

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 Loans made by intermediate-credit banks are not based on deposits which may be suddenly withdrawn, but on funds obtained from the sale of securities with a definite maturity.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.