

APPENDIX No. 1

The term "improvements" has been defined by the Federal Farm Loan Board as including "anything in the form of a beneficial structure, or any useful, permanent physical change tending to increase productive value, such as clearing, tilling, draining, fencing, building."

Loans Limited

In the original Act, the size of the loans was limited, viz., a minimum of \$100 and a maximum of \$10,000. In March, 1923, an amendment was passed to the law permitting a maximum of \$25,000.

Legal Charges

Certain charges are permitted by the Farm Loan Board to be collected by the association from borrowers as follows:—

- (1) An application fee of \$10.00 to cover cost of appraisal and the expenses of the local association.
- (2) The cost of title research.
- (3) The preparation of an abstract.
- (4) The recording of papers.

These costs will vary somewhat, depending upon the position of the title of the individual borrower. In the case of clear title, they will be small. Where there are difficulties to overcome and title to be cleared, the cost would necessarily be higher. On the other hand, there are no renewal costs, no bonuses and no recording or mortgage taxes.

Reasons for Share Stock of Local Association

It would appear that there were three main objects in having the purchase of stock made compulsory upon the borrowers:—

- (1) To make the local associations more careful in their appraisalment of lands and in the persons to be recommended for loans, as all the members are obligated to the extent of ten per cent of their own borrowing for mistakes made. They would thus be made more anxious to recommend loans with a reasonable appraisalment of lands and to insist upon payments of interest and amortization charges on the part of persons who might otherwise be careless.
2. As the sale of farm mortgage bonds was fixed to not exceed twenty times the capitalization of the bank, the collection of 5 per cent, in cash from the borrower for capital stock made it possible for each borrower to capitalize his own loan, so that the capital stock of the bank increases and decreases just in proportion to the amount of the loans issued.
3. To bring into the association only persons of good standing. Special enquiry is made concerning a man's standing in his community and the personal element enters into decisions regarding loans.

As previously stated the Government originally capitalized each one of the twelve Banks with a sum of \$750,000 making a total of \$9,000,000 in all. This capitalization does not receive dividends. It is really a loan by the Government without interest to the Banks. All the additional capital is raised by the sale of mortgage bonds, the amount issued not to exceed twenty times the capitalization of the bank. The additional capitalization required in order to increase the sale of the bonds is provided as stated above by the sale to the borrowers of stock representing one-twentieth of the amount they borrow. It will thus be seen that the whole organization is essentially an organization of