

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.

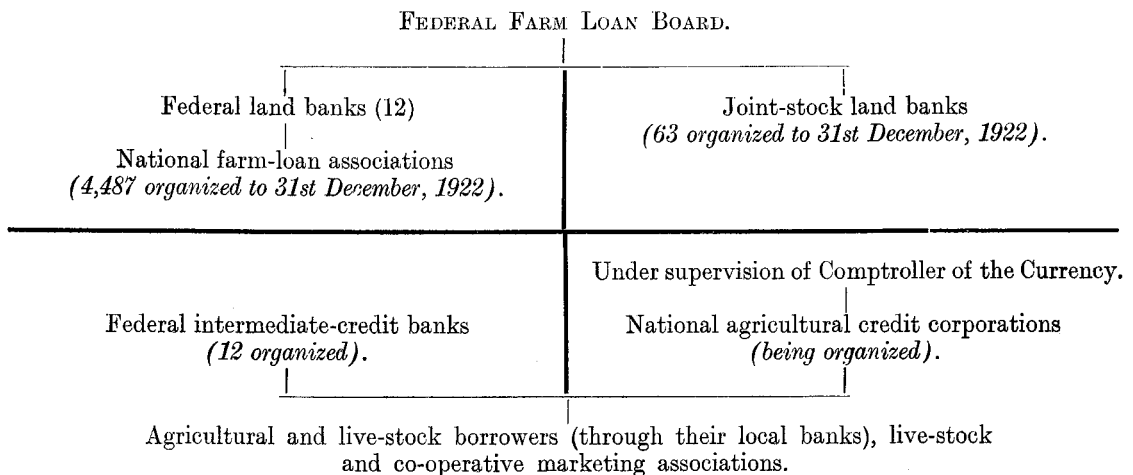
The maximum rate of interest at which debentures may be issued is 6 per cent. in the case of intermediate-credit banks, and the maximum interest-rate the land banks may charge on all loans is also fixed at 6 per cent., not in any case to exceed by more than 1 per cent. the interest payable on the mortgage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