

APPENDIX No. 1

before stated, must subscribe for stock equivalent to five per cent of the desired loan and assume a liability, in case of loss, for an additional five per cent. In other words, the local associations are double liability corporations. For example, should a borrower desire to borrow \$1,000 he must buy fifty dollars' worth of stock in the local association and become liable for an additional fifty dollars, in case of failure of members of the local association to meet their obligations. If the farmer has not the money to buy stock, it is deducted from his borrowings.

The affairs of a local association are administered entirely by officers appointed by the association itself. Each borrower has a vote for each five dollar share of stock he holds up to twenty. No one stock holder in the local association has more than twenty votes, no matter what the amount of stock he holds.

Loans Through Agents

In addition to making loans through the local associations, the Federal Farm Loan Act provides that a Federal Land Bank may make loans on farm lands through agents approved by the Board. Such agent must be a bank, a trust company, a mortgage company, or a savings institution, chartered by the state in which it is operating. This privilege may be taken advantage of in sections of the country where there are not enough farmers desiring loans to organize a local association. In the case of a loan through a local association it is endorsed by the association, which becomes liable to the extent of the double liability clause. In the case of an agent, however, the agent must endorse the loan and assume full liability for it. In return for this liability, the agent is allowed a certain percentage per annum on the unpaid capital. This is supposed to give to the agent a security corresponding at least to the double liability security of the association.

It will, therefore, be seen that under the Federal Farm Loan Act, loans are not made by the Federal Land Banks directly to individuals, but only to individuals applying through associations and recommended by them for loans. Every member of the association making the recommendation becomes responsible to the extent of ten per cent of his own borrowings for the total indebtedness of the association. The definite aim of the Federal Land Bank is to keep itself free from direct relationships with the individual and to force the organization, wherever possible, of the National Farm Loan Associations.

Organization of Farm Loan Association

The following illustration will make the process or organization clear. Let us assume that a farmer wishes to borrow the sum of \$2,000. He must get at least nine other persons in the community, the total of the borrowings asked for being not less than \$20,000, to join him in forming an association.

A meeting of the borrowers is then called and each applicant subscribes for stock to the extent of 5 per cent of the loan he desires. The law requires that five directors be elected, each member having the privilege of voting, one vote for each share of stock up to twenty shares. A directors' meeting must then be held and a president, vice-president, secretary-treasurer and loan committee of three members elected, the directors themselves not being members, of the loan committee. All officers must be members of the association, excepting the secretary-treasurer, who must be a person selected especially for his suitability for the work, very often a local bank manager. He is the only officer who receives compensation for his services. When the foregoing has been completed, the group is ready to enter into articles of association. These articles can be obtained from the Federal Land Bank. The signed articles of association