

with the applications for loans are then sent to the Bank, which sends an appraiser to investigate the security carried with the loans. After this investigation, if everything is satisfactory, the decision of the Bank is forwarded with a recommendation to the Federal Farm Loan Board, which, although almost always following the advice of the Federal Land Bank, nevertheless has power to refuse the charter. When the Board grants the charter, however, it is forwarded to the association from the Federal Land Bank of its own district. When the appraisals and applications have been fully approved and the charter granted, the loans are forwarded to the secretary-treasurer of the local association, who distributes the funds according to the applications made. As has already been stated, membership in the local association is confined to actual farmers who wish to borrow on a first mortgage basis.

After an association has been formed in a district, should another person desire to become a borrower under the system, he must make application through the Secretary-Treasurer of the local association and be accepted by a two-thirds vote of the board of directors. By purchasing the amount of stock representing 5 per cent of the desired loan, he becomes a member of the association and his application is forwarded with recommendation to the Federal Land Bank of his district. An appraiser of the Farm Loan Board is then sent to pass judgment on the loan. This appraisal is submitted to the Federal Land Bank and compared with the appraisal of the local committee. It is then sent to the Farm Loan Board for approval before the loan is made. If the money is granted, the money will be forwarded to the individual from the Bank through the secretary-treasurer of the association of which he has become a member.

Non-resident landowners, landlords, land speculators, or other persons who are not bona fide farmers, are not admitted to membership in these associations, and therefore cannot borrow from these banks.

#### **Dividends on Stock**

The money paid in for stock is deposited with the Federal Land Bank as additional security for the loans, but dividends are paid upon this stock through the secretary of the association, generally at a rate equivalent to the rate of interest paid for mortgages. The association has the right to allocate a part of this for the expenses of the association. It is a custom in many of the associations to use these dividends entirely for local expenses.

#### **Amount of Loan and Interest Rate**

The maximum amount which a farmer may borrow on his farm is 50 per cent of its appraised value for agricultural purposes plus 20 per cent of the permanent insured improvements.

The interest charges of all loans are fixed by law at a maximum of 6 per cent, not, however, to exceed the interest charges paid on mortgage bonds sold by more than one per cent. For example, if the last sale of mortgage bonds was made at  $4\frac{1}{2}$  per cent then the interest charges could not exceed  $5\frac{1}{2}$  per cent. This prohibits the sale of bonds at a rate par of greater than 5 per cent.

#### **Terms of Repayment—Amortization**

All loans are repaid on an amortization basis, the borrower having the right to select the number of years for repayment, provided it is not less than five nor more than forty. The working of the amortization plan can, perhaps, be made more clear by taking an illustration. A borrower has \$1,000 at  $5\frac{1}{2}$  per cent to be repaid in half-yearly payments in  $34\frac{1}{2}$  years. To do this requires an amortization rate of one per cent in addition to the ordinary interest charges. Assuming the interest charges to be  $5\frac{1}{2}$  per cent then the charge, including amortization, would be  $6\frac{1}{2}$  per cent. Under the plan,  $6\frac{1}{2}$  per cent of the original