

1926.

NEW ZEALAND.

REPORT OF ROYAL COMMISSION

ON

RURAL CREDITS.



WELLINGTON, NEW ZEALAND.

BY AUTHORITY: W. A. G. SKINNER, GOVERNMENT PRINTER.

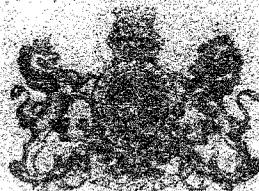
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NEW ZEALAND.

RURAL CREDITS

(REPORT OF ROYAL COMMISSION ON).

Presented to both Houses of the General Assembly by Command of His Excellency.

COMMISSION.

GEORGE THE FIFTH, by the Grace of God of the United Kingdom of Great Britain and Ireland and of the British Dominions beyond the Seas, King, Defender of the Faith, Emperor of India: To our trusty and loving subjects, PERCY HARPER COX, Esquire, of Wellington; Colonel JAMES JACOB ESSON, C.M.G., of Wellington; and WILLIAM JOHN POLSON, Esquire, of Wanganui: Greeting.

WHEREAS it has been proposed that legislation should be passed for the purpose of affording further or other financial assistance to farmers than exists at present: And whereas it is expedient that inquiry should be made regarding the necessity or expediency of such proposed legislation and the form thereof:

Now know ye that We, reposing special trust and confidence in your knowledge, integrity, and ability, do hereby constitute and appoint you, the said—

PERCY HARPER COX,
JAMES JACOB ESSON, and
WILLIAM JOHN POLSON,

to be a Commission to inquire into and report as to the following matters, namely:—

1. The financial assistance afforded to farmers in countries and States of Europe, Egypt, and America, by means of land mortgage bonds, or through land credit associations, or in any other manner howsoever:
2. The legislation in force and the methods adopted by the Governments of such countries and States to afford such financial assistance as aforesaid:
3. The means by which such financial assistance as aforesaid is afforded to farmers, and in particular—
 - (a.) The nature of the security given by farmers, the periods for which loans are advanced, the rates of interest payable, and the provisions for amortization of debt;
 - (b.) The provisions for realization of securities in cases of default;
 - (c.) The margin of security required, its sufficiency or otherwise, and the means adopted for valuing securities;
 - (d.) The restriction or otherwise of loans to defined and limited purposes, such as improvements to farms, additions, or purchases of stock, and the means by which any such restrictions are enforced;
 - (e.) The extent to which members of any group of borrowers are liable for the default of any one of them:

4. The means by which moneys are raised for the purpose of affording such financial assistance as aforesaid, and in particular—
 - (a.) The nature of the security upon which such moneys are raised, the periods for which such moneys are raised, the rates of interest payable, and the provisions made for repayment of capital ;
 - (b.) The denominations of bonds or other instruments of security, and the means of transfer and realization thereof ;
 - (c.) The extent to which such securities or the institutions issuing the same are subject to Government supervision ;
 - (d.) The extent to which support is granted by the said countries and States to such securities, or the institutions issuing the same, by way of guarantee, or provision of capital, or exemption from taxation, or otherwise howsoever :
5. The working results and comparative advantages of the various methods of affording such financial assistance as aforesaid, and in particular—
 - (a.) The extent to which the assistance afforded is made use of ;
 - (b.) The extent to which losses occur, and the incidence of such losses ;
 - (c.) The market value of securities upon which moneys for the purposes aforesaid are raised, and the fluctuations (if any) in such value ;
 - (d.) The relative success of the issues of securities by co-operative groups of farmers or landowners and by independent financial institutions ;
 - (e.) In the case of the issue of securities by independent financial institutions, whether it is essential or desirable that all persons borrowing should be shareholders of such institutions ;
 - (f.) How far it is advisable that members of any group of borrowers should be made liable for the default of any one of them :
6. The advisability of the adoption in the Dominion of New Zealand of one or more of such methods as aforesaid, and the modifications therein (if any) which the conditions of the Dominion require or experience shows to be desirable :
7. Generally any matters that may appear to you to be relevant to or connected with the matters included in the scope of this inquiry, or of importance in considering the adoption in New Zealand of any such method of affording financial assistance to farmers :

And for the purposes aforesaid to visit, travel, and make inquiries in such countries in Europe, Egypt, and America in such manner and for such period as the Government of New Zealand may from time to time direct.

And we do further appoint you, the said

JAMES JACOB ESSON

to be the Chairman of the said Commission.

And you are hereby authorized to conduct any inquiries under these presents, at such times and places and as you deem expedient, both in the Dominion of New Zealand and in such countries in Europe, Egypt, and America as aforesaid, with power to adjourn from time to time and place to place as you think fit, and (in the Dominion or in any country by whose laws you may be permitted so to do) to call before you and examine on oath or otherwise such persons as you think capable of affording you information as to the matters aforesaid, and to call for and examine all such documents as you deem likely to afford you information on any such matters, but so that you need not take such evidence on oath unless in your opinion you so desire.

And, using all due diligence, you are required to report to His Excellency the Governor-General of the Dominion of New Zealand, under your hands and seals, not later than the thirtieth day of June, one thousand nine hundred and twenty-six, your opinion on the aforesaid matters.

And you are hereby further authorized to take into consideration, for the purposes of your inquiry and report, any information which the Government of any country or State, or of any province or other subordinate jurisdiction, or any officers or persons acting under any such Government or subordinate jurisdiction, may of their good pleasure cause to be supplied to you relative to the inquiries aforesaid.

And you are hereby strictly charged and directed that you shall not at any time publish or otherwise disclose, save to His Excellency the Governor-General in pursuance of these presents or by his direction, the contents or purport of any report so made or to be made by you.

And it is hereby declared that the powers and authorities conferred on you by these presents may be exercised by any two or more of you.

And it is hereby further declared that these presents shall continue in force although the inquiry is not regularly continued from time to time or from place to place.

In testimony whereof we have caused these our letters to be made Patent, and the Seal of our said Dominion to be hereunto affixed, at Wellington, in the said Dominion, this twenty-eighth day of August, in the year of our Lord one thousand nine hundred and twenty-five, and in the sixteenth year of our reign.

Witness our Trusty and Well-beloved Sir Charles Fergusson, Baronet, General on the Retired List and in the Reserve of Officers of Our Army, Doctor of Laws, Knight Grand Cross of Our Most Distinguished Order of Saint Michael and Saint George, Knight Commander of Our Honourable Order of the Bath, Companion of Our Distinguished Service Order, Member of Our Royal Victorian Order, Governor-General and Commander-in-Chief in and over Our Dominion of New Zealand and its Dependencies.

CHARLES FERGUSSON,
Governor-General.

By His Excellency's command.

J. G. COATES,
Prime Minister.

REPORT.

To His Excellency General Sir Charles Fergusson, Bart., G.C.M.G., K.C.B.,
D.S.O., M.V.O., Governor-General of the Dominion of New Zealand.

MAY IT PLEASE YOUR EXCELLENCY,—

We, the members of the Royal Commission appointed on the 28th day of August, 1925, have the honour to report herewith the result of our investigations of the rural credit systems of the different countries and States visited by us.

In making our report we wish to acknowledge our indebtedness to His Majesty's diplomatic and consular representatives in the countries visited, and to express our thanks to the British and foreign Ministries, officials, financiers, bankers, farmers, the High Commissioner for New Zealand in London, and others who so courteously gave every assistance in their power to the Commission.

ITINERARY.

Messrs. P. H. Cox and W. J. Polson arrived in Canada on the 17th September, 1925, and after investigating rural credit conditions in each of the provinces of that Dominion proceeded to the United States, where they continued their researches. They were joined by the Chairman, Colonel J. J. Esson, C.M.G., at San Francisco on the 15th December.

The headquarters of eight of the twelve federal land banks which constitute the farm loan system of the United States were visited, after which the Commission went to South America. Investigations were made in Peru, Chile, Argentina, Uruguay, and Brazil.

On the 25th February, 1926, the Commission sailed from Rio de Janeiro for Europe.

During the months of March and April the old-established systems of France, Germany, Denmark, Holland, and Belgium were examined, after which the Commission returned to England, where much further useful information was obtained.

Owing to the immense field to be covered in the limited time at the disposal of the Commission, only leading statesmen, financial authorities, economists, representative bankers, and farmers were interviewed, but, wherever possible, the effect of the operations of the various systems was ascertained at the headquarters and branches of the respective organizations, whose reports and balance-sheets have been carefully scrutinized.

Despite the extension of time granted to the Commission it was found impossible to investigate the Egyptian rural credit position within the period; indeed, owing to the somewhat unsettled state of affairs in that country, a visit would have been of very little value. Mr. C. F. Strickland, of the Indian Civil Service, in his "Studies in European Co-operation," published in 1925, deals fully with his personal investigation of Egyptian conditions. From this it may be gathered that Continental principles in connection with rural credit and co-operation have been adapted and applied to meet peculiar local conditions.

DEFINITIONS.

For the purposes of this report it must be explained that rural credit is divided into three classes—(a) Long-term mortgage credit; (b) intermediate credit; (c) short-term credit.

Long-term mortgage credit, means farm mortgage credit for terms of five years or over, for the purchase or improvement of land or its necessary equipment, secured by first mortgage, with provision for amortization.

Intermediate credit is credit given for a longer period than is contemplated in commercial banking transactions and of shorter duration than the usual mortgage term. The security is generally live-stock or non-perishable farm-products.

Short-term credit is the ordinary banking credit of not more than six months. In Europe short-term credit is understood to comprise the two last classes, and includes all credit up to five years.

THE NEED FOR IMPROVED CREDIT.

The insistent demand of the producer for improved credit facilities is by no means peculiar to New Zealand, but merely reflects an almost universal evolutionary movement in the important business of agriculture. Everywhere the problem of agricultural finance has been accentuated by the increasingly keen competition of producing countries, practically all of whom have adopted legislation under which capital may be provided for agriculture and special organizations established to ensure its economic and profitable employment.

The general trend is towards concentration and collective trading combined with the adoption of scientific methods of finance and farming, all designed to increase the volume of production at reduced cost, to the mutual advantage of both consumer and producer.

In those countries where credit facilities are lacking farming is generally less efficient and settlement is retarded.

The New Zealand producer in marketing his produce is handicapped by distance and the costly delay which must of necessity elapse before his saleable product can be disposed of. Higher transportation charges have also to be taken into account. If the New Zealand producer is to retain and improve his position on overseas markets he should enjoy at least the same financial advantages that are open to his principal competitors.

THE APPLICATION OF CREDIT.

Credit machinery properly administered is an important and necessary part of the process of production, but the use of agricultural credit must conform to economic principles. The paramount importance of agriculture is fully recognized in the older countries, where it is regarded as possessing features which entitle it to special consideration in the application of credit.

In their report to the Imperial Government the 1923 Committee on Agricultural Credit makes the following observation :—

“ We feel, however, that the case of the agriculturist presents special features entitling him to exceptional and preferential consideration. In the very nature of things the agriculturist is often isolated and remote from the normal opportunities of obtaining credit. Compared with those of the manufacturer and the trader his operations are complex, long in their cycle, and subject to exceptional risks from weather and disease beyond the ordinary ups and downs of prices and wages which he suffers in common with industrialists. For the greater part of the year, and especially when he is most in need of credit, his capital is sunk in forms of wealth difficult for any one but an expert to value and not readily chargeable as security for an advance, while his personal training and methods of life are not such as to fit him to surmount these natural disadvantages and to establish that position in the credit market to which his financial stability and high standard of probity generally entitle him.”

The problem is how to apply credit wisely and economically, and to avoid creating a belief that easily obtained credit is a remedy for a condition which is often due rather to insufficient collateral security, a fall in prices, or unsatisfactory farming. An artificially created credit must be guarded against. The object of any reform should be to create confidence by establishing conditions which will make investment in rural securities attractive. A close investigation of the different land mortgage credit systems unmistakably discloses that their tendency is strongly in such a direction, and that once confidence is secured capital flows freely. In this connection the standardization of land-values is important. The basis of all satisfactory rural co-operative credit systems is the ascertained productive value of the land. The effect of adopting this principle has been to establish a check upon land speculation, and, whilst not depreciating values, has prevented sharp disturbances of values in those countries where, conditions being normal, co-operative rural credit is largely used.

The most desirable means of relieving congestion in the cities is the provision of homes on the land for landless people. Unfortunately, farming does not make a sufficiently strong appeal. The benefits are not always commensurate with the risks and disadvantages. Capital is necessary, and the return from capital is not large. The quantity and quality of crops are affected by accidents of harvest, disease, pests, weather, &c., which are entirely beyond the control of the farmer. Live-stock is liable to accidents, and losses from disease, and other causes against which insurances are effected on the Continent and in America. The speculative hope of enhanced value therefore influences many, rather than a keen interest in primary production. The need is for a method which will not encourage speculation in land, but one which will make farming more attractive to those who are eager to work. No better plan has presented itself to the Commission than a soundly administered system of rural mortgage which provides capital for the development of the farm at reasonable rates for a long term, with amortization provisions. The acceptance of this system, all over the world, has been a most valuable factor in the closer settlement of land. It has reduced charges for interest, given security to both mortgagor and mortgagee, and, by its tendency to stabilize land-values, has diminished land speculation.

THRIFT AND CO-OPERATION.

The encouragement of thrift is closely connected with the supply of capital and credit for agriculture, and the Continental systems are designed not only to provide capital, but to inculcate in borrowers the habit of thrift and a due appreciation of the value of money. The wide and beneficial development of this system in Germany, where it had its birth, and throughout the world, is said to be one of the most remarkable phenomena of rural economy in modern times.

The value of co-operative agricultural credits to small farmers has been stressed by many investigators. "We were, early in our sittings," says the report of the Committee on Agricultural Credits in Ireland, "convinced that a soundly organized and supervised system of this nature would best supply the special credit needs of the small farmers." It is reasonable to suppose that the adoption of such a system would facilitate closer settlement in New Zealand, popularize country life, assist in relieving the congestion in the centres, stimulate production, and generally play a most important part in increasing the wealth of the community.

Where facilities for obtaining credit are increased there usually follows an increase in the total mortgage debt. This increase should have the effect of stimulating production, and the increase in the debt should be so regulated that it does not grow out of proportion to the increase in production.

General trading by credit societies should be confined to agricultural requirements, and credit should not be provided, under the scheme presented in this report, for general trading. Co-operation and speculation do not run together; consequently, credit and trading should be kept apart.

NEW ZEALAND CONDITIONS.

Whilst conditions in the countries visited differ materially from those which obtain in New Zealand, yet in certain essentials they present many points of resemblance.

Something more than the ordinary system of finance is required in a country entirely dependent upon agriculture, which is the foundation of its whole economic and business structure.

When the primary industries are flourishing the community is prosperous, but when the spending-power of those who derive their incomes from the land is diminished, then general depression and unemployment follow in natural sequence. This was emphasized in the United States during the recent depression in agriculture, which depression soon spread throughout the whole nation, and forced a complete recognition of the dependence of all industry on the stability of agriculture, and the institution of a sound and permanent system of agricultural finance.

So far as the supply of short-term credit is concerned, the Commission failed to discover anything better than the facilities already afforded in New Zealand under ordinary banking conditions and the State Advances Office short-term system, which latter, however, does not appear to have been used to any great extent.

As regards long-dated loans and their amortization, the extension of the present State Advances system, and the provision of capital by the sale of land-mortgage bonds, or debentures, which would find a ready market locally and abroad, should amply meet all reasonable requirements.

Some further provision is necessary to assist the orderly marketing of produce and the regulation and improvement of the process of distribution. The position has been met in the United States by the institution of an intermediate credit, under which advances are made on sound business conditions to co-operative associations or societies, but loans are not made directly to individuals.

It soon became evident that, without seriously disturbing existing methods, settlement and production could be facilitated in New Zealand by extending the functions of the State Advances Office and embodying in its administration certain of those principles which are being so successfully applied in other parts of the world, where, under the better organization of securities, credit for agriculture is obtained on the most favourable terms.

Members of the Commission were unanimous in the opinion that any readjustment of conditions in New Zealand must conform to the interests of the whole community, and that any scheme that they might formulate should be designed to establish a closer and more friendly relationship between the farmer, the business man, and the banker.

The formation of long-term mortgage co-operative loan associations is not considered necessary in New Zealand, where producers already possess a sound and efficient system designed to supply borrowers with capital at cost price. The fullest advantage has therefore been taken of the existence of the State Advances Office, which operates at low administrative cost, and, in conjunction with the Treasury, can obtain money on the best possible terms. What is recommended, therefore, is supplementary to the present system—namely, the creation of a special rural credit branch within the State Advances Office, controlled by the same non-political Board, but on which it is proposed that the farming interests should be adequately represented. It is suggested that the new division should be designated the "Farm Loan Branch," and the Board administering it the "Farm Loan Board."

At present, capital for the State Advances Office is obtained by the issue of securities charged upon the public revenues, thus inflating the gross public debt by the inclusion of part of the private indebtedness of the Dominion. This duplication appears to have had a limiting effect upon the ability of the office to keep pace with the growing demand for credit, because of a natural disinclination to increase the gross public debt. Amongst other and many greater advantages to be effected by the issue of land-mortgage bonds, interference with the public debt would be avoided.

LAND-MORTGAGE BONDS.

The principle underlying all co-operative loan systems is the issue of bonds based on the collective value of the security of many mortgages.

The basic principles of land-mortgage banks are well adapted to meet the needs of New Zealand agriculture, and the best method of cheapening agricultural credit is by the emission of land-mortgage bonds. The State Advances Board supplemented by representatives of the agricultural and pastoral interests could efficiently inaugurate and control such a system at a minimum cost, but, as already suggested, the establishment of a special division or branch for the administration of rural credit is desirable.

Land-mortgage bonds are securities similar to those issued by the State, except that they are secured on first mortgages on land with amortization provisions. They possess very many advantages apart from the relief to the gross public debt of the burden of rural finance, but it cannot be too strongly emphasized that their value will depend upon a correct appraisal of the securities and the ability with which they can be converted into cash at some figure approaching their face value. Under proper administration land-mortgage bonds provide a liquid and readily accessible security valuable as collateral to the holder, as well as satisfactory to the borrower.

They are proper and desirable investments for trust or other fiduciary funds. They command a ready market, and exhibit great stability of value. They can serve no speculative purpose, and their provision for amortization is in itself a valuable consideration. They permit and recognize the pooling of securities and the offering to investors of solid blocks of securities, thus helping to keep down interest charges.

The report of the United States Commission appointed to investigate co-operative land-mortgage banks in Europe in 1913 contains the following observation regarding these bonds :—

“Such securities merit a wide investment field, on account of their intrinsic worth. The national Government is fully justified in extending a generous recognition to these bonds because they are issued to aid and develop agriculture. All commercial banks, savings-banks, insurance companies, and other like institutions should be permitted and encouraged by State and Federal legislation to invest their funds in these bonds ; both State and national Governments as well as private enterprises should receive these bonds as approved collateral in all transactions including like securities. The Government may not justify the use of public funds to promote purely private enterprises, but we are beginning to comprehend that the Government itself is a co-operative enterprise.”

The ability to sell land-mortgage bonds must depend upon the valuation of the securities, the only sound basis for which is the productivity of the land, ascertained over a term of years, but eliminating abnormal periods.

Two methods of dealing with bonds are in vogue—one, that of giving the borrower bonds, and the other of giving him cash, which latter accords best with New Zealand custom and conditions. The bonds should be issued by the Treasury and State Advances Office, the former undertaking their sale. The legislative authority should specifically limit the issue of bonds to the total value of the first mortgages held as security, and provide that the bonds should be trust securities. The principle of allowing borrowers to repay their loans by bonds of the same series prior to maturity, but after the expiry of five years, is an incentive to thrift and debt-reduction, and one of the factors in maintaining a steady market for bonds.

Capital repayments should be applied to the redemption of the debt, as in the case of securities issued on behalf of the State Advances Office.

Farm-loan or agricultural-credit bonds are a popular and recognized form of investment in all countries where issued, and are everywhere recognized as securities to which trust funds may be applied. There is no difficulty in disposing of Danish bonds, either in Denmark or abroad, at prices which represent the market rate for gilt-edged securities. They find a market in England, where, we were reliably informed, similar bonds issued by New Zealand would undoubtedly receive at least the same consideration. In the United States, owing to the powers vested in the Farm Loan Board, land-bank bonds do not fluctuate greatly in value. The system employed is best described by a concrete illustration.

In 1923-24 there was a drop in the market price for United States farm-loan bonds. The fiscal agency stepped in and purchased 3,171,500 dollars' worth of $4\frac{1}{2}$ per cent. bonds at an average of a fraction less than $97\frac{1}{3}$. These bonds were cancelled by the land banks at par, the profit on the transaction being 84,636 dollars. Kindred bonds are now selling at a premium, so that the statement of profit is conservative. Direct sales of farm-loan bonds during 1924 by the fiscal agency netted the banks a profit of 10,272 dollars.

In December, 1924, there was another fall in prices, and the fiscal agency bought up 1,392,000 dollars' worth. Of this amount 630,000 dollars were the 5-per-cent. bonds of the Federal Land Bank of St. Louis, which were cancelled by that institution. The balance, 762,000 dollars $4\frac{1}{2}$ -per-cent. bonds, were purchased at $101\frac{1}{4}$, and were gradually resold at the purchase price. The effect of these purchases was to stop the decline in the market, for fifteen days later 30,000,000 dollars $4\frac{1}{2}$ -per-cent. bonds were sold at $101\frac{1}{2}$.

The fiscal agency undertook the task of introducing the securities of Federal intermediate credit banks and of selling them direct to banks and investors, and at 31st December, 1924, had sold at prices approved by the Farm Loan Board 117,650,000 dollars' worth of these securities without any cost except for advertising.

The usual brokerage for the sale of short-term paper is a quarter of 1 per cent., and a commission of one-eighth of 1 per cent. would be a very low rate to estimate the value of these sales. On that basis the profit of the agency to the intermediate credit banks would be 146,895 dollars, less 7,985 dollars for advertising.

An analysis of these items discloses tangible savings and earnings by the fiscal agency of 223,227 dollars after deducting charges, to which may be added a very considerable advantage in the market price obtained on subsequent sales by reason of the market operations referred to. The experience fully confirms the wisdom of the Federal land and intermediate credit banks in establishing the fiscal agency.

The following quotation from the Year-book of the Department of Agriculture, Washington, 1924, refers to the issue and sale of bonds by the Federal land banks :—

“ The funds used in making these loans are obtained through the sale of tax-exempt bonds secured by farm mortgages taken for the loans. These bonds are issued in denominations of 40, 100, 500, and 1,000 dollars and even much larger denominations, subject to retirement at the option of the bank ten years after date of issue. Each bank may issue bonds up to twenty times the amount of its capital and surplus. Every bank is jointly liable for the bonds issued by the twelve banks. While not obligations of the Federal Government, the collateral securing these bonds has the close supervision of the Government. This fact, together with their tax-exempt feature, creates for these bonds a good market at low interest-rates. In fact, they have been selling at yields only slightly above those of some other Government securities. In short, it is apparent that the farmer is obtaining through the Federal farm-loan system farm-mortgage credit at rates that compare favourably with those paid by other industries. In order to build up a broad and dependable market for the bonds, the Federal land banks offer their bonds through bond-houses that have connections in all parts of the country, and likewise through local national farm-loans associations. In order to better co-ordinate the bond-selling activities of all Federal land banks a fiscal agent was appointed in the spring of 1923.”

TAX-FREE SECURITIES.

The feeling in the United States is against the issue of tax-free securities, although it is generally admitted that it was necessary, if farm-loan bonds were not to be unfairly handicapped, that they should be given the same advantages as those accorded to State and municipal bonds. They were therefore made tax-free ; but all American bankers, financiers, and economists consulted were emphatically in favour of prohibiting further issues of tax-free securities, for reasons which are summarized hereunder :—

- (1.) Much property escapes taxation, causing great loss of revenue.
- (2.) Such a system violates the ability principle of taxation, and unfairly discriminates between taxpayers.
- (3.) Private finance is impeded.
- (4.) They discourage investment in new enterprises.
- (5.) They create extravagance in Governments and municipalities.
- (6.) They privately subsidize certain interests.
- (7.) They cause money to be withdrawn from private enterprise, increase the rate of interest for enterprises not carried on by the Government, and add to the cost of living.
- (8.) They cause social unrest.

The general effect of the wholesale issue of tax-free securities has been to provide a refuge from taxation for certain classes of taxpayers, but the rest, however, are taxed higher correspondingly to make up the revenue deficiency, and a gross inequality exists. Property and unearned incomes are taxed at a lower rate than earned income, and the rich man is escaping his share of the burden which is being borne by the poor man and those in receipt of moderate incomes. No system of graduated income-tax is likely to be effective so long as practically unlimited quantities of tax-free securities are obtainable.

JOINT-STOCK LAND BANKS.

The joint-stock land banks erected within the Federal rural credit system of the United States are organized under private ownership, are operated for personal gain, and any profits made are the property of the owners of the bank. On the other hand, the Federal land banks are specifically forbidden to operate for private gain, and any profit must be returned to the borrowers, which means that the borrower gets his money at cost, or the lowest rate at which it is possible to secure it.

Having pronounced in favour of the New Zealand State Advances system, which aims at providing borrowers with money at the actual cost, the Commission is of opinion that the creation of a specially favoured organization such as the joint-stock land banks of the United States of America is neither necessary nor desirable. The fact that the activities of such institutions may be definitely limited by law certainly does not warrant granting concessions and privileges which are not shared by other money-lending organizations.

LAND-VALUATIONS.

The margin for security against land has been fixed in New Zealand in the legislation governing the operations of the State Advances Office. Whilst a limit of 75 per cent. is liberal and has proved sound, it is greater than the amount loaned on first mortgage by the important systems operating in Europe and America. It is essential to the success of any scheme that valuations should be on a sound and conservative basis. The embarrassment of at least one of the Canadian schemes is to some extent due to the failure to ascertain the true productive value of the land over a sufficient period. On the other hand, too conservative values will likewise militate against success. On the Continent land cannot be mortgaged for more than two-thirds of its value, and in most cases the amount loaned is less—not exceeding 50 per cent. In the United States of America not more than 50 per cent. is loaned on the value of the farm, and 20 per cent. on the value of the improvements—which in effect amounts to 50 per cent. of the value of the entire farm. Moderate-sized farms are generally regarded as the best risks.

In Denmark, whilst only 50 per cent. at the most is loaned on the first mortgage, some of the systems provide for a second and even third mortgage at higher rates of interest, which in the aggregate amount to 75 per cent. of the value of the land. There does not appear to be any advantage in this system, which is more complicated than a system of first mortgage only and amounts to the same thing in the end. The general opinion in Denmark was that it would be better to adopt the simpler method.

It is important that securities offered in New Zealand should be classified carefully, and that any advances made under these proposals should be based on such classification.

THE LIMIT OF ADVANCES.

Advances are limited in America upon long-term loan to £5,000, but upon short-term loan there is practically no limit, although £10,000 represents the usual maximum. In South America, where the conditions resemble those in New Zealand more than any other country, the limit of advances in connection with long-term loans is either very high or there is no limit at all. It would be unwise to load the scheme with too high a maximum, but, having regard for the average size of New Zealand farms as compared with older countries, and the necessity for speeding up development and production as far as it is reasonably safe, it is recommended that the present limit of advance should be increased to £7,000.

SMALL FARMS AND THE FREEHOLD.

Under the United States farm-loan system tenants cannot borrow; the freehold there is the basis of farm credits.

Under a tenancy system the tendency is to exploit the soil to a standstill, and both landlord and tenant suffer in the long-run as the result of a decreased output from the same expenditure of labour. While their proposals contain provision for financing lessees, the Commissioners, after investigating the short-tenancy system

in different countries, feel that they cannot too strongly urge the importance of encouraging and assisting the small farmers of New Zealand to become freeholders.

LIMITED AND UNLIMITED LIABILITY.

The question whether the liability of the borrower under any rural-credit system should be limited or unlimited is one to which the Commission devoted much time and attention, with the result that the former plan is considered best suited to New Zealand conditions. The conclusion of the Commission may be summarized by quoting from the finding of the Departmental Committee on Agricultural Credit in Ireland, presented to both Houses of Parliament in England in 1914 :—

“(a.) The adoption of unlimited or limited liability is not so much a matter of principle as of expediency and of adaptation to varying economic and social conditions. Both systems have been eminently successful when properly managed and supervised.

“(b.) The unlimited principle is generally suitable only when most of the members are fairly equal in status, and are of the smallest class of agriculturist, although the presence and help of better-off members is most valuable. Experience does not sustain the contention that unlimited liability is always effective in ensuring careful local management. In Ireland extreme laxity in the local management of many societies has existed in spite of unlimited liability.

“(c.) In Germany, the home of the co-operative credit movement, legal limitations prevented till the year 1889 the adoption of the limited-liability principle. This naturally tended to give a considerable start to the system of unlimited liability in that country, and in those countries (including Ireland) which followed its example.

“(d.) In recent years there has been a steady extension of limited-liability credit societies in many countries, more especially where the rural classes in the same district are of varying status, although the great majority of rural, as distinct from urban, credit societies are still based on the unlimited principle.

“(e.) Unlimited liability having been so long abandoned in Great Britain and Ireland in the spheres of business and commerce, there is an undoubted difficulty in successfully advocating its claims as a basis for any organization for rural credit or otherwise. Organizers of credit societies in Ireland should explain the main advantages both of the limited and the unlimited systems.

“(f.) The evidence has proved that in Ireland, as in Great Britain, the more substantial farmers, who might with much advantage to the credit societies have become members, have been deterred from joining by the fact that under the present system of unlimited liability they would incur the serious and almost inevitable risk of being the chief marks in case of action by creditors of the societies. We do not agree with those who, differing in this from Raiffeisen, favour the exclusion of medium and large farmers from credit societies; on the contrary, we think the Irish movement has suffered much from the absence of this class.”

The opinions of economists and other financial authorities consulted by the Commission generally support this view.

Where unlimited liability exists on the Continent, as is the case with the Raiffeisen banks in Germany, it is individual and collective; in the event of the failure of the society any deficit is recoverable from individual members by a *per capita* levy. Members are protected by the Co-operative Societies Act to the extent that proceedings against creditors are permissible only after a lapse of at least three months from the date on which the contributory claim is declared executable, provided that such claims have not otherwise been satisfied.

“Unlimited liability—retained in a steadily declining degree in Germany—avowedly a German tradition—was not by any means indispensable to them.”—H. W. WOLFF (*Transactions of Surveyors Institute*, December, 1912).

Mr. J. R. Cahill, C.M.G., a well-known English investigator of Continental rural-credit systems, states that—

“The adoption of unlimited liability is not a matter of principle but of expediency. It may well be the case in England that unlimited liability, having long been abandoned in business, may appear so far-reaching in its possible consequences that to secure its general adoption might present almost insuperable difficulties to the extension of the co-operative movement. As already observed, the likelihood of rural credit societies, under conditions of management and inspection such as are applied in Germany, involving their members in serious losses is extremely remote; but for practical purposes consideration might be extended to the prevalent disinclination in this respect. The essential point is that members should incur such liability that in proportion to their means and to the utilization of the services of the society their interest in its success, as well as an adequate basis of credit for the society, should be secured. This object is attained under the system of limited liability in Saxony and Pomerania.”—(Report of Committee on Agricultural Credit in Ireland.)

Sir F. A. Nicholson, writing on the Schultze societies, remarks :—

“It is doubtful if this solidarity is essential to success. In Austria it is not compulsory, and only half the societies have adopted it; in Italy, where the success approaches that of Germany, it is practically unknown in the popular banks.”—(Report on Possibility of introducing Land and Agricultural Banks into the Madras Presidency, 1895.)

Mr. C. R. Fay, referring to the Luzzatti popular banks of Italy, says :—

“The liability of shareholders is limited. Unlimited liability was a kind of fetish of Schultze-Delitzsch—the *sine qua non* of all co-operation. Luzzatti had the genius to see that though suited to the Germans, who had been accustomed to it since the establishment of land banks with unlimited liability and compulsory membership by Royal decree in the middle of the eighteenth century, it was alien to Italy, where organized credit was unknown, and where there were greater extremes of rich and poor who could not have been induced to co-operate on a basis of unlimited liability.”—(“Co-operation at Home and Abroad.”)

Other well-known authorities, notably O. R. Hobson, M.A., J. Nugent Harris, and Dr. O. Rabe, have expressed similar views; while Sir Horace Plunkett points out that—

“It is obvious that unlimited liability would lose its efficiency in developing the sense of responsibility if some members of the association were so substantial that its creditors would make them primarily responsible in the event of its failure.” (Report on Agricultural Credit in Ireland.)

The unlimited-liability principle has been adopted in Denmark, but such authorities as Dr. Erik Krag, managing director of the Ostifernes Kreditforening, have declared that it is unnecessary. It is desirable as far as possible that all classes of farmers, large and small, should mingle in these associations, if they are to have adequate and necessary strength, and it is most unlikely that men of substance will enter into any co-operation or copartnership with smaller and more needy farmers if such an arrangement includes any liability on the latter's behalf.

The Americans have adopted a system of definite limited liability in creating an intermediate credit for their producers, and, although the system has had only four years' trial, it is giving satisfaction.

Unlimited liability is not a basis upon which a practicable and useful intermediate credit system could be established in New Zealand. It is not necessary, and if adopted would impose an unfair handicap upon the primary industries from which ordinary commercial finance is free. The Dominion farmer, like the British farmer, has a strong disinclination to allow his business to be known to others, and is equally disinclined to enter into any obligation to guarantee the whole or any portion of another person's indebtedness. It would be futile to recommend the

consideration of any scheme of rural credit which involved the principle of unlimited liability, an ancient survival which finds no acceptance in modern finance and is repugnant to all English-speaking communities.

INTERMEDIATE RURAL CREDIT.

In order to bridge the gap between the present short-term credit—which compares favourably with that of any of the countries visited—and long-term credit, an intermediate-credit system is required, and recommendations are made accordingly.

Intermediate credit, as administered in other countries for formally constituted groups of persons actually engaged in the business of agriculture, and for approved co-operative societies, is of great assistance to the primary industries. For such purposes capital is provided in the United States by the issue of collateral trust debentures with a currency of five years, based upon non-perishable farm-produce and live-stock, with a maximum advance of 80 per cent. of its value. An adaptation of this system is considered suitable to New Zealand. It could be made supplementary to present methods, and could be largely administered through such joint-stock banks and financial institutions who, by arrangement with the State Advances Office, would discount the paper endorsed by approved groups or societies, thereby securing to the Farm Loan Branch the benefit of their knowledge and experience, and to borrowers a reasonable rate of interest due to the approval of their security.

To inaugurate the system it is suggested that the assistance contemplated in the Farm Land Mortgage Associations Bill, 1924, should be made available, with an increased maximum advance of £250,000. This is not out of proportion to the assistance provided by other countries where rural credits are operating beneficially to the whole community.

The United States, whilst discarding the principle of unlimited liability, preferred to retain the local associations which primarily administer the European systems; but it is generally recognized that, the main reason for their existence having been done away with, they are not essential to the American scheme, and in fact they create certain difficulties in its administration. Members have a less vital interest than their unlimited-liability European contemporaries, and it is difficult to get the associations to function properly; in addition to which they impose a barrier between the borrower and the central and responsible authority, thus causing vexatious delay.

These disadvantages apply in a lesser degree to intermediate-term credit, which may be administered without the initial reference to central authority which is necessary in the case of long-term credit. The business transacted is also in the nature of an ordinary commercial or trading credit, with which the farmer is already familiar, and is less open to the objection that it destroys privacy. The advantage of collective intermediate credit is obvious when the liability is limited to the share capital provided, and if such capital is in reasonable proportion to the amount borrowed.

The methods proposed involve the establishment of co-operative rural intermediate credit associations, to be financed by share capital and capital raised by the issue of collateral trust debentures against the approved paper of individual members, endorsed by the association and secured by chattel mortgage or such other collateral as may be deemed necessary to fully and adequately cover advances.

2. The suggested legislation provides—

- (a.) That upon receipt of a duly certified schedule of the securities of a duly registered and capitalized association the Farm Loan Board may issue collateral trust debentures to the amount of such advance that it considers reasonable and safe, and to pay the amount realized by the sale of such debentures to the credit of the association.
- (b.) For the establishment of machinery for discounting members' bills on the endorsement of the association, to whom the borrower must give such security as is considered necessary to secure the association against loss. The directors may, if deemed advisable, assign such security, with all rights appertaining to the discounting institution.

- (c.) It is also proposed to take advantage of existing banking facilities for at least the first six months of the period for which intermediate credit is given, by arrangement with the commercial banks and other financial institutions to discount bills drawn by the local associations and endorsed by the Farm Loan Boards' accredited representatives in the respective districts.

Full provision should be made for complete control by the Farm Loan Board. Under the suggested legislation the Board will have a supervisor in each district, and this official will be *ex officio* a member of the directorate of each association; on which, in addition, the Farm Loan Board should have direct representation.

A close relationship can be established without prejudice between the Farm Loan Board and the banking organizations, thus securing their co-operation and co-ordination without in any way relieving local associations of their responsibilities or in any way making the lending institutions responsible for their operations.

ORDERLY MARKETING.

The importance of orderly marketing cannot be ignored in the consideration of rural finance. In both Europe and America experience has shown that the two are indissolubly bound up together.

Credit as a means to orderly marketing is as important as the provision of capital required in the purchase and operation of the farm. The realization of agricultural products is intermittent and irregular, through price-fluctuations attributable to seasonal conditions, oversupply, trade depression, interrupted communication, and other unforeseen causes.

The need is created not only for intermediate credit, but also for intermediate storage, regulated in such a manner as to render the produce stored an acceptable security. This problem confronts the farmer all over the world. The United States has contributed towards its solution by the passage of merchandizing legislation which is having beneficial results. In Great Britain the question is being carefully investigated, and in a recent report (1926), prepared, at the instigation of the British Government, by one of the experts of the Department of Agriculture, the following appears: "Elsewhere farmers have had to deal with this problem [*i.e.*, orderly marketing], and at present it confronts the British farmer just as it has done his foreign competitor."

In the economic report of the Committee on the Stabilization of Agricultural Prices in Great Britain, similarly prepared, stress is also laid on the need for "further credit facilities to finance an orderly marketing system." The length of the period of turnover, and the fact that marketing is largely a seasonal operation, also affect the situation. The farmer's return for his produce is often affected by the pressure of financial circumstances, which force him on the market at a moment when it is prejudiced by the conditions already referred to.

Short-term or intermediate credit can often be judiciously employed to prevent undue hardship, but orderly marketing must not be confused with speculative holding. The farmer may be assisted to avoid exaggerating the conditions of a depressed market by overloading it, but, on the other hand, precautions must be taken to prevent the misuse of credit by speculators, or those who wish to avail themselves of it in the hope of realizing unwarrantable expectations as to price.

CHATTEL SECURITIES.

It is not proposed that intermediate credit should be based on land security, although there should be no obstacle in the way of a borrower who desires to offer such security. The intention is rather to take the equivalent to a chattel mortgage upon stock, produce, equipment, and personal notes, at the discretion of the Board, in order to overcome the inherent weakness in the chattel-mortgage system.

In periods of depression the chattel-mortgagor is sometimes compelled to realize to satisfy his creditor. Circumstance frequently compels the mortgagee to exercise his rights at the most unfortunate time for the mortgagor. The effect is to cripple the latter and destroy or retard his chance of recovery, and also, in some

cases, to far from satisfy the former. In fact, the realization of the chattel security in times of acute depression is generally unsatisfactory to both parties. The creation of the twelve intermediate credit banks in the United States of America in 1923 has undoubtedly afforded relief to producers. In addition, the opening-up of the resources of the Federal reserve system to agriculture has made credit available in a way which the most recent report on agricultural credit presented to the British Government describes as astonishing. The availability of agricultural wealth as security for loans, however, is not the only important consideration. It is more necessary that such wealth should be stabilized and remain available during the periods of greatest need. This is one of the chief advantages claimed for a system of intermediate credit such as the United States possesses.

AGRICULTURAL ECONOMICS.

Agricultural economics play an important part in farm-management. The increasing competition from other countries will compel greater attention to the need for up-to-date scientific and economical farming methods in New Zealand. The most expert management of pastures, the careful breeding of more remunerative animals, and the use of the most suitable seeds and fertilizers are matters which are receiving the attention of our competitors, through their Agricultural Departments, to an extent which is not realized in New Zealand.

These subjects provide an important corollary to agricultural credit. Extended credit facilities can be more safely provided where the farmer is familiar with farm-costing and is able to trace losses and estimate profits. This is just as important a phase of agriculture as a grasp of the principles of production. Farmers are not unknown whose excellence as producers is more than offset by inefficient book-keeping and finance. Constant effort is being made in England, America, and Europe to provide the farmer with a simple method of farm-costing and to instruct him how to make use of it.

SUMMARY OF RECOMMENDATIONS.

To briefly sum up, it is proposed—

- (1.) That long-term-mortgage credit should continue to be administered by the State Advances Office, in which a special Farm Loan Branch should be constituted, under the control of a Farm Loan Board, consisting of the present State Advances Board supplemented by representatives of the primary industries. Capital to be provided by the issue of securities charged directly against the mortgages, instead of the public revenues as at present; the limit of advances to be £7,000, based on ascertained productivity up to two-thirds of the value of the land.
- (2.) That intermediate credit should be provided which will enable the producer to make extended use of existing institutions with the assistance of the Farm Loan Board.

It is recommended that the provision of intermediate credit should be effected by the organization of co-operative rural intermediate-credit associations, with share capital and liability, and that *bona fide* co-operative societies should participate.

To further improve the facilities for credit a method is suggested whereby warehouse receipts can be accepted with confidence as security for moneys advanced against stored produce. It is not proposed that the present machinery for short-term credit should be interfered with.

If the producer is to obtain the fullest benefits of such a system as that outlined, economy of administration must be maintained. Most of the systems abroad provide for payment of the necessary permanent officials but leave room for honorary service as directors of associations by public-spirited farmers, who, in New Zealand as elsewhere, are prepared to give their services gratuitously for the benefit of the community. Care must be taken to ensure that these honorary officers are men of the highest ability and standing in the rural community. This principle of selection is generally applied in Europe and America with satisfactory results to the producers and all concerned.

CANADA.

All the Canadian provinces having farm-loan schemes were visited by two members of the Commission, Messrs. P. H. Cox and W. J. Polson.

There is no Dominion scheme in Canada, and the provincial schemes differ from each other in a marked degree. None of them adequately meets the requirements of the producer, and all suffer from a shortage of available capital for lending purposes. The rate of interest paid by borrowers is invariably much higher than that charged by the Advances to Settlers Office in New Zealand. Development is retarded by these high rates, which are mainly due to the greater risk and the absence of properly co-ordinated credit facilities for agriculture.

With the exception of the limited business of the long- and short-term credits of Ontario and Alberta respectively, the provincial schemes are operating in a very restricted way. They have no material effect on agricultural conditions, although officials stated that their existence had brought about a slight reduction in the ruling rates of interest.

The banking system of Canada is confined to chartered joint-stock banks, which are precluded by law from lending on mortgage; consequently, long-term credit is almost entirely controlled by mortgage and insurance companies, whilst short-term credit is administered by the banks. In the Province of Quebec the *caisses populaires*, a system modelled on the lines of the people's banks of Italy, are in active and successful operation. Although these are not altogether rural institutions, they work mainly in the interests of the farmers who comprise the bulk of their membership. The capital for these individual banks is obtained by the sale of £1 shares, and the acceptance of deposits at savings-bank rates. Both shares and deposits can be withdrawn on demand, and the liability of the shareholder is limited to the value of his shares. Loans are made on first mortgage and personal security.

Although the system is too small to meet New Zealand requirements, it is worthy of note that its success is attributable to the close active personal supervision of the local priest.

A somewhat similar condition was found to exist in connection with short-term credit successfully administered by the Province of Alberta, where an efficient State officer acts as supervisor.

The Commissioners obtained valuable documentary evidence in the shape of Acts, regulations, balance-sheets, and reports, which have been carefully considered. They also had the privilege of discussing the question of agricultural finance with eminent statesmen, economists, State officials, bankers, and many others, both directly and indirectly associated with the primary industries of Canada.

The Canadian provincial systems are not satisfactory, and their operations are very circumscribed. The absence of co-ordinated control has a great deal to do with this. Under the present disintegrated method the provision of capital is difficult, and more costly than it would be under a national system, for which a strong preference was expressed. There are difficulties of control and administration. Borrowers are inclined to regard their indebtedness to the Provincial Governments as the least important of their obligations, and are too close to their local politicians to permit the adoption of strictly business methods, a contingency which does not appear to have been thoroughly recognized when legislation was being framed.

The principal sources of agricultural credit in Canada are—(1) Joint-stock banks; (2) loan, mortgage, and insurance companies; (3) *caisses populaires* (credit unions, or people's banks); (4) Provincial Government Loan Boards.

Special Acts have been passed in each Province providing for the incorporation and organization of agricultural associations and for promoting increased agricultural production. Under these Acts the Provincial Governments have power to raise capital by the issue of securities, which may be supplemented by parliamentary appropriations and such moneys as may become available.

Loans are made to farmers for long periods on the security of first mortgage over freehold land on the amortization plan, for periods varying from ten to thirty-six and a half years. The annual charge for interest and debt repayment runs from 6 per cent. upwards.

Short-term or intermediate credit advances are made against chattel and personal security for from three months to three years: interest approximately 7 per cent. With one or two exceptions the maxima for long- and short-term loans are £2,400 and £400 respectively. The rate of interest does not exceed 1 per cent. of the actual interest paid on the securities upon which the capital is raised.

Ample provision is made for foreclosure, occupation, and sale of land or chattels in the event of default, but, for political reasons apparently, the enforcement is not rigid.

There is a considerable variation in the margin of security required by the different provinces—viz., from 50 per cent. to 70 per cent. of the productive and saleable value.

Separate valuations are made by local associations and the Government Valuer, who is also Inspector of Farm Loans. Independent organizations have their own valuers and methods.

Loans are confined to the following purposes: To acquire land for farming, and to satisfy encumbrances on such land; improvements—clearing, draining, fencing, erection of farm-buildings; purchase of stock, implements, &c.

Farms may be inspected, and if it is found that the loan is not being applied to the purpose for which it was granted the loaning Board may enter upon such property and sell or dispose of it.

Individual liability is generally restricted to the amount of individual loans.

Small Government loans for the provincial schemes have been issued at from $4\frac{1}{2}$ per cent. to $5\frac{1}{2}$ per cent., and sinking funds have been provided. It has been difficult to obtain money at a sufficiently low rate of interest, and the fear of unduly increasing the provincial public debt has also militated against the full provision of capital for some of the provincial schemes.

In Ontario the Government Savings-bank funds are being loaned to farmers on first mortgage, through the Farm Loan Board.

Bearer bonds, from £20 up, and registered debentures, transferable by endorsement or deed, are issued as securities for provincial loans.

Losses have been made in Manitoba and Saskatchewan, but these may be minimized on realization. In Alberta and Ontario losses may be avoided. These losses are attributed to difficult farm years, weak control, and politics.

COMMENT.

It is not considered that any one of the methods or modifications as tried out in Canada during the past nine years would prove suitable to New Zealand. If co-operative credit associations are established in New Zealand their success must necessarily depend upon some such system of independent close personal control as that which is maintained in Quebec and Alberta.

The method of providing capital by charging mortgage securities against the public debt is an unnecessary restriction upon the provision of capital, because of the disinclination to increase the volume of the gross public debt.

UNITED STATES.

THE FEDERAL FARM-LOAN SYSTEM.

The necessity for improving the mortgage credit facilities of the American farmer led to the establishment, in 1916, of the Federal farm-loan system. An Act known as the Federal Farm Loan Act was passed by Congress as the result of an investigation by two United States Commissions of the various systems of European rural credit. The Act provided for two classes of institutions—a system of Federal land banks operating under Government supervision and direction, and joint-stock land banks, which are really joint-stock companies, similarly supervised but free from Government direction.

In 1923 this Act was supplemented by the Intermediate Credit Act, a measure intended to bridge the gap between the short-term loans ordinarily made by banks and other lending institutions and the long-term loans made by the Federal Farm Loan Board.

The needs of the American producer have been further met by the powers given to the Federal reserve system to discount notes, drafts, and bills of exchange issued or drawn for an agricultural purpose, and by the broadening by Congress of the powers of the War Finance Corporation to enable it to switch its operations over to temporary advances for agricultural purposes.

The improvement in agricultural credit in the United States has probably been due to a combination of these methods of assistance to farmers. The Federal farm-loan system, however, has so rapidly enlarged its operations that it is the most prominent. The direction of the system is in the hands of a Government-appointed Board, which supervises the activities of the three forms of rural credit banks referred to above. It directs the policy of the provincial banks, controls the marketing of the bonds through which the funds for making the loans are advanced, and maintains a steady oversight over the whole organization.

FEDERAL LAND BANKS.

The United States is divided into twelve districts, each of which is served by one provincial land bank under the supervision of the Federal Farm Loan Board. These land banks are in turn controlled by seven directors, three of whom are appointed by the Farm Loan Board and three by the National Farm Loan Associations, which are organized to enable their members to borrow from the bank. The seventh director is appointed by the Board from one of three nominees of the Farm Loan Associations. These associations are formed by ten or more farmers desiring loans of at least \$20,000, and are chartered by the Federal Farm Loan Board.

Each Federal land bank was organized with a capital stock of \$750,000, supplied by the Government of the United States free of interest for a period of years, amounting in all to \$9,000,000. Government assistance was also given where necessary by the purchase of bonds. The major portion of the capital outlay has already been returned to the Government, and with one or two exceptions the provincial banks are now free. They are also financing the whole administration out of their own funds and without any charge upon the United States Treasury.

Any worthy farmer who occupies and operates the farm offered as security, or one who is just acquiring the farm and will occupy and operate it, either personally or by hired labour, on or before completion of the loan, may become a member of an association and borrow from the bank. No loan can be made to a corporation, to guardians or administrators; nor can a loan be made on a farm operated by a tenant.

The security required is a first-mortgage lien on the farm with the necessary buildings. Security for each loan must be a complete farming unit, sufficiently well developed so that there can be no question of the average farmer being able to make his living, gradually improve the farm, meet taxes and insurance, and pay instalments on his loan from its proceeds.

Loans cannot be made on wild, virgin land, city property, market gardens, or chattel security, personal property such as live-stock, tools, equipment, &c., nor can loans be made on second mortgages. Additional loan value is allowed on well-cared-for orchards, also on growing wood and timber.

Not more than one-half (50 per cent.) of the appraised value of the land, plus one-fifth (20 per cent.) of the appraised value of the insured buildings, can be loaned on the security offered. On the well-balanced farm this is usually about one-half of a fair sale value.

Not more than \$25,000 can be loaned to any one borrower. Loans are made only in multiples of \$100.

The purposes for which loans may be made are—

- (a.) To purchase of farm.
- (b.) To buy live-stock, equipment, fertilizer, &c.
- (c.) To erect or improve buildings, clear land, provide drainage, or otherwise improve the farm.
- (d.) To pay off existing mortgages and liens against the farm.
- (e.) To pay other debts; if contracted since the 1st January, 1922, they must have been for agricultural purposes.

The rate of interest varies from 5 to 5½ per cent.

The terms of payment are on the amortization plan, running thirty-four and a half years, twenty years, fifteen years, or ten years, at the end of which period the loan is all paid off.

On a $34\frac{1}{2}$ -year loan the borrower is required to make payments which are equivalent to paying $6\frac{1}{2}$ per cent. on his loan—that is, he must pay \$32.50 every six months for each \$1,000 borrowed. These semi-annual payments are called “amortization instalments,” and they not only pay all the interest on the debt, but in $34\frac{1}{2}$ years pay off the entire debt itself. Beginning with the very first instalment, a part of each payment is applied on the principal, reducing the debt and stopping interest on the amount so applied. Inasmuch as the amount of interest becomes less as each succeeding instalment is paid, the portion of these instalments that is applied on the loan grows larger and larger with each successive payment, and consequently the debt is reduced with constantly-increasing rapidity.

After the loan has run five years the borrower is permitted to make additional payments on the principal, or to pay up the loan in full on any interest date. The mortgage may be reduced at any time after the loan is closed by payment to the bank of part of the proceeds from the sales of timber, land, rights of way, or other property covered by its mortgage. Until the principal is all paid up the amortization instalments must continue to be paid promptly every six months.

Application for loans are made to the Secretary-Treasurer of the local National Farm Loan Association operating in the district where the farm is located.

The loans cannot be made direct by the land bank, but are made through these associations, which are co-operative organizations of ten or more farmer borrowers. Each borrower becomes a member of the association, and his loan must be recommended and guaranteed by the association. Associations have now been chartered to take in practically all of each land-bank district.

As this is a co-operative system, each applicant is required to pay the cost of handling his application and making his loan. Part of the cost is required as an advance fee, varying according to the rules of the different associations, and the balance is taken out of the proceeds of the loan. The standard fee is 1 per cent. of the loan granted, \$10 of which is usually required with the application, the balance deducted from the loan when closed. Cost of searching title, making abstract, and recording fees is a separate item. (*Example*: A applies for loan and pays \$10 with his application. The bank grants him \$3,000. His fee is \$30, less the \$10 already paid, leaves \$20, which will be deducted from his loan when it is closed.)

The expense of making a Federal loan is small, and, once paid, is paid for all time. The Federal loan need be made but once in a lifetime.

Each borrower is required to buy stock in the association to the extent of 5 per cent. of the loan he receives. This stock is his property, and is held by the association as collateral to his loan. He receives such dividends on this stock as the bank is able to earn and distribute, and when the loan is fully paid up his stock is repurchased at its full par value. The stock bears a “double-liability” feature, inasmuch as he also must become liable in the event of loss for a further 5 per cent. of the value of such stock.

Stock need not be paid for in advance. The amount is usually deducted from the proceeds of the loan.

The farm may be sold subject to the Federal mortgage, but if sold subject to such mortgage the purchaser must also purchase the loan stock.

“The farm-loan system provides a low-rate, long-time, easy-term mortgage loan to the farmer; it is in fact designed to fit, and does fit, the credit needs of the farming industry in a peculiar way. It provides an especially desirable form of loan for the man who is just getting established.”

—(Quotation from Farm Loan Board’s report.)

The borrower is obliged to have some capital of his own, and cannot expect to obtain a farm by using only the capital obtained from a Federal loan. The Federal loan cannot be made for more than one-half of the value of the farm, and it must be made only on a first mortgage.

In special cases the twelve Federal land banks are empowered to make loans through agents as well as through the associations, but the provision is made little use of.

JOINT-STOCK LAND BANKS.

An additional means of providing long-term credit for farmers through the Farm Loan Board is through joint-stock land banks.

When the Federal Farm Loan Act was passed provision was made (for reasons which have been variously set out by our informants) for the establishment of joint-stock land banks also under the control of the Farm Loan Board. These banks, while organized for the purpose of providing long-term credit for farmers, differ in principle from the Federal land banks, inasmuch as they are privately owned and the borrowers have no liability or concern in any losses made by these institutions. The law provides that there must be ten or more shareholders, that the capital must be at least \$250,000, and that no joint-stock land bank may lend more than 15 per cent. of its capital to one borrower. The Federal Farm Loan Board has also ruled that the limit of an individual loan must be \$50,000, and that no bank may operate in more than two States, which must be contiguous. Joint-stock land banks, however, are permitted to make loans to other landowners besides farmers. The result has been that these institutions have grown very much more rapidly than was expected by the Federal authorities. At the beginning of 1924, according to the Year-book of the American Department of Agriculture, there were sixty-four of these banks operating in the United States.

“The major portion of their loans, however, are being made in the better farming regions. This is somewhat in contrast to the policy of the Federal land banks, the loans of which are more uniformly distributed over the entire country. It is also significant that the loans made by the joint-stock land banks are materially larger than those of the Federal land banks.”

The American authorities suggest that this has been an advantage in their competition with the Federal land banks. These banks are not permitted to charge more than 1 per cent. above the interest rate at which their bonds are sold, and their profits depend on the amount of business they invite. In most cases the profits are high, and the shares of these banks are quoted on the Stock Exchange at 180 to 190. They are therefore keen competitors of the Federal farm-loan system.

The security issues of both institutions have the same protection. The bonds in neither case can exceed 50 per cent. of the appraisal of the mortgaged farm, plus 20 per cent. of the value of the fixed improvements. As with the Federal farm loan bonds, the principal and interest are tax-exempt. The bank must set aside 25 per cent. of its earnings annually until it has an accumulated surplus equal to 20 per cent. of the capital. Thereafter 5 per cent. must be set aside for surplus. The bonds are issued generally for thirty-three years, but the bank, after a given period, may call in its bonds at par.

INTERMEDIATE CREDIT.

Intermediate credit, the term commonly used, means credit granted to farmers for terms longer than those covered by ordinary bank loans, but shorter than those for which farm-mortgage loans are usually made. It is based on personal and collateral security—that is to say, on the character and standing of the borrower, and on commodities or other personal property pledged to guarantee repayment of the money loaned. Farm credit other than mortgage credit, and running for terms of from six months to two or three years, is properly spoken of as intermediate credit.

One intermediate-credit bank serves each Federal land-bank district. They are located in the same cities as the Federal land banks, and have the same offices and directors. They operate under the supervision of the Federal Farm Loan Board, just as do the Federal land banks.

Each intermediate-credit bank is entitled to capital from the National Treasury up to \$5,000,000. The Secretary of the Treasury is authorized and directed by the Agricultural Credits Act to subscribe the capital as it is called for by the directors of the intermediate-credit banks, with the approval of the Farm Loan Board. Only \$1,000,000 each was asked for by the banks when they were organized. Several of them have since called for additional amounts.

Each bank may issue collateral trust debentures, or short-term bonds, based on discounted or purchased farmers' notes and other agricultural paper. Such debentures may be sold up to an amount not exceeding ten times the bank's paid-in capital and surplus. Proceeds of debenture sales are available for making loans. On the basis of the present total authorized capital of the twelve banks, their maximum loaning-power is \$660,000,000.

The intermediate-credit banks discount farmers' credit paper for banks and other financing institutions and for co-operative associations. This means that these institutions may indorse and turn over their credit paper to the intermediate-credit bank, and obtain the money tied up in the loan for the further extension of credit to their patrons. The intermediate-credit banks also make loans direct to co-operative associations of agricultural producers on the security of warehouse receipts or mortgages on live-stock.

The minimum term these banks make discounts or advances for is six months, and the maximum term three years. For the present the Federal Farm Loan Board has limited the term of discount to nine months. Borrowers, whether these be farmers' organizations or banks, have the assurance, however, that renewals will be made where the need exists and the security warrants. Loans made by intermediate-credit banks are not based on deposits which may be suddenly withdrawn, but on funds obtained from the sale of securities with a definite maturity.

Interest or discount rates charged may not exceed by more than 1 per cent. the rate paid on the last debentures sold. An issue of debentures was recently sold at $4\frac{1}{2}$ per cent. Intermediate-credit banks, therefore, cannot now charge more than $5\frac{1}{2}$ per cent. No credit paper may be discounted for or purchased from any bank or other institution if the rate charged by that institution to individual borrowers is more than $1\frac{1}{2}$ per cent. above the discount rate. At present, therefore, the intermediate-credit banks cannot discount any paper carrying an interest charge to the farmer of more than 7 per cent.

An individual farmer cannot borrow direct from the intermediate-credit banks. The cost of setting up machinery for this purpose would make interest-rates too high. The banks serve wide districts, and would find direct dealings with the individuals too expensive.

Farmers need not necessarily obtain credit from the intermediate-credit bank through local banks or other existing institutions. In most States they can form agricultural credit corporations of their own to discount paper with the intermediate-credit banks. Such corporations must have a capital of at least \$10,000. Intermediate-credit banks help in forming such corporations. Some of them have prepared suggested articles of incorporation intended to comply with State laws in their districts.

Bankers or business men who wish to help the farmers to obtain cheaper credit can form such corporations. In fact, any group can do so. Bankers in some cases may find it desirable to conduct such credit corporations in connection with their banks. Several of the kind have been organized.

The evident intent of the law is that existing credit machinery shall be used as far as possible. It is desirable or advisable to form new credit agencies only where the present ones are inadequate or do not take advantage of the new discount facilities. Improvement of existing credit agencies, rather than their destruction, is the object of the law.

These intermediate-credit institutions have not been taken full advantage of. Their total loans are not yet equal to the amount authorized. The fact is that the American intermediate-credit system has only been in operation for three years, and, while those who are administering it speak with the utmost confidence, it cannot be said to have stood the test of time. As far as it has been possible to examine it, however, the system, wisely administered upon the United States plan, is in little danger of failure. The suggestion has been made by the critics of the system that it lends itself to speculation by the producer; in other words, that it tempts him to hold on to his crop in the hope of abnormal prices the following year. The answer made by the authorities is that they provide against such a possibility by their methods of management. The reports of the War Finance Corporation stress the value of local information supplied by experts on the spot. This is an important principle of the American rural-credit system, both long and short term.

Mutual liability exists between both the Federal land banks and the intermediate credit banks, although, of course, this principle does not apply to the joint-stock land banks.

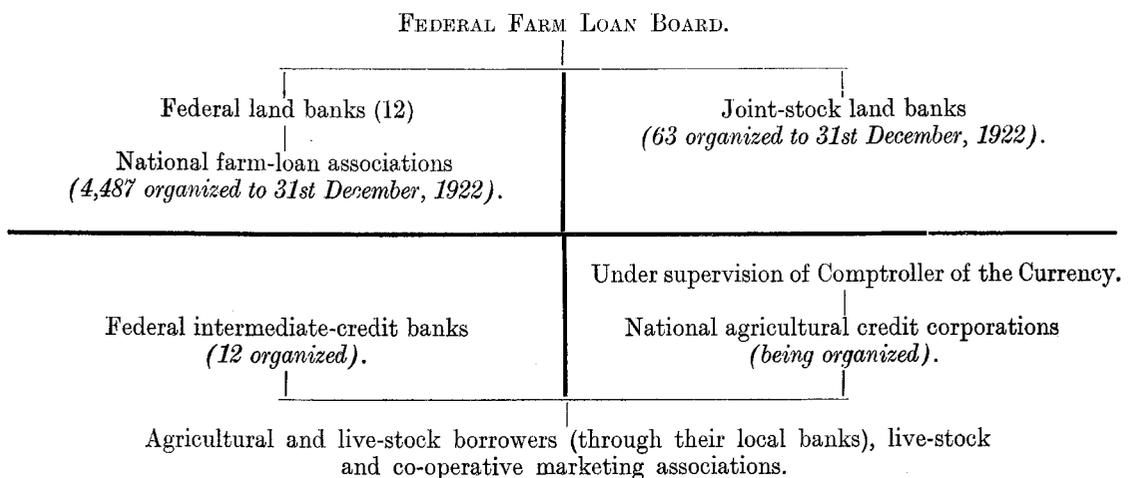
The maximum rate of interest at which debentures may be issued is 6 per cent. in the case of intermediate-credit banks, and the maximum interest-rate the land banks may charge on all loans is also fixed at 6 per cent., not in any case to exceed by more than 1 per cent. the interest payable on the mortgage bonds sold.

As is the case with all Federal State and municipal bonds in the United States, the bonds issued by the Federal Farm Loan Board are tax-free. It is generally admitted by American authorities that this principle is unsound, but it is a custom in the United States.

THE CO-OPERATIVE IDEA.

The Farm Loan Association is the basis of the American long-term loaning system administered by the Farm Loan Board, the plan having been adopted after an investigation of European methods where loans are made to associations of individuals responsible for any loss which may be incurred, only in the case of the American farmer the loss is limited. As the associations make recommendations upon loans upon the valuations of their loan committees, it has been found necessary in America to provide for appraisal in all cases by an independent officer of the bank in order to check the association's valuation. There are about five thousand farm-loan associations in the United States, whose active officer is the secretary-treasurer, who is the only paid association official. There is great difficulty in obtaining secretary-treasurers who are qualified to successfully undertake this work.

Chart showing Banking Machinery created under the United States Federal Farm Loan Act of 1916 and the Agricultural Credits Act of 1923 to provide Additional Credit Facilities for Agricultural Interests.



The institutions *above* the heavy horizontal line were created under the 1916 Act to provide, primarily, funds to be loaned on long-term first mortgages, and those *below* under the 1923 Act to provide short-term credit facilities.

The institutions *left* of the heavy vertical line were created to satisfy advocates of Government control, and those to the *right* to satisfy advocates of private enterprise.

In 1923, in order to provide still further short-term credit facilities for agriculture, the Agricultural Credits Act was passed, under which five or more persons may form an organization in any State, with which banks associated with the Federal reserve system of the United States may invest 10 per cent. of their paid-up capital and surplus. These corporations were given powers similar to those of the intermediate credit banks, except that they could do business directly with the public. The minimum capital required is \$250,000, but corporations capitalized at \$1,000,000 or over are given rediscount privileges. The main difference between the bonds of these corporations and the farm-loan bonds is that no maximum interest is imposed on them and that they are not tax-free.

Borrowers cannot be charged more than the legal rate of interest of the State in which they are located; for agricultural purposes the maturing of the instrument is not to exceed nine months, and for live-stock loans not to exceed three years. Fifty per cent. of the net earnings go to the Government and 50 per cent. to the reserve fund, until the reserve amounts to 100 per cent. of the subscribed capital stock, and thereafter 10 per cent. is paid into the surplus, and the residue paid to the Government as a franchise tax.

In addition to the above national systems there are bond issues and loans in certain individual States, several of which have instituted systems for loaning money to farmers. These were not specifically investigated, as they are now completely overshadowed by the Federal system. Many of them, however, appear to be more or less agencies for loaning public funds.

Certain private institutions and co-operative organizations, which are controlled by the borrowers themselves under Government supervision, also issue bonds secured on first mortgage.

The legislation in force, and the methods adopted to afford such financial assistance, are therefore—(1) The Federal Farm Loan Act, 1916, and amendments thereto; (2) the Agricultural Credits Act, 1923; (3) the United States Warehouse Act, 1919.

The object and effect of this legislation is to create a standard form of investment based on long-term mortgages, to equalize interest, to furnish a market for bonds, and to provide an intermediate credit for farmers for terms longer than those usually covered by the ordinary banking system.

COMMENT.

For the better appreciation of the banking systems of the United States it should be pointed out that the term "State bank" is frequently misunderstood. In the United States of America a State bank is one of innumerable small local institutions called "State banks" to distinguish them from "National banks," and all operate within the confines of their particular States. They are in no way whatever controlled by any State Government, and in many cases their capital is less than \$10,000 (£2,000). It may also be remarked that National banks, although possessing a Federal charter and operating in more than one State, are in no way associated with either State or Federal Government, and that their capital need not exceed \$50,000 (£10,000). During the slump period very many State and national banks failed in the United States, but in no case did any bank fail which had a capital of \$250,000 (£50,000) the minimum subscription with which a bank is allowed to start business in New Zealand.

The operations of the Farm Loan Board have been well conducted, on conservative lines, by a body which, while it has representatives of the Government upon it, is apparently quite free from political control. The last annual statement presented to Congress gives the position as follows:—

			Dollars.	Dollars.
Net earnings to 30th September, 1925	..	..	..	32,913,780-91
Less—				
Dividends paid	..	..	13,209,071-10	
Carried to suspense account	..	..	1,323,953-38	
Real estate charged off	..	..	5,037,769-23	
				19,570,793-71
Carried to surplus reserve, &c.	..	..	536,048-20	
Carried to legal reserve	..	..	7,544,700-00	
Carried to undivided profits	..	..	5,262,239-00	
Total, carried to surplus reserve and undivided profits	..	..	..	<u>\$13,342,987-20</u>

These are, of course, tax-free profits, and it is estimated that State and Federal taxation would have reduced them by at least 10 per cent.

There are between fifteen and twenty billion dollars' worth of tax-free bonds current in the United States, and these are being added to at the rate of one

billion dollars per year. The amount of tax-free bonds issued by the Federal Farm Loan Board is estimated at 8 per cent. of this total. The operations of the farm-loan system in the United States have tended to reduce and stabilize interest charges, although the total loans made by the Farm Loan Board amount to only about 15 per cent. of the whole mortgage debt.

The total mortgages on American farms stood at almost \$1,500,000,000 in 1921, and the Agricultural Year-book, while unable to give definite figures, states that the total mortgages have considerably increased since that date. In spite of these enormous figures it is the case that a large percentage of American farmers possess little or no credit, while over 50 per cent. of the farms are not mortgaged at all. (U.S. Agricultural Year-book, 1924.)

The interest-rate on first-mortgage loans of commercial banks in the United States averaged 6·89 per cent. in 1923; the rates varied from 5·3 in New Hampshire to 9·6 in New Mexico. (U.S. Agricultural Year-book, 1924.) The interest-rate on Federal farm loans in 1923 was the same all over the country—*i.e.*, 5½ per cent.—although it has been as low as 5 per cent. In December last the Federal Land Bank at Omaha was lending at 5¼ per cent. This bank has never paid dividends of less than 9 per cent., and generally 13 per cent., which reduces the net cost to borrowers to under 5 per cent., a point which must not be overlooked in dealing with farm-loan interest.

It is required by law that 25 per cent. of the earnings be retained until the reserve funds equal 20 per cent. of the outstanding capital stock, then 5 per cent. of the net earnings must be added thereto annually, the balance to be paid in dividends. The working-expenses of the banks are small—generally below ½ per cent.

SHORT-TERM AND INTERMEDIATE CREDIT.

The United States Year-book estimates the short-term credit outstanding at from 30 to 35 per cent. of the total credit used by farmers. The commercial banks are by far the largest source of such credit, but, as is the case in New Zealand, merchants, dealers, and private lenders also make advances on farm stock and products. Short-term bank loans alone are estimated to amount to over \$3,000,000,000. The average rate of interest on these loans was 7·6 per cent. in 1923, but the figures do not disclose the true interest, as there is a practice of requiring minimum balances on deposit, and in many cases the interest is collected at the time the loan is made. It is also the general custom to charge commission. In the east it is the practice to insist on an endorsement of the borrower's notes. About one-third of the total short-term bank-loans are secured by collateral, such as mortgages and live-stock, crop liens, chattel mortgages, &c.

“These short-term loans, for which payment was demanded at maturity, placed the farmers at the mercy of their creditors, even though the purpose for which the loan had been made had not been accomplished.”—(U.S. Agricultural Year-book.)

The establishment of the Federal reserve system in 1913 greatly extended the credit due to farmers, though this meant increasing the term of the notes from ninety days to nine months. Notes became acceptable for discount, and more liberal provisions were made for discounting paper for co-operative organizations. The system became at once an important channel through which banks might obtain additional funds to finance the short-term credit requirements of agriculture. In spite of this, however, the situation became so acute that Congress empowered the War Finance Corporation to switch over to agriculture. The situation is thus described in the War Finance Corporation's report:—

“When the Agricultural Credits Act was passed (August 24, 1923) there was a state of demoralization everywhere among all classes of agricultural producers. Farmers and stockmen generally were in a desperate plight; breeding-herds were being sacrificed on a wholesale scale, immature stock was being sent to the block; cotton, corn, and other agricultural commodities commanded prices that were discouragingly low, in many cases materially below cost of production. Forced liquidation and hasty selling impaired the farmers' buying-power, and this in turn brought about a reduced demand for the products of industry. Bank deposits were being withdrawn and reserves depleted, loans could not be collected, and the stability of our whole agricultural and banking situation was being seriously threatened.”

The War Finance Corporation made direct loans up to November, 1924, totalling \$297,934,000, and approved other loans amounting to \$480,000,000. This greatly relieved the financial stringency. The agricultural credit corporations were then created to further assist in the general relief.

While these institutions more or less dealt with short-term credit to farmers, it became increasingly obvious that a system of intermediate credit was necessary, and these influences led to the establishment in 1923 of the intermediate-credit system, under the control of the Farm Loan Board. The system has been a pronounced success in so far as that a ready market for its debentures has been found, and the intermediate-credit banks "have been able to make direct advances at rates varying from $4\frac{1}{2}$ to $5\frac{1}{2}$ per cent." (U.S. Year-book).

The financing of intermediate-credit banks is done by the issue of debentures having a maturity of six months to three years. These securities provide a first-class investment for bankers and trust companies, and command a low rate of interest, generally in the region of 5 per cent. The rediscount facilities of the intermediate-credit banks have been used largely by live-stock companies and agricultural credit corporations created for the purpose of taking advantage of them.

The commercial banks, being limited in the interest-rates they may charge to $1\frac{1}{2}$ per cent. over the discount rates of the Federal intermediate-credit bank, have used its facilities only very slightly, but nevertheless a new channel has been opened up through which intermediate credit may flow freely to all parts of the country. The terms and conditions of the loans are more liberal than have previously been the case. The system provides for partial repayments at the option of the borrower, and renewal privileges are freely granted.

Wherever there has been a reluctance on the part of local banks to take farm paper on this basis, the agricultural credit corporations created in 1923 have been formed for the purpose. These latter institutions receive no deposits and do not carry on a general banking business. Their capital is frequently subscribed either by farmers themselves or by those interested in them, and their function is to discount farm paper, and then rediscount it with the Federal intermediate-credit bank.

The Federal farm-loan authorities lay stress on the importance of organization and management. They do not fear that the provision of short-term credit will encourage speculation by allowing the farmer to hold in the hope of a higher market, because they are themselves the judges of conditions and possess complete power to force sales. If the Board considers the market is reasonably good it insists on the disposal of the mortgaged crop in a reasonable period of time. If, on the other hand, it thinks the farmer is being called upon to sacrifice his produce it extends his credit.

There does not appear to be any necessity for the existence of the joint-stock land banks, for the creation of which provision was made in the Federal rural-credit legislation in order to placate opponents of the measure, and to satisfy interested advocates of private enterprise. This concession has since been regretted, because these institutions pick the eyes out of the farm-mortgage business and pay handsome dividends to shareholders, which under the Federal farm-loan land bank system would be divided between borrowers. The joint-stock land banks operate for personal gain, and profits are divided between their shareholders. Federal land banks, however, are specifically forbidden to do this, and must divide profits between their borrower clients, the sole object of their existence being to furnish capital for producers at the lowest possible price.

Federal land banks have been very successful in disposing of their land-bank bonds. Early in their organization the twelve banks secured the interest and support of six of the largest banking organizations in the United States. The Federal land banks then arranged to pool their offerings and bring out their bonds at stated periods, keeping off the markets in the interim. The syndicate of banking houses, acting as wholesale agents, enlisted the services of some thousand or more other bond houses and banks throughout the United States, so that whenever an issue was made a very large number of investment houses were handling the securities. There has never been much difficulty in selling land-bank bonds, which occupy a very high place in the investment market of the country. Without this strong machinery for marketing securities the great progress and success achieved would not have been possible.

The bonds are usually sold at par or a slight premium. Sales of 4½-per-cents. made in 1925 realized 101¾ per cent. The fluctuations are very slight. The bonds are issued under Government supervision, and cannot be issued until the authorities have passed the securities and satisfied themselves that each dollar issue is secured by at least two dollars' worth of land. The Government does not guarantee the bonds, which, however, are held and deemed to be instrumentalities of the Government.

The State, in addition to the provision of \$9,000,000 capital to initiate the system, has also invested State funds in bonds, which, in common with State and municipal bonds issued in the United States, are free of income-tax. The rates of discount may not exceed by more than 1 per cent. the rate paid on the preceding debentures issued.

Interest on short-term bank loans is usually higher than farm-mortgage loans. The security for such loans is often less ample and costs relatively higher. Short-term loans are usually repaid from the proceeds of crops, which may be damaged by drought, frost, diseases, insect pests, or other causes. Approximately two-thirds of short-time bank loans to farmers are made on the basis of personal security; one-third are secured by some form of collateral or other. Mortgages on live-stock are the most important collateral loans. Staple products adequately warehoused also afford sound collateral.

In the past the lack of adequate supervision over stored products was an obstacle to the extensive use of warehouse receipts. In order to improve this situation the United States Warehouse Act was passed in 1916. Its purpose was to create a uniform and sound system of warehousing farm-products, and to provide a warehouse receipt which would generally be accepted as security for loans. This has been accomplished through the enforcement of provisions requiring suitable storage, through frequent inspection and careful control over the issue and cancellation of warehouse receipts. The original Act applied only to cotton, grain, wool, and tobacco. By an amendment of 1923 the Minister of Agriculture was authorized to extend the provisions of the 1916 Act to such products as he might consider suitable for storage.

SOUTH AMERICA.

The mortgage banking systems of several of the Republics of South America which were visited by the Commission were found to be interesting and instructive—particularly the extensive and liberal provision made for agricultural credit in Chile, Argentina, and Uruguay. In these countries land-mortgaging and land-settlement systems of a satisfactory kind have been developed. They are in every case supported by Government finance and supervised and generally controlled by the Government. Interest-rates, for obvious reasons, are higher than in New Zealand, and consequently do not afford a basis of comparison. It is a custom in South America to pay interest half-yearly in advance, and heavy penalties in the form of charges on the arrears, running as high as 1 per cent. additional interest per month, are provided against default. These institutions have stood the test of time, and, notwithstanding serious political disturbances, are to-day in a strong financial position. Their securities are in demand and find ready sale.

The Republic of Uruguay has been most successful in promoting agriculture and providing credit on reasonable terms. In this the Banco del Hipotecario has been ably supported by the Banco de la Republica Oriental del Uruguay, a purely State bank which provides short-term credits for those engaged in primary industries, and liberally supports the development of co-operation and the extension of agriculture.

PERU.

Peru has no organized farm-loan system, either State or private, which is covered by the issue of mortgage-bonds. The needs of agriculture are catered for only by private financial institutions; the rate of interest varies from 7 to 10 per cent. payable half-yearly in advance; a fee of 2 per cent. commission is charged on each loan. These loans are generally made for a period not exceeding one year. The financial institutions provide a form of table mortgage for twenty years at

7 per cent. plus sinking fund, to which must be added 5 per cent. commission. Legislation has, however, been introduced providing for the establishment of an agricultural credit on similar lines to those adopted by the neighbouring republics.

CHILE.

There are two long-term mortgage institutions—(1) Banco de Hipotecario de Chile, a private mortgage bank, and (2) the Caja de Credito Hipotecario de Chile, State-controlled.

The Mortgage Credit Bank of Chile (2) was created in 1855, and although not actually guaranteed by the State, the Government is behind the bank. The Council which controls the work of this bank is composed of members of the Legislature, who are appointed by the President of the Republic of Chile, as is also the president of the bank. This bank is primarily a long-term mortgage bank, for which capital is provided by the issue of mortgage-bonds. The total loans amount to about £15,000,000, and are advanced on both urban and rural properties.

Loans are made up to 50 per cent. of value. The bank has borrowed usually at about 8 per cent. and loaned at $8\frac{1}{2}$ per cent., which includes interest and sinking fund. The administration charges of the bank are paid out of the penalty of $1\frac{1}{2}$ per cent. per month charged on arrears, which produces about £38,000 per annum in penalties for overdue interest. Another £12,000 a year is derived from foreclosures, fees, &c. The bank has made comparatively few losses; in the worst year of its history the total loss did not exceed £5,000. There is no limit to the loans, but the average is slightly over £2,000, as the holdings are large.

Bonds.—The bonds are issued at 6, 7, and 8 per cent., all maturing in thirty-six years, and are sold at premium or discount, according to the state of the market. The Minister of Finance regulates and controls their issue, over which a very strict Government audit is maintained. Although bonds are nominally issued to borrowers, the bank has appointed a fiscal agent by whom they are sold through the Stock Exchange. If money is not obtainable locally, the fiscal agent arranges their sale abroad. Purchasers have been found in America and Europe, but the bonds are mostly sold locally, as they are a very popular form of investment. In 1911-12 the 5-per-cent. issue was investigated in detail by the French authorities, who gave permission for the bonds to be quoted on the Bourse as first class.

The operations of the bank have had a material effect in reducing and stabilizing interest-charges. When first instituted the bank received a subvention of approximately £250,000 from the Government. The bank has its own valuers, whose decisions are final. The institution is well managed, and is in a sound position.

Short-term Credits. In 1922 two new services were introduced: (1) agricultural credits at five years guaranteed by second mortgages, and at six to twelve months by at least two guarantors; and (2) loans for specific agricultural and allied developments. In the latter case the work to be carried out must be for buildings and permanent improvements. The bank does not take money on deposit or do any banking business, but is in close co-operation with the two Chilean savings-banks, who are constant purchasers of the mortgage-bonds.

ARGENTINA.

This State has made full provision for long-term mortgages by the establishment of the Banco Hipotecario Nacional. This is a national institution, which has been established for thirty-eight years, and has lent out £130,000,000, approximately. Loans are divided into two classes—(1) common loans, and (2) colonization loans. The former are loans to landowners, and are limited to 50 per cent. of the productive value of the land. The latter represents an important and valuable feature of the bank's operations—a land-settlement or colonization scheme. Under this scheme provision is made for the subdivision of large individual holdings of rich and fertile land into maximum areas of 450 acres. If a large holder desires to sell the whole or any portion of his land which is considered suitable for close settlement, the bank subdivides the land and sells it by public auction, paying out the owner and financing the purchaser by means

of the issue of bonds to the extent of 80 per cent., the purchaser depositing 20 per cent. of the purchase-money. The average loan is approximately £1,500. Under the common-loan system the maximum loan is £100,000 and the average loan £4,000. The interest charged is 6 per cent. plus 1 per cent. amortization and 1 per cent. management. After eleven years the total rate is reduced to $7\frac{1}{2}$ per cent., and at the end of twenty-two years to $7\frac{1}{4}$ per cent., the reason given being that mortgagors usually pay off their mortgages in eleven years.

Bonds.—The bonds are fully guaranteed by the State, and are sold on behalf of borrowers through brokers, who charge $\frac{1}{8}$ per cent. commission. This puts the cost of marketing the bonds, and nominally the responsibility for getting the cash, on the borrower. The repayment of mortgages in bonds of the same series has created a demand which does much towards stabilizing their value, and borrowers are always on the lookout for them. If the sale of bonds at any time proves slow or difficult, the bank advances 80 per cent. without interest charge. Borrowers who in bad seasons might fall behind with their payments are not penalized beyond the payment of 8 per cent. per annum on the arrears. The limit of the bank's power to grant extension is up to four years, provided the value of the property is being maintained. The bank has accumulated reserves of £10,000,000, and its losses have been comparatively small.

Short-term Loans were found necessary, and have been recently instituted. The term is five years, and the maximum loan £2,000, and the interest 6 per cent. with 5 per cent. amortization. This does not clear the loan in the period, but the remaining balance can be arranged or paid off.

URUGUAY.

Uruguay is an agricultural and pastoral country, whose principal exports are wool, meat, and hides. Its population is 1,500,000, with an area almost identical with that of New Zealand, and of a character which presents many similar features.

Adequate provision is made in this Republic for both long- and short-term agricultural credit, the former by the Banco Hypotecario and the latter by the State bank, which renders generous and material assistance.

Banco Hypotecario.—This is established and works on similar lines to the Banco Hypotecario Nacional of the Argentine. It makes loans in the form of mortgage-bonds, which are in good demand at par, being bought freely by small investors and also quoted in Europe. Advances are made up to two-thirds of the assessed value, repayable in thirty years on the amortization plan. There is a particularly happy relationship between the commercial banks and the Banco Hypotecario—the former being always prepared to make short-term advances against the latter's bonds. The bank lends in sums of from £60 to £120,000 on revenue-producing properties, the annual charge on which is 8 per cent., made up as follows: Interest, 6 per cent.; commission, 1 per cent.; amortization, 1 per cent.—payable half-yearly in the case of rural loans and quarterly in the case of city loans. Coupon interest is payable in Europe, where the Government has arranged with bankers and agents. The authorized capital is £10,000,000, of which £7,407,658 has been issued. Reserves amount to £4,700,000. The mortgage-bonds in circulation on the 30th May amounted to £166,686,600, secured on mortgages representing on a conservative valuation a third more than this.

There is also a private institution designated the Hypotecario Agricola, which receives deposits from farmers and makes advances.

Short-term Credit.—Commercial banks make advances to farmers, but are limited to a term of six months, which is found too short, and farmers who avail themselves of this accommodation usually repay the bank with money borrowed elsewhere. The Bank of the Oriental Republic of Uruguay (State bank) has successfully undertaken short-term advances to agriculturists, and in its numerous branches a large percentage of the business transacted consists of the placing of funds which are applied directly or indirectly to the progress of the cattle industry and agriculture. Advances are made on the security of live-stock, crops, and implements.

In co-operation with the State, it affords facilities and grants credits to colonies to help in their advancement. It acts in conjunction with the official Seeds Commission in making seed loans, also with the Banco Hypotecario in State colonization

schemes. The system is being extended to admit of small loans, not exceeding £1,000, to assist in restocking the estancias by facilitating the purchase of pedigree cattle and for the foundation of dairy establishments. In 1924 the bank framed the constitution of two co-operative societies for the sale of fruit (an experiment in the way of setting up co-operative sale establishments), and undertakes propaganda and instruction in the principles of co-operation.

To place the agriculturist in a position to obtain the best price for his produce, special loans are made on cereals in warehouse and to vine-growers up to £20 a hectare, repayable with the harvest or vintage; also to assist growers to instal plant and to purchase material. The success of the bank may be gauged by the result of its operations for the year 1924, when the gross profit was £1,286,472, leaving, after deducting administration charges, depreciation, and losses, £622,605 net, which was disposed of as under :---

	£
Interest and amortization, 1896 loan	94,397
Grant towards cost of new Parliament Buildings	10,000
10 per cent. of profits to reserve	51,820
To increase of capital	296,724
To credit of Government	169,662

Since its inception the bank's capital has increased from £1,000,000 to £5,000,000. Its gold reserve exceeds £11,000,000, and affords an ample margin over and above the demandable obligations.

BRAZIL.

Although excellent Federal legislation exists, nothing has been done in Brazil in the direction of establishing a national land mortgage bank. One or two of the States, notably Sao Paulo, have local schemes which are designed to promote immigration and close settlement. The delay in applying the national legislation is thus referred to in the official commercial report of the British Legation :--

“This is the more to be regretted as one of the great difficulties to development of the interior is the lack of credit facilities with which the agriculturist is faced. It would appear to be a relatively easy matter for straw firms to obtain credit facilities in towns such as Rio de Janeiro and Sao Paulo, but the agriculturist in the interior finds the doors of the bank closed to him until, and unless, it is a question of hypothecating his crops and production, at which stage his real difficulties have already passed. Without organized agricultural credit and transport facilities Brazil's productivity will continue to be unduly curtailed.”

The rates of interest in Brazil, with the exception of Sao Paulo, are considerably higher than those ruling in any of the countries visited.

COMMENT.

In Chile, Argentina, and Uruguay long-term loans are based on the issue of mortgage-bonds by State-controlled organizations. Appropriate Acts in each country regulate the issue of bonds against an adequate margin of security, and provide for rigid State supervision, audit, and inspection. The systems are generally operated by national land-mortgage banks, and in Uruguay by the State bank, which also grants short-term credit and intermediate credit. Long-term loans are secured upon first mortgage with terms of from five to thirty-five years, interest 6 to 8 per cent., payable in advance by semi-annual and annual instalments. Short-term loans are granted on personal and collateral security up to five years; interest 6 to 8 per cent. Ample provision is made for foreclosure, occupation, sale, or lease in the event of default. Advances are made on from 20 to 60 per cent. of appraised value, the productivity of the land being the basis. The respective Acts very closely define and limit the purposes for which loans may be made. The liability of borrowers is limited to the amount of their individual loans. Capital is provided by the issue of bonds secured upon first mortgages on land, stock, chattels, &c. The currency of these bonds runs up to thirty-five years; interest, from 6 to 8 per cent.

In Argentina and Uruguay the Government guarantee is absolute. In Chile, although not expressly stated in the Act, the Government publishes the fact that it is behind the bank.

The results have been generally satisfactory in all three countries. The losses are very small in comparison with the business. The market price of bonds varies with the rate of interest, but they are generally sold at from 95 to par. Securities are not issued by co-operative groups. A private mortgage bank in Chile has the power to issue bonds, and does so on terms very slightly under those obtained by the State institution.

The Commission was not prepared to find such well-devised and soundly managed organizations for the supply of rural credit operating in South America, and so well worth investigating. To find that they have functioned so successfully in spite of political changes and disturbances was none the less surprising. The basis of their success was probably the comparatively low level of land-values which existed at the time of their foundation. Land-values have grown with the banks, but are still much lower than in New Zealand. Climatic conditions partly account for this. On the other hand, unusual conditions as regards labour and taxation obtain. The agriculturist is practically immune from taxation, and workers whose standard of living is deplorably low are plentiful. In such circumstances farming could hardly fail to be profitable, and this is clearly shown in Argentina where loans are generally paid off within eleven years.

The Commission was impressed with the outstanding success of the State Bank of Uruguay, which combines the functions of a long-term lending institution with those of an ordinary bank of issue rendered possible by the use of savings-bank funds, &c. The bank is well managed, and short- and intermediate-term credits are carefully administered. The figures quoted above indicate the substantial assistance that the institution has afforded land-settlement and agriculture. The example furnished by this bank in publishing advice and instruction to the farming community is worthy of emulation.

FRANCE.

The organization of agricultural credit in France has been the growth of many years, but was only comprehensively dealt with in 1920, when a co-ordinating Act placed the whole system under the control of the National Office for Agricultural Credit. This office now acts as a central bank to all funds, administers the money made available annually through the Bank of France, and has power to issue bonds and to administer credits for the opening-up of waste lands and restoring devastated areas. The system began with the co-operative societies, who originally developed district banks, and then a central federation; but the Bank of France, at the direction of the Legislature, has been an important factor in providing finance for agricultural credit.

Agriculture in France is regarded as of the highest importance, and the Legislature, through the Bank of France, has created rural credit facilities to a greater extent than any other country in Europe. In spite of difficulties in the recovery of debts from farmers under French law, the Bank of France has provided an initial fund of 40,000,000 francs, supplemented with annually increasing sums which have ranged up to 7,000,000 francs for rural credit. It also facilitates the rediscounts offered by rural banks to commercial banks, and it makes a representative farmer a member of its District Board in each of its 570 branches.

Long-term loans of a proportion of the funds at the disposal of agriculture from this source are also made to co-operative societies at interest-rates varying from $1\frac{1}{2}$ to 2 per cent. These loans are granted at this favourable rate on the theory that the promotion of agriculture means the promotion of national interests. Prior to the Act of 1920 the system of collective credit was greatly extended in 1906, when legislation aimed at making small holdings accessible was passed. The effect was to further encourage co-operation, to group cultivators together for co-operative purchase and sale by granting loans to them for the exploitation of the soil, sale of produce, &c., for twenty-five-year periods. The district banks were allowed to borrow State moneys without interest to the extent of one-third

of the sum available for agricultural credit from the Bank of France. In 1910 a further Act improved the system of individual long-term credit, and small loans up to 8,000 francs were made available through the agency of the "local funds." The legislation of 1920 increased the number of groups known as "local funds" in the year 1923 to 5,202 and the membership to 284,286.

The Central Office is responsible to a plenary Commission appointed by the Legislature, whilst the Commission meets at intervals to review the whole situation. A decree of 1924 permits the distribution of the available funds as follows: 30 per cent. for short-term and intermediate credit, 45 per cent. for long-term credit to individuals, and 25 per cent. for long-term credit through the societies. Several minor Acts conferring powers in connection with electrical development, special terms to ex-Service men, &c., have also been passed.

Under the law of 1920 there is first the small community bank or society, second the regional or district bank, and thirdly and lastly the National Societe Agricole itself. The capital of the central institution at present amounts to 50,000,000 francs, and the reserves to 50,000,000 francs. The deposits of individuals total 300,000,000 francs, and 700,000,000 francs are supplied by the Bank of France, interest-free, until 1999. In addition, the Bank of France pays a tax on the balance of annual profits running into millions of francs per annum, which, by arrangement with the Ministry of Finance, is used for agricultural credit, interest being payable to the State.

In spite of the severe financial conditions existing in France, many regional banks have paid off a considerable portion of the money advanced, 180,000,000 francs having been paid on a capital of 600,000,000 francs. The sum of 70,000,000 francs has been loaned by the National Office on short-term to supplement 550,000,000 francs applied to this purpose by the regional banks. The system therefore provides for four classes of loans—viz., short-term, intermediate-term, long-term, and special-term loans for special purposes, such as irrigation, soldier settlements, &c.

Each regional bank receives four times the amount of its paid-up capital from the Government through the Bank of France, and this sum is used as a reserve fund on deposit with the Bank of France to secure the necessary credit for discounting purposes. State aid is not given directly to the local banks, but to the regional banks, which make direct loans to members on endorsement by the local bank. Regional banks not only fulfil important functions in the distribution of funds, but they also endorse the bills of the local banks; and, as the law of France requires that the farmers' notes shall receive three endorsements, they provide the third, the second being provided by the local bank and the first by the farmer himself.

Loans are granted only for the purpose of farming requirements. The stocks and bonds created by the realization of these loans can be a first charge on the resources of the local banks, or on their deposits; but they come chiefly from the funds which the National Office grants for this purpose to the regional banks. Short-term loans for the purpose of enabling the farmer to pay his working-expenses are not restricted in amount by law; the sum is fixed by the lending bank, which takes into consideration the worth of the business to be dealt with, the farming abilities of the borrower, and the guarantees he can submit. The duration of these cannot exceed that of the transaction for which they are appropriated, and must not be longer than a year. The rate of interest is not fixed by law. An amending enactment of 1921 stipulates only that it cannot be less than the interest paid on the associated shares of the lending-bank nor more than 1 per cent. higher than the rate of discount of the Bank of France, which in 1925 was 5 per cent.

Intermediate loans are reserved for the management and reorganization of farming lands, and may be applied for to purchase live-stock or plant and for permanent improvements or buildings. The maximum amount is not fixed by law, but the longest duration of the loan is ten years, redeemable by amortization. The provision for the rate of interest is the same as for short-term loans.

Long-term loans are made for the special purpose of facilitating the purchase of small estates. Owing to the strong sentimental regard of the French farmer for the freehold of his inheritance, these loans are chiefly required for the closer settlement of larger estates, and are requisitioned for the sole purpose of purchasing, parcelling out, converting, or resettling small farms which the borrowers

undertake in writing to cultivate themselves or with the help of their families. The amount of loan is limited to 40,000 francs, and the average loan is 20,000 francs: the longest term is twenty-five years, and the usual term fifteen to twenty years. Interest is fixed by law at 2 per cent., reducible to 1 per cent. if the recipient is a military pensioner, or civil victim of the war. These loans are mostly raised by married men, in which case the wife's consent has to be given.

The provision for long-term credit, while quite adequate in France, where small farming is highly developed, would be unsuitable for New Zealand requirements. The short and intermediate machinery, however, is immensely valuable to the farming community. The system is intimately related to the Bank of France. As one authority explains, "Only farmers can be members of an agricultural society; only farmers can belong to a local rural credit bank; only local banks can form regional banks; and only members of these various organizations can avail themselves of the credit which the Bank of France has placed at the command of the Government for rural purposes."-- ("Principles of Rural Economics.")

Another important institution which caters for all classes of borrowers in France is the *Credit Foncier*, whose operations are confined usually to building-land, although, where the risk is an attractive one, farm-lands are included. The *Credit Foncier* is purely a commercial institution, with a subscribed share capital of 300,000,000 francs, and with bond obligations amounting to 9,000,000,000 francs. The price of its shares in the market was 1,400 francs in April last, with a face value 500 francs, and the dividend rate on share capital varies from 14 to 15 per cent. Although the *Credit Foncier* enjoys a monopoly from the Government, with another 150 years to run, its dividends are not limited by law. The State exercises control over the rate of interest it may charge, and the following rates have been authorized: 1920, 7·15 per cent.; 1921, 8·25 per cent.; 1922, 7·60 per cent.; 1924, 8 per cent.; 1926, 10½ per cent. The rate fixed in 1926 does not represent the true value of interest, but was fixed in order to check borrowing when funds were not available. Bond issues are made when required, and are limited to forty times the guaranteed capital.

The *Credit Foncier* offers no advantages to borrowers on rural security.

COMMENT.

French farms generally are small, and the requirements of their owners are much less than would be the case in New Zealand. Out of a total of 450 loans to individual farmers, 250 were for less than £900.

Whilst rediscounts are generally made with the Bank of France, they are frequently made with the ordinary commercial banks.

The French law provides a store-warrant for goods which can be deposited as security for a loan. Harvest products, wine, and in certain cases live-stock, can be pledged in this way as security for short-term loans.

An unusual feature in the French system is that individual long-term loans can be granted not only by agricultural credit banks but also by credit societies lending on personal property.

GERMANY.

The question of agricultural finance in Germany is involved and complicated, but, owing to the great courtesy of the German Foreign Office and the Prussian Ministry of Agriculture, members of the Commission were privileged to meet and discuss the subject with the leading administrators of rural credit.

The need for farming credit in Germany, always great, was in normal times readily met by the German mortgage banks as well as the *Landschaften*, by the principle of issuing mortgage-bonds secured by first-class mortgages. Credit on real estate before the war was also obtained from general financial institutions, such as savings-banks.

Personal credit in agriculture is mostly obtained either through co-operative credit societies or through savings-banks. The co-operative credit societies are of two types. The ordinary co-operative credit societies are federated into the important Federal Association of German Agricultural Co-operative Societies

(Reichsverband der Deutschen Landwirtschaftlichen Genosschaften). This Federal Association has a special sub-committee for dealing with co-operative credit. The Raiffeisen societies, which represent the second type, have federated into the General Association of Raiffeisen Co-operative Societies (Generalverband der Deutschen Raiffeisengenossenschaften). This important organization operates partly through the Agricultural Central Loan Fund for Germany in Berlin, and partly through thirteen provincial co-operative associations. The depreciation of the currency greatly injured agricultural credit, and German agriculture has great difficulty in obtaining credit at a rate of interest which makes agriculture profitable.

German farms were heavily mortgaged prior to the war, but during its progress farmers made great efforts to free themselves from debt. The mortgages were soon practically cancelled by inflation, but at the same time the farmers' savings which had been invested or deposited in banks disappeared with their debts when the currency collapsed and credit could no longer be obtained.

The period during which money circulated freely, lasting until 1922, was followed by one in which credit was altogether inadequate. The earlier stages of this period were marked by the abolition of professional secrecy in the banks. The farmers, fearing to deposit their profits in the banks, hoarded their money, but when the mark collapsed they hastily used it to buy agricultural tools, live-stock, forage, &c., pianos and foolish things too, thus hoping to protect themselves against the automatic daily fall in the currency. This procedure, instead of turning out to their advantage, simply resulted in loading them up with unprofitable investments. For instance, they were ultimately unable to pay the wages of the workers who were to be employed in working their machinery, or to buy fodder for the purebred stock they might have bought. At the same time they were unable to resell the live-stock or machinery except at considerable loss. Worst of all, they could not get their phosphates, &c., which were sent abroad to get foreign currency in.

The stabilization of the currency commenced late in 1922. The shortage of agricultural capital was then attributed to the following causes: (1) Low prices; (2) high taxation; (3) workers insisted upon being paid in cash rather than in kind. The situation was rendered more difficult by the fact that surplus food (corn and meat) came from abroad in huge quantities because there was no duty on it.

The German agriculturist was so heavily burdened that it was a serious problem how to keep him on the land, how to restore any kind of credit. Income which he had previously used to meet his mortgage charges was taken by taxation, and to contract further loans would have added to his annual obligations. Interest charges at a certain date were as high as 15 to 22 per cent., and in the spring of 1924 were still as high as 16 to 18 per cent. When the German currency was valueless and no one would lend upon land, the cash needs of the farmer in connection with purchase of seed, fertilizer, &c., to enable him to remain on and to work his farm were met on his undertaking to pay in corn, the only thing left at the time which had a real and tangible value. The Roggenrenten Bank (or Rye Bank) was therefore established, and the rye (the staple cereal) crop was pledged by deed or mortgage, against which debentures were issued representing so-many bushels of rye, with interest coupons attached providing for payment in rye. The normal value of rye would be about 7s. p. c., and the actual cost of the loan, provided rye brought normal prices, would be nearly 14 per cent. The Rye Bank and mortgage banks, however, now bring out bonds on a gold basis. The rye bonds had the effect of weakening the mark.

The Rentenbank was founded in 1922 as a bank of issue, with the object of stabilizing the currency. The capital of the bank was guaranteed by mortgages on land, and in return for this guarantee the Rentenbank gave an equivalent in credit to agriculturists. The system on which it gave mortgages was founded on the value of the reich or gold mark. If a mortgage was wanted on 100 acres a mortgage on 5 acres was granted. The borrower was given paper, but was required to pay back the equivalent in gold marks.

The reduced value of the agricultural land in Germany was fixed at 72 milliard of marks, half of which was mortgaged to provide the capital for the bank, and on

which the farmers pay the Rentenbank a mortgage-tax of 5 per cent., which produces 180,000,000 marks annually: *e.g.*, a farmer with a farm worth 100,000 marks had to accept a mortgage liability of 5,000 marks, on which he was required to pay 5 per cent., or 250 marks, per annum to the Rentenbank.

To meet the difficulties to be overcome by agriculture, and in return for the guarantee, the Rentenbank was empowered to grant credit to agriculture to an extent corresponding to the obligations of the latter arising out of the creation of the bank. Therefore, while in theory the Rentenbank was secured by agriculture, it was at the same time enabled to grant rural credit. When the stabilization of the currency was effected the Rentenbank was closed down under the Dawes plan. It has, however, been converted into a Central German Land Bank, which borrows capital abroad and distributes it with other revenue made available for agriculture, through the provincial banks and local societies, to farmers. The capital of the bank is limited to 500,000,000 marks. The farm taxes are paid over to the bank, which reissues them in cash for loans to farmers on personal credit.

The Rentenbank had borrowed 25,000,000 dollars from the United States, which was divided between the mortgage banks and the bank itself. The Rentenbank also received 25,000,000 marks from the Reich or Gold Bank, which were loaned to farmers for seven years at 7 per cent. The advance was made to cover the high rate of interest on personal security, for which 14 to 16 per cent. was charged. State intervention became necessary because such a rate was excessive. The bank deals only with provincial or group banks, not with individuals. Of the cash made available to the Rentenbank, one-third must be paid back after three, four, and five years respectively.

The American money was used for long-term mortgages to the provincial banks. These banks are only allowed to charge $\frac{1}{2}$ per cent. additional, and complain that in view of the risk this is insufficient. Money is made cheap wherever possible, and the Gold Bank was lending at 7 per cent. These rates were considered too high. It was an axiom in Germany that no farm could pay more than 4 to 5 per cent., and loans were usually regulated accordingly. Co-operative associations were not allowed to earn more than 3 per cent. interest. Under the present arrangement it is estimated that in four to five years' time the farmers will have financed themselves, and will have £25,000,000 capital. After that time the interest will be available for capital purposes, such as model farms, lands improvement, &c. At present the German farmer is largely dependent on outside capital, but the price for the same is too high for its economic employment. The first American loan to the Rentenbank was very costly. With commission and other charges it had netted 85, although sold at 88. The cost of this money to the borrower was $11\frac{1}{2}$ per cent. for long-term loans, and this rate, with diminishing prices for produce, was altogether prohibitive. Great Britain had offered a 9-per-cent. loan, but even that was too high, and the Germans hope as a result of their drastic deflation, the stabilization of their currency, &c., to soon be able to obtain money at a reduced rate. It is anticipated that before long the producer will be able to borrow at 6 per cent. At present the rate is 8 per cent., but much of the outstanding debt is saddled with rates ranging between 12 and 14 per cent. They considered the security for their loan quite good, being based on land which had been written down 50 per cent., guaranteed by the farmer, the local credit bank, and also by the Rentenbank.

The *Landschaften* is purely a credit association, which by means of mortgages in its favour by its members, issues to them mortgage-bonds, which members themselves sell through the Stock Exchange when credit is required. These bonds are guaranteed by the provincial *Landschaften*, the assets of the central *Landschaft*, and also by the joint and several liability of all the property against which they are issued. The *Landschaft* is the personal debtor of the bondholder.

The *Landschaften* are public companies under the common law, but are subject to State control and supervision. They are independent associations of borrowers, not lenders. They are not organized for purposes of profit, their sole object being to obtain long-term credit upon the easiest conditions and at the cheapest possible rates. Although they received some State assistance when they were instituted many years ago, they do not get any direct assistance from the Government. State institutions, however, such as railways, post-office, insurance, &c., invest in their bonds, which are declared trust securities.

Each Landschaft has its own rules and regulations, but these must be submitted to and approved by the State before they can commence operations.

Landschaft bonds are considered a very safe investment, especially having regard to the fact that they were issued on a very conservative valuation, and the fact that the association now rarely loans more than 10 to 15 per cent. of the value of the property. The assets of the Central Bank, the guarantee fund, added to the value of the joint and several guarantee of the debtors of the Landschaft, are bound, with the whole of their assets. Each member is entitled to a loan or credit as a right. This right was too freely exercised after the war; practically all members claimed it, with dire results. They are working to-day on the pre-war system, which time and experience had convinced them was efficient and sound. As a result of the war there had been confusion. There had been overinflation, then came trouble. Values and credit were destroyed, money was valueless, and finally their only available asset was the actual productivity of the soil. Severe deflation took place; 85 per cent. of their pre-war capital disappeared, and bondholders were given, under legislation, a declared residue of 15 per cent., which to-day could be sold on the Bourse at from 10 to 15. Land-values had fallen 60 per cent., and a landowner whose property was worth 100,000 marks could not now, even under favourable conditions, get more than 40,000 for it.

The Landschaften do not take deposits, nor do they deal in short-term credits. The currency of the Prussian Landschaften loans is thirty-six years, the present charges being—Interest, 8 per cent.; amortization, $\frac{1}{2}$ per cent.; administrative, $\frac{1}{2}$ per cent.: total, 9 per cent. per annum. 1 per cent. of the loan has to be paid to the guarantee fund, and the Stock Exchange brokerage of 1 per cent. has also to be met by the borrower. 8-per-cent. bonds are selling well at 97 to 99. Interest may not exceed 8 per cent. without special Government sanction. Outside Prussia some Landschaften are selling 10-per-cent. bonds at 97 to 103. The Prussian Central Landschaft will not now issue bonds at a higher rate than 8 per cent.; indeed, they feel that a farmer borrower cannot successfully carry such a burden.

Prior to the war the rate of interest was 4 per cent., as against 8 per cent. to-day. Landschaften bonds are always strong in the market, and are usually sold at a premium. The principle of allowing members to sell their own bonds instead of giving them cash has cheapened administration, and is satisfactory to all parties. Bonds are not sold outside Germany, but investors from America and Holland buy them freely through the Stock Exchanges.

Borrowers pay up interest well. Before the war they had no arrears at all, and only 1 to 2 per cent. were behind. Interest, &c., is paid quarterly. In October, 1925, there were only two defaulters, and January, 1926, was almost as satisfactory. These were the harvest months, however.

Bonds are issued against mortgages under a most conservative valuation of each member's property. Under the law they can lend up to two-thirds of the value, but in most cases they loan much less. The members of the Landschaften are principally large landowners.

The German mortgage banks work through the following channels: Preussen Bank, provincial banks, local societies, farmers. The banks are private companies operating for profit, and grant loans against mortgages. They issue bonds secured upon mortgages, and their operations are strictly limited by law. They accept deposits up to 50 per cent. of their original capital, and are under close State supervision. Loans must not exceed 60 per cent. of the value of the security, but under special conditions loans on agricultural landed property may be made up to $66\frac{2}{3}$ per cent. They are very cautious in granting credits. The amount of mortgage-bonds is at present limited to twenty times the original capital and reserve fund. They pay borrowers in cash.

Mortgage banks wrote down their capital by 90 per cent. Later 10 per cent. was preserved to bondholders and to mortgagees who in 1922 were given fresh bonds to be paid in 1932. Interest ran 3 per cent. rising later to 5 per cent. The old bonds and mortgages have therefore become of some value. The bondholders, however, only get 92 per cent., as 8 per cent. goes to the revenue of the bank itself. To-day the substituted bonds are quoted at 10 to 15 gold, or 100 to 150 marks for each 1,000-mark bond. The mortgage banks emit bonds when the Stock Exchange is favourable.

In a country so closely settled as Germany, where natural conditions and temperament are so well adapted to such combinations, the co-operative system is eminently successful.

Short- and long-term credits against real and personal estate in Germany are in the main provided for under two systems—short-term private institutions, and long-term public institutions. Ordinary banks do not care to handle short-term agricultural credits, and mortgage banks chiefly provide the money for private-home building.

The interest rate on bonds is at present 8 per cent., but it has been falling for some time, and shortly it is believed will be down to 6 per cent. 10-per-cent. bonds which were sold at 80 were quoted at 102 to 103; 8-per-cent. bonds sold at 66 in November, 1925, were selling in April, 1926, at 101. The 8-per-cent. bonds of the private banks were in good demand, and were quoted on the Bourse at 101 to 102.

Co-operative associations generally carry unlimited liability throughout, but the tendency is to limit liability. The mortgage banks are in reality private institutions, although the State exercises a certain amount of supervision.

Generally farmers are meeting their payments well. Payment may be delayed, but it is always made, and there is rarely occasion to distrain. Interest is payable quarterly. The months of January and October have been selected to suit the seasons. There is always a market for farm-produce, although the price may be very low, for Germany imports a great quantity of foodstuffs, but has potatoes and sometimes rye to spare.

The following explanation of the organization and activities of the German co-operative and rural credit machinery was obtained through official sources, and generally confirmed by our own investigations:—

THE GERMAN MORTGAGE BANKS.

The German mortgage banks are joint-stock companies, which operate for their own benefit and chiefly grant loans against mortgages and issue bonds secured by the mortgages (mortgage-bonds). The German mortgage banks are engaged, although not exclusively, with the municipal real-credit business, contrary to the *Landschaften*.

Exact limits have been drawn to the business activity of the German mortgage banks by the mortgage-bank law of 1899. The legislation in respect of mortgage banks does not only contain numerous standard provisions which must be complied with in order to obtain a concession for conducting a mortgage-bank institution, but also detailed protective measures for the legal security of mortgage-bond creditors. The mortgage banks are only allowed to accept cash deposits—one of the principal lines of business with credit banks—up to 50 per cent. of their original capital, in accordance with the mortgage-bank law, which also provides that of the other transactions carried out by credit banks the pure mortgage banks may only do Stock Exchange business, with the exception of forward transactions and the general cash business. The active business of pure mortgage banks is strictly limited to the following transactions:—

- (1.) Granting loans against mortgages, acquiring mortgages, and granting loans on mortgages.
- (2.) Granting loans, not against mortgages, to German public corporations, or against a pledge given by such a corporation.
- (3.) Granting loans to light-railway companies against the pledging of the railway.
- (4.) Utilizing available funds by depositing same with suitable banking-houses, by repurchases of their own mortgage-bonds and bonds, by discounting paper which is "good delivery" with the Reichsbank, and granting loans on same.

On the other side there are the following passive transactions:—

- (1.) The issue of mortgage-bonds, secured by mortgages.
- (2.) The issue of municipal bonds.
- (3.) The issue of light-railway bonds.

The whole business activity of the mortgage banks is under the supervision of the State. The total amount of outstanding mortgage-bonds must at any time be covered by mortgages of at least the equivalent thereof or of at least the same yield. Furthermore, for the legal security of creditors of mortgage-bonds mortgage registers must be drawn up, in which the mortgages are entered, which serve as a security for the mortgage-bonds in circulation. In the case of bankruptcy of the bank, the creditors of mortgage-bonds have preferential rights in respect of the securities entered in the register and rank prior to all other creditors. For the supervision of the register as to its correctness a trustee is officially appointed, who constantly has to examine at which ratio the mortgage-bonds are covered, and holds in safe keeping the documents deposited as security. All mortgage-bonds issued must bear the signature of the trustee, as well as the numbers, under which they are entered in the mortgage register. Mortgage-bond creditors have the right to elect a special State Commissioner in addition to the trustee appointed by the supervisory authorities of the State.

Regarding the valuation of the property on which loans are to be granted, the law itself does not contain any positive provisions, but certain principles are laid down by law, in accordance with which

the managers of banks must give instructions regarding assessments of property, which need the approval of the supervisory authorities. The granting of loans is restricted to landed property in Germany, and must not exceed 60 per cent. of the assessed value with municipal landed property. In the case of agricultural landed property the central authorities of the respective countries have the right to increase the limit up to which a loan may be granted to 66 $\frac{2}{3}$ per cent. With assessments the following main points are considered: The productiveness of the landed property or buildings on which the loans are to be granted, their location, their present condition, and the possibility of selling the property. Generally speaking, the limit up to which loans on property are actually being granted amounts from 10 to 20 per cent. of the pre-war value. As, in consequence of the very heavy demands for mortgages, the choice of mortgages is very large, the mortgage banks are in a position to select only such property for granting mortgages which is the most suitable. As a result the quality of the mortgage fund held by the mortgage banks as a security for mortgage-bonds is naturally increased. The great caution always displayed by mortgage banks when granting credits is shown by the fact that, for instance, in 1913, with a total of mortgages held by mortgage banks and amounting to about 11.4 billion marks, compulsory auctions only took place to the extent of 1 per cent. of this amount.

LANDSCHAFTEN.

Contrary to the mortgage banks, which are organized on the basis of joint-stock companies, the *Landschaften* are autonomous companies under common law, formed on co-operative lines. The *Landschaften* serve the purpose of organizing agricultural real credits by granting uncallable self-redeeming loans, secured by mortgages, for the benefit of the public. In the majority of cases credits are given by the *Landschaften* in the form of mortgage-bond credits: *i.e.*, the debtor of the loan does not receive the equivalent in cash, but in mortgage-bonds, which he has to utilize for his own account, and whereby he is assisted by special agricultural banks. *Landschaften* are mainly to be found in Prussia. A uniform Prussian *Landschaften* law does not exist. Each *Landschaft* has its own rules and regulations, which contain detailed provisions regarding the security of mortgage-bond creditors. As a *Landschaft* can only be formed by legislation, their statutes must be approved by the State authorities prior to their coming into force.

General rights of creditors of *Landschaft* mortgage-bonds as to a preferential compensation out of mortgages serving as security, which is the case with mortgage banks, do not exist in the case of bankruptcy, but in some statutes—for instance, in those of the *Centrallandschaft für die Preussischen Staaten*—such a privilege is laid down. Therefore in the first place the *Landschaft* is obligated to the mortgage-bond creditor as a personal debtor. As the mortgages against which the mortgage-bonds are issued are granted on a most conservative assessment and up to a very carefully calculated percentage of the assessed value, the danger of an excessive indebtedness of the *Landschaften* is almost excluded. Besides, with nearly all *Landschaften* there are special securities for outstanding mortgage-bonds in addition to the general liability. Thus special guarantee funds collected by the *Landschaft* serve as extra security in some cases, and in others all of the debtors belonging to the *Landschaft* are jointly and severally bound with the whole of their real assets. Controlling commissions, the administrative council or the board of the *Landschaft*, which as a subsidiary organ of the State administration has an official character, is responsible for the mortgage fund of the *Landschaft* at any time covering outstanding mortgage-bonds.

The first *Landschaften* in Germany were founded during the time of Frederick the Great. The impulse towards the organization of agricultural real credits arose from the precarious position of Silesian agriculture after the Seven Years War. Similar to events of the past few years, at that time also the results of the long state of war were keenly felt. In the first place money was lacking for the purpose of reconstructing the devastated agricultural areas. In order to relieve the scarcity of agricultural credits, Frederick the Great accepted the plan of the Berlin merchant, Buring, and in accordance with a Cabinet order of 29th August, 1769, laid the foundation to the Silesian *Landschaft*, which was formed in 1770 and included on a co-operative basis all large landowners of the Province of Silesia. The example of Silesia was soon followed by the other Prussian provinces, in which the following organizations were established: *Kur- und Neumarkische Ritterschaft*, 1777; *Pommersche Landschaft*, 1787; *Westpreussische Landschaft*, 1787; *Ostpreussische Landschaft*, 1788; *Landschaft für die Provinz Posen*, 1821; *Neuer Kreditverein für die Provinz Posen*, 1857 (in 1877 the *Landschaft für die Provinz Posen* is absorbed by the *Neue Kreditverein für die Provinz Posen*, which in 1888 assumes the name of *Posener Landschaft*); *Neue Westpreussische Landschaft*, 1861; *Landwirtschaftlicher Kreditverband der Provinz Sachsen*, 1864 (to-day the *General Landschafts-Direktion der Provinz Sachsen*); *Landschaftliches Kreditinstitut für das Markgrafentum Oberund Niederlausitz*, 1865; *Neues Brandenburgisches Kreditinstitut*, 1869 (this union includes in 1906 the *Niederlausitz*, 1921 the *Grenzmark*, *Posen*, *Westpreussen*); *Pommerscher Landschaftskreditverband*, 1871 (to-day *Neue Pommersche Landschaft für den Kleingrundbesitz*); *Landschaft der Provinz Westfalen*, 1877; *Landschaftlicher Kreditverband für die Provinz Schleswig-Holstein*, 1882; *Schleswig-Holsteinsche Landschaft*, 1896.

The following *Ritterschaften* existed in Hanover prior to its annexation by Prussia: *Ritterschaftlicher Kreditverein für das Fürstentum Lüneburg*, 1790; *Calenberg-Göttingen-Grubenhagen-Hildesheimer Ritterschaftlicher Kreditverein Hannover*, 1825; *Ritterschaftlicher Kreditverein Bremen-Verden*, 1826.

In 1873 a number of *Landschaften* united to the *Centrallandschaft für die Preussischen Staaten*, which includes the following institutions: *Ostpreussische Landschaft*; *Westpreussische Landschaft*; *Kur- und Neumarkisches Ritterschaftliches Kreditinstitut*; *Neues Brandenburgisches Kreditinstitut*; *Pommersche Landschaft*; *Neue Pommersche Landschaft für den Kleingrundbesitz*; *Landschaft der Provinz Sachsen*; *Schleswig-Holsteinsche Landschaft*; *Schlesische Landschaft*.

The Centrallandschaft issues mortgage-bonds of its own, which are secured by the fund of the provincial Landschaften, upon the application of which the mortgage-bonds of the Centrallandschaft are issued, by the assets of the Centrallandschaft, by the joint and several liability of all property on which such mortgage-bonds have been issued, as well as by specially reserved mortgages in cases of bankruptcy, as already stated above.

There are no Landschaften in the provinces of Rhenish Prussia and of Hessen-Nassau. The public land credits are managed by the public institutions of the municipal unions, the so-called Landeskreditanstalten (national credit institutions), Landesbanken (national banks), and the Provinzialhilfskassen (provincial auxiliary banks).

STADTSCHAFT.

As can be gathered from the name, Stadtschaften are exclusively engaged with municipal real credits. The Berlin Pfandbriefinstitut (the Berliner Pfandbriefamt of to-day), which was founded in 1869, may be regarded as the oldest German Stadtschaft. The Pfandbriefamt is a corporation under public law, and is under the supervision of the Municipal Council of Berlin and the Ministry of Public Welfare. The members of the Stadtschaft receive mortgage-bonds as the equivalent of first, self-redeeming, and uncancellable mortgages on Berlin property, which must be redeemed at least at the annual rate of $\frac{1}{4}$ per cent. The mortgage-bonds are secured by the obligation of the whole of the assets of the Berliner Pfandbriefamt, including all means of cover. In addition the municipality of Berlin is liable for the claims of mortgage-bond holders. The total amount of outstanding mortgage-bonds must always be covered by mortgages of the same nominal amount, or at least the same yield. A specially appointed municipal commissioner has to examine this annually and to issue public reports thereon. In order to foster second- and third-rank mortgage credits after a first mortgage on large Berlin property, a further Stadtschaft, the Berliner Hypothekenbankverein, was created as a corporation under public law in 1923. The bonds issued by this Stadtschaft must not exceed the amount of 35,000,000 Reichsmarks without the approval of the municipal corporations. The security of the mortgage-bonds is arranged in a similar manner as with the mortgage-bonds of the Berliner Pfandbriefamt.

A formation closely resembling a Stadtschaft is the Preussische Landespfand-briefanstalt in Berlin, which was founded in 1922 as a corporation under public law. Its principal task is the financial assistance of people of restricted means for the purpose of building small dwellings. In this institution there are interested, in the first place, the State of Prussia, as well as a large number of cities, counties, and building societies. The Preussische Landespfand-briefanstalt also has the right to issue municipal loans.

Amongst other Stadtschaften there is to be mentioned the Preussische Centralstadtschaft, founded in 1922. This Centralstadtschaft was joined by the following Stadtschaften existing in Prussia: Stadtschaft der Provinz Brandenburg; Pommersche Stadtschaft in Stettin; and Ostpreussische Stadtschaft in Königsberg in Preussen. The Centralstadtschaft also includes the Provinzialausschuss der Provinz Hannover, as well as the Provinziallandtag der Provinzialgrenzmark Westpreussen.

The Preussische Centralstadtschaft, which is controlled by the State, serves the purpose of granting house-property owners in the respective provinces and Stadtschaften, by the issue of mortgage-bonds of the Centralstadtschaft, credits, which are secured by mortgages. Besides, with its working assets the Preussische Centrallandschaft is liable towards holders of Centrallandschaft mortgage-bonds with their rights of claims against members of the union (Einzelstadtschaften) and their guarantors.

LANDESKREDITKASSEN AND LANDESBANKEN (NATIONAL CREDIT BANKS AND NATIONAL BANKS).

Whilst the Landschaften, in accordance with the whole history of their development, must be looked upon as credit organizations of nobility and owners of large manors, the Landeskreditkassen and Landesbanken are to be regarded as institutions which are to serve landowners as a whole, particularly small farmers, by giving long-time credits. In addition they also grant long-time credits to municipalities and municipal unions. The Landeskreditkassen and Landesbanken are corporations under public law which have been founded by provincial and municipal unions, and are controlled by same.

Contrary to the above-mentioned land-credit institutions, the Landeskreditkassen and Landesbanken do not obtain the funds required for granting long-time credits exclusively by the issue of bonds, but as State deposit banks they almost regularly also act as savings-banks, with the guarantee of the State. The Landeskreditkassen have therefore also the saving deposits at their disposal for giving credits. In many cases the Landeskreditkassen are simultaneously charged with the administration of business of the State bank. They are particularly also engaged in the short-time credit business by availing themselves of the public funds at their disposal. The stock-exchange, bill, and current-account business is organized with a number of national-credit institutions in the same manner as with the private banking institutions. But one of the principal tasks of the national-credit institutions is the business in municipal loans and mortgage loans, to which some institutions are restricted in accordance with their statutes.

The mortgage-bonds and bonds issued by the national-credit institutions are secured by first mortgages or claims on municipalities. Furthermore, all the assets of the institutions, as well as the assets and taxing-power of the municipal union to which the credit institutions belong, stand as security. A number of national-credit institutions have particularly taken up financing the building of small dwellings and settlements lately.

The Braunschweigische Staatsbank, which originated from the Herzogliches Leihhaus in Brunswick, founded in 1765, belongs to the oldest national-credit institutions. The sphere of activity

of the Braunschweigische Staatsbank, which to-day must be regarded as a State bank in the literal sense of the word, is extraordinarily large. Amongst other national-credit institutions there are to be chiefly mentioned the Landeskreditanstalt, in Hanover, which was created by the Government of Hanover in 1840, as well as the Landeskreditkasse Cassel, founded in 1832. The long-time municipal land-credit business is also conducted in Prussia by the provincial Landesbanken (national banks).

The majority of these national banks have originated from the provincial Hilfskassen (auxiliary banks), which originally were to a less degree credit institutions than places of administration for special provincial funds. With the Prussian provinces receiving autonomy in the "seventies," a number of these provincial auxiliary banks gradually developed into Landesbanken (national banks). Thus in 1888 the Landesbank der Rheinprovinz developed from the Rheinische Provinzialhilfskasse, as well as in 1890 the Landesbank der Provinz Westfalen from the Provinzialhilfskasse in Munster. In 1916 the Landesbank der Provinz Hanover was founded, which is limited to giving credits to municipalities and municipal house-property owners, as well as in 1919 the Landesbank der Provinz Ostpreussen. The Nassauische Landesbank in Wiesbaden, which was founded in 1840, also plays an important part. The Landesbanken (national banks) maintain close relations with the savings-banks of their respective districts, and in some cases act as central offices of municipal savings-banks. Thus the Landesbank der Rheinprovinz and of the Provinz Westfalen, as well as the Nassauische Landesbank in Wiesbaden, are simultaneously the clearing centres for their districts.

THE GERMAN CENTRAL BANK FOR AGRICULTURE (RENTENBANK-KREDITANSTALT).

Events which led to its creation: As with the Dawes scheme coming into force the provisional German currency institution, the German Rentenbank, ceased to act as a currency bank, and a start was made of winding up credits given by the Rentenbank, the problem arose as to how, with the agricultural distress prevailing at that time, the repayment of Rentenmark credits granted through the intermediary of the German Reichsbank could be effected. It became evident that the agricultural credits, which originally had been given on short time, had become locked up to such an extent that a constant renewal of due three-months bills had to be conceded. With regard to the agricultural Rentenmark credits the time of settlement therefore had to be postponed. On such considerations at last the plan arose of converting the German Rentenbank into an agricultural institution, which was to procure long-time credits for agricultural purposes on the basis of the charges resting on landed property in favour of the Rentenbank. The abandonment of this plan was chiefly attributable to the fact that, with a view to the position of the German currency, the greatest importance had to be attached to unifying the German legal tender in circulation and calling in the Rentenmark notes as quickly as possible. The final date on which Rentenmark credits must be repaid has been fixed as the 1st December, 1927. For agriculture this implied payment on the 1st December, 1925, of 190,000,000 Rentenmarks, and on the 1st December, 1926 and 1927, amounts of 290,000,000 Rentenmarks each. In order to enable agriculture to effect these repayments, a credit institution was to be created which could replace the credits of the Rentenbank. Thus with the law of 1924 regarding the liquidation of the Rentenbank notes in circulation the foundation was already laid of the German Central Bank for Agriculture, which was finally established on the 18th July, 1925. This law provides that for the retirement of the Rentenmark credit of 1,200,000,000 Rentenmarks given to the German Reich, a sinking fund is to be created at the Reichsbank, into which are to be paid until further notice—(1) The share of the Reich, which is fixed by law, in the profits of the Reichsbank; (2) annually, 60,000,000 Reichsmarks out of the Reich's own funds; (3) the annual income of the German Rentenbank from mortgages on land entered in its favour (at present there are mortgages on agricultural land entered in favour of the Rentenbank amounting to 2 billions, with interest at the rate of 5 per cent. The payments herefrom into the sinking fund therefore amount to annually 100,000,000 Reichsmarks.

The law concerning the liquidation of the Rentenbank notes provided for the establishment of a special agricultural-credit institution, inasmuch as of the annual payment by the Deutsche Rentenbank (mentioned above under paragraph 3), only up to 60,000,000 Reichsmarks are to be paid annually into the sinking fund of the Reichsbank, whilst 25,000,000 Reichsmarks of the remainder are to be annually held at the disposal of an agricultural-credit institution. In addition the Rentenbank was also authorized to transfer all funds in its possession to a new agricultural-credit institution with the approval of the Government. This provision created the financial basis for the foundation of the German Central Bank for Agriculture. Particularly the capital available to this institution was satisfactorily secured thereby. On its foundation the German Central Bank for Agriculture received from the German Rentenbank an amount of about 170,000,000 Reichsmarks. Considering that besides the above-mentioned annual contribution of 25,000,000 Reichsmarks there are also the receipts of the German Rentenbank from agricultural bill debts, as well as the receipts of the Central Bank for Agriculture from its own profits of interest, one can follow that a speedy increase in the capital of the Central Bank for Agriculture can be reckoned with, although the capital has been limited to a maximum of 500,000,000 Reichsmarks.

In accordance with the law regarding the foundation of the Central Bank for Agriculture of 1925, the newly formed agricultural-credit institution is a juridical person under common law, which bears the title of Deutsche Rentenbank-Kreditanstalt (Landwirtschaftliche Zentralbank), Berlin (German Central Bank for Agriculture).

The task of this institution consists in obtaining and granting credits to German agriculture in all its branches, including the cultivation of land and the erection of agricultural settlements. For the purpose of supplying real credits to agriculture it can grant credits to real-credit institutions under public law, or such institutions under State control which conduct business in agricultural real credits, as well as to central and head offices of savings-banks which conduct the same business.

Furthermore, it can give credits to States and to organizations selected by the Government of the Reich or of the Federal States for the purpose of furthering the cultivation of land of agricultural settlements. Until the 31st December, 1930, the German Central Bank for Agriculture also has the right to supply personal credits to agriculture. The Central Bank for Agriculture grants personal credits out of its own funds, which will chiefly serve the purpose of assisting agriculture in paying off Rentenmark debts. The granting of personal credits must naturally take second place as compared with the original aim of the institution, of giving long-time real credits to agriculture.

The Central Bank for Agriculture procures the means for granting real credits by the issue of bearer bonds. The amount of outstanding bonds must at no time exceed six times the capital of the institution (with the approval of the Reich-Council, eight times the capital). The bonds, for which the institution is liable with the whole of its assets, must also be fully secured either by agricultural mortgages, in compliance with the mortgage-bank law, or by mortgage-bonds of German mortgage banks or of other German land-credit institutions under State control, which conduct the agricultural credit business. The bonds are secured by mortgages, which are entered in the name of certain land-credit institutions, and are pledged or ceded by the latter to the Central Bank for Agriculture against the granting of a credit. By the fact that the land-credit institutions, in the favour of which the mortgages are originally made, step in between the Central Bank for Agriculture and the mortgagor, the land-credit institution, which as an intermediary passes on the credit to the mortgagor, becomes the direct personal debtor towards the Central Bank for Agriculture. In the case of the bonds being secured by mortgages, there are therefore obligated (1) the capital of the Central Bank for Agriculture itself, (2) the personal claims of this institution towards the land-credit institutions acting as intermediaries, (3) the real security arising from the pledged or ceded mortgages.

In the case of mortgage-bonds being used as cover for bonds of the Central Bank for Agriculture in the place of mortgages, the bonds are secured in the same manner, as the pledged mortgage-bonds constitute the mortgage-bond institution, which must be secured by mortgages under the law. As thus, apart from the real security of the bonds, a further security always lies in the personal claims of the Central Bank for Agriculture against a land-credit institution, the bonds of the Central Bank for Agriculture have the soundest foundation imaginable.

COMMENT.

The German rural societies are both savings and loan banks, and prior to the war derived over 90 per cent. of their working capital from deposits of members and non-members. They paid 3 to 4 per cent. interest to depositors, and granted loans at from 4 to 5 per cent. Amongst the methods adopted to promote thrift, savings-boxes are distributed throughout the community, savings-stamps and savings-cards are sold, and every available means is taken to collect uninvested money: the object being to adjust the rate of interest on the money received and loaned, so as to furnish credit for the primary producers as cheaply as the market allows, and to provide relief from burdensome interest on existing mortgages.

Although the primary producer in Germany is heavily burdened, his position is by no means hopeless. He is an industrious worker who farms scientifically, is thrifty, and exerts himself to live within his income. In common at present with the most of the world, he is suffering from all the disabilities of war taxation, increased cost of production, low prices, shortage of credit, and to a greater extent from the inability to procure outside capital at rates sufficiently low to make its use profitable. The methods adopted to facilitate the economic recovery of Germany have improved rural-credit conditions to a remarkable degree, and in favourable circumstances the farmer borrower, through the agency of his credit organization, is now able to secure loans at 7 and 8 per cent. with every prospect of an early reduction to 6 per cent.

Savings-bank deposits before the war amounted to between 4 and 5 milliard marks, but fell right away. These now amount to one-fifth of that sum, and, although improving, so long as they remain at their present low level the use of foreign capital will be required.

DENMARK.

The Danish Co-operative system is so well-known and has been so frequently described that it is scarcely necessary to explain it at length. The co-operative credit associations provide the bulk of Danish credit to farmers, although other institutions, such as banks, savings-banks, and lending corporations also do business. The associations which are jointly and severally liable for the debts of members extinguish their mortgages by successive amortization payments, generally over a sixty-year term, although sometimes for a shorter period.

Except in the cases referred to below, the State has no interest in the business of these associations. The money is raised by an issue of interest-bearing bonds, which are handed to the borrower for disposal, and which are readily saleable both in Denmark and to foreign buyers. These bonds are issued in series, limited by Parliament to a minimum of 10,000,000 kroner, usually for periods of ten years. The limit of value upon which loans may be made varies in the groups of associations, which differ from one another in some respects. There are thirteen of these groups, seven of which deal with rural properties and the other six with both rural and urban properties. Two of them are small-holders associations whose creditors' interests are guaranteed by the State. In addition there are nine second-mortgage associations, in which, the risks being greater, the rate of interest is higher and the period of amortization is shorter. Both classes of associations enjoy certain privileges, such as freedom from stamp duty, &c.

The Mortgage Bank of the Danish Kingdom, established for the purpose of regulating the real estate mortgage business, uses State capital raised abroad to buy credit association bonds in Denmark, and thus assist in standardizing the bond-market.

The State also loaned 5,000,000 kroner to short-term agricultural credit societies in 1898, until 1916, when under the terms of the Act the money had to be returned. This was found so detrimental to the existence of the societies that a new Act was passed in 1925 to re-establish them. Short-term credit is also catered for by the so-called co-operative funds, set up in 1915 to facilitate the money transactions of their members. These local organizations, however, are confined to one or two parishes, and do not fulfil the functions of intermediate-credit organizations. A feature of the Danish system is the assistance given to small farmers and farm labourers. This was begun in 1899, and has been so successful that it has been continued ever since. The small farmer or farm labourer who has worked for a farmer for four years is loaned 90 per cent. of the valuation of the property, as against 50 per cent. granted by most of the first-mortgage credit associations. These facilities for small farmers are State controlled and operated; no loan may exceed 1,500 kroner, and loans are free of interest for five years. The plan has been very successful, and has placed close on ten thousand labourers on small farms, almost all of whom are in a satisfactory position.

Credit association long-term loans are generally made redeemable in from fifty to sixty-five years, and the portion of members' half-yearly payments earmarked as a reduction of their debts is employed in the redemption of the bonds by semi-annual drawings. The bonds are redeemed at par. Credit associations take advantage of a favourable market to convert their bonds, but such transactions possess no advantages at present, when most credit association bonds are selling at less than par. First-mortgage societies rarely lend up to the limit allowed by law, while the total mortgages, first and second, are restricted to 75 per cent. Up to this amount is frequently lent on second mortgage.

Every Danish farmer is a co-operator, and most belong to a number of societies which handle their business professionally. Thus it is no uncommon thing to find a Danish agriculturist whose milk is handled by a dairy co-operative, his pigs by a bacon co-operative, his eggs by a poultry co-operative, his hay by a hay co-operative, and his live-stock by breeding societies. His requirements are also similarly dealt with. Machinery is purchased and often used co-operatively. His fertilizer and even his food-supplies are attended to by co-operative organizations. Danish co-operative credit has stimulated the growth of butter marketing and distributing societies, which have now become a part of the national life. These societies in turn have assisted in the formation of co-operative village banks or co-operative funds.

By a law of 1898 the Government was empowered to lend State funds at 3 per cent. to societies of farmers for the purpose of short-term credit, with the maximum of nine months, the loans terminating in 1916. The village bank or co-operative fund acted as a sort of clearing-house between co-operative societies, accepted deposits, granted loans for working capital, introduced the use of cheque-books, and had a sound educational effect. The withdrawal of the Government loan has caused these institutions to languish in some districts, but the recent legislation renewing the loan is expected to stimulate their re-establishment.

In 1914 an attempt was made to amalgamate these village banks and to still further enlarge short-term credit by the formation of the Danish Co-operative Farmers Bank, a semi-co-operative institution the bulk of whose share capital was found by some of these co-operative societies. Its object was to conduct banking business for its members, and it was for some years largely successful. In 1921 the bank attempted to get all the co-operative societies in the kingdom to submit to the regulations of the Bank Act (which does not apply to such societies), and was met by a refusal from a great many of them. The management was then changed, and entrusted to two experienced bank-managers, who were given wide powers of control. In 1922, however, the bank made heavy losses in advances to the dairy co-operative societies, and further shipping losses in 1924 sent it into liquidation, the depositors losing 24 per cent. of their deposits. The statement is made that the managers, influenced by abnormally high prices, took risks which were not justified by sound banking principles. It is doubtful whether this bank will be successfully re-established. Its failure was chiefly due to going outside co-operative business and an unsuccessful attempt to finance risky shipping and industrial ventures, which were quite outside rural co-operative finance. The short-term co-operative societies are, however, still continuing in successful operation. Short-term loans for agriculturists are also made by the Danish savings-banks, which are private institutions. These loans are renewed from time to time for satisfactory clients.

The bonds of all the long-term credit associations of Denmark are quoted daily on the Copenhagen Stock Exchange. "In fact, in these securities is invested by far the greater part of the private and public wealth of the kingdom" (Harold Faber, "Co-operation in Danish Agriculture").

The Commission on the sale of bonds is one-tenth of 1 per cent. Borrowers pay a contribution to the reserve fund of their association, generally amounting to 2 per cent. of the loan. The half-yearly charge includes interest, amortization, and working-expenses. The amortization portion of the charge is employed in the redemption of bonds by lot. These are drawn every six months, and bonds drawn are redeemed at par, their numbers being advertised in the daily Press.

The Danish authorities generally agreed that there are too many groups, and that it would be better, instead of having thirteen first-mortgage, nine second-mortgage, and several short-term groups, to have one central authority watching over the whole of the functions of farm-loan credit.

HOLLAND.

No financial assistance is given by the Dutch Government to the various agricultural institutions operating in the Netherlands. Religious and political elements are, however, utilized to secure co-operation. The priest and the schoolmaster are closely associated with these institutions through the village groups, while the State provides inspection and guidance. A Commission of Inquiry had recommended that the three leading institutions, with headquarters at Eindhoven, Utrecht, and Alkmaar, should be united, but the denominational organization at Eindhoven, which is the strongest, has declined, so far, to agree to such a measure. This organization, known as the Co-operative Central Boerenleenbank of Eindhoven, is a well-managed institution combining the operations of short-term and long-term credit in two separate departments. It consists of a central bank, which does not make loans to individuals (although it sometimes does to large agricultural societies whose requirements would be beyond the capacity of its member credit banks), and a mortgage bank which lends on long-term mortgage up to forty years. There are 512 member credit banks, whose capital is obtained from the savings deposited by members and the funds supplied by the central bank. These banks lend up to 80 per cent. of their value on shares and bonds, and up to 66 per cent. in rural properties for periods not exceeding ten years. The largest number of loans are made against personal guarantees. The credit banks' charge for advances, either against personal guarantee or with collateral security, varies from 4 to 4½ per cent. Loans on long term are made at 4¾ per cent. which, plus amortization, is payable half-yearly; when the mortgage is repaid the borrower is discharged from

his long-term obligations. His engagement with the credit banks of course remains. Borrowers are entitled to pay off their mortgages, either in part or in full, at any time. The borrower receives cash. The bonds are sold when the market is favourable, and the cash deposited in the central bank until needed. Borrowers' properties are valued by the banks' experts; there is a substantial reserve fund, and only 10 per cent. of the share capital has been called up. The borrowers are jointly liable for the bonds issued. The organization has been very successful. Owing to the excess of deposits, the central bank and its societies has been for some years financially independent of outside help.

The second largest co-operative institution is the Raiffeisen Bank of Utrecht, which is underdominational in character, and which has no separate mortgage bank, but has enormous deposits and reserves, and lends through its societies to non-agriculturists as well.

There are in addition several other land-mortgage credit institutions in various parts of the country. The Dutch farmer is in the unique position of having money to lend.

BELGIUM.

As in Holland, finance, politics, and religion are very much interwoven in Belgium, where rural credit institutions are independent of the Government. The societies are not issuing bonds, being able to finance on their deposits, which are more than sufficient to meet loan demands. The Bank of Louvain, which is a Catholic institution, is the most important Belgian rural credit organization, and, while it makes advances to all classes of the community, does not loan on long terms on land to any extent. Loans are made to societies affiliated with the bank, or to applicants in places where there are no societies. Loans contain amortization provisions, and are up two-thirds of value. The interest charge is $5\frac{1}{4}$ per cent. up to 25,000 francs, and $5\frac{1}{2}$ per cent. on larger sums. The societies who work on $\frac{1}{4}$ per cent. charge only that additional amount to the borrower. Direct loans, not through the societies, are made to individuals at $5\frac{3}{4}$ and 6 per cent. The funds available in May, 1926, were 670,000,000 francs, which was much in excess of agricultural requirements. Consequently, while farmers get preference in the matter of loans, others may now borrow, but are charged the ruling rate of interest, which is higher than that charged to farmers.

An unusual feature is that for long-term deposits a transferable receipt is given. Deposit receipts are not so heavily taxed as bonds, and are therefore more popular, and much used. Loans do not exceed fifteen years, and the rate of interest is varied according to the risk. A mortgage is sufficient security for large amounts, but small sums on personal security are never lent without a guarantee. When there is a surplus in the societies, as is often the case, the money is deposited with the central bank, which finds investments for it.

The Belgian societies do not differ materially from the Dutch. What differences there are are due to the fact that Holland exports foodstuffs, while Belgium imports them, and that the co-operators are more of a national type in Holland and less denominational than in Belgium.

RECOMMENDATIONS.

To meet the necessities and requirements of New Zealand agriculture, it is recommended that—

1. The administration of rural credit should be vested in a separate branch of the State Advances Office, to be designated "The Farm Loan Branch," with such further additions in regard to representation, or agencies, as may be found necessary to extend the functions of the said office in conformity with this proposal.
2. It is desirable to incorporate a system of intermediate credit for the use of agriculture.

3. A Farm Loan Board, consisting of the State Advances Board, supplemented by three representatives of agricultural and pastoral interests, two of whom shall represent the long-term borrowers and one the users of the proposed intermediate credit, should be the executive body to inaugurate and control the extended system of rural credit.
4. Registered co-operative societies, the sum of whose capital and reserves is not less than £2,500 and whose membership shall not be less than thirty, may, on hypothecation of their securities, if the Farm Loan Board so decides, be eligible to receive advances for the purpose of intermediate credit of not more than 80 per cent. of the value of such securities.
5. Bodies of *bona fide* farmers of not less than twenty in number who form registered co-operative rural intermediate-credit associations with a capital of not less than £500 may, upon pooling their securities, obtain such advances, not exceeding 80 per cent. of the value of the securities, as the Board may decide.
6. The amount of advance granted and the margin of security should be decided by the Board in each individual case.
7. The system and method of valuation adopted by the State Advances Office should be followed for long-term loans, but that the valuation should be based on the productive value of the land ascertained over a period of at least five years, and the amount advanced should not exceed two-thirds of the valuation.
8. It should be the function of the Farm Loan Board to classify the securities offered, and to establish the maxima amounts per acre in the respective classes beyond which advances may not be made.
9. For the purpose of establishing intermediate credit and extending long-term rural credit, the Hon. the Minister of Finance be given power to expend a sum not exceeding £20,000 for preliminary expenses, also to make advances of public moneys to the Farm Loans Branch for terms of not less than ten nor more than twenty years, upon which no interest shall be payable for the first ten years, but thereafter interest to be paid at the rate of 5 per cent. per annum: Provided that the aggregate amount so advanced for both purposes shall not exceed £500,000.
10. Local Advisory committees be established in connection with long-term loans when and where the Farm Loan Board may deem it advisable.
11. In the case of any divergence of views regarding the value of securities between such advisory committee and the Valuer-General, the decision of the Farm Loan Board should be final.
12. Provision should be made for loans to be increased on a basis of the improved condition of the property or in recognition of instalments already paid.
13. In order to facilitate land-settlement the Farm Loan Board should have power to grant applicants for selection in the case of land which is offered for closer settlement an additional 10 per cent. based on the Board's valuation of the land.
14. A borrower from the Farm Loan Board on long-term mortgage should submit evidence that he is twenty-one years of age, a British subject, and has been resident in New Zealand for three years; that he has had three years' experience of farming and that he possesses average ability and capacity, is of good character, and that he is actually in *bona fide* occupation, or intends to occupy the land upon which the loan is to be made; also that his application must be favourably reported upon. Where an applicant submits sufficient evidence that he has had three years' experience of farming in the British Empire the Board may reduce the term of residence to one year.
15. The amount advanced to each borrower should not exceed £7,000.
16. Preference be given to applicants for loans of £1,000 and under.
17. The rate of interest on bonds or stock should not exceed $5\frac{1}{2}$ per cent.

18. The Farm Loan Board be given power to authorize the issue of mortgage-bonds or stock for varying periods in consideration of the type of farming employed, and when considered desirable, in the case of virgin lands, to suspend amortization payments by borrowers for a period not exceeding five years, provided that the area of the security does not exceed 200 acres and that the mortgagor continues to duly work his land and to effect improvements.
19. The issue of land-mortgage bonds should not at any time exceed the value of the mortgages held as security therefor.
20. Interest charges to borrowers should not exceed the rate paid on mortgage stock or bonds by more than 1 per cent.
21. Stock and bond holders should have a first charge in priority to all other charges upon (a) all mortgages to the Board or to co-operative associations or societies, (b) the amount held by the Board upon loan from the Government, (c) the capital liability of all shares in the associations or societies. Such charge to be a floating charge until the winding-up of the association or society, but not to prevent an association or society from dealing in the due course of its business with the properties and moneys subject to such charge in accordance with the provisions of the proposed law.
22. The Farm Loan Board may borrow, with the consent of the Treasury, upon the security of all or any of its assets for the purpose only of providing funds to redeem bonds or deposits at maturity if the moneys in the ordinary account and reserve are insufficient, such securities to have priority to the floating charge previously created.
23. All moneys so borrowed should be repaid out of the first capital money received by the issue and sale of land-mortgage securities to replace those redeemed.
24. Money borrowed under these provisions to be upon such terms and at such rates as the Farm Loan Board, with the concurrence of the Treasury, deems necessary and expedient.
25. Legislative provision be made giving land-mortgage stock, bonds, or securities the same favourable position as that accorded State securities and those of local bodies.
26. Borrowers be given cash instead of bonds, and that the Dominion Treasury should be appointed to issue the bonds and to act as fiscal agents for the scheme.
27. A borrower should be entitled to pay off the amount of his mortgage, or any portion thereof, by presenting to the Farm Loan Board, on any interest period after the expiry of the first five years, debentures, bonds, or stock of the same series as those issued against his mortgage, and his mortgage indebtedness be relieved accordingly and such bonds or stock duly cancelled.
28. The Farm Loan Board should have the right at any time to buy in the open market its stock or debentures, and to cancel the same, and thereupon to release a proportionate amount of the mortgages securing such stock or bonds.
29. Securities issued at the instance of the Farm Loan Board under the authority of the suggested legislation should be deemed to be securities in which public moneys may be invested.
30. In the interest of bondholders three custodians of the mortgage securities and collateral deposited against the issue of land-mortgage bonds, stock, or securities should be appointed. The Superintendent of State Advances, the Audit Office, and one to be nominated by the Minister of Finance are suggested.
31. Provision be made for inscribing stock of £100 and over at the option of the investor, and that custody of small holdings of bonds for payment of interest to savings-bank accounts be free of charge.
32. In order to promote and encourage thrift, bonds should be issued in denominations of £10 and upwards.

33. Savings-bank systems be promoted for the purchase of bonds.
34. The annual report and balance-sheet of the Farm Loan Branch be presented to both Houses of Parliament, if sitting, within six weeks of the end of the financial year, or if not sitting, then within ten days after the commencement of the next ensuing session.
35. Shares in co-operative associations established for the purposes of intermediate credit be £1. and that shares in all new co-operative societies taking advantage of the proposed intermediate credit shall be limited to £1.
36. The Farm Loan Board be given power to at any time demand and enforce the sale of intermediate-credit securities.
37. In the case of societies or associations using intermediate credit the provisions of the Companies Act, 1908, should be applied where consistent.
38. An adequate system of warehousing produce is necessary in order to simplify the process of making advances against produce. Legislation should be enacted to provide for the licensing and bonding of public warehouses storing agricultural products under conditions tending to establish the integrity of their receipts and make them generally acceptable as security for loans.
39. The principles embodied in the draft of suggested legislation submitted in the appendix hereto be adopted and applied.

J. J. ESSON, Chairman.

P. H. COX.

W. J. POLSON.

Wellington, 31st July, 1926.

APPENDICES.

APPENDIX I.—SUGGESTED FOR LEGISLATION.

A.—THE STATE ADVANCES AMENDMENT ACT, 1926.

EXPLANATORY MEMORANDUM.

PART I.

THE purpose of this Bill is to extend the provisions of the State Advances enactments to provide additional credit to farmers. The Bill proposes that the existing machinery of the State Advances Office be utilized for setting up within the State Advances Office an additional branch to be known as the Farm Loan Branch, with power to provide loans on mortgage against both land and the produce of the land, by means of the issue of mortgage-bonds with amortization provisions such as already exist in regard to advances to settlers and workers.

The new branch will provide a means by which lending facilities to primary producers may be extended without increasing the gross public indebtedness, and without unnecessarily increasing the cost of administration.

It is proposed to constitute a Farm Loan Board, consisting of the present State Advances Board, with three additional members, two representing the borrowers of long-term loans and one representing borrowers of short-term loans. For the purpose of establishing the Farm Loan Branch, £20,000 is set aside for advertising and preliminary expenses, and provision is made for the Farm Loan Board to obtain advances from the Treasury from time to time not exceeding in the aggregate £500,000, without interest for ten years. The Minister of Finance is also authorized to make deposits for the temporary use of the Board.

The Farm Loan Board is empowered to administer three forms of credit: (1) Long-term loans on first mortgage; (2) Intermediate-term loans to co-operative rural intermediate-credit associations; (3) Intermediate-term credit to rural co-operative societies. The necessary machinery for the two latter is provided in Parts II and III.

Part I creates the Farm Loan Board and sets out its powers and duties in regard to long-term loans. The Board may issue loans against first mortgages on farm lands up to £7,000 to each approved applicant, and is authorized to traffic in (*i.e.*, sell, buy on its own account, or retire) bonds at or before maturity. No borrower is to be entitled to receive more than three-fifths of the appraised productive value of his land, the provisions of the State Advances Act otherwise applying.

The redemption of bonds and deposits by the Government is secured by the provision of sinking funds, by the payment of the Farm Loan Board of 50 per cent. of its net earnings and also 5 per cent. of the instalment repayments of principal into a Redemption of Bonds Reserve Fund, which is to be invested and reinvested as occasion requires in first-mortgage security, and by the application of the amortization payments to the repurchase and cancellation of securities. The custodians of the hypothecated securities are also directed to see that the farm-loan bonds hypothecated by the Board do not exceed the collateral security pledged therefor. Bondholders are also given a first charge and priority over all other charges.

Other clauses of the Bill make the Audit Office responsible for the audit of the accounts of the Board and the Treasury responsible for the issue of the bonds.

Clause 12 is designed to facilitate the cutting-up of large estates.

Clause 28 provides for the setting-up, wherever the Board considers it necessary or desirable, of district Advisory Boards to assist in the better administration of the Act.

Special provision is also made under clause 21 for the establishment of Savings-banks Bond Accounts in which the deposits on reaching £10 shall be automatically invested in a farm-loan bond.

PARTS II AND III.

Provision is made in Parts II and III of the proposed measure for the institution of a permanent system of intermediate credit, based on personal and collateral security, to handle farm credits for a longer period than ordinarily may be extended by lending institutions, but falling short of the long-term farm loan, with currency of not less than six months nor more than three years, thus bridging the gap between long- and short-term credit. Such advances and loans may only be made to (1) co-operative rural intermediate credit associations, or (2) co-operative societies of persons engaging in producing and marketing staple agricultural products, on the security of a first charge over produce in approved warehouses, chattels, live-stock, growing crops, &c. This will facilitate the discounting by banks of farmers' bills endorsed by the various corporations above named, and thereby afford extended credit.

The Bill broadly defines agricultural paper, and supplements the existing credit machinery, where it is at present inadequate, by enabling the discounting of approved short-term loans by lending institutions, who may rediscount with the Farm Loan Board for the extended term, instead of calling upon the mortgagor.

Part II deals with groups of farmers who may join together in order to take advantage of the provisions of the Bill. The machinery to enable this to be done is set up subject to the control and supervision of the proposed Farm Loan Board. Each association must be managed by a board of directors with specific duties and administrative powers.

The objects of the loans which may be made to these associations are set out in clause 18 of Part II of the Bill, and include the ordinary operations of farming apart from the purchase of the land. The method of making application for loans, requiring the endorsement by the associations of the notes of their borrower members, is provided, and a maximum rate of interest fixed. The discounting agencies are required to furnish the Board with particulars of each transaction, in order to facilitate the rediscounting of such paper as may be acceptable to the Board. Provision is made for the registration of liens and charges, and the Chattels Transfer Act, 1924, and amendments, are made applicable to such securities.

The paid-up capital of any association established under this Bill must be invested only in approved securities, and profits must be applied as prescribed in clause 55.

Clauses 61 to 64 recite the supervision to be exercised by the Board, and provide for Government audit of the books and accounts of associations.

Clause 70 gives the Board discretionary power in regard to the marketing of produce or stores controlled by borrowers, and the application of the proceeds to the liquidation of advances.

Part III sets up machinery enabling co-operative societies who may desire to do so to avail themselves of the proposed system. The Board is empowered under clauses 2 and 3 to make advances to societies composed of persons engaged in the production and manufacture of staple agricultural products, or growers of live-stock. Such societies must have at least a capital of £2,500, and consist of not less than thirty persons. The amount of the advance will be at the discretion of the Board, and must not exceed 80 per cent. of the market value of the security.

Clause 8 sets out the method of finance, and the power of the Board to sell trust debentures, and also limits the interest payable to 6 per cent.

The discount-rate is similarly limited by clause 10, to safeguard the borrower on the one hand against excessive interest, and on the other to provide the lending institutions with the additional security necessary to encourage lending at reasonable rates.

Similar provisions to those set out in Part II are made for supervision, valuation, and control by the Board.

Power is provided to issue collateral trust debentures or similar obligations for which the Board shall be primarily liable.

Co-operative societies doing business with the Board to be required to furnish at stated intervals full and explicit information disclosing their resources and liabilities.

THE STATE ADVANCES AMENDMENT ACT, 1926.

AN ACT to amend the State Advances Act, 1913.

(NOTE.—*Definitions and interpretations to be included.*)

PART I.

1. This Act may be cited as the State Advances Amendment Act, 1926, and shall form part of and be read together with the State Advances Act, 1913 (hereinafter referred to as the principal Act).

2. In addition to the branches of the State Advances Office established by section seventeen of the principal Act, there is hereby established a branch to be known as the Farm Loan Branch.

3. For the purpose of carrying out the object of this Act there is hereby constituted a Board, to be known as the Farm Loan Board, to consist of the State Advances Board with the addition of three members of the agricultural and pastoral industry appointed in the first place by the Governor-General in Council for a term of three years; thereafter the representatives of the farming industry upon the Board shall consist of three, two of whom shall be elected by long-term borrowers under this Act, and one of whom shall be elected by societies and associations established under Parts II and III of this Act; such representatives need not necessarily be farmers. The method of election shall be prescribed by regulations.

4. The provisions of the principal Act from section thirteen to section sixteen inclusive shall apply to the Farm Loan Board.

5. The first meeting of the Farm Loan Board shall be held in Wellington as soon as may be after the passage of this Act, at a date and place to be fixed by the Minister of Finance.

6. No member of the Farm Land Board shall, during his continuance in office, be an officer or director of any other institution, association, or partnership engaged in banking, or in the business of making land-mortgage loans or selling land mortgages. Before entering upon his duties as a member of the Farm Loan Board each member shall certify that he is eligible under this section.

7. The Governor-General in Council shall have power to fill any vacancy occurring in the membership of the Farm Loan Board, other than the permanent official members.

8. The Farm Loan Board shall have power—

(a.) To adopt and use a corporate seal:

(b.) To have succession until it is dissolved by Act of Parliament or under the provisions of this Act:

(c.) To make contracts:

(d.) To sue and be sued, complain, interplead, and defend, in any Court of law or equity, as fully as natural persons:

- (e.) To elect a chairman, appoint a secretary and other officers and employees, define their duties, require bonds of them, and fix the penalty thereof :
- (f.) To exercise, by its Board or duly authorized officers or agents, subject to law, all such incidental powers as shall be necessary to carry on the business herein described.

Business.

9. The business of the Farm Loan Board is the advancing of money to farmers on loans on mortgage under this Act, and loans on short-term or intermediate credit under Part II and Part III thereof.

Loans.

10. The Farm Loan Board organized under this Act shall have power to make loans upon the following terms and conditions :—

(1.) Such loans shall be secured by duly recorded first mortgages on farm land.

(2.) Every such mortgage shall contain an agreement providing for the repayment of the loan on an amortization plan by means of a fixed number of annual or semiannual instalments sufficient to cover, first, a charge on the loan at a rate not exceeding the interest-rate in the last series of farm-loan bonds issued by the Board ; second, a charge for administration and profits at a rate not exceeding one per centum per annum on the unpaid principal, the said two rates combined constituting the interest-rate on the mortgage ; and, third, such amounts to be applied on the principal as will extinguish the debt within an agreed period, not less than five years nor more than forty years : Provided that after five years from the date upon which a loan is made the mortgagor may, upon any regular instalment-date, make in advance any number of payments or any portion thereof on account of the principal of his loan as provided by his contract, or repay the entire principal of such loan, under the rules and regulations of the Farm Loan Board.

(3.) No loan on mortgage shall be made under this Act at a rate of interest exceeding five and a half per centum per annum, exclusive of administrative charges and amortization payments.

(4.) Such loans may be made for the following purposes and for no other :—

(a.) To provide for the purchase of land for agricultural uses :

(b.) To provide for the purchase of equipment, fertilizers, and live-stock necessary for the proper and reasonable operation of the mortgaged farm ; the term "equipment" to be defined by the Farm Loan Board :

(c.) To provide buildings and for the improvement of farm land ; the term "improvement" to be defined by the Farm Loan Board :

(d.) To liquidate indebtedness of the owner of the land mortgaged, incurred for agricultural purposes.

(5.) No such loan shall exceed sixty-six and two-thirds per centum of the value of the land mortgaged and twenty per centum of the value of the permanent insured improvements thereon, such value to be ascertained by appraisal, as provided in this Act. In making the said appraisal the value of the land for agricultural purposes shall be the basis of valuation, and the earning-power of such land shall be a principal factor.

A revaluation may be permitted at any time in the discretion of the Farm Loan Board, and such additional loan may be granted as such revaluation will warrant under the provisions of this section. Whenever the amount of the loan applied for exceeds the amount that may be loaned under the appraisal as herein limited, such loan may be granted to the amount permitted under the terms of this section without requiring a new application or valuation.

(6.) No such loan shall be made to any person who is not at the time, or shortly to become, engaged in the cultivation of the farm mortgaged. In case of the sale of the mortgaged land, the Board may permit the mortgage to be assumed by the purchaser. In the case of the death of the mortgagor, his heir or heirs, or his legal representative or representatives, shall have the option, within sixty days of such death, to assume the mortgage interest of the deceased.

(7.) The amount of loans to any one borrower shall in no case exceed a maximum of seven thousand pounds, nor shall any one loan be for a less sum than one hundred pounds, but preference shall be given to applications for loans of one thousand pounds and under.

(8.) Every applicant for a loan under the terms of this Act shall make application on a form to be prescribed for that purpose by the Farm Loan Board, and such applicant shall state the objects to which the proceeds of said loan are to be applied, and shall afford such other information as may be required.

(9.) Every borrower shall pay simple interest on defaulted payments at the rate of eight per centum per annum, and by express covenant in his mortgage-deed shall undertake to pay when due all taxes, liens, judgments, or assessments which may be lawfully assessed against the land mortgaged. Taxes, liens, judgments, or assessments not paid when due, and paid by the mortgagee, shall become a part of the mortgage debt and shall bear simple interest at the rate of eight per centum per annum. Every borrower shall undertake to keep insured to the satisfaction of the Farm Loan Board all buildings the value of which was a factor in determining the amount of the loan. Insurance shall be made payable to the mortgagee as its interest may appear at time of loss, and, at the option of the mortgagor and subject to general regulations of the Farm Loan Board, sums so received may be used to pay for reconstruction of the buildings destroyed.

(10.) Every borrower who shall be granted a loan under the provisions of this Act shall enter into an agreement, in form and under conditions to be prescribed by the Farm Loan Board, that if the whole or any portion of his loan shall be expended for purposes other than those specified in his original application, or if the borrower shall be in default in respect to any condition or covenant of the mortgage, the whole of said loan shall, at the option of the mortgagee, become due and payable forthwith.

(11.) Every applicant for a loan from the Farm Loan Board shall pay the prescribed fees.

(12.) No advance shall be made of an amount exceeding—

- (a.) In the case of an advance made on the security of freehold lands, three-fifths of the value of the security :
- (b.) In the case of an advance made on the security of leasehold lands, three-fifths of the value of the lessee's interest in the lease.

11. Each applicant shall submit evidence that he is twenty-one years of age, and has been a resident in New Zealand for three years ; that he has had three years' experience of farming ; has displayed ability and capacity, and is of good character ; that he is actually engaged upon or intends to reside upon the land upon which the loan is sought ; but where an applicant presents sufficient evidence that he has had three years' experience of farming in the British Empire the Board may reduce the time of residence in New Zealand to one year.

12. In order to facilitate land-settlement, the Board shall have power to grant to applicants for selections in the case of large estates which are offered for closer settlement up to an additional ten per centum, based on the Board's valuation of the land.

Powers of Farm Loan Board.

13. The Farm Loan Board shall have power, subject to the limitations and requirements of this Act,—

- (a.) To empower the Treasury to issue and to sell farm-loan mortgage-bonds of the kinds authorized in this Act, to buy the same for its own account, and to retire the same at or before maturity :
- (b.) To invest such funds as may be in its possession in the purchase of qualified first mortgages on farm lands :
- (c.) To acquire and dispose of—
 - (i.) Such property, real or personal, as may be necessary or convenient for the transaction of its business, which, however, may be in part leased to others for revenue purposes ;
 - (ii.) Parcels of land acquired in satisfaction of debts or purchased at sales under judgments, decrees, or mortgages held by it :
- (d.) To borrow money, to give security therefor, and to pay interest thereon :
- (e.) To buy and sell New Zealand Government bonds or stock :
- (f.) To charge applicants for loans, and borrowers under rules and regulations promulgated by the Farm Loan Board, reasonable fees not exceeding the actual cost of appraisal and determination of title (legal fees and recording-charges imposed by law may also be included in the preliminary costs of negotiating mortgage loans ; the borrower may pay such fees and charges, or he may arrange with the Board to advance the same, in which case said expenses shall be made a part of the loan and paid off in amortization payments ; such addition to the loan shall not be permitted to increase the said loan above the limitations herein provided) :
- (g.) To make any specific issue of farm-loan bonds or stock :
- (h.) To make rules and regulations respecting the charges made to borrowers on loans under this Act for expenses in valuation, determination of title, and recording :
- (i.) To require periodical reports and statements of condition, and to make examinations of all co-operative associations and societies doing business under the provisions of this Act :
- (j.) To prescribe the form and terms of farm-loan bonds or stock, and the form, terms, and penal sums of all surety bonds required under this Act, and of such other surety bonds as they shall deem necessary, such surety bonds to cover financial loss as well as faithful performance of duty :
- (k.) To suspend or to remove for cause any district director, or any registrar, valuer, examiner, or other official appointed by the Board under this Act, the cause of such suspension or removal to be communicated forthwith in writing by the Farm Loan Board to the person suspended or removed, and to the Public Service Commissioner :
- (l.) To exercise general supervisory authority over the farm-loan associations and the societies herein provided for :
- (m.) To keep such register of bond or stock holders as the Treasury shall prescribe :
- (n.) To exercise such incidental powers as shall be necessary or requisite to fulfil its duties and carry out the purposes of this Act.

Farm-loan Bonds or Stock.

14. (1.) Whenever the Secretary to the Treasury shall receive from the Farm Loan Board notice that it has approved any issue of farm-loan bonds or stock under the provisions of section thirteen hereof he shall forthwith take such steps as may be necessary, in accordance with the provisions of this Act, to insure the prompt execution of such bonds or stock and the delivery of the same to the Farm Loan Board.

(2.) Whenever the Farm Loan Board shall approve an issue of farm-loan bonds or stock, the custodians having charge of the first mortgages and bonds tendered as collateral security for such issue of bonds or stock shall retain in their custody those first mortgages and bonds which are to be held as collateral security, and shall return to the owner of the same any of said mortgages and bonds which are not to be held by them as collateral security.

(3.) It shall be the duty of the custodians to see that the farm-loan bonds or stock issued and outstanding do not exceed the amount of collateral security pledged therefor. Such custodians may, in their discretion, temporarily accept, in place of mortgages withdrawn, New Zealand Government securities or cash.

Farm-loan Bonds or Stock.

15. (1.) Bonds provided for in this Act shall be issued in denominations of ten pounds, and such larger denominations as the Farm Loan Board may authorize; they shall run for specified minimum and maximum periods, subject to payment and retirement, at the option of the Board, at any time after the minimum period specified in the bonds, which shall not be longer than five years from the date of their issue. They shall have interest coupons attached, payable semi-annually, and shall be issued in series of not less than ten thousand pounds, the amount and terms to be fixed by the Farm Loan Board. They shall bear a rate of interest not to exceed five and a half per centum per annum.

(2.) The Farm Loan Board shall prescribe rules and regulations concerning the circumstances and manner in which farm-loan bonds or stock shall be paid and retired under the provisions of this Act.

(3.) In order to furnish farm-loan bonds the Treasury is hereby authorized to prepare suitable bonds in such form, subject to the provisions of this Act, as the Farm Loan Board may approve, such bonds when prepared to be held in the Treasury subject to delivery upon order of the Farm Loan Board. The engraved plates, dies, bed-pieces, and so forth, executed in connection therewith shall remain in the custody of the Treasury. Any expenses incurred in the preparation, custody, and delivery of such farm-loan bonds shall be paid by the Treasury from any funds in the Treasury not otherwise appropriated: Provided, however, that the Treasury shall be reimbursed for such expenditure by the Farm Loan Board in proportion to the work executed. The bonds may be exchanged into inscribed stock of any amount, and re-exchanged into coupon bonds, at the option of the holder, under rules and regulations and fees to be prescribed by the Farm Loan Board.

Special Provisions of Farm-loan Bonds.

16. (1.) The Farm Loan Board shall be bound in all respects by the acts of its officers in signing and issuing farm-loan bonds. The Farm Loan Board shall also be liable, upon presentation of farm-loan bond coupons, for interest payments due upon any farm-loan bonds issued and remaining unpaid.

(2.) Every farm-loan bond issued at the instance of the Farm Loan Board shall be signed by the Secretary to the Treasury and the Superintendent of the State Advances Office or their deputies, and such bond shall also contain on the face thereof a certificate that it is issued under the authority of the Farm Loan Act, has the approval in form and issue of the Farm Loan Board, and is legal and regular in all respects; and that it is issued against collateral security of Government bonds, or approved first mortgages on farm lands, at least equal in amount to the bonds issued. All such bonds shall be countersigned by the Controller and Auditor-General, or his deputy, who shall satisfy himself that the provisions of this Act have been complied with and that the necessary collateral has been deposited as security therefor.

(3.) The holders of bonds shall have a first charge and priority to all other charges upon (a) all mortgages to the Board, (b) the amount held by the Board from the Government, (c) all accumulated reserves.

Application of Amortization and Interest Payments.

17. Whenever the Board shall receive any interest, amortization, or other payments upon any first mortgage or bond pledged as collateral security for the issue of farm-loan bonds, it shall forthwith cause such payment to be duly credited upon the mortgage entitled to such credit. Whenever any such mortgage is paid in full the Board shall cause the same to be cancelled, and shall promptly satisfy and discharge the lien, and transmit such cancelled mortgage to the original maker thereof, or his heirs, administrators, executors, or assigns.

Reserve to meet Losses.

18. (1.) Out of the net profits from time to time arising from the business of the Board there shall be established within the Advances Account a Reserve Fund of twenty-five thousand pounds, or such larger sum as the Governor-General may from time to time by Order in Council direct.

(2.) The said Reserve Fund shall from time to time be invested and reinvested in first-mortgage and mortgage bonds.

(3.) When and as often as the moneys standing to the credit of the Reserve Fund are in excess of the sum of twenty-five thousand pounds, or such larger sum as the Governor-General by Order in Council directs pursuant to this section, the amount of such excess shall, without further appropriation than this section, be invested in loans to farmers on the security of first mortgage.

Provision of Funds.

19. (1.) The Minister of Finance may, without further appropriation than this Act, make out of the Consolidated Fund loans of money to the Farm Loan Branch constituted under this Act upon the terms and to the extent authorized by this section.

(2.) Every such loan shall be for a term of not less than ten or more than twenty years.

(3.) No interest shall be payable by the Farm Loan Board upon the money so loaned during the first ten years after the making of the loan; after the expiration of the first ten years interest shall be payable by the Farm Loan Board into the Public Account at the rate of five per centum per annum by equal half-yearly payments.

(4.) The total amount that may be advanced and lent under this section shall not exceed five hundred thousand pounds.

Redemption of Bonds: Reserve Fund.

20. The Farm Loan Board shall semi-annually pay fifty per centum of its net earnings, also five per centum of the instalment repayments of principal, into a Redemption of Loans Reserve

Fund, which is hereby established. The reserve fund shall from time to time be invested and reinvested in advances to farmers on first-mortgage security.

Savings-bank Bond Purchase Accounts.

21. The Board shall have power to arrange with the Postmaster-General for the establishment of Savings-bank bond accounts: Provided that when the balance at the credit of the depositor exceeds ten pounds the sum of ten pounds shall be invested in a farm-loan bond or debenture for the benefit of the depositor.

22. Whenever any farm-loan bonds, or coupons or interest payments of such bonds are due under their terms, they shall be payable in gold or lawful money, and upon payment shall be duly cancelled. When any farm-loan bond shall be surrendered to the Superintendent, the said bondholder shall be entitled to withdraw first mortgages and bonds pledged as collateral security for any of the said series of farm-loan bonds to an amount equal to the farm-loan bonds so surrendered, and it shall be the duty of the Superintendent to permit and direct the delivery of such mortgages and bonds. Interest payments on hypothecated first mortgages shall be available for the payment of coupons and the interest of farm-loan bonds as they become due. Whenever any bond matures, or the interest on any registered bond is due, or the coupon on any coupon bond matures, and the same shall be presented for payment as provided in this Act, the full face value thereof shall be paid to the holder. Amortization and other payments on the principal of first mortgages held as collateral security for the issue of farm-loan bonds shall constitute a trust fund, and shall be applied or employed as follows:—

- (a.) To pay off farm-loan bonds or stock issued by or on behalf of said Board as they mature.
- (b.) To purchase, at or below par, farm-loan bonds or stock:
- (c.) To loan on first mortgages on farm lands qualified under this Act as collateral security for an issue of farm-loan bonds or stock:
- (d.) To purchase New Zealand Government securities.

Investment in Farm-loan Bonds or Stock.

23. Farm-loan bonds or stock issued under the provisions of this Act shall be a lawful investment for all fiduciary and trust funds, and shall be accepted as security for all public deposits, and shall also be deemed securities in which public moneys may be invested.

Penalties.

24. (1.) Any applicant for a loan under this Act who shall knowingly make any false statement in his application for such loan, and any member of a local committee or any valuer provided for in this Act who shall wilfully overvalue any land offered as security for loans under this Act, shall be punished by a fine not exceeding one thousand pounds, or by imprisonment not exceeding one year, or both.

(2.) Any examiner appointed under this Act who shall accept a loan or gratuity from any bank or co-operative organization examined by him, or from any person connected with any such bank or organization in any capacity, shall be punished by a fine not exceeding one thousand pounds, or by imprisonment not exceeding one year, or both, and may be fined a further sum equal to the money so loaned or gratuity given, and shall for ever thereafter be disqualified from holding office as an examiner under the provisions of this Act. No examiner, while holding such office, shall perform any other service for compensation for any bank or banking or loan association, or for any person connected therewith in any capacity.

(3.) Any person who shall falsely make, forge, or counterfeit, or cause or procure to be falsely made, forged, or counterfeited, or willingly aid or assist in falsely making, forging, or counterfeiting any bond, coupon, or paper in imitation of, or purporting to be in imitation of the stock, bonds, coupons, dividend warrants, or paper, issued by the Farm Loan Board; or any person who shall pass, utter, or publish or attempt to pass, utter, or publish any false, forged, or counterfeited bond, coupon, or paper purporting to be issued by such Board, knowing the same to be falsely made, forged, or counterfeited; or whoever shall falsely alter, or cause or procure to be falsely altered, or shall willingly aid or assist in falsely altering any such stock, bond, coupon, or paper, or shall pass, utter, or publish as true any falsely altered or spurious bond, coupon, or paper issued, or purporting to have been issued, by such Board, knowing the same to be falsely altered or spurious, shall be punished by a fine not exceeding one thousand pounds, or by imprisonment not exceeding five years, or both.

(4.) Other than the usual fee or salary paid to any member, officer, or employee of the Board, no member, officer, attorney, or employee shall be a beneficiary of or receive, directly or indirectly, any fee, commission, gift, or other consideration for or in connection with any transaction or business of such Board.

(5.) No farm-loan association or society organized under this Act shall charge or receive any fee, commission, bonus, gift, or other consideration not herein specifically authorized.

(6.) No examiner, public or private, shall disclose the names of borrowers to other than the proper officers of a co-operative loan association or society without first having obtained express permission in writing from the Farm Loan Superintendent or from the Board, except when ordered to do so by a Court of competent jurisdiction or by direction of either the Legislature or any Committee of either House duly authorized. Any person violating any provision of this paragraph shall be punished by a fine not exceeding one thousand pounds, or by imprisonment not exceeding one year, or both.

(7.) Any person connected in any capacity with a co-operative society or association who embezzles, abstracts, or wilfully misapplies any moneys, funds, or credits thereof, or who without authority from the directors draws any order, assigns any note, bond, draft, mortgage, judgment, or decree thereof, or who makes any false entry in any book, report, or statement with intent to defraud any other company, body politic or corporate, or any individual person, or to deceive any officer or any agent appointed to examine into the affairs of any such association or society, and every person who with like intent aids or abets any officer, clerk, or agent in any violation of this section, shall be punished by a fine not exceeding one thousand pounds, or by imprisonment not exceeding five years, or both.

(8.) Any person who shall deceive, defraud, or impose upon, or who shall attempt to deceive, defraud, or impose upon any person, firm, or corporation by making any false pretence or representation regarding the character, issue, security, or terms of any farm loan, stock, bond, coupon, or dividend warrant issued under the terms of this Act; or by falsely pretending or representing that any farm-loan stock, bond, coupon, or paper issued under the terms of this Act, or anything contained in such farm-loan bond, coupon, or paper is anything other than or different from what it purports to be on the face of said stock, bond or coupon, or dividend warrant, shall be fined not exceeding one hundred pounds, or imprisoned not exceeding one year, or both.

25. (1.) No person shall directly or indirectly solicit or endeavour to influence the Farm Loan Board or any member thereof with respect to the application of any other person for a loan, advance, or grant of credit.

(2.) Every person who commits an offence against the provisions of the last preceding subsection is liable on conviction to a fine not exceeding fifty pounds.

(3.) Any person who, directly or indirectly, solicits or endeavours to influence the Farm Loan Board or any member thereof for the purpose of obtaining a loan, advance, or grant of credit shall be disqualified, and no loan, advance, or grant of credit shall at any time be made to him, and he shall be liable on conviction to a fine not exceeding fifty pounds.

Government Deposits.

26. (1.) The Minister of Finance may make deposits for the use of the Board out of any money in the Treasury not otherwise appropriated. The Board shall issue to the Treasury a certificate of indebtedness for any such deposit, bearing a rate of interest not to exceed the current rate charged for fixed deposits, to be secured by farm-loan bonds, stock, or other collateral, to the satisfaction of the Treasury. Any such certificate shall be redeemed and paid by the Board at the discretion of the Treasury. The aggregate of all sums so deposited by the Treasury shall not exceed the sum of twenty-five thousand pounds at any one time.

(2.) Until such time as the capital of the Farm Loan Board shall be five hundred thousand pounds or more the Minister of Finance may in his discretion make deposits in addition to those authorized by the preceding paragraph, to be secured, redeemed, and paid in the same manner as provided in such paragraph, except that any additional deposit made hereunder shall be called by the Treasury and redeemed by the Board within fifteen days after the conclusion of each general offering of farm-loan bonds by such Board. The aggregate of such additional deposits outstanding at any time shall not exceed the difference between the aggregate capital of the Farm Loan Board on the last day of the preceding month and the sum of five hundred thousand pounds. The certificate of indebtedness issued to the Treasury by the Board for such additional deposits shall bear a rate of interest not exceeding by more than one quarter of one per centum per annum the rate borne by the last bond issue of the Board. The Minister of Finance is further authorized, in his discretion, upon the request of the Farm Loan Board, from time to time to purchase at par and accrued interest, with any funds in the Treasury not otherwise appropriated, farm-loan bonds or stock issued by such Board. Such purchases shall not exceed the sum of two hundred and fifty thousand pounds in any one financial year. The Farm Loan Board may at any time repurchase at par and accrued interest, for the purpose of redemption or resale, any bonds so purchased from it and held in the Treasury. Farm-loan bonds or stock so purchased by the Treasury, and held in the Treasury, shall, upon thirty days' notice from the Treasury, be redeemed or repurchased by the Board at par and accrued interest.

Organization Expenses.

27. The sum of twenty thousand pounds, or so much thereof as may be necessary, is hereby appropriated, out of any money in the Treasury not otherwise appropriated, to be expended, under the direction of the Farm Loan Board, for the purpose of carrying into effect the provisions of this Act, including the rent and equipment of necessary offices.

General.

28. For the better administration of this Act the Governor-General in Council shall have power to appoint local advisory committees consisting of not more than six members, including the Farm Loan Supervisor and his deputy, in districts to be specified by the Farm Loan Board, who shall advise upon such matters as may be referred to them from time to time by the Farm Loan Board.

29. The Superintendent of State Advances, the Audit Office, and one person to be appointed by the Minister of Finance, shall be the custodians of the mortgages and of lien securities deposited against the issue of bonds or stock.

30. Wherever the term "first mortgage" is used in this Act it shall be held to include such classes of first liens on farm lands as shall be approved by the Farm Loan Board, and the credit instruments secured thereby. The terms "farm-loan bonds" and "farm-loan stock" shall be held to include all bonds and stock secured by collateral deposited with a Farm Loan Board under the terms of this Act.

31. Members of the Farm Loan Board shall receive such fees as may be appropriated by Parliament, together with actual necessary travelling-expenses.

32. (1.) It shall be the duty of the Farm Loan Board to prepare from time to time bulletins setting forth the principal features of this Act, and, through the Department of Agriculture or otherwise, to distribute the same, particularly to the Press, to agricultural journals, and to farmers' organizations; to prepare and distribute in the same manner circulars setting forth the principles and advantages of amortized farm loans and the protection afforded debtors under this Act, instructing farmers how to organize and conduct farm-loan associations, and advising investors of the merits and advantages of farm-loan bonds; and to disseminate in its discretion information for the further instruction of farmers regarding the methods and principles of co-operative credit and organization.

(2.) The Board is hereby authorized to use a reasonable portion of the organization fund provided in section 27 of this Act for the objects specified in this section, and is instructed to lay before Parliament at each session its recommendations for further appropriations to carry out the said objects.

33. Forms for appraisal reports for co-operative associations and societies shall be prescribed by the Farm Loan Board. Farm-loan valuers shall make such examinations and appraisals and conduct such investigations as the Farm Loan Board shall direct. No borrower under this Act shall be eligible as a valuer under this section, but borrowers may act as members of a loan committee in any case where they are not personally interested in the loan under consideration.

34. Where not inconsistent with this Act the provisions of the principal Act shall apply.

PART II.—PROVIDING CREDIT FOR CO-OPERATIVE RURAL INTERMEDIATE-CREDIT ASSOCIATIONS.

Interpretation.

1. In this Act, unless the context otherwise requires, "lender" shall mean the Farm Loan Board, any chartered bank, or financial corporation authorized to do business in the Dominion, or firm or person loaning money to subscribers through a co-operative rural intermediate-credit association.

Organization.

2. The Farm Loan Board may authorize the organization of co-operative rural intermediate-credit associations for the purposes and with the powers hereinafter set out.

3. (1.) The organization of such associations may be initiated by an application which may consist of one or more parts in Form A in the Schedule hereto, or to the like effect, signed by not less than twenty farmers or persons engaged, or agreeing to engage within one year, in farming operations of the kinds hereinafter referred to, who conjointly subscribe for stock in the proposed society at par value to the amount of not less than five hundred pounds, upon which not less than twenty per centum has been paid in cash and the balance secured by the subscriber's promissory note payable to the association, according to the tenor thereof, with interest at six per centum per annum.

(2.) The application shall be addressed to the Farm Loan Board, and shall set out—

- (a.) The names of the applicants, their respective addresses and occupations, the lands owned or occupied by each or intended to be used for the purpose of this Act, and the amount agreed to be subscribed by each of them to the capital of the proposed association, which amount shall be not less than twenty-five pounds;
- (b.) That the applicants are desirous of organizing a co-operative rural intermediate credit association within the Dominion for the purposes and with the powers conferred by this Act;
- (c.) The location of the chief place of business of the association, and, if outside the limits of a city, town, or village, stating section, block, and survey district;
- (d.) The name of the proposed association;
- (e.) The amount of the capital stock, and the number of shares into which such stock is divided, and the amount paid in cash on account of each subscription;
- (f.) The names of four of the subscribers, who shall be provisional directors of the association;
- (g.) The name of a person whom the applicants nominate to act as secretary-treasurer of the association until the organization has been completed;

and the application or each part thereof shall be accompanied by a statutory declaration of one of the applicants verifying the facts set out in such application and the signatures thereto.

(3.) The shares held by any borrower member shall be in the proportion of ten pounds to every one hundred pounds borrowed.

(4.) No borrower member shall be entitled to receive by way of loan more than fifteen per centum of the total share capital of any association.

(5.) Twenty per centum of the par value of the stock subscribed for by an original subscriber shall be paid in cash prior to the first day of April next but one following the date of the incorporation of the association, and a further sum of twenty per centum of the value of the said stock shall be paid prior to the first day of April next following such last-mentioned first day of April, and so in each successive year unless otherwise provided by the Farm Loan Board, until the full value of the said stock has been paid to the association.

4. (1.) Supplementary applications containing the names of additional subscribers, duly certified by the secretary-treasurer of the association as having subscribed for a share or shares in the association upon the same terms as to payment and interest as hereinbefore provided with respect to original subscribers, in accordance with the provisions of the Act, may be filed with the Farm Loan Board, and after receipt by the secretary-treasurer of notice of the said filing the persons whose names appear on the said supplementary applications shall have the same powers, rights, and immunities as if they had been original subscribers.

(2.) Every such additional subscriber shall pay twenty per centum of the par value of the stock subscribed for by him at the date of the supplementary application, a further sum of twenty per centum of the value of the said stock prior to the first day of April next but one following the date of the supplementary application, and a further sum of twenty per centum of the value of the said stock prior to the first day of April next following the last-mentioned first day of April, and so in each successive year until the full value of the said stock has been paid to the association.

5. The Farm Loan Board may require such further particulars and such other evidence verifying the application as may be deemed necessary, and may from time to time make rules and regulations in relation thereto, and prescribe the schedule of fees, and shall furnish forms of application and information to applicants desirous of forming associations under the provisions of this Act.

6. The Farm Loan Board may authorize the incorporation of the association, with all the powers conferred by this Act, by such name as shall have been approved, and may empower the provisional directors named in the applications to proceed with the organization of the association and to do all things necessary thereto.

7. (1.) Upon receipt of a copy of the said authority, and upon payment of the fees prescribed, if any, the Registrar of Joint-stock Companies shall file the said copy in his office, enter particulars of the same in a special register (to be known as the New Zealand Co-operative Credit Associations Register), issue a certificate of registration (which may be in Form B in the Schedule hereto or to the like effect) and publish a notice of the said registration in one issue of the *New Zealand Gazette*.

(2.) Upon registration the persons who signed the application shall thereby become, and they, their associates and successors, shall be, a body corporate and politic, and shall have the powers, rights, and immunities vested by law in such bodies, subject to the provisions of this Act.

8. Upon receipt of the certificate of registration, and after publication in the *New Zealand Gazette* as aforesaid, the provisional directors shall call a meeting of all the said subscribers, for the purpose of electing directors representing the subscribers and completing the organization necessary for the operation of the association.

9. No association shall commence business until it has received subscriptions to its capital stock from not less than twenty farmers or persons engaged in, or agreeing to engage within one year in, farming operations of the kinds hereinafter referred to, to the amount of not less than five hundred pounds, upon which not less than twenty per centum has been paid.

10. No association shall be registered under a name identical with that by which any other existing association has been registered, or so nearly resembling such name as to be likely to deceive the members of the public.

11. (1.) It shall be eligible for the Farm Loan Board, upon receipt of a duly certified schedule of the securities of such association, countersigned by the Inspector of Co-operative Rural Intermediate-credit Associations appointed for that purpose by the Board and bearing the approval of such Inspector, to issue trust debentures against such securities to the amount of such advance as it considers reasonable and safe, and to duly pay over to such registered co-operative rural intermediate-credit association the amount realized by the sale of such debentures, less the necessary charges for expenses.

(2.) The Farm Loan Board is further empowered, under such terms and conditions as it may prescribe in its regulations, to authorize co-operative rural-credit associations to obtain advances from joint-stock banks, or other financial institutions, by means of bills signed by the chairman of directors and secretary-treasurer and endorsed by the Farm Loan Board's Supervisor. Such bills shall not in the aggregate exceed the value of the unpledged securities of the association, and their currency shall not exceed six months.

Directors.

12. (1.) The management of the business of the association shall be vested in a board of directors, four of whom shall be elected at the first meeting and annually thereafter by the subscribers, and one of whom shall be appointed by the Farm Loan Board.

(2.) Directors shall hold office until their successors are elected or named.

13. (1.) On receipt of the names of all the directors the acting secretary-treasurer shall call a meeting of the directors for the purpose of electing officers and completing organization.

(2.) At such meeting the directors shall elect from amongst themselves a president, a vice-president, and a secretary-treasurer, and a notice of the names of all officers and directors shall be forthwith forwarded to the Farm Loan Board.

(3.) From and after the date of the election of the said officers the association shall be entitled to carry on business and to exercise all the powers conferred by this Act.

(4.) The Farm Loan Supervisor or his deputy shall be an *ex officio* member of all such directorates.

(5.) The directors may appoint as secretary-treasurer, or as secretary, or as treasurer, any person not a member of the board of directors, if they deem it in the interest of the association to do so.

14. No officer or director except the secretary-treasurer shall be paid any salary or fee by the association, other than actual expenses necessarily incurred while attending meetings of the board of directors and while attending to the business of the association.

15. The directors of the association shall have full power in all things to administer the affairs of the association, and may make or cause to be made for the association any kind of contract into which the association may by law enter.

16. The directors may from time to time make by-laws, not contrary to law or to this Act, to regulate--

(a.) The allotment of stock, the making of calls thereon, the payment thereof, the issue and registration of certificates of stock, the forfeiture of stock for non-payment, the disposal of forfeited stock and of the proceeds thereof, and the transfer of stock :

- (b.) The declaration and payment of dividends ;
- (c.) The appointment, functions, duties, and removals of all officers and employees of the association, the security to be given by them to the association, and their remuneration ;
- (d.) The time at which and place where the general meeting of the association shall be held, the calling of regular and special meetings of the board of directors of the association, the quorum, the requirements as to proxies, and the procedure in all things at such meetings ;
- (e.) The imposition and recovery of all penalties and forfeitures admitting of regulation by by-law ;
- (f.) The conduct in all particulars of the affairs of the association ;

and may from time to time repeal, amend, or re-enact the same ; but every such by-law, and every repeal, amendment, or re-enactment thereof, unless in the meantime confirmed at a general meeting of the association duly called for that purpose, shall only have force until the next annual meeting of the association, and in default of confirmation thereat shall at and from that time cease to have force :

Provided, however, that the association shall have power, either at the general meeting called as aforesaid or at the annual meeting of the association, to repeal, amend, vary, or otherwise deal with any by-laws which have been passed by the directors ; but no act done or right acquired under any such by-law shall be prejudicially affected by any such repeal, amendment, variation, or other dealing :

Provided further that in the event of the Farm Loan Board preparing uniform by-laws and regulations applicable to all associations incorporated under the provisions of this Act, each association shall adopt such uniform regulations, unless in the opinion of the whole board of directors variations are necessary to suit the circumstances of the particular association, and notice of such variation has been sent to and approved of by the Farm Loan Board.

Annual Meeting.

17. (1.) The annual meeting of the association shall be held between the thirtieth day of March and the first day of July, and notice of the same shall be given by the secretary-treasurer by letter.
- (2.) At such meetings reports shall be presented by the officers showing fully the business done by the association since the next preceding annual meeting.

Objects, &c.

18. The objects of co-operative rural intermediate credit associations organized under this Act shall be—

- (a.) To procure short-term loans for members for paying the cost of farming operations of all kinds and increasing the production of farm-products, and particularly for the following purposes : (i) The purchase of seed, feed, and other farm supplies ; (ii) the purchase of implements and machinery ; (iii) the purchase of cows, horses, sheep, and other live-stock ; (iv) the payment of the cost of carrying on any farming, grazing, stock-raising, dairying, or other like operations ; (v) the payment of the cost of preparing for cultivation :
- (b.) To act as agent for the members in purchasing goods, chattels, effects, stock, grain, coal, wood, timber, merchandise, or any other article or commodity required by subscribers, and in selling any products produced by subscribers, and in placing fire and other insurance ;
- (c.) To promote co-operation among members for the improvement of conditions of farm life.

19. It shall be the duty of the directors to arrange for loans to the members of the association in accordance with the provisions of this Act, and to conduct all negotiations and to make all arrangements incidental thereto and in connection therewith.

20. Any application made by the association to a lender for credit, and the acceptance thereof by the lender, shall be in writing, and a copy of such application and acceptance shall be forwarded by the secretary-treasurer to the office of the Farm Loan Board.

Applications for Loans.

21. Any member of an association desiring a loan shall make an application in Form C of the Schedule to this Act, stating the amount required and the purpose for which it is to be used, and agreeing to repay the said loan at a date therein to be named, which shall be not later than the thirty-first day of March next thereafter, together with interest at the rate arranged for by the directors for loans for subscribers under and in accordance with the terms of this Act.

22. (1.) Such application, together with a certified statement of all the assets and liabilities of the applicant, shall be delivered to the secretary-treasurer, and shall be presented by him to the directors at the next meeting.

(2.) The directors may approve of the same in whole or in part, and on such terms as they may deem proper, and may require such security from the applicant as they consider necessary for the protection of the association against loss : Provided that no application for a loan shall be approved by any association until the same has been submitted to and confirmed by an Inspector appointed under this Act.

(3.) The directors may take, in the name of the association, any form of security and exercise all the rights existing thereunder, and may assign, if deemed advisable, any such security, with all rights appertaining thereto, to the lender.

23. (1.) When an application has been finally approved by the directors such approval shall be certified on the application in form D of the Schedule to this Act, and shall be signed by the secretary-treasurer and by the president or vice-president or other authorized authority.

(2.) A record of such application and approval shall be entered in the minutes of the association, and the original application, with the certificate of approval endorsed thereon, together with the aforesaid statement of assets and liabilities, shall be placed on a file for approved applications.

(3.) A copy of the application and approval, certified as correct by the secretary-treasurer, shall be delivered by him to the lender, and after taking the security required by the directors, if any, he shall arrange the time or times and conditions at and upon which the amount shall be advanced in accordance with the application and approval: Provided that such advance may be made from time to time as arranged between the association and the borrower.

24. (1.) Before any moneys are advanced in pursuance of an approved application the lender shall require the borrower to sign a note or notes for the amount of the moneys to be advanced, together with interest thereon, and may require the association to endorse and guarantee payment of such note or notes; but the terms of such note or notes shall not vary in any material way from the terms of the application and approval of the association or from the provisions of this Act.

(2.) The secretary-treasurer may endorse such notes and guarantee payment on behalf of the association.

25. (1.) The rate of interest payable by a borrower on a loan guaranteed by an association shall not exceed seven per centum per annum, and out of the interest paid one-half of one per centum shall be paid to the association for the purpose hereinafter mentioned.

(2.) The security given to the lender by the borrower shall not be surrendered until the loan and all interest or other charges have been paid.

26. Every bank from which loans are obtained by any association under this Act shall forward to the Supervisor of Co-operative Rural Intermediate-credit Associations, and to the secretary-treasurer of the association, a monthly return showing each loan made by it under the Act, and the amount authorized thereby, and the amount advanced at the date of such return, and also showing all loans, if any, then past due.

27. (1.) In the event of a borrower not being able to repay the amount of his loan, or of any renewal of the same or portion thereof, at the date of maturity thereof, the directors may, for reasons which appear to them to be justifiable, or on account of the loan having been granted for purposes not fully productive within one year, and on application of the borrower, grant a renewal of the whole or any portion of the said loan or any renewal until such further time as may be agreed on, but not later than the thirty-first day of March next after the maturity of the previous loan or renewal, as the case may be.

(2.) The application for every such renewal shall be in the same form as for an original loan, except that it shall be marked with the word "Renewal," and shall be kept distinct from any new application made by the same borrower.

(3.) The provisions of this Act relating to applications and the approval thereof, and the rights and liabilities arising thereunder, shall be applicable to every such renewal.

28. (1.) In the event of a borrower failing to pay the amount of his loan or renewal within thirty days after maturity, and of no agreement for renewal or other provision for the payment of the said loan or renewal or for the security therefor having been entered into within the said thirty days, the lender may demand payment of the sum owing, with interest thereon to date of payment, and the association shall, within fifteen days from the receipt of such demand, or such further period as may be agreed upon between the lender and the association, pay such sum.

(2.) Upon payment the lender shall assign and deliver all securities held for the said loan or any part thereof to the association, and the association shall be entitled to recover the amount so paid from the borrower by any means authorized by this Act or by any other statute or law applicable thereto.

29. The Farm Loan Board may prescribe the manner in which the accounts of an association, including the loan accounts, shall be kept.

Liens and Charges.

30. (1.) A detailed written description, in form E of the Schedule hereto or to the like effect, of all animals, machinery, goods, or other chattels of any kind purchased or partly purchased with the proceeds of a loan obtained, or for the purpose of which a loan has been given, under the provision of this Act, signed by the borrower, shall be sent or handed to the secretary-treasurer of the association within ten days after the said purchase; and the amount of the said loan, together with interest thereon, shall, until the final payment thereof, constitute a lien or charge upon such animals, machinery, goods, or other chattels in favour of the association approving the said loan, without any further writing or act by the borrower.

(2.) Within twenty days after the receipt of such written description the secretary-treasurer shall file in the proper registration district a certificate, in form F of the Schedule to this Act, giving notice of the lien and the amount thereof, the rate of interest, the name of the debtor, a description of his lands, and of the said animals, machinery, goods, or other chattels.

(3.) None of the said chattels shall during the currency of such loan be sold or removed from the premises of the borrower without the consent of the secretary-treasurer and of the lender, and in the event of a sale the proceeds shall be paid to the lender forthwith on account of the said loan.

(4.) Except as herein otherwise provided, the provisions of the Chattels Transfer Act, 1924, shall apply to such securities.

31. In addition to the lien declared by the preceding section, the directors may require further or other security, whether by way of mortgage or assignment of property of any sort, or otherwise howsoever, in such manner and form as may seem to them fit and proper, and may assign such securities or any of them to the lender, together with all the rights of the association thereunder.

32. (1.) Upon filing a certificate in the form set out in form H in the Schedule hereto, signed by the secretary of the association in the office of the Land Registrar of the registration district in which is situated the land on which the borrower carries on operations for which the loan was made, showing the amount of the loan and the date of payment (and, if the loan be repayable at different times, the respective dates of payment and amounts payable at such dates), the name and address of the borrower, and the description of the said land, the association shall have a lien and charge for securing the repayment of the loan guaranteed by the association on the personal property (including growing or future crops) of the borrower described in such certificate.

(2.) The description of such personal property in the certificate shall be full and sufficient, so that the goods and chattels described may be readily and easily known and distinguished.

(3.) The lien and charge conferred by this section shall also be upon the personal property described in the certified statement of assets and liabilities of the borrower hereinbefore referred to, or such of them as may be owned by him at the time of filing the certificate herein referred to, if such filing seems desirable to the association.

33. Any such certificate shall be invalid unless accompanied by an affidavit, as set out in form H of the Schedule hereto, of the secretary-treasurer of the association.

34. The said lien and charge shall have the same force and effect as a mortgage of chattels under the provisions of the Chattels Transfer Act, 1924.

35. Any certificate so filed shall, notwithstanding any statutory provision to the contrary, have the same effect as a chattel mortgage taken from the borrower upon all crops growing or to be grown in every or any year upon the lands owned or occupied by such borrower, and upon the filing of the said certificate it shall form a valid security upon the growing crops therein mentioned, notwithstanding any provision to the contrary of the Chattels Transfer Act, 1924, or of any other Act, and shall, save as herein otherwise provided, have the same effect and priority, and be treated as a mortgage upon growing or future crops permitted by the said Act.

36. It shall not be necessary in order to make the aforesaid affidavit that the secretary have authority in writing from the association to file such lien and charge.

37. Such lien and charge shall be valid during the currency of the said loan under the provisions of this Act.

38. The registration in the said office of the subsequent certificate in form I in the Schedule hereto, signed by the secretary of the association, showing repayment of such loan, shall operate as a discharge of such lien and charge.

39. The Registrar shall register the said certificate and discharge without fee.

40. (1.) Upon filing a certificate in form J in the Schedule hereto, signed by the secretary of the association with the Registrar for the land-registration district in which is situated the land upon which the borrower carries on operations for which the loan was made, showing the amount of the loan and the date of payment (and, if the loan is repayable at different times, the respective dates of payments and the amounts payable at such dates), the name and address of the borrower, and the description of the land in which the borrower carries on the aforesaid operations, the association shall have a lien and charge upon the land described in the said certificate for securing the payment of the loan guaranteed by the association.

(2.) The said lien and charge upon the land shall have the same force and effect as a memorandum of mortgage executed under the Land Transfer Act, 1915.

41. The registration of a subsequent certificate in form K in the Schedule hereto, signed by the secretary of the association, showing repayment of such loan, shall operate as a discharge of such lien and charge.

42. The Registrar shall register the said certificate and discharge without fee.

43. When any certificate is filed under the provisions of this Act, notification of such filing shall be sent by the secretary of the association to the borrower in respect of whom or whose property such filing is made.

Seizure.

44. (1.) Whenever it is necessary and lawful for the association to seize any property of a borrower, then the directors of the association may appoint the secretary-treasurer thereof, or some other suitable person, as their bailiff, and he, notwithstanding any statutory provision to the contrary, may seize and sell any property liable to seizure under the terms of this Act without any further or other authority than that of the directors of the association hereunder.

(2.) The secretary-treasurer or bailiff hereinbefore referred to may effect a seizure on any property under the terms of this section by notice sent by registered mail to the borrower, and from and after the time at which such registered notice should reach the said borrower in the usual course of the mail all the property in such notice referred to shall be considered to be lawfully seized.

45. When any association realizes or attempts to realize the amount of any loan or part thereof made to a member, then such member and his family shall not be entitled to any of the benefits conferred upon him or them by any exemption Act.

General.

46. No chattel mortgage taken at any time under the provisions of this Act shall require an affidavit of *bona fides*.

47. Any borrower who neglects or fails to furnish the secretary-treasurer with the signed description of chattels purchased as hereinbefore provided, or who removes or disposes of the said chattels or any of them contrary to the terms of this Act, or who fails to account for and pay over the moneys received from the sale thereof as hereinbefore provided, unless the consent of the secretary-treasurer and of the lender has been obtained thereto in writing, shall be liable on summary conviction before a Justice of the Peace or Stipendiary Magistrate to a fine of not less than ten pounds nor more than twenty pounds and costs, and in default of payment thereof to imprisonment with or without hard labour for a period not exceeding six months nor less than one month.

48. A shareholder may, with the consent of the board of directors by resolution, retire from an association and withdraw the amount he has paid on account of his share or shares, in cash or otherwise, without interest or dividend, provided that at the date of the said retirement all the loans made to him up to that date, together with interest and costs, have been fully paid and satisfied, and provided that his retirement does not reduce the number of shareholders below the minimum required for the continuance of the association.

49. The lender or his agent, or any officer or director of an association endorsing a loan, may at any time before payment of the loan enter on the premises of the borrower in order to inquire into the manner in which he is carrying on such farming and other operations as are required for the purposes for which the loan was granted, or to ascertain how the terms of the loan are being carried out, or whether the security for the loan is in good condition and on the premises of the borrower.

50. In the event of the death, insolvency, or insanity of the borrower, or of his deserting the premises, or neglecting the property purchased or obtained through the proceeds of a loan, or of his failure to carry out the purposes for which the loan was obtained, the secretary-treasurer of an association under the direction of the board, or any three directors thereof, may apply to any Justice of the Peace or Stipendiary Magistrate for an order placing the association or any person named by it in possession of all goods, animals, or property covered by any security or claim given under the provisions of this Act, and of any or all other property, real or personal, of the borrower which may be required for the proper care, use, or preservation of the security or claim, and such Justice of the Peace or Stipendiary Magistrate may, after such notice to the borrower as he may deem reasonable, or without notice, make an order for the purpose aforesaid, and authorize the association or the person named on its behalf to carry out the provisions of such order.

51. No person who has obtained a loan under this Act, any part of which remains unpaid, shall dispose or attempt to dispose of, or charge or attempt to charge any of the stock, crops, or other chattels subject to the lien of a co-operative rural intermediate-credit association without the consent of the directors of the association, and no person shall acquire any title whatsoever to the said property under any such disposition or charge or attempted disposition or charge.

52. The borrower shall be personally liable for the payment of the amount of any loan granted under the provisions of this Act or any balance thereof, and for all interest, charges, or costs of collection, and, in addition to any other remedies provided herein, may be proceeded against by suit in any Court of competent jurisdiction.

53. It shall not be incumbent on the association or any lender making a loan under the provisions of this Act to see to the due application of the moneys loaned, and the misapplication or non-application of such moneys shall not affect the security of the loan.

54. The paid-up capital of any association shall be invested only in securities issued by the Government of New Zealand, or approved by the Farm Loan Board, and all income derived therefrom shall be paid to the association.

55. (1.) The profits received by an association from interest or other sources shall be applied—

- (a.) In payment of the necessary expenses of the association :
- (b.) In accumulating a reserve which may, in the discretion of the Farm Loan Board, be invested in the same manner as the paid-up capital ;
- (c.) In payment of a dividend on the paid-up stock held by subscribers of not more than seven per centum per annum.

(2.) In the event of the dissolution of any co-operative rural intermediate-credit association, any accumulated reserve shall be divided among the subscribers in proportion to the amount paid on the capital stock respectively held by them.

56. (1.) An association under this Act may be dissolved by consent of three-fourths of the members, testified by their signatures to an instrument of dissolution.

(2.) The instrument of dissolution shall set forth the liabilities and assets of the association in detail, the number of members and the nature of their respective interests in the association, the claims of creditors (if any), the provisions to be made for their payment, and the intended appropriation or division of the funds or property of the association.

(3.) A statutory declaration shall be made by the president and the secretary-treasurer of the association that the provisions of this Act have been complied with, and shall be sent to the Registrar of Joint-stock Companies with the instrument of dissolution.

(4.) The Registrar shall cause a notice of the dissolution to be advertised at the expense of the association in the *New Zealand Gazette* and in some newspaper circulating in the district in which the head office of the association is situated.

57. In the case of a dissolution of a co-operative rural intermediate-credit association under this Act the association shall nevertheless be considered as subsisting, and be in all respects subject to the provisions of this Act, so long and so far as any matters relating to the same remain unsettled, to the intent that the association may do all things necessary to the winding-up of the business thereof, and may sue and be sued under the provisions of this Act in respect of all such unsettled matters.

58. Every person appointed to an office which involves the receipt, management, or expenditure of money, or the receipt of goods, wares, or merchandise for the purposes of an association under this Act, shall, before entering upon the duties of his office, give such security as is deemed sufficient by the board of directors, which security may be varied in amount or renewed from time to time, and may be in Form G in the Schedule hereto.

59. Any person dealing with a borrower, or a person believed to be a borrower, from any association, and proposing to sell goods on credit or to lend money or to make advances to such person, may apply to a secretary-treasurer of an association for information as to the advances which have been made or authorized to such person, and the purposes thereof; and the secretary-treasurer, on being satisfied of the *bona fide* nature of such request, shall furnish such information as the records of the association show at the time of such request.

60. (1.) The board of directors shall hold a meeting or meetings in every year for the consideration of applications for loans, and for the same purpose shall hold such further meetings as may be required from time to time on the call of the president, or on the written request of any three members of the board, or any three shareholders, delivered to the secretary-treasurer.

(2.) The board shall also hold a meeting or meetings for the consideration and extension or renewal of loans, if any, on which the full amount has not been paid prior to the thirty-first day of March preceding.

Supervision.

61. (1.) The Farm Loan Board may appoint a Supervisor of Co-operative Rural Intermediate-credit Associations, and such Inspectors, assistants, and clerical assistance as may be deemed necessary, and may define the duties and provide for the payment of the same.

(2.) Every association and every officer thereof shall furnish all the information required by such Supervisor or any of his assistants on request therefor, and the books and records of any association shall be open at all times to the inspection of the Supervisor, Inspectors, or assistants.

62. Any Inspector appointed under this Act may search the books or records of any office in which registration is required or permitted under the provisions of this Act, and no charge shall be made in respect of any such search.

63. (1.) The Supervisor shall make an annual report to the Farm Loan Board of the work of each association.

(2.) There shall be, once in every year, and oftener if requested by the Supervisor, at the expense of the association, an audit of all the financial transactions of each association by or by the direction of the Audit Office, which shall transmit to the Farm Loan Board a report of the result of each audit, together with such statements as will fully show the then precise financial condition of the association.

(3.) A summary of such statements and of the annual reports of each association shall be presented to Parliament within fifteen days after their receipt by the Farm Loan Board, or, if Parliament is not then in session, within fifteen days from the commencement of the next ensuing session thereof.

64. The Farm Loan Board shall have power to direct the removal and replacement of any paid officer of any such co-operative credit association at any time.

Miscellaneous.

65. There shall be paid to every association established under the provisions of this Act, out of any moneys appropriated for that purpose, a grant of ten pounds for the purpose of assisting the said association in organizing.

66. The board of directors may borrow temporarily in the name of an association such sum or sums of money, not exceeding twenty-five pounds, as may be required to cover urgent and immediate necessities for which no funds are otherwise available.

67. Any association, when and if requiring the endorsement of a note of a borrower, may require the intending endorser to sign a document in form M, and from and after such signature the endorsement of the note of the borrower shall constitute an authorization to the secretary-treasurer of the society to sign and register charges in forms H and J of the Schedule to this Act with respect to the property of the endorser; and such forms when so signed and registered shall, with regard to the property of the endorser, have the effect and priority accorded by the terms of this Act to similar forms relating to the property of the borrower.

68. An association shall be exempt from payment of annual license fees required for companies.

69. The limit of advance granted and the margin of security required shall be decided by the Farm Loan Board in each individual case.

70. If in the opinion of the said Board the applicant is not marketing with sufficient rapidity the produce or stock owned or controlled by the applicant, the said Board may call upon the applicant to accelerate his sales: Provided that the applicant shall not be required to sell in an amount which will exceed an average of one-eighth of his aggregate season's deliveries (as estimated by the said Board per month from the date of the initial advance hereunder). If the said Board's request is not complied with, the said Board shall itself have the right to sell, out of the produce or stock pledged as collateral, a sufficient amount to equal one-eighth of the aggregate season's deliveries of the applicant for each month from the date of the initial advance hereunder. In the event of any such sales, the said Board may, in its uncontrolled discretion, apply the entire net proceeds to the liquidation of its advances.

SCHEDULE.

Form A. (Section 3.)

APPLICATION.

To the Secretary, Farm Loan Board,—

1. We the undersigned farmers or persons engaged in or agreeing to engage in farming operations within one year from the date hereof upon the lands described and set opposite each name herein, are desirous of organizing a co-operative rural intermediate-credit association for the purposes and with the powers conferred by the State Advances Act Amendment Act, 1926.

2. The names of the applicants, their respective addresses and occupations, and the description of the lands owned or occupied by each, or intended to be used for the purposes of the said Act, the amount agreed to be subscribed by each, and the amount paid in cash on account of each subscription, are as hereinbelow set forth:—

3. The location of the chief place of business of the proposed association is

4. The name of the proposed association is "The Co-operative Rural Intermediate Credit Association."

5. The amount of the capital stock of the proposed association is £ , divided into shares of £1 each.

6. The names of four of the subscribers who are hereby nominated as provisional directors are :

7. The name of a person who is hereby nominated as acting secretary-treasurer of the proposed association until the organization has been completed is

Dated at , this day of , 19 .

STATUTORY DECLARATION.

NEW ZEALAND.

In the matter of The Co-operative Rural Intermediate-credit Association and the State Advances Act Amendment Act, 1926.

I, , of , farmer, do solemnly declare as follows:—

1. That I am one of the signatories to the application hereto.

2. That the signatures of the said applicants are genuine, and that the matters, facts, and statements set out in said application are correct and true.

Declared before me at , this day of , 19

Justice of the Peace, &c.

Form B. (Section 7.)

CERTIFICATE OF REGISTRATION.

THE Co-operative Rural Intermediate-credit Association, having filed a duly signed application, is registered under the State Advances Act 1913 Amendment Act, 1926, this day of , 19 .

[STAMP OF REGISTRAR.]

Form C. (Section 21.)

The Co-operative Rural Intermediate-credit Association.

APPLICATION FOR LOAN.

[I, , of Section , Block , Survey District of , hereby apply to the Co-operative Rural Intermediate-credit Association for a loan of £ , under the terms of the State Advances Act 1913 Amendment Act, 1926, and request that such loan be advanced in approximately the following amounts, to be used for the following purposes:—

For the purchase of cattle: £ .

For the purchase of machinery: £ .

For expenses of putting in and taking off crop: £ .

For : £ .

Total: £ .

And I hereby agree to repay the said loan on * with interest at the rate of per cent. per annum from the dates the same or parts thereof are received to date of payment.

Dated at , this day of , 19 .

[Signature.]

* This date must not be later than the 31st March following the date of the application.

Form D. (Section 23.)

APPROVAL.

THE Co-operative Rural Intermediate-credit Association hereby approves of the foregoing application, and guarantees payment of said loan.

Passed by the directors this day of , 19 .

....., President.

....., Secretary-Treasurer.

Form E. (Section 30.)

LIEN.

I, , of , Section , Block , Survey District of , farmer, having obtained a loan of £ , through the Co-operative Rural Intermediate-credit Association, for the purpose of the purchase of [Here fill in purpose for which loan was obtained], hereby declare that I have purchased and paid for with the proceeds of said loan the following [Here fill in detailed description of cattle or other chattels purchased and amount paid for each] and the said [cattle or other chattels, as the case may be] have been paid for in full [or as the case may be] and are now on my premises, being Section , Block , Survey District.

And I do hereby agree that, until repayment of the said loan and payment of the interest thereon and costs of collection, if any, the said amount shall be and remain a lien and charge upon the said chattels and each of them and upon the increase thereof.

Signed at , this day of , 19 .

[Witness.]

[Signature of Borrower.]

Form F. (Section 30.)

NOTICE OF LIEN.

NOTICE is hereby given that the Co-operative Rural Intermediate-credit Association claims a lien of £ , with interest at per centum per annum, from the day of , 19 , upon the following animals, machinery, goods, chattels, and effects purchased by , of , Section , Block , Survey District of , farmer [Here insert description of chattels].

Dated at , this day of , 19 . Secretary-Treasurer.

Form G. (Section 38.)

FORM OF BOND.

Know all men by these presents that we, A. B., of , one of the officers of the Co-operative Rural Intermediate-credit Association, with head office at , and C. D., of (as surety on behalf of the said A. B.) are jointly and severally held and firmly bound to the said association in the sum of £ , to be paid to the said association or its attorney, for which payment well and truly to be made we jointly and severally bind ourselves, and each of us, and each of our heirs, executors, and administrators, firmly by these presents.

Sealed with our seals. Dated this day of , 19 .

Whereas the above-bounden A. B. has been duly appointed to the office of of the Co-operative Rural Intermediate-credit Association, with head office as aforesaid, and he, together with the above-bounden C. D., as his surety, have entered into the above-written bond, subject to the conditions hereinafter contained: Now, therefore, the condition of the above-written bond is such that if the said A. B. do render a just and true account of all moneys received and paid by him on account of the said association, at such times as the rules or by-laws thereof appoint, and do pay over all the moneys remaining in his hands, and assign or transfer or deliver all property (including books and papers) belonging to the said association in his hands or custody to such person or persons as the said association or the trustees thereof appoint, according to the rules or by-laws of the said association, then the above-written bond shall be void, otherwise it shall remain in full force.

In witness whereof we have hereunto set our hands and seals this day of , 19 .

Signed, sealed, and delivered, in the presence of .

Form H. (Sections 32, 33.)

THE Co-operative Rural Intermediate-credit Association has a lien and charge, under the provisions of the State Advances Act 1913 Amendment Act, 1926, upon the following personal property [Here describe property] owned by , of , in the Province of , farmer, who carries on farming operations on Section , Block , Survey District of , also upon all property named in the statement of assets and liabilities in the said Act provided for, which at the date hereof remains the property of the person herein named, and also upon crops growing or future crops grown upon the following land--that is to say [Here describe land]--for securing repayment of the sum of £ on the day of , 19 [or as the case may be].

Dated at , this day of , 19 . Secretary-Treasurer of the Co-operative Rural Intermediate-credit Association.

I, , of , in the Province of , make oath and say:—

1. I am secretary-treasurer of the Co-operative Rural Intermediate-credit Association.

2. The borrower, , of , in the Province of , farmer, named in the within lien and charge is justly and truly indebted to the Co-operative Rural Intermediate-credit Association in the sum mentioned in the said lien and charge.

The said lien and charge was filed in good faith, and for the express purpose of securing the payment of money justly due or accruing due, and not for the purpose of protecting the goods and chattels mentioned therein against the creditors of the borrower or preventing the creditors of such borrower from obtaining payment of any claim against him.

Sworn before me at , in the Province of , this day of , 19 .

Justice of the Peace, &c.

Form I. (Section 38.)

To the District Land Registrar of Registration District. THE lien and charge filed by the Co-operative Rural Intermediate-credit Association of on the day of , 19 , as No. , dated the day of , 19 , against certain personal property of , of , in the Province of , farmer, who carried on farming operations on Section , Block , Survey District of , has been fully paid and discharged.

Secretary-Treasurer of the Co-operative Rural Intermediate-credit Association.

Form J. (Section 40.)

THE Co-operative Rural Intermediate-credit Association has a lien and charge under the provisions of the State Advances Act 1913 Amendment Act, 1926, upon Section , Block , Survey District of , owned by , of , in the Province of , farmer, who carries on farming operations on the said lands, for the securing of the payment of £ , due on the day of , 19 [as the case may be].

Dated at , the day of , 19 .

Secretary-Treasurer of the Co-operative Rural Intermediate-credit Association.

Form K. (Section 41.)

To the District Land Registrar for Land Registration District.
 THE lien and charge filed by the Co-operative Rural Intermediate-credit Association against Section ,
 Block , Survey District of (then owned by , of , in the Province of), on the
 day of , 19 , as No. , has been fully paid and discharged.
 Dated the day of , 19 .

Secretary-Treasurer of the Co-operative Rural Intermediate-credit Association.
 [SEAL OF ASSOCIATION.]

Form M. (Section 67.)

I, , of , agree that the endorsement of the note of by me shall constitute an authorization to
 the secretary-treasurer in the terms set out in section 67 of the State Advances Act 1913 Amendment Act, 1926.
 [Signature.]

Dated
 To the Secretary-Treasurer of the Co-operative Rural Intermediate-credit Association.

PART III.

1. The administration of this portion of the Act shall be under the control and direction of the Farm Loan Board (hereinafter referred to as "the Board"), which shall have power to make such rules and regulations as it may deem necessary for the efficient administration of the Act, but not inconsistent herewith.

2. The Board shall have power to grant and make advances and loans on staple agricultural products to approved societies which are duly registered under the Companies Act, 1908: Provided (a) That the subscribed capital of each such society is not less than £2,500, and that each society is composed of not less than thirty members; (b) that such societies are *bona fide* co-operative societies.

3. Loans and advances made by the Board shall be restricted to societies composed of persons engaged in producing, or producing and marketing, staple agricultural products, or live-stock, if the notes or other such obligations representing such loans are secured by warehouse receipts, and/or shipping documents covering such products, and/or mortgages on live-stock: Provided that no such loan or advance shall exceed eighty per centum of the market value of the products covered by said warehouse receipts and/or shipping documents, or of the live-stock covered by said mortgages.

(2.) No paper shall be purchased from or discounted for any co-operative society under this section if the amount of such paper added to the aggregate liabilities of such co-operative societies, whether direct or contingent (other than *bona fide* deposit liabilities), exceeds the amount of such liability permitted under the laws creating the same, or exceeds twice the paid-in and unimpaired capital and surplus of such co-operative society.

(3.) Loans, advances, or discounts made under this section shall have a maturity at the time they are made or discounted by the Board of not less than six months nor more than three years. The Board may in its discretion sell loans or discounts made under this section, with or without its endorsement.

4. The Board shall have power, subject to the limitation imposed in the section immediately preceding, to discount for or purchase from any bank, trust company, agricultural credit corporation, incorporated live-stock loan company, savings institution, co-operative bank, co-operative credit or marketing association of agricultural producers organized under the laws of the Dominion of New Zealand, with its endorsement, any note, draft, bill of exchange, debenture, or other such obligation the proceeds of which have been advanced or used in the first instance for any agricultural purpose, or for the raising, breeding, fattening, or marketing of live-stock.

Registration of Co-operative Society.

5. Any co-operative society desirous of participating in the system of co-operative rural intermediate credit established by this portion of the Act shall make application in such form and such manner as shall be prescribed by the Board, and the decision of the Board as to its registration or non-registration as an eligible organization shall be final.

Valuations.

6. The Board may from time to time appoint a fit and proper person, or a reasonable number of such persons, to inspect and value agricultural products for the purposes of this Act, and may in its discretion remove the person or persons so appointed. It shall be the duty of every such Inspector from time to time and at all times to do, perform, and execute the duties required of him by this Act, or that may be specified in any rules or regulations adopted by the Board in that behalf.

Default.

7. Upon default of any obligation any society may be declared insolvent, and placed in the hands of a receiver by the Board.

Issue of Collateral Trust Debentures.

8. The Farm Loan Board shall have power to borrow money, and to issue and to sell collateral trust debentures or other similar obligations with a maturity at the time of issue of not more than five years, which shall be secured by at least a like amount of cash, or notes or other such obligations discounted or purchased or representing loans made. The provisions of Part I, relating to the preparation and issue of farm-loan bonds, shall, so far as applicable, govern the preparation and issue of collateral trust debentures or other such obligations issued under this section. The rates of interest upon debentures and other such obligations issued under this section shall not exceed six per centum per annum.

Liability on Collateral Trust Debentures.

9. The Board issuing debentures or other such obligations under Parts II and III of this Act shall be primarily liable therefor, and shall also be liable, upon presentation of the coupons for interest payments due upon any such debentures or obligations issued by the Board and remaining unpaid.

Limitation of Interest charged Borrowers.

10. The rate of interest charged against loans made by the Board shall not exceed the rate of interest paid on the last issue of collateral trust debentures by more than one per centum.

Examinations and Reports.

11. Every registered co-operative society doing business with the Board shall make to the Board quarterly reports during each year as requested by the Board and in the form which may be prescribed by the Board, verified by the secretary and treasurer, and attested by the signatures of at least three of the directors. Each report shall disclose in detail and under appropriate heads the resources and the liabilities of the society at the close of business on any past day specified by the Board, within seven days from the receipt of a request or requisition for the same from the Board. The Board shall also have power to call for special reports from any particular society whenever in its judgment the same are necessary for a full and complete knowledge of its condition.

Trust Securities.

12. The provisions regarding farm-loan mortgage-bonds issued under the provisions of this Act shall also apply to collateral trust debentures.

Miscellaneous.

13. Any Inspector appointed under this Act may search the books and records of any registered co-operative society which is indebted to the Board.

B.—FORMATION OF CO-OPERATIVE RURAL INTERMEDIATE-CREDIT ASSOCIATIONS.

(Suggested for inclusion in rules.)

1. Membership should be confined to *bona fide* farmers who are known to be honest and industrious and whose solvency is beyond question.

2. The Farm Loan Board must be satisfied with the individual standing of applicants before granting applications for registration.

3. Financial institutions who agree to do business with Co-operative Rural Intermediate-credit Associations to be supplied with the names of directors, list of members, and copies of the association's rules and regulations.

4. The local association must interest itself in the use and repayment of advances, and also see that the security is not deteriorated.

5. When the real security tendered is considered in any way lacking or inadequate, personal securities or additional collateral must be demanded.

6. The provision of a reserve fund against bad debts is essential to protect members against their contingent liability, and if after the first year a suitable sum is not being placed to reserve the Farm Loan Board must check the activities of the association concerned.

The following procedure should be followed when the method prescribed in clause 2 (c) is adopted :—

The borrower will make application to the directors of the local association on which, as previously stated, the Farm Loan Board is to be represented. The form of application will be prescribed by the Farm Loan Board, and must include a complete statement of assets and liabilities and all necessary information.

The directors of the local association will consider all the matters usually taken into consideration by prudent financial institutions before making such loans—*e.g.*, the reports of their appraisers and that of the Farm Loan Board's supervisor, the financial position of applicant, personal character, nature of security, prospects of success, and the like.

If considered satisfactory and loan granted, borrower must lodge his note of hand, together with such collateral as is deemed necessary to fully and adequately secure the advance, with the secretary-treasurer of the local association.

The local association may obtain the amount of the advance from one or other of the financial institutions doing business in the district, on a bill signed by the chairman of the local board of directors and endorsed by the Farm Loan Board's district representative.

The Farm Loan Board Supervisor must, *inter alia*, satisfy himself that the securities deposited with the local association are in order, take possession of the bills and deposit them with the bank with which the account of the local association is kept for collection on due date, or until such time as the issue of relative collateral trust debentures becomes necessary, when the Farm Loan Board may instruct the course to be pursued.

C.—WAREHOUSE ACT.

EXPLANATORY MEMORANDUM.

THIS Bill provides for the licensing and bonding of public warehouses storing agricultural products under conditions intended to establish the integrity of their receipts and make these receipts generally acceptable as security for loans.

These licensed warehouses are not to be owned or operated by the State, but by individuals or companies as business enterprises. They are, however, to be regularly inspected and carefully supervised by the Department of Agriculture, and this fact will give to warehouse receipts issued by licensed warehouses a superior standing as collateral for loans.

The Bill does not compel warehousemen to become licensed. It is permissive. Any owner or operator of a warehouse may apply for a license, and if the warehouseman and the warehouse meet the conditions required by the Act a license may be issued. After becoming licensed the warehouse must be conducted in conformity with the Act and the rules and regulations promulgated by the Department of Agriculture.

Warehousemen operating under licenses must keep records of commodities stored or withdrawn. They must file bonds with the Government. They must file with the Department statements under oath showing their financial condition from time to time. They must maintain their warehouses in proper condition. They will be subject at all times to inspection by representatives of the Department entrusted with the administration of this particular Act.

Rules and regulations governing the operation of licensed warehouses will be prepared and promulgated by the Department of Agriculture.

The Bill provides a uniform national system of public warehouses for the storage of staple farm-products, to encourage the storage of such products, and to facilitate the financing of stored products so as to permit orderly marketing.

Section 2: A "warehouse," for the purposes of this Act, may be any building, structure, or protected enclosure in which agricultural products are or may be stored for internal or overseas commerce. The Bill does not specify any particular type of construction, but the warehouse must protect stored products from weather-damage and from damage caused by rodents.

Section 4 makes provision for regulations setting out the requirements for licensing—*i.e.*, (a) a suitable warehouse for the storage of the products; (b) a competent person to operate the warehouse; (c) the warehouseman must have a good business reputation; (d) the warehouseman must possess a certain amount of net assets; (e) he must have such equipment as is necessary to care for the products; (f) he must be able to weigh and grade products correctly; (g) he must furnish an acceptable bond in an amount fixed by the Department.

Section 6: Surety bonds by warehousemen will require to be approved by the Minister of Agriculture, and the amount will be fixed by regulations and be determined by the storage capacity of the warehouse. The Minister of Agriculture will determine the eligibility of a warehouseman for licensing by investigation of the character of the warehouseman, his financial standing, the warehouse and its equipment, the location and surroundings of the warehouse, and the persons who weigh and grade the commodities.

Section 10: The object of this provision is to enable a check to be kept of all stocks in the warehouse, with outstanding receipts, to see if the required amount of produce is in storage for every uncanceled receipt.

Sections 14 and 15 apply to such agricultural products as may deteriorate through careless storage, in order to prevent such deterioration, and, if it is unpreventable, that the produce may be dealt with so as to occasion the minimum of loss.

Sections 16 and 17: A warehouse receipt is the farmer's contract with the warehouseman. It is evidence that the produce has been deposited in the warehouse, and of the terms under which the goods were deposited, the condition and description of the goods, and the conditions upon which they will be released. Such a receipt would give the location of the warehouse in which the products are stored, the date of issuance of the receipt, and the consecutive number of the receipt. It would state whether the products will be delivered to the bearer of the receipt, to a specified person, or to a specified person or his order. It would give the rate of storage charges, a description of the agricultural products, showing the quantity and any identification marks or numbers, the weight and the grade, as well as the standard by which the grade is determined. It would state that the receipt was issued under the Warehouse Act and its regulations, whether or not the warehouseman had any interest in the product, what advances had been made or liabilities incurred by the warehouseman for which he claimed a lien on the stored goods, and whether or not the product was insured. It would give the name of the warehouse, the signature of the warehouseman, a statement as to whether he was incorporated, and such additional terms as the Minister of Agriculture might from time to time prescribe. On the back of the receipt there would be a statement of encumbrances and liens on the stored goods. It would also state the maximum period for which the goods could be stored. It would be open for the depositor at the conclusion of his contract to enter into a new contract with the warehouseman.

Section 18: Such standards as have been established by the Government must be used to state the grade. Where such standards have not been devised the Minister of Agriculture would recognize such other standards as he considered proper.

Section 19: Only one original receipt is permitted. If a receipt is lost or destroyed, a duplicate receipt may be issued by the warehouseman only after the owner of the receipt files a certain statement with the warehouseman, and furnishes a bond (to be determined in the regulations) in relation to the amount of the value of the commodity represented by the lost receipt.

THE NEW ZEALAND WAREHOUSE ACT.

1. This Act shall be known by the short title of "New Zealand Warehouse Act."

2. The term "warehouse" as used in this Act shall be deemed to mean every building, structure, or other protected enclosure in which any agricultural product is or may be stored for New Zealand or overseas commerce, or, if located within any place under the exclusive jurisdiction of New Zealand, in which any agricultural product is or may be stored. As used in this Act, "person" includes a corporation or partnership, or two or more persons having a joint or common interest; "warehouseman" means a person lawfully engaged in the business of storing agricultural products; and "receipt" means a warehouse receipt.

3. The Minister of Agriculture is authorized to investigate the storage, warehousing, classifying according to grade and otherwise, weighing, and certification of agricultural products; upon application to him by any person applying for license to conduct a warehouse under this Act, to inspect such warehouse or cause it to be inspected; at any time, with or without application to him, to inspect or cause to be inspected all warehouses licensed under this Act; to determine whether warehouses for which licenses are applied for or have been issued under this Act are suitable for the proper storage of any agricultural product or products; to classify warehouses licensed or applying for a license in accordance with their ownership, location, surroundings, capacity, conditions, and other qualities, and as to the kinds of licenses issued or that may be issued for them pursuant to this Act; and to prescribe, within the limitations of this Act, the duties of the warehousemen conducting warehouses licensed under this Act with respect to their care of and responsibility for agricultural products stored therein.

4. The Minister of Agriculture is authorized, upon application to him, to issue to any warehouseman a license for the conduct of a warehouse or warehouses in accordance with this Act and such rules and regulations as may be made hereunder: Provided that each such warehouse be found suitable for the proper storage of the particular agricultural product or products for which a license is applied for, and that such warehouseman agree, as a condition to the granting of the license, to comply with and abide by all the terms of this Act and the rules and regulations prescribed hereunder.

5. Each license issued under section four of this Act shall terminate as therein provided, or in accordance with the terms of this Act and the regulations thereunder, and may from time to time be modified or extended by a written instrument.

6. Each warehouseman applying for a license to conduct a warehouse in accordance with this Act shall, as a condition to the granting thereof, execute and file with the Minister of Agriculture a good and sufficient bond to the Government of New Zealand to secure the faithful performance of his obligations as a warehouseman under the terms of this Act and the rules and regulations prescribed hereunder, and of such additional obligations as a warehouseman as may be assumed by him under contracts with the respective depositors of agricultural products in such warehouse. Such bond shall be in such form and amount, shall have such surety or sureties, and shall contain such terms and conditions as the Minister of Agriculture may prescribe to carry out the purposes of this Act, and may, in the discretion of the Minister of Agriculture, include the requirements of fire insurance. Whenever the Minister of Agriculture shall determine that a bond approved by him is, or for any cause has become, insufficient, he may require an additional bond or bonds to be given by the warehouseman concerned, conforming with the requirements of this section, and unless the same be given within the time fixed by a written demand therefor the license of such warehouseman may be suspended or revoked.

7. Any person injured by the breach of any obligation to secure which a bond is given under the provisions of sections four or six, shall be entitled to sue on the bond in his own name in any Court of competent jurisdiction to recover the damages he may have sustained by such breach.

8. Upon the filing with and approval by the Minister of Agriculture of a bond, in compliance with this Act, for the conduct of a warehouse, such warehouse shall be designated as bonded hereunder; but no warehouse shall be designated as bonded under this Act, and no name or description conveying the impression that it is so bonded shall be used, until a bond, such as provided for in section six, has been filed with and approved by the Minister of Agriculture, nor unless the license issued under this Act for the conduct of such warehouse remains unsuspended and unrevoked.

9. The Minister of Agriculture shall charge, assess, and cause to be collected a reasonable fee for every examination or inspection of a warehouse under this Act when such examination or inspection is made upon application of a warehouseman, and a fee not exceeding 10s. per annum for each license or renewal thereof issued to a warehouseman under this Act. All such fees shall be deposited and paid into the Public Account.

10. The Minister of Agriculture may, upon presentation of satisfactory proof of competency, issue to any person a license to inspect, sample, or classify any agricultural product or products stored or to be stored in a warehouse licensed under this Act, according to condition, grade, or otherwise, and to certificate the condition, grade, or other class thereof, or to weigh the same and certificate the weight thereof, or both to inspect, sample or classify, and weigh the same and to certificate the condition, grade, or other class and the weight thereof, upon condition that such person agree to comply with and abide by the terms of this Act and of the rules and regulations prescribed hereunder so far as the same relate to him.

11. Any license issued to any person to inspect, sample, or classify, or to weigh any agricultural product or products under this Act may be suspended or revoked by the Minister of Agriculture whenever he is satisfied, after opportunity afforded to the licensee concerned for a hearing, that such licensee has failed to inspect, sample, or classify, or to weigh any agricultural product or products correctly, or has violated any of the provisions of this Act or of the rules and regulations prescribed hereunder, so far as the same may relate to him, or that he has used his license or allowed it to be

used for any improper purpose whatever. Pending investigation, the Minister of Agriculture, whenever he deems necessary, may suspend a license temporarily without hearing.

12. Every warehouseman conducting a warehouse licensed under this Act shall receive for storage therein, so far as its capacity permits, any agricultural product of the kind customarily stored therein by him which may be tendered to him in a suitable condition for warehousing, in the usual manner in the ordinary and usual course of business, without making any discrimination between persons desiring to avail themselves of warehouse facilities.

13. Any person who deposits agricultural products for storage in a warehouse licensed under this Act shall be deemed to have deposited the same subject to the terms of this Act and the rules and regulations prescribed hereunder.

14. Any fungible agricultural product stored for Dominion or overseas commerce, or in any place under the exclusive jurisdiction of the Government, in a warehouse licensed under this Act shall be inspected and graded by a person duly licensed to grade the same under this Act.

15. Every warehouseman conducting a warehouse licensed under this Act shall keep the agricultural products therein of one depositor so far separate from agricultural products of other depositors, and from other agricultural products of the same depositor for which a separate receipt has been issued, as to permit at all times the identification and redelivery of the agricultural products deposited; but, if authorized by agreement or by custom, a warehouseman may mingle fungible agricultural products with other agricultural products of the same kind and grade, and shall be severally liable to each depositor for the care and redelivery of his share of such mass, to the same extent and under the same circumstances as if the agricultural products had been kept separate, but he shall at no time while they are in his custody mix fungible agricultural products of different grades.

16. For all agricultural products stored for Dominion or overseas commerce, or in any place under the exclusive jurisdiction of New Zealand, in a warehouse licensed under this Act original receipts shall be issued by the warehouseman conducting the same, but no receipts shall be issued except for agricultural products actually stored in the warehouse at the time of the issuance thereof.

17. Every receipt issued for agricultural products stored in a warehouse licensed under this Act shall embody within its written or printed terms: (a) the location of the warehouse in which the agricultural products are stored; (b) the date of issue of the receipt; (c) the consecutive number of the receipt; (d) a statement whether the agricultural products received will be delivered to the bearer, to a specified person, or to a specified person or his order; (e) the rate of storage charges; (f) a description of the agricultural products received, showing the quantity thereof, or, in case of agricultural products customarily put up in bales or packages, a description of such bales or packages by marks, numbers, or other means of identification, and the weight of such bales or packages; (g) the grade or other class of the agricultural products received, and the standard or description in accordance with which such classification has been made: Provided that such grade or other class shall be stated according to the official standard of the Dominion applicable to such agricultural products as the same may be fixed and promulgated under authority of law: Provided further, that until such official standards of the Dominion for any agricultural product or products have been fixed and promulgated, the grade or other class thereof may be stated in accordance with any recognized standard or in accordance with such rules and regulations not inconsistent herewith as may be prescribed by the Minister of Agriculture; (h) a statement that the receipt is issued subject to the New Zealand Warehouse Act and the rules and regulations prescribed thereunder; (i) if the receipt be issued for agricultural products of which the warehouseman is owner, either solely or jointly or in common with others, the fact of such ownership; (j) a statement of the amount of advances made and of liabilities incurred for which the warehouseman claims a lien: Provided that if the precise amount of such advances made or of such liabilities incurred be at the time of the issue of the receipt unknown to the warehouseman or his agent who issues it, a statement of the fact that advances have been made or liabilities incurred and the purpose thereof shall be sufficient; (k) such other terms and conditions within the limitations of this Act as may be required by the Minister of Agriculture; and (l) the signature of the warehouseman, which may be made by his authorized agent: Provided that when requested by a depositor of other than fungible agricultural products, a receipt omitting compliance with subdivision (g) of this section may be issued: Provided, however, the Minister of Agriculture may in his discretion require that such receipt have plainly and conspicuously embodied in its written or printed terms a provision that such receipt is not negotiable.

18. The Minister of Agriculture is authorized from time to time to establish and promulgate standards for agricultural products by which their quality or value may be judged or determined: Provided that the standards for any agricultural products which have been or which in future may be established by or under authority of any other Act of Parliament shall be and are hereby adopted for the purposes of this Act as the official standards of New Zealand for the agricultural products to which they relate.

19. While an original receipt issued under this Act is outstanding and uncanceled by the warehouseman issuing the same no other or further receipt shall be issued for the agricultural product covered thereby or for any part thereof, except that in the case of a lost or destroyed receipt a new receipt, upon the same terms and subject to the same conditions, and bearing on its face the number and date of the receipt in lieu of which it is issued, may be issued upon compliance with the statutes of New Zealand applicable thereto in places under the exclusive jurisdiction of New Zealand: Provided that if there be in such case no statute of New Zealand such new receipts may be issued upon the giving of satisfactory security in compliance with the rules and regulations made pursuant to this Act.

20. A warehouseman conducting a warehouse licensed under this Act, in the absence of some lawful excuse, shall, without unnecessary delay, deliver the agricultural products stored therein upon a demand made either by the holder of a receipt for such agricultural products or by the depositor thereof, if such demand be accompanied with (a) an offer to satisfy the warehouseman's lien, (b) an offer to

surrender the receipt, if negotiable, with such endorsements as would be necessary for the negotiation of the receipt, and (c) a readiness and willingness to sign, when the products are delivered, an acknowledgment that they have been delivered, if such signature is requested by the warehouseman.

21. A warehouseman conducting a warehouse licensed under this Act shall plainly cancel upon the face thereof each receipt returned to him upon the delivery by him of the agricultural products for which the receipt was issued.

22. Every warehouseman conducting a warehouse licensed under this Act shall keep in a place of safety complete and correct records of all agricultural products stored therein and withdrawn therefrom, of all warehouse receipts issued by him, and of the receipts returned to and cancelled by him : shall make reports to the Minister of Agriculture concerning such warehouse, and the condition, contents, operation, and business thereof, in such form and at such times as he may require ; and shall conduct said warehouse in all other respects in compliance with this Act and the rules and regulations made hereunder.

23. The Minister of Agriculture is authorized to cause examinations to be made of any agricultural product stored in any warehouse licensed under this Act. Whenever, after opportunity for hearing is given to the warehouseman conducting such warehouse, it is determined that he is not performing fully the duties imposed on him by this Act and the rules and regulations made hereunder, the Minister may publish his findings.

24. The Minister of Agriculture may, after opportunity for hearing has been afforded to the licensee concerned, suspend or revoke any license issued to any warehouseman conducting a warehouse under this Act, for any violation of or failure to comply with any provision of this Act or of the rules and regulations made hereunder, or upon the ground that unreasonable or exorbitant charges have been made for services rendered. Pending investigation, the Minister of Agriculture, whenever he deems necessary, may suspend a license temporarily without hearing.

25. The Minister of Agriculture from time to time may publish the results of any investigations made under section three of this Act : and he shall publish the names and locations of warehouses licensed and bonded, and the names and addresses of persons licensed under this Act, and lists of all licenses terminated under this Act and the causes therefor.

26. The Minister of Agriculture is authorized, through officials, employees, or agents of the Department of Agriculture designated by him, to examine all books, records, papers, and accounts of warehouses licensed under this Act, and of the warehousemen conducting such warehouses relating thereto.

27. The Minister of Agriculture shall from time to time make such rules and regulations as he may deem necessary for the efficient execution of the provisions of this Act.

28. Nothing in this Act shall be construed to limit the operation of any statute of New Zealand relating to warehouses or warehousemen, weighers, graders, inspectors, samplers, or classifiers now in force in the Dominion of New Zealand.

29. Every person who shall forge, alter, counterfeit, simulate, or falsely represent, or shall without proper authority use, any license issued by the Minister of Agriculture under this Act, or who shall violate or fail to comply with any provision of section eight of this Act, or who shall issue or utter a false or fraudulent receipt or certificate, or any person who, without lawful authority, shall convert to his own use, or use for purposes of securing a loan, or remove from a licensed warehouse contrary to this Act or the regulations promulgated hereunder, any agricultural products stored or to be stored in such warehouse and for which licensed receipts have been or are to be issued, shall be deemed guilty of a misdemeanour, and upon conviction thereof shall be fined not more than five pounds, or double the value of the products involved if such double value exceeds five pounds, or imprisoned not more than one year, or both, in the discretion of the Court : and the owner of the agricultural products so converted, used, or removed may, in the discretion of the Minister of Agriculture, be reimbursed for the value thereof out of any fine collected hereunder, for the value of such products to the extent that such owner has not otherwise been reimbursed. Any person who shall draw with intent to deceive a false sample of, or who shall wilfully mutilate or falsely represent a sample drawn under this Act, or who shall classify, grade, or weigh fraudulently any agricultural products stored or to be stored under the provisions of this Act, shall be deemed guilty of a misdemeanour, and upon conviction thereof fined not more than one hundred pounds, or imprisoned for not more than six months, or both, in the discretion of the Court.

30. There is hereby appropriated the sum of one thousand pounds, available until expended, for the expenses of carrying into effect the provisions of this Act, including the payment of such rent and the employment of such persons as necessary, and also for temporary assistance in carrying out the purposes of this Act, and out of the moneys appropriated by this Act to pay the salaries and expenses thereof.

APPENDIX II:

FRANCE.

A GENERAL EXPLANATION OF PERSONAL AGRICULTURAL CREDIT.

LEGISLATION.

The System prior to the Law of 5th August, 1920.—Agricultural credit was established in France nearly thirty years ago. Numerous texts, laws, enactments, or regulations have since organized its operations and enlarged its scope, in order to take advantage of the lessons which experience teaches, and to keep pace with the growth of agricultural requirements.

Law of 5th August, 1920.—With a view to co-ordinating and unifying the different legislative or regulating provisions that followed one after the other since its inception, Parliament passed a law which annulled all previous texts, and at the same time brought forward certain improvements on the older legislation. This law of codification bears the date of 5th August, 1920. It was published in the *Official Journal* of 7th August. The details of its application were settled by the enactment of 9th February, 1921, and published in the *Official Journal* of 11th February, 1921.

AGRICULTURAL CREDIT BANKS.

From this time, then, agricultural credit is administered only subject to the law of 5th August, 1920.* It is founded on the principle of union (*mutualité*) and co-operation, and rests on two main factors, the local bank and the district bank of agricultural credit.

Organization of Agricultural Credit Banks.—Both of these societies should be organized solely by farmers and agricultural associations, syndicates, mutual-assurance societies, co-operative societies, collective-interest societies, or joint-stock societies (associations, syndicates) having an agricultural object. Their capital can only be raised with the help of registered shares, the profits of which are limited to 6 per cent.

Agricultural credit banks are managed gratuitously by a board, whose members are elected at a general meeting of shareholders. The organization of these societies is very simple; it is stated in the law itself. If any one wants information on this subject the National Office of Agricultural Credit, 5 Rue Casimir-Perier, Paris, is at the service of the farmer, and will give him any advice on this subject, or forward to him copies of the statutes.

Object of the Banks of Agricultural Credit.—According to the terms of Article II of the law of 5th August, 1920, "the banks of agricultural credit are solely for the purpose of facilitating and guaranteeing all transactions relating to agricultural production put into execution by their *individual shareholders or the shareholders as a body.*" It ensues as a consequence from this article that in order to profit by the assistance of an agricultural credit bank it is necessary to become a member of it.

LOANS.

The chief business of these agricultural credit banks is to place in the hands of its members, as loans, money of which they are in need in order to meet the outlay connected with farming. The stocks assigned by the realization of these loans can be a first charge on the available resources of the agricultural credit bank capital, reserves, &c., or on the deposits which they have in trust, but they come chiefly from the advances that the National Office of Credit grants for this purpose to the district banks. There are local banks which authorize these loans, and it is to them that farmers should make their requests. If they have not yet become members or are ignorant of the address they can procure it from the nearest district bank of the province. The address of the district banks is given on request of those interested by the National Office of Agricultural Credit, 5 Rue Casimir-Perier, Paris.†

Loans are of different kinds, and present distinct modifications in proportion to the purpose for which they are required. They are divided into short-term loans, intermediate loans, and long-term loans.

Short-term Loans.—These loans are for the purpose of enabling the farmer to pay his (running) working-expenses: for example, labourers' wages, purchases of manures, seeds, and anticyptogamous products, &c. They can likewise facilitate the purchase of animals for fattening, or the purchase of an agricultural implement at a reasonable price.

The amount of the short-term loan is not restricted by law. It is fixed by the lending bank, which takes into consideration the worth of the business to be dealt with, the farming abilities of the borrower, and the guarantees which he can put up. The duration of these loans cannot exceed that of the transaction in which it was appropriated, and must not be longer than a year.

The rate of interest is not settled by law. The enactment of 9th February, 1921, stipulates only that it cannot be less than the interest paid on the associated shares of the lending bank, nor more than 1 per cent. higher than the rate of discount of the Bank of France, which is at present 5 per cent.

The securities asked from the borrower are mainly a guarantee, a deposit of titles, a warrant, &c. The loan is certified by a bill, which underwrites the borrower in favour of the local bank, which then endorses it and sends it on to the district bank, where it is discounted and the stock lodged.

*The Articles VI and VIII of the law of 5th August, 1920, have been modified by the law of 7th December, 1922

†It may be necessary to point out that by virtue of the law of 7th December, 1922, the district bank can, by special right, and in default of a local bank, approve directly of loans to military pensioners and civil victims of war.

Intermediate Loans.—Loans of this category are reserved for the management and reorganization of farming-lands. This form of credit perfects usefully the short-term credit. It is more particularly for the purpose of enabling farmers to pledge their outlay, which by their nature or their worth require a certain extension of time for their amortization. Among the expenses of this class may be cited those sums which may be utilized for the purchase of animals, necessary plant for the cultivation of the soil, or the raising of stock, improvements on the farm, and for expansion or improvements of farm buildings.

The maximum amount of these intermediate loans is not fixed by law. The local bank, having been made cognizant of the demand, determines what loan to authorize, having taken into consideration the various heads of the valuation with which it has been supplied.

These loans are redeemable by annual amortization. Their longest duration is for ten years. When they have been granted to a tenant farmer their maturity must be dated at least three months before the expiration of his lease, or, in default of lease, three months before the cessation of payment of interest. The repayment of the loan becomes at once due if the tenant farmer quits the work on behalf of which the loan had been made.

The rate of interest on intermediate loans cannot be less than the interest paid on the associated shares of the lending bank, nor more than 1 per cent. higher than the rate of discount of the Bank of France, which is at present 5 per cent.

The securities furnished by the borrower may be the same as for short-term loans—guarantee, warrant, deposit of title-deeds, &c. They can likewise be raised by a registered mortgage in favour of the lending bank. For the conversion of these intermediate loans into money the local banks point out to their borrowers the special contracts which determine the conditions of the loan, the securities required, and the terms of repayment.

Individual Long-term Loans for facilitating the Purchase of a small Estate.—Individual long-term loans are for the sole purpose of facilitating the purchase, the parcelling-out, the conversion, and the resettlement of small farms which the borrowers undertake in writing to cultivate themselves or with the help of their families. They allow the farm worker to have access to the land, and thus help to establish manual labour in that district. They offer the small farmer who is already established and whose family is increasing the chance of extending his property which has become too small, or of building stables, stalls, or pigsties, barns, &c., necessitating a relatively considerable expense.

Here it is necessary to point out that long-term loans on the death of the parent furnish the means to avoid the sale of the family property to strangers, in order to apportion the estate between the children. One of the latter can in fact buy back the property by the help of a long-term loan, of which the amount is used by him to buy out his co-inheritors.

Individual long-term loans are for 40,000 francs at the outside, exclusive of the charges. In reality, the moneys lent are generally less than this figure, which is only granted to forward an undertaking which presents exceptional opportunities.

These loans are payable by annual amortization. The longest term is twenty-five years, but that is only allowed under exceptional conditions. The average length of these loans is from fifteen to twenty years. At the time of the final amortization the borrower's age must not be less than sixty years. The debtor can pay off in advance, and in that way the reduction of the interest yet to run can be used to his own advantage.

The interest on individual long-term loans is fixed by the law at 2 per cent. It is reduced to 1 per cent. if the recipient is a military pensioner or civil victim of the war. Moreover, in this last case a bonus of 50 francs for 100 francs is deposited annually by the State in reduction of the annual payments to the lending society of the borrower in proportion to each living legitimate child of his who is under sixteen years of age at the time of the falling due of each annual payment of the amortization.* It is an interesting encouragement to the birth-rate. Having the result of entirely freeing the debtor from the payment of the interest on his loan, reckoning from the second child upwards of two children, the bonus put in charge of the State goes towards the repayment of the principal.

The debtor must have an understanding with the bank responsible for the transaction on the subject of the guarantees he can offer, whether these are hypothecated scrip or a life insurance underwritten by the National Bank of Life Insurance, 56 Rue de Lille, Paris, or, better still, both of these guarantees. The lending society can, besides, demand all other collateral securities which they deem indispensable. The costs of contracts of hypothecation and life insurances (*d'assurances décès*), as well as the cost of the first premium of insurance, can be incorporated in the loan. When the borrower asks to insure his life, and, for example, is not eligible on account of the state of his health, the insurance can be endorsed by his wife or a third party if one of these pledges himself jointly or severally with the borrower for the repayment of the loan, and it guarantees in case of the death of the wife or of this third party the payment of the remaining annuities due at this period.

It should be noted here that individual long-term loans can be granted not only by agricultural credit banks, but also by credit societies lending on personal property.

Whatever may be the nature of the loan that he wishes to obtain, the borrower should address a carefully-drawn-up request to the local bank of which he is a client, or to the district bank of his province. The agricultural credit banks provide elsewhere printed forms for this purpose, which the applicant fills in, giving his Christian name and surname, his address, the number of his family, the object of the loan, its duration, and the guarantees offered in order to ensure repayment. The obviousness and the precision of these directions offer great advantages, seeing that they facilitate the scrutiny of the request and allow the lending bank to make a decision in the quickest possible time.

* The law of 7th December, 1922.

Loans to Agricultural Associations.—The law of 5th August, 1920, allows professional syndicates, mutual-insurance societies, co-operative societies, general agricultural benefit societies, and syndicates to benefit by short-term or intermediate credit. The same law likewise anticipates that co-operative societies, general benefit societies, and agricultural syndicates can receive by the medium and under the responsibility of a district bank advances repayable at long terms, and which are granted to them under certain conditions. A special notice distributed by the National Office of Agricultural Credit gives useful information on the subject of long-term advances to agricultural communities.

THE LAW OF 5TH AUGUST, 1920

(as modified in December, 1922) and

THE MUTUAL-CREDIT AGRICULTURAL CORPORATIONS.

[*Extracts.*]

AGRICULTURAL MUTUAL-CREDIT BANKS.

Constitution.

I. Agricultural credit banks can be constituted entirely or partly by members of one or several of the following associations, or by these associations themselves, *i.e.*—

- (a.) Syndicates of professional agriculturists.
- (b.) Mutual-assurance corporations established under the law of 4th July, 1900.
- (c.) Co-operative agricultural societies.
- (d.) Agricultural associations and other societies of agricultural interests enumerated later in Article **xxii**.

Banks of Agriculture.

II. Mutual credits are established exclusively with the object of facilitating and guaranteeing operations connected with agriculture engaged in by individual members or societies.

III. The capital of such banks cannot be provided by public share subscriptions, but must be supplied by the members themselves in nominated shares which are not transferable unless with the permission of the bank.

IV. (a.) A bank cannot be established until a fourth part of the capital has been paid up.

(b.) The duration of these banks is unlimited.

(c.) The foundation capital must be maintained although the membership be reduced.

V. The conditions imposed on ordinary commercial societies are replaced by the following special provisions:—

- (a.) Full particulars relative to the directors members of such agricultural societies, their names, professions, and addresses, and the amounts subscribed, must be supplied in two copies to the local Magistrate's office.
- (b.) After this formality is complied with the bank is established.
- (c.) One of the copies referred to above is handed by the Magistrate to the local commercial tribunal.
- (d.) Each year in February one of the directors must supply the local Magistrates with two copies giving a complete list of the members of the bank at that date, also a summary of the receipts and expenditure of the preceding year. The second copy is to be handed to the local commercial tribunal. The copy filed in each place can be inspected at any time by the public.

Local Banks.

VI. Local mutual-credit banks may grant loans—

- (1.) To all members, for a *short term*—*i.e.*, for not longer than is required for the operation for which the capital is provided.
- (2.) To all members, for a *medium term*, for the purpose of improving and reconstituting their farms. These loans are repayable in ten years by annual amortization payments, and are granted on the security of special guarantees, sureties, warrants and mortgages, deposit of shares, &c.
- (3.) To individual members, *long-term loans*, on the conditions enumerated in Article VIII.

In the absence of a local bank which is supposed to examine the application for a loan the regional bank may in exceptional cases grant direct different loans—when the beneficiary is a military pensioner, either for life or temporarily, or if he is a civil victim of the war.

VII. *Short-term loans* must be provided solely out of the money subscribed by the members themselves, which must be applied exclusively to agricultural operations and requirements. The local banks shall take charge of everything connected with these operations, including payments and recoveries, and act in the interest of the borrower members of the society.

Medium-term Loans.—The local bank must require members to sign a special agreement to the conditions of the loan, covering the guarantee to be furnished and the terms of repayment.

Agricultural syndicates and co-operative purchasing societies quoted in Article **XXII**, paragraph (2), can only be granted short- or medium-term loans under the following conditions: (a) The authority of their own regulations; (b) guarantees which are considered sufficient; (c) the administration must be free of charge; (d) that commercial benefits are not to be realized.

VIII. *Long-term Loans.*—Local banks shall require as a guarantee—First mortgage: Life-insurance policy in case of death. Maximum, 40,000 francs, exclusive of expenses. Term: Not exceeding twenty-five years, but the age of the borrower must not be over sixty years. Interest: 2 per cent. Purposes: Facilitating acquisition of small farms: reconditioning and exploitation of soil of same.

If the beneficiary of a long-term loan is a war pensioner, either for life or temporarily, or is a civil victim of the war, such a loan can also be granted by any *société de crédit immobilier* (society which provided credit for building purposes). Interest: 1 per cent. per annum; but the State gives the borrower an annuity of $\frac{1}{2}$ per cent. towards the amortization of the debt for each child under sixteen years under his guardianship at the end of each year.

IX. Long-term loans granted may be made on entailed family real estate under the special conditions contained in the legislation of 12th July, 1909.

X. The National Bank of Life Insurance is authorized to make contracts with individuals who are entitled to long-term loans, for the issue of life-insurance policies guaranteeing the whole or part of the instalments remaining unpaid in the event of the death of the borrower, it being possible to include the amount of the premium in the loan.

REGIONAL BANKS.

XI. Objects: (1) To facilitate short-, medium-, and long-term loans granted to members of local agricultural mutual-credit banks when guaranteed by same; (2) to transfer to agricultural co-operative societies, syndicated associations, or any other corporation any special grants consented to by the State.

XII. Regional banks may only accept the application of local banks the head office of which is in their region. Those which are unattached to other regional banks are alone eligible. Regional banks may—

(a.) Discount securities given by members of local societies, when endorsed by their local bank:

(b.) Take charge of all payments and recoveries on behalf of the affiliated local banks:

(c.) Advance to affiliated local banks the necessary funds for current expenditure. Such advance, however, must not exceed the amount subscribed by the local to the regional bank, if the former has applied for a subsidy from the State.

Regional banks may issue bonds of various durations, with or without interest, with the condition that such bonds only are intended for the benefit of agriculturists domiciled in the territory covered by that regional bank.

XIII. In February each year regional banks shall transfer to the National Office of Agricultural Credit the annual amortizations which they receive from the long-term borrowers, co-operative societies, syndicated associations, and all other corporations that receive advances from the State.

OPERATIONS COMMON TO REGIONAL AND LOCAL BANKS.

XIV. Banks of agricultural mutual credit may contract loans necessary for constituting or increasing their capital. Loans to banks that have already applied for State subsidy can only be made with the consent of the Minister of Agriculture. Banks may secure capital by discounting securities or borrowing on shares; may receive deposit on current account from any person, with or without interest, or share deposits. Any other operations are prohibited by law.

XV. The banks of agricultural credit have for all the obligations of their members a preference on the shares forming the fundamental capital.

FUNCTIONS.

XVI. The regulations shall fix the headquarters, the territory, and the method of administering each bank, and define the nature and extent of the operations of the bank; make provision for modification of regulations, the dissolution of the society, composition of its capital, and the proportion which each member must contribute; also lay down the conditions of withdrawal from membership.

Credit banks that do not receive State subsidies will fix the total amount of current deposits that may be accepted. Banks that have applied for State subsidy will fix also the amount receivable by way of deposit, but this amount must be kept liquid so that withdrawal can be met immediately if necessary. Fix the rate of share interest, but at a rate which must not exceed that charged by local banks to their own members. No dividends are to be paid to shareholders in the case of dissolution. The amount withdrawn must not exceed the amount fixed at the time the society was formed.

XVII. Each year, after general expenses have been paid and interest on loans, deposits, and shares has been met, the profits up to 75 per cent. shall be carried to Reserve Fund until the original capital is doubled. When that point is reached the proportion to be carried to Reserve may be reduced to 50 per cent. of the annual balance.

XVIII. Regulations will fix the extent and conditions of responsibility attached to those involved in the formation of the bank. As a principle, members may not be released from their obligations unless the current operations are being cleared at the moment of their withdrawal. Anyhow, their responsibility will not cease until five years after their retirement.

XIX. The personal responsibility of members in charge of the administration of the bank is only engaged in the case of the violation of the bank's regulations or the law. In the case of a false declaration concerning the regulations, the names and qualifications of administrators or directors liable to prosecution and fine from 16 to 500 francs.

(This is more serious than it seems, for, with charges, a fine of 1 franc usually involves a payment of about 125 francs.)

XX. In the event of dissolution of regional banks that have received State subsidies, or local banks that have had the benefit of these advances, the active money, including reserves, after all the social debt has been discharged and the fundamental capital repaid, the remainder shall be paid to a fund of agricultural interests which shall be nominated by the general Council and approved by the Minister of Agriculture. Failing such determination the balance shall be disposed of as decided by the full Council of the National Agricultural Credit Office.

XXI. The agricultural mutual-credit banks governed by the present legislation are commercial societies. Their books must be kept in conformity with the commercial code, and those of banks that have received State subsidy must be kept as required by the Minister of Agriculture.

CO-OPERATIVE AGRICULTURAL SOCIETIES, AGRICULTURAL SYNDICATED ASSOCIATIONS, AND SOCIETIES OF AGRICULTURAL INTERESTS.

XXII. *Purposes.*—Societies can be affiliated to local credit banks, as set out in Article I:—

- (1.) Co-operative agricultural societies: Founded to facilitate operations connected with the production, transformation, storage, or sale of agricultural products derived exclusively from the land of members.
- (2.) Co-operative-purchasing societies, mentioned in Article VII.
- (3.) Syndicated associations with exclusive agricultural purpose.
- (4.) Agricultural societies: To proceed with manufacturing of all sorts of substances, products, or instruments used for agriculture; for carrying out agricultural works of common interests, such as abattoirs, cold storage, electricity, railways, &c.; social hygiene, construction of hygienic lodgings destined for agricultural workers, or for the improvement of agricultural buildings which are considered unhealthy by the authority.

XXIII. The capital of all co-operative societies authorized under Article XXII, paragraphs (1) and (2), to operate with the agricultural mutual-credit banks cannot be constituted by shares, but must be formed by the members by means of parts subscribed by each one of them. The regulation must specify explicitly that—

- (1.) These parts are nominated and reserved exclusively for agriculture; that the amount repaid will never in any case exceed the primitive value; shall not be transferable without the agreement of the society.
- (2.) No dividend will be paid on the capital or any part thereof, and interest shall not exceed 6 per cent. The annual surplus, after all charges for amortization, interest, reserve, &c., have been met, may be divided between the co-operators in proportion to the respective operations of each member with the society.

Similar regulations will be applied to the agricultural societies of common interests mentioned in Article XXII, paragraph (4), which desire to obtain a Government subsidy.

The capital of co-operative societies and agricultural societies of common interests referred to above may be fixed at the foundation or constitution of each at an amount over 200,000 francs, or increased in one year notwithstanding the statutory limitation imposed in July, 1867 (49); also that the parts (shares) subscribed by members of these societies may be 25 francs without regard to the fundamental capital.

XXIV. Co-operative societies and societies mentioned in Article XXII are the only ones which can obtain long-term advances on the conditions mentioned in the article next following. These advances are fixed at the rate of 2 per cent.; duration, twenty-five years (maximum). Duration can, however, be exceptionally extended for fifty years to co-operative societies engaged in afforestation. The application for advances must explicitly state the purpose for which the moneys are required. They will be submitted to the Minister of Agriculture through the channel of the regional banks.

XXV. If co-operative societies or agricultural societies of common interests entitled to long term loans are or become owners of buildings a mortgage on such buildings must be given to the State whenever the regional bank demands.

ADVANCES BY THE STATE.

XXVI. The advance of 40,000,000 francs, and the annual charge due by the bank to the Treasury, as provided in the legislation of 1917-18, are at the disposal of the Government for transfer to the regional banks. By decree the Minister of Agriculture and Finance will fix the proportions in which these advances shall be used for long- and medium-term loans, for long-term loans to individuals, to co-operative societies, syndicated societies, or agricultural societies of common interests.

XXVII. The National Council will be responsible for the distribution of the advances as granted.

XXVIII. Advances for short and medium terms as granted will be kept on current account by the National Office of Agricultural Credit. Advances to the regional banks to be used for long-term loans to individuals are to be fixed according to the number and importance of the applications filed in these banks. Co-operative agricultural societies, the free syndicated associations, and the agricultural societies of common interests may obtain advances to the extent of six times their capital represented by liquid securities and real estate if their regulations provide for the united and consolidated responsibility of their members, or if all or a part of the directors have given a consolidated agreement to repay, if this engagement is considered sufficient and is accepted by the intermediary regional bank. Advances granted to associated syndicates will be made in proportion to the importance of the work to be carried out.

XXIX. All State advances are immediately repayable if regulations are changed or violated in such a way as to weaken or diminish the guarantees of repayment. They may also be withdrawn if it is found that advances are being misapplied by the directors of any society. The State has a preferential charge on the shares of each of the societies which obtains grants.

XXX. The regulations for public administration fix the procedure to be followed when granting of loans, also the stipulations that must be included in the regulations of societies that may benefit by these advances. The method and form of the necessary preliminary investigation into the societies, &c., before advances can be made to them is prescribed, and provision is also made for the guarantees to ensure the repayment of advances, also for the supervision to be maintained to ensure the proper application of the loan to the purposes for which it is made.

NATIONAL OFFICE AND THE PLENARY COMMISSION FOR AGRICULTURAL CREDITS.

XXXV. National Office created. A public establishment with financial autonomy. Object: To give effect to the present law; and its main purposes are—(1) The administration and provision of agricultural credit; (2) to administer deposits received by regional banks of mutual agricultural credits; (3) the emission of bonds through the regional banks; (4) administration of funds granted for the purpose of cultivating abandoned lands.

XXXVI. The National Office is governed by a Council of Administration, which is responsible to a Plenary Commission of thirty members, the president of which is the Minister of Agriculture. A fifth of the membership of this Commission will be elected by Senate and Parliament, two-fifths by regional banks, and two-fifths by the Ministers of Finance and Agriculture, selected from the senior administration officers of State. The Plenary Commission will appoint the members of the Council, composed of seven members. Administration: General Director, appointed by Minister of Agriculture, can only be removed on proposition of the Plenary Commission and the Administrative Council; a qualified accountant, who shall be responsible to the Court of Accounts, will be appointed by the Ministers of Finance and Agriculture.

XXXVII. The resources of the office will comprise—Income of deposits; provision of credit for agriculture; capital repayments; credits granted by special legislation; donations, legacies, &c. (In the case of the dissolution the funds derived from this particular source will be transferred by Council of State to specified public institutions that may carry out the original intention of the donors.)

XXXVIII. National Council will operate through current account with the Treasury, the Bank of Deposits, and deposits with the Bank of France. The budget of the office is prepared by the Council of Administration, and finally approved by the Ministers of Agriculture and Finance on the advice of the Plenary Commission. The accounts and the report of the account are submitted annually to the Council of Administration, who will report thereon to the Plenary Commission. The definite account is fixed by decree.

XL. The service of central credits, co-operation, and agricultural mutuality credit, under the Minister of Agriculture, will be attached to the Office of National Agricultural Credits.

INSPECTION AND CONTROL.

XLI. The permanent control and inspection of the National Office of Agricultural Credit, of societies, &c., that receive grants from the State, is vested in the National Council. Permanent control and inspection shall be exercised over the National Office and all societies that benefit by State subsidies.

XLII. Minister of Agriculture must present full annual report to the President of the Republic. Report published in *Official Journal*.

XLIII. Six months after law promulgated the regulations for public administration will apply.

XLIV. Repeals certain legislation—1894, 1899, 1900, 1901, 1906, 1908, 1910, 1912, 1918, 1919, &c.

(Adopted by Senate.)

DECREE OF BANKS OF MUTUAL AGRICULTURAL CREDIT

(Extracts from).

I. A bank of agricultural credit, before doing business with any regional bank, must be regularly affiliated to that regional bank and have at least one part of its total capital. The members of any *caisse* without contributed capital must jointly and severally guarantee all the operations of that society, and their regulations must contain this stipulation.

II. Provision for participation of mutual-credit banks founded by law prior to 1920.

III. Annual general meeting to be held by all banks, &c.

IV. Banks must not pay more than 6 per cent. interest to shareholders.

V. In the event of dissolution, Minister of Agriculture may refuse approval of decision of general meeting to dissolve if the balance is not allotted to one of following: Bank of mutual credit; National Office; united agricultural syndicate, &c. If local bank has not fixed disposal of surplus, regional bank will notify it to the National Office. If after one month's notice no action is taken, the Minister of Agriculture will name the institution to which surplus shall be transferred. The same procedure applies to regional banks.

REGULATIONS AFFECTING SHORT- AND MEDIUM-TERM LOANS.

VI. Each borrower must advise local bank of purpose for which loan is required. Military pensioner or civil victim of war can apply direct to regional bank.

VII. Interest on short and medium term must not be less than the interest paid to shareholders, and not more than 1 per cent. in excess of the standard rate of interest of the Bank of France.

VIII. If applicant for medium-term loan is not the owner of freehold, the term must be fixed three months before the termination of his lease ; if no lease, four months before the expiry of his privilege. The repayment of loan becomes immediately due if borrower who is not a proprietor abandons his occupation of the property for the needs of which money was advanced.

IX. Loans for small artisans such as blacksmiths, repairers of agricultural implements, wheelwrights, coopers, &c., members of an agricultural syndicate who do not usually employ more than two workers, can only be granted against mortgage, pledge of property, or such guarantee as the relative regional bank considers sufficient.

LONG-TERM LOANS TO INDIVIDUALS.

X. No application for long-term loan to an individual will be considered unless accompanied by written engagement by applicant that he will work himself or with the help of his family the small property he wishes to acquire, recondition, &c., with the money asked for.

XI. Banks of agricultural credit that grant long-term loans to individuals may demand, besides the guarantees named, any other guarantee they may consider necessary.

XII. All life-insurance contracts must be with the National Bank of Life Insurance, for the benefit of the society granting the loan.

XIII. If a borrower is unable to insure his life a policy can be furnished by a third person, who undertakes the responsibility of repayment, and who makes provision for the same in case of his own death, when the policy will be available to pay off the existing debt.

XIV. If loan granted is to be applied to rearrangement or transformation work, progress-payments will be made on satisfactory certificates.

XV. The amortization and interest payments shall be made in equal parts each year. Under exceptional conditions during the first three years the amortization charge may be reduced, having regard to the price of the products. After three years the amount due must be paid in equal parts each year. In no case must the duration of a loan exceed twenty-five years. Annual payments may be varied and arranged every three months or six months, according to the stipulation of the contract. By payment in advance, interest may be reduced by the period so covered.

XVI. If borrower fails to carry out his agreement or violates its conditions the loan becomes immediately due, except when extraordinary circumstances arise beyond the control of the borrower, when his case will be considered by the General Director of the National Office of Agricultural Credits.

XVII. Military pensioners and civil war victims granted long-term loans may obtain a modification of $\frac{1}{2}$ per centum per annum for each 100 francs borrowed for each child under sixteen living at home. These bonuses will be paid direct to the society that granted the loan, by the National Office, which is in turn reimbursed out of the relative Ministerial budget. Documents to be submitted to National Office by societies granting loans : (a) Marriage-certificate of borrowers ; (b) birth-certificates of each child entitled to bonus ; (c) amortization proposals, amount of loan, date guaranteed, annual payments, duration, &c. At the end of each year, a life-certificate for each child under sixteen. Births and deaths of children must be notified within one month.

XVIII. These regulations also apply to societies of mortgage credit that grant loans to war victims.

CO-OPERATIVE AGRICULTURAL SOCIETIES : AGRICULTURAL SYNDICATED ASSOCIATIONS AND AGRICULTURAL SOCIETIES OF COMMON INTEREST.

XIX. Regulations must fix territory, method of administration, and total capital ; must explicitly state that--

- (1.) Contributory capital is nominated, and remains exclusively reserved for the use of agricultural associations or agriculturists, preferably members of agricultural syndicates (the capital shares will never exceed their primitive value) ;
- (2.) Fix the maximum number of votes exercisable by any member notwithstanding his holding ;
- (3.) No dividend is paid, and that interest on capital must not exceed 6 per cent. ;
- (4.) Steps are taken to inaugurate a reserve to be taken from each annual surplus to repay advances ;
- (5.) The annual surplus after charges have been met shall be divided between members in proportion to their operations with the society ;
- (6.) The account will be kept as prescribed in the Commercial Code and as directed by the National Office ;
- (7.) Any proposed changes in the regulations must be submitted to the relative regional bank. Such alterations shall not become operative without the approval of the National Office.

In the case of institutions mentioned in Article XXII, composed of persons other than shareholders, after charges are met the entire annual surplus shall be carried to special reserve as provided by Article IV.

Regulations must specify that in no circumstances may the surplus acquired by operations with persons who are non-members be divided amongst shareholders. The net profits will be pooled for the common development. In the case of dissolution, these balances will be assigned according to Article XX of 1920 and Article V of this decree.

In the case of services of common use, such as the installation of electric power, &c., the institutions referred to in Article XXII who have to admit persons other than agriculturists, they may be regarded as such, provided they fulfil all the requirements of the regulations. The National Office will decide if such an institution, on account of the importance of its agricultural interest, may be admitted as a beneficiary.

XX. In the case of an association or agricultural institution of common interest which desires to obtain a subsidy advance, such institution must provide the means and measures necessary to guarantee repayment if such is not provided by its own regulations. Alterations must be submitted relative to regional banks which are responsible for repayment. Alterations must not diminish the guarantee. No alterations can become effective without the approval of the National Office.

XXI. The institutions quoted in Article XXII (1920) obtaining advances for the acquisition, construction, or reconditioning of buildings must provide sufficient first-mortgage guarantee, or such mortgage guarantee as may be considered suitable.

XXII. Amortization of loans granted under Article XXII (1920) and interest must be paid yearly. In exceptional cases in the first three years variation may be made if the results warrant such action. Co-operative societies for afforestation may be allowed to pay reduced amortization for twenty-five years (maximum). At the expiration of this period the full annual payment will be made. In no circumstances shall the duration of loans be extended beyond twenty-five years, except re-afforestation loans, which are limited to fifty years. Annual payments yearly, half-yearly, or quarterly, as stipulated in the contract. Payments in advance will ensure an interest-reduction for the period covered by such advance payment.

XXIII. In the case of institutions referred to in Article XXII which, having received a loan, fail to conform to the regulations after receipt of one month's notice, the loan shall be deemed immediately repayable. The Director-General will take all necessary steps to secure payment. The institution must pay the National Office the difference between 2 per cent. and 6 per cent. interest from the time the loan was paid over until the date of repayment.

ADVANCES.

XXIV. Application for advances by regional banks, agricultural and mutual banks, mortgage credit banks, and institutions mentioned in Article XXII (1920) must be addressed to the Director-General, National Office. Documents supporting these applications will be specified by the Minister of the Department concerned on the advice of the Council of the National Office.

XXV. Applications for advances to regional banks must be distinct for each of the following: Short-term loans; medium-term loans; ordinary long-term loans to individuals; special long-term loans to war victims.

XXVI. The Director-General is charged with the investigation of the advances applied for, and may demand the advice of the different Ministers or Departments on which these societies are dependent both from a technical and economical point of view, especially the advice of the Regional Directors of Agricultural Services. With regard to applications by building societies, the Director-General shall ask the opinion of the corresponding competent Minister. The institution desiring an advance must submit to the National Office and to all the persons entrusted with the investigation all necessary information. The National Administration Council will decide, and the Director-General will communicate the decision to the applicants.

XXVII. For the distribution of advances the importance of the needs, the value of the security, and generally all the elements relating to the solvency of the applicants that ensure repayment of loan at its expiry will be taken into consideration. Granting advances may be made conditional upon the submission of such guarantees that the National Council considers necessary, especially as regards the use of the whole or part of the capital, also the constitution and use of the reserves.

XXIX. Advances granted under Article XXII are transferred to the responsible regional banks, which, when loan contracts are decided, will remit to applicants progressively according to their needs and on presentation of justifying documents.

XXX. Regional banks must repay advances granted for short-term loans at their expiration without special notification. Advances granted for medium-term loans must be repaid, each in February, the amortization payments received during the preceding year, based on repayment of the whole loan within a maximum period of ten years.

XXXI. Payments made by regional banks and building credit societies must be for advances on long-term loans to individuals or societies: Article XIII (1920). They must comprise the total amortization payments received during the year, determined in such a way to ensure payment in twenty-five years (in the case of re-afforestation societies, fifty years). Advances become immediately payable in the case of the dissolution of the regional bank or beneficiary society, liquidation or bankruptcy, violation of regulations, and where advances are misapplied. Advances will always be repayable in any case of non-payment of amortization after three months beyond due date, except in extraordinary circumstances recognized by the National Council. During the period of default, interest at the rate of 6 per cent. per annum will be charged for the profit of the National Office. If the delay exceeds one year the interest may be capitalized as provided by Article 1154, Civil Code.

NATIONAL OFFICE OF AGRICULTURAL CREDIT.

Objects and Allocation.

XXXIV. To co-ordinate all the activities of organizations dealing with agricultural credit; to facilitate their development among the rural population; to introduce a system of mutual credit and co-operation; to centralize capital at its disposal, ensuring efficient administration of these moneys as well as of deposits; to grant advances to regional banks, building credit societies, and to various institutions specified in Article XXII (1920); generally, to give effect to the law of 1920.

XXXV. The allocation of agricultural credits provided by paragraph (1), Article XXXV, and paragraph (2), XXXVII (1920), comprising all the moneys given under the law—namely, those due to the State by the Bank of France under the law of 1896, 1911, 1917, approved by the law of 1897, 1911, and 1918, and any other agreement or convention that may be arrived at later.

Functions—General.

XXXVI. The function of the National Office is, under the authority of the Plenary Commission, the Administration Council, and the Director-General, fixed by Article XXXVI of 1920 and by the present decree.

XXXVII. The members of the Plenary Commission must be French citizens and have all civil and civic rights; are eligible for four years' service, except as hereinafter provided. Their re-appointment will not be made until the expiry of the four years, and then will not be made for more than two years in each of the categories fixed by paragraph (2), Article XXXVI (1920). Half the members to retire after the first four years will be selected by drawing lots; the remaining members will hold office for two years longer. Retiring members will be eligible for reappointment. Members of the Plenary Commission may retire on giving good reason. Members absenting themselves from meetings who, after notices by two registered letters, fail to offer legitimate excuses will be considered to have forfeited their appointments. Within six months members of the Commission who have retired before the completing of their normal term may be replaced. The appointment of new members shall be for the balance of the term. No gratuity shall be paid to members of the Commission. Travelling-expenses of members non-resident in Paris may, however, be repaid.

XXXVIII. The Commission will meet at least quarterly, or more frequently as required either by the President of the Commission or the Director-General. Ten to form a quorum. If a quorum is not obtained, Commission will be called again, and discussion may proceed regardless of the number present. President exercises casting-vote when voting equal. Minutes will be signed by the presiding officer and by the Director-General, National Office. They will enumerate the members present. The Plenary Commission will elect by secret vote two Vice-Presidents, who shall obtain an absolute majority. If a second vote is necessary it will take place, and a relative majority will be sufficient.

XXXIX. The seven members of the Council of Administration will be elected by secret vote by its members. (Article XXXVIII, paragraph (3) of the decree), as in the case of the Vice-Presidents of the Council. They must include at least two delegates from the regional banks. Term, two years, except as provided hereinafter. After the first two years three members retire; second year, four; third year, three; fourth year, four; and so on. Retirement divided by lot. The remaining members hold office until reappointments are made. Retiring members will be eligible for reappointment. Members who retire from the Plenary Commission will cease to hold seats on the Council. Same action in the event of absence as is taken in connection with the members of Council. Replacements made similarly. No gratuities, but non-residents of Paris may draw travelling-expenses.

XL. National Council meets quarterly, or more frequently as considered necessary by the President or Director-General. Quorum, four. If no quorum, second meeting called, and may proceed even if quorum not present. President exercises casting-vote. Minutes to be signed by President and Director-General; must contain names of those present. Council elects President and Vice-President by secret vote. Similar provisions as regards absolute majority as that which applies to Plenary Commission.

XLI. Council has full power to administer the holdings of the National Office, namely, -- to compound, and expropriate with or without payment; to decide upon applications for advances and fix interest charges; to fix interest to be paid on deposits; to dispose of reserves, as provided by Article LXIII; to deliberate on submitted budgets, on the accounts of the Director-General; and appropriation and allocation of legacies; to pronounce upon office accounts; to authorize appropriation of buildings, also rates of buildings which belong to the office; to authorize and accept leases, with or without promise of sale; to annul or cancel, with or without indemnity; to launch loans by emission of bonds, the sum total of which must not exceed 20,000,000 francs per annum (*i.e.*, in any one year). Above this sum the authorization of the Ministers of Agriculture and Finance must be obtained.

The Council accepts or refuses, without any authorization from the superior authority, allocations or legacies made to the office without charges or conditions, or any building appropriation. If these legacies involve charges, conditions, or building obligation, the Council must be applied to; if, however, any of these legacies have family claims, the Council will be applied to. The Council will keep the Commission advised of its decision. Every year the Council will forward the Minister of Agriculture a full report on the year's operations, after the same has been considered by the Commission.

XLII. The Director-General (Administrator *ex officio*) attends and votes at all meetings of the Plenary Commission, the Administrative Council and all commissions functioning under the office. He assigns from among the personnel of the National Council the Secretary to the Plenary Commission and the Council of Administration. The Director-General, under the authority of the Council of Administration, assures, through the Administration Council, the functioning of the services and the execution of the decisions of the Plenary Commission and the Council of Administration. He assigns the permanent personnel of the office, as well as the temporary auxiliaries. He may delegate on his responsibility all of his powers to one or several of his officers, with the consent of the Council. The Director-General represents the office in the Courts and in civil acts. He may, without authority of the Council, personally deal temporarily with matters where less than 40,000 francs are involved; pass leases annually worth less than 15,000 francs. He may also contract, buy or sell furniture, and recondition furniture, when value does not exceed 15,000 francs; compound, when the amount in dispute is not more than 15,000 francs; beyond these amounts the authority of the Council will be necessary. He may accept temporarily, without authority, allocations and legacies.

XLIII. The Ministers of Agriculture and Finance, after the advice of the Council of Administration, will fix the number, salaries, &c., of the personnel of the office, and make staff regulations.

MEMBERS, PLENARY COMMISSION.

XLIV. Representatives of Senate and Chamber of Deputies, three of each.

XLV. Regional banks' representatives form two-fifths of Commission, elected by vote. Each bank having received advances votes. Minister of Agriculture fixes date of election, and notifies same in *Official Journal*.

XLVI. The Council of Administration of each bank meets, and election is by absolute majority. If second election necessary, vote taken; relative vote then suffices.

XLVII—XLIX.—Method of balloting prescribed.

L, LI.—Balloting and counting votes.

LII.—Provision for protests.

LIII.—The members (one-fifth) appointed by the Ministers of Agriculture and Finance are appointed as under: Member Council of State; member Court of Accounts; member Academy of Agriculture; member Agricultural Council (representing the Agricultural Association); delegate of Minister of Finance; delegate of Minister of Agriculture; delegate of Minister of Hygiene and Public Economy; Governor of Bank of France; Inspector-General of Finance; Inspector-General of Agriculture; Inspector-General of Rural Engineering; Inspector-General of Agricultural Institutions and Agricultural Credit Institutions.

FINANCIAL ORGANIZATION OF NATIONAL OFFICE.

LIV.—Ordinary receipt accounts; extraordinary receipt accounts; ordinary expenses; extraordinary expenses. Outside accounts: General Office accounts; reserve accounts.

LV. Ordinary receipts: Interest on advances and (1) investments, (2) subsidies and grants, (3) resources of annual and permanent character. Extraordinary receipts: (1) Products of loans by bond emissions through regional banks; (2) amounts drawn on the allocation of the general office subsidies; (3) subsidies of an accidental character.

LVI. Ordinary expenditure: (1) Expenses fixed by law; (2) salaries; (3) travelling-expenses; (4) office expenses, upkeep of buildings, &c., printing propaganda, &c.; (5) annual character charges. Extraordinary expenditure: (1) Amortization of loans (capital); (2) Article 55—expenses connected with extraordinary receipts, &c.

LVII. Receipts outside Budget: General allocation of—(1) Agricultural credits (Article XXXIII) Bank of France; (2) grants (abandoned land); (3) donations, legacies, &c.; (4) grants of money acquired by legislation; (5) repayments on advances to regional banks, &c.; (6) sale of buildings; (7) amounts drawn from reserve (Article LXIII); (8) any other income from funds granted National Office. Expenditure: (1) Advances to regional banks; (2) administration charges; (3) purchase of buildings; (4) writing off (doubtful debts); (5) reimbursements, Bank of France; (6) other expenses connected with National Office.

LVIII. Budget prepared in first half of November for coming year, and submitted to Ministers of Finance and Agriculture for approval. Variation in Budget during year provided for.

LIX. Financial year concurrent with that of the State. No other expenditure may be incurred except that provided by the present decree.

LX. Director-General charged with management of revenue and expenses, and transfer to the official accounts.

LXI. Council delegates yearly one of its members to report on the accounts presented by the Director-General.

LXII. Accounting responsibilities and oversight. Inspection—recoveries of debts, prosecutions, &c. Independent examination and supervision of the Director-General and his office. The official accountant is responsible to Court of Accounts and to the Minister of Finance. His fidelity must be assured by a deposit, the amount of which is proposed by the Council and approved by Ministers. He is appointed by the Ministers, and may be removed in same form. Deputy provided for.

LXIII. Director-General may appoint Registrar to report on repayments by borrowers, and submit vouchers. To pay, out of an advance, minor office expenses not exceeding 1,500 francs. No imprest advances will be made when delay occurs in presenting accounts. Deposits may be made of the free capital with Bank of France or other bank of deposit, but these must not exceed 10,000,000 francs.

LXV. Surplus receipts may be invested and employed by Council.

LXVI. If the reserve capital reaches 10,000,000 francs, the surplus may be used to make advances to regional banks, and in the same way that the allocation capital is issued.

LXVII. The Accountant is responsible for everything connected with all official accounts, whether prescribed herein or not, and also for the observance of law relating to public bookkeeping.

LXVIII. Protests or objections to payments are dealt with by Accountant.

LXIX. The financial reports of the Director-General must be submitted each year to the Council before 30th June. The official account will clearly indicate all receipts and expenditure. The Director-General's account, verified by the Plenary Commission, is submitted to Minister of Agriculture for approval. Duplicate copies of accounts, one vided by the Minister and the Plenary Commission, must be deposited with Court of Accounts, with documents to prove them.

LXX. Form of budgets, account-books, forms, &c., prescribed by Ministers.

LXXI. The general supervision of agricultural institutions established by the Minister of Agriculture is designed to ensure observance of the law, &c., by the National Office, regional and all institutions that are granted advances.

LXXII. National Office controls institutions that have been granted advances. Regional banks control their local banks, and institutions that receive grants through their mediumship.

LXXIII. Inspectors may have access to all books, &c., and call for documents and information.

GENERAL.

LXXV. National Office now to administer law of 1918 relative to cultivation of abandoned land, replacing former Commission.

LXXVI. Ministers of Agriculture and Finance are charged with the application of the decree.

DECISIONS, MAY, 1921.

(Minister of Agriculture).

DOCUMENTS TO BE SUBMITTED BY ASSOCIATIONS, ETC., APPLYING FOR ADVANCES, ETC.

Article 24 (1921) ; Article (74).—Applications by regional banks, societies, &c., will be submitted to the Director-General supported by documents to be prescribed by Minister.

Regional Banks.

I. To qualify for advances regional banks must deposit in National Office all the following, certified by the Bank President or his deputy :—

- (1.) Two copies of regulations.
- (2.) Copy of minutes of meeting establishing bank, or minutes of general meeting making any changes.
- (3.) Full list of subscribers—full names, domicile, profession, and nationality ; must also indicate to which agricultural association each one belongs, and the capital he has subscribed.
- (4.) Names, &c., of Council of Administration and Inspection Commission.
- (5.) Certificate of the magisterial officer that method of publicity has been followed.
- (6.) List of local banks affiliated—showing date of establishment, capital, number of members of each one, also specifying to which agricultural association they belong.
- (7.) Particulars of control exercised by regional bank on the functioning of the affiliated local associations, &c.

II. Each time an application is made for advance the following must be furnished : Two copies of regulations, if altered since the last grant was made ; copy of minutes of meeting deciding to apply for advance, indicating amount applied for, and, if necessary, the term ; balance-sheet for previous month.

In addition to the foregoing—

- (a.) Short-term application : A copy of the regulations, if same have been altered, or a certificate that no change has been made ; list of new subscribers, with full particulars ; list of new local banks, with particulars as before.
- (b.) Medium term : Regulations as before ; total advances received ; statement of loans made out of same, and balance, if any ; statement of amounts regional bank intends to issue, giving full particulars of the general and financial position, the object and purposes of the loan.
- (c.) Ordinary long-term : Regulations ; total advances received to date ; amount bank has granted, and balance remaining, if any ; amount bank intends to advance ; particulars of borrower and object of loan.

Long-term to war victims : Documents as above.

Institutions mentioned in Article XXII (1920).

III. Institutions (Article XXII) applying must submit the following documents to the regional bank in two copies certified by President, one copy regional bank, one National Office :—

- (1.) Articles of association and certificate that all formalities have been fulfilled.
- (2.) Regulations.
- (3.) Minutes of general and extraordinary general meetings affecting regulations.
- (4.) Subscribers (full particulars as before). This last must be accompanied, in the case of a syndicated association, with plans of lands, buildings, and contents syndicated.
- (5.) List of members of Council, Inspection Commission, with particulars of each as before.
- (6.) Local bank of agricultural credit to which affiliated.
- (7.) Buildings owned ; liabilities, if any ; details of value, naming those to be mortgaged to guarantee repayment of advance.
- (8.) Proof of estimated cost of work or material, &c. (Three copies—two to National Office by regional bank, one retained by regional bank).
- (9.) The acceptance of all or a part of the members of the Council of Administration to provide a consolidated agreement to repay the advance of the regulations provide for a joint and several guarantee by all the members of the association.

National Office and regional banks may also demand supplementary justification from those applying for the amount.

IV. If loan granted, regional bank will forward all the documents to Director-General, supported by the following, signed by the representatives of the regional bank :—

- (a.) Minutes of meeting granting loan, showing the amount demanded, and term.
- (b.) Particulars of guarantee, and steps taken to ensure repayment and control over borrowers.
- (c.) Balance-sheet, previous month (as before).

DOCUMENTS TO BE SUBMITTED BY REGIONAL BANKS YEARLY AND PERIODICALLY TO NATIONAL OFFICE.

V. Regional banks must submit to National Office—

- (1.) Quarterly—three copies of balance-sheet, floating balance, different loans.
 - (2.) Yearly—full report on previous year, in complete detail,—
 - (a.) Full details affiliated local banks. Operations of all institutions in receipt of advances through mediumship regional bank. Form of account fixed by National Office.
 - (b.) Certificate that accounts deposited in local Magistrate's office.
 - (c.) Statement of properties held, showing price paid, and present value—depreciation or appreciation to be stated.
 - (d.) Minutes of general meetings, especially the general meeting held in February, to consider years operations.
- (Two copies yearly, three copies quarterly.)

DOCUMENTS TO BE SUBMITTED BY LOCAL AND REGIONAL BANKS.

VI. Local banks will forward following to regional banks, certified by President or his Deputy :—

- (1.) Copy of regulations.
- (2.) Minutes of constitutional general meeting (as before).
- (3.) Subscribers (as before).
- (4.) Council of Administration and Inspection.
- (5.) Certificate of publicity; and also (a) balance-sheet and details, (b) certificate from Magistrate, (c) copy of minutes of general meeting.

Regional banks may demand further proof regarding the application of borrowed moneys.

DOCUMENTS TO BE SUBMITTED YEARLY BY ASSOCIATION REFERRED TO ARTICLE XXII.

Those institutions mentioned in Article XXII who have received advances from the State must submit yearly to the National Office, and to the relative regional banks, all the documents mentioned in Article III, (1) to (6) inclusive; and in addition—

- (a.) Particulars of the previous year's operations; balance of ledger account; balance-sheet to 31st December of the previous year, showing in detail loans up to that date.
- (b.) Minutes of annual general meeting.
- (c.) Report on the operations of the financial year, the institution for the current year.

National Office and regional banks may demand additional particulars.

VIII. Director-General responsible for execution of this decree.

LAW AS AMENDED, JULY, 1923.

TO FACILITATE FORMATION OF CO-OPERATIVE SOCIETIES AND AGRICULTURAL SOCIETIES OF COMMON INTEREST.

I. All agricultural co-operative societies and agricultural societies of common interest (paragraphs 1, 2, and 4, 1920 law), may constitute themselves either the regime of private civil societies provided by Article 1832, Civil Code, or under the law of 1867. All subsequent with reference to limited companies. All these institutions will be provided with civil personnel when constituted.

II. Applicable to societies constituted under paragraphs 1, 2, and 4: The following rules, which for limited companies nullify Articles XXXIX, XXX, and XXXI of 1867, are already modified by the law of 1913 :—

General meetings that have to discuss matters not mentioned hereafter must be composed of at least one-sixth of the total membership.

Other forms as provided by the two following rules: Alterations to regulations must be decided by 50 per cent. of the total membership (proxies admitted). General meetings deciding important questions of the formation, finance, and the contributions, administration of the society, must be composed of at least 50 per cent. of the subscribers of the social capital.

Half of the members who must be present at such a meeting to verify the contributions must be composed of those members whose contributions are not to be verified.

Provision in the event of no quorum.

General meetings are not competent to alter regulations unless at least one-third of the total membership is present. Majority decisions at other meetings.

Each member has the number of votes limited by regulations.

III. The two preceding articles will apply to societies constituted under the law of 1920 or 1906, provided the regulations are harmonized with the law of 1920.

IV. Agricultural co-operative societies of common interest under Article I may, notwithstanding the date of their constitution, apply the law of 1920.

APPENDIX III.

DENMARK.

LAW OF 20TH JUNE, 1850.

A Law concerning the Creation of Credit Associations and Loan Banks for the Owners of Property.

1. We, Frederick VII. &c., do make known: The Parliament has approved, and We with our consent have sanctioned, the following law:—

(i.) The Ministry of the Interior is authorized to grant to credit associations of owners of property in Denmark the privileges described in clauses 2 and 3 hereafter, provided that the by-laws accepted by such associations are in accordance with the provisions stated in clause 4 hereafter.

2. The privileges which can be granted to such credit associations are as follows:—

(i.) That the bonds issued by the directors of the association may be issued on unstamped paper, and may be issued by name or to bearer; and, further, such documents may be transferred without the use of stamped paper.

(ii.) The directors may with legal effect agree with the members or debtors of the association that the latter do in the mortgage-deed given by them to the association grant the directors the right that if they do not fulfil their contractual obligations the directors may in execution make distraint upon the property given in pledge and its appurtenances, and may thereafter cause the same to be sold in public auction, and in case of necessity may take it over as property of the association without previous arbitration recourse to Court or judgment, in which case the distraint made by the directors of the association or the auction subsequently ordered shall not be stayed or called in question in any appeal to higher authority, such auction being held in accordance with the notifications of 22nd April, 1817, and 11th September, 1833, whereby the member or debtor concerned is empowered to institute a suit for restitution in order to obtain full compensation from the association.

(iii.) That there be granted to the directors of such associations, in payment for the despatch of valuables or money by the public post, the same reductions which are granted to the National Bank in respect of despatch of money between its head office and its branch in Aarhus.

(iv.) That the association may take up loans at a higher rate of interest than 4 per cent., and similarly may stipulate with its members or debtors for higher rates than 4 per cent.

3. The administrators of property of minors and public foundations are permitted to invest their funds in bonds issued by the credit associations.

4. In order that a credit association may expect to secure the sanction of its by-laws and be enabled to enjoy the benefits of the privileges above stated, it is required:—

(i.) That members have joined such an association up to a value of at least two million crowns, the properties of such members lying within such a circle that the directors can exercise the necessary control over the trustworthiness of the valuers and a suitable supervision over the properties pledged:

(ii.) That a mortgage upon any property be only accepted up to such sum that the total encumbrances thereupon do not in any case exceed three-fifths of the value of the pledged property as fixed in valuation according to such rules as may yield no less security for correct valuation than the provisions contained in the notification of 7th June, 1827, which rules must also be stated in detail in the by-laws:

(iii.) That there may at no time be in circulation as against the association a larger total of bonds than the total of the mortgages of members in its possession.

(iv.) That all members admitted to such an association shall be jointly (solidarily) liable for the bonds issued by the association up to the full value of their property as assessed, if they have taken a loan up to three-fifths of such value and in the same proportion to the total of the loan if it represents a lesser portion of the value assessed:

(v.) That the bonds issued by the association, whether by name or to bearer, shall bear interest, and may not be for a less sum than a hundred crowns:

(vi.) That it be provided in the by-laws that the members of the association are, in addition to the agreed interest, responsible to pay a suitable fixed percentage per annum of their loan towards its amortization:

(vii.) That it be provided in the by-laws that the directors are bound annually to publish a full statement of accounts for the association, and in each quarter to send to the Ministry of the Interior an extract of accounts:

(viii.) That no change be approved in the by-laws without the sanction of the Ministry of the Interior.

5. When the Ministry of the Interior has sanctioned the by-laws of such a credit association, a public notice shall be given thereof; if, on the other hand, the desired sanction cannot be given, the Minister will inform the persons concerned of the reasons.

6. (Concerning loan banks).

7. If a credit association should desire any different or greater privilege than the present law empowers the Ministry of the Interior to grant, such privilege must be obtained by a special law.

LAW OF 21ST NOVEMBER, 1851.

A Law concerning Amendments in the Law of 20th June, 1850, &c.

We, Frederick VII. &c.

The provisions in clause 4 (i) of the law of 20th June, 1850, are so far altered that the Ministry of the Interior is empowered to sanction the by-laws of a credit association although the members may have joined the association up to a total value of one million crowns.

LAW OF 19TH FEBRUARY, 1861.

An Amendment of the Law of 20th June, 1850, &c.

1. The Ministry of the Interior is authorized to permit a credit association to which it has granted the privileges specified in the law of 20th June, 1850, to enjoy such privileges none the less although it may be provided in their by-laws that the admission of members and the corresponding issue of bonds of the association is divided in series or subseries in such a way that there is no solidary liability between the different subseries, provided always that—

- (i.) No subseries may be closed until it contains members to the value of at least six million crowns.
- (ii.) The members in the last closed subseries and in the new subseries next following be solidarily liable for one another until the new subseries has members for at least two million crowns.
- (iii.) From the time at which the series to which they belong is closed the right of members subsequently admitted to the association to reduce their original debt in consequence of the annual amortization required by the by-laws be brought to an end.
- (iv.) No member who leaves the association or a certain series be granted a certificate for the cessation of the solidary liability resting upon him until the accounts for the year concerned have been passed by the Ministry of the Interior, together with a verification of the fact that no ground for objection in the public interest is found, or that there is such security for the fulfilment of the solidary liability as the Ministry finds adequate.

2. The Ministry may further permit credit associations created in accordance with the law of 20th June, 1850, to accept members from other parts of the country.

3. The privileges with which the law of 20th June, 1850, is concerned for credit associations and loan banks for property-owners may in future only be granted by a special law.

LAW OF 9TH FEBRUARY, 1866.

A Law whereby the Ministry of the Interior is authorized to grant to a Credit Association for Landed Properties in the Islands the Privileges set forth in Clauses 2 and 3 of the Law of 20th June, 1850.

Whereas a credit association for landed properties in the Islands has been founded, and has passed by-laws in accordance with the requirements stated in clause 4 of the law of 20th June, 1850, and clause 1 of the law of 19th February, 1861: the Ministry of the Interior is authorized to sanction the by-laws of such an association, and to grant the association the privileges set forth in the law of 20th June, 1850, with the following further conditions:—

- (i.) The Ministry of the Interior is entitled at any time to cause the operations of the association to be examined in all particulars, the costs arising from this examination to be borne by the association.
- (ii.) There shall be appointed two auditors for the association, whose nomination shall be confirmed by the Ministry of the Interior; the Ministry shall further lay down rules for the audit.
- (iii.) With a view to build up a reserve and administration fund, a member on admission into the association shall pay in cash at least 2 per cent., and thereafter at least $\frac{1}{3}$ per cent. half-yearly of his outstanding loan. When, however, the fund by means of these contributions and such others as may be made has risen to 5 per cent. of the debt, the half-yearly payment may, with the sanction of the Ministry of the Interior, be reduced to not less than $\frac{1}{4}$ per cent., and shall again be raised to the original amount if the fund for any reason whatever falls below 5 per cent. Should the fund at anytime fall below 1 per cent. an extraordinary contribution shall also without fail be levied. If the association is divided into series there can be a separate reserve and administration fund for each series, which fund shall be dependent upon the series and shall be liquidated upon its conclusion. The regulations above stated shall be applied to the reserve and administration fund of every series.
- (iv.) If a property has to be taken over by the association there shall be withdrawn and cancelled in the first half-yearly period, beginning after an interval of twelve weeks from the time of taking over, an amount of the bonds issued by the association which is equivalent to one third of the debt to the association which rests upon that property, and a similar amount in each of the two half-yearly periods thereupon following. The property shall be put up to public auction within the period of one year after being taken over. If it is not sold it may thereafter only be shown in the books of the association at a value not exceeding the highest bid made at the auction.
- (v.) If in the opinion of the Ministry of the Interior the directors of the association should materially diminish the security available to the creditors, and should they within a period granted to them fail to take the necessary steps to make good the defect, the Ministry of the Interior is entitled to stay the operations of the association, or, if circumstances require, may take the institution under its administration.

LAW OF 24TH APRIL, 1896.

A Law whereby the Ministry of the Interior is authorized to sanction Changes in the By laws of existing Mortgage Associations.

We, Christian IX, of God's grace King of Denmark, the Wends, and the Goths, &c., do make known: The Parliament has approved, and we with our consent have sanctioned, the following law:—

1. The Ministry of the Interior is authorized to sanction the following changes in the by-laws of existing credit associations:—

- (i.) That an association may hereafter give loans which shall wholly or partially remain unamortized, provided that the non-amortizable part of the loan may not exceed one third of the valuation; the remainder of the loan shall be amortized by half-yearly instalments, whether increasing or equalized, in not more than sixty years. The half-yearly contribution to the reserve and administration fund, and also the contribution for which every member has to accept responsibility on admission to the association, may be fixed at a suitable sum differing for each of the above-mentioned parts of the loan.

- (ii.) That the contribution to the reserve and administration fund may be paid with the instalments of the first half-yearly periods, provided that the whole contribution is paid in the fourth period.
 - (iii.) That the solidary liability for a loan from one series or subseries, when a loan is granted from another series or subseries of the same association with priority subsequent to the first, shall be reckoned as 10 per cent. of the debt outstanding, provided that no account be taken of that portion of the loan which does not exceed one-third of the valuation upon which the new loan is based.
 - (iv.) That the association when taking over a mortgaged property shall in the first half-yearly period which begins after the interval of twelve weeks from the time of taking over withdraw and annul such a sum of the bonds issued by the association as corresponds to half of that portion of the debt resting upon the mortgaged property which exceeds one-third of the value, and again a similar sum in the following half-yearly period; that portion of the debt which does not exceed one-third of the value can remain resting upon the property until it is sold, so long as the reserve fund is not below the minimum fixed in the by-laws. If the property is sold the debt above mentioned may be taken over by the vendee, but if this does not take place the association shall in the first half-yearly period beginning after an interval of twelve weeks after the sale withdraw and annul an amount of the bonds issued by the association corresponding to the debt. The association may not without the sanction of the Ministry of the Interior retain a property taken over for more than three years
2. The sanction of any of the amendments of the by-laws specified in clause 1 may be made by the Ministry of the Interior conditional upon the association agreeing in its by-laws—
- (i.) That the Ministry of the Interior shall name one of the auditors of the association :
 - (ii.) That the valuers if elected by the members shall not be elected in smaller circles than those used for the election of representatives ; and in those associations in which the valuers are not elected by the members it shall not be provided that the election be made by members :
 - (iii.) That the right of each member to vote be made proportional to the size of his loan, provided that no member be given more than five votes :
 - (iv.) That the reserve fund may be invested in accordance with rules laid down in the by-laws on condition that no part of the reserve fund may without the approval of the Ministry of the Interior be employed in loans to members of the association.

Given at Amalienborg, 24th of April, 1896, under our Royal hand and seal.

CHRISTIAN, King.

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