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In the economic life of the nation the activities of those engaged in agricultural pursuits are of prime importance because the very life blood of the cities and urban workers is dependent upon the products of the tillers of the soil. In the industrial world there are facilities provided for the extension of credit and banks and financial agencies join in providing credit for manufacturers upon security of varying degrees of stablility. Even as credit is important to industry so it must be to agriculture because of the prime importance of the latter in our national system of economics. Credit has been well defined as "the ability to command the goods or service of another in return for a promise to pay for such goods or service at some specified time in the future." The average farmer, whether a land owner or only a tenant upon a crop-share basis needs credit in order to carry on his business, but from the nature of his business he frequently does not have the security or collateral to offer that his fellow men in industry may command. To meet this need in our economic life there was created the Farm Credit Administration whose activities now are so wide spread and varied as to provide capital and assistance for almost every grade and character of farmer.

Even though the moral status of the borrower, the character of his business, his industry and other factors must be considered in the extension of credit, the fact remains that the first and best security any borrower can offer is real estate. It is for this reason no doubt that the system of Federal Land Banks has developed into the keystone of the federal farm finance plan. Those banks are twelve in number and the territory served by each varies from one to eight states. Originally capitalized by federal funds, virtually every one of the Land Banks has repaid the Treasury Department out of profits and is now operating upon capital furnished by the borrowers themselves.

The modus operandi of the Land Banks is simple enough to be understood and followed by any farmer who calls upon them for assistance. In the first place, only land is taken as security, and the Acts of Congress have placed a limit upon the percentage of value that may be lent upon any particular farm. Following the application, a separate appraisal of the land and buildings is made, and then— all other elements being favorable— a loan is granted not in excess of fifty per cent of the appraised value of the land plus a sum not in excess of twenty per cent of the appraised value of the buildings and improvements. Five per cent of the face of each mortgage loan approved by the Land Banks

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is retained by the Bank and for this sum stock is issued in the name of the borrower. The stock, however, is retained by the Bank as collateral security for the payment of the loan. Upon full payment of the mortgage, the stock is redeemable in cash and during the life of the mortgage dividends may be paid upon it dependent upon the profits earned by the Bank.

The term of a Federal Land Bank mortgage is thirty-four and one-half years and the loan is accurately amortized to be repaid in that time. Payments semi-annually in equal amounts are made for the life of the mortgage and the annual payments amount to interest at the rate of 4½% per annum plus 1% on the principal. As a temporary measure, however, for the period of three years, interest is being charged at the rate of only 3%.

In some counties the borrowers associate themselves into a Farm Credit Association which is purely a mutual arrangement to share the profits and the losses on all the Land Bank mortgages in the county and to expedite the making of new loans to applicants.

There are some cases, however, in which the 50% and 20% limitations do not permit sufficient financial aid to be given a farmer, and to meet this need there is in each Land Bank an official known as the Land Bank Commissioner. He is a federal official and has authority to lend federal funds and take in his official name second mortgages upon the same security as that used by Land Banks in making loans. Such second mortgages bear interest at the rate of 5% per annum and the only limitation upon their amount is that the total of the first and second mortgages may not exceed 75% of the appraised value of the farm. These second mortgages are written for a term of thirteen years and during the first three years only interest is paid; thereafter 10% of the principal is payable each year plus 5% interest on the unpaid balance. In many cases in which the loan sought does not exceed $3,000 and it is desirable to amortize it on less than a thirty-four and one-half year basis, it is taken by the Land Bank Commissioner rather than the Land Bank.

The Federal Land Banks and the Land Bank Commissioners represent the only agencies that lend to farmers exclusively upon land, but they do not exhaust the sources from which a desirable and worthy farmer may receive financial assistance.

One feature of this system of financing that must not be overlooked is that the Land Banks insure the titles to the farms against which they take liens and then issue and sell long term guaranteed bonds, while the Commissioners do not issue bonds to obtain new capital and are dependent upon the repayment of loans and the public treasury for funds with which to make new loans.

Loans made by Production Credit Associations were designed to serve the needs of those farmers who are unable to give real estate as security and yet are industrious, solvent and deserving of credit advantages. There are in fact two organizations that cooperate in the making of the production credit loans.

The county or local unit sells its stock to the farmer in an amount equal to five per cent of his loan and takes either the farmer's unendorsed note or a chattel mortgage on his current crop as security. The note with the endorsement of the county organization on it is then discounted at the intermediate credit bank of the district in which the county is located, thus giving liquid capital to the county with which to make new loans. Because of the fact that the notes and chattel mortgages are due and payable in most instances as soon as the crop is harvested and marketed, the intermediate credit bank does not sell long term bonds, but issues only short term debentures to investors.

The entire system of extending credit to the farmer for his normal operations is predicated upon the principle that he is entitled to receive this assistance without the payment of high fees or charges. In the case of loans by the Land Banks he is required to pay an application fee, title insurance, a fee for the preparation of settlement papers, the cost of an abstract of title for his real estate, the cost of the stock he is required to purchase and a fee of ¼% to the county agent or local representative of the Bank. In the case of the Commissioner loans, because these are second mortgages following first mortgages on farms with insured titles, there is no expense except a small charge for preparation of the settlement papers. Quite naturally, the cost of recording either one or two mortgages falls upon the borrower. In the case of the production credit mortgages the farmer is required to pay the appraisal fee, necessary recording fees and the 5% of the loan that he invests in stock of the association.

One feature of the Farm Credit Act of 1933 is not of temporary or emergency character, but designed to be permanent and a part of our national financial structure for the use and benefit of the farmers. This feature is the system of banks for cooperatives— one central bank at Washington— and twelve branch banks throughout the nation. These banks are constituted solely to lend money to cooperative farmer associations for the purpose of marketing and distributing the crops of the members. The original capital of this system was federal money so invested in it as to provide a revolving fund to be lent in times of need and collected annually after harvest.

In conclusion, the entire system of farm relief by extending credit facilities to the farmer may be summarized as follows:— Federal Land Banks and Land Bank Commissioners make loans for long terms upon real estate security; the production credit associations make loans upon personal property as security for the purpose of bringing the farmer's crop to maturity and harvest and the bank for cooperatives lends funds for the purpose of aiding the harvesting and marketing of crops. Upon these key agencies rests the entire responsibility of giving to the rural element of our population either long term, short term or emergency assistance as the needs of any case requires.

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