price elasticities for agricultural products. They are both low. As real income increases, a consumer spends more on luxury goods out of the increase than on food. A drop in the price of agricultural products is not followed by increased returns to farmers because of the inelastic demand for these products. Farmers usually increase production in the face of falling prices in order to keep up a certain standard of living. Even if they wanted to curtail production, they could do so only after a lag of time. Farm income therefore lags behind non-agricultural income in a growing economy.

Greater losses in agriculture than in other industries could be another reason for private lenders to shy away. In fact, there were numerous foreclosures of farms in the 1930's. Private companies had eagerly invested into agriculture at high rates of interest during the prosperous years in the 1920's.¹⁷ When farm prices dropped during the Great Depression, farmers found themselves unable to repay their debts. The situation was especially bad in the Prairie Provinces where low farm prices coincided with

¹⁷Saskatchewan Royal Commission on Agriculture and Rural Life, Report No. 3, Agricultural Credit, p. 10.

drought conditions. Federal and provincial moratoria legislation was enacted to protect the farmer.¹⁸ This legislation affected adversely the creditors. Since this experience, private investors have stayed away from the agricultural loan business. During the depression many foreclosures were taking place in other businesses as well. Therefore, it seems that certain debt adjustment legislation, favouring unduly the farmer, is one of the causes of a decline in private lending. In view of the first class security that land provides as a collateral, fear of having to take foreclosure action could hardly be thought of as a decisive deterrent to make secured loans to farmers.

A fourth argument used to justify public credit agencies is that private lenders are not equipped to make loans to farmers. In view of the low returns to farming, not only a lower interest must be charged, but also the term of the loan, over which principal and interest are to be repaid, must be longer than in the case of other industries. Furthermore, agriculture is a biological industry which depends for its production to a large extent on the weather

¹⁸A.H. Brown, A. Gosselin and J.B. Rutherford, "Agricultural Credit in Canada", Economic Organization of Canadian Agriculture, J.F. Booth, Ed., Ottawa, The Canadian Council, International Conference of Agricultural Economists, 1940, p. 320.

and other natural causes. Therefore, some students of the problem advocate flexible repayments that are geared to annual earnings.¹⁹ Private lenders probably do not want to tie up their funds for a relatively long time, say forty years. They prefer liquid mortgages and probably dislike to depend with the farmer on the contingencies of the weather and other biological influences. Emergency credit, too, could hardly be forthcoming from private sources.²⁰

Private lenders who do not specialize in farm loans would find it costly to maintain a qualified staff of appraisers to evaluate farm property. Farm appraisals are very difficult to make because no two farms are alike. Farm management agencies which could be consulted are as yet uncommon in this country. High appraisals based on the sales value rather than the long-term productive value have spelled losses in the past.²¹ There is no reason why lenders could not overcome these obstacles. But in conjunction with the other deterrents, they discourage lenders to make uninsured

¹⁹See Chapter II, p. 72.

²⁰See p. 37 of this Chapter.

²¹H.H. Hannam, Brief to the N.S. Royal Commission on Rural Credit, p. 1.

AGRICULTURAL CREDIT POLICY

22

loans to agriculture.²²

There are also various sociological reasons why government agencies may be in the farm credit business. These will be dealt with later on.²³

Finally, the existence of a federal agency extending credit to non-agricultural business in Canada would seem to justify adequate government credit agencies for farmers. The Industrial Development Bank makes loans to industrial enterprises or commercial air services which are unable to raise funds elsewhere on reasonable terms and conditions.²⁴

²²Complete statistics on private lending, especially by individuals, are not available. An indication of the situation in Ontario is given in: Henry F. Noble, Farm Title Transfer Survey, 1900 to 1950, Farm Economics Branch, Ontario Dept. of Agriculture, Parliament Buildings, Toronto 2, Canada, March 1955, p. 28.

²³See p. 35 of this Chapter.

²⁴The preamble of the Industrial Development Bank Act (R.S.C. 1952, c. 151), states the functions of the Bank as follows:

To promote the economic welfare of Canada by increasing the effectiveness of monetary action through ensuring the availability of credit to industrial enterprises which may reasonably be expected to prove successful if a high level of national income and employment is maintained, by supplementing the activities of other lenders and by providing capital assistance to industry with particular consideration to the financing problems of small enterprises.

AGRICULTURAL CREDIT POLICY

23

4. Farm Credit for Settlers and Immigrants.

Since the beginning of public credit agencies in Canada, there have been special schemes for these categories of farmers.²⁵

In agricultural terminology, a settler in the narrow sense of the word is a man who clears a farm out of the bush or prairie. He develops a new farming area. In the wide sense of the term, a settler is anybody who takes up the business of farming, especially the young farmer who settles down. He may settle in a new area or buy or rent a farm in a developed area. The farm may be a going concern or an abandoned farm which has not been worked for some time.

Immigrant farmers are those that enter the country in order to settle. Settlers are usually people with very little funds on hand. Immigrant settlers are no exception. If it is difficult to lend to somebody who cannot finance a substantial equity, there is no reason to believe that it is less difficult in the case of immigrants. On the contrary,

²⁵To mention only a few: the 3,000 British Family Settlement Scheme of 1924, the British Family Settlement Scheme of New Brunswick of 1927, the N.B. and N.S. Land Settlement Acts and the Veterans Land Act. The last three pieces of legislation are now in force. For more information, excluding the Veterans Land Act, see: A.H. Brown, A. Gosselin and J.B. Rutherford, "Agriculture Credit in Canada", p. 314.

immigrants, due to their inexperience in a strange land, may be actually poorer risks than the natives. For these reasons there should be no need for special schemes for immigrants.

The writer also doubts whether special credit schemes are required for settlers developing new areas or redeveloping settled areas. In both cases, especially in the former, the clearing and preparing of the land entails special outlays. But these lands will be purchased for a much lower price than that of cultivated land. A farmer only buys undeveloped land up to a price which equals the price of available cultivated land minus clearing and cultivating costs of undeveloped land.²⁶ At least that is what one would expect him to do. Therefore, no special credits are required for these types of settlers.

Settlers in the wide meaning of the word require, however, special credit legislation. Their situation is different from that of established farmers who occupy going concerns and need intermediate credit to obtain capital goods or long-term credit to buy more land, add new buildings and consolidate old debts. The settlers' or young or beginning farmers' situation is different because they usually do not

²⁶Other variables like quality of soil, access to markets, etc., being equal.

have the equity required to qualify for a loan that would enable them to acquire an economic farm unit.

An economic farm unit is one that contains an optimum combination of land, labour and capital for a given type of farming. On a family-type farm, labour comes predominantly from the farmer and his family. Land and capital have to be acquired. The value of land and capital is used by conventional private and public lenders to determine a borrower's equity. Conventional lenders lend about fifty per cent of the collateral. The collateral is usually land and buildings, valued at their long-term productivity.²⁷

Traditionally the young farmer climbed the agricultural ladder to the position of an owner-operator. The ladder has been defined differently by different writers.²⁸ Essentially it consists of four rungs: 1) unpaid family labour on home farm, 2) hired man earning a wage, 3) tenant-operator, 4) owner-operator. Some add a fifth rung which they call the retirement or landlord stage.

²⁷In a North Dakota study, for instance, it is stated that real estate credit there is extended "on a conservative appraisal basis, nearly always less than 60 percent of a "normalized" value of the real estate". See: Baldur H. Kristjanson and Jacob A. Brown, Credit Needs of Beginning Farmers in Selected Areas of North Dakota, Fargo, N.D. Agricultural Experiment Station, Bulletin 386, June 1953, p. 6.

²⁸Raleigh Barlowe and John F. Timmons, "What Has Happened to the Agricultural Ladder?", Journal of Farm Economics, Vol. 32, No. 1, February 1950, p. 30.

The advances of technology in agriculture during the last forty years and especially since the second world war have put a stop to the smooth functioning of the agricultural ladder. Starting from scratch has become difficult, hopeless or well-nigh impossible. Why? Kristjanson and Brown, on the basis of their North Dakota Study, give the following reasons:²⁹ 1) an acute shortage of farm land, 2) high initial costs of land, machinery and livestock, 3) inflexibility of farm operating and living costs, 4) commercial credit sources have not developed apace with the rapidly increasing amounts of capital required to begin farming; their collateral requirements are too high.

Hannam makes these suggestions:³⁰ 1) increased size of the average farm unit, 2) increased capital to land ratio, 3) increased general intensity of farm operations, 4) present farm wages are low relative to present farm values and therefore the waiting period on the lower rungs of the agricultural ladder is that much longer.

Some thirty or forty years ago, it was relatively easy for a young man to go into farming. After he had

²⁹"Credit Needs of Beginning Farmers in Selected Areas of North Dakota", p. 29.

³⁰H.H. Hannam, Brief Submitted to the N.S. Royal Commission on Rural Credit, p. 2.

saved enough money to buy himself a team of horses and some simple machinery, he could rent a farm. He would then save up half the price of the land he intended to farm as an owner-operator. In the days of horse drawn equipment, the farm unit that could be worked by the average family was, of course, smaller than it is today in the age of power machinery. In general, land prices were also lower than nowadays.³¹ Disregarding any change in land prices, the important point is that the farmer today has to buy more land or farm more intensively to acquire an economic unit. Even more important is the fact that the capital to land ratio has constantly increased.³² A combine is more expensive than a binder and a tractor costs more than a team of horses. But not only the replacement costs are higher. Current operating expenses are of much more importance than they used to be. Horses could live off the farm while today's tractor runs on oil and fuel that has to be bought with cash or short-term credit. When the farmer had simple and crude machinery, he could do most

³¹This discussion has to be in general terms. Land prices vary at different places and times. Average value in Canada, in 1952, was \$48 an acre as compared with \$25 in 1939. Source: Dominion Bureau of Statistics, Land Values.

³²For data on the situation in Canada, see the criticisms of the various Canadian credit schemes. See also: Ernest T. Baughman, "Financing Young Farmers", Journal of Farm Economics, Vol. 34, Proceed. No. 5, December 1952, p. 930.

AGRICULTURAL CREDIT POLICY

28

of his repair work himself. Today, he has to pay a trained mechanic. Scientific agriculture means the use of fertilizers, sprays and prepared feeds. Of course, the returns may be higher once a farmer has reached an optimum scale. But it takes much more to get on that scale. There is a great need for current and intermediate credit.

Furthermore, farm household expenses have also become more inflexible. Farm wives want to share some of the amenities found in the cities. Most farms have electricity. This calls for electrical gadgets. The farmer will have to decide between an electric stove for his wife or a modern piece of farm machinery which would raise the farm's productivity. In an economy in which the importance of consumption is rightly very much stressed, belt-tightening is definitely unpopular and perhaps not advisable. In many areas, non-farm opportunities are always waiting.

For illustrative purposes let us look at the situation in Saskatchewan, a province where agriculture is highly mechanized.³³ A comparison of the components of total investment between 1926 and 1951, both prosperous years for farmers, reveals the following: Land and buildings dropped

³³Province of Saskatchewan, Royal Commission on Agriculture and Rural Life, Report No. 2, Mechanization and Farm Costs, Regina, Queen's Printer, 1955, xv - 175 p. The figures used are listed in the Report on p. 141. They are census data.

from seventy-seven per cent of total investment in 1926 to fifty-nine per cent in 1951. Livestock rose from ten to fourteen per cent. Lastly, but most spectacular, machinery and equipment more than doubled its relative position, climbing from thirteen to twenty-seven percent. In 1951 average total investment per Saskatchewan farm unit was \$17,781. The average monthly Saskatchewan farm wage with board for that year was \$93.30.³⁴ Assuming that the prospective farmer is a first class worker and therefore earns above average wages, he may be able to save \$1,000 per year. Disregarding interest earnings, which he may use to improve his standard of living, and higher earnings due to increased experience, it will take the young farmer over seventeen years to save up the total price for an average farm unit. If, after proper schooling, he starts to work at age eighteen, he will have saved the purchase price at age thirty-six, if by then inflation has not raised the price of the farm. All these years the farmer would have to stay a bachelor, saving practically every cent, and giving his best years to his employer. Farm ownership is not worth such sacrifices. If he could obtain a loan on fifty per cent of land and buildings, he would need \$5,280 for the bare farm and in addition to that \$7,161 for

³⁴Dominion Bureau of Statistics, Farm Wages in Canada, January, May and August 1951, (Average wage with board).

livestock and equipment, or a total of \$12,441. This would mean saving up to age thirty. That is still too long. If he could obtain intermediate credit at good terms to buy his livestock and equipment, in addition to long-term credit on a somewhat larger percentage of the value of his land and buildings, the years of intensive saving could be decreased to a bearable number, say five or seven years. This would allow the young farmer to gain valuable experience over a number of years and at the same time enable him to get married and farm on his own at the age of about twenty-five. A farmer who marries too late cannot get the advantages associated with the family farm.³⁵

Note also the following quotation from an article in the Farm Forum Guide on the increase in the capital to loan ratio:

... it is investment in livestock and machinery which has grown so tremendously. A comparison with fifty years ago makes this clear. For every farmer on the land the investment in farm real estate is three times greater than in 1900 - but the investment in livestock has grown six times, and in machinery and equipment it is fifteen times greater than in 1900.³⁶

³⁵See the discussion of the family farm in this chapter.

³⁶"How Can the Young Farmer Find Capital", Farm Forum Guide, Vol. 12, No. 5, December 13, 1954, p. 1.

Diesslin discussed the changing asset structure on American farms in the fourteen year period from 1940 to 1954.

He wrote:

During this short space of years, real estate declined from two thirds of the total asset structure to less than 60 per cent of the value of all assets. All of the relative increase in non-real estate items resulted from larger quantities of farm machinery and motor vehicles on farms. Where machinery made up 6.5 per cent of the total in 1940, it had increased to 12.5 per cent by 1954.³⁷

The foregoing discussion indicates the need for a special type of credit for the beginning farmer. He needs one loan based on a large percentage of his equity and taking into consideration his management ability and moral integrity.

In the United States the Farmers' Home Administration makes loans under this principle.³⁸

³⁷Howard G. Diesslin, "A Re-examination of the Credit Needs of Agriculture", Journal of Farm Economics, Vol. 36, Proceed. No. 5, December 1954, p. 1200.

See also in the same number Rex R. Bailey, "Current Guides as to Safe Debt Loads for Farmers", p. 1216.

³⁸U.S. Department of Agriculture, Farmers' Home Administration, Farm Ownership Loans, Washington, U.S. Government Printing Office, 1956, (pamphlet).

Under this scheme loans are made up to "ninety per cent of the fair and reasonable value of the farm". Under the old Farm Security Administration, loans were made up to 100 per cent of the collateral. See: W. Keith Burkett and Kenneth H. Parsons, "Buying Farms with Hundred-Percent Loans: An Analysis of the Farm Security Administration Loan Experience in Wisconsin", Land Economics, Vol. 17, No. 2, May 1951, p. 151 - 168.

Making credit too easy, however, may defeat its own purpose. The demand for land goes up and thus its price rises without its long-term productivity being increased. This problem becomes especially acute when the number of potential farmers is growing. The Saskatchewan Royal Commission on Agriculture and Rural Life points out that in that province each year, for some years to come, "4,000 young men must compete with well-established operators, small farmers desiring more land, and urban investors" for 2,500 available farms.³⁹

There are, of course, other means than credit by which farmers can be helped to get started. Help from parents or neighbours, pooling of machinery, using horse drawn equipment, part or full-time work in industry or renting a farm are only a few of the means that could be mentioned. Such arrangements only stress the young farmers' need for credit, especially when the arrangements are of an unsatisfactory and makeshift nature.

Various Canadian organizations and persons have made statements and recommendations on the credit needs of the beginning farmer. Here are some:

... the Veterans' Land Act Administration be merged into the administration of the proposed

³⁹Report No. 3, Agricultural Credit, p. 14.

AGRICULTURAL CREDIT POLICY

33

Canadian Farm Credit Administration as an Establishment and Development Farm Credit Division to assume responsibility for the supply of credit to those with limited security in addition to the program for veterans.⁴⁰

It is therefore suggested that an additional division be established within the CFLB (Canadian Farm Loan Board) to be known as the Farmers' Establishment Loan Division (FELD). Its function shall be to make long-term mortgage loans to persons who want to become established on land as farmers and to existing farmers who want to establish their farms as economic efficient units but who cannot borrow from regular public or private lenders because of the loan-to-value restriction.⁴¹

The concern of the Commission with the question of down payment pertains mainly to the supplying of long term credit for the establishment of young farmers...⁴²

A special supervised loans division should be under the Canadian Farm Loan Board. Supervised loans would be made to young farmers and marginal established farmers on the basis of a loan of \$3 for every \$1 of equity of the borrower. The maximum loan to be \$20,000, repayable in 40 years at a lower rate than the regular commercial loan. After the debt has reached 25% of the total farm assets the loans would be treated as a regular commercial farm unsupervised loan.⁴³

⁴⁰Report No. 3, Agricultural Credit, p. 100.

⁴¹Sol. Sinclair, Government Action for Long Term Credit for Farmers in Western Canada, p. 33, First bracketed name supplied by the writer.

⁴²Province of Nova Scotia, Report of the Royal Commission on Rural Credit, (Halifax, Queen's Printer,) 1957, p. 74.

⁴³Canadian Federation of Agriculture, A Statement of Policy Regarding Farm Credit, p. 9.

AGRICULTURAL CREDIT POLICY

34

In the writer's opinion, the proposal of the Canadian Federation of Agriculture to make loans up to seventy-five per cent of the appraised value of a farm to be acquired by a young farmer is commendable. A young farmer should receive adequate credit after he has gone through a reasonable length of training by working on various farms, if he has during that time accumulated a basic amount of capital serving as a minimum down payment and if he can demonstrate at least average management ability.

5. Subsidized Agricultural Credit.

There are various ways how governments may subsidize agricultural credit:

- 1) Governments pay the cost of administration. Administration could comprise supervision, farm management services and other forms of business and scientific education.
- 2) No reserve fund or other provision for losses is established, so that the government has to absorb any losses that may occur.
- 3) The government insures the loans of commercial lenders without charging an insurance fee.
- 4) The government gives subsidies to agriculture, like freight assistance, floor prices, etc., which indirectly improve the credit worthiness of the farmer by ensuring

AGRICULTURAL CREDIT POLICY

35

him a more stable and possibly larger income. Farmers, in arguing for such subsidies, point to the various kinds of security and protection enjoyed by other segments of the economy, to mention only unemployment insurance.

5) The government pays directly part of the interest charged by commercial lenders or by other governments or it lends the money at less than cost.

6) The government makes interest earned on Farm Loan Bonds tax free. In the U.S.A. interest from Federal Land Bank Bonds is tax free.

It is the writer's opinion that farmers should not ask for any credit subsidies, except in the case of emergency credit. Farmers should receive credit from public lending institutions at the best possible terms. This is already an advantage. The farmer should only be helped to help himself without being a public burden.⁴⁴ Subsidies for public agencies would be unfair to private business.

Sometimes people try to justify subsidies to agriculture by pointing out that certain aspects of the industry

⁴⁴Mr. L.G. Young of the Quebec Farmers' Association, in a letter to the writer, made the following statement: "...government subsidies regarding farm credit (assuming credit plan cannot, at this time be put on actuarial basis), farmers favour it. Subsidies would amount to a part of interest costs. Government subsidies generally, of other types, would have to be considered individually. However, farmers do not favour them; they are asking for and accepting them as a depression measure.

have to be preserved in the interest of social and national welfare. It is not the topic of this thesis to go into such reasoning, but it may be permissible to touch some of the points that are generally brought forward.

One is the fear of the emergence of an absentee landlord class. The Interprovincial Farm Union Council in its 1956 brief to the Banking and Commerce Committee of the House of Commons states that "25% of all farm lands in Canada are presently owned by individuals or corporations who have assumed the role of landlords".⁴⁵ Tenant arrangements taking the place of family farm ownership are just another side of the same story.

A second point is the flight from the land. It has been said above that the overcoming of poverty necessitates this flight. But sociologists may point out the need for a large rural population, because farmers do not only produce food, but also do they create a large part of the city population to eat this food.

Or the so-called virtues of rural life may be praised. This is usually done by city folks and certain economists who point to the importance of psychic income in agriculture. There is no reason why these virtues, if they exist, could only be obtained through practising agriculture. A decentralization of industry could have similar effects.

⁴⁵p. 8.

Contract farming is coming very much in the news these days. Farmers receive their working credits from the processors with which they have entered into a contract. A controversy now rages whether the farmer with his glorious past as a free man should take on the status of a hired man, whatever is meant by that.

6. Agricultural Emergency Credit.

This type of credit is required if an uninsurable disaster strikes an individual farm or a larger farm area. Emergency credit should be designed to help a farmer over the time during which his income earning capacity is impaired. In such a time he does not qualify for any conventional loans from either public or private lenders. Emergency credit should also be extended if farmers cannot sell their produce due to marketing difficulties of a public marketing agency.⁴⁶ An element of subsidy for emergency credit seems to be in order. Both the Canadian Federation of Agriculture and the Saskatchewan Royal Commission on Agriculture and Rural Life stress the need for an emergency credit scheme.

The former urges the establishment for a federal agency called the Agricultural Emergency Loan Administration.

⁴⁶In 1951 and 1957, the Canadian Federal Government provided a guarantee of emergency loans made by banks to farmers unable to market their grains.

The A.E.L.A. would make interest free loans to owners or tenants up to \$10,000 on recommendation of local or provincial governments. Loans would be repayable in periods from three to eleven years with no payments falling due during the first year.⁴⁷

Under the Farmers' Home Administration, emergency loans are made in areas

where 1) serious losses in agricultural production have occurred as a result of drought, floods, storms or some other natural calamity, and 2) there is a wide spread need among farmers in the area for credit to continue their normal farming operations and such credit cannot be obtained through commercial banks, co-operative lending institutions or other responsible sources.⁴⁸

It may be concluded that there exists a need for an emergency credit scheme. At the same time, it is necessary to make a full investigation into the possibility of insuring more of the risks associated with farming.

7. Politics and Public Credit Agencies.

Politics can influence a public credit programme mainly in two ways, viz. legislatively and administratively.

⁴⁷A. Statement of Policy Regarding Farm Credit, p. 10.

⁴⁸U.S. Department of Agriculture, Farmers' Home Administration, Emergency Loans, Washington, U.S. Government Printing Office, October 1956, (pamphlet).

In the legislative sense a public credit programme depends on the philosophy of the political party in power. The political parties themselves, in a democracy, will probably be more impressed by the farmers' vote and by pressure groups than by purely economic considerations. The importance that Canadian political parties give to the agricultural credit problem is reflected in many lengthy debates in Parliament over the years. The following are official statements made by three Canadian parties on their agricultural credit policies:

Expansion and extension of existing farm credit facilities, at present provided in part, by such acts as the Canadian Farm Loan Act, the Farm Improvements Loan Act and the Veterans Land Act into a complete programme...⁴⁹

We pledge ourselves to a policy of extending and easing the farm credit situation.⁵⁰

... we advocate the following agricultural programme: (1) Low cost and long term credits to farmers.⁵¹

The administration of a public credit scheme may be adversely influenced, especially on the lower level, through party nepotism and the like. Appraisers and advisory

⁴⁹Liberal Party, Resolutions on Agriculture at 1958 Leadership Convention.

⁵⁰Progressive Conservative Party, Agricultural Policy, point 11.

⁵¹Social Credit Agricultural Programme, p. 2. The CCF has not made a specific statement on agricultural credit.

committees can easily become entangled in local politics. The Aburndale Farm Forum, Alberta, expresses such fears in the following words:

The administration of it, (a government loan scheme), investigation of applicants and likelihood of graft would make it costly and it is only adding to the tendency of today to lean unduly on the Government, which is in turn the taxpayer.⁵²

The Quebec Farmers' Association does not seem to agree with this view:

It is recognized that there may be, but not necessarily, some political implications. If handled by civil servants and advisory group of farmers there need not be any in the application of a credit plan.⁵³

A public credit scheme may also be hampered by local social and racial prejudices. Thus the Farm Tenant Purchase Programme was opposed in the South of the United States because it allegedly set some of the borrowers above their neighbours. The story went that if a white man did not have a bath tub, a black man could not possibly own one.⁵⁴

⁵²National Farm Radio Forum, "Getting Started", The Forums Say, Toronto, National Summary of Forum Findings, December 13, 1954, p. 4, brackets and underlining supplied by the writer.

⁵³Mr. Leslie G. Young, Secretary, Quebec Farmers' Association, letter of 19 February, 1958, to the writer.

⁵⁴Edward G. Banfield, "Ten Years of Farm Tenant Purchase Program", Journal of Farm Economics, Vol. 31, No. 3, August 1949, p. 471.

The danger of political abuse can be weakened by sending out into the field well qualified persons with integrity that are familiar enough with the local scene without being wound up in it.

8. Insured and Guaranteed Loans.

In a sense all conventional lenders, public or private, insure their loan portfolio against losses by setting up a reserve for losses. However, under insured or guaranteed loans we understand loans which are partially or fully guaranteed as to principal, interest or both. Loans come forth from private or commercial lenders and the guarantee is extended by the government. Part of the rate of interest may cover the cost of insurance or the borrower may pay an insurance fee at the time the loan is made. The insurance may also be financed by the government and then becomes a subsidy. The fuller the guarantee is the more funds will be forthcoming at lower cost to the farmer. Such a scheme will provide an inducement for private investment into agriculture. Again, it must be warned that too low a rate of interest will defeat its own purpose by raising the demand for land and thus its cost. Therefore, the insurance cost should be built into the interest rate and a guarantee should only cover part of a loan.

In the United States, the Farmers' Home Administration insures loans fully. Mortgages run on the government and the lender holds only the insured note which is negotiable. Furthermore, the Federal Government agrees to repurchase the note after a period of five years. One per cent of the interest rate covers the cost of insurance.⁵⁵

9. The Family Farm and Alternatives.

It is necessary to discuss the family farm and possible alternative types of land tenure in relation to the different kinds of financing they require.⁵⁶

The family farm is the predominant type of farm business organization in North America. There is no agreement on the definition of a family farm. Most definitions agree that in order to be classified as a family farm, it must meet three conditions: 1) the operator makes the managerial decisions, 2) the operator and his family supply most

⁵⁵U.S. Department of Agriculture, Farmers' Home Administration, Insured Farm Loans, Information for Lenders, Washington, U.S. Government Printing Office, Revised October 1956, (pamphlet).

⁵⁶For more detailed information see: B.H. Kristjanson, Ed., Issues in Family Farm Policy, Great Plains Council Publication No. 7, Fargo, N.D., North Dakota Agricultural College, 1953, 23 p.

See Also: B.H. Kristjanson and Leroy W. Schaffner, "North Dakota Farm Size Trends - An Evaluation", Journal of Farm Economics, Vol. 31, Proceed. No. 1, Part 2, February 1949, p. 588.

AGRICULTURAL CREDIT POLICY

43

of the farm labour, 3) the farm provides the family with an adequate standard of living.⁵⁷ A family farm may be owned or rented.

Other types of farm business organizations are co-operative and corporative farms. Co-operative farms are owned by two or more farmers who supply land, capital and labour to the enterprise. A board of directors makes the managerial decisions.

Corporate farms are organized along the lines of other corporate business. The farm is owned by the shareholders. Entrepreneurship is distinctively separated from labour.

The financing of family farms is difficult because of the following reasons:

1) Farms must be refinanced every time they are transferred from one owner to the next. They must be financed at least once a generation due to existing inheritance laws or customs.

⁵⁷The U.S. Farm Security Administration defined the family farm as follows: "An efficient family type farm management unit is a farm which furnishes full, productive year-round employment for an average farm family and one which an average farm family can operate successfully without employing outside labour, except during brief peak-load periods at planting or harvest time. Such a farm must have the capacity to yield income on the basis of long-time prices which will maintain an average farm family according to acceptable living standards, pay annual operating expenses, pay for and maintain necessary livestock, and farm and home equipment, and pay off the loan". Quoted in:

2) Refinancing becomes more difficult as larger sized farms are needed to provide the family with an adequate standard of living. This holds especially true for young farmers on uneconomic units.

3) The economies of scale and specialization may become effective only on a farm larger than a family unit. This is particularly true for certain special crops such as wheat, cotton, fruits and vegetables, where farming may be integrated vertically with processing and marketing operations. Uneconomic family farms may be subsidized and become a source of agricultural poverty. Therefore, family farms may find it more difficult to carry a certain credit load at given terms.

4) Moratoria legislation protecting a certain farm size, the homestead for instance, may make it impossible for farmers to obtain credit from non-government agencies.

Edward C. Banfield, "Ten Years of the Farm Tenant Purchase Program", p. 471.

AGRICULTURAL CREDIT POLICY

45

Co-operative farming⁵⁸ is one way to obtain the economies of scale. The factors of production can be used more advantageously and higher income and credit carrying ability should result. Management difficulties may arise from a lack of co-operation and agreement among the members. With this in mind, private lenders may be reluctant to extend credit to co-operative farms. Co-operative farms are also frequently handicapped by maximum loan regulations of public credit agencies. A maximum loan which would be sufficient for a good sized family farm might be totally insufficient for a large co-operative farm. In the case of land, members may overcome this difficulty by owning only the capital co-operatively and renting their own mortgaged land to the co-operative association. A real solution would be for

⁵⁸Attempts at co-operative farming in Canada have been made particularly in Saskatchewan and the Maritimes. See: Saskatchewan Royal Commission on Agriculture and Rural Life, Report No. 5, Land Tenure, Regina, Queen's Printer, 1955, p. 136.

Province of Saskatchewan, Co-operation and Trade, Thirteenth Annual Report of the Department of Co-operation and Co-operative Development, Regina, Queen's Printer, 1957, p. 67 - 77.

For a study of machinery co-operatives in Nova Scotia, see:

G.C. Retson and V.A. Heighton, "Farmers' Experience in Co-operative Ownership of Farm Machinery in Nova Scotia", The Economic Annalist, Vol. 25, No. 4, August 1955, p. 82 - 85.

-----, "Organization of Farm Machinery Co-operatives in Nova Scotia", The Economic Annalist, Vol. 26, No. 1, February 1956, p. 6 - 10.

AGRICULTURAL CREDIT POLICY

46

public agencies to take into consideration the special needs of co-operative farming. Family farms can, of course, get some of the advantages of size and combination by buying and selling co-operatively. Credit institutions should take these advantages into consideration when making a loan.

Corporation farms can finance their enterprise by selling stocks and bonds in the capital market. Objections against corporate farming are mostly based on social and political grounds. It is also pointed out that agriculture is a rising cost industry and that the diseconomies of scale may set in rapidly, especially due to management difficulties. It is difficult to supervise farm workers spread over a large area. Results can only be achieved by paying the workers by the piece whenever that is possible. However, many Canadian farms are probably a long way from the diseconomies of scale. Their diseconomies stem rather from smallness.⁵⁹

⁵⁹Hooper gives the following reasons why corporation farms did not become popular in Great Britain:

- 1) Until recently, the advantages of large scale enterprise, i.e. mechanization, did not apply to farming.
- 2) The character of farmers is against the corporate form of business organization. Farmers would be adverse to account to co-directors and shareholders for their farming methods and decisions.
- 3) Poor returns in agriculture did not encourage investment from outside the industry.
- 4) Farming is a way of life, but a small slice of this way of life cannot be sent out to a shareholder as a dividend.

AGRICULTURAL CREDIT POLICY

47

Miller suggested to bring uneconomic units up to scale through equity financing with a provision that the farms may be bought later by individual operators through buying up a stipulated number of shares. Thus equity financing would be a way to ultimate family farm arrangements.⁶⁰

Further discussions in this thesis are based on the assumption that the family farm, and possibly co-operative farming, are socially desirable and therefore should, if necessary, enjoy support through public policy. If corporation farms would be the goal, and it might well be on purely economic grounds, there would be no need for public credit agencies. As under the Farmers' Home Administration in the United States, no loans should be made to finance anything less than a family-type farm.

5) The tricky nature of farming calls for swift and sure decision by the man on the spot. The local representative of a big company cannot act in this way.

See: Shadrach G. Hooper, The Finance of Farming in Great Britain, A Comprehensive and Up-to-Date Review of the Methods by which the British Agricultural Industry is Financed, London, W.C. 1, Europa Publications Limited, 1955, p. 17 - 19.

⁶⁰Frank Miller, "Equity Financing in Agriculture", Journal of Farm Economics, Vol. 38, Proc. No. 5, December 1956, p. 1537.

AGRICULTURAL CREDIT POLICY

48

10. Supervision and Education.

By education in this context is understood a general public programme designed to bring home to the farmer the potentialities of existing farm finance facilities as means to improve his farm business. The need for such education may be underlined by statements on this topic made by Mr. S.C. Elliot, Manager of mortgage investments for the Great West Life Assurance Company, and by the Canadian Federation of Agriculture.

Mr. Elliot said:

Increased education and assistance must be directed towards improving the credit worthiness of the vast majority of farm business... This would do much to improve the flow of private credit into agricultural channels.⁶¹

The Canadian Federation of Agriculture recommends that:

There is inadequate information available relative to the type, quantity, sources and nature of all forms of farm credit and its distribution by provinces. An annual survey of farm credit should be made and published by the Federal Government in co-operation with the provinces in as complete form as possible.⁶²

⁶¹Quoted in: _____, "Government Schemes Supplement Private Mortgages", Farm Forum Guide, Vol. 12, No. 5, December 13, 1954, p. 2.

⁶²A Statement of Policy Regarding Farm Credit, July 1957, p. 9.

This recommendation also provides a justification for this thesis.

AGRICULTURAL CREDIT POLICY

49

Such education would have to be financed by the government. It would constitute a kind of subsidy to farmers and lending agencies. There could not be any objection against a subsidy of this kind, with so much free adult education provided in the cities.⁶³

Supervision is a more specific type of education which begins after a farmer actually contracts a loan. Supervision can be done by private and public lending agencies, or general farm management services can be set up for this purpose and others. These services advise farmers on matters of farm management and finance and may be organized as either private or public consultants.⁶⁴

⁶³General education as that received in High School does not seem to have a beneficial effect on debt repayment potential. See: W.Keith Burkett and Kenneth H. Parsons, "Buying Farms with Hundred-Percent Loans: An Analysis of the Farm Security Administration Loan Experience in Wisconsin", p. 162.

⁶⁴For more information on this topic, see: Richard G. Ford, "Integrating Research and Extension in the Field of Farm Management", Journal of Farm Economics, Vol. 34, Proceed. No. 5, December 1952, p. 822 - 27.

Also: Earl O. Heady, "Adaptation of Extension Education and Auxiliary Aids to the Basic Economic Problem of Agriculture", Journal of Farm Economics, Vol. 39, No. 1, February 1957, p. 112 - 127.

This article contains a discussion of the complementarity of capital and education in agricultural production by means of isoquant maps.

AGRICULTURAL CREDIT POLICY

50

One of the resolutions passed by the Annual meeting of the Canadian Federation of Agriculture in February, 1958, in Montreal, pertains to such services. It says:

Resolved that the Canadian Federation of Agriculture study the advisability of a system of long-term farm credit loaned on recommendation of a Farm Management Service, and that the Federal Government be urged to make a study of the advisability of a system of long-term farm credit loaned on recommendation of a Farm Management Service, ...⁶⁵

If supervision of any kind is financed by the public treasury, it will become a subsidy if no charge is made to the farmer. Since supervision is a specific service, it should be paid for by those who receive it. It may be paid for in the form of fees or as a part of the interest charged on the loan.

Supervised credit, in the writer's opinion, is necessary for young farmers and farmers on uneconomic units who receive loans on a high percentage of the collateral. The supervision needed differs from one individual to the other. The supervisor's job is basically 1) to help the farmer in the choice of a good farm which constitutes an economic unit and which has possibilities for further expansion, and 2) to work out a flexible management programme

⁶⁵Letter from the Federation of 20 February, 1958.

for at least the first difficult years of a long-term loan, perhaps until the mortgage is not more than fifty per cent of the long-term value of land and buildings.

Under the Farm Security Administration, the forerunner of the Farmers' Home Administration, county supervisors were responsible for planning with the borrower, for giving on the farm technical guidance from time to time as necessary, and for reviewing borrowers' operations in a group meeting at the end of the year."⁶⁶ Home economics supervision for the wives was also arranged. Supervision is now part of the Farmers' Home Administration programme.

Effective supervision depends essentially on two points: 1) the willingness of farmers to accept it, and 2) the ability to provide it at a low enough cost.

Farm Forum findings indicate that the majority of Canadian farmers favour supervised credit.⁶⁷ Here are three typical reactions:

Yes, supervision of government credit in farming operations would be good but only on intermediate and long term loans - East Amherst Forum, Nova Scotia.

⁶⁶Edward C. Banfield, "Ten Years of Farm Tenant Purchase Program", p. 473.

⁶⁷Farm Forum Broadcast on Farm Credit, November 11, 1957. Published in Rural Canada Speaks, National Farm Radio Forum, 113 St. George Street, Toronto 5, Ontario.

AGRICULTURAL CREDIT POLICY

52

We are highly in favour of supervised credit by anyone, but probably the government is the only agency through which it could be done - Burlingford Smith Farm Forum, Manitoba.

This group is not in favour of supervision in any form, although we might be better off for it - Kingscroft Forum, Stanstead.

This last opinion, although negative, more than any other shows the need for supervision.

To keep down the cost of supervision is an administrative task. The main points that must be observed are to hire well trained personnel and to avoid duplication of services.

It is doubtful that borrowing farmers would avail themselves voluntarily of management consultants, especially if this would entail a charge. In the writer's opinion a national credit agency, lending in all parts of the country, is best suited to provide supervised credit for farmers. The costs should be incorporated in the rate of interest as an administrative charge.

CHAPTER II

ECONOMICS AND MECHANICS OF AGRICULTURAL CREDIT.

1. Classification of Agricultural Credit.

There are no standard definitions for various kinds or types of agricultural credit. However, certain definitions must be established for later use in this survey.

Agricultural credit may be classified, first of all, into working capital and fixed capital credit.¹ Working capital credit includes short-term and intermediate credit. Short-term credit is of the commercial type designed to finance current operations from seeding to harvest and the buying and feeding of livestock for market. This credit comes predominantly from banks, credit unions, retailers and processors. It may be extended on a note or may be secured by a first lien on the crop or livestock. Short-term credit is not an object of this study.

Intermediate credit is extended for a period of from one to ten years. It may be extended on a note, but

¹Province of Saskatchewan, Royal Commission on Agriculture and Rural Life, Report No. 3, Agricultural Credit, Regina, Queen's Printer, 1955, p. 29 and 45.

more likely will be secured by a chattel mortgage on collateral. The collateral consists of movable capital goods, such as machinery, equipment and livestock. Intermediate credit is used when stabilization of or an increase in income is desired over a relatively short period of time through an increase in productivity. The substitution of labour with capital is a typical example. As indicated above,² the importance of intermediate credit has risen immensely during the last three decades, and especially since the second world war, due to a pronounced increase in the capital to land ratio of farm assets.

Fixed capital credit is secured by a mortgage on immovable capital goods and land. Buildings, irrigation works, wells, etc., are such immovable capital. Since this type of capital normally lasts for a relatively long period and land is virtually indestructible, returns from investments of this kind accrue over long periods of time. Repayments, therefore, must be geared to the returns from such investments. This means that amortization may have to be extended over many years. Any credit with a term over ten years may be called long-term credit. Long-term credit may

²See: Chapter I, p. 31.

be employed to acquire new fixed capital and land or to improve capital and land already owned. It may also be used to consolidate old debts, short, intermediate or long-term, at lower cost.³ In the first case, credit should raise the productivity of a farm, while in the second it cuts annual interest payments and thus expenses. As mentioned before, under the discussion of the family farm,⁴ mortgage credit is required frequently when farms are transferred from one generation to the other. Such credit often comes from the seller or retiring farmer. However, in view of the high living costs, retiring farmers need substantial cash to finance their retirement and it is likely that this source of credit will be of less importance in the future. Cash is also frequently required for settling estates. It is in the aforementioned cases that government credit becomes very important even for well managed and economic farm units, if private and corporate funds are not forthcoming.

Credit may also be classified into consumption and production credit. Consumption credit is extended for the

³One of the reasons for the emergence of government schemes was to enable farmers to consolidate old debts which had been contracted at interest rates that farmers could not afford to pay. See: W.T. Easterbrook, "Chapter IX, Debt Adjustment", Farm Credit in Canada, Toronto, the University of Toronto Press, 1938, p. 138.

⁴See: Chapter I, p. 42.

purchase of consumption goods and comes predominantly at exorbitant rates of interest from the finance companies. Production credit takes in the classes discussed above. Farmers need to be informed about the difference between production and consumption credit, as it may help them to overcome the fear of getting into debt.

2. Appraisal of Farms for Lending Purposes.

Fixed capital credit is usually secured by a mortgage on land and buildings. The mortgage amounts to a certain percentage of the appraised value of these assets. This percentage or loan ratio depends on the degree of safety desired by the lender. The margin requirement, as it is also called, influences the amount loaned directly. The appraised value of the fixed assets influences the amount loaned indirectly, but it is not less important. In fact, high percentage lending can easily be off-set by a conservative appraisal policy. Conversely, a high appraisal may be off-set by a low percentage lending policy.

The appraisal of any business is not an easy matter. Farm appraisals are among the most difficult appraisals there are. First of all, the market value and the long-term productive value of land are usually not in agreement. The market value of land is determined by prevailing forces of supply and demand. The long-term productive value of land is

calculated from expected average returns over the period of a long-term loan.⁵ Lenders are interested in both these values. The long-term productive value indicates the ability of the land to carry a certain loan by meeting principal and interest payments and avoiding foreclosure. The market value is a price a lender can hope to receive if he must foreclose. Lenders tend to rely more on the long-term productive value for the following reasons: 1) moratorium legislation frequently protects at least part of the farmer's assets so that foreclosure cannot take place; 2) the lender may not be able to sell the property and may have to farm it himself; 3) the current market value probably differs from a forced sale or liquidation price.

How then is the long-term productive value established? There is no simple formula fitting every farm. Some general and some specific variables have to be taken into account. The general variables are long-term average prices

⁵The United States Farm Credit Administration has defined normal agricultural value as follows: "The amount a typical purchaser would, under usual conditions, be willing to pay and be justified in paying for the property for customary agricultural uses, including farm home advantages with the expectation of receiving normal net earnings from the Farm." - Quoted in Marvin A. Brooker, "Problems of Normal Value with Rising Prices", Journal of Farm Economics, Vol. 34, Proceed. No. 5, December 1952, p. 937.

Professor Murray has discussed the difficulties associated with the appraisal of farms. See: William G. Murray, Farm Appraisal, Classification and Valuation of Farm Land and Buildings, Ames, Iowa, the Iowa State College Press, 1947, ix - 278 p.

long-term average costs and general biological conditions as well as technological changes influencing the productivity of all farms in a given area. Specific variables are those applying to individual farms only. These are type and texture of the soil, quality of management, availability of unpaid family help, possibility to use new technologies on given locations of land, income from off-farm employment and other variables influencing the productivity of an individual farm. A farmer who has grown-up boys providing him with unpaid family labour enjoys, for instance, a low wage bill.

The long-term earning capacity is based on estimates of these variables. Underlying these estimates is the assumption of normalcy. Normal crops resulting from normal management at normal prices and costs are the basic assumptions.⁶

Estimating normalcy is the most difficult part of this appraisal method. First, prices and costs vary over time. On a rising price level for agricultural products

⁶Marvin A. Brooker, "Problems of Normal Value with Rising Prices", p. 937 - 943.

appraisals can be made with eyes closed. This is the reason for the low foreclosure rate since the beginning of the last war. From then until recently⁷ farm prices rose faster than costs. The opposite is true when price levels are falling. This was demonstrated during the thirties.⁸ In estimating normal prices and costs, the conservative lender, knowing that he has to guess, is inclined to base his estimates on the least favourable price-cost relationship which prevailed sometime in the past. How far he goes back in time again depends on the views of the lender. A rule of thumb might be to go back as many years as the new loan is to cover.

In the United States, the Farm Mortgage Act of 1933 based general lending policy on normal returns. Normal "was considered the level above and below which farm prices

⁷In Canada index numbers of farm prices of agricultural products have risen from 91.8 to 296.8 in the period 1939-51. From 1951 on, the index has dropped to 228.8 in 1957. Corresponding price index numbers of commodities and services used by farmers were 99.3, 230.0 and 254.4. Both indices are based on 1935-39 = 100. Source: Dominion Bureau of Statistics, Index Numbers of Farm Prices of Agricultural Products and Price Index Numbers of Commodities and Services Used by Farmers.

⁸See: R.C. Engberg, "Risks in Agricultural Lending", Journal of Farm Economics, Vol. 31, Proceed. No. 1, February 1949, Discussion by Eli Ferguson, p. 618.

are expected to fluctuate".⁹ It is in the nature of such estimates that they are on the conservative side.

Murray discussed experience with the moving average method in an effort to obtain a less arbitrary figure for normal prices and costs.¹⁰ The moving average seems to be useful as long as prices are rising. On a falling price level the current moving average is higher than prevailing prices. Such an estimate would hardly be acceptable to a conservative lender.

Once the long-term earning capacity has been established, valuation can take place by capitalizing expected annual net income¹¹ at the prevailing rate of interest

⁹William G. Murray, "New Development in Farm Appraisal for Loans and Tax Assessments", Journal of Farm Economics, Vol. 33, Proc. No. 4, Part 2, November 1951, p. 857.

The 1946-47 annual report of the Farm Credit Administration is quoted in this article. It says: "Normal farm commodity prices are those which may be expected to prevail on the average over a long period of years in the future. As a starting point in developing those prices, the period 1900-14 has been taken as representing normalcy, in so far as a general level of farm commodity prices is concerned. Adjustment from this general level then are made in the prices of individual commodities, increasing those which have assumed a more favourable price position than they occupied during the 1900-14 period and reducing those which have attained a less favourable position."

¹⁰ibid., p. 858.

¹¹Net income should be above necessary living costs which constitute a first lien against earnings.

according to the formula:

$$\text{Value} = \frac{\text{Expected Annual Net Income}}{\text{Expected Rate of Interest}}$$

The higher the earnings or the lower the rate of interest the higher will be the valuation. Thus lowering the rate of interest beyond a normal level has inflationary effects on land prices. The same, of course, is true of an increase in farm prices relative to operating costs.

One of the difficulties in establishing a normal lending value is an imperfect land market.¹² Buyers do not have a perfect knowledge of the productive value of land offered for sale. It seems that highly productive land is usually undervalued. Conversely, low priced land is overvalued.¹³

In a perfect land market, market value and productive value would be equal. Availability of weather records and soil maps should be of assistance in evaluating the

¹² Experience has shown that overvalued land of low productivity sells easier than highly productive land which is offered at its true value. For psychological reasons many buyers seem to believe that they obtain the low productivity land at a bargain price. See:

Lawrence A. Jones and David Durand, "Chapter 8, Market Values, Earning Power, and Lending Standards", Mortgage Lending Experience in Agriculture, Princeton, Princeton University Press, 1954, p. 165.

¹³ ibid., p. 167.

productivity of a given piece of land.

As the farm combines business with a place to live farmers may put a value on the amenities of rural life. Also such conveniences as living close to school and church or in a congenial neighbourhood may be taken into consideration. Amenities take in a large part of the value of a low grade farm, yet they do not provide a return with which to repay a loan.

Then there are the specific variables influencing income, as mentioned above. There seems to be some agreement among lenders that management qualities and experience should be taken into account. It is difficult for the lender to insure himself against a change in management due to death, sale or other circumstances. Higher repayments during the first years of the loan, life insurance, contractual obligation to pay off the loan in case of a sale, father-son arrangements and similar methods reduce such risks. It is questionable whether private lenders would want to take these risks or to bear the administrative costs of insuring against them. It is here where public credit agencies come into their own, especially to help young farmers getting established.

The Equitable Life Assurance Society of the United States makes allowances for differences in the going value of farms due to amenities which decrease returns to

investment, or specific variables which increase such returns, by grading farms into different classes from poor to top quality. To each class a different loan ratio is then applied. Loan ratios vary between sixty-five per cent to forty per cent for the next to poor class.¹⁴ This device is discussed by Jones and Durand.¹⁵

Obviously under such lending policies no help can be provided for the young farmer with little means and the farmer on an uneconomic unit. Those that advocate high loan ratios and appraisals more in line with current value blame rigid repayment conditions and terms, too short to be suitable for agriculture, for the apparent inability of farmers to carry conventional loans. Conventional lenders can only provide credit to established farmers whose needs are less urgent than those of low income farmers. The latter cannot get credit because their incomes are low. But credit is supposed to improve their earning ability. Therefore, if these farmers can expect any help at all, it must come from

¹⁴For discussions on lending, see: R.C. Engberg, "Risks in Agricultural Lending", p. 602. Also: Rex R. Bailey, "Current Guides to Safe Debt Loads", Journal of Farm Economics, Vol. 36, Proceed. Mo. 5, December 1954, p. 1216-1223.

Eli Ferguson, "Risks in Agricultural Lending - Discussion", p. 615.

¹⁵"Market Values, Earning Power, and Lending Standards", p. 171.

the government at long enough terms and repayment arrangements suiting the individual farmer. At the same time, interest rates must be high enough so as not to cause artificial land booms.

Kristjanson criticized the conventional lenders' appraisal policies. He wrote:

Certainly, existing calculations of "normal" land values by lending agencies assume a drop in land prices. But the stuff of which normal values are created is not in existence. Yet the farm credit market operates on the basis of "normality" - normal prices, normal yields and average management - looking backward. It is customary to look to experience as though it would inevitably repeat itself. It could not do so even if it so desired.¹⁶

He goes on, explaining the need for government action:

The lender... visualizes the worst situation which he thinks may occur. He girds himself against this eventuality. And he must do so, for he must protect the loan funds. So long as we rely primarily on commercial credit sources, this situation will prevail. There are very few exceptions to this rule.

¹⁶B.H. Kristjanson, "Credit Rationing in Agriculture", Bimonthly Bulletin, North Dakota Agricultural Experiment Station, Fargo, N.D., Vol. 15, No. 4, March - April 1953, p. 147.

Seen in this light, individual farming opportunities are rationed on a very restricted basis. It is as though we advised a person to walk to town instead of driving his car because he may be killed driving on the highway. It is the psychology of fear rather than of adventure and creativeness.¹⁷

3. Agricultural Credit Related to Farm Organization.

The organization of farms depends on such things as climate, topography, soil texture and markets and, therefore, differs widely in the different regions of a country. In Canada we have relatively large farms in the Prairie Provinces. The farm business is more or less based on one crop. Large tracts of land, heavy machinery, yet few buildings are required. Thus a lending scheme which lends only on land and machinery, but disregards buildings, would be advantageous to the western farmers.

Conversely, such a lending scheme would be less advantageous to eastern and British Columbia farmers. There, farms are smaller and machinery is lighter and cheaper. However, relatively large sums are invested in livestock and buildings. Extreme cases would be piggeries, poultry farms and orchards. In the case of orchards the

¹⁷B.H. Kristjanson, "Credit Rationing in Agriculture", Bimonthly Bulletin, North Dakota Agricultural Experiment Station, Fargo, N.D., Vol. 15, No. 4, March - April 1953, p. 148.

fruit-trees are more valuable than the land. Lending agencies taking only the land on which orchards stand as collateral, would certainly not provide sufficient credit for that type of farming. In piggeries and poultry farms, buildings, machinery and livestock represent the bulk of the investment while land is negligible.

Again, there are types of farming where livestock is the main investment, and where buildings and land are less valuable, e.g. cattle ranching.

Some types of organization are caused by the region in which they are located. Others, like poultry farming, are largely independent on the region and, therefore, can be found in all parts of the country where a market exists.

The foregoing discussion shows that a credit scheme should be geared to the various types of agricultural organization prevailing in a country. It is not enough to have specialized credit schemes in various regions as some types of farming may be found in all regions, yet still require specialized financing.

Another aspect of farm organization is the prevailing types of land tenure. If farmers in need of more land cannot get the credit to expand their farms to an economic scale, they will have to rent the land. If it is the accepted social policy to support owner-operator farms of the family type and to prevent the emergence of a landlord class,

farmers in need of credit must be able to procure it at reasonable terms and cost.

4. Influence of Farm Size and Capital Structure on Farm Income.

Farm size may be measured in various ways, such as amount of land, intensity of cultivation, numbers of live-stock and productive man-hours per farm.

The agricultural revolution, which is the revolution from horse drawn to power driven equipment, having taken place in the last thirty years, has brought with it a need for larger farm units. Power machinery works faster than horses. It works more efficiently on larger tracts of land than on small ones because of easier manoeuverability. It allows better tillage methods, also quicker and thus more timely harvesting. Above all it saves labour.

Total costs of farm machinery decline as long as the fixed cost can be spread over a larger production. Thus a milking machine unit may not be considered economical for a herd under twelve cows. A combine would hardly pay its way if it were only used one day a year.

A farmer, in deciding whether to invest in a given piece of machinery, will do well to calculate the returns he can expect from the machine. Roughly, he will have to calculate the expected income attributable to the machine, add

savings incurred by not using the old equipment, horses and labour, and subtract fixed and variable costs of the new machine.¹⁸ Individual farm management studies can establish marginal revenue productivities attributable to increases in capital and land. Average figures relating investment per person or farm ^{to} productivity do not tell the whole story. More scientific agricultural methods or favourable weather may be the cause for an increase in productivity. However, the information in Table I gives an indication of the relationship of investment to productivity per person for nine Canadian provinces for the year 1950.

The table shows a correlation between investment and productivity per person. If, for the sake of comparison, we assume a yearly labour income of \$2,000 per person, based on opportunity cost, then the Maritimes and Quebec did not even cover their labour cost, not to speak of a return on their investment. As opportunity costs would be probably lower in these provinces, it could be assumed that, in fact, labour costs are just covered without leaving any margin for interest payments. As we are dealing with averages, it must be assumed that very many farmers in the Maritimes farm

¹⁸D.B. Wallace, "The f. s. d. of Mechanization", Farm Mechanization, (no volume and number), February 1958, p. 56 - 57.

ECONOMICS AND MECHANICS OF AGRICULTURAL CREDIT

69

TABLE I.-

Farm Capital Investment Related to Net Value of Production per Person
Gainfully Employed in Agriculture, by Provinces, 1950

Investment and Production Per Person	PEI	NS	NB	QUE	ONT	MAN	SASK	ALTA	BC
	thousands of dollars per worker								
Machinery	1.3	1.1	1.0	1.1	2.2	3.1	3.6	3.4	2.1
Total Investment	6.7	6.5	5.9	7.2	12.5	12.4	13.5	15.5	14.4
Net Value of Production	1.65	1.62	1.66	1.92	3.30	3.25	4.77	4.42	2.84

Source: Net value of production compiled from data in: Dominion Bureau of Statistics, Handbook of Agricultural Statistics, Part II; machinery and total investment per person compiled from data in Census of Canada, 1951. Information contained in Table I was published in: Saskatchewan Royal Commission on Agriculture and Rural Life, Report No. 2, Mechanization and Farm Costs, Regina, Queen's Printer, 1955, p. 58 - 59, Tables 14, 15 and 16.

uneconomic units and are unable to carry long-term or intermediate credit to increase their farm size or improve their capital structure. The need for consolidation of such uneconomic units has been recognized by the Gordon Commission.¹⁹

The trend towards consolidation of farms may be indicated by the following information taken from the 1956 Census of Agriculture. The number of Canadian farms increased from 511,073 in 1901 to a high of 732,832 in 1941. From then on it has declined to 575,015 in 1956.²⁰ In the five year period 1951-56 the decline was about eight per cent. Average area per farm has increased steadily from 124.1 acres in 1901 to 302.5 acres in 1956. The percentage of farms in the smallest size class, 1 - 4 acres, dropped from 3.0 to 1.4, in the period 1921-56. In the same period the 5 - 10 acres class held its own, probably because these farms are small-holdings predominantly used as residences. In the 11 - 200 acre classes the percentage dropped. The 201 - 279 acre class showed a slight increase, while the top class, 640 acres and over, increased its percentage by eighty per cent

¹⁹Royal Commission on Canada's Economic Prospects, Preliminary Report, Ottawa, Queen's printer, p. 28.

²⁰Due to a change in the definition of a farm introduced in the 1951 census, the 1951 and 1956 numbers of farms are probably somewhat too low in comparison with the earlier census figures. It is estimated that on the basis of the new definition, the number of farms in 1941 would have been 677,500.

in the 1931-56 period, viz. from 6.5 to 11.7 per cent. The Gordon Commission believes that the average farm size will increase by sixteen per cent in the 1951-80 period. It suggests that in the same period the number of farms will drop by thirteen per cent and physical volume of production per farm will rise by eighty-five per cent in the face of a fourteen per cent drop in labour per farm.²¹

Burkett and Parsons compares the debt repayment margin with the value of farms purchased under 100 per cent land purchase loans in Wisconsin. They found that "the borrowers who acquired farms (Real Estate) valued from \$6,000 to \$10,000 made greater financial progress than those who bought either smaller or larger farms".²²

The purpose of the above discussion is to indicate the importance of an economic farm unit in relation to income and thus credit carrying ability. Credit has to be extended with an eye to the future of an economic unit and not by looking back over the performance of an uneconomic unit in the past. In order to ensure the emergence of economic farm

²¹Preliminary Report, p. 26.

²²W. Keith Burkett and Kenneth H. Parsons, "Buying Farms with Hundred - Percent loans: An Analysis of the Farm Security Administration Loan Experience in Wisconsin", Land Economics, Vol. 17, No. 2, May 1951, p. 160.

units supervision, education and extension of credit should be performed by one national agency capable of serving the various types of farm organization.²³

5. Ability and Methods of Repaying Loans in Relation to Farm Income.

The ability of a farmer to repay a loan depends on the return on his investment above an allowance for his own labour and management. If this return is lower than the annual payments due on principal and interest, he will not be able to carry a loan. The amount of the annual amortization payments depends on the rate of interest and the length of the term of a loan. The lower the rate of interest and the longer the time over which a loan can be repaid, the lower will be the periodic amortization payments; or, at constant periodic payments, the higher an original loan can be contracted. The latter point is of particular importance for the beginning farmer. The longer the term of a loan, the more the beginning farmer can borrow. He needs less equity, without endangering his repayment ability, providing the loan ratio is not set at an arbitrary low level. In

²³ For general reading on this topic, see also: Fred Garlock, "Financing Farm Adjustments", Journal of Farm Economics, Vol. 31, Proceed. No. 5, December 1956, p. 1527-36.

See also Bibliography.

other words, beginning farmers will need smaller down payments to get started. In the United States the Farmers' Home Administration takes this into account in its Farm Ownership Loans programme. It makes loans up to ninety per cent of "the fair and reasonable value of the farm"²⁴ and allows repayment periods up to forty years.

Up to this point the amortization of a loan over a given period of time has been taken for granted. Amortization means the payment of part of the principal and interest on the reducing balance of the loan at regular instalment dates. It is an improvement over the lump sum plan. Under this latter type of plan the farmer paid only the annual interest and, when the end of the term had arrived, he had to repay the principal in a lump sum. Unless he had provided a sinking fund for the purpose, he would have to refinance the loan. Before the passing of the Dominion Housing Act in 1935, in Canada mortgage terms were limited to five year terms, which meant that refinancing had to be done, if possible, at the end of each term at prevailing rates of interest.

Nowadays farmers plead for variable repayment plans. Under conventional repayment plans prepayments, i.e. advance

²⁴United States Department of Agriculture, Farmers' Home Administration, Farm Ownership Loans, Washington, U.S. Government Printing Office, 1956, (pamphlet).

repayments, are usually permitted. Such payments reduce the principal, but not the periodic payments falling due. They do not reduce the burden of the farmer in low income years. Hurlburt defines flexible repayment arrangements "as the adaptability of payment procedures to changes in farm income".²⁵

It is a well known fact that farm income is subject to sometimes violent fluctuations due to natural and market forces.²⁶ One-crop farms and other highly specialized enterprises are probably more prone to such income variability than mixed farms closer to the subsistence level which show less income variance, because their incomes are always low. Climatic conditions, like droughts, may make occasional crop failures typical occurrences. It is doubtful whether price stabilization programmes and crop insurance plans go so far as to make income variability in agriculture insignificant.

Thus, the principle idea underlying a flexible credit arrangement is that the farmer repays more in high income

²⁵Virgil L. Hurlburt, "Economic Effects of Flexible Land Credit Arrangements", Journal of Farm Economics, Vol. 35, No. 1, February 1953, p. 110 - 121.

²⁶The Saskatchewan Royal Commission on Agriculture and Rural Life, Report No. 3, Agricultural Credit, on page 14 has a table showing total net farm income by provinces for the period 1926-1953. The coefficient of variation varies from a low of 34.48 for Nova Scotia to a high of 95.34 for Saskatchewan. For Canada it is 68.03.

years and less in low income years. Basically, there are two methods involved in flexible repayments. First, prepayments: Professor Sinclair advocates such a plan for Western Canada and defines it as follows:

... a borrower should have the privilege of making prepayments on any instalment date. He should then have the further privilege to draw upon these prepayments to meet regular instalments of principal and interest whenever he desires. This right to vary payments according to his ability to pay should be contractual.²⁷

Under such a plan the farmer invests his money in good income years in the loan agency and in bad years he disinvests it to make his payments. The writer sees no reason why farmers could not invest their surplus money in highly liquid securities, like government bonds, and cash them during low income periods. However, a contractual arrangement could save them a lot of bother and worry and, therefore, would be more of an inducement to prepay.

In the United States such a plan exists under the Farmers' Home Administration. The Equitable Life Assurance Society of the United States has, what it calls, a Prepayment Reserve Plan.²⁸ Under this plan prepaid funds are held

²⁷Sol. Sinclair, Government Action for Long Term Credit for Farmers in Western Canada, Brief Prepared and Submitted to the Board of Directors of the Manitoba Federation of Agriculture and Co-operation, January 19, 1955, p. 35.

²⁸R.C. Engberg, "Risks in Agricultural Lending", (Eli Ferguson, Discussion), p. 617.

without interest, but at the same time interest payments are stopped on an equal amount of the loan. Thus the farmer saves these interest payments while his money is in the hands of the Company.

The second method is to make payments actually dependent on annual income by letting them be either a percentage of net income or of the value of one or more crops harvested. The latter plan is only possible in areas where predominantly one crop is grown. Such a plan, based on wheat, exists under the Veterans Land Act in Western Canada.²⁹ Gilstorf has suggested a similar flexible repayment plan, based not only on wheat, but also on barley and oats, so that it is more adaptable to prairie farm organization.³⁰ The problem here is to find the wheat equivalents of oats and barley on the basis of long-term yields and prices for the three grains. The more commodities included in such a plan, the more difficult is its administration. In the case of a mixed farm or a specializing farm in a non-specializing region, variable payments would have to be a percentage of the cash income after allowance for current expenses minus interest payments.

²⁹See Chapter V.

³⁰R.C. Gilstorf, "Flexible Loan Repayment Plan for Prairie Grain Farms", The Economic Annalist, Vol. 28, No. 1, February 1958, p. 13 - 19.

It should be noted that variable payments do not aid in paying off a loan over the long term. They cannot "be expected to compensate for misjudgments in long run debt paying ability, for overlending or for serious errors in appraisals".³¹ Instead they protect the borrower from foreclosure due to a temporary set-back. At the same time, they reduce the risk of the lender by saving him the losses that are often associated with foreclosure. They would also eliminate the need for moratorium legislation.

It remains to discuss the influence of flexible credit arrangements of the supply or and demand for loan funds and on land prices.³² In a period of falling agricultural income the supply would probably shift from individual lenders to corporate or national government lenders. The latter could mitigate lower returns by lending to all types of farming and in all regions of the country. Individuals, on the other hand, dependent on the investment income for current expenditures may be hard hit, especially when agricultural income drops while income in other sectors is rising. In a period of rising agricultural income

³¹Purdue University Agricultural Experiment Station, Improving Land Credit Arrangements in the Midwest, Bulletin 551, June 1950, p. 31 f., quoted in: Jones and Durand, Mortgage Lending Experience in Agriculture, p. 176 - 177.

³²Virgil L. Hurlburt, "Economic Effects of Flexible Land Credit Arrangements", p. 112 - 121.

individuals would have an incentive to re-enter the field. On the demand side, the demand curve would probably move slightly to the right, especially at relatively high rates of interest. The reason for such a shift is the reduction of the annual risk, though not the risk over the long term. The advantages of flexible credit in the long-term field can be partially off-set by an inflexible intermediate credit, especially when the latter increases relatively to the former.

The higher demand for funds would probably result in higher land prices, especially when faulty appraisals by individuals occur. As long-term income estimates would not be changed by a flexible credit system, sound appraisals should not rise. Thus a large national credit agency with a competent staff of appraisers could counteract an undue rise in land prices. A government agency would probably be the most suitable.

Many responsible voices in Canada are asking for some type of flexible credit arrangement for agriculture.

Here are a few: The Nova Scotia Report of the Royal Commission on Rural Credit recommends:

That if a borrower makes repayments in advance of the due dates, the amount so repaid be put in a fund at interest, to be drawn upon in the future either in the event the borrower fails to make a regular payment or ultimately

to liquidate the final balance of the loan.³³

The Saskatchewan Royal Commission on Agriculture and Rural Life says:

A repayment period of adequate length, taking long-term farm productivity into full account is essential for farm credit... A flexible repayment schedule is important, particularly for long-term fixed capital credit.³⁴

The Canadian Federation of Agriculture recommends that:

Farmers should be permitted to make advanced repayments on their indebtedness which could later be considered to apply in place of payments which had to be missed due to loss of income.³⁵

After having touched on some of the political, sociological and economic implications of agricultural credit policy, the time has come to survey critically the various government agencies operating in Canada today.

³³Province of Nova Scotia, Report of the Royal Commission on Rural Credit, (Halifax, Queen's Printer), 1957, p. 75.

³⁴Report No. 3, Agricultural Credit, p. 25.

³⁵Canadian Federation of Agriculture, A Statement of Policy Regarding Farm Credit, As Adopted by the Board of Directors of the Canadian Federation of Agriculture, July 1957, (unpublished), p. 9.

CHAPTER III

THE CANADIAN FARM LOAN BOARD

1. General Outline.

The Canadian Farm Loan Board (CFLB) is "a self-governing and self-supporting public corporation and an agency of the crown in right of Canada, established in 1929 under the Canadian Farm Loan Act to administer a system of long term mortgage credit to Canadian farmers".¹ The Act was passed in 1927 and has been amended in 1934, 1935, 1952, 1956 and 1957.

According to the Act the Board "shall consist of not less than three nor more than five members who shall be appointed by the Governor in Council".² The Deputy Minister of Finance or any other officer of the Department of Finance designated by the Governor in Council, is a member ex officio. One of the members, designated by the Canadian Farm Loan Commissioner, serves as chairman of the Board. His appointment is on a full time basis and he receives a salary chargeable against the revenues of the Board.

¹Report of the Canadian Farm Loan Board for the Year Ended March 31, 1957, Ottawa, Queen's Printer, 1957, p. 3.

For a short and up-to-date history of the Canadian Farm Loan Act from 1927 on, see: Province of Nova Scotia, Report of the Royal Commission on Rural Credit, (Halifax, Queen's Printer), 1957, p. 39-47.

²Canadian Farm Loan Act, R.S.C., 1956, C.17, s.3.

The authorized capital of the Board consists of four million dollars divided into forty thousand shares of the par value of one hundred dollars each. The Minister of Finance shall subscribe to the shares and pay for them out of the Consolidated Revenue Fund. The Minister may also make loans to the Board "on such terms and conditions as the Governor in Council approves".³ In practice, the Board can borrow funds from the Government at cost. The Act specifies that outstanding loans from the Government to the Board must not exceed twenty times the par value of the outstanding capital stock of the Board. The Act provides for a reserve fund to be equal to the amount of the par value of the capital stock outstanding.

The Board can make loans for all general farm purposes, including the purchase and improvement of land and the consolidation of debts. Loans are made on the security of a first mortgage on land and buildings. The Board may also accept additional security or collateral. Loans to any one person, alone or jointly with others, cannot exceed \$15,000. Only experienced farmers actually engaged in or shortly to become engaged in the cultivation of the farm mortgaged do qualify for a loan. Not more than sixty-five

³ ibid., s. 6.

CANADIAN FARM LOAN BOARD

82

per cent of the appraised value of land and buildings can be lent under the Act. The interest rate is set by the Board. It should cover the interest paid by the Board to the Minister of Finance, the expenses of the Board and a reasonable provision for reserves against losses. Repayments must be made in a period not exceeding thirty years. If the term goes over five years, loans have to be amortized in equal annual, semi-annual or monthly instalments of principal and interest.

The Act is administered from the head office, located in Ottawa, and from nine branch-offices. There is one branch-office in each province with the exception of Newfoundland. Loan applications from that province are received directly by the head office. The Board has a permanent staff of appraisers which is enlarged by part-time appraisers, when necessary.

The Board reports annually to the Minister of Finance.

The main criticisms of the Board are as follows:

- 1) The Board's lending policy is too conservative.
- 2) It is of little assistance to the beginning farmer on an uneconomic unit which is in need of expansion to an efficient scale.
- 3) The administration of the Board is too centralized and too costly.

Each of these points require examining. They are inter-related in such a way that the second and third follow from the first. A very conservative lending policy means lending to first class risks or so-called gilt-edged farms only. This means a smaller volume of loans, and a smaller volume in turn means higher administrative costs per loan.

2. Lending Operations.

The following are some opinions appraising the Canadian Farm Loan Board's lending policies:

From Prince Edward Island:

... the general opinion in this province seems to be that this scheme should be extended or broadened to apply to more farmers than it does at the present time.⁴

From New Brunswick:

Criticisms originating from farmers and farm organizations regarding federal credit schemes have been mainly that it is quite difficult to negotiate loans, the interest rate is too high and the period of repayment (improvement loans) not long enough, the Veterans' Land Act excepted.⁵

⁴Letter to the writer from S.D. Peacock, Director of Field Work, Prince Edward Island Department of Agriculture, 31 January, 1959.

⁵Letter to the writer from H.F. Stairs, Director, New Brunswick Farm Settlement Board, New Brunswick Department of Agriculture, 15 January, 1958.

CANADIAN FARM LOAN BOARD

84

From Nova Scotia:

... statistics show... that approximately 50 per cent of loans were made in Kings and Hants counties, and that 88.5 per cent were in the six leading counties in terms of the total area of improved farm land.⁶

In principle the position of the Board is sound. For although the intention was not that the Canadian Farm Loan Board should become a dominant supplier of farm credit, this conception of the Board becomes less tenable to-day than formerly when mortgage companies were more aggressively participating in the field....the problem posed in Nova Scotia is whether the existing method of supplying long term credit will permit as balanced and as sound development in rural areas as possible and whether the federal farm credit system is sufficiently flexible to make adequate allowance for difference from one part of Canada to another.⁷

From Quebec:

In general our experience with provincial credit is better than with federal credit. However, both schemes are unrealistic, over-conservative, too much influenced by a single person, and under present conditions, absolutely useless in many cases. Private credit with a higher interest rate is still often the most satisfactory.⁸

Our mortgage credit facilities for agriculture have long been under attack as inadequate, inappropriate and old-fashioned. I think that this criticism is valid, providing

⁶Nova Scotia, Report of the Royal Commission on Rural Credit, p. 46.

⁷ibid., p. 47.

⁸Letter to the writer from L.G. Young, Secretary, Quebec Farmers' Association, Box 237, MacDonald College, Ste. Anne de Bellevue, Que., 19 February, 1958.

CANADIAN FARM LOAN BOARD

85

we recognize that more and better credit must be devised so as not to cause greater surpluses. Raising the maximum loan under the Canadian Farm Loan Board from \$15,000 to \$20,000 would, at best, be a temporary and partial repair.⁹

From Ontario:

We would say that the three federal schemes are well suited to conditions in the Province of Ontario. That, however, is a personal opinion.¹⁰

The adoption, without delay, of the CFA policy on farm credit, which calls for raising of the maximum loan to \$20,000 and the reduction of the present interest rate by at least $1\frac{1}{2}$ per cent.¹¹

From Saskatchewan:

The Board may be criticized as too cautious in its lending policy. It naturally concentrated on minimum risk loans, however, since there was no intention to use the program to overcome underlying problems of yield and price variability and income uncertainty. Nor did it intend to give assistance to under-developed, high risk farm units.¹²

⁹W.E. Haviland, "How Farmers Fared as Canadian Economy Levelled Off", The Country Guide, (no volume and number), December 1957, p. 11.

Dr. Haviland is a professor of Agricultural Economics at MacDonald College, Ste. Anne de Bellevue, Quebec.

¹⁰Letter to the writer from E.A. Western, Director, The Ontario Junior Farmer Establishment Corporation, Parliament Buildings, Toronto, 29 January, 1958.

¹¹Brief by the Ontario Federation of Agriculture to Ontario Members of Parliament in Ottawa, Country Guide, (no volume and number), January 1958, p. 9.

¹²Province of Saskatchewan, Royal Commission on Agriculture and Rural Life, Report No. 3, Agricultural Credit, Regina, Queen's Printer, 1955, p. 55.

CANADIAN FARM LOAN BOARD

86

From British Columbia:

...I have heard considerable dissatisfaction with current credit schemes voiced by farmers and farm organizations.¹³

...internal operation of this board should be overhauled thoroughly and it should be made an active and dynamic force in our agricultural economy.¹⁴

The Interprovincial Farm Union Council recommended:

that ...this Act be so broadened as to allow for its optimum application towards assisting in the establishment and rehabilitation of these classes of farm people who presently are unable to obtain credit elsewhere, and to raise their general standards of efficiency and livelihood.¹⁵

The Canadian Federation of Agriculture made the following statements:

The Board has been subjected to heavy criticism by farmers for its conservative appraisal policies, small loans, and slowness with which approves loans.¹⁶

The Canadian Farm Loan Board is criticised for its conservative administrative policies, such as requiring every loan, no

¹³Letter to the writer from J. Moen, Economist, D.C. Department of Agriculture, 23 January, 1958.

¹⁴Mr. McLeod, M.P., House of Commons Debates, 1957, p. 1883.

¹⁵Interprovincial Farm Union Council, Submission to the Banking and Commerce Committee of the House of Commons, Ottawa, April 10, 1956, p. 10.

¹⁶H.H. Hannam, President and Managing Director, Canadian Federation of Agriculture, Brief Submitted to the Nova Scotia Royal Commission on Rural Credit, 26 June, 1957, p. 9.

matter how small having to be submitted to the head office in Ottawa before approval.

Instead of taking the cream of the mortgage business, this institution should perform its function of providing credit at minimum cost whenever the loan is reasonably justified.¹⁷

Back in 1946, Fowke wrote about

the half-hearted federal venture into the field of long term agricultural credit under the Canadian Farm Loan Act of 1927.¹⁸

Let us now have a look at the activities of the Board.

A farmer to whom loans may be made under the Act "means a person whose principal occupation consists of farming".¹⁹ Part-time farmers do not qualify for loans. As off-farm work, nowadays, is a means of obtaining capital needed for more efficient farming, the Board should be more flexible in its attitude to young farmers on uneconomic units who do off-farm work with a view to establishing full-time farms. Earnings from off-farm work should be

¹⁷Canadian Federation of Agriculture, A Statement of Policy Regarding Farm Credit, (unpublished), July 1957, p. 4.

¹⁸V.C. Fowke, Canadian Agricultural Policy, The Historical Pattern, Toronto, The University of Toronto Press, 1946, p. 158.

¹⁹Canadian Farm Loan Act, R.S.C., c.17, s. 2d.

taken into consideration when assessing a farmer's ability to repay a loan.

Farming, as defined in the Act, "includes stock raising, dairying and the tillage of the soil".²⁰ It has been stressed in Parliament as well as in the Report of the Nova Scotia Royal Commission on Rural Credit that in the Maritimes farmers obtain a large part of their income from their woodlots.²¹ Therefore, these woodlots should be assessed as revenue producing assets when farms are appraised for loan purposes. The Royal Commission on Canada's Economic Prospects has also stressed the importance of forestry in the Maritime farm organization.²² In Quebec, too, forestry provides an important part of the farm income.

Table II gives an indication of the loaning activities of the Board in each province, by showing the number of loans approved as a percentage of the number of farms and the amount approved as a percentage of the value of land for each of the census years since 1931. When scrutinizing these figures it must be remembered that in some provinces there

²⁰ibid., s. 2 e.

²¹p. 69

²²W.M. Drummond and W. Mackenzie, Progress and Prospects of Canadian Agriculture, Ottawa, Queen's Printer, 1957, p. 28.

TABLE II.- (Part I)

Number and Amount of Loans Approved by the CFLB in Relation to Total Number of Farms and Sales Value of Land and Buildings, by Province, in Each Census Year From 1931 on.

Prov. and Year	Farms No.	Loans ^a		Value of Land and Buildings,00 \$	Amount of Loans	
		No.	per cent of Farms		Approved \$	per cent of Land Value
<u>NFLD</u>						
1931	3,626	2 ^c	0.06	14,658,1	3,000	0.02
56	2,387	0	0	e	0	0
<u>PEI</u>						
1931 ^b	12,865	0	0	42,920,4	0	0
41	12,230	60	0.49	34,375,8	92,350	0.27
51	10,137	84	0.83	47,843,7	185,100	0.39
56	9,432	136	1.44	64,993,2 ^c	445,800	0.69
<u>NS</u>						
1931	39,444	36	0.09	82,514,5	55,100	0.07
41	32,977	28	0.08	65,770,4	50,650	0.08
51	23,515	38	0.16	94,486,0	81,800	0.09
56	21,075	47	0.22	166,538,5 ^c		
<u>NB</u>						
1931	34,025	87	0.26	77,060,8	123,200	0.16
41	31,889	16	0.05	57,997,0	18,050	0.03
51	26,431	77	0.29	98,716,7	169,400	0.17
56	22,116	60	0.27	166,961,1 ^c	234,050	0.14
<u>QUE</u>						
1931	135,957	425	0.31	684,130,8	855,000	0.12
41	154,669	401	0.26	543,358,5	751,050	0.14
51	134,336	172	0.13	846,972,8	24,700	d
56	122,617	139	0.11	1,368,271,0 ^c	707,350	0.05
<u>ONT</u>						
1931 ^b	192,174	0	0	1,072,847,2	0	0
41	178,204	195	0.11	836,147,7	327,300	0.04
51	149,920	365	0.24	1,419,363,8	981,750	0.07
56	140,602	672	0.48	2,206,640,7 ^c	3,916,100	0.18

TABLE II-(Part II)

Prov. and Year	Farms No.	Loans ^a		Value of Land and Buildings .,00 \$	Amount of Loans	
		No.	per cent of Farms		Approved \$	per cent of Land Value
<u>MAN</u>						
1931	54,199	203	0.37	288,659,5	399,400	0.14
36	57,774	781	1.35	224,784,8	1,113,900	0.50
41	58,024	113	0.19	229,487,7	174,900	0.08
46	54,448	385	0.71	338,502,2	814,950	0.24
51	52,383	249	0.48	528,872,5	508,800	0.10
56	49,201	284	0.58	860,727,2 ^c	1,346,200	0.16
<u>SASK</u>						
1931 ^b	136,472	0	0	989,143,5	0	0
36	142,391	1,981	1.39	797,799,0	2,545,600	0.32
41	138,713	185	0.13	657,593,8	267,400	0.04
46	125,612	436	0.35	882,140,2	911,750	0.10
51	112,018	591	0.53	1,182,905,5	1,195,300	0.10
56	103,391	897	0.87	2,009,407,3 ^c	4,212,600	0.21
<u>ALTA</u>						
1931	97,408	234	0.24	671,424,4	419,200	0.06
36	100,358	674	0.64	517,001,1	986,600	0.19
41	99,732	138	0.14	490,826,4	204,950	0.04
46	89,541	302	0.34	654,053,9	500,650	0.08
51	84,315	212	0.25	1,015,289,3	411,900	0.04
56	79,424	591	0.74	1,976,727,0 ^c	2,381,700	0.12
<u>BC</u>						
1931	26,079	64	0.25	144,581,2	173,500	0.12
41	26,394	43	0.16	114,288,7	80,100	0.07
51	26,406	141	0.53	278,068,2	331,200	0.12
56	24,748	95	0.38	494,738,0 ^c	513,550	0.10

Source: Census of Agriculture, 1951 and 1956, and CFLB, Annual Reports.

^aincludes second mortgages from 1936-51.

^bno loans were extended because the province had not passed enabling legislation. Since 1935 enabling legislation was not required.

^c1956 real estate values were calculated from: DBS, Farm Land Values

^dless than 0.05 per cent.

^eno estimate available.

CANADIAN FARM LOAN BOARD

91

is a large number of regular part-time farmers.²³ The number of loans includes second mortgage loans whenever these were extended. As second mortgage loans were only made to farmers of whom the Board had already a first mortgage, the number of loans is somewhat larger than the number of farmers actually having received loans.

Only in three cases out of forty the number of loans approved exceeds one per cent of the number of farms in the province; in twenty-two cases the percentage is under one third of one per cent. The amount of approved loans as a percentage of the value of land is higher than one third of one per cent in only three cases, two of them representing 1951 and 1956 in Prince Edward Island. In twenty out of the forty cases, the percentage is one tenth of one per cent or less.

In all provinces, except Quebec, the percentage is lowest for the year 1941. This may be explained by first, a fear of borrowing because of adverse experiences during the

²³These are farms where the operator obtains part of his income from sources like lumbering or fishing, with no intention of building up a full-time farm eventually. The percentage of non-commercial farms, having receipts of less than \$1,200 per annum is as follows in the various provinces according to the 1956 Census of Agriculture: PEI - 26; NS - 62; NB - 59; QUE - 28; ONT - 19; MAN - 11; SASK - 4; ALTA - 9; BC - 47.

In these percentages are included an insignificant number of institutional farms which may have larger receipts.

CANADIAN FARM LOAN BOARD

92

depression years, and second, less need for credit because of rising farm incomes. In Quebec percentages have dropped steadily because farmers, since 1936, were able to get loans at easier terms from their provincial credit scheme. In the Prairie Provinces the 1936 Census shows the highest percentage of numbers and amounts loaned. This is probably due to farmers using loans from the Board to consolidate and settle old obligations under The Farmers' Creditors Arrangement Act which had been passed in 1934.

Since the low in 1941, the percentage of approved loans has generally gone up. Except for Newfoundland, New Brunswick, Quebec and British Columbia, in 1956 more loans were approved per hundred farmers than in 1951. This suggests an increase in the demand for loans in provinces with predominantly commercial agricultural organization, due to a tightening of the cost-price squeeze. Higher percentages are caused partially by a decrease in the number of farms. In the provinces where the percentages have decreased, the number of farms has decreased also. In each province, except Newfoundland, where no loans were made in 1956-57, the amounts loaned in 1956-57 exceeded the 1951-52 amounts. However, the influence of increased amounts was counteracted by increased land values. It should be remembered in this connection that the 1956 land values are not based on the Census, but on a

CANADIAN FARM LOAN BOARD

93

sample of farmers reporting land values, including the value of buildings, in their neighbourhood. Therefore, the 1956-57 figures may not be strictly comparable with the figures of the preceding years.

The information in Table II indicates a relatively small lending volume. The question arises whether this is due to a lack in demand for funds.

In Table III are compared the number of applications for loans and the amount applied for with the number of loans and amounts approved by the Board from 1929 to 1955. In Table IV the number of loans and amounts approved are expressed as percentages of the number of loans and amounts applied for. Only in the 1940 to 1950 period, when farm incomes were rising rapidly, approvals hovered around the fifty per cent mark. In all other years less than half of the loans applied for were approved. Table IV also indicates that average loans approved were always lower than those applied for. It may be assumed that the actual demand for loans is larger than indicated by the number applied for, as many farmers, discouraged by the conservative lending policies of the Board, probably do not bother to apply.

Another way of showing the cautious attitude of the Board is to express the principal outstanding in any one year as a percentage of the maximum amount that the Board

CANADIAN FARM LOAN BOARD

94

TABLE III.-

Number and Amount of Loans Applied for and Approved,
CFLB, 1929 - 1957

Period	Applications		Loans Approved	
	No.	Amount \$	No.	Amount \$
1929-35	20,441	50,780	5,721	11,618
1935-40	44,832	98,910	16,768	34,004
1940-45	8,016	17,580	4,416	9,072
1945-50	14,237	40,002	7,301	19,325
1950-51	3,971	11,486	1,796	4,722
1951-52	3,339	10,613	1,437	4,238
1952-53	4,444	17,972	1,685	5,852
1953-54	4,591	19,402	2,091	7,817
1954-55	4,893	20,798	2,145	8,225
1955-56	a	a	2,057	8,304
1956-57	a	a	2,921	13,979

Source: Annual Reports, CFLB, 1935-57, as shown in Table 52, p. 114, in W.M. Drummond and W. MacKenzie, Royal Commission on Canada's Economic Prospects, Progress and Prospects of Canadian Agriculture, Ottawa, Queen's Printer, 1957, xii - 424p.

^anot published.

CANADIAN FARM LOAN BOARD

95

TABLE IV.-

Average Size of Loan Applied for and Approved, and Number and Amount of Loans Approved as Percentages of Number and Amount of Loans Applied for, CFLB, 1929 - 1957

Period	Average Loan		Percentage of Loans Approved	
	Applied for \$	Approved \$	No. %	Amount %
1929-35	2,484	2,049	28	23
1935-40	2,122	1,992	45	34
1940-45	2,236	2,107	55	52
1945-50	2,781	2,632	52	48
1950-51	2,892	2,629	45	41
1951-52	3,179	2,949	43	40
1952-53	4,044	3,473	38	33
1953-54	4,227	3,738	46	40
1954-55	4,251	3,835	44	40
1955-56	a	4,040	a	a
1956-57	a	4,785	a	a

Source: see Table III.

^a not published.

CANADIAN FARM LOAN BOARD

96

could have borrowed from the Minister of Finance at the time. Table V shows these percentages. From 1947 to 1955 the percentage has increased steadily from forty-four to seventy-nine percent. In the following two years, maximum amounts were increased to \$60,000,000 in 1956 and to \$80,000,000 in 1957; the percentages for these years were seventy and sixty-six respectively. In 1956-57 the amount loaned had passed the old maximum amount of \$50,000,000, the first time since the latter had been established in 1935. Although this recent trend is encouraging, principal outstanding has generally been much below the amounts that the Board could borrow.

3. Appraisal Policy.

The Board has frequently been criticized because of its conservative appraisals. Some people say that the Board's appraisal policy is more conservative than that of private institutional lenders.²⁴ In Table VI are compared the number and average size of loans extended by members of the Dominion Mortgage and Investment Association with those originating from the Board.

²⁴See quotation from Quebec, p. 84, and Mr. Hahn, M.P., House of Commons Debates, 1956, p. 1041.

CANADIAN FARM LOAN BOARD

97

TABLE V.-

Principal Outstanding as a Percentage of Possible Maximum
Loans to the Board from the Minister of Finance

Lending Period	Principal Outstanding \$	Possible Max. Loan from the Minister	Principal per cent of Max. Loan
1930-31	6,009,469.69	15,000,000	40
31-32	7,809,334.40		52
32-33	8,769,573.69		58
33-34	8,879,572.35		59
34-35	9,003,395.72		40,000,000
1935-36	15,782,274.22	50,000,000	32
36-37	25,982,934.79		52
37-38	29,588,864.09		59
38-39	31,963,908.63		64
39-40	32,145,613.43		64
1940-41	34,417,027.72		69
41-42	33,740,854.73		67
42-43	31,850,890.77		64
43-44	28,117,262.87		56
44-45	23,882,961.10		48
1945-46	22,277,996.04		45
46-47	21,953,308.51		44
47-48	22,160,431.20		44
48-49	23,648,226.65		47
49-50	25,651,449.89		51
1950-51	27,589,830.79		55
51-52	29,037,341.37		58
52-53	31,005,249.00		62
53-54	34,591,644.55		69
54-55	39,455,930.63		79
1955-56	44,075,267.82	60,000,000	73
56-57	52,730,197.83	80,000,000	66

Source: Calculated from Annual Reports, CFLB, 1931-1957.

CANADIAN FARM LOAN BOARD

98

TABLE VI.-

Number and Average Size of Loans Approved, CFLB and the
Dominion Mortgage and Investments Association,
1950 - 1957

Year	C F L B		Year	Dom. Mortg. and Inv. Ass.	
	No.	Average \$		No.	Average
1950-51	1,796	2,629	1951	1,064	5,169
1951-52	1,437	2,949	1952	965	5,492
1952-53	1,685	3,473	1953	820	5,976
1953-54	2,091	3,738	1954	898	5,902
1954-55	2,145	3,835	1955	894	6,823
1955-56	2,057	4,040	1956	667	7,595
1956-57	2,921	4,785	1957	490	7,071

Source: W. M. Drummond and W. MacKenzie, Progress and Prospects of Canadian Agriculture, p. 117, Table 55, up to 1955. For 1956 and 1957: CFLB, Annual Reports, and correspondence with The Dominion Mortgage and Investments Association, 302 Bay St., Toronto 1.

CANADIAN FARM LOAN BOARD

99

While average amounts extended by the Dominion Mortgage and Investment Association are higher than those extended by the Board, it must be taken into consideration that the former does ninety-five per cent of its business in Ontario and the Prairie Provinces and less than one per cent in Quebec and the Maritimes. In comparison, the Board has over twenty per cent of its loans in Quebec and the Maritimes and sixty per cent in Ontario and the Prairies. Also, the private mortgages are for periods of five to ten years with interest rates ranging from six and a half to seven and one quarter per cent.

According to the Act "the appraised value shall be based on the value of the land for agricultural purposes and as far as possible on the productive value as shown by experience".²⁵ The value of buildings is included in appraisals "only to the extent to which they add to the value of the land as farm land".²⁶

The wording of the Act suggests that appraisals are based on productivity and prices prevailing in the past rather than on those prevailing at present and on anticipated future conditions. It must be difficult to appraise buildings

²⁵R.S.C., 1956, c.17, s. 7 d.

²⁶ibid., s. 7 a, I.

to the extent that they contribute to the value of land as farm land. One wonders in how much farmers' residences contribute to the value of land; or, what about an expensive brooder house on a poultry farm? Nevertheless, this clause could be an attempt to take into consideration various types of agricultural organization. However, in practice "it is understood that the value of the buildings for loan purposes cannot exceed the value of the land".²⁷ It is therefore believed that the Act favours the Prairie type of farm organization where a high land to building value ratio prevails. In mixed farming areas, where buildings may be as valuable or more valuable than land, the Act would be less useful.²⁸

Another important point in this connection is the decrease in the fixed to movable assets ratio since the Board started to operate. Loans based only on an evaluation of buildings and land will cover a smaller percentage of all assets today than some twenty years ago. While formerly farmers may have been able to finance the whole farm enterprise with one loan secured by a mortgage on fixed assets, they will now have to resort to intermediate credit to

²⁷Nova Scotia, Report of the Royal Commission on Rural Credit, p. 46.

²⁸ibid., p. 46.

CANADIAN FARM LOAN BOARD

101

finance implements, livestock and equipment. Intermediate loans have to be repaid in much shorter periods than long-term loans. This means higher periodical payments which the farmer may not be able to make. The farmer's dilemma may be described as follows:

First, he receives a long-term loan which is too small to bring his unit on to an efficient scale. It is not big enough, for instance, to obtain the necessary machinery. Therefore, net income is not high enough to service the loan.

Second, he receives an additional loan, repayable over three years, to obtain the necessary machinery. His net income will be up, but not enough to service the two loans, one long-term and one intermediate.

The problem could be solved by providing the farmer with one long-term loan, large enough to bring his unit on to an efficient scale, and repayable over a long enough period to make periodical payments on principal and interest so low that the farmer can handle them.

Table VII shows percentage changes in land, machinery and livestock investment for four Canadian regions in 1931, 1941 and 1951. The relative value of land and buildings is down in all regions while machinery and livestock are up. Livestock is up more than machinery everywhere except in the Prairie Provinces where the opposite is the case. Besides showing the trend towards a greater relative value of

CANADIAN FARM LOAN BOARD

102

TABLE VII.-

Changes in Land, Machinery and Livestock Investment on
Canadian Farms by Regions: 1921, 1931, 1941, 1951

Region and Year	Land and Buildings	Implements and Machinery	Livestock and Poultry
- p e r c e n t -			
<u>Atlantic Region^a</u>			
1921	75.5	9.6	14.9
31	75.8	11.9	12.3
41	73.1	13.0	13.9
51	61.4	16.8	21.8
<u>Central Region</u>			
1921	76.9	10.2	12.9
31	77.2	11.0	11.8
41	71.5	12.2	16.3
51	57.4	16.7	25.9
<u>Prairie Region</u>			
1921	76.9	10.5	12.6
31	77.0	14.1	8.9
41	70.8	16.3	12.9
51	58.1	24.4	17.5
<u>British Columbia</u>			
1921	85.6	4.5	9.9
31	82.9	7.4	9.7
41	76.0	10.0	14.0
51	68.1	14.5	17.4

Source: Baldur H. Kristjanson, "The Capital Structure of Canadian Agriculture", The Economic Annalist, Vol. 27, No. 3, p. 58.

^aNewfoundland data are included in 1951 only.

movable assets on Canadian farms, Table VII also reflects the differences in agricultural organization as between the various regions.²⁹

The Act permits the Board to require additional security if considered proper by the Board.³⁰ In practice this means a chattel mortgage on equipment and livestock. Apparently the Board has used this provision quite extensively when it made loans on second mortgages. Today, with only first mortgage loans being extended, chattel mortgages are rarely taken by the Board. This is a step in the right direction. A farmer having mortgages on his chattels will find it difficult to obtain short-term and intermediate credit to cover his operating expenses.

The Act stresses that experience, ability and character of an applicant should be "such as to warrant the belief that the farm to be mortgaged will be successfully cultivated".³¹ These are points that any sensible lender takes into consideration. However, the Board does not weigh personal

²⁹For a recent discussion on agricultural organization, see: Baldur H. Kristjanson, "The Capital Structure of Canadian Agriculture", The Economic Annalist, Vol. 27, No. 3, June 1957, p. 57 - 61.

³⁰R.S.C., 1956, c. 17, s. 7, a, II.

³¹ibid., s. 7, c.

CANADIAN FARM LOAN BOARD

104

characteristics as much as, for instance, the Farmers' Home Administration in the United States.³² As the farm business becomes more complicated, superior management qualities have an increased bearing on the returns from farming. In fact, differences in management may well determine the ability to repay or not to repay a loan.

From 1935 to 1952 the Board published appraised values of securities at the time of the loan and total acreages on which loans had been made. One may obtain the average appraised value per acre for each period in any one province, by dividing total appraised acreage into total appraised value of land and buildings for the province. In Table VIII appraised values per acre are compared with sales values of farm lands and buildings as reported by the Dominion Bureau of Statistics. Possible maximum loans per acre are calculated and expressed as a percentage of the sales value by expressing the appraised value per acre as a percentage of the sales value, and then dividing this percentage by two. The result represents the actual loan ratio, i.e., the loan ratio in relation to the sales value, since the official maximum loan ratio in force during the period under

³²For an opinion on this point, see: Mr. Smith, M.P., House of Commons Debates, 1957-58, p. 1001.

CANADIAN FARM LOAN BOARD

105

TABLE VIII.- (Part I)

Appraised Value, Sales Value and Maximum Loan as Percentage of Sales Value, by the CFLB, of Farm Land and Buildings for the Period 1941 - 52

Prov.		1941 ^e	'42	'43	'44	'45	'46	'47	'48	'49	'50	'51	'52
PEI	a	34	37	37	41	43	42	47	51	52	55	60	61
	b	31	34	30	32	32	29	32	34	38	44	39	47
	c	46	46	40	40	37	34	34	34	36	40	32	38
	d	59	60	53	51	48	45	44	44	47	52	42	50
NS	a	31	33	35	41	41	42	46	48	49	52	55	54
	b	28	32	36	44	25	32	32	42	24	30	35	27
	c	45	48	52	54	30	38	35	44	24	29	32	25
	d	58	63	67	70	40	49	46	57	32	38	42	32
NB	a	25	30	33	40	40	39	44	44	45	51	52	51
	b	17	22	17	19	21	30	23	30	29	30	32	37
	c	34	36	26	24	26	38	26	34	32	30	31	36
	d	44	47	34	31	34	50	34	44	42	38	40	47
QUE	a	50	55	58	58	57	59	61	63	59	66	74	76
	b	36	35	36	36	36	39	44	38	44	45	44	48
	c	36	32	31	31	32	33	36	30	38	34	31	32
	d	47	42	40	40	41	43	47	39	49	44	40	41
ONT	a	45	48	56	58	57	59	64	68	71	75	90	92
	b	40	36	42	46	38	44	45	50	53	50	50	54
	c	44	38	38	40	35	38	35	37	37	34	28	30
	d	58	49	49	51	46	49	46	48	48	44	37	38

^aSales Value - \$

^bAppraised Value - \$

^c50% Loan Ratio - per cent

^d65% Loan Ratio - per cent

^eMarch 31, of each year.

CANADIAN FARM LOAN BOARD

106

TABLE VIII.- (Part II)

Prov.		1941 ^e	'42	'43	'44	'45	'46	'47	'48	'49	'50	'51	'52
MAN	a	17	18	19	20	21	25	27	34	36	39	42	43
	b	19	18	20	22	23	26	26	26	26	24	25	28
	c	53	50	52	55	55	52	48	38	36	31	30	34
	d	69	65	68	72	72	68	62	49	47	40	39	67
SASK	a	14	15	15	17	18	19	21	24	24	26	28	29
	b	14	13	13	14	15	17	18	18	19	18	16	18
	c	50	44	44	41	42	44	43	38	40	34	28	31
	d	65	57	57	53	54	58	56	49	51	45	37	40
ALTA	a	16	17	18	19	20	21	25	31	33	35	37	37
	b	14	16	14	18	20	18	19	19	19	18	18	19
	c	44	47	39	48	50	43	38	30	29	26	24	26
	d	57	61	51	62	65	56	49	40	38	33	32	33
BC	a	60	62	62	64	67	70	75	79	84	87	92	93
	b	36	28	58	35	54	68	40	42	59	42	45	64
	c	30	22	47	28	40	48	26	26	35	24	24	34
	d	39	29	61	36	53	63	34	34	46	31	32	45

Sources: Appraised Value - calculated from CFLB, Annual Reports, 1941-52; Sales Value - Dominion Bureau of Statistics, Farm Land Values, 1941-52.

^aSales Value - \$

^bAppraised Value - \$

^c50% Loan Ratio - per cent

^d65% Loan Ratio - per cent

^eMarch 31, of each year.

consideration was fifty per cent of the appraised value for first mortgage loans. The 1956 amendments to the Act have set the official loan ratio at sixty-five per cent of the appraised value.³³ Therefore, maximum loans that could have been made under a sixty-five per cent loan ratio are also expressed as percentages of sales values per acre and shown in Table VIII.

Even when considering all imperfections in the method employed, the data in Table VIII indicates a trend towards higher land values. This is understandable as the twelve year period was one of high agricultural net income.³⁴ However, sales values in general increased relatively more than appraised values. Therefore, in 1951, farmers could borrow a smaller percentage of the sales value of an acre of land than in 1941, although farm net income in 1951 was more than four times as high as in 1941.

³³Second mortgage loans were abolished. In 1952 the loan ratio for first mortgage loans had been increased to sixty per cent. Second mortgages could not exceed one third of the value of first mortgages and the aggregate amount of the two mortgages could not be larger than seventy per cent of the appraised value. Second mortgages were secured by chattels.

³⁴See: Dominion Bureau of Statistics, Farm Net Income, 1956, Ottawa, Queen's Printer, 1957.

CANADIAN FARM LOAN BOARD

108

The increase in the sales value of land did not seem to be the result of an unhealthy land boom. Table IX shows this by comparing various indices. All indices have 1941 as the base period in order to be comparable with the information in Table VIII.

Table IX shows that in 1952 the sales-value-of-land-index stands at only half of the net-income-index while the appraisal-value-index trails behind by another forty-two points. Net income would have to drop by fifty per cent before sales values would be in line with income earning ability on the 1941 basis. In time, land prices will adjust more fully to higher income levels and the Board cannot lose by adopting a less conservative appraisal policy.

Apart from the main criticism that appraisals are too low, the following are some points raised in Parliament on the appraisal policies of the Board.

- 1) No appraisals are made from December to May because at this time of the year the ground is usually covered with snow. However, farmers do their planning in the winter rather than in the summer, as it is in the late fall and winter when they know their financial position best. Many a farmer needs credit early in the spring. At this time appraisers are very busy and the processing of a loan may take longer than usual, with the result that the credit comes to the farmer too late. The same is true when land is

CANADIAN FARM LOAN BOARD

109

TABLE IX.-

Appraised and Sales Value of Land and Agricultural Net
Income Indices Compared, 1941-52, 1941 = 100

Year	Appraised Value	Sales Value	Net Income
1941	100	100	100
42	100	109	211
43	115	116	170
44	115	125	240
45	112	125	188
1946	131	131	220
47	119	144	234
48	127	153	326
49	131	156	318
50	131	169	280
1951	131	184	417
52	146	188	372

Source: Appraised and Sales Value Indices calculated from Table VIII. Net Income Index calculated from: Dominion Bureau of Statistics, Farm Net Income, 1941-52.

offered for sale during winter. Cash buyers will be able to pick up the land before a buyer who is depending on credit has a chance. It is suggested that appraisers make use of comprehensive soil maps, especially in the West, to make winter appraisals possible.³⁵

2) A Board of appraisers should be used rather than an individual.³⁶ Some members of such a board should be responsible farmers well acquainted with the circumstances of both the area and the farmer seeking credit. The 1935 amendments to the Act empowered the Board to appoint local advisory boards of not more than three members in one or more provinces, served by the Board. Advisory boards of this type would have been a step in the above suggested direction. But they were never appointed and the provisions under which they could have been set up were repealed in 1952. The 1952 amendments, on suggestion of the administrators of the Board, made provisions for the

establishment of a national advisory board to consider from time to time, discuss with the board and make recommendations to the board concerning the lending policies of the board, the principles underlying the valuation of farm property and the conditions affecting or that may affect lending policy on outstanding or future loans.³⁷

³⁵Mr. Bryerson, M.P., House of Commons Debates, 1957, p. 1545.

³⁶Mr. Cardiff, M.P., ibid., p. 1560.

³⁷Mr. Abbott, M.P., House of Commons Debates, 1952, p. 2583.

CANADIAN FARM LOAN BOARD

111

The Minister of Finance and other members of Parliament had no strong views on this amendment of the Act.³⁸ Again, a national advisory board was never appointed and the provision was repealed in 1956.

That there is actually a strong desire to have appraisals controlled by some sort of an advisory board is also expressed in the Quebec Farmers' Association's view on this topic. Mr. Young, in speaking for the Association, said that appraisal policies are

...too slow, too low or conservative, based too much on the judgment of one individual, no consideration of the ability of the particular applicant. Appraisal should be by civil servant or neutral appraiser with advisory group of local farmers and agronomist.³⁹

3) The Board should make use of local assessors who are employed by rural municipalities. Such assessors know their localities well and they could therefore make appraisals all year round.⁴⁰ However, local assessors may be influenced too much by the prevailing tax assessment.

4) The Board makes unrealistic appraisals of some specialized types of agriculture, such as the evaluation of

³⁸Mr. Abbott, M.P., ibid., p. 2648.

³⁹Letter to the writer, 19 February, 1958.

⁴⁰Mr. Zaplenty, M.P., House of Commons Debates, 1957, p. 1562.

Mr. Smith, M.P., House of Commons Debates, 1956, p. 1955.

CANADIAN FARM LOAN BOARD

112

British Columbia fruit farms at \$200 an acre when the real value is \$2,000.⁴¹

5) A tribunal should act as an appeal board which would review appraisals when asked to do so.⁴² At any rate, the same appraiser should not re-evaluate a farm.

6) In defending the policies of the Board, it was stressed during the 1957 debates, that since 1956, when the Act was before the Banking and Commerce Committee of the House of Commons, a chief appraiser had been engaged and appraisals schools had been established at each of the local branches. The hope was expressed that this would result in better co-ordination and uniformity of appraising throughout the various sections of the country.⁴³

4. Loan Purposes.

Only the last three Annual Reports of the Board list the purposes for which loans were made. The information is contained in Table X.

⁴¹Mr. McLeod, M.P., House of Commons Debates, 1957, p. 1886.

Mr. Jones, M.P., House of Commons Debates, 1956, p. 3689.

⁴²Mr. Cardiff, M.P., House of Commons Debates, 1957, p. 1886.

Mr. Stanton, M.P., ibid., p. 1889.

⁴³Mr. Benidickson, M.P., ibid., p. 1562.

CANADIAN FARM LOAN BOARD

113

TABLE X.-

Loans by Purpose as a Percentage of Total Amount Approved, CFLB, 1954 - 1957

Period	Land Purchase	Debt Payments	Livestock Machinery Improvements	Sundry Purposes
	p e r c e n t			
1954-55	52.5	28.0	16.5	3.0
1955-56	49.6	30.1	16.8	3.5
1956-57	58.5	21.6	14.3	5.6

Source: CFLB, Annual Reports, 1955-57.

CANADIAN FARM LOAN BOARD.

114

In 1956-57 there has been an encouraging increase in the amount loaned for the purchase of land. If this is the beginning of a new trend, the Board may in the future play a more important role in the financing of farm consolidations in an effort to bring farm units up to an economic scale. Just as encouraging is the decrease in unproductive loans for the paying of old debts.

5. Loan Ratio.

Many think that the maximum ratio is too low. It has been increased from fifty to sixty and sixty-five per cent of the appraised value in the 1952 and 1956 amendments to the Act. It compares with loan ratios between forty and sixty per cent used by the Dominion Mortgage and Investment Association. As has been shown in Table VIII, low appraisals cause a much lower loan ratio in relation to sales value than would be the case if appraisals were more in line with sales values. This is especially detrimental to young farmers and farmers on uneconomic units, because they have to raise large equities before qualifying for a loan. The Canadian Federation of Agriculture recommends a maximum loan ratio "to 80% on loans up to \$8,000 with graduated reductions in this percentage down to 65% for loans of from \$16,000 to \$20,000."⁴⁵

⁴⁵Canadian Federation of Agriculture, A Statement of Policy Regarding Farm Credit, 1957, p. 9.

6. Maximum Loans.

The Act states that "the total amount outstanding ...to any one person, alone or jointly with others, shall not at any time exceed fifteen thousand dollars".⁴⁶ The maximum loan was increased from \$6,000 to \$12,000 in 1952⁴⁷ and to \$15,000 in 1956. These increases indicate a more realistic approach to the capital requirements of a modern farm. The prevailing maximum is still considered to be too low, especially for regions where farming is highly commercialized. The Canadian Federation of Agriculture and others⁴⁸ want the maximum loan raised to \$20,000.

At this point we should investigate some recent statistics on farm investment. Two types of statistics are available: 1) average investment per farm as reported by the 1951 Census and, 2) average investment per farm in certain areas that have been covered by farm management studies. The first type suffers to a high degree from the disadvantages of an arithmetic mean. Non-commercial, self-sufficient and

⁴⁶R.S.C., 1956, c. 17, s. 7 a, II

⁴⁷Including second mortgages; on first mortgages alone the maximum was \$5,000 and \$10,000 respectively.

⁴⁸A Statement of Policy Regarding Farm Credit, p. 9. See also footnote 9 of this chapter.

part-time farms, some of which hardly deserve the name farm, are included. As these so-called farms are not evenly distributed throughout the country, a relative comparison between provinces is difficult. The mode might be a better measure. But, as the mean, it gives no proof that the typical investment is also the optimum investment. In fact, the need for credit is so great because investment is deficient. Therefore any measures of central tendency would only indicate that actual investment needs are somewhat higher. The truth of that statement may be shown by the second type of statistics. Although averages are still used, they are now based on typical farm businesses in smaller areas.

Table XI shows average investment per farm by province in 1951. Total investment per farms varies from \$5,421 in Newfoundland to \$21,225 in Alberta. The average for Canada is \$15,200. Average investment in land and buildings varies between \$3,734 and \$12,042. In 1951 the maximum CFLB loan was \$6,000 and the maximum loan ratio fifty per cent. Therefore, the maximum loan could have been made to the average farm in Alberta. Taking into consideration the conservative appraisal policy of the Board, the maximum loan on the basis of the census information would have been sufficient for farms in the majority of provinces. The maximum loan would have been considered too

CANADIAN FARM LOAN BOARD

117

TABLE XI.-

Investment Components on Farms in Canada, 1951

Prov.	Land and Buildgs.	Implements and Machinery	Livestock and Poultry	Total Investment per Farm
- d o l l a r s -				
NFLD	4,042	391	988	5,421
PEI	4,720	1,604	2,274	8,598
NS	4,018	1,073	1,393	6,484
NB	3,734	1,020	1,214	5,968
QUE	6,305	1,578	2,534	10,417
ONT	9,467	2,970	4,558	16,995
MAN	10,096	4,425	2,980	17,501
SASK	10,560	4,693	2,528	17,781
ALTA	12,042	4,625	4,558	21,225
BC	10,531	2,225	2,705	15,461
CANADA	8,871	3,103	3,226	15,200

Source: Census of Agriculture, 1951.

CANADIAN FARM LOAN BOARD

118

low, of course, by anybody favouring a less conservative lending policy and higher loan ratios. The most important fact displayed in Table IX is the difference in average farm investment between the various provinces. For this reason, it would be unwise for any federal credit agency to be guided by national averages, if it is to serve all regions and types of agricultural organization in Canada. Again, provincial averages do not tell the whole story.

In a study of grain and grain-livestock farms, conducted in West Central Manitoba in 1956,⁴⁹ it was found that three-and-four-quarter-section grain farms had a \$22,054 real estate investment. This compares with \$10,096 reported as an average for the whole province in 1951. Assuming the evaluation in this study to be similar to Board appraisals - it is probably higher - the average grain farm in Manitoba would have qualified for a loan of \$14,335. This is close to the maximum loan. Some of the farms having an investment above the average would qualify for larger loans if the maximum were not limited to \$15,000.

⁴⁹T.O. Rieken, "Some Aspects of Farm Organization in West Central Manitoba, 1956", The Economic Annalist, Vol. 27, No. 3, June 1957, p. 62 - 67.

One section of land comprises 640 acres.

CANADIAN FARM LOAN BOARD

119

Other studies suggest the same. The real estate investment of 480 mixed farms on medium productivity soils in Manitoba in 1955 was \$29,150.⁵⁰ This would justify a maximum loan of \$18,948. In Saskatchewan, in 1954, real estate investment in wheat farms on soils of high productivity was \$21,559 for half-section-farms, \$41,854 for one-section-farms and \$96,801 for two-to-three-section farms.⁵¹ A sixty-five percent loan ratio would permit maximum loans of \$14,013, \$27,205 and \$62,921 respectively. On soils of medium productivity real estate investments were \$9,708, \$19,148 and \$46,776. Corresponding maximum loans would be \$6,310, \$12,446 and \$30,404. We can see that for some categories of farms the maximum loan now in force would cover only a small percentage of the total real estate investment. It should be noted here, that the number of one and two quarter-section farms is decreasing while farms with four quarters and over are on the increase.⁵²

In the Parkland Area of Alberta real estate investment in mixed farms, in 1954, was as follows: 1) on high

⁵⁰B.H. Kristjanson, "The Capital Structure of Canadian Agriculture, Part II, The Prairie Region", The Economic Annalist, Vol. 27, No. 5, October 1957, p. 102.

⁵¹ibid., p. 101.

⁵²Province of Saskatchewan, Royal Commission on Agriculture and Rural Life, Report No. 2, Mechanization and Farm Costs, Regina, Queen's Printer, 1955, p. 43.

productivity soils \$19,777 for quarter-section farms and \$29,617 for half-sections. Maximum loans would be \$12,855 and \$19,251; 2) on medium productivity soils \$14,793 and \$25,873 with possible maximum loans of \$9,615 and \$16,817.⁵³

In a British Columbia study, one finds a comparison between the average farm capital for Fraser Valley dairy farms in 1946 and 1954.⁵⁴ Average value of real estate per farm had increased from \$13,226 to \$27,313. Applying a sixty-five per cent ratio to the 1954 figures shows possible maximum loans of \$17,753. A study of twenty-nine dairy farms on Vancouver Island,⁵⁵ in 1954-55, shows an average real estate investment of \$24,069, allowing maximum loans of \$15,645 at a sixty-five per cent loan ratio.

For a discussion of farm investment in the remaining provinces, we shall go back to 1951 census data. Table XII shows average real estate values in the three counties with the highest values in each of the Central and Maritime provinces. These figures suggest that the Board's maximum

⁵³See also the discussion of the Alberta credit scheme in Chapter XII.

⁵⁴D.C. Crossfield, "Changes in Farm Organization in British Columbia", The Economic Annalist, Vol. 26, No. 4, August 1956, p. 93 - 96.

⁵⁵J.G. Carson, Dairy Farm Study on Vancouver Island, Ottawa, Economics Div., Marketing Service, Dept. of Agriculture, June 1957, p. 7.

CANADIAN FARM LOAN BOARD

121

TABLE XII.-

Average Investment in Land and Buildings per
Farm in the three Counties with the Highest
Investment of the Province, 1951

Prov.	County	Value of Real Estate
		\$
PEI	Queens	5,140
	Prince	5,105
	Kings	3,471
NS	Kings	7,261
	Halifax	5,526
	Hants	5,441
NB	Victoria	5,519
	St. John	5,272
	York	4,344
QUE	Montreal Island	23,498
	Lac St. Jean-Est	13,894
	Jesus Island	12,455
ONT	Norfolk	22,907
	York	18,275
	Peel	17,298

Source: 1951 Census of Agriculture.

loan is more adequate for these provinces, especially for Quebec and the Maritimes, than for the rest of the country. However, actual lending operations do not confirm this.⁵⁶

It may be concluded that the maximum loan is inadequate for two reasons. Firstly, it prevents farms from expanding beyond a certain limit. This limit applies to all types of farm organization. It follows that certain types of farming are restricted from reaching an optimum scale. The loan limit thus prevents the efficient use of credit and is self-defeating. Secondly, the maximum loan restriction hinders the development of co-operative farming which may well be the only way to save the family farm. Not more than \$15,000 may be outstanding to any one person, alone or jointly with others. This is explicitly stated in the Act.

Professor Haviland comments that "instead of the traditional upper limits on the size of loans for buying farms, there should be lower limits to prevent the purchase of uneconomically small units".⁵⁷

⁵⁶See footnote 27.

⁵⁷William E. Haviland, "More Capital and Tailored Credit for Fewer Farms", Agricultural Institute Review, March-April 1958, p. 22-26.

CANADIAN FARM LOAN BOARD

123

7. Terms and Repayment of Loans.

The interest rate at present is five per cent per annum, with five and one half per cent chargeable on arrears. The rate has not gone up during the recent period of increasing interest rates, when Central Mortgage and Housing Corporation raised its rate to six per cent. Some have advocated to lower the interest rate by letting the government bear the administrative costs of the Board.⁵⁸ Such a subsidy might enable the Board to lower its interest rate to three and one half per cent. However, a move of this kind may only result in higher land prices and in subsidizing inefficient farm units. The Board should provide sufficient credit at cost, but not at less than cost.

Loans with a term of over five years must be amortized. The maximum term was raised from twenty-five years to thirty years by the 1956 amendments. The lowest repayment per \$100 of loan amounts to \$6.61 at twenty-nine annual payments. The Canadian Federation of Agriculture wants the maximum term extended to forty years. This would lower the annual repayment to 5.83 per cent. On a \$10,000 loan the decrease in payments would be only seventy-eight dollars per

⁵⁸Canadian Federation of Agriculture, A Statement of Policy Regarding Farm Credit, July 1957, p. 9.

year. A farmer who is able to repay \$661 per year at a forty year term, would qualify for an \$11,338 loan instead of a \$10,000 loan at a thirty year term. In some cases this difference may determine whether or not a farmer can buy a farm at a bargain price. The effects on the loan carrying ability of the farmer would, of course, be larger if the terms were extended to more than forty years. The indestructibility of land should make the Board consider sixty or even ninety-nine year loans as are made in Denmark.⁵⁹

Loans may be prepaid at any time, but in the first two years a bonus equal to three months' interest on the amount of the prepayment has to be added. The prepayment does not give the farmer a credit towards periodical payments falling due in the future. It is not the type of variable payment arrangement which makes allowance for income variability in farming. In the 1956-57 lending period, fifty-seven per cent of the repaid principal constituted prepayments.⁶⁰ This indicates that either some farmers can handle bigger loans or that other farmers badly in need of credit do not get it.

⁵⁹W.E. Haviland, "More Capital and Tailored Credit for Fewer Farms", p. 23.

⁶⁰Canadian Farm Loan Board, Annual Report, 1957, p. 5.

CANADIAN FARM LOAN BOARD

125

8. Administration.

The Nova Scotia Royal Commission on Rural Credit called the Board a

centralized type of organization in so far as the final approval of loans rests with head office. Its business is done primarily by mail, the main exception being the visit of the appraiser following the receipt of an application from a farmer for a loan. This method of operation has led to the feeling in many sections of the province whether justified or not that the Board is too aloof and out of touch with local conditions.⁶¹

In the House of Commons various members have criticised the Board's administration in a similar way. Mr. Van Horne complained that the Board did not send French speaking appraisers to Madawaska and other French speaking areas in New Brunswick.⁶² He also recommended to open a local office serving the farmers of Northern New Brunswick. He said the farmers felt bitter against the Board because of its "half service and lip service", which "provides too little too late".⁶³ Mr. Purdy wants the Nova Scotia branch office to be located in Truro rather than in Halifax because the latter

⁶¹p. 46.

⁶²House of Commons Debates, 1957, p. 1569.

⁶³House of Commons Debates, 1956, p. 2311; Mr. Van Horne at this time was a member of the Opposition.

city is too far away from the rural population.⁶⁴ For similar reasons Mr. White thinks that there should be an office in Eastern Ontario rather than in the City of Toronto.⁶⁵ Mr. Herridge pleaded for establishing offices in the northern and southern interiors of British Columbia. In his opinion the New Westminster office tends to "underestimate the possibilities for successful farm development under pioneer conditions by not taking into account the productivity of the virgin soil, excellent markets and the high calibre of young men who want to settle".⁶⁶ One wonders, if more loans would be made in Newfoundland if a branch office would exist in that province?

Another frequent criticism is that the Board processes loan applications too slowly. The fact that each loan has to be approved at head office contributes to this. Recently, however, the Board has given more freedom to the branch offices in this respect. In the 1957 Annual Report it says that "the Board has given the speedy processing of loans top priority and, through an increase in personnel

⁶⁴ibid., p. 1957.

⁶⁵ibid., p. 2513.

⁶⁶ibid., p. 1040.

CANADIAN FARM LOAN BOARD

127

strength and improved methods both in field and office work, has reduced considerably the time required to dispose of applications".⁶⁷ In 1956, it was reported to the Banking and Commerce Committee of the House of Commons that fifty per cent of all loans were completed within fifty days. An analysis of the time used for processing 533 Ontario applications in 1956 is given in Table XIII. It indicates that fifty per cent of all loans were processed within a month.

Another criticism regarding centralized administration is the absence of local advisory boards. This point has been treated above under appraisal policies. Mr. Jones, M.P., speaking on this topic for the fruit farmers in his British Columbia constituency, said that the Board operates by "very remote control both physically and mentally".⁶⁸

One of the reasons for the cautious lending policy of the Board is probably the small margin it has to cover its administrative expenses and its reserve for losses.⁶⁹

⁶⁷p. 5.

⁶⁸House of Commons Debates, 1957, p. 1887.

⁶⁹The Board pays interest rates varying between three and four per cent on government loans. The latest loan amounted to \$5,000,000 at four per cent, repayable from June 1958 on. With interest rates on the increase it is doubtful whether the Board can keep its own rate down to five per cent.

CANADIAN FARM LOAN BOARD

128

TABLE XIII.-

Time Used to Process 533 Loan Applications
from Ontario, CFLB, 1956

Per cent Processed of Total No. Approved	Less than No. of Days
22.4	15
50.3	28
64.4	35
80.5	42

Source: House of Commons Debates,
1957, p. 1536.

CANADIAN FARM LOAN BOARD

129

Before the 1956 amendments total reserves of the Board consisted of a statutory reserve, reserves for possible losses on first and second mortgage accounts and unappropriated surplus. The amendments provided one reserve equal to the par value of the outstanding capital stock of the Board.⁷⁰ This was done in response to criticism that the reserves were too high. The 1957 amendment provided an increase in the reserve from \$3,000,000 to \$4,000,000 due to an increase in the outstanding capital by the same amount. The reserve fund is replenished from net earnings after income tax. Any remaining net earnings go to the Consolidated Revenue Fund. They provide a dividend to the capital stock held by the government.

Table XIV shows net earnings before income tax for the period 1945-57. There was a profit in each year. This indicates that the Board is run efficiently. Unfortunately this is not synonymous with providing sufficient service to Canadian farmers.

Table XV shows the administrative costs of the Board since 1937. These costs are expressed as percentages of 1) interest earning assets, and 2) the amount of loan funds

⁷⁰R.S.C., 1956, C.17, s. 9.

CANADIAN FARM LOAN BOARD

130

TABLE XIV.-

Profit before Taxes, CFLB, 1945 - 1957

Period	Profit in \$
1945-46	192,922
1946-47	166,864
1947-48	145,478
1948-49	148,649
1949-50	142,428
1950-51	131,705
1951-52	136,890
1952-53	143,195
1953-54	157,288
1954-55	162,951
1955-56	218,175
1956-57	218,755

Source: CFLB, Annual Reports,
1945 - 1957.

CANADIAN FARM LOAN BOARD

131

TABLE XV.-

Administrative Cost Compared with Number of Loans Approved and Outstanding, and Amount Loaned, CFLB, 1937 - 1957

Period	Admin. Cost		Out- standing No.	Loans ^b Approved		Admin. Cost per cent of Amount Approved
	\$	per cent of Assets ^a		No.	\$	
1937-38	371,437	1.15	c	2,689	3,841,575	9.67
38-39	360,860	1.03	c	2,827	4,346,050	8.30
39-40	382,310	1.02	c	2,844	4,348,950	8.79
40-41	377,829	1.00	c	1,687	2,759,400	13.69
1941-42	371,299	1.00	26,280	1,179	1,966,750	18.88
42-43	335,468	0.96	24,404	736	1,215,450	27.60
43-44	299,728	1.00	21,510	765	1,406,800	21.30
44-45	277,991	1.10	18,308	904	1,723,700	16.12
45-46	302,594	1.29	16,908	1,176	2,324,100	13.02
1946-47	315,440	1.38	16,263	1,716	3,419,150	9.23
47-48	334,068	1.45	16,232	1,818	3,460,550	9.65
48-49	346,303	1.42	16,842	4,395	4,919,300	7.04
49-50	373,920	1.41	17,864	2,750	5,189,400	7.21
50-51	428,249	1.50	18,870	2,476	4,772,000	8.97
1951-52	443,845	1.49	19,312	1,931	4,238,400	10.47
52-53	455,937	1.47	19,527	2,244	5,852,300	7.79
53-54	490,460	1.43	20,095	2,682	7,816,750	6.27
54-55	608,818	1.53	20,825	2,540	8,225,500	7.40
55-56	635,631	1.41	21,320	2,261	8,309,650	7.65
1956-57	771,850	1.43	22,213	2,921	13,978,700	5.52

Source: CFLB, Annual Reports, 1937 - 1957.

^aAssets include outstanding loans, agreements of sale and accrued interest.

^bIncludes second mortgage loans from 1937 - 1956.

^cNot published from 1937 - 1941.

CANADIAN FARM LOAN BOARD

132

approved in each year. In turn, these percentages are compared with the number of loans outstanding. The data indicate 1) that since the end of the last war rising administrative costs, due to the general increase in prices, were counteracted by having more loans outstanding, and 2) that administrative costs are not easily adjusted to the annual business volume. This shows up, especially well, when comparing the 1941-42 and 1942-43 loan periods. Although absolute administrative costs dropped, costs per \$100 approved rose by forty-six per cent.

These data only indicate what is to be expected, viz. that a larger volume cuts administrative expenses. Administrative expenses may vary also a lot between the various branch offices depending on the amount of business conducted. If the Board would succeed in cutting its administrative costs relative to its business by extending more and more adequate loans, it would either lower its interest rates and therefore extend credit to farmers that previously could not afford it, or it could have a wider profit margin on which to operate and therefore could make more risky loans. If the government would insure a percentage of the loans, reserves for losses could be reduced, and again the Board could make more loans without endangering its sound position and without receiving regular subsidies. However, in the

case of a government agency, a government insurance would hardly be practical.

The Act does not make provisions for loan supervision. Larger and more risky loans would necessitate supervision as well as variable payments. This, in turn, would raise absolute administrative costs, but possibly not relative costs. Even if supervision and a variable payment plan demanded a rise in the interest rate, supervised farmers would probably be able to pay it because of larger returns to their factors of production.

As far as the interpretation of the Act is concerned three points may be mentioned: 1) Although the Act does not state explicitly that buildings must be on a farm, the Board seems to refuse loans on land alone. This precludes wheat farmers, living in towns, from obtaining loans. 2) The Board considers itself primarily a credit agency for the established farmer. Recently it has been more active in financing father-and-son-arrangements. 3) The Board has practically ceased to require additional security in the form of chattels.

CANADIAN FARM LOAN BOARD

134

9. Summary.

The CFLB is practically the only Canadian agency which can extend loans to all types of farmers in all provinces. Unlike the other Canadian schemes it does not receive any kind of government subsidy.

The Board has been severely criticized for its conservative lending policy in a period of rapid change in the agricultural industry. The maximum loan and loan ratio provisions under the Act are considered too low. Appraisals seem to be based too much on past performance rather than on future expectations and, therefore, lag much behind present farm values. Recently, efforts have been made to obtain realistic and more uniform appraisals.

It is said that the Board lends only on the security of so-called gilt-edged farms. During the past years it has extended a relatively small number of loans. The average loan size was also small. On the other hand, administrative expenses were relatively high. The administration itself is considered too centralized, with the result that loans are processed too slowly.

However, after the 1956 and 1957 amendments to the Act the Board's lending activity has increased. During the 1957-58 period total loans are estimated at about \$19,000,000 and in the 1958-59 period the amount loaned may run as high

CANADIAN FARM LOAN BOARD

135

as \$25,000,000.⁷⁰ For these reasons, a further amendment to the Act, providing for an increase in the capital structure of the Board from \$4,000,000 to \$6,000,000 is currently being debated in Parliament.

Increased lending activity should cut administrative expenses. Apparently the processing of loans has been speeded up in recent years. More loans are made for the purchase of land rather than for the consolidation of old debts.

Recent developments should render the Board a more useful tool for Canadian agriculture than it has been in the past.

⁷⁰"Farmers Can Borrow More in New Loan Legislation", The Financial Post, Vol. 52, No. 23, June 7, 1958. p. 3.
Official figures were not yet published at the time of writing.

CHAPTER IV

THE FARM IMPROVEMENT LOANS ACT

1. General Outline.

The FILA¹ was enacted in 1944 to provide farmers in all provinces with a source of intermediate credit. According to its preamble the Act encourages the provision of credit "for the Improvement and Development of Farms, and for the Improvement of Living Conditions thereon".

The 1944 amendments of the Bank Act were designed to make it easier for banks to extend intermediate loans to farmers.² Previous to these amendments, bank loans were restricted to 1) livestock loans on the security of that livestock; 2) loans for the purchase of seed grain, fertilizer and binder twine secured by the year's crop and 3) loans on personal notes or collateral in the form of threshed grain and securities other than mortgages. These loans were predominantly short-term loans of the commercial type, repayable within one year. The amendments extended the range of

¹Statutes of Canada, 1944-45, c. 41, amendments: Statutes of Canada, 1952-53, c. 36, and 1956, c. 24.

²Statutes of Canada, 1944-45, c. 30, s. 88, h, (IV).

FARM IMPROVEMENT LOANS

137

securities. They permitted banks to make loans for the purchase of implements and electrical systems on the security of such assets. Furthermore, the maximum discount rate was reduced from seven to six per cent.³

The FILA is designed to encourage actual lending by banks under the new provisions of the Bank Act. The supply of loanable funds to farmers is promoted first, by the Federal Government guaranteeing ten per cent of the loans made by any one bank. This guarantee is limited to a maximum amount of loans which may be made by all banks within specified periods. Up till now these periods have been each of a three year duration. At the end of every period Parliament debates the extension of the Act and a new loan limit for the next period. Second, banks are permitted to lend on the security of a mortgage on the farm or some portion of it when a loan exceeds \$2,000 and is for a period longer than five years. Under the same conditions banks can accept an assignment of the rights and interest of a purchaser of a farm under an agreement of sale.

³This applies to all lending by commercial banks.

FARM IMPROVEMENT LOANS

138

The demand for loans is encouraged by enabling farmers to get intermediate credit at reasonable terms which enable them to repay their loans without undue strain. The maximum amount which a borrower may have outstanding at any one time is \$5,000. Originally the maximum amount was \$3,000. It was raised to \$4,000 and \$5,000 in the 1952-53 and 1956 sessions of Parliament respectively. These increases are a recognition of the increased costs of farm machinery and the increase in the movable to fixed assets ratio on farms, especially since the second World War.

The rate of interest is five per cent per annum simple interest. This is one half of one per cent lower than the current rate on prime commercial loans and one per cent lower than long term loans extended under the National Housing Act. In July 1957, the Canadian Federation of Agriculture pleaded for an interest rate of four and one half per cent because "being guaranteed by the government the interest rate of 5% would seem to be needlessly high".⁴ The writer has not heard of any other criticism regarding the interest rate. In a time of inflationary pressure it

⁴ Canadian Federation of Agriculture, A Statement of Policy Regarding Farm Credit, July 1957, (not published), p. 7.

FARM IMPROVEMENT LOANS

139

was rather favourable and, therefore, to a certain extent, acknowledged the falling agricultural income in an otherwise booming economy.

The terms of repayment depend on the amount and the class of the loan. Loans are classified by the purpose for which they are made. Loan ratios vary from sixty to ninety per cent of the purchase price of the collateral. Instalments become due monthly, semi-annually or annually, depending on the class of the loan.

The scheme provides sufficient flexibility in the repayment of loans. In the event of actual or impending default a bank may, notwithstanding anything in the Act, "alter or revise by way of an extension of time or otherwise any of the terms of the loan".⁵

In setting the terms of repayment, the banks are to take into consideration the type of farming, relevant market practices and the general ability to pay. The following maximum terms are suggested to the banks:

⁵S.C., 1944-45, s. 6, g.

FARM IMPROVEMENT LOANS

140

<u>Loan not exceeding</u> \$	<u>Maximum Term</u> years
400	1½
750	2½
1,500	4
2,500	6
3,500	7
5,000	10

Loans may be made to tenants for certain purposes.

Non-operating owners cannot receive loans as under the Act "a farmer means a person who is in possession of a farm and whose principal occupation consists of farming such a farm".⁶ As this section has been interpreted wide enough to include tenants, one wonders why absentee landlords cannot be included as well. Table XVI shows the various classes of loans with the terms applying to each class. Note the following features in particular: 1) Agricultural implements include house-hold appliances which are designed to ease the lot of the farmer's wife. Although this type of credit would ordinarily come under consumption credit, it fulfills a productive role on the farm, because the family type farm unit is necessarily based on a husband-wife team. Labour saved in the kitchen is labour saved on the farm. 2) Loans may also be made on the security of used machinery. In this case a down payment of forty

⁶ibid., s. 2, i.

FARM IMPROVEMENT LOANS

141

TABLE XVI.-

Terms Applying to Different Classes of Loans Extended Under the FILA^a

Loan Class	Tenant or Owner-Operator	Loan Ratio	Type of Security	Repayment	
				Frequency	Max. Term Years
Implements	T,0	66.7-80	Goods Purchased	Monthly to Annually	3
Livestock	T,0	75	Livestock and Progeny	Annually	10
Equipment	0	75	Goods Purchased ^b	Semi-Annually	10
Construct., Repair, Alteration of Buildgs.	0	90	All Implements ^b	Annually	10
Electr. Systems	0	75	Goods Purchased ^b	Semi-Annually	10
Fencing, Drainage	0	75	All Implements ^b	Annually	10
Plumbing, Heating	0	90	All Implements ^b	Annually	10
Improvement & Development	T,0	75	All Implements ^b	Annually	10

Source: Farm Improvement Loans, Booklet, Published by the Authority of the Minister of Finance, Ottawa, Queen's Printer, 1957, 16 p.

^aFor detailed information see booklet providing the source of this table.

^bA mortgage on land is required on loans exceeding \$2,000 with a repayment period over five years.

FARM IMPROVEMENT LOANS

142

per cent is required. This is especially a concession to the beginning farmer who may be able to pick up used machinery, like trucks and tractors from non-farm businesses, with many farm-miles left in them. Such machinery is often sold quite cheaply. The average young farmer can hardly be expected to finance a whole line of new machinery at the very start.

3) Loans on implements must be repaid within three years, and in the case of trucks, in two and a half years, no matter how high the loan is. 4) Tenants can only procure loans under three classes, viz. agricultural implements, livestock and farm improvement and development. In the latter classes the tenant must have a contract extending his tenancy two years past the term of the loan.

The FILA is administered by the Minister of Finance. The Minister reports annually on the administration of the Act to the Governor-General-in-Council. Annual reports must be laid before Parliament. The costs of administration of the Act are paid from unappropriated moneys in the Consolidated Revenue Fund. Any losses payable to banks may also be paid out of the Fund.

Claims by banks have risen annually since the inception of the scheme. By 1956 \$653,531,479 had been loaned. This compares with claims amounting to \$437,312 of which \$21,955 were subsequently recovered. The net loss to the government in the 1945-56 period, therefore, amounted to

FARM IMPROVEMENT LOANS

143

\$415,357 or 0.07 per cent of the funds loaned. Net losses of \$415,357 may be compared with the sum of \$65,353,148 which the government would have been liable to cover under the Act. Actual claims for the period were thus only seven per cent of potential claims. Table XVII shows claims paid by the Minister of Finance to banks up to 1956.

Claims have been very small, even in the face of falling agricultural income. The sharp increase in claims since 1955 may be due both to a larger amount of loans outstanding⁷ and to the tighter price-cost squeeze experienced in agriculture. Both administrative costs and claims payable by the government constitute subsidies. They are made directly to the banks and indirectly to agriculture.

The banks benefit through being able to expand their loan portfolios without an increase in risk. At the same time, the fact that the government sets a lending limit for each three year lending period and also limits its liability to ten per cent of the amount lent within such periods ensures that 1) the banks will not lend indiscriminately, as they are still liable for ninety per cent of their portfolios

⁷The amount outstanding at any particular time is not published.

FARM IMPROVEMENT LOANS

144

TABLE XVII.-

Claims Paid to Banks, 1945 - 1956

Year	No.	Amount \$
1945-48	0	0
1949	13	10,264.18
1950	23	9,466.28
1951	18	6,499.84
1952	25	11,662.50
1953	95	52,877.85
1954	108	59,043.37
1955	229	135,250.75
1956	237	152,247.34

Source: FTLA, Annual Report, 1956, p. 19.

FARM IMPROVEMENT LOANS

145

under the Act, and 2) the government keeps the subsidy in reasonable and foreseeable proportions.

The farmers benefit by being able to borrow more at lower interest rates and easier repayment terms. This in turn enables farmers to buy more capital goods and produce more efficiently. It follows that income should rise both in agriculture and in industries producing capital goods for farmers. One may therefore argue that the subsidy will be recovered by increased tax receipts going to the government, so that there will be no net burden on the tax-paying public at large. It may be further argued that even in periods of inflationary pressure, loans of the type under discussion are beneficial as long as agriculture, due to higher productivity, can hold down the cost of food without decreasing its real income.

2. Lending Operations.

Tables XVIII - XXII indicate certain aspects of lending under the Act, both for the period 1945-56 and the year 1956 which is the last year for which published data are available.

Table XVIII shows number of loans and amounts loaned during the 1945-56 period. Amounts loaned increased steadily to a high of \$98,000,000 in 1952, while the number of loans reached a high in 1953. In 1954 both number and amount of

FARM IMPROVEMENT LOANS

146

TABLE XVIII.-

Summary of Loans Made, 1945 - 1956

Year	L o a n s		
	No.	Amount \$	Average \$
1945	4,311	3,381,742.02	784
1946	13,030	9,880,565.74	758
1947	22,046	18,160,821.47	825
1948	30,431	29,331,130.70	964
1949	44,775	45,879,080.35	1,025
1950	58,969	63,421,363.06	1,076
1951	75,063	85,326,227.02	1,137
1952	83,315	98,259,149.75	1,179
1953	83,962	97,892,760.05	1,166
1954	58,572	62,073,806.46	1,060
1955	60,755	69,105,520.76	1,137
1956	60,180	70,819,312.01	1,177
Total	595,409	653,531,479.39	1,098

Source: FILA, Annual Report, 1956, p. 12.

FARM IMPROVEMENT LOANS

147

loans took a sharp drop. The amount loaned in that year was slightly over \$62,000,000. Since then a small increase has taken place.

The average loan also rose from about \$800 to approximately \$1,200 in 1953. In 1954 loans averaged slightly more than \$1,000 and 1956 they were again near the \$1,200 mark.

The spectacular increase in lending during the first nine years can be explained 1) by a great desire to mechanize farms more completely, especially in the West, 2) by the need to replace obsolete equipment which could not be replaced during the second World War, and 3) by a rising net income for agriculture and above average grain crops in the Prairie Provinces.

The subsequent decline in lending may have been caused 1) by demand for loans falling back to a more normal level, 2) by falling agricultural income in the face of increased expenses, making lending to farmers most in need of productivity increasing improvements too great a risk for the banks, 3) by some farmers obtaining intermediate credit at more favourable terms from co-operative credit societies and by some using self-financing⁸, and 4) by the western wheat

⁸The Report No. 2, Mechanization and Farm Costs, of the Saskatchewan Royal Commission on Agriculture and Rural Life, indicates that farmers in some areas of Saskatchewan use such alternatives to finance their working capital needs; see p. 78.

The Nova Scotia Royal Commission on Rural Credit

FARM IMPROVEMENT LOANS

148

marketing problem.

Table XIX shows the maximum amount that could be loaned under the Act within each period and the amount actually borrowed. In the first six years lending amounted to seventy per cent of the loan limit. The limit was then lowered for the following three years. Lending in absolute terms went up during that period and reached ninety-five per cent of the limit. In the third period the limit was extended from \$200,000,000 to \$300,000,000. With absolute lending still on the increase, seventy-four per cent of the loan limit was now borrowed. In the fourth period the loan limit remained unchanged. During 1956, the first year of the fourth period, twenty-one per cent was borrowed. This suggests a lower overall percentage of lending than in the previous period.

Table XX shows number of loans, amount of loans and average size of loans by provinces. Saskatchewan and Alberta lead the other provinces by a wide margin in number and total amount of loans; 48.85 per cent of the amount borrowed went to these two provinces in 1956. Ontario and Quebec received 33.32 per cent of the total. The remaining 12.83 per cent

reported that in Nova Scotia the utilization of Farm Improvement Loans varies considerably between counties. See: Province of Nova Scotia, Report of the Royal Commission on Rural Credit, (Halifax, Queen's Printer), 1957, p. 32.

FARM IMPROVEMENT LOANS

149

TABLE XIX.-

Maximum Amounts of Funds Voted and Actual Amounts Loaned
by Lending-Periods, FILA, 1945 - 1956

Period	Amount Voted ,000,000 \$	Amount Loaned	
		\$	%
March 1, 1945- ^a Feb. 28, 1951	250	175,978,350.81	70
March 1, 1951- March 31, 1953	200	190,449,027.60	95
April 1, 1953- March 31, 1956	300	222,723,662.74	74
April 1, 1956- ^b March 31, 1959	300	64,380,438.24 ^b	21 ^b
All Periods	1,050	653,531,479.39	62

Sources: Amount Loaned from FILA, Annual Report, 1956, Canada Department of Finance, p. 20.

Amount Voted from S.C. 1956, c. 24, s.5, and "Financing Farm Improvements", The Economic Annalist, Vol. 20, No. 4, August 1950, p. 78.

^aThe first period was extended from three to six years in 1948.

^bIncluding up to Dec. 31, 1956.

FARM IMPROVEMENT LOANS

150

TABLE XX.-

FILA - Loans by Provinces, 1956 and Period 1945 - 1956

Prov.	1945 - 1956			1956		
	No.	Amount \$	Average Loan \$	No.	Amount \$	Average Loan \$
SASK	180,933	206,581,969	1,142	15,468	18,484,970	1,195
ALTA	165,594	178,715,919	1,079	14,195	16,109,125	1,135
ONT	85,565	94,358,506	1,103	10,305	12,631,582	1,226
MAN	74,755	78,710,681	1,053	6,702	7,732,778	1,153
QUE	49,915	56,575,801	1,133	9,046	10,960,977	1,212
BC	17,399	18,457,376	1,060	1,705	2,128,837	1,249
PEI	9,096	8,295,816	912	1,027	990,245	964
NS	6,476	5,781,321	893	931	893,272	959
NB	5,421	5,741,451	1,059	744	815,250	1,096
NFLD	255	312,642	1,226	57	72,275	1,268
TOTAL ^a	595,409	653,531,479	1,098	60,180	70,819,312	1,177

Source: Calculated from Farm Improvement Loans Act, Annual Report, 1956, p. 18.

^aAmounts are rounded to whole dollars and may therefore not add up exactly to totals.

FARM IMPROVEMENT LOANS

151

went to the other provinces. The average loan for all of Canada was \$1,097.62 for the 1945-56 period and \$1,176.79 in 1956. In 1956 average loans varied between \$959.48 in Nova Scotia and \$1,267.99 in Newfoundland. In each province average loans in 1956 were slightly higher than those over the 1945-56 period. This reflects an increase in the price of capital goods used in agricultural production.⁹ It would seem that in real terms average capital acquired per farm under this lending scheme has not increased.

Table XXI shows loans classified by purpose. Agricultural implement loans lead all other classes by far. In 1956 they accounted for 85.9 per cent of the amount borrowed. Livestock loans come second in the number of loans, but third in the amount borrowed in 1956. For the 1945-56 period they are third in both number and amount borrowed, while construction and repair loans are in second place. Construction and repair loans show the highest average amount, followed closely by agricultural implement loans. Average livestock loans stand third in the 1945-56 period while in 1956 they dropped to fourth place in favour of the average improvement

⁹The DBS Farm Machinery Index rose from 114.8 in 1945 to 209.4 in 1956; 1935-39 = 100. This represents an eighty-two per cent increase. Source: Dominion Bureau of Statistics, Price Index Numbers of Commodities and Services Used by Farmers.

FARM IMPROVEMENT LOANS

152

TABLE XXI.-

Farm Improvement Loans Classified by Purpose, 1956 and Period 1945-1956

Class	1956 - 1956			1956		
	No.	Amount	Average ^a Loan	No.	Amount	Average Loan ^a
		\$	\$		\$	\$
Agricultural Implements	516,484	580,279,941	1,124	51,073	60,808,133	1,190
Construction & Repair of Buildings	30,989	37,882,721	1,222	3,835	5,374,605	1,401
Livestock	27,364	22,482,012	822	4,071	3,520,537	865
Improvement & Development	16,104	10,058,259	625	812	855,238	1,053
Agric. Equipm. & Electr. Systems	3,663	2,259,396	617	301	193,631	643
Fencing & Drainage	805	569,149	956	88	67,169	763

Source: Farm Improvement Loans Act, Annual Report, 1956, p. 13.

^aAverages calculated by the writer.

FARM IMPROVEMENT LOANS

153

or development loan. In 1956 all average loans are more or less up, except fencing and drainage loans which are down.

In Table XXII is compared the relative importance by province of loans extended in 1956 for the purchase of implements, livestock and immovables, the latter term designating all residual classes of loans. As may be expected from the previous table, implement loans are leading in number and amount in each province. In Saskatchewan they show the highest percentage, followed closely by Prince Edward Island. In British Columbia they are lowest in comparison with other provinces, while livestock loans are highest. Livestock loans show the lowest amount loaned in Prince Edward Island. Saskatchewan is lowest in number of livestock loans but higher than Prince Edward Island in the amount loaned. Loans for immovables are highest in Ontario followed closely by British Columbia. They are about equally low in the other provinces. In the Prairie Provinces there is less need for buildings, fences and other immovables. Dairy farms in British Columbia have a great need for immovables. In the Maritimes and Quebec on smaller and little mechanized farms, new machines are apparently needed more urgently than new immovables.

Summing up, a study of lending operations under the FILA shows three striking features. Firstly, total lending in all periods has stayed well under the maximum limit of

FARM IMPROVEMENT LOANS

154

TABLE XXII.-

Loan Classes as Percentages of Total Loans by Provinces, FIDA, 1956

Prov.	Implements		Immovables ^a		Livestock	
	No.	Amount	No.	Amount	No.	Amount
- p e r c e n t -						
NFLD	87.7	87.2	5.3	6.1	7.0	6.7
PEI	90.5	92.3	5.4	5.8	4.1	1.9
NS	86.7	85.5	7.6	9.9	5.7	4.6
NB	86.3	87.6	7.8	9.1	5.9	3.3
QUE	88.1	89.8	5.5	5.1	6.4	5.1
ONT	74.7	73.0	17.7	20.7	7.6	6.3
MAN	87.2	89.8	5.0	5.6	7.8	4.6
SASK	90.8	92.5	5.2	5.2	4.0	2.3
ALTA	83.9	85.6	7.8	8.1	8.3	6.3
BC	69.0	68.5	16.2	18.4	14.8	13.1
TOTAL	84.8	85.9	8.4	9.1	6.8	5.0

Source: Calculated from Farm Improvement Loans Act, Annual Report, 1956, p. 16, Table 5.

^aIncludes all classes other than Agricultural Implements and Livestock.

\$300,000,000 which is now in force. One wonders if more could have been lent in the March 1, 1951 to March 31, 1953 period, if the limit had been \$300,000,000 at the time instead of \$200,000,000. During this period farmers received the highest net income on record which fact may have contributed to the subsequent increase of the loan limit. The second feature is that the Prairie Provinces receive more than half of the amount borrowed.¹⁰ This is related to the farm organization and the rapid increase in farm size in these provinces.¹¹ Thirdly, farm improvement loans are predominantly used to finance the purchase of farm implements.

3. Criticism.

The FILA has been generally well received by farmers. It has assisted them greatly in mechanizing their farms, especially in the Prairie Provinces. Farmers can obtain loans at much lower rates than those available from dealers

¹⁰Kristjanson wrote in this connection: "By the simple technique of giving a limited guarantee to banks willing to make loans to farmers, this legislation effected a financing revolution in the Prairies." See: B.H.Kristjanson, "The Farm Improvement Loans Act", The Economic Annalist, Vol. 27, No. 2, April 1957, p. 34 - 38.

¹¹Saskatchewan Royal Commission on Agriculture and Rural Life, "Farm Size Changes", Report No. 2, Mechanization and Farm Costs, Regina, Queen's Printer, 1955, p. 41 - 48.

and finance companies.¹² According to the Gordon Commission, the FILA provides virtually the only source of intermediate credit to farmers in Canada.¹³ Although lending has somewhat decreased since the 1952-53 peaks, it is believed that the demand for intermediate agricultural credit "will tend to increase owing to changes in the composition of farm assets as seen in the decline in importance of land and buildings in relation to implements and livestock."¹⁴

Lending under the Act has been greatly confined to implement loans. Once the demand for farm implements falls to a more normal level, as may be the case now, more use should be made of the scheme to finance other types of farm improvements, such as building better livestock herds and initiating soil conservation programmes.

It is suggested that the repayment terms should be extended for certain classes of loans, especially for implement and livestock loans. The Canadian Federation of Agriculture would like to see implement loans extended over a six year term, as the "life of farm machinery should greatly

¹²Dealers and Finance Companies borrow their funds from banks or in the capital market.

¹³W.M. Drummond and W. MacKenzie, Progress and Prospects of Canadian Agriculture, Ottawa, Queen's Printer, 1957, p. 124 - 125.

¹⁴Nova Scotia Royal Commission on Rural Credit, p. 33.

FARM IMPROVEMENT LOANS

157

exceed 3 years."¹⁵ This seems a reasonable suggestion as far as new machinery is concerned, considering that loans for the purchase of used machinery also cover a three year term, just as new-machinery loans do now. An extension of the repayment period would likely result in a sharp increase in the demand for loans to finance machinery purchases, especially, since in the minds of farmers the scheme is mainly an arrangement to facilitate the purchase of farm machinery. The Nova Scotia Royal Commission indicates that as the result of an extension of the repayment terms, there "may be a tendency towards larger loans and eventual pressure by farmers for further increases in the maximum loan."¹⁶ The Canadian Federation of Agriculture would also like to have the term for livestock loans extended to ten years even if a loan consists of less than \$5,000. It also asks for a reduction of the interest rate, as indicated above.¹⁷ It can hardly hope to get both, longer terms and lower interest rates. The reader will recollect that repayments are made easier by a provision of the Act permitting flexible arrangements

¹⁵A Statement of Policy Regarding Farm Credit, p. 7.

¹⁶Nova Scotia Royal Commission on Rural Credit, p. 32.

¹⁷p. 138.

if the ability to pay of the borrower is temporarily impaired.¹⁸

Banks do not employ specialized farm management consultants to advise potential borrowers on their credit needs. Local branch managers may not have enough agricultural background to give this advice. Furthermore, banks can only refuse a loan if insufficient repayment ability of the borrower can be proven. Competition between banks may result in overlending. The Canadian Federation of Agriculture suggests that an improved agricultural extension service to farmers would be of great help in this connection. The problem ties in with the wider question of supervised credit and agricultural education.

Overlending under the FILA may appear in two forms:

1) a farmer's returns to capital may not be high enough to capitalize the investment made; 2) a farmer's total periodic repayments may be too high because he has more than one loan running concurrently. This is possible under the Act, as total loans outstanding to a farmer may amount up to \$5,000 at any one time.¹⁹ The Canadian Federation of Agriculture suggests an upper repayment limit of \$1,600 annually²⁰

¹⁸p. 139

¹⁹S.C. 1956, c. 24, s. 3(d).

²⁰A Statement of Policy Regarding Farm Credit, p. 10.

FARM IMPROVEMENT LOANS

159

regardless of the number of loans a farmer has to repay at any one time. It is difficult to see why it suggests this particular sum. Repayment ability varies from one farmer to the next. Lenders as well as farmers should see to it that periodic repayments represent a manageable proportion of a borrower's income.

A direct result of overlending is the occurrence of overmechanization of farms as reported by the Canadian Federation of Agriculture and the Saskatchewan Royal Commission on Agriculture and Rural Life. Farmers on small units seem to be prone to equipping themselves with machinery too large and expensive for their size of farm. This is borne out in some farm management studies undertaken by the Economics Division of the Canada Department of Agriculture. Rieken reports from the Hamiota area of Manitoba:

The ratio of capital to labour and especially the ratio of machinery to labour are significant in relation to size. On the smallest farms there appears to be an uneconomic substitution of machinery for labour, or it must have been an overinvestment in machinery... It would appear that high capitalization has resulted in disproportionately high interest and depreciation costs on the small farms.²¹

²¹T.O. Rieken, A Farm Business Study in the Hamiota Area of Manitoba, Economics Div., Marketing Service, Canada Dept. of Agriculture in Co-operation with the Department of Political Economy, University of Manitoba, Ottawa, September 1952. p. 28.

FARM IMPROVEMENT LOANS

160

In his dairy farm ^{study} on Vancouver Island Carson reports that "farms in the medium and low income groups had higher total investments per cow than those in the high income group".²² In another dairy farm study Campbell states that "the percentage of total capital in both buildings and equipment - in relation to land, livestock, etc. - increased slightly as operator's labour income decreased".²³ Again, overmechanization could be prevented by some sort of credit supervision or management service. Findings by the Nova Scotia and Saskatchewan Royal Commissions²⁴ indicate that Farm Improvement Loans are not evenly distributed among the various farming areas of these two provinces. This may have something to do with the organization of farming, different lending policies of the various banks and availability of

²² J.G. Carson, Dairy Farm Study on Vancouver Island, Ottawa, Economics Div., Marketing Service, Dept. of Agriculture, June 1957, p. 7.

²³ R.H. Campbell, Dairy Farm Organization in the Lower Fraser Valley of British Columbia, Ottawa, Economics Div., Marketing Service, Dept. of Agriculture, June 1957, p. 2.

²⁴ Saskatchewan Royal Commission, Report No. 2, Farm Mechanization and Costs, p. 77 - 78.
Nova Scotia Royal Commission on Rural Credit, p. 32.

FARM IMPROVEMENT LOANS

161

alternative credit sources, such as co-operative credit societies.

Voices have been raised that credit societies or credit unions should come under the Act. Both the Canadian Federation of Agriculture and the Saskatchewan Royal Commission favour such a move. When asked in the House of Commons, in 1957, if credit unions could be accepted under the Act, the then Finance Minister Harris said that credit unions "up to the present have been unable to bring themselves within what we think are the terms necessary to meet the requirements of the various statutes".²⁵ Responsible credit unions may solve the problem of overlending and loan supervision, as presumably they are managed by competent farmers. Furthermore, loans would be cheaper because most of the profits could be redistributed among the members.

Unfortunately the Act does not provide credit for such co-operative ventures as machinery pools and livestock breeding organizations. Co-operative farms are handicapped by only qualifying for one maximum loan that can be loaned to an individual farmer.

Tenants can only obtain certain classes of loans. Non-operator owners cannot borrow at all. If they could

²⁵House of Commons Debates, 1957, p. 1697.

borrow, they might use credit for permanent improvements on their farms which would benefit tenants and landlords alike. Tenants do not qualify for building and repair loans, farm electrical system, plumbing and heating and fencing and drainage loans. If farmers with long or perpetual leases could receive these loans, they could benefit in the same way as owner-operators do. A more important point of criticism in this connection is that tenants do not qualify for loans over \$2,000 when the repayment period exceeds five years, because they cannot mortgage the land. The same applies to an owner who has already a first mortgage on his land and who cannot qualify for a second mortgage. Because of this, a beginning farmer, starting as a tenant or with a long-term mortgage may not be able to satisfy his intermediate credit needs under the provisions of the Act. It should again be noted here that tenants do qualify for farm development loans for clearing, irrigation, breaking, etc., if their right of tenancy extends two years beyond the term of a loan.

One might argue that administrative integration of the Act with other federal and provincial agencies would make the legislation more useful. As intermediate and long-term credit have to be combined in the right proportion, an integrated scheme could provide farmers with tailored package credit deals. This is another argument for one central federal agency equipped to take care of the various credit

FARM IMPROVEMENT LOANS

163

needs of farmers in all provinces.

A last point of criticism is that the Act is not a permanent piece of legislation. It must be renewed every three years. Permanency would probably encourage the banks to improve their lending operations through the hiring of experts in farm finance.

CHAPTER V

THE VETERANS LAND ACT

1. General Outline.

The Veterans Land Act was passed during the 1942-43 Session of Parliament.¹ According to the preamble the purpose of the Act is to enable

the Dominion Government to provide a measure of financial assistance to veterans on their performance of prescribed settlement conditions in order to promote their engagement in agricultural pursuits either as a full-time occupation or as a part-time occupation coupled with some other employment.

Only veterans of the second World War and the Korean War qualify for settlement assistance. The Act is considered an improved version of the Soldiers' Settlement Plan which provided financial help to veterans of the first World War. The old scheme has been a failure.²

The Act was amended last in 1954.³ It consists of three parts. Part I provides for assistance to veterans who

¹S.C., 1942-43, c. 33.

²See: Mr. Quelch, M.P., House of Commons Debates, 1953-54, p. 4873.

Also: Report of the Work of the Department of Veterans Affairs, For the Year Ending March 31, 1957, Ottawa, Queen's Printer, 1957, p. 45.

³S.C., 1953-54, c. 66.

VETERANS LAND ACT

165

want to establish themselves as farmers, part-time farmers or commercial fishermen. The provisions for part-time farmers do not fall under the topic of this thesis. Assistance to full-time farmers may be given in three forms. First, the Director of the VLA Administration may sell farms to veterans under an agreement of sale. The Act provides for a contract under which the Director holds the title of a farm, sold in this manner, for the first ten years. During this time the settler is deemed a tenant at will. If his account is in good standing at the end of the period the Director may grant or convey the land to him. The settler will then hold the title to his farm. After the ten year period he will also have earned a conditional grant from the government. This grant is considered part of the down payment under the original sales contract. This is the most common form of assistance. A second form consists of straight loans to farmers who a) desire to become established on farms they now hold under a sales or rental agreement, b) want to refinance encumbrances at more favourable terms, c) need advances for the purchase of livestock and farm equipment. The third form of assistance under Part I are conditional grants up to \$2,320 for veterans who settle on Provincial or Federal lands. The settler earns the grant after he has fulfilled the terms of his settlement for a period of ten years. The same arrangement applies to Indian veterans who want to settle on

VETERANS LAND ACT

166

Indian Reserves. Settlers receiving this third form of assistance do not qualify for the other two forms discussed above.

Part II of the Act provides assistance to veterans in urban areas who want to construct their own homes. It does not come under the topic of this thesis.

Part III provides for farm improvement assistance loans to full-time and part-time farmers who have settled under Part I of the Act. These loans may be used for general farm improvements similar to those described in the discussion of the Farm Improvement Loan Act. They are used also for the purchase of additional land "in order to create a more adequate family sized economic unit".⁴ The enactment of Part III was necessitated mainly for two reasons: First, fixed and working capital requirements of the beginning farmer had increased since 1942.⁵ Second, as most veterans do not hold titles to their farms as yet, their ability to secure funds under the FILA is very limited.

⁴T.J. Rutherford, Director, VLA, Production Line Farming for the Family-Sized Grassland-Livestock Farm, Ottawa, Veterans Land Administration, (no date), Appendix B, p. 4.
Family-sized unit means a Family Farm.

⁵Mr. Quelch, M.P., maintained that the Veterans Land Act Administration discouraged veterans to settle right after the war as it anticipated, as many others did, that prices would drop. Of course, the price level actually went up. See: House of Commons Debates, 1953-54, p. 6164.

VETERANS LAND ACT

167

The Federal Government finances operations under the Act through the provision of funds by parliamentary votes.

The foregoing outline shows that this credit system is unconventional in that its main purpose is to establish a certain class of settlers at favourable terms. Thus, a comparison with other schemes must be limited. However, this legislation may be discussed under two main considerations. First, which of its provisions would be suitable for a general credit scheme serving all settlers. If there are such provisions, what experience has been gained under them? Second, does the system enable the veteran settler to acquire an economic farm unit?

2. Lending Operations.

From the inception of operations to March 31, 1957, the Administration has approved financial assistance to 69,834 farmers, excluding those settling on Provincial or Dominion lands and Indian Reserves; 28,384 of these recipients are full-time farmers. They represent 40.7 per cent of all VLA settlers, i.e. more than half of all the recipients of financial assistance are part-time farmers. While the writer criticized the inflexible attitude of the CFLB towards part-time farmers, he does not consider the VLA scheme for part-time farmers a step in the direction of

VETERANS LAND ACT

168

eventual ownership of full-time economic farm units.⁶ Assistance is smaller to part-time farmers than to full-time farmers.⁷ The Act intends explicitly to support and set up small-holders. The legislators may have had sociological reasons when they provided this special assistance to part-time farmers. The preamble to the Act states that "part-time farming coupled with other employment is an increasingly important aspect of rural and semi-rural life in Canada". However, this type of farming is usually not founded on a commercial basis. While the VLA has contributed much to the establishing of smallholders its operations in this sector cannot be used for comparison with other credit agencies who are aiming to establish full-time farmers.

Table XXIII shows the number of loans approved by the VLA and the CFLB since 1945. In the whole of Canada, during the post-war period, the VLA made sixteen per cent more loans

⁶This is not to say that in some cases part-time farms may not develop into full-time farms. However, an up to date credit scheme should not prevent farmers from becoming full-time farmers by way of part-time farming, but it should not stress it as the way, because of the social waste involved in the form of loss of experience and uneconomic operations.

⁷Part-time farmers are eligible for a \$1,200 stock and equipment assistance, provided under Part I of the Act, only under certain conditions. Under Part III they qualify for a maximum assistance of \$1,400 compared with \$3,000 for full-time farmers.

VETERANS LAND ACT

169

TABLE XXIII.-

Number of Loans to Full-Time Farmers Approved by the VLA and the CFLB,
and VLA-Loans as Percentages of CFLB-Loans, by Regions, 1945 - 1957

Agency	Atlantic Prov.	Central Prov.	Prairie Prov.	Brit. Columbia	Total
CFLB	2,213	6,443	12,261	1,244	22,161
VLA	1,724	6,393	16,186	1,450	25,753
VLA per cent of CFLB	78	99	132	117	116

Source: Calculated from Annual Reports of the CFLB and the
Department of Veterans Affairs.

VETERANS LAND ACT

170

to full-time farmers than did the CFLB. In the Central Provinces the number of loans was almost equal. In the Maritimes the CFLB outdid the VLA, while in the West the reverse was true.

By March 31, 1957, the amount of loans outstanding was \$53,748, 364 for the CFLB and \$79,962,706 for the VLA. The VLA figure includes conditional grants. The two figures are not entirely comparable since they cover all loans from the beginning of operations. They show that the VLA has been more active in its service to only one class of farmer than the CFLB has been in its dealings with presumably all classes and types of Canadian farmers wanting credit.

The repayments by settlers have been good. According to the 1957 Annual Report of the Administration the number of full-time and part-time farmers with arrears of \$200 or more and \$100 or more respectively, was less than two per cent of the number of active accounts. Since the beginning of operations only 142 agreements were rescinded upon default by the settlers and five mortgages were foreclosed. This also takes into account both full and part-time farmers. 8,752 veterans acquired titles to their farms; 3,427 of these earned their conditional grants after a ten year period, while the other 5,325 had repaid their loans in full.

VETERANS LAND ACT

171

In all, \$357,000,000 had been expended under all parts of the Act on behalf of 67,702 veterans. By March 31, 1957, forty per cent of this sum, including \$17,384,530 representing conditional grants, had been repaid. This record compares favourably with that of the old Soldiers' Settlement Act. Of the \$117,585,845 loaned under this Act only fifty-six per cent had been recovered by March 31, 1957, and the greater part of this from reverted properties.

The Administration's financial management is thus quite successful. Its value in financing economic farm units is another question.

3. Appraisal Policy.

The Administration's policy on this point "is the sound appraisal of properties brought forward by the veterans for purchase, not only as to value but also as to current and potential suitability for the types of enterprise they desire and are qualified to undertake".⁸ This indicates that appraisals are based not only on past performance, but also on current and anticipated returns. It also shows that the applicant's character and ability is given a weight in the appraisal.

⁸ Annual Report, 1957, p. 45.

VETERANS LAND ACT

172

A study of a sample of 249 Saskatchewan settlers⁹ in 1953, shows that average assessed values of VLA farms were forty-one per cent lower than average assessed values in 1951 of other farms in the same municipalities. However, on a quarter-section basis VLA farms were twenty-one per cent more valuable. This indicates a concentration on the smaller farms with the better soils.

In Table XXIV the number of full-time farms approved for purchase is expressed as a percentage of total appraisals for purchase in four regions for the period 1945-54. The table shows that on the average about thirty per cent of appraised properties are rejected as unsuitable. Apparently the Administration refuses to purchase substandard farms, thus preventing settlers from starting on hopeless units.

Table XXV shows prices paid per acre of land and buildings purchased for full-time farmers in comparison with average appraised values by the CFLB for the period 1946-52 when this information was published. In each province or region the average price per acre paid by the VLA is lower than the appraised value per acre by the CFLB. Bringing presently to mind that the CFLB values were already substantially below the reported sales values, one wonders how the

⁹Province of Saskatchewan, Royal Commission on Agriculture and Rural Life, Report No. 3, Agricultural Credit, Regina, Queen's Printer, 1955, p. 62 - 84.

VETERANS LAND ACT

173

TABLE XXIV.-

Number of Full-Time Farms Approved for Purchase as a Percentage of Total Appraisals for Purchase under the VLA, 1945-54.

Region	Total Appraisals No.	Approved for Purchase No.	Approvals per cent of Appraisals
Atlantic Prov.	2,326	1,783	76.7
Central Prov.	8,187	6,024	73.6
Prairie Prov.	20,798	14,576	70.1
Brit. Columbia	1,784	1,277	71.6
Total	33,095	23,660	71.5

Source: Calculated from Reports of the Work of the Department of Veterans Affairs, 1945, p. 61 and 1954, p. 59.

VETERANS LAND ACT

174

TABLE XXV.-

Average Appraised Value per Acre, Including Buildings, by the CFLB, Compared with Average Cost per Acre, Including Buildings, to the VLA, for the Period 1946 - 1952

Region or Prov.	Total Acreage		Appraisal Value or Cost			
	VLA	CFLB	Total		Av. per Acre	
			VLA	CFLB	VLA	CFLB
			\$	\$	\$	\$
Atl. Prov.	214,296	171,578	5,537,475	5,718,810	26	33
QUE	128,017	177,133	4,311,977	7,857,121	34	44
ONT	443,202	203,567	19,522,830	10,408,812	44	51
MAN	772,875	382,527	13,109,574	9,973,150	17	26
SASK	1,344,794	1,100,619	19,837,360	19,175,331	15	17
ALTA	1,073,390	477,179	17,074,102	8,950,880	16	19
BC	127,344	88,920	4,420,487	4,403,369	35	50

Source: Calculated from Annual Reports of the CFLB and the Department of Veterans Affairs.

VETERANS LAND ACT

175

VLA could buy land so cheaply? VLA officials told the writer that these figures are misleading because they include cases where farms are transferred between relatives for the amount of outstanding debts or for amounts far below going sales values. The prices also include bulk purchases of land from governments when the scheme was first started. Nevertheless, one gets the impression that the VLA buys land at bargain prices and that it makes pretty low appraisals. Mr. Quelch said on this topic in the House of Commons: "The main criticism I have heard of the officials of the Veterans Land Act has been that they have been a little bit too tough; that they are a bit too conservative in their appraisals".¹⁰ In his estimate appraisals under the VLA are about fifty per cent of values.¹¹ Of course, we should remember that this toughness is dependent on the price a seller is willing to accept for his farm. Appraisal policies under the VLA do not have necessarily the same implications as under the CFLB. While under the latter low appraisals prevent farmers from obtaining adequate loans, low appraisals under the former may enable settlers to get farms at bargain prices. In some cases, however, low appraisals mean high down payments to settlers.

¹⁰House of Commons Debates, 1953-54, p. 6163.

¹¹House of Commons Debates, 1957, p. 1330.

VETERANS LAND ACT

176

4. Maximum Loans and Loan Ratios.

Under Part I the Act provides assistance up to ninety per cent of the appraised value of land and buildings. This ratio applies only to appraisals up to \$6,000. No assistance is given for values above \$6,000. Therefore, the settler can obtain assistance up to \$5,400 for the purchase of a farm under Part I. In this case he has to make a down payment of \$600. If, however, the value of the farm he proposes to buy is higher than \$6,000, his down payment will exceed \$600 by whatever sum the purchase price exceeds \$6,000. If the value of the farm is \$10,000 his down payment would have to be \$4,600. Rather than using all of the assistance to buy fixed assets like land and buildings, the settler may choose a \$1,200 equipment grant, thus leaving him a maximum of \$4,800 for the purchase of fixed assets. Of this, \$4,320 could be in the form of assistance and \$480 would have to be contributed by the settler. Under this plan he can get a maximum assistance of \$5,520 with an original equity of only \$480. The latter plan is, of course, more advantageous to any settler who is in need of equipment.

Since 1954, a settler under Part I can get additional assistance up to \$3,000 under Part III of the Act for erecting buildings, clearing, breaking, fencing and other permanent improvements of land, and the purchase of land.

VETERANS LAND ACT

177

Under Part III the loan ratio is 66,7 per cent. Each two dollars received have to be matched with one dollar from the veteran. In order to qualify for the maximum, the settler must contribute \$1,500 in cash or equity in his farm. The advance constitutes a first and paramount lien in respect to the land on which it was made.

Two other plans are available under Part I. in lieu of the sales contract described above.

The first involves another sales contract under which a veteran having a satisfactory rental or purchase agreement outside the VLA can purchase from the Director land, livestock and equipment at a maximum amount of \$5,800.¹² Not more than \$3,000 may be expended for livestock and equipment. Down payments of ten and twenty per cent of the purchase price are required for land, and livestock and equipment purchases, respectively. The cost of livestock and equipment must not exceed forty per cent of the value of any land occupied under a rental or purchase agreement.

Under the second plan, the Director can advance a maximum of \$4,400 against the security of a mortgage on land owned and farmed by a veteran.¹³ The funds may be used to

¹²R.S.C., 1953-54, c. 66, s. 10 (3).

¹³ibid., s. 15.

VETERANS LAND ACT

178

discharge encumbrances, purchase livestock and equipment and effect permanent improvements. For livestock and equipment purchases the loan ratio is fifty per cent of the appraised value of the land subject to a maximum of \$2,500. For other purposes a sixty per cent loan ratio applies.

As the Act stands now, a settler may procure a maximum assistance of \$8,520, \$5,520 under Part I and \$3,000 under Part III, coupled with a minimum down payment of \$1,980, made up of \$480 under Part I and \$1,500 under Part III. The Annual Report, 1956-57, shows an average purchase price per farm of \$4,208. Adding to that the total equipment grant of \$1,200 amounts to an average expenditure per full-time farm of \$5,408 including the settler's down payment. This indicates that not too many advances at the maximum level are forthcoming as yet. In view of the capital requirements of an economic farm unit, one doubts that the VLA is able to purchase economic units at prices suggested by this average price. Even the maximum assistance available must be considered quite insufficient under present conditions.

The Director of VLA expresses this view when he says that maximum loans should be between \$15,000 and \$20,000 and that they should be made on seventy-five per cent of the appraised value of land, buildings, livestock and equipment in the case of supervised loans. He goes on to say that

VETERANS LAND ACT

179

As far as our presently settled V.L.A. farmers are concerned, in almost every case there will be an available margin of security considerably in excess of 25% - the average security after the loan money is expended being about 2½ times the amount of the loan.¹⁴

The foregoing indicates that basically the VLA shows defects similar to those of the CFLB. It does not provide enough credit to ensure the development of economic farm units. This is the more important for an agency whose specific task it is to finance beginning farmers. It seems that settlers under the Act need assistance beyond that from the VLA, if they want to get a start in farming. They can get such assistance through off-farm work, which is really unsatisfactory, or from friends or relatives. Thus the Saskatchewan Royal Commission on Agriculture and Rural Life found that eighteen per cent of the sample of 249 VLA settlers studied, had to do some outside work to substitute their farm income initially.¹⁵ By 1952 this percentage had decreased to thirteen. Three quarters of the veterans in the sample made use of equipment belonging to their families or neighbours.

¹⁴T.J. Rutherford, Part VII, "Supervised Credit", Production-Line Farming For the Family-Sized Grassland Live-Stock Farm, p. 8.

¹⁵Report No. 3, Agricultural Credit, p. 67 - 69.

VETERANS LAND ACT

180

The Report goes on:

Interviews with 50 of the 249 veterans in the sample revealed that a third of them lived at home with parents in the first years, a third got their V.L.A. land below market price, a third had interest-free private loans, and a quarter received gifts of machinery. Other help going to a smaller proportion, included gifts of livestock, money, or land, donations of free labour or breaking done at cost.¹⁶

The story of one successful settler under the VLA¹⁷ relates that, after having received the maximum assistance under Part I to buy the first quarter-section, he had to borrow \$6,200 from his father in order to purchase another quarter, thus bringing his farm up to an economic unit. Family help, taking cows on shares, swapping pasture and labour for livestock and custom work are ways and means featuring in this report. A \$1,500 loan was obtained under Part III to build a modern pole-barn. After twelve years the value of land and buildings of this particular farm had increased from \$11,000 to \$20,000. Besides, the settler had built up a livestock herd worth \$5,000. This success story may well be a typical one. It shows that more credit is needed than the VLA provides.

¹⁶ibid., p. 67.

¹⁷Ralph Hedlin, "How Credit Helped the Sanderrocks", Family Herald, Vol. 88, No. 12, March 20, 1958, p. 10 - 11.

VETERANS LAND ACT

181

In 1957, the VLA initiated a survey of all farms settled under it. Information directly connected with credit is required under such headings as changes in net worth, credit requirements and purposes for which additional credit required. An analysis of the first 3,000 schedules, representing a cross country sample, has produced the following average data:¹⁸ Net worth per farm has increased from \$5,117 to \$13,433. Total credit required per farm to put it on an economic scale is \$9,823. This is composed of outstanding VLA contract debt of \$2,288, \$839 extended from other sources and \$6,696 of new credit. Of the new credit, thirty-seven per cent should go to soil improvement, twenty-eight per cent to livestock, thirteen per cent to farm buildings, nine per cent to the farm house, ten per cent to equipment and three per cent to working capital. Over forty per cent of the new credit needs are for non-fixed capital assets. Of the 3,000 units under study, only 822 were advised to continue as they are, 511 should continue with the same land but change enterprises, 1,258 should enlarge their farms, 65 should sell their farms and buy better ones, 276 should operate their farms as small holdings and 68 should give up farming and seek other

¹⁸O.R. Evans, "Credit for Farmers", Family Herald, Vol. 88, No. 15, April 10, 1958, p. 25.

VETERANS LAND ACT

182

employment. These figures indicate the kind of adjustment Canadian Agriculture is facing. They also show that under the present legislation the VLA cannot satisfy settlers' credit requirements.

5. Terms.

Under the sales agreement type of contract under Part I of the Act, the settler has to repay only two thirds of the assistance received. As outlined under the discussion of loan ratios, the settler's down payment consists of ten per cent of the purchase price. Another twenty-three and one third per cent consists of the non-repayable conditional grant mentioned in the beginning of this chapter. The conditional grant constitutes a subsidy or a gift to the veteran which should not be expected under a conventional credit scheme. The balance of the assistance has to be amortized in regular payments at an interest rate of three and one half per cent. The same interest rate applies to credit extended under the other two plans in Part I of the Act.

Under the sales contract plan, a veteran has only to repay forty per cent of the moneys advanced for the purchase of livestock and equipment and fifty per cent of the funds used to acquire land. Adding to this the initial down payments of twenty or ten per cent gives the settler a

VETERANS LAND ACT

183

conditional grant covering forty per cent of the amount advanced. This grant is non-repayable if the veteran fulfills the terms of his contract for ten years.

Under the mortgage plan, the total amount of a loan is repayable.

On loans under Part III the interest rate is five per cent. The interest rates are fixed despite conditions on the money market. In periods of high interest rates they are likely subsidized by the government. This, of course, is in keeping with the nature of the scheme. The higher interest rate under Part III has been criticized on the grounds that the scheme is to provide a special assistance to the veterans. Mr. Quelch contended in the House of Commons that the additional loans were not any extra assistance but had only become necessary because of the higher prices of farms.¹⁹

Under Part I the Act permits the payment of interest only, during the first five years of a loan. This is an acknowledgment of the difficult situation the beginning settler is liable to find himself in.

Repayment periods under Part I are twenty-five years for agreements of sale, loans secured by a mortgage on land and sales to veterans of land and building materials. For

¹⁹House of Commons Debates, 1953-54, p. 6164

VETERANS LAND ACT

184

sales of livestock and equipment to veterans under a rental or purchase agreement, the repayment period is ten years which gives veterans renting farms a definite advantage over their non-veteran counterparts who cannot procure any funds for more than five years under the FILA. A veteran owning his land may find borrowing under Part I of the Act preferable to borrowing from a bank under the FILA. A serious drawback is the need to have his land mortgaged for any size of loan. For loans under \$2,000 or loans terminating under five years, he may be better off to borrow from a bank, thus keeping his land available as a security for fixed capital credit.

Under Part III loans must be amortized, in the case of additional loans, over the period remaining for the repayment of the original assistance, and in the case of new loans, over twenty-five years.

A settler receiving the maximum assistance repays \$194.16 per year under Part I, i.e. \$3,200 at three and one half per cent, and \$212.86 under Part III, i.e. \$3,000 at five per cent. This is an annual total of \$407.02 for twenty-five years. A settler will thus pay \$4.78 in principal and interest for each \$100 of assistance received, including the conditional grant. This rate is very favourable. The Director of the VLA suggests that the amortization period

VETERANS LAND ACT

185

be extended to thirty years.²⁰

The Act permits settlers to prepay their loans at any time without a bonus. They are also permitted to use prepayments to meet subsequent instalments falling due.

An important feature under the VLA is the crop share payment method. Under this repayment plan wheat farmers may repay their loans in the form of part of their crop.²¹ To become eligible a farmer has to seed at least half of his acreage to wheat. Payments are tied to the annual crop as follows. No payments have to be made on the first six bushels per acre. These are supposed to cover the cost of production. From between six and eighteen bushels, half has to be delivered for repayment. Anything above eighteen bushels may or may not be delivered.

Minimum acreages enabling settlers to repay loans over the twenty-five year period are determined on the basis of long time average annual wheat yields in the respective areas. VLA applies to these yields a price of eighty cents per bushel and in this manner calculates the minimum acreage

²⁰T.J. Rutherford, Part VII, "Supervised Credit", Production-Line Farming for the Family-Sized Grassland-Livestock Fam, p. 8.

²¹See: R.C. Gilstorf, "Flexible Loan Repayment Plan for Prairie Grain Farms", The Economic Annalist, Vol. 28, No. 1, February 1958, p. 13 - 19.

VETERANS LAND ACT

186

required. The minimum acreage is increased by ten per cent to provide a safety margin.

The effect of the VLA crop share repayment plan may be shown as follows: Assuming a farmer growing 200 acres of wheat each year has an option between making a fixed payment of \$400 a year or using the crop share repayment plan.

Whether his gross income varies due to annual variations in yields or prices, his gross income after mortgage payments will fluctuate less under the crop share plan than under the fixed payment plan. This is demonstrated in Table XXVI.

The following aspects of the plan have been criticized.²² As the total amount of credit available to a veteran is relatively small a large percentage of farmers make pre-payments which are a kind of forced saving and prevent the self-financing of farm improvements. The Saskatchewan Royal Commission compared twenty-five veterans under the crop share plan with an equal number making fixed payments. Although the period under consideration included crop failure years, veterans under the crop share plan, in general, repaid their loans faster than would have been required under the fixed payment plan. Conversely, those under the fixed payment plan

²²ibid., p. 14.

TABLE XXVI.-

Comparison of Gross Income After Mortgage Payments on a Hypothetical Farm Under Two Systems of Mortgage Repayment

Yield and Price	Gross Return \$	Gross Return After Mortgage Payments	
		Fixed Payment \$	Crop Share \$
(1) Price: \$1.- per bus., Yields Variable:			
5 bus. per acre	1,000	600	1,000
10 " " "	2,000	1,600	1,600
18 " " "	3,600	3,200	2,400
(2) Yield: 10 bus. per acre, Prices Variable:			
\$0.50 per bus.	1,000	600	800
1.00 " "	2,000	1,600	1,600
2.00 " "	4,000	3,600	3,200

Source: Province of Saskatchewan, Royal Commission on Agriculture and Rural Life, Report No. 13, Farm Income, Regina, Queen's Printer, 1958, p. 205.

VETERANS LAND ACT

188

would have had to repay at a faster rate had they been under a crop share arrangement. It was calculated that with average yields, the fifty veterans could have repaid their loans within ten years.²³

This indicates that veterans could have handled larger amounts of credit. The same is borne out when comparing the amounts that would have been due under the fixed payment plan with actual cash proceeds from veterans under the crop share plan, as of March 31, 1957. Table XXVII shows that in each of the Prairie Provinces proceeds from storage tickets are larger than amounts due. For the combined area payments in crop are 152 per cent higher than fixed payments due.

Another factor contributing to large repayments is the large acreage from which payments must be made due to having set the wheat price too low. Eighty cents per bushel compares with an average Saskatchewan farm price of \$1.02 per bushel for the 1925-54 period and \$1.16 for the 1935-54 period. Some farmers may not have a large enough wheat acreage to qualify under the plan. Again, large wheat growers

²³For a detailed analysis, see: Saskatchewan Royal Commission on Agriculture and Rural Life, Report No. 3, Agricultural Credit, p. 75 - 76.

For veterans' opinions on the two payment methods, see: "Appendix VII", p. 126.

VETERANS LAND ACT

189

TABLE XXVII.-

Cash Proceeds Under Share of Crop Agreements Compared
with Amounts Due Under the Conventional Repayment Ar-
rangement, VLA, Fiscal Year 1956 - 1957

Province	Amounts Due Vide Principal Agreement \$	Cash Proceeds from Storage Tickets \$
MAN	1,352	2,248
SASK	142,519	364,153
ALTA	13,559	29,964
TOTAL	157,430	396,365

Source: Report of the Work of the Department
of Veterans Affairs for the Year Ending March 31, 1957,
p. 53, Table V.

VETERANS LAND ACT

190

are required to repay from all acres sown to wheat, even if that acreage exceeds the minimum requirements. A large farm would pay off its loan in a very short time in view of the small maximum loan. Of course, large farms could hardly be financed by the VLA. The plan could be made more flexible so that payments in the beginning would be low and would gradually increase as the settler becomes more established. It could also be extended to crops other than wheat.

On the whole, farmers seem to like the crop share plan. The VLA is the only Canadian credit agency featuring such a plan.

6. Administration.

The VLA constitutes a division of the Department of Veterans Affairs. The Act is administered by the Minister, through the Director of the VLA, who is responsible to the Minister. The Director has corporate powers as outlined under Section 5 of the Act.²⁴ The Administration deals with all the parts of the Act. Here we are only concerned with those aspects that apply mainly to the full-time farmer.

²⁴In the wording of the Act, "the Director is a corporation sole and he and his successors have perpetual succession, and as such is the agent of Her Majesty in right of Canada". - R.S.C., 1953-54, c. 66, s. 5, (1).

VETERANS LAND ACT

191

The Administration is very much decentralized. It is organized into Districts, Regions and Field Areas. There are eight Districts, each of which is administered by a District Superintendent. A District is divided into Regions which are administered by Regional Supervisors. Regions in turn are divided into Field Areas with a resident Field Supervisor in each Area. On March 31, 1957, there were thirty-three regional offices and 243 Field Areas in Canada.

Section 37 of the Act provides for the appointment of "regional or provincial advisory committees to advise the Director in respect to the qualifications of veterans, the selection of lands and generally in respect to such other matters as may be referred to any such committee by the Director". Such advisory committees have been formed. They must consist of at least two members, one being the Regional Officer to act as chairman. These committees are usually composed of prominent local farmers, business men and scientific agriculturists who serve on a voluntary basis and receive only token payments for their services.²⁵ The committees are organized along the lines of the advisory boards

²⁵The membership of these advisory committees is shown in the Report of the Work of the Department of Veterans Affairs for the Year Ending March 31, 1947, p. 95 - 100.

VETERANS LAND ACT

192

advocated during the discussion of the CFLB.

Section 18 provides for provincial advisory boards to fulfill the function of a court in the case of default by a veteran. These advisory boards consist of three members: the chairman is a judge of a county or district court, the Regional Officer represents the VLA, and a third member is nominated by the Canadian Legion. They advise the Director as to the action to be taken against a delinquent settler.

One of the most noteworthy aspects of the VLA is the system of supervised credit it provides.²⁶ Each Field Supervisor is responsible for the settlers in his Area. The average number of settlers per Area is 250. The duties of a Field Supervisor have been classified under three headings:²⁷

- 1) the sound appraisal of property, 2) the assistance of veterans in the organization and management of their farms until they become firmly established on sound economic units, 3) to assure repayment of the public funds expended.

²⁶See: T.J. Rutherford, Part VII, "Supervised Credit", Production-Line Farming for the Family-Sized Grassland-Livestock Farm, p. 1 - 15.

²⁷Report of the Work of the Department of Veterans Affairs, 1957, p. 45.

VETERANS LAND ACT

193

The VLA Advisory and Planning Service has been built up gradually. In the first years of the scheme it was largely a by-product of the appraisal, settlement and collection duties of the field staff. Later, more and more emphasis was put on providing the settlers with well qualified advice. The training of these supervisors is one of the major tasks of the Administration. Today a large number of them are certified as accredited appraisers by the Appraisal Institute of Canada.

The present Director of the VLA thinks that "the acceptance of supervision would seem to be a most reasonable condition in any loan agreement where the lender's equity in the property is greater than that of the borrower".²⁸ On the results of supervision he writes the following:

The secret of V.L.A.'s success and the good relation this has engendered, has been a staff of carefully selected and trained on-the-job Field Supervisors, each living within the boundaries of his own field and being made almost entirely responsible for the success of his own settlers, as well as for the prompt repayment of the credit advanced to them from the public treasury.²⁹

Looking to the future, he states:

We believe it is fair to say that an adequate staff of carefully selected and

²⁸J.T. Rutherford, Part VII, "Supervised Credit", Production-Line Farming for the Family-Sized Grassland-Livestock Farm, p. 5.

²⁹ibid., p. 11.

VETERANS LAND ACT

194

well-trained Resident Credit Advisors administering agricultural credit in Canada at the grassroots level, could do more in the next ten years to put farm income on a par with other industries and to adjust production to market requirements than would happen normally in the next fifty years.³⁰

Supervision is thus an important part of this scheme. It starts with qualifying the prospective settler and finishes when the loan is repaid and an economic farm unit has been established. How the latter can be done efficiently with the meagre credit forthcoming is doubtful. One also wonders, if supervision could not be of more advantage and purpose if loans would be large enough for veterans to develop their farms without wasting time and resources.

Administrative costs are, of course, fully borne by the government. It is difficult to determine from the published statistics which part of these costs may be attributed to full-time farmers. The recent Royal Commission on Canada's Economic Prospects produced some statistics based on all operations under the VLA for the seven year period 1949-56.³¹ While total loans outstanding increased during that period from \$175,500,000 to \$235,200,000, administrative costs increased from \$4,500,000 to \$4,900,000. However, administrative costs as a percentage of outstanding advances have

³⁰ibid., p. 15.

³¹W.M. Drummond and W. MacKenzie, Progress and

VETERANS LAND ACT

195

fallen from 2.54 per cent to 2.06 per cent. The corresponding costs under the CFLB were 1.41 per cent for both the beginning and the end of the period. While these percentages are not comparable, they speak very favourably for the operations of the VLA, because the VLA figures include the cost of supervision besides those for all other activities under all parts of the Act.

7. Summary.

The VLA provides subsidized credit at easy terms to a special class of settlers. The Act does not permit a settler to receive sufficient credit to start on a full-time economic farm unit. Part-time farming is encouraged. The scheme's crop share payment method for wheat farmers and its well organized supervision of settlers are unique in Canada.

Prospects of Canadian Agriculture, Ottawa, Queen's Printer, 1957, p. 119.

CHAPTER VI

THE CENTRAL MORTGAGE AND HOUSING CORPORATION

In a letter to the writer from the CMHC, lending to farmers under the National Housing Act is described as follows:¹

Loans to assist in the construction of farm houses are available under the terms of Section 7 (1) of the National Housing Act, 1954. This Section authorizes Central Mortgage and Housing Corporation to insure loans made by approved lenders on the security of a first mortgage to aid in the construction of farm houses.

The maximum loan available for the construction of a farm house is the lesser of \$10,000, or two-thirds of the appraised value of a farm. The appraised value of a farm is the appraised value of the land, plus the appraised increase in value resulting from existing buildings and the proposed house.

The rate of interest on farm loans may be any rate agreed upon between the borrower and the approved lender but must not exceed 6% per annum calculated semi-annually.

Farm housing loans made by approved lenders are insured by CMHC to protect the investment of the lender and the insurance fee is payable by the borrower. If progress advances are required during construction, the fee is 2% of the amount of the loan. If the loan is advanced only on completion of the house, the

¹Letter of 17 January, 1958, by C.G. Ryan, Information Division, Head Office, Central Mortgage and Housing Corporation, Ottawa.

CENTRAL MORTGAGE AND HOUSING CORPORATION

197

insurance fee is $1\frac{3}{4}\%$ of the amount of the loan. The mortgage insurance fee is added to the debt.

The term of the loan is generally 25 years but it may be up to thirty years if the lender agrees. If the borrower prefers a term less than 25 years the approved lender must be advised in writing. Loans are repaid to the approved lender in annual amounts or more frequently, depending on when the farmer receives his income during the year.

The National Housing Act requires that the NHA mortgage be a first charge against the property. If existing encumbrances on a farm would have priority over the NHA mortgage, the encumbrances must be discharged either out of the proceeds of the loan or from the applicant's own source of funds. While the proceeds of the NHA loan may be used in part to discharge such encumbrances the loan must be used primarily to meet the costs of construction of the house.

Lending under the Act to farmers has been insignificant. Since an NHA mortgage represents a first charge on both buildings and land, a farmer getting a loan will be unable to obtain secured production credit. Furthermore, farmers can get loans at lower interest rates from the Canadian Farm Loan Board and from Banks under the Farm Improvement Loan Act or, if they are Veterans, under the Veterans Land Act. Lending under the Act would only be suitable if loans could be made on the basis of income from the farm, and if loans would be secured by a first mortgage on the farm house only. Under such an arrangement farmers would receive the same treatment as non-farm borrowers. However, under such a scheme, with farm incomes as low as they are now, the

CENTRAL MORTGAGE AND HOUSING CORPORATION

198

majority of farmers would not qualify for loans anyhow.²

In Table XXVIII are compared the number of loans for new dwelling structures extended to farmers under the Canadian Farm Loan Act, the Farm Improvement Loans Act and the National Housing Act in the period 1950-1956.

²Monthly payments on principal, interest and taxes must not exceed twenty-three per cent of a borrower's income before paying income taxes.

CENTRAL MORTGAGE AND HOUSING CORPORATION

199

TABLE XXVIII.-

Number of Loans for New Farm Dwelling Structures
Under the CFLA, FILA and NHA, 1950 - 1956

Year	Number of Loans Under		
	CFLA	FILA	NHA
1950	71	511	3 ^a
51	64	587	5 ^a
52	38	563	1 ^a
53	62	722	5 ^a
54	81	576	1
55	62	728	2
56	85	719	5

Source: Central Mortgage and Housing Corporation, Canadian Housing Statistics, 1950-1956, and Farm Improvement Loans Act, Annual Report, 1956.

^aListed as Rural Housing.

CHAPTER VII

THE NEWFOUNDLAND FARM DEVELOPMENT LOAN BOARD

The Farm Development Loan Act¹ of Newfoundland was passed in 1953. It makes provisions for a Farm Development Loan Board "consisting of not fewer than five members to be appointed by the Lieutenant-Governor-in-Council".² The Board constitutes a body corporate composed of departmental officials of the Newfoundland Department of Mines and Resources under the chairmanship of the Deputy Minister. It administers and controls a Farm Development Loan Fund "for the purpose of improving and developing the agricultural industry of Newfoundland".³

The Provincial Legislature appropriates moneys to the fund. By the end of 1954 the provincial government had allocated \$227,000 to the Board.⁴ Repayments of principal and interest revert to the fund. The government bears the administration cost of the scheme.

¹Statutes of Newfoundland, 1953, Law No. 29.

²ibid., s. 4.

³ibid., s. 8.

⁴Province of Newfoundland, "Capital, Resources and Credit", Chapter 6, Report of the Newfoundland Royal Commission on Agriculture, 1955, St. John's, Queen's Printer, 1956, p. 344.

NEWFOUNDLAND FARM DEVELOPMENT LOAN BOARD

201

The Farm Development Loan Board makes loans to farmers under a set of regulations drawn up by the Board and approved by the Lieutenant-Governor-in-Council. These regulations prescribe how, when and on what terms loans can be made.

The Board is responsible to the Minister of the Department of Mines and Resources. It is required to submit an annual report to the Minister and the Provincial Legislature.

The Loan Board was actually established in June, 1953 and was ready to consider applications for loans by November of the same year, after it had prepared the regulations and documents required by the Act.

The Province has found it necessary to establish its own credit scheme because the federal schemes are inadequate in respect to the agricultural organization prevailing in Newfoundland. The following observations underline this statement.⁵

First, a large percentage of farms are of the subsistence type. According to the 1956 Census of Agriculture, out of a total of 2,387 farms only 520 or 21.8 per cent were

⁵See: Province of Newfoundland, "Capital, Resources and Credit", Chapter 6, Report of the Newfoundland Royal Commission on Agriculture, 1955, St. John's, Queen's Printer, 1956, p. 336 - 346.

NEWFOUNDLAND FARM DEVELOPMENT LOAN BOARD

202

classified as commercial farms.⁶ One hundred and forty-one of the commercial farms belonged to the ten to sixty-nine acre class and 316 to the seventy to a hundred and twenty-nine acre class. Most farms are small, undercapitalized and do not constitute economic units. They do not produce a surplus with which to repay loans. Since the CFLB traditionally provides credit for the established farmer operating an economic unit, no credit has come forth from this source. Out of 157 inquiries to the CFLB during the period 1949-54, only five resulted in applications. While the CFLB approved one loan to the amount of \$3,000 in 1952, not a single loan has actually been extended to any Newfoundland farmer up to March 31, 1958.⁷

A second reason preventing federal agencies from making loans in the province is the fact that many farms are only part-time farms with the farmer obtaining a large part of his income from such endeavours as fishing and lumbering.

⁶According to the 1956 Census of Agriculture a commercial crop and livestock farm is a farm "having a potential production of \$1,200 or more". Commercial farms comprise "that segment of the total number of farms on which the operators devoted most of their time to farming with a view to selling on the market."

The writer considers the arbitrary \$1,200 gross income figure rather low.

⁷Conversation with the Chief Accountant of the Canadian Farm Loan Board.

NEWFOUNDLAND FARM DEVELOPMENT LOAN BOARD

203

Only the VLA caters to part-time farmers and apparently most of the assistance under that scheme goes actually to part-time farmers.⁸

In recognition of the fact that part-time farmers may pay back at least part of their loans from sources of income other than farming, the FILA was interpreted widely enough to include all borderline cases. Banks made a total of 255 loans under the FILA in the period 1949-56. The number of bank loans has actually increased since the establishment of the Farm Development Loan Board. This leads one to believe that the operations of the Board played the role of an eye-opener to the banks by showing them that there is a farm credit market in Newfoundland. The banks under the FILA and the Board may actually compete with each other in the money market, as each provides essentially intermediate types of credit.

A third obstacle to federal credit agencies is the peculiar manner of land title holding in Newfoundland. The majority of landowners do not possess written legal titles to

⁸Newfoundland veterans of World War II were brought under the VLA after the former colony had joined Canada in 1949.

their holdings. Titles are rather based on prescription.⁹ Although landowners holding titles by prescription can secure proper legal titles now, not very many avail themselves of this opportunity because of the high surveying and legal costs involved. Having no legal proof of ownership, these farmers cannot receive mortgage credit from credit agencies who require such proof.

It becomes clear now, why not many Newfoundland farmers can qualify under the existing federal credit schemes. However, there is a trend towards more commercialized and larger scale farming. The Newfoundland Royal Commission on Agriculture found that "this rise of commercial agriculture has been accompanied by a demand for more capital to combine with labour to increase the efficiency and thus increase the returns to labour".¹⁰

In view of the special credit needs of the Newfoundland agriculture the Farm Development Loan Act was designed

⁹See: Province of Newfoundland, "Tenure and Titles", Chapter 2, Report of the Newfoundland Royal Commission on Agriculture, 1955, St. John's, Queen's Printer, 1956, p. 269 - 289.

¹⁰Province of Newfoundland, "Capital Resources and Credit", p. 338.

According to the 1951 Census of Agriculture, there were 401 commercial farms (gross receipts \$1,200 and over) and 3,225 other farms, including subsistence farms, small-scale farms, part-time farms and six institutional farms. The 1956 Census reports 520 commercial farms and 1,867 other farms. While the total number of farms decreased by 34.2 per cent,

NEWFOUNDLAND FARM DEVELOPMENT LOAN BOARD

205

to reach as many farmers as possible. It provides the Farm Development Loan Board with the power to make loans for the purchase of farm equipment, livestock and land and also for the development and improvement of land. A 1954 amendment to the Regulations makes provisions for the construction of buildings on fur farms.

The Act has some features making it especially applicable to farmers who want to expand their farms to an economic scale. These farms do not produce a surplus at their present scale, but after increased capitalization a surplus for the repayment of credit is anticipated.

The outstanding features in this respect are high loan ratios, low interest rates, repayment flexibility and strict supervision. In the case of land purchase or land development loans, the loan ratio is seventy-five per cent of the appraised value of the security offered. With regard to development loans, the improvements to be made form part of the appraised value. Land developments may range all the way from short-term to long-term investments.¹¹ For livestock

the percentage relationship of commercial farms to other farms changed from 11.1 and 88.9 to 21.8 and 78.2

¹¹Improvements may take the form of preparation of newly cleared lands for seeding, picking and removal of stones, fencing, drainage, purchase of grass seeds, fertilizers, etc. See also: Farm Development Loan Regulations with amendments, obtainable from the Secretary of the Farm Development Loan Board, Dept. of Mines and Resources, St. John's, Nfld.

NEWFOUNDLAND FARM DEVELOPMENT LOAN BOARD

206

loans the loan ratio must not exceed seventy-five per cent of the appraised value of the livestock offered as security.

These loans are secured by chattelmortgages. In the case of a drop in the value of the livestock, the mortgage may be extended to other animals owned by the borrower. For loan purposes the term livestock includes sheep, pigs, mink and other approved fur bearing animals,¹² poultry and cattle. Except for poultry and cattle, loans may only be used for the purchase of breeding or foundation stock. On farm equipment, including both implements and stationary equipment, seventy per cent of the purchase price may be loaned. These loan ratios are similar to the ones in effect under the FILA.

According to the Act, interest rates on loans must not exceed five per cent per annum.¹³ The present regulations

¹²The 1954 Amendment to the Regulations empowers the Board to make loans for the "construction of buildings other than dwelling houses to farmers engaged in fur farming". The amendment is designed to attract fur farms from other parts of Canada and the U.S.A. under the provincial government's Mink Development Policy. Under this policy fur ranchers are encouraged to settle in the Dildo area where whale meat and fish are cheap and plentiful.

¹³Statutes of Newfoundland, 1953, Law No. 29, s. 16.

NEWFOUNDLAND FARM DEVELOPMENT LOAN BOARD

207

provide for an interest rate of three and one half per cent on all loans.¹⁴ This comparatively low rate suggests a certain amount of government subsidization which may be justifiable in view of the relatively backward state of the agriculture of Newfoundland.

Loans have to be amortized in equal annual instalments. Any borrower may pay interest only, during the first two years of a loan. During the whole life of a loan, the Board may defer payments of principal for a period of two years, consecutively or otherwise, if there appears to be a genuine reason warranting such deferment. This regulation provides for a certain flexibility. However, as most of the repayments in the beginning of a loan constitute interest, omitting principal payments in the first two years does not provide much relief.

The regulations state that appraisals of land, livestock and equipment to be mortgaged are to establish current and future values of these securities. The emphasis on current and future values is a sign of a progressive attitude in the field of agricultural credit.

¹⁴The Newfoundland Royal Commission on Agriculture reports an interest rate of only three per cent applying to land improvement loans. However, the Regulations do not state a special rate applying to this type of loan. Unfortunately, no information could be obtained from the Manager of the Board.

NEWFOUNDLAND FARM DEVELOPMENT LOAN BOARD

208

Supervision takes a prominent place under the Newfoundland scheme. It says under number twenty of the regulations that

The Board may require the borrower to enter into an agreement to carry out a programme of land development and farm management in respect of all lands for which loans are made by the Board and to agree to a programme of cropping and management for the farm as a whole.

Supervision takes the form of a detailed and strict control. Land development loans are actually extended only in the form of payment for goods and services, the purchase of which has been approved by the Board. In the case of livestock and equipment loans the Board pays the seller of such goods directly, after it is satisfied that the items are in satisfactory condition. At least once a year the Board checks whether or not farmers fulfill the terms of their management agreements. It prepares at that time a report on the borrower's management, the value of the security and the general condition of the farm as a whole. If the borrower does not manage his farm according to the original agreement, he must enter into a revised agreement or otherwise the Board will take steps to recover the loan.

Fieldmen of the Board brand, tag or otherwise mark all livestock and implements which serve as security for a loan. If such tags are lost, the borrower must report the loss within ten days. He may not sell any security without the

NEWFOUNDLAND FARM DEVELOPMENT LOAN BOARD

209

written consent of the Board. The loss of livestock itself has to be reported within forty-eight hours.

Again, the Board may require the borrower to enter into agreements in respect to the use of livestock and equipment. Livestock and equipment are inspected twice a year and the fieldman makes a report after each inspection.

The foregoing description indicates that the supervision takes the form of a rather stiff control. Many a farmer might object to such controls. However, if the task of changing a subsistence farm to a commercial enterprise, capable of using and repaying credits, requires extraordinary methods, such methods are probably justified. On the whole, the Newfoundland scheme is to be recommended for using the principle of supervised credit for beginning or rapidly expanding farmers. Of course, supervision is fully subsidized by the Newfoundland government.

The Act may be criticized for providing too little credit at too short terms. For land improvements loans may go as high as \$75 per acre, but the total loan cannot exceed \$3,500. It must be repaid within twelve years. The same terms apply to land purchase loans.

Livestock loans must not exceed \$3,500. For equipment the maximum loan is \$3,000. Both livestock and equipment loans are repayable in five years. For machinery loans the repayment period is more favourable than under the FILA.

NEWFOUNDLAND FARM DEVELOPMENT LOAN BOARD

210

For livestock loans the opposite is true. Maximum amounts obtainable are lower than under the FILA, but livestock and equipment loans over \$2,000 do not require a mortgage on land. A chattel mortgage suffices. Also, the interest rate is lower than that charged by the banks. However, banks do not exercise the strict supervision which may deter some farmers from borrowing under the scheme.

Maximum loans for the purchase of land seem to be too low. So is a repayment period of twelve years. It would probably be better to provide higher maximum loan limits and repayments to be made over longer periods, thus enabling the borrower to increase operations without increasing periodic amortization payments too much. In other words, a package credit making available funds for both fixed and movable assets in one loan would probably be a more practical arrangement.

Considering that, according to the 1951 Census of Agriculture, in Newfoundland the average investment in implements and machinery and livestock and poultry were only \$391 and \$988 respectively¹⁵, the maximum loans obtainable for

¹⁵These figures are the lowest for any Canadian province. They compare with the next lowest, reported by New Brunswick, as follows: Implements and machinery \$1,020, livestock and poultry \$1,214. Land and buildings show a higher investment in Newfoundland than in New Brunswick, the difference being \$308. This may be compared with the difference in implement and machinery investment which is \$629 in favour of New Brunswick.

these categories may be sufficient for the time being.

Any farmer with enough security to qualify for all the categories of loans would likely have to repay too much credit in too short a time. The Act does not make provisions for the special credit needs of co-operative farming, although this type of ownership would be one way for Newfoundland farmers to achieve the economies of scale.

In view of the many inefficient farm units prevailing in the province, the credit made available under the scheme may serve a good purpose in the initial stages of the development towards a more commercial agriculture.

As the loan funds have to be provided by the province, some people fear that the province may not be in a situation to make enough credit available.¹⁶

The Act does not provide for any local advisory boards which could assist the Loan Board in deciding the approval of loans.

By the end of 1953 the Board had considered forty-two loan applications. Twenty loans were approved. Of these, seven loans were used for the development of land, eight for livestock purchases and five for equipment, mainly tractors. From its establishment to March 1, 1955, the Board had

¹⁶Province of Newfoundland, "Capital Resources and Credit", p. 344.

NEWFOUNDLAND FARM DEVELOPMENT LOAN BOARD

212

approved forty-five loans totalling \$81,356. This represents an average loan of \$1,808 and compares with ninety-four loans at an average amount of \$1,264 extended in Newfoundland under the FILA in 1954 and 1955. Including loans to fur farmers, a total of \$219,680.19 had been extended up to March 31, 1955. This shows that the Board made more loans to this specialized type of farming than to other farmers. By March 31, 1957, the Board had extended 117 loans to all types of farmers.

Of the forty-five loans extended up to March 1955, nine were for land purchase and development, nineteen for livestock purchases and seventeen for the purchasing of equipment. These figures indicate that the scheme supplies predominantly intermediate credit.¹⁷

In summarizing, the Newfoundland scheme should be recommended for providing the farmers of that province with a versatile credit scheme extending loans on the security of both fixed and movable assets. The loan ratios seem to be sufficiently high. Appraisals are made with an eye to the future earning ability of a farm. The supervision of borrowers is very much stressed and probably somewhat exaggerated

¹⁷The scanty information on lending activities is based partly on information from the Newfoundland Royal Commission on Agriculture and partly from the data given in the Annual Reports of the Newfoundland Department of Mines and Resources. The writer has tried several times to obtain more up-to-date information from the Manager of the Board, but was told that due to lack of time this information could not be given.

NEWFOUNDLAND FARM DEVELOPMENT LOAN BOARD

213

to be acceptable to farmers. The Board extends essentially intermediate credit; the twelve year term for land purchase and improvement loans is too short. Interest rates are low at the cost of government subsidization. The scheme's main function may be to help farmers on uneconomic units to obtain the economies of scale in order to enable these farmers to get further credits under the federal schemes.

CHAPTER VIII

THE NOVA SCOTIA LAND SETTLEMENT BOARD

1. General Outline.

There have been various government settlement schemes in Nova Scotia ever since the year 1912.¹

Current legislation is contained in Part XVIII of The Agriculture and Marketing Act² which was passed in 1939. The Act has been amended several times in respect to maximum loans, interest rates, age limits of applicants, etc.

The Act provides for a Board officially called the Nova Scotia Land Settlement Board. The Governor-in-Council appoints the members of the Board. The membership must not exceed five. The present members are all practical and successful farmers. The Board is a body corporate and forms part of the Immigration and Land Settlement Services Branch of the Nova Scotia Department of Agriculture and Marketing. It administers the Act and reports to the Minister. Administrative expenses are paid by the Department.

¹See: Province of Nova Scotia, Report of the Royal Commission on Rural Credit, (Halifax, Queen's Printer), 1957, p. 33 - 35.

²R.S.N.S., 1954, c. 5, and amendments: N.S. Laws, 1955, c. 15.

NOVA SCOTIA LAND SETTLEMENT BOARD

215

The Board is primarily concerned with the buying and reselling of farms. It sells farms to settlers under an agreement of sale. The Board is empowered to make permanent improvements on the farms it buys, such as the subdividing of land and the erection of buildings. While the Board charges the costs of such improvements to the settler it cannot make a profit on the sale of a farm.³ In like manner the Board may buy and sell livestock, machinery and equipment for the purpose of insuring the success of a settler. It may also enter into special agreements with private or public organizations that are interested in bringing settlers to Nova Scotia.⁴

Lastly, the Board may collaborate with educational authorities in the training of settlers. To this effect it may make regulations "prescribing the qualifications of settlers and the nature and number of educational classes to be attended and the course of instruction or training to be

³The settler must contribute up to fifty dollars towards the title cost of a farm which he requests the Board to buy on his behalf.

⁴Such a special agreement was made with the government of the Netherlands in January, 1956. The Dutch Government guarantees one third of the purchase price of a farm thus enabling Dutch settlers to acquire farms without a down payment. Up to March 31, 1957, thirty-four Dutch settlers had acquired farms under the agreement. The amount extended was \$249,750 and the average purchase price per farm \$7,316.

NOVA SCOTIA LAND SETTLEMENT BOARD

216

given".⁵ No such regulations exist. At present settlers need a minimum of two years' practical farm experience to qualify for a loan. Applicants having agricultural college training, training in junior club work or training received by lifetime work on well operated farms may, at the discretion of the Board, qualify for larger loans than those obtainable by less qualified applicants.⁶ The value of a good agricultural training for ultimate success in farming is thus recognized in the Board's lending policies.

The Act authorizes the Governor-in-Council to borrow money for the purposes of the Board on the credit of the province. The province sells bonds to the public in order to raise money for the buying of farms by the Board. The government appropriates funds directly to the Board. All repayments on principal received by the Board go back into a Land Settlement Fund. Repayments on interest are credited to the consolidated revenue of the Province. The interest rate charged is four and one half per cent and the latest bond issue put out by the province bears interest at the same rate; it is only by chance that the two rates coincide.

⁵R.S.N.S., 1954, c.5, s. 221 (c).

⁶See also the discussion of loan ratios in this chapter.

NOVA SCOTIA LAND SETTLEMENT BOARD

217

According to Section 209 of the Act the Board has the power to establish local advisory committees to assist the Board in the administration of the Act. No such committees have been set up thus far.

Before the Board purchases a farm it must be appraised by a competent valuator. No appraisals are made while the ground is frozen or covered with snow or ice. Before a loan application is disposed the Board as a body may examine the farm in question. A farm is defined as "an area of land suitable for agricultural purposes of not less than twenty acres".⁷ Since the Board buys farms rather than mortgages, it will have to pay prices in line with going sales values. Recently the Board expressed the view that "there appears to be no reason to doubt that farm land in Nova Scotia will continue to be good security for long-term loans provided that the appraisals are wisely and carefully made".⁸ Appraisals are based on both long-term average receipts as established through past experience and on anticipated future receipts.

A municipality cannot raise the assessment of any farm land, livestock, machinery or equipment acquired by the Board, or sold to a settler, for the first five years after

⁷R.S.N.S., 1954, c. 5, s. 204 (b).

⁸Province of Nova Scotia, Report of the Department of Agriculture and Marketing, Halifax, Queen's Printer, 1957, p. 136.

the initial sale to the Board. This provision protects the settler in the first difficult years from a sudden unexpected rise in property taxes. Another provision permits the Board to defer payments on principal and interest, wholly or partly, during the first three years of settlement. A provision of this kind is very important for a settlement scheme. It is one that could hardly be expected from a private lending agency. However, a settlement scheme featuring provisions of this kind requires adequate supervision of the settlers. The Board employs fieldmen who have admission to a farm which is under an agreement of sale, at any reasonable time.

According to the Act "the Board may require any settler to keep and maintain such books, accounts and other records as the Board may determine".⁹ Three full-time fieldmen, all agricultural graduates with practical farm experience are on the staff of the Board. However, they have not the time to carry on full-time supervision.

There is an age limit of between twenty-one and fifty years for settlers wishing to qualify for assistance. An agreement of sale must not extend beyond the sixty-first birthday of the settler.

⁹R.S.N.S., 1954, c. 5, s. 212 (8).

NOVA SCOTIA LAND SETTLEMENT BOARD

219

Under the 1954 amendments maximum assistance has been raised from \$8,000 to \$10,000. Previously it had been raised from \$3,000 to \$5,000 in 1945 and from \$5,000 to \$8,000 in 1951.

The 1954 amendments of the Act have introduced a very noteworthy provision under which loans may be granted up to a maximum of \$14,000 to a partnership of two persons and up to \$21,000 to three partners.¹⁰ The Nova Scotia legislators have thus acknowledged the co-operative farm as a farm business organization. While the maximum loan may be criticized as still being too low, the principle of giving each partner in a co-operative farm enterprise a somewhat smaller loan than a sole proprietor would receive, may be defended on the basis that the partnership can make more efficient use of its capital resources and therefore requires proportionately less capital.

The following loan ratios are in effect:- A Canadian citizen may receive a loan of up to two thirds of the value of land and buildings and up to one half of the value of livestock, machinery and equipment. An applicant who holds a college degree or is otherwise well trained in agriculture

¹⁰N.S. Laws, 1955, c. 15, s. 3, (2), (b).

NOVA SCOTIA LAND SETTLEMENT BOARD

220

may only be required to make a down payment of ten per cent of the value of land and buildings and twenty-five per cent of the value of livestock, machinery and equipment.¹¹ This is another remarkable feature of the Nova Scotia lending scheme. It enables worthy settlers to obtain ninety-per-cent-loans on land and buildings. Since 1952, an average of about three ninety-per-cent-loans have been granted a year.¹²

A non-Canadian enjoys the same privileges as a Canadian providing he has had one of the two years of practical farm experience, required by the Act, in Canada. If he did not have any experience in Canada, he can only qualify for a fifty per cent loan on the value of all farm assets. The foregoing regulations are rather attractive for immigrants wishing to settle on Nova Scotia farms.

According to the Act the interest rate on both principal and interest owed to the Board cannot exceed five per cent per annum. As mentioned above, the prevailing interest rate is four and one half per cent on outstanding balances, and five per cent on arrears. The interest rate was lowered from

¹¹See: "Regulations of Nova Scotia Land Settlement Board", Nova Scotia Laws, 1951, p. 699, s. 6 & 7.

¹²Letter of 21 May to the writer by Mr. S.E. Lewis, Director of Immigration and Land Settlement Services, N.S. Department of Agriculture and Marketing.

NOVA SCOTIA LAND SETTLEMENT BOARD

221

five per cent to three and one half per cent in 1945 and to three per cent in 1951. In 1952 it was raised to the present level. The provision of a flexible interest rate enables the Board to supply funds at cost as long as the interest payable on bonded debt does not exceed five per cent. If it does exceed five per cent, the government will subsidize the settlers in addition to paying for the administration of the scheme.

The term of an agreement of sale cannot exceed thirty years, and it is also limited by the provision that it must not extend past the sixty-first birthday of the applicant.¹³ There are very few requests for loans extending over more than twenty years.¹⁴ Loans are amortized by yearly, half-yearly or monthly payments.

The Act permits prepayments. Any prepaid moneys are credited to the settler towards future payments if he so advises. This gives the borrower an opportunity to make his payments in relation to his annual income. Such a provision

¹³The 1954 amendments permit an exception to the upper age limit in the case of a father-and-son-partnership. The father may qualify as a partner as long as he is under sixty-five years of age at the time an agreement of sale is made.

¹⁴Mr. S.E. Lewis' letter of 21 May, 1958.

is, of course, a sign of a progressive agricultural credit agency.

Another special feature of the Nova Scotia settlement scheme is a group life insurance plan for all settlers. The plan insures the life of a settler to the amount of the unpaid balance of a loan. The yearly premium is \$4.80 on each \$1,000 of the original value of the loan.

2. Lending Operations.

In Table XXIX are compared the number and amount of loans extended by the NSLSB and the CFLB during the post-war period. Table XXX shows average sizes of loans made by these institutions during the same period. Under the NSLSB the number of loans and the total amount extended show increasing trends. The average size of loans also seems to be on the increase. But it is still much below the maximum loan available. The CFLB has consistently extended fewer loans to Nova Scotia farmers than has the NSLSB. Since the 1947-48 lending period, in each period, Nova Scotia received a small number of CFLB loans than any other province with the exception of Newfoundland. However, in most periods, average CFLB loans have been somewhat higher than NSLSB loans. In the 1956-57 period the difference was \$1,170.

NOVA SCOTIA LAND SETTLEMENT BOARD

223

TABLE XXIX.-

Number and Amount of Loans Approved by the NSLSB and the CFLB
1944 - 1957

Period	NSLSB		CFLB	
	No.	Amount \$	No.	Amount \$
1944-45	35	72,502	27	53,700
45-46	34	85,920	27	57,750
46-47	65	114,933	30	63,700
47-48	80	115,735	29	68,600
48-49	99	181,858	36	76,400
49-50	a	a	50	108,250
1950-51	129	296,765	47	108,500
51-52	119	291,093	34	81,800
52-53	110	278,656	41	117,850
53-54	83	325,861	40	120,950
54-55	135	333,196	29	88,750
55-56	126	369,820	36	123,700
56-57	170	601,844	47	221,350

Source: Canadian Farm Loan Board, Annual Reports, and Province of Nova Scotia, Report of the Department of Agriculture and Marketing, For the Year Ended March 31, 1957, Halifax, Queen's Printer, 1957, p. 138.

^aUntil 1949 inclusive, the lending year of the NSLSB ended November 30. From 1951 on, it ends March 31. The 1950-51 period includes loans made in the period December 1, 1949, to March 31, 1951. The CFLB lending year always ends on March 31.

NOVA SCOTIA LAND SETTLEMENT BOARD

224

TABLE XXX.-

Average Size of Loans Approved by the NSLSB and
the CFLB, 1944 - 1957

Period	Amounts	
	NSLSB \$	CFLB \$
1944-45	2,071	1,989
45-46	2,527	2,139
46-47	1,768	2,123
47-48	1,447	2,366
48-49	1,837	2,122
49-50	a	2,165
1950-51	2,300	2,309
51-52	2,446	2,406
52-53	2,533	2,874
53-54	3,926	3,024
54-55	2,468	3,060
55-56	2,935	3,436
56-57	3,540	4,710

Sources: Canadian Farm Loan Board,
Annual Reports, and Province of Nova Scotia,
Report of the Department of Agriculture and
Marketing, For the Year Ended March 31, 1957,
p. 138.

^aSee footnote a of Table XXIX.

NOVA SCOTIA LAND SETTLEMENT BOARD

225

Mr. Lewis, the Director of the Immigration and Land Settlement Services of the Nova Scotia Department of Agriculture and Marketing, writes on this topic:

Many of the loans granted by this Board were for the purpose of establishing what might be called "part-time" farmers, but who have some other source of income. The Canadian Farm Loan Board, I understand, deals only with "full-time" farmers, which would probably account for larger loans advanced by the Canadian Farm Loan Board.

I would not say, however, that this Board does not settle farmers on economic farm units. The fact that a man is a part-time fisherman, lumberman, etc., does not necessarily mean that he is not operating an economic unit of production.¹⁵

The number of applications for loans to the NSLSB and the number actually approved, since 1950, are listed by lending period in Table XXXI. In the same Table approvals are expressed as percentages of applications received. These percentages range from sixty-five to seventy-nine. In Table XXXII the average size of loan rejected is expressed as a percentage of the average size approved for each lending period since 1950. These calculations indicate that in some periods the average amount rejected was higher than the average amount approved. In other periods, it was lower. In the last two periods the average amount rejected exceeded the average amount approved. Mr. Lewis says the following are the most common reasons for loan refusals:

¹⁵Mr. Lewis' letter of 21 May, 1958.

NOVA SCOTIA LAND SETTLEMENT BOARD

226

TABLE XXXI.-

Loan Applications Received and Approved and Percentage
Approved by the NSLSB, 1950 - 1957

Period	Applications		
	Received No.	Approved No.	Percentage Approved
1950-51	182	129	71
51-52	184	119	65
52-53	147	110	75
53-54	187	129	69
54-55	188	135	72
55-56	159	126	79
56-57	217	170	78

Source: Province of Nova Scotia, Report of the Department of Agriculture and Marketing, For the Year Ended March 31, 1957, p. 138.

NOVA SCOTIA LAND SETTLEMENT BOARD

227

TABLE XXXII.-

Average Size of Loans Approved and Rejected and Average Rejected Amounts as a Percentage of Average Approved Amounts, NSLSB, 1951 - 1957

Period	Average Amount		Rejected as a Percentage of Approved
	Approved \$	Rejected \$	
1950-51	2,300	2,487	108
51-52	2,446	2,051	84
52-53	2,533	2,518	99
53-54	3,926	2,906	74
54-55	2,468	2,379	96
55-56	2,935	3,894	133
56-57	3,540	4,145	117

Source: Province of Nova Scotia, Report of the Department of Agriculture and Marketing, For the Year Ended March 31, 1957, p. 138.

NOVA SCOTIA LAND SETTLEMENT BOARD

228

Farm price too high. Applicant lacks sufficient capital to properly operate and maintain the farm. Applicant lacking in experience. Farm not suitable for the type of agriculture in which the applicant intends to engage.¹⁶

Total amounts outstanding have increased steadily from a low of \$299,427 in 1945 to \$2,077,457 in 1957. By March 1957, twenty partnership loans had been extended covering a total amount of \$176,325 and an average amount per loan of \$8,816 or just a little more per partnership than the maximum loan obtainable by any one partner.¹⁷

The foregoing data suggest that the Board, as a rule, does not supply settlers with full-time economic farm units. Although the Act provides a scheme by which settlers can receive a package deal of financial assistance, taking in land, buildings, livestock and equipment, the credit advanced is insufficient to buy the assets needed for an up-to-date farming operation. That this is so may be shown by investigating some recent inventory data of Nova Scotia farms. Table XXXIII shows average inventory values by components calculated from two samples of farms. The first sample is entirely composed of Antigonish farms representing eastern Nova Scotia. The second sample represents the western part of the province and

¹⁶ibid.

¹⁷See: Province of Nova Scotia, Report of the Department of Agriculture and Marketing For the Year Ended March 31, 1957, p. 138. The maximum loan obtainable by one partner is \$7,000.

NOVA SCOTIA LAND SETTLEMENT BOARD

229

TABLE XXXIII.-

Average Inventories in Eastern and Western Nova Scotia
Based on Two Samples

Item	Value	
	East \$	West \$
Land	1,524.44	2,598.32
Buildings	2,716.50	3,916.70
Livestock	2,198.00	3,108.91
Machinery and Equipment	2,059.61	2,807.50
Feed and Supplies	95.00	217.32
Total Capital Investment Per Farm	8,593.55	12,648.75

Source: Letter of 3 April, 1958, to the
writer by Walter V. Grant, Farm Management Specialist,
Nova Scotia Department of Agriculture and Marketing,
Truro, N.S.

NOVA SCOTIA LAND SETTLEMENT BOARD

230

is predominantly made up of farms in the Annapolis Valley area. In both samples farms are of the mixed type with live-stock being the major enterprise.

Assuming that the data in Table XXXIII are representative of the typical commercial farm¹⁸ - which term is not equivalent to economic farm - settlers acquiring such farms should expect the following assistance from the Board. In the East they should get \$2,827.30 for buildings and land and \$2,128.80 for the remaining assets. This represents a total assistance of \$4,956.10 or fifty-eight per cent of the purchase price. The settlers would have to make a down payment of \$3,637.45. In the West, total assistance would come to \$7,303.72 or fifty-eight per cent of the value of the complete unit to be purchased. A down payment of \$5,345.03 would be required. These data suggest that a settler must provide about forty per cent of the price of a farm. In both samples the different assets are on the average distributed in similar proportions. The higher a proportion the value of live-stock and machinery constitutes of the total assets, the lower will be the actual loan ratio for a purchaser due to the lower ratio in force for these assets.

¹⁸For the census definition of a commercial farm, see Chapter VII, p. 202.

This is shown in Tables XXXIV and XXXV. The information in Table XXXIV is based on farm management studies undertaken in 1950-51.¹⁹ Average values of assets per farm are given in four regions for All Farms, for the Three Most Profitable farms and for the Three Least Profitable farms in each regional sample. Table XXXV shows the loans obtainable for hypothetical farms as represented by the three groups in Table XXXIV. It also shows the actual loan ratio for a package type of credit as provided by the Board and it lists the necessary down payments. In each of the four regions the All Farms and Three Least Profitable groups have movable assets values below fixed assets values. The opposite is true for the Three Most Profitable group in each region. This results in overall loan ratios consistently being lower for this latter group than for the other groups, as indicated in Table XXXV. No average loan extended in 1950-51 or any other lending period by both the NSLSB and the CFLB has come close to the loans theoretically obtainable for the Three Most Profitable group. In fact, the average loans extended are mostly in line with those obtainable for the Three Least Profitable group.

¹⁹See: Source of Table XXXIV.

NOVA SCOTIA LAND SETTLEMENT BOARD

232

TABLE XXXIV.-

Average Value of Inventories Calculated from Four Regional Samples of Nova Scotia Farms, 1950 - 1951

Region and Type	Land	Livestock, Machinery	Feed	Total
	and Buildgs.	and Equipment	and Supplies	Investment
d o l l a r s				
<u>Antigonish</u>				
All Farms	4,473.45	4,444.10	184.00	9,101.85
Three Most Profit.	4,834.33	8,908.67	175.33	13,918.33
Three Least Profit.	4,088.67	2,474.67	41.66	6,605.00
<u>Inverness</u>				
All Farms	3,570.14	3,302.53	131.43	6,904.10
Three Most Profit.	5,660.33	7,152.33	205.00	13,017.66
Three Least Profit.	3,302.00	3,268.67	43.33	6,614.00
<u>Cape Breton</u>				
All Farms	4,071.60	3,474.96	83.36	7,629.92
Three Most Profit.	5,270.00	7,334.67	133.33	12,738.00
Three Least Profit.	2,948.33	990.00	32.67	3,971.00
<u>Others^a</u>				
All Farms	6,548.83	5,292.09	278.44	12,119.36
Three Most Profit.	7,246.66	9,291.67	788.33	17,326.66
Three Least Profit.	4,256.00	2,698.00	46.00	7,000.00

Source: Calculated from Information in W.A. Jenkins and Alex J. MacDonald, Planning Makes the Difference, Publication 1026, Published by Authority of Honourable A.W. MacKenzie, Minister, Department of Agriculture and Marketing, Halifax, N.S., 1952, p. 1 - 33.

^aThese farms are located in the Central and Western Areas of the province.

TABLE XXXV.-

Loans Obtainable Under NSLSB Regulations on the Basis of the Information in Table XXXIV

Region and Type	Loan Obtainable For		Total Loan		Down Pay- ment Re- quired
	Land and Buildgs.	Livestock, Machinery and Equipment	Amount	per cent of total Assets	
	\$	\$	\$	%	\$
<u>Antigonish</u>					
All Farms	2,983.79	2,222.05	5,205.84	57	3,896.01
Three Most Profit.	3,224.50	4,454.34	7,678.84	55	6,239.49
Three Least Profit.	2,727.14	1,237.34	3,964.48	60	2,640.52
<u>Inverness</u>					
All Farms	2,381.28	1,651.26	4,032.54	58	2,871.56
Three Most Profit.	3,775.44	3,576.16	7,351.60	56	5,666.06
Three Least Profit.	2,202.43	1,634.34	3,836.77	58	2,777.23
<u>Cape Breton</u>					
All Farms	2,715.76	1,737.48	4,453.24	58	3,176.68
Three Most Profit.	3,515.09	3,667.34	7,182.43	56	5,555.57
Three Least Profit.	1,966.54	495.00	2,461.54	62	1,509.46
<u>Others</u>					
All Farms	4,368.07	2,646.04	9,014.11	74	3,105.25
Three Most Profit.	4,833.52	4,645.84	9,479.36	55	7,847.30
Three Least Profit.	2,838.75	1,349.00	4,187.75	60	2,812.25

Source: Calculated from Table XXXIV.

NOVA SCOTIA LAND SETTLEMENT BOARD

234

A study of Table XXXIV also reveals that the differences in movable asset values as between the groups in each region are much larger than respective differences in fixed assets. This indicates the disadvantage of a scheme providing only long-term credit on the security of fixed assets, as is being done by the Canadian Farm Loan Board, in comparison with a scheme providing a package-deal-type of credit. Although the Nova Scotia legislation makes provision for such package-credit to starting farmers, average loans do not come close to the possible maximum assistance. The Board rather seems to support the continuation of the part-time farming system.²⁰ This would seem to provide one explanation for the successful operations of the Board. A large portion of repayments probably comes from non-agricultural income.²¹ In view of the actual lending policy of the Board, the following observation in the Board's 1957 Annual Report is, although true, rather astonishing:

²⁰Although the percentage of commercial farms is low in Nova Scotia, there has been a trend towards that type of farm in recent years. In the 1951 Census 27.9 per cent of total farms were classified as commercial farms. In 1956, this percentage stood at 38.5. The 1956 number of commercial farms was 123.4 per cent of the 1951 number.

²¹The Board does not actually classify borrowers into full-time and part-time farmers.

The amount of capital a farmer must invest, in order to operate efficiently and economically, has, however, increased at a more accelerated pace than has the maximum amount loaned by the Board. It is felt that the maximum amount of loan should be increased still further. No change in the percentage of down payment required is recommended.²²

If this is the opinion of the Board, why does it not settle beginning farmers on truly economic units?

In evaluating the policies of the Board the Nova Scotia Royal Commission on Rural Credit stated that the Board within the limits placed upon it, played an important role, especially in the post-war period, in facilitating the adjustment of agriculture in Nova Scotia...

The Board has been reasonably liberal in its treatment of settlers...²³

While the Board may be liberal in supplying credit for the farms actually being purchased, this does not mean that farms of a sufficient scale are being purchased. The Board should, if necessary, consolidate holdings before it sells them to prospective settlers.

In summary, it may be said that the Nova Scotia land settlement legislation contains some very up-to-date features, such as the provision of larger loans to co-operative farmers, a package deal type of credit covering fixed and movable

²²Province of Nova Scotia, Report of the Department of Agriculture and Marketing, 1957, p. 137.

²³p. 38.

NOVA SCOTIA LAND SETTLEMENT BOARD

236

assets and a high loan ratio for experienced and well-trained applicants. However, it seems that in practice the potentialities of the Act are not fully made use of. Thus the Act provides for ninety-per-cent-loans, but very few of these loans are actually extended. Again, loans to co-operative farms and partnerships are much below the maximum credit available, notwithstanding the beneficial provisions for that type of settler. Also, farmers can arrange package-credit deals under the scheme, but unfortunately, average loans fall very much short of the legal maximum obtainable. They seem to be just large enough to finance low income farms and in this way defeat their own purpose. As a result the Act indirectly encourages part-time farming. Furthermore, provisions for the education and supervision of borrowers are not being made use of.

Although the effects of the latest amendments to the Act may as yet not have fully appeared, an on the spot study should be conducted to find out why the Board does not utilize the potentialities of the Act to the full. Such an investigation would have to be more thorough and specialized than the one conducted by the Nova Scotia Royal Commission on Rural Credit.

CHAPTER IX

THE NEW BRUNSWICK FARM SETTLEMENT BOARD

1. General Outline.

The present Farm Settlement Act has evolved from An Act to Encourage the Settlement of Farm Lands which was passed in 1912.¹

In many ways the Act is similar to the Nova Scotia legislation. It provides for the establishment of a Farm Settlement Board with the rights of a body politic and corporate. The Board is composed of not less than three nor more than five commissioners one of whom, the Secretary of the Board, is also the Superintendent of Immigration for the province. The Board is attached to the Department of Agriculture and under the direction and control of the Minister of Agriculture. The Department of Agriculture bears the administrative expenses of the Board.

The Act has been amended several times. Recent amendments are mainly concerned with increasing the maximum assistance which can be extended under the scheme.

The Act consists of two parts. Part I is called the general part, covering assistance to settlers between

¹Statutes of New Brunswick, 1912, c. 28.

NEW BRUNSWICK FARM SETTLEMENT BOARD

238

twenty-one and forty-nine years of age who have had at least one year of practical experience at farm work.²

Part II is concerned with additional loans to Junior Farmers. To qualify as a Junior Farmer an applicant must be between the ages of twenty-one and thirty and must be either a farmer's son with five years residence in the province or any young man with five years practical farm experience.

Under Part I of the Act, the Board purchases farms and resells them to settlers under an agreement of sale. The maximum price expended on the real estate of any one farm unit, including improvements to it, must not exceed \$10,000 for one person and \$15,000 for a partnership. Up to the 1956 amendments, the Board could not spend more than \$4,000 on the real estate assets of a farm. The settler must pay for the recording of the deed and other legal fees. He must also

²"According to the Farm Settlement Act a settler to qualify for assistance is supposed to have two years' farm experience under Part I of the Act. With respect to immigrant settlers a period of one year's experience on a New Brunswick farm is required in order to qualify, and at the time the Regulations were made up it was considered that stating in the Regulations that native settlers must have at least two year's experience would not seem to be fair. The Board, in considering applications, looks into the background of the settler and he must either have a farm background and one year's experience in farming or the Board must be convinced that he has a fair chance of success, judging from his experience, on the farm which he proposes to purchase". - The foregoing is quoted from a letter of 23 May, 1958, from Mr. H.F. Stairs, Secretary, New Brunswick Farm Settlement Board.

NEW BRUNSWICK FARM SETTLEMENT BOARD

239

keep the farm buildings under an approved insurance contract which has to be assigned to the Board.

The loan ratio for real estate loans is seventy-five per cent. The applicant must forward five per cent of the purchase price of the farm with his application. On approval of his application, the settler has to pay the remaining twenty per cent. "Most Agreements of Sale are made at the maximum rate of 75 per cent of the purchase price. In a few instances the purchaser volunteers to pay more than the required 25 per cent".³

Agreements of sale may extend over a maximum term of thirty years. For terms up to fifteen years the annual interest rate is three per cent. For terms longer than fifteen years the rate of interest is five per cent per annum. This provision seems to be designed to encourage settlers to use the shorter term financing⁴ at the cost of government subsidization. The interest rate charged on the longer term loans probably⁵ covers both the cost of the funds loaned and the administrative costs incurred in lending them. This

³Secretary's letter of 23 May, 1958.

⁴"Since the beginning of April 1956 only one agreement of sale for a period of over fifteen years was made, all others have been fifteen years or under". - ibid.

⁵at post-war interest rates.

discrimination against the long-term borrower, who probably purchases a larger scale farm or, looking at it from another angle, the preference for the short-term borrower, probably purchasing a small scale farm, can hardly be advocated.

Loans have to be repaid in equal annual instalments on the amortization plan or otherwise as the Board may determine. By otherwise is meant that settlers may prepay their agreements of sale and loans at any time. In many instances settlers make use of this privilege. The first payment falls due two years from the first day of November next following the date of the loan. Like under the Nova Scotia Act, the settler is given a break during the first difficult years. Interest accrued during these years will be added to the principal of the loan.

In 1955, Part I of the Act was amended to permit the Board to spend a maximum of \$2,000 for the purchase of livestock and equipment, so that the maximum expendable on real estate as well as livestock and equipment could go up to \$6,000.⁶

In 1956, Part I was again amended in this respect. Now, a settler having purchased a farm under an agreement of sale can qualify for an additional loan for the purchase of

⁶"An Act to Amend the Farm Settlement Act", New Brunswick Acts, 1955, c. 48, s. 3.

NEW BRUNSWICK FARM SETTLEMENT BOARD

241

livestock and equipment. Loans cannot exceed fifty per cent of the appraised value of the livestock and equipment serving as security for the loan. Loans are thus secured by chattel mortgages. The maximum loan is \$2,500. Again, different interest rates apply which fact may be defended on the basis of the type of security offered, i.e. livestock and equipment are of much less permanency than land and buildings. The interest rate on loans up to five years' duration is four per cent per annum. For terms over five years an interest rate of five per cent applies. The Act does not set a maximum term for these loans. They are usually extended for periods of five to ten years.⁷ The settler negotiates the repayment period with the Board. This feature enables the Board to provide worthy farmers with individual or tailor-made intermediate credit.

Additional loans of the above type had been first granted to Junior Farmers under Part II of the Act since the 1939 amendments. The maximum loan available was raised from \$500 to \$1,500 in 1955 and to \$2,500 in 1956. The terms and interest rates applying to Part I loans also apply to Part II loans so that today there is not much difference left between the two parts of the Act. In respect to agreements of sale,

⁷Secretary's letter of 23 May, 1958.

NEW BRUNSWICK FARM SETTLEMENT BOARD

242

Part I applies also to Junior Farmers, except that 1) the first repayment falls due after one year rather than two years and 2) the amount of down payment is at the discretion of the Board. The latter provision allows the Board to extend funds at high loan ratios to promising young settlers.

The Secretary of the Board writes in this connection:

The Junior Act came into force in 1939 and no more than three or four loans were made then. For some reason no loans were extended under this Act until recently when we have given special consideration to one or two settlers who qualified but in each case extra security has been extended in lieu of the full down payment.

The only significant difference in practice between Parts 1 and 2 is the fact that the Board may use its discretion with regard to the down payment. Any Junior settler who does purchase at a lower down payment than the 25 per cent has, as stated above, given adequate security.⁸

In 1937, the Board was empowered to subdivide crown lands unfit for lumbering into one hundred acre lots, clear ten acres on each lot and erect a dwelling home and other buildings and sell such units to settlers. Arrangements of this kind may have been all right before agriculture became mechanized. In fact, the New Brunswick Department of Lands and Mines has changed its policy on the settling of crown lands and such lands are no longer available for settlement.

At present the Board has hired two fieldmen, one full-time and one on a part-time basis, to appraise

⁸ibid.

NEW BRUNSWICK FARM SETTLEMENT BOARD

243

properties, livestock and farm machinery for loan purposes. Neither one holds certificates of qualifications as appraisers, but the part-time appraiser is an agricultural graduate. The Secretary of the Board says, that

In making appraisals many things are taken into consideration such as the location of the property, whether or not it is possible for the settler to have an opportunity to sell fluid milk, the kind and quantity of lumber in the wood-lot as well as the number of acres of cleared land, the type of soil, the conditions of the buildings, and whether the community is a thriving community. The Board always takes into consideration the settlers' apparent ability and the likelihood of his being able to repay the loan out of the products of the farm and extra earnings he may make either from the wood land or secondary occupation such as work in the woods, work on the road, carpentry work, etc.⁹

The fieldmen inspect farms held under agreements of sale and interview the settlers annually. On these visits the fieldmen check on the general farm and wood operations,¹⁰ discuss needed repairs and other problems and inspect the farm accounts.

The Board's operations are financed from the general revenue of the province. Repayments of principal and interest are credited to a special account kept by the Provincial Secretary-Treasurer.

⁹ibid.

¹⁰Settlers are not allowed to cut any wood on their farms, either for sale or own use, without permission from the Board.

NEW BRUNSWICK FARM SETTLEMENT BOARD

244

The Act requires settlers to take out life and disability insurance on themselves in favour of the Board. In practice the Board has never demanded such insurance.¹¹

Regulations with respect to immigrant settlers are by and large the same as those applying to Canadian citizens. They have to have one year of farm experience in Canada and must demonstrate to the Board their ability to conduct a farm enterprise successfully. The only major difference is that immigrants have to pay down one third of the purchase price of a farm rather than only twenty-five per cent. It is probably thought that immigrants are greater risks than natives.

2. Lending Operations.

From its beginning in 1912 up to March 31, 1957, the Board purchased a total of 1,471 farms at a price of \$2,417,515. As shown in Table XXXVI the number of farms actually held by the Board has increased in recent years. At the end of the 1956-57 lending period, the Board held title to 297 farms. This number represents 1.3 per cent of the total number of farms in the province and 3.3 per cent of

¹¹ Secretary's letter of 23 May, 1958.

NEW BRUNSWICK FARM SETTLEMENT BOARD

245

TABLE XXXVI.-

Number of Purchase Assistances Applied for and Approved, Percentage Approved, and Farms Held Under Agreements of Sale, NBFSB, 1949 - 1957

Lending Period	Applications No.	Approvals No.	Percentage Approved	Farms Held No.
1949-50	64	32	50	182
1950-51	65	12 ^a	18	177
1951-52	37	18 ^a	49	164
1952-53	51	24	47	170
1953-54	56	32 ^a	57	188
1954-55	50	40	80	200
1955-56	158	91	58	245
1956-57	149	112	75	297

Source: Annual Reports, Department of Agriculture of the Province of New Brunswick, For the Years Ended March 31, 1950-57.

^aNumber of farms actually bought.

NEW BRUNSWICK FARM SETTLEMENT BOARD

246

commercial farms.¹² Also shown in Table XXXVI are the number of farms applied for and the number of applications approved since the 1949-50 lending-period. After the 1955 amendments the number of applications tripled. The percentage approved, during the eight year period, has been mostly near the fifty per cent mark although in one year it went up to eighty per cent. The demand for loans is much greater than the number of approved applications would signify.¹³

In Table XXXVII are compared the number of farms purchased and the average amount expended per farm by the Board with the number of loans and the average amount approved by the Canadian Farm Loan Board since the 1949-50 lending-period. While in the beginning of the nineteen fifties the number of loans from the Board was much lower than that extended by the CFLB, the reverse is true since the 1955-56 lending-period. The average loan or assistance under both schemes has increased by about 100 per cent with the largest increase occurring in the 1956-57 lending-period. The average amount per loan extended was very similar under both schemes.

¹²As in Nova Scotia, the number of commercial farms has increased in New Brunswick since the 1951 Census. The number of commercial farms has increased from 7,704 to 9,021 in 1956, or 17.1 per cent. Other farms decreased from 18,727 to 13,095 or 30.1 per cent. In 1951, commercial farms were 29.1 per cent of the total. In 1956 they were up to 40.8 per cent.

¹³Secretary's letter of 23 May, 1958.

NEW BRUNSWICK FARM SETTLEMENT BOARD

247

TABLE XXXVII.-

Number of Farms Purchased by the NBFSB and Average Purchase Price per Farm Compared with Number of Loans and Average Amount per Loan Approved by the CFLB in New Brunswick during the Period 1949 - 1957

Lending Period	NBLSB		CFLB	
	No.	Average Amount \$	No.	Average Amount \$
1949-50	32	2,005	107	2,131
1950-51	12	1,679	132	2,015
1951-52	18	2,575	64	2,647
1952-53	24	2,700	69	2,995
1953-54	32	2,283	95	2,781
1954-55	29	2,548	62	3,010
1955-56	62	3,155	39	2,744
1956-57	77	3,910	60	3,901

Source: Annual Reports, Department of Agriculture of the Province of New Brunswick, For the Years Ended March 31, 1950-57.

NEW BRUNSWICK FARM SETTLEMENT BOARD

248

In the 1956-57 lending-period, livestock and machinery loans were made for the first time. Fourteen loans were made at an average amount of \$909. In the 1957-58 period the Board extended thirty-two loans averaging \$1,111. These averages may be compared with average FILA loans of \$1,101 and \$1,096 made in 1955 and 1956.

The Board seems to make a point of catering to part-time farmers, e.g. in 1954 and 1955 the Board reported that repayments due increased in part because of "the lack of outside employment".¹⁴

With the New Brunswick farm organization being similar to that of Nova Scotia, one may be justified in criticizing both schemes along similar lines. While the legislation contains many recommendable features, actual lending practices do not ensure establishment of economic farm units. The New Brunswick scheme judges repayment ability of settlers by non-farm income. Part-time farmers do not tend to be efficient farmers although they may be self-sufficient farmers. However, the 1956 amendments may not have shown their full effects as yet.

¹⁴Annual Reports, 1954, p. 174 - 175; and 1955, p. 178. The loan regulations state that applicants must be bona fide farmers. This term is defined in the Secretary's letter of 23 May, 1958, as follows: An applicant is a bona fide settler "so long as he promises to farm the land to the fullest extent and to live on the property. A person could be a bona fide farmer if he farmed only a few acres on which he had a poultry or market gardening operation".

NEW BRUNSWICK FARM SETTLEMENT BOARD

249

It is interesting to note the Secretary's view on this topic. He writes:

The answer to this question depends upon what is meant by economic farm units. It is my opinion that a man who occupies a small farm where he can grow his vegetables, feed for his cattle, can keep some hens and perhaps a pig or two, and who can realize over the years considerable income from his woodlot may be in a strong economic position, relatively speaking. He has a cheap home for his family and is in a lower taxation district than he would be if he purchased a home in an urban centre and the family can assist with the work of the small farm, thus gaining a livelihood. He can carry on this operation with a minimum outlay in equipment, and with the extra earnings which he can make away from the farm it is conceivable that he will be in a good position economically. We endeavour to keep this point of view before us and consequently we do not think that we have been lending money on uneconomical farm units. The applications that we consider are not economical are not approved.¹⁵

It seems that the province does not have the funds to set up an efficient farm loan scheme, especially one providing all important intermediate credit. This idea as well as some criticism of the scheme is expressed by the Secretary when he says:

There has been some criticism of the farm credit schemes in this province from farm organizations to the effect that government loans at low rate of interest, repayable over a long period of time, are not available for farm operation financing. There has been some criticism that the required down payment is too high. The policy of our government to

¹⁵Secretary's letter of 23 May, 1958.

NEW BRUNSWICK FARM SETTLEMENT BOARD

250

date with regard to capital for farm operation financing has been that funds for this purpose are available under Federal schemes and that the province should not enter this field. No credit arrangements once established have been discontinued.¹⁶

The fact that most loans are far below the maximum assistance, is explained by the Secretary of the Board as follows:

The average assistance per farm is considerably below the maximum amount allowable because a large number of the farms for which applications are made are below this maximum value. It is much easier for an applicant to find 25 per cent of \$3,000, \$4,000 or \$5,000 than it is for \$10,000. For this reason there are more people who are able to buy the small properties than the large ones. It is also true that the larger properties tend to be held by their owners who are able to carry on full-time farm operations while the smaller farms become deserted for some reason or another and the owners of small farms are more likely to be on the move than those occupying the large ones. For this reason it is much easier for a person to buy a small property, consequently, at the price much below the maximum. However, we are now purchasing a larger number of high price farms than formerly.¹⁷

To summarize, the Act may be recommended for making provisions for package-credits at relatively high loan ratios and for relatively long terms. The 1956 amendments increased the legal maximum loan and also introduced a higher loan limit for partnerships. There is no maximum term limiting the time over which working capital may be extended. Under

¹⁶Secretary's letter of 15 January, 1958.

¹⁷Secretary's letter of 23 May, 1958.

NEW BRUNSWICK FARM SETTLEMENT BOARD

251

Part II of the Act, the loan ratio is at the discretion of the Board.

However, like under the Nova Scotia scheme, the Board in the face of a large demand for loans, does not seem to be able to take full advantage of some of the excellent potentialities of the Act. The long terms seem to be rarely used. Lending on a high percentage of the collateral under Part II is frustrated by demanding additional securities; very few loans are actually being made.

The average loan-size is far below the maximum limit. The yearly number of loans, though still small, is now on the increase. The Board encourages non-commercial and part-time farming, and its ideas on an economic farm unit seem to be outdated. Lending as well as administrative funds to support a more consequential scheme are apparently lacking. Of course, the full effects of the 1956 amendments may only appear in the near future. In one or two years from now a study of the Board's activities should bring forth interesting results.

CHAPTER X

THE QUEBEC FARM CREDIT BUREAU

1. General Outline.

The Quebec Farm Credit Bureau was established in 1936 under the Quebec Farm Credit Act.¹ The Bureau began operations in March 1937. It consists of four members or directors who are appointed by the Lieutenant-Governor-in-Council for periods of ten years. Two of the members are appointed chairman and vice-chairman. The Bureau has the rights and powers of a corporation. Its head office is located in Quebec City. The Act provides for branch offices if they are considered necessary. No branch offices have been opened thus far.

The Bureau provides long-term credit to farmers in the Province of Quebec. The Act defines a farmer as "any owner of a farm or enterprise belonging to or connected with agriculture, which he operates himself or through servants, and from which he derives the whole or an appreciable part of his income".² A farm is broadly enough defined to include such enterprises as poultry-farms, piggeries and feeding-lots where little land may be required. In order to qualify for a

¹R.S.Q., 1941, c. 113.

²ibid., s. 2 (a).

QUEBEC FARM CREDIT BUREAU

253

loan the borrower's main occupation must be farming and the main revenue must come from agriculture.

Loans are made for four main purposes. They are: first, loans for the consolidation and refinancing of old debts; second, funds for farmers' sons who wish to settle and whose fathers supply rolling stock or some cash; third, loans to established farmers who want to improve the efficiency of their farming operations and fourth, loans to persons with agricultural training and a certain amount of capital who wish to settle on farms. The Bureau's lending policy thus includes any conceivable type of borrower.

The Bureau finances its operations with funds voted by the Quebec Legislature.³ The Legislature has voted new funds to the Bureau in nearly every year since the inception of the scheme. By the end of 1956 a total of \$155,000,000 has been made available to the Bureau in this manner. According to the Act the proceeds from loans must be used to make

³The Act makes provision for the Bureau to finance its loans by the sale of bonds and through loans from the Provincial Treasurer. Municipal and school corporations and corporations of parish trustees are permitted to invest their sinking funds in bonds issued by the Bureau. The Lieutenant-Governor-in-Council, i.e. the provincial government, may also acquire Bureau bonds. No use has been made thus far of the above means of financing and funds have always been acquired by vote from the Legislature.

QUEBEC FARM CREDIT BUREAU

254

new loans and to establish a working capital fund for the protection of the loans.⁴ This fund must not exceed \$100,000 and is to be used to pay insurance premiums, taxes and assessments of delinquent borrowers and also for the cost involved in foreclosing loans and subsequent administration and selling of properties. No such fund has been established.⁵

All loans contracted by the Bureau are guaranteed by the Quebec government. Any expenditures made under this guarantee come from the Consolidated Revenue Fund.

The Quebec scheme is heavily subsidized. First, administrative expenses of the Bureau are borne by the government. Second, the government, through the Minister of Agriculture, pays the legal registration fees for the certificates of real rights and the certificates of privileges and hypothec furnished for purposes of loans under the authority of the

⁴R.S.Q., 1941, c. 113, s. 10.

⁵Stated in letter to the writer of 4 June, 1958, by Rodolphe Laplante, Director and General Secretary of the Quebec Farm Credit Bureau.

Act.⁶ Third, the Bureau charges an interest rate on its loans which at most times is lower than the costs of the funds to the government. The interest rate has been two and one half per cent per annum since the inception of the scheme, excepting the 1941-1946 period when it was three per cent.⁷ At present the Bureau charges the lowest interest rate of all public agricultural credit agencies in Canada. This, however, is a doubtful distinction from an economic point of view. An artificially low interest rate will raise land values on the one hand, and on the other hand it will help inefficient producers to stay in business.

⁶R.S.Q., 1941, c. 113, s. 38.

A leaflet which the Bureau sends to prospective borrowers has this to say under the heading Establishment of Property Titles: "The cost of establishing a clear title of the property offered as security is at the borrower's expense. The notaries, however, are allowed to grant a reduction of 40% of the regular tariff, according to a resolution passed by the Board of Notaries, and the Certificate of Research is supplied free of charge."

Section 37 of the Act enables the Lieutenant-Governor-in-Council to "change the fees allowed by their tariffs to registrars who receive no fixed salary". Therefore, one may assume that the notaries passed their resolution in order to comply with the spirit of the Act. Quebec notaries charge very high fees for searching titles. On account of this the Bureau does not make loans of \$500 or less, as for such loans the legal costs are out of proportion to the loan. (Reference to high notary fees in Quebec has also been made in Parliament in connection with CFLB-loans).

⁷The conditions of the loan were changed because the government, who sponsored the Law in 1946, was defeated in 1939. Promises were then made to shorten the period. Consequently the Law was changed in 1940 and the new terms were in force in 1941". - Letter from Mr. R. Laplante.

QUEBEC FARM CREDIT BUREAU

256

Another first of the Quebec scheme is of more merit. The Act makes provisions for loans to be extended over terms up to thirty-nine and one half years. No other Canadian agency, federal or provincial, does extend funds to agriculture over such a length of time. The long term was one of the original provisions of the Act. It was temporarily reduced to twenty-five years during the 1941-1946 period.

Borrowers repay their loans on the amortization plan. Annual payments on principal and interest amount to forty dollars per \$1,000 of loan payable in two semi-annual instalments of twenty dollars. Loans may be prepaid at any time. Prepayments reduce only the principal and may not be credited towards future amortization payments falling due. The first instalment becomes due six months from the date the deed of the mortgage is signed. In view of the easy terms, delays in payments are not tolerated.

The Bureau's own inspectors appraise farms for loan purposes. It employs twelve full-time Regional Inspectors. These are trained agronomists who have at least ten years experience in farming and rural economics. Their responsibilities comprise supervisory and survey work. In addition the Bureau has hired sixty local appraisers working on a part-time basis. These are farmers who have a practical knowledge of farm management and rural valuation. The general appraisal

of farms is made "according to their state of cultivation and earning power",⁸ by which is meant long-term average receipts, whenever possible to establish.⁹

In deciding who qualifies for a loan great emphasis is also placed on the farm experience of the borrower, on his character and on his family circumstances. Each annual report gives the number of boys and girls belonging to the families of the borrowers. The average number of children per family since the inception of the scheme is 3.9. The average age of borrowers is thirty-seven years and that of settlers twenty-seven to twenty-eight. Information of this nature indicates the importance the Quebec scheme gives to the social aspects of the family farm, such as producing large and contented families.

The Bureau also points out that its administration is decentralized enough to take into consideration

des circonstances particulières créées par les personnes, par le lieu, la proximité d'un centre d'écoulement des produits, la facilité à obtenir de la main-d'oeuvre accessoire à telle époque, de la fertilité plus grande du sol en certains endroits, de la saison plus longue ou plus favorable en tels autres.¹⁰

⁸Leaflet entitled: The Quebec Farm Credit Bureau.

⁹Stated in Mr. R. Laplante's letter of 4 June, 1958.

¹⁰L'Office du Crédit Agricole du Québec, Rapport pour l'année se terminent le 31 décembre, 1947, p. 5.

The maximum loan ratio is seventy-five per cent of the real value of the farm offered as security. If in a case of debt consolidation existing encumbrances amount to more than seventy-five per cent of the real estate value of the property, a loan at the maximum loan ratio may be extended if the creditors will accept such funds in lieu of all debt outstanding.

Properties serving as securities have to be insured against fire. The Bureau points out that a large number of farms are insured by Mutual Companies and that this shows "to what extent the Farm Credit Bureau helps the spreading of our co-operative system throughout the Province of Quebec".¹¹ This is another indication of the preponderance of social objectives under the Quebec scheme.

Amendments to the Act have increased the maximum loan from the original amount of \$6,000 to \$7,000 in 1953 and to \$8,000 in 1955.

The Bureau may extend second mortgage loans to borrowers as long as the total loans are not greater than the maximum amount and the maximum loan ratio permissible under the Act. Under these conditions, there is really no need for a second mortgage provision.

¹¹ Quebec Farm Credit Bureau, Report for the Year Ending December 31st, 1952, p. 6.

2. Lending Operations.

In Table XXXVIII are compared the number and average size of loans extended by the Farm Credit Bureau and the CFLB in Quebec since the inception of these lending schemes. The data indicate that the number of CFLB loans has always been insignificant in comparison with the number of loans extended by the Bureau. The large number of loans extended by the Bureau after its establishment indicates that there was a great demand for loans at easier terms than those provided under the federal legislation.

Except for two years, there has not been much difference in the average size of loans extended by either agency. In the 1951-1952 period, the average CFLB loan exceeded the Bureau's average loan by \$2,943. In the same period the Board extended its smallest number of loans in Quebec. This would indicate that the Board limited its loans to a few gilt-edged farms which qualified for larger loans than those obtainable from the Bureau. The increase in the average loan coincided, of course, with the amendment to the Canadian Farm Loan Act which increased the Board's maximum loan from \$6,000 to \$12,000, including second mortgage loans, while the Bureau's maximum loan remained at \$6,000. Unfortunately, the increase in the maximum CFLB-loan was not the beginning of a trend. However, in the 1956-57 lending-period the average CFLB-loan

QUEBEC FARM CREDIT BUREAU

260

TABLE XXXVIII.-

Number and Average Size of Loans Granted in Quebec by the
Quebec Farm Credit Bureau and the CFLB, 1929-1957

Period	QFCB ^a		CFLB ^b	
	No.	Size \$	No.	Size \$
1929-37	-	-	4,208	2,029
1937-45	20,922	2,249	2,611	2,158
1945-50	7,984	2,671	796	2,740
1950-51	2,247	2,588	280	2,761
1951-52	2,595	2,840	94	5,783
1952-53	2,251	3,120	107	3,192
1953-54	2,693	3,260	209	3,504
1954-55	3,053	3,431	180	3,707
1955-56	3,491	3,576	138	3,598
1956-57	3,579	3,780	131	5,140

Source: Calculated from Annual Reports of the
Canadian Farm Loan Board and the Quebec Farm Credit Bureau.

^aCalendar Years.

^bYears run from April 1 to March 31.

took another jump and exceeded the average Bureau-loan by \$1,360. This increase coincided again with the increase in the maximum loan under the federal scheme. With CFLB maximum loans nearly twice the amount of the maximum now permitted under the Quebec legislation, there should be a definite market for federal loans in the province. This market would be composed of the more efficient farmers who need larger credits than those obtainable from the provincial scheme and who can handle them without the need for a subsidy.

After the Quebec maximum loan had been increased to \$8,000 in 1955, 436 loans between \$6,001 and \$8,000 were made in 1956. The average loan in this class was \$7,114. These loans represent only twelve per cent of the total number of loans made and nineteen per cent of the number of establishment loans made.

Both the average amount per loan and the maximum amount loanable may be criticized as being too low for the establishment of young farmers.

Table XXXIX indicates that since the end of World War II about seventy per cent of all loans were made for establishment purposes. In 1956, for instance, 66.05 per cent of the loans were used to purchase farms, 12.19 per cent were used for the construction of new buildings and 6.74 per cent to repair old buildings. Debt consolidation took 12.45 per cent of the loans and 2.58 per cent were used to buy livestock and

QUEBEC FARM CREDIT BUREAU

262

TABLE XXXIX.-

Number of Total Loans and Number and Average Size of Establishment Loans Granted, and Percentage of Establishment Loans of Total Loans, Quebec Farm Credit Bureau, 1937 - 1956

Year or Period	Total No.	L o a n s		Average Establish- ment Loan \$
		Establishment No.	Percentage of Total	
1937-44	20,922	3,999	19	2,370
1945-49	7,984	5,627	70	2,860
1950	2,247	1,535	68	2,837
1951	2,595	1,561	60	3,189
1952	2,251	1,647	73	3,331
1953	2,693	1,857	69	3,493
1954	3,053	2,219	73	3,654
1955	3,491	2,561	73	3,794
1956	3,579	2,252	63	3,839

Source: Quebec Farm Credit Bureau, Report For the Year Ending December 31, 1956, p. 5.

equipment. The consolidation of debts was one of the more important aspects of the scheme when it was started during the depression.¹² Since then, the relative importance of debt consolidation has decreased and the importance of loans for the purchase and improvement of farms has increased. Purchase or establishment loans constitute the largest percentage. This indicates that the scheme more and more takes on the nature of a settlement scheme of the Nova Scotia or New Brunswick type.¹³ A very small percentage of loans is used to acquire livestock and equipment. This may be explained by the fact that the Bureau encourages families to settle close together, in one and the same parish, so that they can use each other's machinery and equipment. This type of arrangement is, of course, recommendable in theory. However, no such co-operation is possible in the case of livestock without the

¹²In nearly every annual report the Bureau stresses the benefits Quebec farmers derived from the provincial credit scheme during the depression when "a great number of farmers were burdened with financial difficulties and were threatened to lose the ownership of their farm, the only means of support for their family". - Annual Report, 1956, p. 2.

In the Annual Report, 1950, p. 1-2, it is stated that, when the Act was passed in 1936, "the agricultural organization in the Province was distressing and remained a cause of great anxiety". The Act was voted for "in order to rescue agriculture in Quebec, to consolidate the financial situation of the municipal, ecclesiastical, and school corporations, to assure the maintenance of rural families on their farms".

¹³Agricultural organization in Quebec is actually quite similar to that prevailing in the Maritimes, with a large number of farms being of the non-commercial type.

extension of some kind of inter-family credit. And even the pooling of machinery may not materialize for both practical and psychological reasons which need no further elaboration. Of course, Quebec farmers can avail themselves of federal Farm Improvement Loans.

Thus a farmer wanting to establish himself under the Quebec scheme can at best hope for \$8,000 from the Bureau and whatever he may be able to get from a bank under the Farm Improvement Loans Act.¹⁴ That this is too low may be shown by an analysis of recent Farm Forum Findings on the topic of farm credit in Quebec.¹⁵ Forums were asked the question: What is the Minimum Amount of Capital Needed to Farm in Your Area? Forty-five forums answered this question as follows:

¹⁴If a farmer has a maximum loan from the Bureau, banks may be little inclined to extend loans with fairly long terms against the security of a second mortgage. However, a farmer with an already large mortgage on his farm is probably more in need of intermediate credit than a farmer with a small debt who, pending on his income, may even qualify for more long-term credit.

¹⁵Date of Broadcast: 11 November, 1957, Provincial Secretary: L.G. Young, Box 237, MacDonald College, St. Anne de Bellevue, Que.

QUEBEC FARM CREDIT BUREAU

265

<u>Minimum Required.</u>	<u>No. of Replies.</u>
\$20,000	13
\$15,000	11
\$15,000 to \$20,000	8
\$25,000	4
\$12,000 to \$15,000	4
\$40,000 to \$50,000	2
\$12,000	1
\$10,000	1
\$ 6,000 to \$15,000	1

Only seven forums report minimum capital needs required that would allow borrowers to borrow at the maximum loan ratio under the existing maximum loan provision. Nineteen forums report a minimum required of \$15,000. This would necessitate an initial equity of \$7,000 providing maximum loans could be obtained. According to the opinion of the other nineteen forums, \$12,000 and more down payment would be required.

To be more specific, let us compare the capital needs as reported by forums in various counties with the number and average size of loans¹⁶ extended in these counties in 1956.

¹⁶These averages include establishment loans as well as other loans.

The Harrington Forum in Argenteuil County reports capital needs from \$40,000 to \$50,000. The county received twelve loans at an average of \$5,825 which was higher than the provincial average of \$3,780. The Upper Tullochgorum Forum reports that \$25,000 are required for a hundred-acre-farm in Chateauguy County. Thirty-nine loans at an average of \$5,236 were extended. The Rawdon Forum reports from Montcalm County a minimum capital requirement from between \$12,000 and \$15,000. The county received thirty-eight loans averaging \$4,586.

Another way to show that average loans have not increased to the same extent as the increase in farm inventory values is to compare average Quebec farm values as reported by the 1941 and 1951 Censuses. In the ten year period, real estate values increased by 79.5 per cent, implements and machinery values by 186.4 per cent and livestock values by 252.4 per cent. Average farm values, including all assets, increased by 117.8 per cent. In the same period, average loans increased by only 44.5 per cent, and in 1956 they had increased by 71.3 per cent over the 1941 level. Unfortunately, the 1956 Census did not report farm values.

A third method to show that loans are too small is to prove that farmers could handle larger loans than they actually obtain, all the time assuming that more credit would render their units more efficient. This is done in Table XL, which shows the large amounts of prepayments made by Quebec

QUEBEC FARM CREDIT BUREAU

267

TABLE XL.-

Regular and Advance Payments by Borrowers, Quebec Farm Credit Bureau, 1937 - 1956

Period	P a y m e n t s		Advance Payment as Percentage of Regular Payment
	Regular \$	Advance \$	
1937-47	6,483,750	10,350,930	160
1948	962,336	1,381,269	144
1949	1,044,081	1,197,640	115
1950	1,125,252	1,019,134	91
1951	1,232,079	1,288,429	105
1952	1,360,649	1,148,005	84
1953	1,466,756	1,431,912	98
1954	1,601,901	1,913,252	119
1955	1,750,266	2,377,027	136
1956	1,888,803	3,127,104	166

Source: Calculated from Annual Reports, Quebec Farm Credit Bureau.

farmers in each year. Ever since the scheme began, advance payments came close to or exceeded the actual amortization payments due. This indicates that farmers could really handle about two times the amounts they now receive, assuming that payments come from farm income and not from off-farm work.

The low maximum loan provided by the Act offsets in some ways the advantages resulting from a long amortization period and a low interest rate.

As the large prepayments would indicate, losses are very low. By the end of 1956 they amounted to only \$1,709.93 which represents a loss of twelve cents per every \$10,000 loaned.

No organized supervision of the VLA type takes place under the Quebec scheme. There may be not much need for it at present lending activities. However, eighty-five per cent of the Quebec Farm Forums favour some kind of supervision as a general principle of an enlightened credit scheme for agriculture.

Table XLI shows loans outstanding in each year since 1947, and administrative expenses as a percentage of loans outstanding. In each year the amount outstanding has been much higher than that outstanding by the CFLB. But administrative expenses have been only little more than one half of one per cent of loans outstanding compared with a percentage of about one and one half per cent under the CFLB. It

QUEBEC FARM CREDIT BUREAU

269

TABLE XLI.-

Loans Outstanding, Administrative Expenses and Administrative Expenses as a Percentage of Loans Outstanding
Quebec Farm Credit Bureau, 1947 - 1956

Year	Loans Outstanding ^a \$	Administrative Expenses	
		\$	per cent of Loans Outstanding
1947	43,015,310	250,609	.582
1948	45,612,245	287,751	.631
1949	48,470,263	303,813	.627
1950	52,549,102	342,474	.652
1951	59,846,102	354,144	.592
1952	64,932,474	391,388	.603
1953	72,287,006	418,571	.579
1954	79,440,077	456,754	.575
1955	90,121,110	528,448	.586
1956	98,931,278	576,940	.583

Source: Calculated from Annual Reports,
1947 - 1956, Quebec Farm Credit Bureau.

^aTotal loans minus principal repayments.

requires further and detailed study to explain this difference in administrative costs of the two lending schemes. However, one might be justified in surmising that the larger business of the Bureau, concentrated in a relatively small area, contributes a great deal to the lower administrative cost of the Quebec scheme. This, indeed, seems to be the Bureau's view, as stated in the following words: "The Quebec Farm Credit Bureau has no branches as the Canadian Farm Loan Board does across the provinces and the large number of loans granted reduce proportionately the administrative expenses".¹⁷

In summarizing, it may be said that the Quebec Farm Credit Bureau was explicitly established more for sociological than economic reasons. Its aim seems to be to keep as many farmers on the land as possible. This aim can easily conflict with the objective to create economic farm units which are not in need of subsidies. Although loans to established farmers may be sufficient in many cases, they are too low for financing the purchase of complete farm units. The maximum loanable should be higher. Administrative expenses are low compared with those of the CFLB. Therefore, the administrative set-up of the Bureau should be studied further.

¹⁷In Mr. R. Laplante's letter of 4 June, 1958.

QUEBEC FARM CREDIT BUREAU

271

Most remarkable is the long amortization period provided for under the Act although its beneficial effects are partially offset by the low maximum loan limit.

CHAPTER XI

THE ONTARIO JUNIOR FARMER ESTABLISHMENT LOAN CORPORATION

1. General Outline.

The Ontario Junior Farmer Establishment Loan Corporation was founded in 1952 under the Junior Farmer Establishment Loan Act¹ which was enacted in the same year. The Corporation has virtually replaced all other provincial public lending schemes for agriculture because it provides more adequate credit than could be obtained under earlier legislation.²

The Corporation is a body corporate and politic without share capital. It is composed of three members who constitute its board of directors. The directors are Ontario civil servants who hold office during the Lieutenant-Governor's pleasure.

¹S.O., 1952, c. 45.

²Various provincial Acts are still administered in Ontario, although no loans have been made under them for some time. The Acts are: 1) Agricultural Development Act, R.S.O., 1950, c. 10, which succeeded An Act to Finance Agricultural Development, S.O., 1921, c. 31; 2) Farm Loans Act, R.S.O., 1950, c. 127; 3) Northern Development Act, R.S.O., 1937, c. 34, as amended: S.O., 1939, c. 47; 1946, c. 89; 1948, c. 62; 1949, c. 38; 4) Rural Power District Loans Act, R.S.O., 1950, c. 343; 5) Rural Housing Assistance Act, 1952; no loans have been made under this last Act.

ONTARIO JUNIOR FARMER ESTABLISHMENT LOAN CORPORATION 273

The Corporation reports to the Minister of Agriculture. Administrative costs are paid from appropriations by the Provincial Legislature.

The Corporation can finance its loans by the issue and sale of debentures and treasury bills as well as through temporary loans from banks or other persons. The treasurer of Ontario guarantees any funds loaned to the Corporation, no matter whether they are in the form of a bond or note issue or in the form of a temporary loan.

Debentures issued by the Corporation are a lawful investment for municipal, school and trust funds.

In 1957, the Act was amended to enable the Lieutenant-Governor-in-Council to authorize the Treasurer of Ontario to purchase any debentures, bills or notes of the Corporation or to make direct advances to it. No direct advances have been made thus far. In the first four years loans were financed by bank loans only. In the 1956-57 period the Corporation issued debentures amounting to \$11,000,000. This compares with a bank credit of \$4,651,588.99 as of March 31, 1958, and indicates that from now on more emphasis is put on raising money through the sale of debentures.

The original Act had limited the borrowing powers of the Corporation to \$10,000,000. A subsequent amendment raised this amount to \$20,000,000 in 1956. In 1957 the borrowing limit was removed altogether. This means that the

ONTARIO JUNIOR FARMER ESTABLISHMENT LOAN CORPORATION 274

Corporation's ability to lend is not impeded by a borrowing limit which could only be changed through legislative procedure.

The Corporation's name conveys that it is in business to promote the settling of young farmers in Ontario. In order to qualify for a loan the prospective settler must be between the ages of twenty-one and thirty-four years, inclusive.³ He must have been an Ontario resident for at least three years immediately preceding his application, must have had a minimum of three years of practical experience and intend to farm on a full-time basis.

Loans are extended to acquire fixed and current capital assets and for the consolidation of debts.

The Corporation requires that loans must be insured by first mortgages on land and buildings actually farmed by the applicant. Land leased to another party cannot be offered as security. The Act permits the Corporation to accept chattel mortgages. However, in practice it does not take chattel mortgages, thus leaving movable assets free as securities for intermediate credit.

³A 1956 amendment to the Act made it possible for a wife, eligible under the Act, to obtain a loan, if her husband does not qualify because of his age, providing that the farm is registered in both their names as joint tenants or tenants in common.

ONTARIO JUNIOR FARMER ESTABLISHMENT LOAN CORPORATION 275

Loans are limited to a maximum of \$15,000. Originally loans could be made up to eighty per cent of the appraised value of the security. The 1957 amendment lowered the loan ratio to sixty-five per cent. This was a backward move according to modern thinking on agricultural credit; but the Ontario legislators thought sixty-five per cent to be adequate. The maximum loan and loan ratio provisions of the Act are now the same as those in force under the Canadian Farm Loan Act. The maximum loan is nearly twice as high as the one under the Quebec scheme, but the loan ratio is ten per cent lower than in Quebec. The maximum loan limit seems to be sufficiently high to permit financing of an Ontario farm unit of average size at the existing loan ratio.

A study of capital investments of a sample of fifty-five cash crop farms in five western Ontario counties, undertaken in 1954⁴, shows the following:- Investment per farm varied between \$5,964 and \$72,098. Twenty-seven or nearly half the number of farms were in the \$15,000 to \$25,000 class. Twenty per cent of the farms were below this class and over thirty per cent were above it. A study of the real estate

⁴The information was collected by C. Varkarios, Economics Division, Department of Agriculture, Ottawa, in the counties of Kent, Essex, Lambton, Middlesex, Simcoe and Wentworth. The sample was formed on the basis of voluntary co-operation.

ONTARIO JUNIOR FARMER ESTABLISHMENT LOAN CORPORATION 276

component of total capital investment showed that thirty-seven farms or sixty-seven per cent of all the farms had real estate values varying between fifty-one and seventy per cent of total investment per farm. Four per cent had real estate components under fifty-one per cent and the remaining twenty-nine per cent of the farms were in the over seventy per cent class. Live-stock farms, of which there are many in the province, would probably show a somewhat smaller proportion of real estate than do cash-crop farms.⁵

The foregoing facts indicate the following. While the Act makes provision for ample real estate credit, it does not provide the beginning farmer with a source of sufficient operating credit. Assuming that the average real estate component represents sixty per cent of total investment per farm, under the present loan ratio a loan can only be made up to thirty-nine per cent of total investment. When the original loan ratio was in effect up to forty-eight per cent could be loaned. The borrower will have to make, first of all, a minimum down payment of twenty-one per cent of the total inventory value of a farm. The remaining forty per cent he may

⁵For a 1947 study of Ontario dairy farms, see: J.A. Dawson, The Dairy Farm Business in Eastern Ontario, Economics Division, Canada Department of Agriculture, Ottawa, June 1951, 28 p.

partially finance through short-term loans or intermediate loans under the Farm Improvement Loans Act. However, under the latter scheme, with his real estate mortgaged, he will find it difficult to obtain loans which must be secured by a mortgage on the farm; the only exception being machinery loans which could be of larger amounts, but unfortunately are repayable within three years. Thus the beginning farmer, desiring to finance an optimum combination of land and capital on his farm unit, is faced with the following dilemma. First, he may need a large down payment, mainly to finance machinery, livestock and equipment; second, he may finance his capital with intermediate and short-term credit and thus places himself in a very vulnerable position during the first years of operation. If his position is obviously vulnerable, the banks will not extend the credits, and he is again faced with the first alternative. The situation becomes more difficult the more appraised values fall below market values.

It is said that the appraisers of the Corporation evaluate farm property more nearly the approximate market value than does the CFLB.⁶ Appraisers work part-time and are hired on a per diem basis. They are for the most part

⁶Province of Saskatchewan, Royal Commission on Agriculture and Rural Life, Report No. 3, Agricultural Credit Regina, Queen's Printer, 1955, p. 79.

ONTARIO JUNIOR FARMER ESTABLISHMENT LOAN CORPORATION 278

ex-farmers and a few are professional agriculturists.⁷ According to the Act "land and buildings shall be valued on the basis of their value for agricultural purposes".⁸ The applicant has to pay ten dollars to cover the appraisal costs.

The maximum repayment term is twenty-five years. Loans are amortized in annual instalments of principal and interest. If the borrower so wishes, the first three instalments may be graduated so that the first instalment is less than the second and the second is less than the third, while all subsequent instalments are equal.⁹ This arrangement means a slight relief for the farmer in the first difficult years; but only a few farmers elect it.

The following repayment plans are generally used:

- 1) nineteen annual instalments of \$7.62 for each \$100 of loan,
- 2) fifteen annual instalments of \$9 for each \$100 of loan and
- 3) ten annual instalments of \$12.33 for each \$100 of loan.

⁷ Stated in letter of June 19, 1958, from Mr. E.A. Western, Manager, The Junior Farmer Establishment Loan Corporation, Parliament Buildings, Toronto, Ontario.

⁸ S.O., 1952, c. 45, s. 14, (2).

⁹ The following are graduated payments on a \$1,000 loan for twenty payments:

1st	1%	of loan plus interest	=	\$50.00
2nd	1½%	" " " "	=	54.60
3rd	2½%	" " " "	=	64.00
		Subsequent payments equal	=	78.09

ONTARIO JUNIOR FARMER ESTABLISHMENT LOAN CORPORATION 279

Prepayments may be made at any time. However, they cannot be credited towards later payments falling due. The Act does not provide any built-in repayment flexibility. The 1957 amendments permit the Corporation, at its own discretion, to grant an extension of time for the amortization of a loan. The Corporation may also consolidate new debts owed to the Corporation, such as taxes, accrued interest, insurance payments, etc. and arrange for their repayment over a maximum period of twenty years. The 1957 amendments have thus acknowledged the problems connected with the variability of agricultural income.

The interest rates are four per cent per annum on loans up to twenty years and four and one half per cent on loans from twenty-one and twenty-five years. The interest rate is set by the Lieutenant-Governor-in-Council. The higher interest rate for the longer term discourages borrowers to apply for loans of over twenty years duration. The interest rates are not geared to the cost of funds to the Corporation, and a government subsidy is required if the cost of funds to the Corporation exceeds its interest receipts. A reserve for losses has been established.

Administrative expenses are paid out of the Consolidated Revenue Fund of the province. This enables the Corporation to charge a lower interest rate than that charged by the Canadian Farm Loan Board. Considering that the

latter agency makes now loans up to thirty years, its five per cent interest rate, which may not be subsidized, compares favourably with the Corporation's rate of four and one half per cent on loans with terms ranging from twenty-one to twenty-five years.

The Act provides for the formation of advisory committees which have to be composed of at least two persons one of whom must be or must have been a practical farmer. Such committees are appointed by the Corporation and they are "to consider and report to the Corporation upon applications and problems that may arise in connection with loans already made".¹⁰ Thus far no such committees have been appointed.

The Corporation does not maintain an organized system of supervision of the VLA type. However, the Act says "that any governmental agency may co-operate with the Corporation by rendering assistance of an educational or other nature that appears calculated to facilitate the success of the borrower".¹¹

The Act thus recognizes the principle of supervision. In fact, the Corporation uses the services of provincial Agricultural Representatives to check the progress and prospects of the borrowers and to give the necessary advice. This service constitutes an indirect subsidy to the scheme.

¹⁰S.O., 1952, c. 45, s. 11.

¹¹ibid., s. 23.

2. Lending Operations.

In Table XLII the number and average size of Ontario loans approved by the Corporation are compared with the number and average size of those approved by the CFLB and the members of the Dominion Mortgage and Investments Association, in the 1952-1958 period. The DMIA figures are put in this table because more than half of all the loans made by its member companies to farmers, in recent years, have gone to Ontario.¹² The information in Table XLII indicates the following:-

1) The number of loans approved by the two government schemes is increasing; after the recent amendments the number of CFLB-loans is increasing at a faster rate than OJFELC-loans, the last annual increases being sixty-one and nine per cent respectively.

2) While, until 1955, the number of loans extended by the DMIA exceeded generally those made by the two government schemes, a reverse trend has set in since the 1956 amendments to the federal and provincial Acts. This suggests a shift

¹²In 1957 seventy-three per cent of the total number of farm loans went to Ontario.

ONTARIO JUNIOR FARMER ESTABLISHMENT LOAN CORPORATION

282

TABLE XLII.-

Number and Average Size of Loans Approved by the OJFELC, the CFLB and Members of the Dominion Mortgage and Investments Association in Ontario, 1952 - 1958

Period ^a	OJFELC		CFLB ^b		DMIA	
	No.	Size \$	No.	Size \$	No.	Size \$
1952-53	202	6,662	345	4,074	527	4,651
1953-54	410	5,973	521	4,139	451	4,523
1954-55	484	6,502	428	4,298	545	4,832
1955-56	482	6,862	443	4,683	576	5,394
1956-57	501	7,541	672	5,828	449	5,866
1957-58	545	7,499	1,084 ^c	7,362	351	5,739

Sources: Canadian Farm Loan Board, Annual Reports, 1953 - 1957; correspondence with Mr. E.A. Western, Manager, The Ontario Junior Farmer Establishment Loan Corporation; correspondence with Mr. J.E. Fortin, Secretary-Treasurer, The Dominion Mortgage and Investments Association.

^aFor the OJFELC and the CFLB periods run from April 1 to March 31. The OJFELC began operations in September 1952. DMIA figures are for calendar years, i.e. they always apply to the first year named.

^bThe amounts extended under second mortgages are added to first mortgages.

^cunofficial.

ONTARIO JUNIOR FARMER ESTABLISHMENT LOAN CORPORATION 283

from public to private lenders.¹³ At the same time, the sharp increase in government lending in the 1957-58 period indicates that not only a shift has taken place but also the total number of loans has gone up.

3) The sharp increase in CFLB-loans as compared with the number of loans extended by the Corporation could depend on various causes, such as: a) few young farmers are starting to farm because of the scarcity of capital and higher incomes in other industries, b) easier availability of CFLB-loans since the amendments of the Canadian Farm Loan Act, c) more credit is demanded by established farmers who do not qualify under the Ontario scheme because of the age limits. An investigation of these causal relationships would be an interesting topic for a more specialized study.

4) The average Corporation-loan has been somewhat larger than average loans under the other two schemes in each year. Until 1956, the CFLB extended the lowest average loan compared with the average loans of the other two lenders. In 1957, average CFLB-loans increased by \$1,534, thus overtaking by a wide margin average DMIA-loans, which slightly decreased,

¹³The following comment was made by Mr. J.E. Fortin, Secretary-Treasurer, The Dominion Mortgage and Investments Association, Toronto; "...there is little activity by our member companies in the field of ^{farm} mortgage loans. The principle reason for this is that there has been very limited demand of them principally because of the Canadian Farm Loan Act and the Farm Improvement Loans Act. Also the activities of the Farm Credit Bureau in the Province of Quebec result in

ONTARIO JUNIOR FARMER ESTABLISHMENT LOAN CORPORATION 284

and coming close to the average OJFELC-loan. While one of the reasons for the establishment of the Corporation was the over-conservative attitude of the CFLB, the latter's more liberal lending policy may make the Corporation's existence less important unless it is going to increase its loans and amortization periods in order to be of real assistance to young farmers wishing to establish economic units in a business-like way. On the basis of the average loan-size approved by the Corporation, and assuming that \$20,000 is enough to start the average Ontario farm unit - it may well be more - a settler would still have to raise \$12,500. This sum is too high. However, at the present loan ratio and with real estate accounting for about sixty per cent of all farm assets, a settler must be able to self-finance such a large sum. While the foregoing figures are averages and fictitious, they indicate the faults of the scheme in relation to the purpose for which it was established. The Corporation should not have lowered the eighty per cent loan ratio which, when it was first established, was a revolutionary step forward in the history of Canadian agricultural credit policy.

5) The average loan-size of both the DMIA and the Corporation has increased by about \$1,000 over the six year

little demand from private lenders." - Letter of June 23, 1958.

ONTARIO JUNIOR FARMER ESTABLISHMENT LOAN CORPORATION 285

period under consideration with a small decrease appearing in 1957. If the spectacular increase in CFLB-loans persists, DMIA-loans will become less and less important, while the Corporation's fate or usefulness may depend on its ability to cater better to the specialized class of farmers it was set up to serve.

In Table XLIII the number and average size of loans approved, are expressed as percentages of the number and average size of bona fide loans applied for in each year since the inception of the scheme. The percentage of the number of loans approved has increased steadily from thirty-five in 1952-53 to seventy in 1957-58. This trend is encouraging and it would be worthwhile to study its causes. Average loans approved have fluctuated between eight-four and eighty-nine per cent of the average loan applied for. This indicates that the Corporation either rejects more of the larger loans or makes downward adjustments in the amounts demanded, or does both.

Table XLIV shows administrative expenses as a percentage of the amount of loans outstanding. As the amount outstanding increased, administrative expenses also increased in absolute terms but decreased significantly in relative terms. This development shows how the administration of an agency becomes more efficient as its business expands. Lower

ONTARIO JUNIOR FARMER ESTABLISHMENT LOAN CORPORATION

286

TABLE XLIII.-

Number and Average Size of Loans Approved as a Percentage of
Bona-Fide Loans Applied For, OJFELC, 1952 - 1958

Period	No. of Loans			Average Size of Loans		
	Applied For ^b	Appro-ved	per cent	Applied For \$	Appro-ved \$	per cent
1952-53 ^a	574	202	35	7,765	6,662	86
1953-54	814	410	50	7,037	5,973	85
1954-55	757	484	64	7,446	6,502	87
1955-56	790	482	61	7,887	6,862	87
1956-57	828	501	60	8,471	7,541	89
1957-58	779	545	70	8,894	7,499	84

Source: Calculated from information received from
Mr. E.A. Western, Manager, OJFELC.

^aFrom September 1952.

^bSome loans were cancelled.

ONTARIO JUNIOR FARMER ESTABLISHMENT LOAN CORPORATION

287

TABLE XLIV.-

Administrative Expenses of the OJFELC as a Percentage of Loan
Funds Outstanding at March 31, 1953 - 1958

Period	Administrative Expense \$	Loans Outstanding \$	Per- cen- tage
1952-53 ^a	18,101.12	776,689.80	2.33
1953-54	68,299.71	3,320,474.46	2.06
1954-55	84,840.95	6,275,180.03	1.35
1955-56	109,247.03	9,179,166.25	1.19
1956-57	124,340.80	12,208,102.64	1.02
1957-58	152,876.20	15,232,897.07	1.00

Source: Calculated from information received from
Mr. E.A. Western, Manager, OJFELC.

^aFrom September 1952.

ONTARIO JUNIOR FARMER ESTABLISHMENT LOAN CORPORATION 288

administrative costs spell, of course, either lower interest rates to the farmer or higher earnings to the agency.

Until now, losses have been very low at \$3,416 as of March 31, 1958. This is the equivalent of nineteen cents per \$1,000 of loan.

The Corporation's record may be summarized as follows:- The lack of suitable agricultural credit for settlers provided a good reason for the establishment of the Corporation in 1952. However, its short lending history seems to indicate that it has not pursued a bold and imaginative policy vis-a-vis the traditional conservative attitude of the CFLB. If the Corporation cannot make adequate loans to beginning farmers in the future, it may soon outlive the very reason for its existence.

CHAPTER XII

THE ALBERTA FARM PURCHASE CREDIT ACT

1. General Outline.

The Alberta Farm Purchase Credit Act¹ is the youngest piece of legislation on agricultural credit in Canada. It was given assent on April 11, 1957.

The purpose of the Act is twofold. Firstly, it is to assist farmers to purchase economic farm units through the extension of long-term credit. In this it does not differ from most of the older settlement schemes. The second purpose is to provide the seller of a farm with a substantial down payment while at the same time inducing him to extend half of the credit needed to finance the farm sale.

The Act provides for an administrative set-up which is much different from the administration of the older schemes. Municipal governments take part in the scheme and carry on a great deal of the administrative work and bear some of the risks.

The Act encourages municipalities to form Farm Purchase Boards. These Boards are in many ways comparable to

¹Statutes of Alberta, 1957, c. 23.

ALBERTA FARM PURCHASE CREDIT ACT

290

the settlement boards of New Brunswick and Nova Scotia, except that there are many of them instead of only one for the whole province. Like the latter, they provide financial assistance to farmers wishing to buy a farm, and they hold title to the farm until the assistance has been paid off. The municipality in which a Farm Purchase Board has been formed guarantees the vendors of land to the Board against loss on the sale to the extent of twenty per cent of any loss. It also bears a portion of the operating expenses of the Board and it appraises the farms to be purchased under the Act through municipal appraisers.

A municipal council wishing to establish a Board has to apply to the Minister of Agriculture who is responsible for the administration of the Act. The application must be authorized by a bye-law of the municipality. The Minister, through the Provincial Treasurer, makes an agreement with each applying municipality concerning the splitting of administrative costs, farm appraisals, etc. The scheme is thus flexible enough to take care of any circumstance a municipality may find itself in. After an agreement with a municipality has been achieved, the Minister orders the establishment of a Board.

The Board consists of three or more persons. The municipal council, the Department of Agriculture and the

ALBERTA FARM PURCHASE CREDIT ACT

291

Provincial Treasurer each nominate at least one member. The members of Farm Purchase Boards are resident rate payers. Many of them are farmers, but in some cases other businessmen act as members. After the establishment of the Board has been ordered, the members of the Board form a corporation. Each Board can make its own bye-laws and regulations subject to approval by the Minister. According to Section 10 of the Act, a Board has, among others, the power 1) to borrow and lend money in accordance with the Act, 2) to receive money as repayments or deposits or fees for services and 3) to manage all securities and property coming under its control.

A farmer wishing to acquire a farm under the provisions of the Act has to make an application to the Board serving his municipality. In order to be eligible he must be 1) a British subject, 2) between the ages of twenty-one and fifty-five inclusive, 3) able to prove that he has had three years of farming experience and that he has average ability and good character, 4) able to show that his wife, if any, realizes the obligation he undertakes and 5) able to make a down payment of twenty per cent of the purchase price of the farm.

A Provincial Advisory Committee approves or rejects applications and reports to the Minister "upon problems that may arise in connection with loans made or to be made under

ALBERTA FARM PURCHASE CREDIT ACT

292

this Act, and upon any other matters referred to the committee by the Minister".² According to the Act the Advisory Committee "shall consist of two or more competent persons, one of whom shall be or shall have been a practical farmer".³ The present committee is made up of a retired farmer who at one time was head of the VLA in Alberta, the Head of the Treasury Branches for the Province of Alberta and the Executive Assistant to the Deputy Minister of Agriculture. The Advisory Committee seems to be the real representative of the province in this scheme.

As indicated above, the vendor of a farm and the provincial government share in the financing of the farm at equal amounts. The province finances its share from a Farm Purchase Revolving Fund. The Fund has been set up to supply loans to the different Farm Purchase Boards. Moneys for the Fund come from the General Revenue Fund and may not exceed \$2,000,000 outstanding. Principal repayments of loans are credited to the Farm Purchase Revolving Fund, while interest payments go to the General Revenue Fund. The interest charged to Purchase Boards is four and one half per cent. Loans are secured by a first mortgage on the land in favour of the

²ibid., s. 15.

³ibid., s. 14.

ALBERTA FARM PURCHASE CREDIT ACT

293

province. A Board, purchasing a farm for a successful applicant, goes through the following steps: First, it receives twenty per cent of the purchase price from the applicant. Second, it applies to the Provincial Treasurer for a loan from the Farm Purchase Fund of forty per cent of the purchase price of the farm or \$7,500 whichever is the lesser. Third, it pays the purchaser's down payment and the loan from the Purchase Fund to the vendor and agrees to pay the remaining forty per cent of the purchase price to the vendor over a period not exceeding twenty years at an interest rate of four and one half per cent per annum. In exchange the Board receives title to the farm. Fourth, the Board enters into an agreement of sale with the purchaser.

The purchaser repays his assistance by way of amortization in equal annual instalments of principal and interest. He pays a rate of interest of five per cent per annum. The difference of one half of one per cent which exists between the interest rates charged and paid by the Board is earmarked for an insurance policy on the purchaser's life.⁴

Repayments can be made over a maximum of twenty years. They must not go beyond the sixty-sixth birthday of the

⁴Stated in a letter of May 23, 1958, by G.R. Stirling, Executive Assistant to the Deputy Minister of Agriculture and member of the Provincial Advisory Committee.

ALBERTA FARM PURCHASE CREDIT ACT

294

purchaser. Prepayments may be made at any time, and the purchaser may use such credits later on if he is temporarily unable to pay his instalments.⁵

The maximum assistance a purchaser can receive is \$15,000. He could receive this amount for a farm with an appraised value of \$18,750, leaving him to make a down payment of \$3,750.

The Treasurer makes loans from the Farm Purchase Fund only on the security of lands which make a farm self-supporting. A farm may be a self-supporting unit as purchased, or it may be made self-supporting by the purchase of additional land. Loans for additional land will not be made if a farm is worth \$25,000 or more. No moneys from the Fund can be loaned for the consolidation of debts, the purchase of livestock and machinery or the erection of new buildings.

As a reserve for losses the Provincial Treasurer administers a Farm Purchase Assurance Fund. The moneys forming this Assurance Fund come from a five per cent deduction from the principal payments made by a purchaser. The Fund is invested and the interest is used to compensate vendors for losses. When the purchaser has paid off his assistance, his contribution to the Assurance Fund is equally distributed

⁵ibid.

ALBERTA FARM PURCHASE CREDIT ACT

295

without interest between the vendor and the Provincial Treasurer who thus indirectly pay for this insurance.

The Provincial Treasurer guarantees to pay to the vendor of a farm seventy per cent of any loss that he may incur on the sale of his farm. Adding to this the twenty per cent guaranteed by the municipality, leaves the vendor with a guarantee of ninety per cent and a risk of ten per cent.

In case of default by the purchaser a judge of the Supreme Court may appoint a receiver to manage the farm or sell the purchaser's interest.

The Act makes provision for a supervision of purchasers by the Department of Agriculture.⁶ It is one of the terms of the agreement of sale that the purchaser "will undertake to carry out to the best of his ability, any advice or directions of the Department of Agriculture given to him in respect of his farm lands".⁷

Administrative expenses, other than those borne by the municipalities, are paid out of the General Revenue Fund of the province.

The Minister of Agriculture tables an annual report on operations under the Act to the Legislative Assembly.⁸

⁶Sections 27, 28 and 29.

⁷Section 28 (b).

⁸No annual report had come out yet at the time of

ALBERTA FARM PURCHASE CREDIT ACT

296

2. Evaluation.

Since the inception of the Act forty-four Purchase Boards have been set up in the province. This number indicates a keen interest in the scheme. The Advisory Committee has approved about forty-nine applications for loans. However, no loans have been disbursed to Purchase Boards and consequently no farmers have actually received assistance as yet.

Apparently the scheme is starting slowly. This may be due to its administrative set-up. While the Farm Purchase Boards ensure a decentralized scheme, it takes time and debates in municipal councils to set them up. Furthermore, decentralization is partially off-set by leaving the final approval of a loan to a central body, namely the Provincial Advisory Committee.

The maximum assistance available seems to be sufficient to acquire land and buildings of an average Alberta farm. In a study of mixed farm organizations on two types of soil in the Parkland Areas of Alberta⁹ in 1954, Scott showed average

writing. All information on operations contained in the Evaluation of the Act comes from G.R. Stirling's letter unless otherwise signified. See footnote 4 of this chapter.

⁹Unpublished study of H.K. Scott, Economics Div. Canada Department of Agriculture; see: B.H. Kristjanson, "The Capital Structure of Canadian Agriculture, Part II, The Prairie Region", The Economic Annalist, Vol. 27, No. 5, October 1957, p. 103.

market values of land, buildings and livestock and depreciated average values of machinery and equipment per farm, as indicated in Table XLV. From this information one would gather that a package deal covering total assets rather than land and buildings only would be more suitable. Financing of movable assets with Farm Improvements Loans is very limited because banks generally cannot take mortgages to secure the larger and longer term loans. In view of the increasing importance of movable assets relative to land the lack of credit for these assets is bound to be a serious obstacle in building up economic farm units. The truth of this statement becomes even more obvious when we investigate the machinery and equipment needs of grain farms which form an important part of Alberta's agriculture. It was estimated, for instance, that the cost of new machinery and equipment for Saskatchewan grain farms, at December 1, 1955 prices, was \$18,195 for one-section-farms and \$28,533 for two-to-three-section-farms.¹⁰ Even if a farmer succeeds in getting used machinery at half these prices he will still have to do a lot of self-financing before he can make use of assistance from a Purchase Board. Although the purchase of used machinery may make initial

¹⁰B.H. Kristjanson, "The Capital Structure of Canadian Agriculture, Part II, The Prairie Region", p. 102.

TABLE XLV.-

Average Capital Investment in Two Sizes of Mixed Farms, Park-
land Area, Alberta, 1954

	Soil Productivity	
	High	Medium
	dollars per farm	
<u>Quarter Section</u>		
Land and Buildings	12,364	9,010
Machinery and Equipment	4,554	3,929
Livestock	<u>2,859</u>	<u>1,854</u>
	19,777	14,793
<u>Half Section</u>		
Land and Buildings	20,393	17,830
Machinery and Equipment	6,178	5,825
Livestock	<u>3,046</u>	<u>2,218</u>
	29,617	25,873

Source: See footnote 9.

ALBERTA FARM PURCHASE CREDIT ACT

299

financing easier, it will not be advantageous in the long run. Another large part of agricultural land in Alberta is used for ranching. What has been said for machinery financing is also true for livestock financing. The only difference is that one cannot buy second hand livestock, and only the best stock is worth buying.

Haase made a survey in 1953 of 120 newly settled wheat farms in the Wanham-Spirit River District of the Peace River Area of Northern Alberta.¹¹ He compared the returns to capital and family labour from below and above average sized farms on fair and good soils. The results of his investigation are contained in Table XLVI. They indicate the following. First, the settlers specialized in the beginning on crop growing only, in order to save movable capital. They only acquired some foundation livestock with which to build future herds in order to establish eventually a two-enterprise type of farming. If they could have begun in the first place with a two-enterprise system, i.e. wheat and livestock, their business would have been on safer grounds and returns would likely have been larger. Second, Table XLVI shows that the living expenses of the families settling on below average

¹¹Gordon Haase, "The Farm Business in Northern Alberta, 1953", The Economic Annalist, Vol. 25, No. 1, February 1955, p. 8 - 10.

TABLE XLVI.-

Average Returns to Above and Below Average Sized Farms on Fair and Good Soils in the Wanham - Spirit River Area of Alberta, 1953

	Fair Soils		Good Soils	
	Below Average	Above Average	Below Average	Above Average
No. of Farms	24	17	42	37
Cultivated Acres	132	341	121	283
	- d o l l a r s -			
Land & Buildings	6,350	9,250	5,000	12,100
Breeding Stock	512	908	477	646
Machinery & Equipment	3,527	7,021	3,129	5,610
Total Farm Capital	10,389	17,179	8,606	18,356
Returns to Capital & Family Labour	1,389	2,640	1,166	2,664
Living Expenses	1,577	2,155	1,598	2,161

Source: Gordon Haase, "The Farm Business in Northern Alberta, 1953", Tables I and II, p. 9 and Table III, p. 10.

size farms exceeded the returns to capital and family labour on both types of soil. These farms did not produce enough to cover the modest living expenses of this group while surplus for loan servicing was negligible. Families on above average farms could enjoy a higher standard of living and still have some money to repay debts. Had they been satisfied with the living standard of the first group their surplus would have been greater. Third, the capital investment figures suggest that even in the above average size group many of the farms do not make efficient use of land and capital on a year round basis.

Sociological considerations would seem to justify the provision that no loans can be extended to farms worth \$25,000 or more. It is directed against the emergence of a large land owner class. Again, it is necessary to point out that such a large farm is more likely in need of movable capital than in need of more land. However, the scheme does not provide such capital.

Notwithstanding the rule on additional land for farms valued over \$25,000, existing farms at a higher value may be purchased. The forty-nine applications which have been approved thus far range from very low values to values as high as \$38,000.

The loan ratio of eighty per cent is the highest in all Canada. It is just what the Canadian Federation of

ALBERTA FARM PURCHASE CREDIT ACT

302

Agriculture is asking for.

The interest rate, although five per cent nominally, is really only four and one half per cent since one half of one per cent insures the purchaser's life.

The maximum term of twenty years is rather short. A longer term requiring lower amortization payments would relieve the farmer who has to repay amounts of intermediate and short-term credit as well. Meeting amortization payments is made less risky by giving credit for prepayments.

A resolution, approved by the Convention of the Alberta Farmer's Union held in Edmonton in the week of December 9, 1957, recommended the following changes of the Act:¹² 1) the term should be extended to thirty years, 2) the interest rate should be reduced to four per cent, 3) the maximum loan should be raised to \$20,000, 4) the municipal liability should be abolished, and 5) the government should appoint a credit board which would be responsible for both the lending and collecting of loans.

¹²This information was taken from a note in The Country Guide, January 1958, p. 9. In this note the Act was somewhat misinterpreted. It was also said that the Farmer's Union recommended, among the other changes listed on this page, that the Act be changed so that the purchaser would have to make a down payment of twenty per cent of the purchase price. That is, of course, actually the case. The writer wrote on this matter to the Secretary of the Farmer's Union, but did not receive an answer.

ALBERTA FARM PURCHASE CREDIT ACT

303

From these resolutions one might gather that municipal governments are considered too weak financially to bear the costs of administration and the guarantee to the vendor, if lending operations would grow rapidly in the future.

A certain flexibility is introduced by the stipulation that "such sums as may be required for the purposes of this Act"¹³ may be advanced to the Farm Purchase Revolving Fund. However, the limitations of advances to the fund to \$2,000,000 will keep the lending volume down. Not more than 266 loans at the maximum amount could be made from that sum. Considering that the scheme could be widely used to finance father-to-son transfers the Purchase Fund is much too small. Father-to-son transfers are unnecessarily made difficult by limiting qualifications for assistance by an upper age limit of fifty-five years and by making all assistance repayable before the sixty-sixth birthday. Because of these regulations a farmer, after the age of forty-five, cannot get assistance at the maximum term. Under a father-son-agreement, a son could take over the obligation whenever the farmer retires. Under existing conditions the father would have to sell the farm prematurely to the son in order to obtain assistance at the maximum term.

¹³Statutes of Alberta, 1957, c. 23, s. 4 (2).

ALBERTA FARM PURCHASE CREDIT ACT

304

While the use of municipal appraisers may save money, they may be inclined to appraise land below the market value and thus put off potential vendors.

The provision for appointing a receiver to manage a defaulting farm is a unique feature. It cannot be found in any other Canadian farm credit legislation.

The scheme is subsidized in two ways: 1) the cost of administration is paid for out of public moneys, 2) purchasers are supervised free of charge by the Alberta Department of Agriculture.

To summarize, it may be said that the scheme is different from all other existing schemes in that it attempts to facilitate the purchasing of farms through the participation of the provincial and municipal governments and the local farmers themselves. While it cannot be called a model scheme, it has some good points. They are: 1) a decentralized and flexible administrative set-up under which private and government credit sources may be combined, 2) a partial guarantee of private mortgages, 3) a high loan ratio, 4) a certain repayment flexibility, 5) supervision of borrowers and 6) appointment of a receiver in case of foreclosure. Less advantageous points are: 1) decentralization is partially off-set by the need of final loan approval by the Provincial Advisory Committee, 2) financial weakness of municipalities, 3) the scheme

ALBERTA FARM PURCHASE CREDIT ACT

305

does not extend credits for the financing of working capital,
4) a twenty year term is too short for the repayment of real
estate credit.

It is impossible to make any definite pronouncements
on the Alberta scheme at this time. Only the future will tell
how Alberta farms will benefit from it.

CONCLUSIONS AND RECOMMENDATIONS

The survey of existing Canadian agricultural credit legislation shows the following high-lights:

1) There are four federal credit agencies. The Canadian Farm Loan Board lends to farmers in all provinces. Under the Farm Improvement Loans Act bank credit to farmers is partially insured. The Veterans Land Act gives financial assistance including outright grants to veterans. The Central Mortgage and Housing Corporation either insures private loans or extends credit itself. It handles very few loans to farmers and is of no importance in the agricultural lending field. Credit agencies, all of them lending directly, exist also in six provinces, viz. Newfoundland, Nova Scotia, New Brunswick, Quebec, Ontario and Alberta.

2) The VLA and the FILA are administered as divisions of the Department of Veterans Affairs and the Department of Finance respectively. All other agencies, both federal and provincial, are organized as public corporations; in Alberta each municipality may form its own corporation. Governments bear the administrative expenses of each agency excepting those of the CFLB.

3) Banks extend intermediate credits secured by chattels and sometimes real estate under the FILA. Provisions for package types of credit exist in Newfoundland,

CONCLUSIONS AND RECOMMENDATIONS

307

Nova Scotia and New Brunswick. In each province intermediate credits are secured by chattels. Long-term loans are secured by real estate mortgages under all schemes except under the common VLA plan and the Nova Scotia, New Brunswick and Alberta agencies, all of which sell farms under agreements of sale.

4) Interest rates vary from two and one half per cent to five per cent per annum. Some agencies charge higher interest rates for the longer term loans. The CFLB is the only agency requiring interest rates to cover the total costs of loans. Interest rates under all other schemes are or may be subsidized.

5) Maximum loan provisions for long-term loans range from \$8,520 to \$15,000 under the federal schemes. They are very unrealistic for the type of farm organization prevailing in many parts of the country. Under provincial legislations the range extends from \$3,500 to \$15,000. In New Brunswick and Nova Scotia co-operative farmers qualify for higher maximum loans than do those farming by themselves. This is a recognition of the need for larger scale farming. Recent amendments have increased maximum loan provisions under several schemes.

6) Loan ratios for loans secured by real estate vary from sixty-five to ninety per cent. While the former is employed by the CFLB and the Ontario scheme the latter is used by the Nova Scotia Land Settlement Board for especially

CONCLUSIONS AND RECOMMENDATIONS

308

well-qualified settlers. For intermediate credit secured by chattel mortgages loan ratios vary from fifty to eighty per cent as between the different schemes.

7) Appraisal methods have a direct bearing on the effects of loan ratios. Most agencies state that they base their estimates on both past and expected future performance. Some Acts provide for local advisory boards, but only under the VLA have such boards been established. In Alberta the municipal purchase boards provide the services of local advisory boards.

8) All schemes require long-term loans to be amortized. Repayment periods vary from twelve years in Newfoundland to thirty-nine and one half years in Quebec. Most agencies do not credit prepayments towards future payments falling due. A flexible payment plan exists only under the VLA. Some agencies provide for easier payments or other reliefs during the early years of a loan; thus payments may be skipped during the first three years under the Nova Scotia scheme.

9) Various provincial schemes have vague provisions for the supervision of borrowers. The Newfoundland Farm Development Loan Board subjects borrowers to a strict control. Only under the VLA are borrowers supervised in a manner outlined in Chapter I.

CONCLUSIONS AND RECOMMENDATIONS

309

10) Most governments finance their agencies by appropriating or lending funds to them. If agencies are permitted to borrow directly from the public the respective governments guarantee such loans. The Alberta scheme is unique in that the government and sellers of farms share equally in the financing of farm transfers.

The foregoing points show that there are large differences between existing lending schemes in their lending terms and smaller differences in their administrative organizations. The VLA and the FILA are not directly comparable with the other schemes. In some provinces farmers have a choice between their provincial scheme and one or two of the federal schemes. In others they can only depend on the federal schemes. The majority of the provincial schemes are foremostly designed to help settlers and they contain a large element of subsidy.

Most Acts have one or more up-to-date features which are off-set by less satisfactory ones. To mention a few of these off-setting combinations: no subsidization coupled with a low loan ratio and lack of supervision under the CFLB; supervision and flexible payment provisions coupled with low maximum loans and relatively short terms under the VLA; sufficient maximum loans with too short a term for machinery purchases under the FILA; package-credit in Newfoundland at low maximum loans, too short terms, and extended in separate

CONCLUSIONS AND RECOMMENDATIONS

310

loans which have to be repaid concurrently; a long repayment period and a low maximum loan provision in Quebec; a high loan ratio combined with too short a term in Alberta.

An investigation of lending operations of the various agencies gives rise to the following indications:

1) An analysis of the administrative costs under the VLA and the Quebec and Ontario schemes as compared with the CFLB indicates that these costs decrease relatively as lending increases and becomes more concentrated.

2) Most agencies seem to employ at least some uncertified appraisers. A study of CFLB appraisals during the 1941-52 period indicates that they were rather conservative and thus combined with a low loan ratio, seemed to prevent farmers from receiving adequate loans. Banks lending under the FILA seem to lack the advice of experts in farm finance.

3) The percentages of rejected loans are high under all schemes. This could indicate that these lending agencies only lend to well-established farmers, but refuse to extend more risky credit to beginning farmers and farmers on uneconomic units who are really in need of low cost government loans.

4) The average size of loan extended by all credit agencies is much below the respective maximum loan provisions which already are considered as being too low. Where-ever established, the average loan approved is lower than the average loan applied for. This indicates that applications

CONCLUSIONS AND RECOMMENDATIONS

311

for the larger loans are rejected and very few loans can be made to finance farm transfers where the buyer does not already possess a large equity.

5) The small average loans under provincial settlement schemes are particularly bewildering. It seems that especially in the Maritimes, the schemes are used to settle part-time farmers who have no intention to farm full-time and truly economic units eventually. The VLA encourages part-time farming. Part-time and subsistence farming depress the agricultural industry as a whole. Agencies encouraging these types of farm organization seem to be guided by fears of economic depression and unemployment.

It also seems that at least some of the provinces do not have the financial strength to run and back up efficient lending schemes for agriculture. This may particularly hold true in the Maritimes.

6) While a relatively large number of loans is being extended under the highly subsidized Quebec scheme, a non-subsidized scheme like the CFLB, extends a relatively small number of loans. However, the CFLB as well as the other agencies have increased their lending activities in recent years and, as mentioned before, the full effects of the latest amendments have probably not yet appeared.

CONCLUSIONS AND RECOMMENDATIONS

312

Recent views on agricultural credit policy have been discussed in Chapters I and II. The following points raised in that discussion stand out:

1) Governmental agricultural credit agencies are needed for the family-type of farm organization because in a growing economy private funds tend to move into non-agricultural industries where earnings are higher and funds remain more liquid than in agriculture. Nevertheless, governments should make use of private funds as much as possible by selling guaranteed farm loan bonds or by partially or wholly insuring private loans.

2) Credit agencies should be run with a maximum possible efficiency thus ensuring farmers of getting loans at a minimum cost above the pure cost of money, and relieving taxpayers from subsidizing agriculture by bearing administrative costs of agricultural credit schemes. Therefore, the administration must be centralized and concentrated without losing its usefulness to all types of farm organization in various parts of the country. Ideally, there should be one credit agency with branch offices in the major farming areas disregarding provincial boundaries.

3) This credit agency should supply package-credits tailored to the individual farmer's requirements. A package is composed of intermediate and long-term credits, balanced

CONCLUSIONS AND RECOMMENDATIONS

313

to suit the individual farm business. The terms are tailored to a farmer's needs and repaying ability. A farmer's credit needs are governed by the necessity to operate his farm on an optimum economic scale.

4) Certified appraisers should make appraisals on the basis of the future earning ability of a farm after the credit has been used. Appraisers should be assisted, but not directed, by local advisory boards composed mainly of responsible farmers and businessmen dealing with farmers.

5) Loan ratios should extend up to one hundred per cent of the appraised real estate value of a farm in the case of long-term credit and may be somewhat lower for intermediate credit, thus giving those who want and are qualified to farm a chance to do so. Lending should not be impeded by legal maximum loan limits.

6) Loans should be amortized in periodical instalments. Farmers should be encouraged to invest funds in special farm loan bonds bearing interest at the same rate farmers have to pay on their loans. These bonds could be used to repay loans in difficult years. In one-crop areas repayments may be tied to annual crop yields if a farmer so chooses. Repayment terms must extend long enough to ensure repayments according to income earning ability. Farmers must be permitted to pay off their loans, partially or wholly and without a

CONCLUSIONS AND RECOMMENDATIONS

314

bonus, whenever they wish to do so. If private loans come forth under a government insurance scheme a mortgage market will be necessary.

7) All borrowers must be supervised by a staff of experts trained in scientific agriculture and business administration. The degree of supervision should depend on the loan ratio; the higher the ratio the more supervision. In the case of beginning farmers, the knowledge of applicants in agricultural and business matters should be tested, and only those obtaining good grades should be allowed to qualify for government credit.

8) Interest rates should cover the total costs incurred in making a loan. Credit should not be subsidized except in the case of emergency loans. Any savings should be passed on to both old and new borrowers.

The indications from the survey as well as the discussion on agriculture credit policy support the idea of having one national farm credit administration to take care of an increasing demand for agricultural loans. This administration would make intermediate and long-term credits available to farmers at suitable terms. It could incorporate all desirable features in the field of agricultural credit and pursue a bold, imaginative and economically sound credit programme based on adequate research, low operating costs and the ability to spread risks across the length and breadth of the country.

CONCLUSIONS AND RECOMMENDATIONS

315

The recommendation for such a national agency may be further strengthened by 1) the existence of the U.S. Farm Credit Administration which supervises and partially finances the various American agencies, and 2) the failures and liquidations of some Canadian provincial agencies, as reported by Easterbrook in Farm Credit In Canada.

It follows the necessity to study how a national agricultural credit agency could be established on workable principles.

This study would have to pursue the indications listed above by investigating typical loans made by the various lending agencies from both the lender's and the farmer's points of view. Many case studies are required to provide information on the conducting of farm appraisals, lending and borrowing risks, flexible repayment plans, marginal revenue productivities of loans extended and the effects of farm operators' capacities on income earning ability. Furthermore, thorough case studies in farm management will have to be conducted in all areas and types of farm organization in order to obtain data on highest profit combinations of the factors of production and on marginal and average returns to capital.

The extent to which farmers use short-term credit, the relationship of short-term credit to intermediate and long-term credit, the sources and terms of short-term credit and

CONCLUSIONS AND RECOMMENDATIONS

316

the role of credit unions in the agricultural field will have to be studied.

Lastly, existing administrations and methods of financing, both in Canada and elsewhere, must be explored.

Information gained from the above mentioned inquiries will prove to be invaluable to those responsible for establishing the recommended national credit agency for Canadian farmers.

BIBLIOGRAPHY

Books.

Bellerby, J.R., Agriculture and Industry Relative Income, London, MacMillan & Co., Ltd., New York, St. Martin's Press, 1956, xii-369 p.

An inquiry into the causes of income differentials between agriculture and other industries in various countries. Some of the phenomena resulting from different relationships between agriculture and non-agricultural industries are discussed. Concepts of farm income are defined and clarified.

Easterbrook, W.T., Farm Credit in Canada, Toronto, The University of Toronto Press, 1938, ix-260 p.

A detailed study in Canadian agricultural history pertaining to the development of farm credit from the time of New France to the great depression in the thirties when the book was written. Part II deals with the advent of governments in this field. The book contains many references.

Fowke, Vernon C., Canadian Agricultural Policy, The Historical Pattern, Toronto, The University of Toronto Press, 1946, xii-304 p.

An analysis of the effects of public policy on the development of Canadian Agriculture from its early beginnings in the seventeenth century up to the present time. While making little reference to agricultural credit policy, the book provides good general background reading.

Hooper, Shadrach G., The Finance of Farming in Great Britain, London, W.C.I., Europa Publications Limited, 1955, 247 p.

This comprehensive book was written by an English banker to help other bank-men in his country to understand the problems of their farmer-customers. It contains a chapter on British agricultural credit legislation since 1947.

BIBLIOGRAPHY

318

Horton, Donald C., Patterns of Farm Financial Structure, A Cross-Section View of Economic and Physical Determinants, A Study by the National Bureau of Economic Research, Princeton, Princeton University Press, 1957, xx-185 p.

An attempt to reveal certain general relationships between financial organizations of agriculture and types of farming. The study does not provide conclusive answers. It is based on the U.S.A.

Jones, Lawrence A., and David Durand, Mortgage Lending Experience in Agriculture, Princeton, Princeton University Press, 1954, xxii-234 p.

In Part I farm mortgage distress in different United States regions is discussed. In Part II mortgage distress is related to individual farm organization. The book provides both a theoretical and practical background.

Morman, J.B., Farm Credits in the United States and Canada, The Rural Science Series, L.H. Bailey, Ed., New York, The MacMillan Company, 1924, xv-406 p.

A discussion of the farm credit situation in the U.S.A. and Canada during the first quarter of the twentieth century. The author stresses the social aspects of farm credit, such as keeping the farmer on the land, conserving the family, etc. Federal, state and provincial agencies are investigated and evaluated. The book is of value as an historical source.

Murray, William G., Farm Appraisal, Classification and Valuation of Farm Land and Buildings, Ames, Iowa, The Iowa State College Press, 1947, ix-278 p.

A comprehensive book written by an American authority on agricultural finance.

Province of Newfoundland, Report of the Royal Commission on Agriculture, 1955, St. John's, Nfld., Queen's Printer, 1956, xvi-391 p.

A thorough survey and appraisal of the historical development of the agriculture of Newfoundland and its future possibilities. Chapter 6 of Part II deals with agricultural credit.

BIBLIOGRAPHY

319

Province of Nova Scotia, Report of the Royal Commission on Rural Credit, (Halifax, Queen's Printer), 1957, xi-91 p.

A broad inquiry into the farm credit problem in Nova Scotia. The Report contains (1) historical and economic data on the farm organization in Nova Scotia, (2) the credit sources available to Nova Scotia farmers and (3) twelve recommendations dealing with various aspects of agricultural credit.

Province of Saskatchewan, Royal Commission on Agriculture and Rural Life, Report No. 2, Mechanization and Farm Costs, Regina, Queen's Printer, 1955, xv-175 p.

The study gives an indication of the impact of mechanization on the modern farm in a province where farming is highly commercialized.

-----, Report No. 3, Agricultural Credit, Regina, Queen's Printer, 1955, xiii-131 p.

A study of the need for farm capital and credit in Saskatchewan. The Report provides valuable reading for the student requiring a background in the problems and complications that policy makers in agricultural credit are faced with today. Although the investigation is based on the situation in Saskatchewan, many of the conclusions will probably hold true in other parts of the nation, especially in the prairie provinces. The Report contains forty-two conclusions and twenty-two recommendations providing food for thought. It also contains a detailed study of a sample of veterans farming under the Veterans Land Act.

-----, Report No. 5, Land Tenure, Regina, Queen's Printer, 1955, xiv-194 p.

The Saskatchewan systems of land tenure are discussed in relation to agricultural production, farm income, farm size, capital requirements, credit needs, the family farm, co-operative farming, corporation farming, leasing arrangements, absentee landownership, etc. The study provides a survey of opinions on these relationships.

Royal Commission on Canada's Economic Prospects, W.M. Drummond and W. MacKenzie, Progress and Prospects of Canadian Agriculture, Ottawa, Queen's Printer, 1957, xii-424 p.

A twenty-five year forecast concerning the development of Canadian agriculture. The study gives a good description of the differences in the regional organization of farming. Chapter 6 is on farm credit.

BIBLIOGRAPHY

320

Journal Articles.

Bailey, Rex R., "Current Guides as to Safe Debt Loads", Journal of Farm Economics, Vol. 36, Proceed. No. 5, December 1954, p. 1216-1223.

Banfield, Edward C., "Ten Years of the Farm Tenant Purchase Program", Journal of Farm Economics, Vol. 31, No. 3, August 1949, p. 469-486.

Barlowe, Raleigh, and John F. Timmons, "What Has Happened to the Agricultural Ladder?", Journal of Farm Economics, Vol. 32, No. 1, February 1950, p. 30-47.

Baughman, Ernest T., "Financing Young Farmers", Journal of Farm Economics, Vol. 34, Proceed. No. 5, December 1952, p. 930-936.

Beamish, Dick, "Is Farming on the Decline", Family Herald, Vol. 88, No. 13, March 27, 1958, p. 21.

Boulding, K.E., "Economic Analysis and Agricultural Policy", The Canadian Journal of Economics and Political Science, Vol. 13, No. 3, August 1947, p. 436-446.

Brooker, Marvin A., "Problems of Normal Value with Rising Prices", Journal of Farm Economics, Vol. 34, Proceed. No. 5, December 1952, p. 937-943.

Burkett, W. Keith, and Kenneth H. Parsons, "Buying Farms with Hundred-Percent Loans: An Analysis of the Farm Security Administration Loan Experience in Wisconsin", Land Economics, Vol. 17, No. 2, May 1951, p. 151-168.

Crossfield, D.C., "Changes in Farm Organization in British Columbia", The Economic Annalist, Vol. 26, No. 4, August 1956, p. 93-96.

Darr, Robert, "The Role of Intermediate Credit in a Changing Agriculture", Journal of Farm Economics, Vol. 39, Proceed. No. 5, December 1957, p. 1590-1599, Discussion by J.H. Atkinson.

Diesslin, Howard G., "A Re-examination of the Credit Needs of Agriculture", Journal of Farm Economics, Vol. 36, Proceed. No. 5, December 1954, p. 1200-1215, Discussion by Frank Miller.

BIBLIOGRAPHY

321

Engberg, R.C., "Risks in Agricultural Lending", Journal of Farm Economics, Vol. 31, Proceed. No. 1, Part 2, February 1949, p. 602-619. Discussion by Eli Ferguson and Lawrence A. Jones.

Evans, O.R., "Credit for Farmers", Family Herald, Vol. 88, No. 15, April 10, 1958, p. 25.

Ford, Richard G., "Integrating Research and Extension in the Field of Farm Management", Journal of Farm Economics, Vol. 34, Proceed. No. 5, December 1952, p. 822-827.

Fowke, V.C., "Developments in Canadian Cooperation", Journal of Farm Economics, Vol. 33, Proceed. No. 4, Part 2, November 1951, p. 909-915.

Garlock, Fred. L., "Financing Farm Adjustments", Journal of Farm Economics, Vol. 38, Proceed. No. 5, December 1956, p. 1527-1536.

Gibson, J.C., "Let's Examine Farm Credit", The Country Guide, Vol. 77, No. 4, April 1958, p. 13, 62-64.

Gilstorf, R.C., "Flexible Loan Repayment Plan for Prairie Grain Farms", The Economic Annalist, Vol. 28, No. 1, February 1958, p. 13-19.

Haase, Gordon, "The Farm Business in Northern Alberta, 1953", The Economic Annalist, Vol. 25, No. 1, February 1955, p. 8-10.

Haviland, W.E., "How Farmers Fared as Canadian Economy Levelled Off", The Country Guide, (no Number and Volume), December 1957, p. 11.

Haviland, William E., "More Capital and Tailored Credit for Fewer Farms", Agricultural Institute Review, Vol. 13, No. 2, March-April 1958, p. 22-26.

Heady, Earl O., "Adaptation of Extension Education and Auxiliary Aids to the Basic Economic Problem of Agriculture", Journal of Farm Economics, Vol. 39, No. 1, February 1957, p. 112-127.

Hedlin, Ralph, "How Credit Helped the Sanderrocks", Family Herald, Vol. 88, No. 12, March 20, 1958, p. 10-11.

BIBLIOGRAPHY

322

Hurlburt, Virgil L., "Economic Effects of Flexible Land Credit Arrangements", Journal of Farm Economics, Vol. 35, No. 1, February 1953, p. 110-121.

Koller, E. Fred, "Some Aspects of the Financing of Farmers' Cooperatives", Journal of Farm Economics, Vol. 34, Proceed. No. 5, December 1952, p. 949-963, Discussion by George F. Henning.

Kristjanson, B.H., and Leroy W. Schaffner, "North Dakota Farm Size Trends - An Evaluation", Journal of Farm Economics, Vol. 31, Proceed. No. 1, Part 2, February 1949, p. 588-591.

Kristjanson, B.H., "Credit Rationing in Agriculture", Bimonthly Bulletin, North Dakota Agricultural Experiment Station, Fargo, N.D., Vol. 15, No. 4, March-April 1953, p. 146-149.

-----, "The Farm Improvement Loans Act, 1945-55", The Economic Annalist, Vol. 27, No. 2, April 1957, p. 34-38.

Kristjanson, Baldur H., "The Capital Structure of Canadian Agriculture", The Economic Annalist, Vol. 27, No. 3, June 1957, p. 57-61.

Kristjanson, B.H., "The Capital Structure of Canadian Agriculture, Part II, The Prairie Region", The Economic Annalist, Vol. 27, No. 5, October 1957, p. 101-104.

Miller, Frank, "Equity Financing in Agriculture", Journal of Farm Economics, Vol. 38, Proceed. No. 5, December 1956, p. 1537-1544.

Murray, William G., "New Developments in Farm Appraisal for Loans and Tax Assessment", Journal of Farm Economics, Vol. 33, No. 4, Part 2, November 1951, p. 857-865.

Parsons, Kenneth H., and Wyn F. Owen, "Implications of Trends in Farm Size and Organization", Journal of Farm Economics, Vol. 33, Proceed. No. 4, Part 2, November 1951, p. 893-904.

Rieken, T.O., "Some Aspects of Farm Organization in West Central Manitoba, 1956", The Economic Annalist, Vol. 27, No. 3, June 1957, p. 62-67.

BIBLIOGRAPHY

323

Sinclair, Sol., "Whither Research in Farm Credit?", Scientific Agriculture, Vol. 26, No. 10, October 1946, p. 503-510.

Vermeer, James, "Trends in Farm Size and Organization in the United States", Journal of Farm Economics, Vol. 33, Proceed. No. 4, Part 2, November 1951, p. 881-892.

Wallace, D.B., "The f.s.d. of Mechanization", Farm Mechanization, (no Volume and Number), February 1958, p. 56-57.

Wright, K.T., "Should All Farms Be Large?", Journal of Farm Economics, Vol. 31, Proceed. No. 1, Part 2, February 1949, p. 592-595.

, "How Can the Young Farmer Find Capital", Farm Forum Guide, Vol. 12, No. 5, December 13, 1954, p. 1.

, Newspaper Article, "Report Heavy Demand for Land Under Alberta Farm Purchase Credit Act", The Western Producer, Vol. 35, No. 31, February 27, 1958, p. 9.

, Note on the Annual Meeting of the Farmers' Union of Alberta, Edmonton, During the Week of December 9, 1957, Country Guide, (No Volume and Number), January 1958, p. 9.

Statutes.

"Canadian Farm Loan Act", Revised Statutes of Canada, 1956, c.17; as amended by S.C., 1957, c. 5.

"Farm Improvement Loans Act", Revised Statutes of Canada, 1952, c. 110; as amended by S.C., 1952-53, c. 36; S.C., 1956, c. 24.

"Veterans' Land Act", Revised Statutes of Canada, 1952; as amended by S.C., 1953-54, c. 66.

"National Housing Act", Statutes of Canada, 1952, c. 46; as amended by S.C., 1953-54, c. 23; S.C., 1957-58, c. 18.

"An Act to Create a Farm Loan Board and to Provide Loans for Farm Development", Statutes of Newfoundland, 1953, Law No. 29.

BIBLIOGRAPHY

324

"The Agriculture and Marketing Act", Part XVIII, Revised Statutes of Nova Scotia, 1954, c. 5; amendments: N.S. Laws, 1955, c. 15.

"Farm Settlement Act", Revised Statutes of New Brunswick, 1952, c. 80.

"An Act to Amend the Farm Settlement Act", New Brunswick Acts, 1956, c. 35.

"An Act Establishing Provincial Farm Credit", Revised Statutes of Quebec, 1941, c. 113, various amendments.

"An Act to Incorporate The Ontario Junior Farmer Establishment Loan Corporation for the Purpose of Assisting Young Farmers", Statutes of Ontario, 1951-52, c. 45.

"An Act to Amend the Junior Farmer Establishment Act, 1952", Statutes of Ontario, 1956, c. 33

"An Act to Amend the Junior Farmer Establishment Act, 1952", Statutes of Ontario, 1957, c. 56.

"An Act to Provide a Means of Assisting Farmers to Purchase and Acquire Economic Farm Units", Statutes of Alberta, 1957, c. 23.

Annual Reports of Lending Agencies.

Canadian Farm Loan Board, Reports of the Canadian Farm Loan Board for the Years Ended March 31, 1930-1957, Ottawa, Queen's Printer.

Farm Improvement Loans Act, Department of Finance, Annual Report, 1956, Ottawa, Queen's Printer.

Canada Department of Veterans Affairs, Reports of the Work of the Department of Veterans Affairs for the Periods Ending March 31, 1945-1957, Ottawa, Queen's Printer.

Central Mortgage & Housing Corporation, Annual Report, 1956.

-----, Canadian Housing Statistics, 1950-1956.

BIBLIOGRAPHY

325

Province of Newfoundland, Annual Reports of the Department of Mines and Resources for the Years Ended 31st March, 1953-1957, St. John's, Nfld., Queen's Printer.

Province of Nova Scotia, Report of the Department of Agriculture and Marketing for the Year Ended March 31, 1957, Halifax, N.S., Queen's Printer.

Department of Agriculture of the Province of New Brunswick, Annual Reports for the Years Ended March 31, 1950-1957, Fredericton, N.B., Queen's Printer.

Quebec Farm Credit Bureau, Reports for the Years Ending December 31st, 1947-1956, Quebec, Que., Queen's Printer.

House of Commons Debates.¹

Canadian Farm Loan Act, "Amendments to Provide for Administrative Changes to Give Power to Board to Borrow from Minister, etc.", Vol. 3, 1952, p. 2246-2247, 2582-2585, 2646-2648.

-----, "Amendments to Reorganize Capital Structure, Increase Amount of Loans, etc.", Vol. 1, 1956, p. 1038-1041; Vol. 2, 1956, p. 1948-1958; Vol. 3, 1956, p. 2300-2317; Vol. 4, 1956, p. 3629-3650.

-----, "Amendment to Increase Authorized Capital of Board", Vol. 2, 1957, p. 1323-1335, 1535-1547, 1557-1570, 1881-1892.

The Bank Act, "Provision for Decennial Revision, Extension of Charters, etc.", Vol. 5, 1953-54, p. 5115-5126, esp. 5119.

Veterans Land Act, "Amendment to Provide Assistance for Home Construction, etc.", Vol. 5, 1953-54, p. 4868-4873.

¹Ottawa, Queen's Printer.

BIBLIOGRAPHY

326

Miscellaneous Material.

Brown, A.H., A. Gosselin and J.B. Rutherford, "Agricultural Credit in Canada", Economic Organization of Canadian Agriculture, Canadian Council, International Conference of Agricultural Economists, Economics Division, Marketing Service, Canada Department of Agriculture, 1940, p. 81-103.

Carson, J.G., Dairy Farm Study on Vancouver Island, 1954-1955, Ottawa, Economics Division, Marketing Service, Department of Agriculture, June 1957, 30 p.

Canadian Federation of Agriculture, A Statement of Policy Regarding Farm Credit, As Adopted by the Board of Directors of the Canadian Federation of Agriculture, July 1957, 11 p.

-----, Brief Presented to the Royal Commission on Canada's Economic Prospects, Ottawa, March 5, 1956.

Campbell, R.H., Dairy Farm Organization in the Lower Fraser Valley of British Columbia, Ottawa, Economics Division, Marketing Service, Department of Agriculture, June 1957, 37 p.

Clarke, J.W., Equipment on Farms in the Plains Region of Saskatchewan, Edmonton, Economics Division, Marketing Service, Canada Department of Agriculture, November 1953, 26 p.

Dawson, J.A., and L.R. Fortier, Farm Mechanization in Ontario and Quebec, Publication 921, Ottawa, Economics Division, Marketing Service, Canada Department of Agriculture, November 1954, 23 p.

Dawson, J.A., The Dairy Farm Business in Eastern Ontario, Ottawa, Economics Division, Marketing Service, Canada Department of Agriculture, June 1951, 28 p.

Farm Credit Administration, Annual Report of the Farm Credit Administration, 1955-56, Washington 25, D.C., Superintendent of Documents, U.S. Government Printing Office, 1957, iv-115 p.

-----, Laws Administered by the Farm Credit Administration, as amended to January 1, 1957, Washington 25, D.C., Superintendent of Documents, U.S. Government Printing Office, 1958, iv-229 p.

BIBLIOGRAPHY

327

Great Plains Council Publication No. 7, Baldur H. Kristjanson, Ed., Issues in Family Farm Policy, Bulletin 384, Fargo, N.D., Agricultural Experiment Station, North Dakota Agricultural College, June 1953, 23 p.

Hannam, H.H., President and Managing Director, Canadian Federation of Agriculture, Brief Submitted to the N.S. Royal Commission on Rural Credit, June 25, 1957, 11 p.

Interprovincial Farm Union Council, Submission to the Banking and Commerce Committee of the House of Commons, Ottawa, April 10, 1956, 10 p.

Jenkins, W.A., and Alex. J. MacDonald, Planning Makes the Difference, Publication 1026, Published by Authority of Honourable A.W. MacKenzie, Minister, Department of Agriculture and Marketing, Halifax, N.S., 1952, 33 p.

Kristjanson, Baldur H., and Jacob A. Brown, Credit Needs of Beginning Farmers in Selected Areas of North Dakota, Bulletin 386, Fargo, N.D., Agricultural Experiment Station, North Dakota Agricultural College, June 1953, 31 p.

-----, The Farmers Home Administration Approach to Farm Credit Problems, Family Farm Progress, Bulletin 388, Fargo, N.D., Agricultural Experiment Station, North Dakota Agricultural College, January 1954, 41 p.

Noble, Henry F., Farm Title Transfer Survey, 1900-1950, Toronto 2, Farm Economics Branch, Ontario Department of Agriculture, March 1955, 31 p.

Province of Saskatchewan, Co-operation and Trade, Thirteenth Annual Report of the Department of Co-operation and Co-operative Development, 1957, Regina, Queen's Printer, 1957, 147 p.

Rieken, T.O., A Farm Business Study in the Hamiota Area of Manitoba, Ottawa, Economics Division, Marketing Service, Canada Department of Agriculture in Co-operation with the Department of Political Economy, University of Manitoba, September 1952, 31 p.

Rutherford, T.J., Director V.L.A., Production-Line Farming for the Family-Sized Grassland-Livestock Farm, Ottawa, Department of Veterans Affairs, (no date), Eight Parts.

BIBLIOGRAPHY

328

Sinclair, Sol., Government Action for Long Term Credit for Farmers in Western Canada, Brief Prepared and Submitted to the Board of Directors of the Manitoba Federation of Agriculture and Co-operation, Winnipeg, University of Manitoba, January 19, 1955, 36 p.

Spence, C.C., Farm Organization, Income and Debt Paying Capacity in West Central Alberta, Ottawa, Economics Division, Marketing Service, Canada Department of Agriculture, January 1954, 21 p.

The Advisory Committee on Social and Economic Research in Agriculture, John D. Black, Ed., Research in Agricultural Credit, Scope and Method, New York, Social Science Research Council, October 1931, 158 p.

United States Department of Agriculture, Farmers Home Administration, Emergency Loans, Farm Housing Loans, Farm Ownership Loans, Insured Farm Loans, Loans for Soil and Water Conservation, Operating Loans, Pamphlets, Washington 25, D.C., Superintendent of Documents, U.S. Government Printing Office, 1956.

Wooster, Julia L., and Walter Bauer, Farm Credit Administration, U.S. Department of Agriculture, Agricultural Credit in Canada, Bulletin No. CR-3, Washington 25, D.C., Superintendent of Documents, U.S. Government Printing Office, 1942, iv-63 p.