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RURAL
CREDITS
SYSTEM

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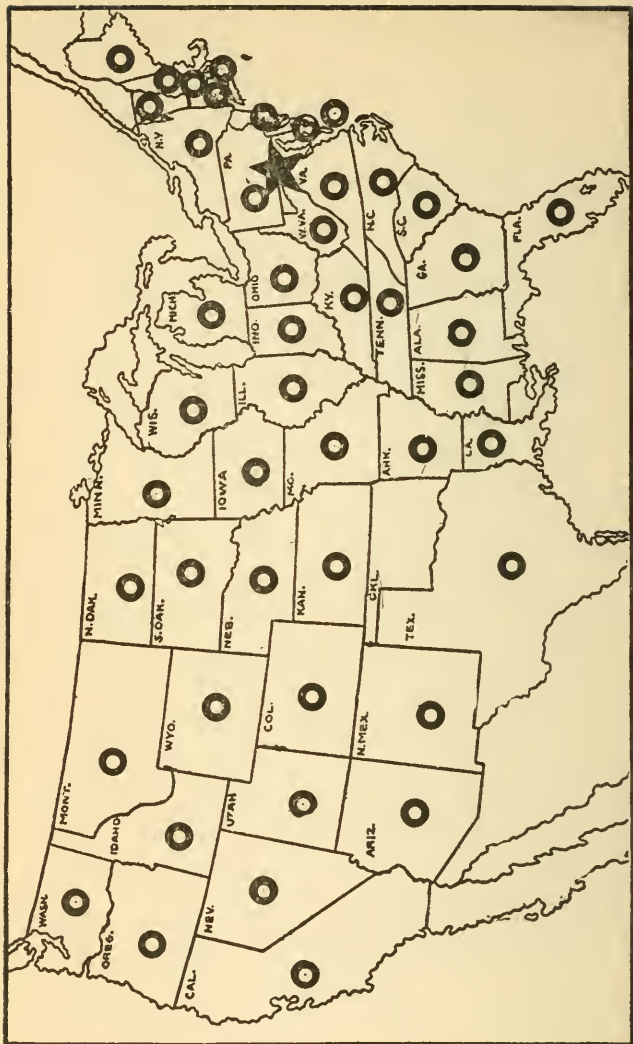
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Herbert Myzuck

*“Co-operation, not strife,
Is the divine law of life.”*



One Federal Debiture Bank in each State is supplemented by the Federal Rural Credits Company at Washington, and is under the supervision of Federal Rural Credits Board.

THE PLAN

Of the bill is epitomized as follows:

1. **FEDERAL RURAL CREDITS BOARD**
a bureau in the Treasury Department, consists of Secretary of the Treasury and four appointees. These men also constitute
2. **FEDERAL RURAL CREDITS COMPANY**
It takes over War Finance Corporation, \$500,000,000 capital, to be reduced to \$250,000,000. This Company subscribes the initial capital for
3. **ONE FEDERAL DEBENTURE BANK IN EACH STATE**
at the rate of \$1,000 for each \$1,000,000 of value of farm property. The state invests a like sum in the debentures this bank issues secured by agricultural, live stock, commodity and real estate paper, which it
4. **DISCOUNTS FOR NATIONAL OR STATE BANKS, CO-OPERATIVE AGRICULTURAL ASSOCIATIONS, FEDERAL CO-OPERATIVE BANKS OR CATTLE LOAN COMPANIES**
that become its members. Such paper and the debentures secured thereby, may run for six months to three years, or five years if secured on real estate.
5. **ALL DEBENTURES ARE GUARANTEED**
principal and interest by Federal Rural Credits Company, but each debenture bank is free of any joint and several liability.
6. **FEDERAL RESERVE SYSTEM'S**
powers for rediscounting farm paper are

somewhat broadened under safe restrictions. Export credits are provided for emergencies. Veterans receive preference.

7. THUS THE NEW RURAL CREDITS PLAN

transforms the temporary War Finance Corporation into a permanent institution, with a branch in each state, through which all existing banks and co-operative associations, with others that may be organized, will safely mobilize part of their assets, credits and machinery for the service of agricultural production and orderly marketing, to the mutual welfare of all concerned and for the benefit equally of food producers and food consumers.

8. WITHOUT INTERFERING WITH OR MIXING INTO

the Federal Reserve for current credits or the Federal Farm Loan System for long term mortgages, this plan for rural credits is sound, simple, inexpensive, adequate, in harmony with American customs, and in the interest of all the people all the time. It does not require any new appropriation by Congress, and provides that the debenture bank in each state may repay its federal advance and come into the sole ownership of its own members.

9. LARGE REVENUES TO THE UNITED STATES

from the new rural credits system, as profits above 6 or 8%, go to the government as franchise tax.

RURAL CREDITS SYSTEM

For the United States

Prepared at the request of the Rural Credits Committee
of the Farm Bloc of the United States Senate

By HERBERT MYRICK

Author of *The Federal Farm Loan System, 1916; Co-operative Finance, 1912;*
The author's Standard Bill for Farm Finance under State Law, 1908, or some of its features
have been embodied in the statutes of 22 states

How to Co-operate, 1891

Books on practical farming, stories from real life, poems, philosophy, addresses

Director Federal Land Bank of Springfield

Also president Dakota Farmer of Aberdeen, S. D., Northwest Farmstead of
Minneapolis, Current Events of Columbus; president and editor-
in-chief Farm and Home of Chicago and Springfield,
editor-in-chief New England Homestead

*INCLUDING FULL TEXT FOR PROPOSED FEDERAL
RURAL CREDITS ACT*

CHICAGO & SPRINGFIELD, MASS.
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1922

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"Aw, get off'n his tail, Uncle Sam!"

The Big Three

The text quotes fully from the author's previous books. What his "Co-operative Finance" said in 1912 is even more true today:

"The lack in farm finance reveals underlying economic conditions that drive people from country to cities. Those economists and statesmen who have sought financial principles rather than panaceas, are beginning to realize the truth compressed into the axiom known as "Myrick's law":

"Other factors being equal, agriculture will progress in the ratio that farmers employ

CASH, CREDITS AND CO-OPERATION

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THE MANDATE

Aberdeen, Minneapolis, Chicago, New York,
Springfield, 16 June 1922

To the Committee on Rural Credits of the Farm Bloc of the United States Senate—Hon. Arthur Capper (R) of Kansas chairman, Hon. Charles L. McNary (R) of Oregon, Hon. Edwin F. Ladd (R) of North Dakota, Hon. Wesley L. Jones (R) of Washington, Hon. Claude A. Swanson (D) of Virginia, Hon. John B. Kendrick (D) of Wyoming, Hon. Pat Harrison (D) of Mississippi.

Gentlemen:—At the conference in the Senate District of Columbia Committee Room at the Capitol from 4 to 6 P. M. June 7, 1922, after discussing with the writer the various rural credits bills which had been introduced, together with many other phases of the problem, you agreed in requesting me to draft a new bill. You said, in effect:

“Let this measure provide for a comprehensive system of rural credits, safe and sound, practical and elastic, dealing adequately with all regions under their varying conditions. Embody in the new draft any and all points in the existing bills which you consider essential. Add thereto or work in therewith such new features as your knowledge and experience may justify. The result will be helpful to the committee and the Congress in its efforts to create promptly an adequate rural credit system.”

Pursuant to this mandate the bill follows, preceded by a report or discussion of its principles, method and detail.

Respectfully,

THE AUTHOR

THE VISION

THE only permanent thing is change! Everywhere and always, progression or retrogression; nothing is fixed. Ever the contention of positive and negative forces—evolution.

“Advance results from struggle. Triumph over obstacles is the only worth-while victory. Honest endeavor is the vital principle, rather than achievement, however glorious.

“All Nature, all human history, attest these truths. Civilization is the human object lesson in evolution. Economic justice is the basis for social justice, and the degree to which both prevail measures the progress of civilization.

“God’s ways are beyond man’s comprehension. Man’s effort often is so befogged by the smoke of battle as to obstruct the vision of his progress. We see the dust, the cloud, we do not get the clear bird’s-eye view of the whole situation. But go to the top of an exceeding high mountain on a cloudless day and how distinct appears all that previously was obscure!

“So now we discern, amid the warfare of aggressive Individualism, ruthless Capitalism and extreme Socialism, the strong figure of CO-

OPERATION advancing to the front. His majestic mien, his masterful bearing, his confidence-imparting atmosphere, withal his modesty and sympathy and humanity, inspire in every man and woman the conviction that Co-operation is the great leader who will conduct them to the promised land. But the people quickly learn from this leader that they can never reach the goal except through their own individual efforts, supplemented by associated effort in doing those things which can be done better by people working together rather than separately.

“Just as you dimly feel the latent powers inherent within yourself that are seeking expression, so are there powers inherent but latent in the mass which are seeking an outlet. Just as these powers in the individual grow by use, education and experience, until he may accomplish the seemingly impossible, so do the powers of co-operation develop by use, training and wisdom.

“When you know how, it is so easy to do anything, whether individually or collectively! The inefficient methods of the past give way to the efficient processes of the future. Past theories become obsolete in the light of modern experience. Old issues naturally wither and die in the bright

sunshine of the new era. What before was complicated, now becomes simple.”

The foregoing introduction, quoted from the author's book, Co-operative Finance, written and published in 1912, possesses a new significance today. The Pujo investigation, defeat of the Aldrich bill, creation of the Federal Reserve and of the Federal Farm Loan System, have been followed by a chain of events that have fully demonstrated the wisdom of the policies dealt with in those two great Acts.

Experience has revealed the strong and weak features of both Acts. In spite of their weaknesses, the Reserve law and the Farm Loan system for first mortgages have proven of incalculable value during the war period that tested to the uttermost all human institutions.

Now that the United States has become the world's leading creditor, instead of the debtor nation America was prior to 1914, many entirely new conditions present themselves. To cope with present and future developments, it is imperative that the United States forthwith complete its financial structure by adequate provision for rural credits, and for second mortgages on

farms owned, occupied and operated by experienced and reliable farmers, also for financing the real estate employed by co-operative associations.

In this and all other economic effort toward prosperity—material, social, spiritual—for all the people all the time, the dominant note is human welfare. Even more true for today and for the future are my words of ten years ago:

“Equality of opportunity for each individual, co-operation among the weak as a safeguard against abuse of power by the strong, encouragement to honest endeavor among people of all ages and conditions, inspiration to achievement—the new finance must recognize these as among the essentials of the new era.”

But hard work, struggle, industry, thrift, efficiency, common sense, gumption, grit, “sand,” persistence—these eternal economic-social factors each of us must cultivate even more in the future than in the past.

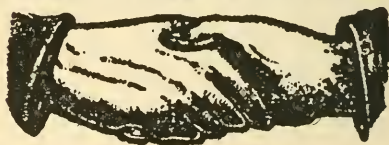
Yet the spiritual, moral and ethical attributes may be employed to more directly promote material progress. To apply the ideals of service—to our fellows, our community, our state, our nation—will add to both the success and joy of life.

To integrity of purpose, unite willingness to entertain others' views or opposing reasons. Accompany personal power with human poise, sincerity with love. Let us do the best we can each day, and the future will take care of itself, for as my mother* wrote on her deathbed:

"Honest endeavor is ne'er thrown away,
God gathers the failures day by day,
And weaves them into His perfect plan,
In ways that are not for us to scan."

* Lucy Caroline Whittemore Myrick, 1832-1879

CO-OPERATION



**"UNITED TO ASSIST, NOT
COMBINED TO INJURE"**

CHAPTER ONE

THE PROBLEM

TWO of the three grand divisions of finance in the United States already are well provided for—

(1) The Federal Reserve system, supplementing our commercial banks under national and state law, goes far in providing adequately for current commercial credits running for periods of thirty to ninety days, and for six months agricultural paper.

(2) The Federal Farm Loan system aims to accommodate the demand for permanent capital for farm land ownership, by financing mortgages on farms over periods of from ten years to 33 years at reasonable rates of interest.

The Third Division of finance is now to be provided for. By this is meant a comprehensive system of rural credits for the purpose of financing the farmer's need for funds during periods of from six months to

RURAL CREDITS SYSTEM

three years on the security of such personal property and character as he may be able to furnish.

With an investment of 78 billions of dollars in his business, the American farmer has produced an average of 18 billions in value of annual product of late years. This enormous turn-over requires an enormous amount of capital and credit, for periods of six months to three years, but no adequate provision exists for providing these rural credits such as has been and is now afforded to other industries whose turn-over is much quicker.

Short Term Mortgages also are needed in rural credits. This need is in two forms:

(a) The experienced farmer who is worthy of having a farmstead of his own, too often is forced to be a tenant or a hired man, because, even though he may have acquired some stock and tools or a little capital, he has not funds sufficient to pay down in cash all that the desired farm may cost in excess of what he can borrow thereon, through the federal farm loan system secured by underlying first mortgage. But if

THE PROBLEM

he can borrow 25% more for say five years, on a mortgage second to the federal first, this aid may be just enough to give him a start toward owning his own farm.

(b) Likewise a first mortgage for not to exceed five years upon the real estate owned and used by a co-operative association in its business of supplying its farmer members with what they need to buy and of helping them in disposing of what they have for sale, will do much to promote the—

More Orderly Marketing of agricultural products by the producers thereof, as well as the more orderly marketing to farmers of the manufactured commodities they require.

In spite of the fact that the American farmer has shown for years that he is "good" and almost invariably pays his bills 100 cents on the dollar with interest, even though forced at times to be rather slow, he has been too often and too generally denied facilities for the cash, credits and co-operation his business requires.

Paying the highest retail prices for what

RURAL CREDITS SYSTEM

he buys, usually receiving only the lowest wholesale prices for what he sells, less all the toll extorted by middlemen and transportation, with everything he possesses inescapable from the tax assessor, it is a wonderful tribute to the enterprise of the American farmer and to the stability of American agriculture that both have attained to their present development.

The Great Deflation of 1920-1922 emphasizes the grave deficiency in our fiscal system due to the absence of an adequate method of rural credits. To be sure, capital and labor in other industries did not escape the collapse either here or in other parts of the world, but agriculture was hit first and hardest and has been slowest to recover.

The Agricultural Inquiry conducted so comprehensively 1921-22 by the able joint committee of the United States Senate and House presented a report that deals thoroughly with the need for rural credits and outlines an admirable bill for this purpose—Senate 3051 by Mr. Lenroot, known

THE PROBLEM

in the House as the Anderson bill. Too much praise cannot be given to that committee for the excellence of its treatment of a matter involving so many complexities and magnitudes.

Several other excellent bills also have been introduced into the Senate aiming at the same result but varying in detail. These measures include— S 3639 by Mr. Capper, S 3390 and 3578 by Mr. Simmons, S 3499 by Mr. Norbeck.

By the Mandate on a previous page the author was invited to use these various measures as a basis upon which to frame a bill that might be helpful to the Congress in its efforts promptly to create an adequate means of dealing with the whole situation.

The Rural Credits Bill Herewith submitted aims to provide a method that shall meet all the needs which have been so fully revealed.

In form and phraseology, while embodying certain essentials in the measures above referred to, the new draft follows the Federal Farm Loan Act in some

RURAL CREDITS SYSTEM

other respects. Especially is this true as to certain administrative and technical details which have been so well perfected by experience under that Act or which have been sustained by state and federal courts.

The specific purposes of the Rural Credits bill, which is printed in full in the appendix of this book, are epitomized in its title:

“To provide *crédit* facilities for the orderly marketing of agricultural products, and for the preservation and development of agriculture and of the livestock industry of the United States; to extend and stabilize the market for United States bonds and other securities; to provide fiscal agents for the United States; to amend the Federal Reserve Act; to provide for Federal Co-operative Banks, and for other purposes.

CHAPTER TWO

PRINCIPLES OF RURAL CREDITS

WHILE the order, note or other obligation of an experienced farmer of good character almost invariably has proven to be "good," heretofore it has been open to these objections:

1. Nearly a year is required for the production of staple crops, still longer for the production of live stock, whereas the manufacturer may produce his commodities in a few days or weeks, while the merchant converts them into cash with even greater celerity.

2. Thus the farmer secures the money with which to pay his debts only once a year in the case of staple crops, though more frequently if he has some specialty like truck crops, dairy or poultry, but at best his turnover is slow and his credits long.

3. For these reasons the tendency of commercial banking necessarily has been to favor manufacturer and middleman,

RURAL CREDITS SYSTEM

merchant and speculator with their quick turn-overs, to the detriment or inconvenience of the agriculturist with his slower turn-over.

4. Nor is the commercial banker to be blamed for this, because from 80 to 90% of his funds consists of deposits with him of other people's money who are likely to draw upon it at any minute, so that the bank must always have sufficient cash on hand or assets instantly or quickly available to meet the demands of its depositors.

Objections Overcome. The Rural Credits bill herewith proposes to obviate all of the foregoing objections, to mobilize the basis of short term credits which farmers possess, and so to mobilize the credit instruments themselves that they shall be free not only from the objections cited, but from others which might be mentioned.

The purpose is to accomplish this by a method which shall encourage the borrower to get out of debt, prove more attractive to the investor, encourage thrift, foster the profitable investment of savings in farm

PRINCIPLES OF RURAL CREDITS

development, and thus create a veritable endless chain of prosperity.

The economic methods required to accomplish these purposes of rural credits also will have far reaching social and civic influence, by reason of the co-operative principles embodied in the bill submitted in the appendix.

Co-operation Required. For farmers to unite in local societies for the better financing of their needs as well as for orderly selling and buying, implies more of mutual confidence and less of mutual suspicion. Such co-operation means united effort among individuals; and joint service, voluntarily performed and necessarily persisted in, reacts beneficially upon the individual. It tends to bring out those social, ethical and spiritual attributes which add so much to the joy, the glory and the usefulness of life. The co-operative spirit may be better sensed than described—like love, it can be felt rather than expressed!

The fact that the plan of the proposed reconstruction of rural credits is based

RURAL CREDITS SYSTEM

largely upon the coming together of five or more individuals, in a united group, is one of the underlying principles that has made the federal farm loan act so successful in its operations. This principle was epitomized years ago by the author as follows:

“The True Way Out of the evils that afflict both producers and consumers is through an agency which already exists. It is right at hand. Its ways are the methods of peace. This agency requires no favored legislation, no political revolution, no social overthrow. It builds up instead of tearing down. Yet its success has been abundantly demonstrated under the most adverse circumstances. It is as permanent as a human institution may be. It supplies its own capital, insures its own prosperity, and increases in practical beneficence with age. Thoroughly Christian in nature and application, no phase of belief can take exceptions to it. Nor does it antagonize the reforms in politics and government and taxation, in land or finance or transportation, that are now so prominent in the public mind.

PRINCIPLES OF RURAL CREDITS

“In one sense independent of all these, in another view it is indispensable to any reform that is to be of lasting benefit to the whole community. Yet it is intensely practical, perfectly adapted to country, town, or city, within the reach of all grades of people, and thoroughly suited to the varied needs and capacities of producers and consumers in all the great vocations of life. Moreover, it interferes with no reasonable effort to ameliorate the conditions of society, but extends to such the hand of fellowship. Above all, it in no possible way antagonizes any farmers’ secret orders or open organizations, and in no manner interferes with trade unions or labor associations. Yet it is an agency through which all such orders, organizations, unions and associations may immensely stimulate and perpetuate their usefulness.

“The true way out is summed up in the one word—Co-operation.”

The Advantages of Co-operation as expressed in my earlier book, apply with peculiar force to the mobilization of rural credits:

RURAL CREDITS SYSTEM

1. The greatest advantage of co-operation is that it enables "the common people"—as Abraham Lincoln used the term—to help themselves.

2. It promotes thrift, sobriety, morality, neighborliness, kindness, courtesy, intelligence, self-thinking and good citizenship.

3. It can adapt itself to secure its advantages to "all sorts and conditions of men, including men of various nationalities."

4. It interferes with no private rights or individual opinions.

5. It substitutes the beneficence of co-operation for the warfare of competition.

6. It pays labor fairly, adds to savings and yields a reasonable hire to capital.

7. It enables the people to govern and divide their earnings, instead of having capital rule industry and absorb the profits thereof.

8. It converts the love of money and the power of the "almighty dollar" into the greatest of human agencies for the amelioration of society.

9. It "begins in mutual help, with a view to end in a common competence."

10. It avoids the fallacy of "equal division of unequal earnings," but rewards according to merit.

11. It means "concert for the diffusion of wealth."

12. It is not philanthropy, neither is it mendicant, servile or offensive, yet possesses the spirit of charity without sacrifice of practical utility.

PRINCIPLES OF RURAL CREDITS

13. "It touches no man's fortunes; it seeks no plunder; it causes no disturbance in society; it gives no trouble to statesmen; it need enter no secret associations, it needs no trades-unions to protect its interests; it contemplates no violence; it subverts no order; it envies no dignity; it expects no gift nor asks any favor; it keeps no terms with the idle and it will break no faith with the industrious."

14. It uses circumstances to advance its principles, instead of wasting energy to advance its principles against circumstances.

15. It insures against mistakes by educating co-operators to a clear idea of what they are doing, uniting such thought with action.

16. It gives men and women a knowledge of business they could not otherwise obtain.

17. It enables people to get out of debt and to keep out of debt, and correspondingly alleviates other forms of distress.

18. It creates a field for individual energy and security for its reward, while avoiding the warfare of competition.

19. It is really the only way in which the masses can advance.

20. It promotes sound sense, good temper and good will.

21. It reduces expenses, bringing producer and consumer together, giving the former a fair profit, while furnishing the latter at a reasonable

RURAL CREDITS SYSTEM

price articles which are honest in quantity and quality.

22. It is equity in business, and it makes equity pay.

23. It is a definite, practical thing, all of whose principles can be brought into view and understood at once.

24. It recognizes capital as an expense, whose hire is to be paid, but after this (like other expenses) is met "labor by brain or hand is the sole claimant of profits."

25. It delivers the public from the middlemen, capitalists and monopolists who would make the laborer work for the least and the consumer pay the utmost.

26. It makes saving attractive, easy and inevitable, without self-denial or effort on the part of the individual. And finally to quote more fully and literally its distinguished apostle (Holyoake), "Co-operation was born of the feeling that at best unmitigated competition was but organized war, and though war had its great conquests, its bards, its proud associations and heroic memories, there was murder in its march; and humanity and genius were things to blush for, if progress could not be accomplished by some nobler means; what an enduring truce is to war, co-operation is to the never-ceasing conflict between Labor and Capital—it is the Peace of Industry."

PRINCIPLES OF RURAL CREDITS

Good Management Vital. While associated effort through the co-operative principle must be one basis of rural credits, the bill proposed aims at utmost efficiency in management. It is intensely practical. It is based on sound business principles. It makes it possible for people to do collectively those things which they can do better than individually. At the same time, it offers every stimulus to individual initiative, self interest, personal responsibility and moral accountability.

Rural Credits are Not to be offered to those who know nothing about agriculture.

“The new system does not seek to place on the land those whose ignorance of farming is surpassed only by their lack of capital. If such people really have a hankering for the farm let them hire out for a season or a year to some good farmer where they may acquire, at the employing farmers expense, the experience they must have before they can expect to succeed on a farm of their own.

“At the same time the employee’s wife,

RURAL CREDITS SYSTEM

by her work in the farmer's household, will learn what she needs to know to be a help-meet instead of merely a help-eat when she and her husband acquire a homestead of their own."

Borrowers Must Have Some Capital.

Neither does the bill propose to set up in business even the practical farmer and his family who may have had some experience in agriculture but who possess no capital whatever. Such people should acquire some means by saving their wages earned by working for others, or by farming on shares or other form of tenantry.

Starting with only their hands and head, but by practicing such thrift, probably more than two million farmers now living in the United States have acquired farmsteads of their own, and a majority of them today are out of debt.

But the Real Farmer who has borrowed half the fair value of his farm upon long time and at very easy rates on a first mortgage from the Federal Land Bank, may with safety be further assisted by a second

PRINCIPLES OF RURAL CREDITS

mortgage through the Rural Credits System, for a period of say five years and for an amount not exceeding 25 percent of the farm's value. He can either pay the remainder of the purchase price out of his own savings, or preferably by giving accommodation notes to the seller, thus reserving the balance of his own cash for working capital with which to equip and operate the farm.

The Co-operative Association of which this man and all other farmers in a given vicinity may be members also is to specially benefit from the new Rural Credits System. Its purpose may be to assemble, grade, pack, distribute and market its members' products in an orderly manner. Or it may act as their collective agent in securing for and distributing to the members such merchandise, equipment, machinery, feed, fertilizer or other supplies as the members may require.

Orderly Marketing to farmers is equally as important as orderly marketing by farmers.

RURAL CREDITS SYSTEM

By Joining the Debenture Bank for its state, any incorporated agricultural co-operative association becomes entitled to re-discount through that bank the agricultural loans, live stock paper, commodity paper or real estate paper (as defined by the Act) of any member of the association. The bank obtains the money for this purpose by selling its debentures secured by such collateral or by borrowing from the central institution at Washington known as Federal Rural Credits Company.

Mutual Benefits. Not only may the farmer obtain capital through his "co-op" right in his own locality, but membership therein brings him in closer touch with his neighbors and with all the other members. As each shareholder in this little local incorporated association is liable for double the amount of his investment at par in the shares thereof, one and all the members are interested in the success of each. This is all the more true because each member has only one vote regardless of the number of shares or amount of stock in the local held by him.

PRINCIPLES OF RURAL CREDITS

This very desirable co-operation is accomplished safely, for each member avoids anything in the nature of joint or several obligation, his personal liability being strictly limited and fixed.

Obviously the Locals have frequent meetings of their members to interchange views and experiences. This brings farmers into as close touch with the problems of buying their supplies and marketing their products as with the problems of practical farming that occur on their respective farms, and all under similar conditions. The local also is a center for disseminating to its members information from other sources whenever it may be beneficial.

The Solid Base of this plan for rural credits is founded primarily upon helping the individual farmer to help himself by means that are sound, economically and socially, grounded in self-interest and fostered by co-operation.

All Other Business Benefits by the resulting increase in agricultural prosperity. Manufacturer and jobber, dealer and mer-

RURAL CREDITS SYSTEM

chant, bank or trust company, town and country, share liberally in the farmers' progress.

All these other interests, and the general public therefore should welcome the new system which means so much to the public.

The Penalty Section of this bill provides large fines or imprisonment or both for almost any or all offences that may be committed against the proposed law. It is provided that the secret service may be employed to detect, arrest and deliver into custody any person violating the statute.

Should Congress enact the bill as outlined, any attempt to impose upon the system, or to secure loans unfairly or to issue debentures without adequate security will be visited with condign punishment. The proposed law guards against all forms of abuse, under penalties for violation such as to deter evil doers.

So Attractive to Investors, banks and other institutions will be the credit instruments arising out of the new system, that

PRINCIPLES OF RURAL CREDITS

such paper will be marketable in the highest degree.

Indeed debentures in small denominations will be bought freely by people whose little funds now "slip through their fingers". The large denominations will be popular among the well-to-do for short term investment—six months to three or five years—of the funds of wealthy individuals, banks, other corporations and insurance companies.

What social and civic benefits may not be furthered when all people thus actually own an interest, by virtue of their investment in Federal debentures, in the simplified production, economic distribution and orderly marketing of the food they consume!

CHAPTER THREE

WHY FEDERAL RURAL CREDITS BOARD

THE magnitude of Rural Credits will increase and decrease, when proper facilities of the kind are provided, in much the same way that current credits expand and contract under the Federal Reserve System. By this is not meant inflation among farmers, or any undue expansion of borrowings, but rather a larger use of checks, notes, drafts, acceptances and other credit instruments.

Farmers being provided with these means of exchange, instead of having to employ cash or barter to the extent previously in vogue, the financial operations of agriculture will largely increase as the better facilities for the interchange of credits and for orderly marketing become available.

Consequently the rural credits business of the country inevitably will become so

WHY FEDERAL RURAL CREDITS BOARD

vast and fluctuating—from three to six billions a year—in volume as to require all of the time, thought and abilities of a federal supervising authority.

Its Work Will Be Different from that of Federal Reserve Board, which has to do with current credits and with the credit instruments used in the transactions of current commerce.

Its work also will be almost entirely different from the duties of the Federal Farm Loan Board, which has oversight of the long term mortgage business under the farm loan act.

No Interference with or mixing into the Federal Reserve for current credits, or the Federal Farm Loan System for long term mortgages can be tolerated if American finance is to be sound under every and all conditions.

Nothing must be injected into the Federal Reserve that may impair its activities, its efficiency or the liquidity of its funds.

On the other hand, nothing must be allowed to impair the underlying security of

RURAL CREDITS SYSTEM

the Federal Farm Loan System or of its low-rate long-term bonds secured by underlying first mortgages on farms.

Public confidence in both of those systems is their greatest asset. Nothing should be allowed to impair that confidence.

The Federal Rural Credits Board therefore is proposed as a separate and distinct bureau in the Treasury Department to have general control over and supervision of the whole system of rural credits, so far as the same may be under national law or so far as the same under state law co-ordinates with and shares in the benefits of the national system.

This board shall consist of the Secretary of the Treasury and four appointees by the President, by and with the advice and consent of the Senate. Not more than two shall be from one political party, each shall be a resident in and fairly representative of a different geographical region, and each shall be experienced in agriculture and finance. One shall be the superintendent of the Rural Credits System and their salaries shall be \$12,000.

WHY FEDERAL RURAL CREDITS BOARD

Not Really a New Bureau is contemplated, however, for these men also constitute Federal Rural Credits Company which takes over War Finance Corporation as fully described in our next chapter and in the proposed bill.

This plan even avoids any new appropriation by Congress, but utilizes and makes far more efficient whatever personnel, equipment, capital, organization and experience may be afforded by War Finance Corporation now to be disbanded.

The members of Federal Rural Credits Board therefore will act in a dual capacity — (a) as administrators of the details of the whole system, and (b) as directors of Federal Rural Credits Company which performs certain corporate acts.

Hence the salaries and expenses of the board and of custodians, appraisers and examiners it appoints shall be paid by the United States, but all other expenses of the System, being directly or indirectly in the interest of the Company, shall be paid by the Company as an operating expense.

Broad Powers are conferred upon the

RURAL CREDITS SYSTEM

Board throughout the bill. It may organize and charter Federal Debenture Banks and appoint a Custodian in each to have charge of the collateral which secures the debentures issued by such banks. It may examine them and has power to remove officers found incompetent.

The Board also may charter the local co-operatives as described in Chapter Six. It may have them examined, as well as the live stock loan companies it approves.

Rates of Interest and Discount, also all fees and other charges, are to be established, reviewed or altered by Federal Rural Credits Board, the bill providing that they shall be uniform so far as practical.

Extraordinary precautions will be found in the bill whose purpose is to put a stop to the bonuses, commissions and any or all forms of graft by which farmers in particular have been unmercifully plucked, robbed and defrauded for these many years. Those abuses were often a necessary concomitant of the lack of any adequate method of farm finance. The bill proposes a system whose simplicity, adequacy and economy

WHY FEDERAL RURAL CREDITS BOARD

are such that these old forms of graft will just naturally go into the discard.

Federal Debentures are to be prescribed by the Board as to form, terms and interest. It supervises their issue, rate of interest, sale, redemption and cancellation with the same care that is provided in the farm loan act for Federal farm loan bonds.

These instruments are called debentures to prevent any possibility of their being confused in the public mind with United States bonds or Federal farm loan bonds.

The term "debentures" also is properly applied to instruments, the security for which is held in a collateral trust by the federal Custodian of each debenture bank. The safety, availability and desirability of Federal debentures as emphasized in Chapter Five manifestly will make them popular and marketable.

The Other Duties and powers which the bill confers upon Rural Credits Board can be best grasped by a careful reading of the entire bill which forms the Appendix of this book.

CHAPTER FOUR

FEDERAL RURAL CREDITS COMPANY

BESIDES serving as supervisors of the System, as described in the preceding chapter, the bill also incorporates the five members of Federal Rural Credits Board as "a body corporate and politic in deed and in law," to have succession until dissolved by Congress under the name of "Federal Rural Credits Company."

Here it should be reiterated that this is done merely to create a corporation which may actually transact business as a legal entity, separate and distinct from the administrative features as such of the Rural Credits Board.

While its name is new, as a matter of fact the Company is not new.

As Successor to War Finance Corporation, Federal Rural Credits Company takes over and shall be vested with all the assets,

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liabilities, powers, rights and privileges of that corporation. The latter's organization and personnel as a going concern will be available to the company, so far as the same are required.

The change does not even call for an appropriation. On the contrary—

The Capital Is to be Reduced from the present \$500,000,000 to half that sum, as soon as the liquidation of War Finance Corporation will permit, thus returning \$250,000,000 to the Treasury.

The capital of Rural Credits Company shall never be less than \$250,000,000, and it may accumulate a surplus to an amount of an additional \$100,000,000.

Large Revenues will Accrue to the United States as all earnings of Federal Rural Credits Company, in excess of the authorized surplus, go to the federal treasury as a franchise tax.

In addition to such revenue, all the earnings of each Federal Debenture bank over and above certain specifications, also go to the Treasury as a franchise tax.

FEDERAL RURAL CREDITS COMPANY

That is to say, Uncle Sam gets whatever profits the Rural Credits System may make as such, in excess of a moderate dividend upon capital, after the accumulation of a reasonable surplus. In addition to this, as will be seen in Chapter Five, the Treasury eventually will have returned to it all of the money advanced by the Company as initial capital to the respective debenture banks.

The Initial Capital of one Federal Debenture Bank in each state is to be provided by Federal Rural Credits Company at the rate of \$1,000 for each million dollars of all farm property within the state for which said bank is established, as shown by the Fourteenth census, with the exceptions below mentioned.

The basis thus established is equivalent to one dollar of initial capital to each debenture bank for each \$1000 represented by the total value of all farm property.

Including the adjustment for the lesser agricultural states, the accompanying map shows in round numbers the initial capital available for each State's debenture bank.

RURAL CREDITS SYSTEM

The precise figures appear in the table on pages 48-49.

It will be seen that, when one debenture bank shall have been established in every state, a total of \$80,528,117 will have been invested in the shares thereof by Federal Rural Credits Company. This would then leave the latter \$169,471,883 of free working capital out of its minimum capital of \$250,000,000.

The Reason for This Amount of capital on the part of the Company is not only that it may advance the initial capital to the debenture bank of each state, but also that it may have an ample amount of free funds with which to make loans to debenture banks or other institutions provided by this Act, or to buy their securities, including federal debentures.

It is quite likely that the mere presence of this amount of free working capital, and the market it insures for the various securities that may be uttered in this intermediate system of credits, will so stabilize such securities that banks generally will be pleased to accept the same as collateral.

FEDERAL RURAL CREDITS COMPANY

Precisely similar results have occurred in the experience of War Finance Corporation. Where it offered to make liberal advances to co-operative association, that fact so strengthened their credit that existing banks sought their business, and the amount of cash that actually had to be put up by the Corporation in some cases was quite limited.

Another reason why the company should have liberal working funds available is for use in extending export credits during periods of abnormal surplus, as well as for use in any other emergencies that may arise.

The Return to the central company of its advance of initial capital to the debenture bank in each state will come about in the fullness of time, as the bill provides and as is discussed in the next chapter. As this return is accomplished, however, the rural credits system will attain proportions so large that such increase in the funds of the central organization may not more than keep pace with the country's needs.

The near future is to witness an expansion of agriculture, and a development of

RURAL CREDITS SYSTEM

Debenture Bank in Each State

TABLE SHOWING INITIAL CAPITAL AND PROPOSED INVESTMENT BY EACH STATE IN DEBENTURES

These two amounts forming total funds available for starting the federal debenture bank in each state.

Column 1—Total internal revenue receipts from income and profits taxes and miscellaneous taxes for year ended June 31, 1921, in round millions of dollars.

Column 2—Value of all farm property in 1920 as shown by the fourteenth census of the United States.

Column 3—Names of regions and states.

Column 4—Initial capital of federal debenture bank of each state put up by Federal Rural Credits Company.

Column 5—Amount proposed to be invested by each state in debentures issued by the federal debenture bank therein.

Column 6—Adds columns four and five to show total funds available for the federal debenture bank in each state as it begins business.

1— Mil- lions	2—Value Farm Property	3—Names of States	4—Initial Capital	5—Invested by Each State	6—Total Funds
\$4,595	\$77,924,100,338	U S total	\$77,924,100	\$77,924,100	\$155,848,200
408	1,173,019,594	New Eng.	1,173,019	1,173,019	2,346,038
1,757	3,949,684,183	Mid. Atlan.	3,949,684	3,949,684	7,899,368
1,098	17,245,362,593	E. N. Cen.	17,245,362	17,245,362	34,490,724
313	27,991,434,545	W. N. Cen.	27,991,434	27,991,434	55,982,868
414	6,132,917,760	So. Atlan.	6,132,917	6,132,917	12,265,834
112	4,419,466,237	E. S. Cen.	4,419,466	4,419,466	8,838,932
157	7,622,066,027	W. S. Cen.	7,622,066	7,622,066	15,244,132
55	4,083,137,939	Mountain	4,083,137	4,083,137	8,166,274
247	5,307,011,460	Pacific	5,307,011	5,307,011	10,614,022
		New England			
18	270,526,733	Maine	270,526	270,526	541,052
10	118,656,115	New Hamp.	118,656	118,656	237,312
6	222,736,620	Vermont	222,736	222,736	445,472
260	300,471,743	Massachusetts	300,471	300,471	600,942
42	33,636,766	Rhode Island	33,636	33,636	67,272
72	226,991,617	Connecticut	226,991	226,991	453,982
		Middle Atlantic			
1,125	1,908,483,201	New York	1,908,483	1,908,483	3,816,966
143	311,847,948	New Jersey	311,847	311,847	623,694
489	1,729,353,034	Pennsylvania	1,729,353	1,729,353	3,458,706
		East North Central			
285	3,095,666,336	Ohio	3,095,666	3,095,666	6,191,332
389	6,666,767,235	Illinois	6,666,767	6,666,767	13,333,534
78	3,042,311,247	Indiana	3,042,311	3,042,311	6,084,622
272	1,763,334,778	Michigan	1,763,334	1,763,334	3,526,668
74	2,677,282,997	Wisconsin	2,677,282	2,677,282	5,354,564
		West North Central			
78	3,787,420,118	Minnesota	3,787,420	3,787,420	7,574,840
38	8,524,870,956	Iowa	8,524,870	8,524,870	17,049,740

DEBENTURE BANK IN EACH STATE

1— Taxes Mil- lions	2—Value Farm Property	3—Regions and States	4—Initial Capital	5—Invested by Each State	6—Total Funds
126	3,591,068,085	Missouri	8,591,068	8,591,068	7,182,136
3	1,759,742,995	No. Dakota	1,759,742	1,759,742	3,519,484
5	2,823,870,212	So. Dakota	2,823,870	2,823,870	5,647,740
24	4,201,655,992	Nebraska	4,201,655	4,201,655	8,403,310
39	3,302,806,187	Kansas	3,302,806	3,302,806	6,605,612
South Atlantic					
12	80,137,614	Delaware	80,137	80,137	160,274
72	463,638,120	Maryland	463,638	463,638	927,276
19	5,957,987	Dist. of Col.	5,927	5,927	11,854
62	1,196,555,772	Virginia	1,196,555	1,196,555	2,393,110
42	496,439,617	W. Virginia	496,439	496,439	992,878
125	1,250,166,995	No. Carolina	1,250,166	1,250,166	2,500,332
29	953,064,742	So. Carolina	953,064	953,064	1,906,128
37	1,356,685,196	Georgia	1,356,685	1,356,685	2,713,370
16	330,301,717	Florida	330,301	330,301	660,602
East South Central					
61	1,511,901,077	Kentucky	1,511,901	1,511,901	3,023,802
34	1,251,964,585	Tennessee	1,251,964	1,251,964	2,503,928
18	690,848,720	Alabama	690,848	690,848	1,381,696
9	964,751,855	Mississippi	964,751	964,751	1,929,502
West South Central					
11	924,395,483	Arkansas	924,395	924,395	1,848,790
40	589,826,679	Louisiana	589,826	589,826	1,179,652
28	1,660,423,544	Oklahoma	1,660,423	1,660,423	3,320,846
78	4,447,420,321	Texas	4,447,420	4,447,420	8,894,840
Mountain					
5	985,961,308	Montana	985,961	985,961	1,971,922
5	716,137,910	Idaho	716,137	716,137	1,432,274
3	334,410,590	Wyoming	334,410	334,410	668,820
34	1,076,794,749	Colorado	1,076,794	1,076,794	2,153,588
2	325,185,999	New Mexico	325,185	325,185	650,370
4	233,592,989	Arizona	233,592	233,592	467,184
11	311,274,728	Utah	311,274	311,274	622,548
1	99,779,666	Nevada	99,779	99,779	199,558
Pacific					
37	1,057,429,848	Washington	1,057,429	1,057,429	2,114,858
28	818,559,751	Oregon	818,559	818,559	1,637,118
182	3,431,021,861	California	3,431,021	3,431,021	6,862,042

The bill provides that in states where the total value of farm property is under \$500,000,000, the initial capital advanced shall be \$500,000 except that in states where the value of farm property is less than \$100,000,000, the initial capital so advanced shall be \$100,000.

Thus \$100,000 will be advanced to Nevada, Delaware and Rhode Island, while \$500,000 will be the advance to Maine, New Hampshire, Vermont, Massachusetts, Connecticut, New Jersey, West Virginia, and Florida.

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all productive industry, throughout the United States which will require large and generous as well as safe and conservative means for adequately financing it.

The Basis Used for Apportioning the initial capital seems to be the fairest that can be devised. It is true that the Fourteenth census shows a highly inflated value for all farm property, and that such inflation is greatest in certain western states.

It is true also that such inflation was relatively less at the South, least of all in the Middle and Eastern States.

Hence it is that by this apportionment New England receives a relatively small sum, although she pays a vastly larger volume of federal internal revenue taxes than any of the western states that receive two or three, and in the case of Iowa over four times, as much initial capital. The discrimination against the Empire state is even larger. Further comparisons may be made by means of the tax revenue shown in the first column of the tabular exhibit page 48.

This Injustice to the East is remedied in

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part, however, by the exception in paragraph 4 of Section 6 of the bill—that in any state wherein the total value of all farm property is under \$500,000,000, the company shall invest \$500,000 in the initial capital of the land bank. This provision applies to Maine, New Hampshire, Vermont, Massachusetts, Connecticut, New Jersey, West Virginia, and Florida.

Several important western states, that certainly need more capital for their debenture bank, also come under this provision. These are Wyoming, New Mexico, Arizona and Utah.

The paragraph referred to also provides that \$100,000 shall be put up for the debenture bank's initial capital by the Company in states having less than \$100,000,000 of farm property—Nevada, Delaware and Rhode Island.

It will be seen that taking all the states into consideration, the apportionment works out as nearly equitable as possible, and also provides sufficient capital for the objects desired.

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A Question has been Raised whether the smaller states will have sufficient business to require one debenture bank. Rhode Island and Connecticut have been mentioned as states so small as not to require the benefits of this system.

Yet the agriculture of even Little Rhody is of vital importance to the teeming population of that small state. Those people must be fed and clothed in order to labor in her manufactures as well as to enable her to yield \$42,000,000 in direct annual revenues to the federal government—a much larger sum than is paid by several of the great agricultural states.

Certainly a temporary advance of only \$100,000 for the initial capital of Rhode Island's federal debenture bank is the least recognition that can be made of the importance of her position in agriculture, industry and revenue producing power.

The same argument applies with even greater force to a few of the other eastern and southern states that come in under this exception.

As to Wyoming, New Mexico, Arizona

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and Utah with their great but relatively undeveloped agricultural possibilities, certainly \$500,000 as the temporary advance of initial capital for the debenture bank in each of these states is barely commensurate with their needs.

The Great Revenue Producing States of Massachusetts, New York, Pennsylvania, Ohio, Michigan and Illinois justly feel that they have been grossly discriminated against by War Finance Corporation. While its half billion of capital indirectly came so largely from these States, its loans to farmers in some of these States have been relatively little or nil.

“The nearly 7,000 loans it has authorized to banks in the agricultural sections aggregated about \$161,000,000; the loans authorized to live stock loan companies and banks upon the security of live stock totaled more than \$84,000,000; and those authorized to co-operative marketing associations amounted to approximately \$64,000,000.” Probably not 5 per cent of this vast total, exceeding \$300,000,000, was

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loaned to or for the benefit of farmers in the revenue producing states named.

No Criticism Is Intended of the conduct of War Finance Corporation by the foregoing remarks. Its work was an emergency measure. Its advances were made with the utmost speed, consistent with reasonable safety, in localities where the thawing out of frozen credits was expected to be most advantageous to the agricultural industry.

Even in those sections farmers who failed to receive advances or were denied loans by their banks or associations from War Finance Corporation, were as bitterly disappointed as were farmers in other states and regions where not even the phantom of these funds was ever revealed.

The Work Done by War Finance Corporation from the time its resumed operations 4 January, 1921, to and including 10 June, 1922, shows that in that period it authorized loans aggregating "\$247,197,357 to banking and financing institutions, including live stock loan companies, for agricultural and live stock purposes. Of this sum, \$227,000,-

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633 had actually been paid out on that date, and \$4,965,408 represents applications which were approved by the Corporation but subsequently withdrawn by the applicants for various reasons. The remainder, approximately \$15,000,000, was in the course of being paid out.

“In the case of loans to co-operative marketing associations, the situation is somewhat different. These organizations estimate their probable needs during a certain period and make application to the Corporation for an amount which, in their opinion, will cover these needs. Each application is considered by the Board and, if approved, the Board agrees to make advances up to a specified amount, within a specified period, as the money is needed, as the proper documents are submitted to the Federal Reserve bank, and as all requirements are met.

“In practically every case, the agreement by the Corporation to make an advance to a co-operative marketing association has made it possible for the association to secure considerable funds through banking

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channels which otherwise they would not have been able to obtain. This is clearly illustrated by the fact that, while the Corporation agreed to lend more than \$64,000,000 to co-operative marketing associations in all parts of the country, to assist them in the orderly marketing of their products, in most cases only a small part—approximately \$18,200,000—of the credit authorized has actually been used.

“At one time a co-operative association in California applied to the Corporation for an advance of \$2,500,000. The association had made an effort to secure the funds it needed from banking institutions without success. The board suggested that they take half the amount from the Corporation and then see what the banks would do. Shortly after the transaction was announced a banker got in touch with the representatives of the association and asked them to take all the money they required from his institution. In other words, the agreement on the part of the Corporation to make an advance has an important psy-

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chological effect entirely aside from the actual amount of money loaned.

The repayments received by the Corporation on account of all loans, that is, loans made both before and after the resumption of operations in January, 1921, amount to \$152,733,520. Of this amount, \$36,055,352 represents repayment on account of loans made under the war powers of the Corporation, \$74,359,430 on account of loans for export purposes, and \$42,322,738 on account of loans for agricultural and live stock purposes under the Agricultural Credits act."

A Permanent System for Rural Credits obviously demands that capital be made available to a degree based upon, if not commensurate with the total investment in agriculture and the volume of business growing out thereof.

For instance, to adequately deal with the rural credits problem of Illinois, a state with nearly seven billions of value represented in all its farm property, requires about seven millions for the initial capital of the Federal Debenture Bank which is to

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finance the agriculture of that great state, other than current commercial credits and long term farm mortgage credits.

On the other hand, Delaware with only 80 millions of farm property can make a fair start in rural credits service to her farmers with an initial capital of only \$100,000 for the Federal Debenture Bank of Delaware. The corresponding conditions in each of the other states are clearly set forth in the table on page 48.

The Duties of the Company are to employ its free capital in the purchase of debentures based upon agricultural loans, live stock paper, commodity paper or real estate obligations, as defined in the Act, in such a way as to benefit the market for these securities and facilitate to the utmost the rural credit needs of the different regions of the United States. It also may loan its funds to institutions under the act for similar purposes.

Its powers in this respect are broad, yet wisely restricted. They enable it to be of large service, with a minimum of risk and

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with a maximum of benefit to agriculture in particular and to the nation as a whole.

An Abnormal Surplus of any staple agricultural product in the United States may be dealt with by the company under the special provisions of Section 7.

It provides that, in such emergency the Company may make advances for not exceeding one year "to enable producers of or dealers in such products to carry them until they can be manufactured, processed, exported, or sold for export in an orderly manner."

This is an extraordinary provision for meeting extraordinary conditions. It is one of the chief features by which the Norbeck bill varies from the others. It is based upon much careful thought by competent men of large experience in our domestic and foreign trade and has the approval of the cooperative association which has had a long and successful experience in orderly marketing.

The existence of this power is one assurance against its ever having to be used. Yet if an emergency becomes so serious as to

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require wisely constructive and reasonably generous dealings to tide over a crisis in our export trade, section seven provides therefor, even to the extent of conservatively limited use of the Federal Reserve System.

Had section seven been in effect early in 1921, operations thereunder could have done much to prevent the fearful collapse in corn values, an incident that worked financial havoc throughout many states. That situation could have been ameliorated, under section seven, with relatively small risk and at much benefit to the whole country.

To Organize this System of intermediate credits, whereby may be mobilized and rendered available the character, security and collateral of the great agricultural producing masses, is vastly more important than the amount of capital stock that may be paid up.

An effective organization is the all important factor to be recognized Criticise the details of the plan, if you please, but do not overlook this its vital strength.

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On the other hand, an ample reservoir of capital as provided by the central company at Washington, with its additional rediscount powers for emergencies, will go far to insure the absolute success of this plan for intermediate credits.

Indeed it may be that, except in times of strain, the amount of federal debentures which may have to be issued by the bank in any state will be relatively limited. But the insurance is there, should it ever be required.

WAR FINANCE CORPORATION

OPERATIONS OF THE WAR FINANCE CORPORATION FROM
JANUARY 4, 1921, TO AND INCLUDING JUNE 10, 1921

I. Advances to assist in financing exports under Sections 21, 22, and 24 (Par. 2) approved from January 4, 1921, to June 10, 1922, inclusive (1).

Grain	\$ 5,209,810.69
Tobacco	3,596,369.77
Cotton	33,572,373.21
Canned fruits	500,000.00
Meat products	1,000,000.00
Condensed milk	1,000,000.00
Textile products	250,000.00
Sheet steel	180,000.00
Copper	145,600.00
Sugar-mill machinery	470,966.36
Agricultural machinery	500,000.00
Railroad equipment	2,925,000.00
Lumber	1,000,000.00

(2) Total.....\$50,350,120.03

(1) Section 21 was added to the original War Finance Corporation Act by the Act of March 3, 1919, and Sections 22 and 24 by the Agricultural Credits Act of August 24, 1921.

(2) Does not include advances aggregating \$27,387,816.10 originally applied for and approved under Section 21 for export purposes, and subsequently withdrawn by the applicants and resubmitted and approved as advances for agricultural purposes under Section 24.

(2) Of the total amount, \$37,673,650.26 represents advances approved subsequent to August 24, 1921.

II. Advances to banking and financing institutions and cooperative associations for "agricultural and live stock purposes" under Section 24 (Par. 1) approved from August 24, 1921, to June 10, 1922, inclusive (3).

(a) By Commodities

Cotton	\$ 23,504,200.52
Grain	21,290,189.31
Live stock	85,085,168.30
Sugar beets	9,996,000.00
Sugar cane	350,000.00
Rice	2,750,000.00
Canned fruits	300,000.00
Dried fruits	1,250,000.00
Peanuts	1,142,334.00
Tobacco	10,000,000.00
Hay	260,000.00
Gen. ag'l purposes	150,661,915.84

(5) Total.....\$306,589,807.97

(b) By States

(1) To Banking and Financing Institutions.

Alabama	\$ 802,703.30	Nevada	504,500.00
Arizona	4,333,000.00	New Mexico	7,999,127.69
Arkansas	553,500.00	New York	600,000.00
California	2,684,671.28	North Carolina	8,633,500.00
Colorado	10,587,172.33	North Dakota	20,749,761.21
Florida	782,000.00	Ohio	1,433,806.00
Georgia	6,585,934.88	Oklahoma	3,902,498.68
Idaho	5,692,237.12	Oregon	5,855,190.64
Illinois	6,625,873.14	South Carolina	10,497,259.25
Indiana	1,385,950.00	South Dakota	15,278,684.50
Iowa	23,972,277.65	Tennessee	3,608,202.11
Kansas	5,085,205.63	Texas	22,618,799.12
Kentucky	451,388.56	Utah	11,766,676.00
Louisiana	1,689,399.77	Virginia	2,005,700.00
Michigan	105,000.00	Washington	800,726.30
Minnesota	12,623,109.26	Wisconsin	5,792,000.00
Mississippi	1,517,838.19	Wyoming	8,466,483.18
Missouri	8,056,812.43		
Montana	11,026,402.50		
Nebraska	12,123,967.15		

(4) Total\$247,197,357.87

(b) By States

(2) To Cooperative Associations.

Alabama	.....\$ 100,000.00
Arizona	.....1,200,000.00
Arkansas	.....1,250,000.00
California	.....3,050,000.00
Georgia	.....350,000.00
Idaho	.....962,355.66
Kentucky	.....10,000,000.00
Minnesota	.....15,000,000.00
Mississippi	.....5,060,060.29
Oklahoma	.....6,000,000.00
Texas	.....10,047,566.50
Virginia	.....1,044,634.00
Washington	.....5,327,833.65

(5) Total\$59,392,450.10

(3) Section 24 was added to the original War Finance Corporation Act by the Agricultural Credits Act of August 24, 1921.

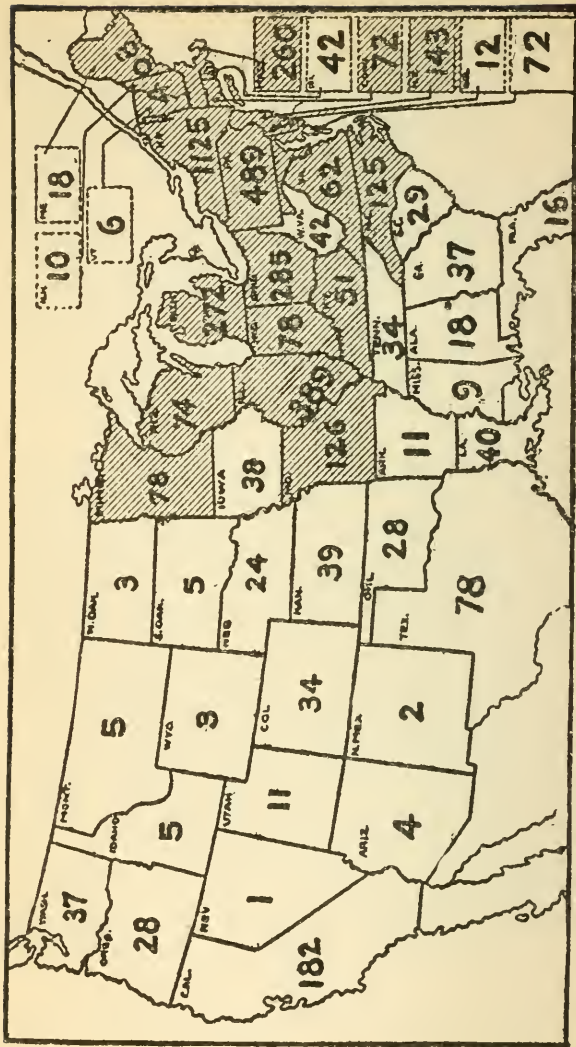
(4) Includes application totaling \$4,965,408.60 which were approved by the Corporation, but subsequently withdrawn by the applicant.

(5) This sum includes advances aggregating \$27,387,816.10 originally applied for and approved for export purposes (under Section 21) and subsequently withdrawn by the applicants and resubmitted and approved as advances for agricultural purposes under the Agricultural Credits Act of August 24, 1921, (Section 24).

III. Summary of advances for export and agricultural purposes.

To cooperative associations	.....\$ 64,654,634.00
To banking and financing institutions	.....283,219,585.11
To exporters	.....9,065,708.89

Total\$356,939,928.00



Internal Revenue Taxes Paid by each State year ended 30 June 1921, in round millions of dollars.

CHAPTER FIVE

FEDERAL DEBENTURE BANKS

THE nature, variety and magnitude of the credit instruments and transactions arising out of an adequate system of rural credits, will be such as imperatively to require intimate acquaintanceship therewith on the part of a supervising institution within the State and covering the whole State.

Only in this manner may assurance be made doubly sure that the paper offered by farmers and others as collateral for the issue of debentures shall in every way comply with the letter and spirit of the Act proposed.

This statement will be approved generally by country bankers and others experienced in the agricultural phases of finance. One institution in each State which is to pass upon the securities offered will possess the knowledge of conditions in each

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locality so essential to intelligent judgment of values and of credits.

Each States Owes a Duty, also, to the basic industry of agriculture within its borders. This is as true of the so-called manufacturing or industrial States as of those in which agriculture is the predominant industry.

Heretofore, some States of the latter type have been only too willing to accept Federal aid, without doing their part to deserve it. Since any form of aid from the Treasury to the respective States implies that the Federal taxes derived from the wealthier States shall be expended in over-generous proportions in States of less revenue-producing power, it is all the more apparent that States of the former type will become restive over any form of federal cooperation which fails to take cognizance of this disparity.

The Least Any State Should Do, therefore, to insure the success of an adequate rural credit system, are these two things:

(a) It should put up one dollar of state funds for this purpose against each dollar

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supplied directly or indirectly from the federal treasury.

(b) It should decree that the debentures issued by its Federal Debenture bank, and any paper uttered by or indorsed by Federal Rural Credits Company, shall be a legal investment for all trustees, fiduciaries, courts, banks, trust companies, saving institutions, insurance companies and any or all other corporations or institutions incorporated under the laws of or doing business within the state.

Matching Federal By State Money, for purposes conducted wholly under federal authority, is becoming increasingly unpopular among the States that pay the largest taxes to the federal government, both actually and relatively. This feeling is so strong in New York, for instance, that her legislature refused to accept her quota under the so-called maternity act, but proceeded to establish a work of that character solely under the auspices of the State and wholly at its expense. That is to say, New York feels so deeply on this subject that the federal taxes she pays not only furnish

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much of the so-called maternity fund for other states, but in addition to that, New York puts up her own funds for her own work in behalf of what have come to be known as "better babies!"

Were it not for the fact that the Rural Credits Company succeeds to the assets of War Finance Corporation, and proposes also to return to the federal treasury half of that corporation's capital of \$500,000,000, it would be difficult to secure favorable action in either House or Senate upon this feature of the proposed bill.

The Question of State Rights, curiously enough, is now being urged by such states as Michigan, Illinois, Pennsylvania, New York and Massachusetts!

The chart at the opening of this chapter emphasizes why these great revenue producing states are so restive. That chart should be carefully studied with reference to this phase of the subject. Also see the tables on pages 48-49.

This condition of affairs must be recognized in the effort to build up any plan of rural credits. Back of it lies the principle

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of independence, of individual initiative, of self-help, which if properly recognized and intelligently employed may become foundations of imperishable strength for a rural credits system.

This Is Why the author presses with all earnestness the suggestions that there be one Federal Debenture Bank in each state, that the initial capital thereof be furnished out of the funds of Federal Rural Credits Company, and that the state's participation in the establishment of such a bank take the form of a pledge to invest in its debentures at par an amount equal to the initial capital.

That is to say, to repeat the illustration of the "Prairie" state used in the previous chapter, if Illinois comes into the Federal Rural Credits System the initial capital for the Federal Debenture Bank of that state will be \$6,666,767, while the state itself by the act of the legislature would agree to keep invested an equal sum in the debentures of such bank. This would provide \$13,353,534 in funds for the Federal Debenture Bank of Illinois—none too much for an agriculture having seven billions of

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capital invested, not to mention the vast interests of her people in related industries.

The State Gets an Advantage, even on this basis, in that the government represented by Federal Rural Credits Company assumes practically all the risk by putting up all the initial capital, the state's investment in debentures coming ahead of and being a lien upon the assets prior to the capital stock.

In other words, any state may come into the new Rural Credits System by taking a first lien on the assets of its debenture bank to the amount of its investment, besides having the same further guaranteed 100 per cent in the form of the initial capital supplied from Washington, while the debentures themselves are guaranteed principal and interest.

The table on pages 48-49 gives the statistics for each state in great detail, as to initial capital, amount of investment by each state, and total funds that may thus become available.

The State always is to have adequate representation on the directorate of its debentures.

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ture bank, to still further safeguard the State's investment in the debentures thereof.

The Members of Each Debenture Bank consist of existing banking institutions within the State, whether under national or state laws, who become members by investing in its shares in the same proportion that they buy shares of their Federal Reserve Bank.

Federal co-operative agricultural associations must invest 10 per cent of their capital in the debenture bank of their state, while co-operatives otherwise incorporated also may become members.

Both types of membership are to be fully represented on the directorate of the debenture bank.

Eliminate Washington—Net earnings of a debenture bank, over and above the dividends and accumulations permitted, should be sufficient gradually to buy in and be substituted for the shares of initial capital held in Washington.

As Washington's interest is reduced, her

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representation on the directorate is reduced likewise until, when the member capital and earnings have retired all of the Washington interest, the Federal Debenture Bank becomes owned wholly by its members within its State. Then only its Custodian remains as a Federal director, although at that time and thereafter the bank of course continues to be an integral part of the whole rural credits system, and subject to the oversight of Federal Rural Credits Board, thus insuring continued co-operation with the debenture bank in each of the other states.

No Joint and Several Liability is imposed upon any debenture bank. Each is responsible for its own obligations. Each tub stands on its own bottom.

This is an important principle. In one sense, it is a concession to state rights; in another sense, it is an inducement for the people in any state to retire as soon as may be all of the shares in its debenture bank held by Washington.

Many of the States never would submit to having their debenture bank jointly and

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severally liable for the debts of similar institutions in other states. So to do might burden the strong banks with the poverty of the weak banks. It might tempt one institution into extremes of hazard which it would not be willing to assume if it felt that it alone was responsible.

The Federal Debenture Bank of Iowa, for instance, would willingly and could safely go far in helping out a crisis such as befell her corn belt farmers in the autumn of 1921, when the price of that great staple was arbitrarily, unfairly, unjustly, uneconomically and wrongfully depressed and deflated to the point of ruin. But the Iowa bank would not wish to be responsible directly or indirectly, in part or in whole, or jointly or severally liable, for the obligations of say the Texas bank, which at the very same juncture might be tempted to go "long" on cotton paper if it knew that its responsibility therefor could be shunted off on to the other debenture banks.

Yet an Outright Guarantee of both principal and interest of all the debentures issued by any or all of the debenture banks is

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highly desirable. It will add greatly to their attractiveness to investors and banking institutions. It will make them more fluid—more salable, more available, more popular.

One feature of the bill herewith original with the author is such a guarantee from Federal Rural Credits Company itself. This will put back of every debenture issued, in addition to all the security represented thereby, all the net assets of that great Company.

Before it will authorize an issue of debentures which it must thus guarantee principal and interest without reservation, Federal Rural Credits Company obviously will use meticulous care to see that every detail of and all the securities for such an issue are A 1. Thus investors will be still further assured of the reliability in every way of each and every federal debenture.

However, this does Not Involve any debenture bank in joint and several liability. The Washington company might be wiped out of existence, if such a thing is imaginable, without necessarily impairing the

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financial integrity of conservatively managed debenture banks.

Such a guarantee of principal and interest also works out as a further inducement for the people in any state to retire promptly the federal capital in their debenture bank.

This plan may or may not make the debentures of every bank equally salable at equal quotations in various markets, but it will promote that desirable result.

Some of the Pending Bills would enforce joint and several liability upon all debenture banks, for the reason that the same policy is applied to all the federal land banks. However, there is a material difference in the securities and hazards of the two systems.

The federal land bank has to do only with underlying first mortgage bonds to an amount that averages considerably less than 50 per cent of the fair value of the property. Its contracts are over a long term of years, mostly within a range of 20 to 33 years, thus still further minimizing any possible hazard.

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The Rural Credits System, on the contrary, is based on paper running from six months to three years, or upon real estate obligations running five years and secured by second mortgages on federal first farms, or on first mortgages upon the real estate owned, occupied and used by co-operative associations.

To be Made Legal Investment for Trust Funds, at least within the State in which the debenture bank is located, is so advantageous to investors within the state as well as beneficial to borrowers that no legislature can reasonably object to this policy. In view of all the safeguards to both principal and income of federal debentures, they certainly are entitled to the recognition of trust funds.

Probably, too, the net return to the investor on these debentures will average somewhat higher than upon other investments which in reality are no better secured if as well. The truth of this statement will be appreciated by many a trustee who during 1919-21 saw well seasoned securities of the first water shrink dangerously in value.

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The Powers of a Federal Debenture Bank are so specifically defined in the bill as to commend themselves to the sound judgment of statesmen and bankers, economists and financiers as well as of the general public, including farmers, dealers and manufacturers. All these details of the bill need only to be read with discriminating care to carry conviction.

It may not only buy government securities, federal farm loan bonds and federal debentures, but the bank may buy or sell agricultural loans, live stock paper, commodity paper or real estate mortgage obligations. Upon such securities and or cash, the bank may issue its own debentures, but only upon a conservative margin of safety.

The Margins Required, as described in section 17 are 20 per cent for agricultural loans, 15 per cent for live stock paper, 10 per cent for commodity paper and 5 per cent for real estate obligations. In addition to this margin, it must be remembered that all such paper will carry the indorsement of the co-operative association or bank by

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which it was discounted with the debenture bank.

The local institutions will in the first instance make these loans of the four classes proposed only with an adequately safe margin. Furthermore, the paper runs for only six months to three years, when it must be paid off in full or be heavily reduced before renewal.

Therefore, security is well provided for all along the line from the original borrower to the final investor.

Other provisions of the bill govern and control all the technical details pertaining to the debentures so as to deserve the confidence with which these securities will be greeted when they first appear on the market—a confidence that is as certain to be strengthened as it is certain that people must be fed in order to live.

The Strict Limit of the amount of debentures which may be issued by any one Federal debenture bank is a further safeguard to the investor. No such bank may issue debentures in excess of ten times the amount of its capital and surplus.

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The security it may accept for such debentures is not only carefully prescribed and a generous margin thereon required, but paragraph 4 of section 13 also limits the amount of the securities which the bank may accept from any number.

Far be It from Me to assume that my proposals for these debenture banks are in every way perfect, but I consider these banks absolutely essential to the system desired.

Co-operative associations, live stock loan companies and local banks—state, national or federal—are the foundation stones, debenture banks are the superstructure, while the keystone to the arch of rural credits is the Federal Rural Credits Company, all closely supervised by Federal Rural Credits Board.

Objection May Be Made to the state as such investing its funds in the debenture bank even of its own state. But it will be seen that such a bank is a quasi public institution. And every dollar invested by the state in its debentures will be expended

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wholly within the state to build up its agricultural and related industries.

Yet the state is not asked to assume any risk by investing in the capital of a debenture bank. This point is made very clear in the paragraphs above emphasizing the advantage the state gets in buying debentures instead of shares.

Another purpose of specifying such an advantage, was to overcome all the objections, on the grounds of selfishness, expediency or constitutionality, to the state investment of funds in debentures.

Stronger reasons and better arguments can be advanced for such an investment of funds by the state than for many of the things in which a state's monies are invested or for which the state's income is expended. A few years ago, Minnesota was investing its surplus in the low rate bonds of Louisiana, while Minnesota farmers were put to it to get high rate mortgage money!

It may be unconstitutional in certain states for the state treasurer to make such an investment. Of this there is grave doubt, however. In one or two cases where the

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point has been raised, a careful weighing of the provisions of the state's constitution seems to indicate that only an act of the Legislature would be required to enable and authorize state funds to be invested in the debentures of the federal debenture bank for that state.

Should it be Determined that an amendment is necessary to any state constitution to warrant such action in almost any such state the necessary majority of the electorate could be depended upon to authorize an amendment of this character.

The importance of state co-operation along the lines indicated is so great as to justify all reasonable efforts to bring it about. All the more true is this by the method proposed wherein the members of each debenture bank eventually will own it outright after having replaced all of the initial capital.

It has been suggested, however, that possibly a clause might be inserted in the bill to provide that, if the constitution of any state made its direct co-operation imprac-

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ticable, the debentures first issued to an amount equal to the initial capital might be underwritten or subscribed for by persons or corporations within the state. Where there's a will, a way can be found out of this difficulty should it arise.

Real Estate Obligations deserve special discussion, because of certain prejudices that exist in financial minds, also on the part of the public, against even first mortgages on certain forms of business real estate, still more so against second mortgages on farms.

Here again the inadequacy of previous methods of financing such real estate obligations, plus the machinations of middlemen, have operated unfairly to the detriment of this form of security.

I maintain that under the methods to be perfected by the Rural Credits System, a debenture bank may loan a conservative amount against a first mortgage on real estate for the agricultural business or agricultural purposes of incorporated co-operative associations. Especially will this be true since no such mortgage may be for a

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longer term than five years, nor for more than \$20,000, nor in excess of 50 per cent of the bank's own appraisal, and the bank is to hold 5 per cent of its face amount as a reserve against the loan.

These loans will be made only on property like elevators, creameries, warehouses on track and similar facilities, always useful for commercial purposes and for those dealing in the necessities of life. The properties will be scattered, the risk small, insurance in excess of the loans. In practice, borrowers will be obliged gradually to reduce their loans instead of carrying them in full to the five-year maturity.

Farm Mortgages Second to a federal first also possess a basic value greater than heretofore has been recognized generally. The amount that any federal land bank will lend on a farm owned, occupied and worked by the borrower averages probably less than 40 per cent of what the farm would ordinarily sell for under reasonably normal conditions. The burden of interest is light, and experience now for some years, including the period of the most terrible collapse in

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values in American agriculture, prove that the amount of arrearages of interest is almost negligible.

Furthermore, the borrower must reduce the principal of his obligation by about one-half of 1 per cent every six months, thus steadily increasing the equity against the loan.

For these reasons the likelihood of failure or foreclosure of a first mortgage held by a federal land bank is extremely remote.

Consequently it is true that a mortgage second to such a federal first may be quite as good as the ordinary first mortgage heretofore, with its relatively onerous terms and comparatively large amount.

Provided such second mortgage does not exceed 25 per cent of the federal land bank's appraisal valuation and 10 per cent thereof is held by the debenture bank as a reserve against it, a reasonable number of these second mortgages will form good stuff for any debenture bank to own, the more so as it is provided that no such second mortgage may exceed \$5,000 in amount, and the in-

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terest rate thereon obviously will be rather attractive.

In practice, also, borrowers on seconds will be able as well as required gradually to reduce their loans, thus further insuring the equity.

These first and second mortgages with not over five years to run are collateral for the five-year debentures. My knowledge of agriculture and my judgment as to farm finance over a period of many years, convinces me that long before the proposed Rural Credit System is ten years old, its five-year debentures secured by these real estate obligations may command as good or better markets than shorter term rural credit instruments.

CHAPTER SIX

COOPERATIVE ASSOCIATIONS

WHILE the American farmer is extremely individualistic and independent, stern necessity of late years has forced him to realize the power of associated effort. The success of the cooperative local units of the Federal Farm Loan System (national farm loan associations) and the substantial development of co-operative marketing among farmers, make them today more ready than ever for united effort.

The Fear of Joint Liability has kept many farmers from co-operating with their neighbors. "While relatively few farmers heretofore have kept books of account, nearly all farmers know at all times about where they stand financially. This is one reason why they shun everything in the nature of several and joint obligation for the debts of others. So many farmers have suffered loss by personal endorsement of

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others' paper, or by becoming personally responsible for the obligations of unincorporated effort, that now they dread anything of the kind, just as a burned child dreads the fire."

Another Reason for this conviction is the farmer's high sense of financial responsibility. In banker's parlance, he may be slow, but almost inevitably the farmer is good for anything he contracts for. Indeed, this is one secret of the present vast and constantly increasing agricultural trade. Because the responsible farmer has such a high sense of personal and financial integrity, is another reason why he is loath to incur anything in the nature of unlimited liability.

Many a farmer has joined with his neighbors in informal effort at buying together or selling together, only to find that some one member or a very few irresponsibles fail to carry their share, which he pays as a moral debt, though he has no legal obligation to do so.

This speaks well for the credit of the re-

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sponsible farmer at the same time that it suggests business efficiency in dealing with the relatively few irresponsibles, and enforces the need of practical means of helping farmers to help themselves.

Brilliant Success has been achieved, on the other hand, by farmers' co-operative marketing associations, farmers' elevators, co-operative creameries, mutual fire insurance companies, livestock shipping associations and other co-operative enterprises in which each member's liability is strictly limited yet which enjoy all the benefits of associated effort through efficient management.

When farmers join a Federal incorporation they know that their liability is strictly limited to twice the amount of money they pay for their shares. Each and all know that every member has paid in his money on the same basis. They realize that the success of such an incorporated corporation upon the co-operative plan depends upon the extent to which it is patronized by its members, as well as upon the business ability with which it is conducted.

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Recognition of These Essentials inspires the confidence that breeds success. By starting on this basis and adhering to it, any form of associated effort rests on a firm foundation, for it cannot be reiterated too often that co-operation is "not a new plan of transacting business, but rather a different method of dividing the fruits of industry. The same principles that govern business success in acquiring profit on capital," apply to the acquirement of savings to co-operating creditors and to the insurance of fair returns to investors in federal debentures.

Industry, application, perseverance, good judgment, expert knowledge, sound administration, economy, honesty, wise choice of risks, insistence upon regular payments, enforcement of contracts, all are as much required in the cooperatives to be chartered under the Federal Rural Credits act, as they are needed for the successful conduct of each national and state bank which is under the federal reserve system.

The Individual Farmer is quick to recognize these truths. That is why the bill sub-

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mitted strictly limits the farmer's liability in any federal incorporated co-operative agricultural association, or in a federal co-operative bank, to double the amount of the par value of his shares therein, as always has been the case with national banks.

Thus to Double the Backing of such an institution adds much to its strength while strictly and safely limiting each member's liability.

Any farmers' paper accepted for rediscount by such an association or by any bank may be depended upon to be relatively "good." The indorsement thereon of the local institution that rediscounts it, is backed up by the assets thereof and by double the responsibility of all its members.

Add to this the collateral which accompanies such paper, and it will be seen at once why the debentures issued upon such security are certain to be popular for the investment of funds over periods of from six months to three or five years, especially as the same are amply margined under Section 17.

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Because the new system is to be thus firmly and fully backed up by the confidence, co-operation and collateral of the individual farmer, as well as of his co-operative enterprises, it will be seen that the method outlined in the proposed bill is insured prompt and permanent success.

Co-operative Associations. Next to the individual farmer, the Rural Credits System proposed is based fundamentally upon local units composed of five or more farm producers. The Act (Section 23) requires them to operate upon the co-operative principle, by which is meant—to quote the precise definition in Section 1—“co-ownership and operation in which each member has only one vote regardless of his share holdings and capital is limited to reasonable interest, profits in excess thereof being apportionable in dividends among those who create the profit.”

Such a group may obtain a federal charter, but if incorporated under state law may also share in the benefits of the new system. In common language, it will be called a

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“local association,” or still more briefly, a “local co-op.”

It May Be Conducted for “agricultural purposes,” defined as including “the cultivation of lands, planting, harvest, assembling, grading, distribution and marketing of crops, and the purchase, breeding, feeding and marketing of live stock.”

Also it may operate “agricultural business,” which the bill defines as including “the ownership and operation of real estate and commodities required for agricultural purposes, including plants co-operatively owned by producers for the manufacture or preparation for market of dairy products and other agricultural products, and as further defined in paragraph 7 of section 1.

Each Share Has a Par Value of five dollars, and each member has only one vote regardless of the number of shares owned. Shareholders shall be held individually responsible for all contracts, debts and engagements of such association, each to the amount of his stock therein at the par value

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thereof in addition to the amount invested in such stock.

In other words, a member's liability is strictly confined to twice his investment in the shares, the same as has always been true of stock in national banks.

Its Powers. If created under the proposed Act, a federal co-operative agricultural association must become a member of the Federal Debenture bank for its state, as specified in Paragraph 24 of Section 8 of the bill.

In addition to its other functions, the local co-op is authorized "to purchase, sell, discount, issue and to negotiate live stock paper, agricultural loans, commodity paper and real estate obligations as defined by this Act, or federal farm loan bonds or United States bonds and United States certificates of indebtedness". It may rediscount such paper with its Federal Debenture Bank, and under certain circumstances such paper with its indorsement acquired by any national or state bank may be rediscounted with the Federal Reserve.

However, the privileges of such paper in

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the federal reserve are carefully safeguarded as described in Chapter Nine of this book and in Title III of the bill so as to guard against pumping into the Federal Reserve System any material quantity of paper having a maturity in excess of six or twelve months.

How Organized. The blank form to be signed by farmers who wished to form a Federal co-operative agricultural association probably will be obtainable from the Federal Debenture bank of its state or from Federal Rural Credits Board at Washington, D. C.

The only limit to the number of farmers who may apply for a charter is that they shall be not less than five. Other things being equal, the larger the number of farmers who join in making the application, the better.

When the application has been approved by Federal Rural Credits Board, it will issue a charter to the local, and the latter may then proceed with its business, subject to rules and regulations made by said Board.

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The Capital Required to start with is not less than \$1000 paid up in cash. This capital may be increased as the business develops.

There is nothing to prevent the local from borrowing additional funds wherever it may obtain the same. If the co-op is doing only a little business, a little capital will suffice. If it needs \$10,000, or \$100,000 of permanent capital to successfully conduct its operations, it is free to increase to any extent required.

No Charge May Be Made by the local to any member for a loan or any form of financial accommodation in excess of the rates and amounts prescribed by Federal Rural Credits Board.

The bill provides most stringent penalties for any infraction of this rule.

Throughout the bill every possible means are provided to insure individuals and institutions within the System from having to pay any form of undue, unfair, unearned or illegal fee, bonus, commission or perquisite. It is proposed to forestall and cut out the

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whole scheme of graft to which farmer borrowers for years have been subjected. All such forms of plucking must stop.

No Limitation is imposed upon the territory with which a co-op incorporated under the Act may do business. There is nothing to prevent two or more groups being chartered in the same locality or region. No restriction or combination is possible in the nature of a trust for the restraint of trade in either buying or selling.

The Honor of Serving upon the directorate of a co-operative association has come to be highly esteemed. This honor will be all the greater in a co-op chartered under the proposed federal statute.

It is expected that no salary or perquisite of any kind shall be paid to any of the directors or committees, except to such as officers and employees as devote practically their entire time to the work.

The proposed system, therefore, is based upon patriotic voluntary service by those whom the members honor by election to the directorate. This principle of volun-

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tary service in return for distinction bestowed, is the principle upon which has been developed during the past 200 years the purely mutual savings banks that have done so much to promote thrift and prosperity throughout New England.

The same principle has been employed by the local co-operative building and loan associations, thousands of which are being conducted successfully and at minimum cost by wage earners. Other forms of associated effort in economic affairs, as in social and religious affairs, have long demonstrated the high character of ability that is ready to give voluntary service.

The Local Must Report Annually to Federal Rural Credits Board. It is subject to audit by the Board's examiner.

In various ways its operations are safeguarded. Failure "to comply with the just and legal orders, rules and regulations of the Board, or failure to meet its obligations, shall warrant the Board in withdrawing and forfeiting its charter," whereupon it shall liquidate forthwith.

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In practical operation the audits and examinations of the locals probably will be under the supervision of the Debenture bank of which the local is a member.

CHAPTER SEVEN

MISCELLANEOUS FEATURES

MANY OTHER FEATURES of this subject in addition to those elsewhere covered in this book, remain to be considered. No attempt has been made to treat exhaustively each of the manifold details, of this great proposition.

Enough has been presented, however, together with the quite complete draft of the proposed bill, to afford some insight into the subject. The present chapter treats of various matters not elsewhere fully touched upon.

The Attractive Investment for saving and other funds, for a period of from six months to three or five years, offered by Federal debentures, is a profoundly important feature of the system. In every state, in every community, are individuals, trustees or institutions which always have more or less funds for investment. They may not want to tie

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up this money in permanent investments like the Liberty bonds, federal farm loan bonds, municipals, or long term securities. On the other hand, these people do not want to buy commercial paper or acceptances coming due in thirty, sixty or ninety days. They are not in the banking business and do not want to get into it.

But they would gladly buy Federal debentures, especially as this paper could be bought with maturities in from six months to three or five years to meet the views of any investor. These debentures could be bought and sold at every existing bank as well as through all brokers, agents and other market channels.

Objections May be Made by the bankers who would prefer to have these people keep their money on deposit instead of investing it. But in practice, banks and bankers would not lose much of any deposits in this way.

The money thus invested in debentures would simply pass into the hands of borrowers, who would use it in their business or to pay their debts. The money would

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stay in the community. Its presence and its activity would fructify all lines of business, including agriculture and the farm trade. Such increase in business prosperity would be reflected in larger deposits in national or state banks and trust companies.

This Change gradually would come about: More cash and credits would be retained and employed in each rural community, instead of being drained away to the larger centers. Country banks would not have to send their temporarily idle funds to their correspondent bank in the reserve cities, for the purpose of saving loss of interest until it could be used at home. Nor would country banks be forced to invest so much of their funds in the commercial paper of large industrial and railroad enterprises that center in the great cities.

Both such uses for current funds would continue to be employed by country and city banks, but not necessarily as largely as heretofore. Federal debentures running off at convenient dates, month after month, would be attractive paper in any bank's portfolio. The more that funds could thus

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be retained in the community, the better would be the business of any and all commercial banks.

Thus to Keep Money at Home, by educating and encouraging the people in each locality to invest their savings and current funds at least temporarily in Federal debentures secured by local paper, means an aggregate of millions saved and applied to productive industry in local communities which otherwise may be wasted or frittered away.

All this means better business in every line of industry, and especially among banks and bankers, throughout rural communities and in towns and cities.

The Division of Earnings of the system is carefully provided for in section 20. All earnings of Federal Rural Credits Company, after it has acquired a surplus of 50% of its capital, go to the United States as franchise tax.

In view of the experience of the Federal Reserve System, and in spite of the insurance against excessive rates and

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charges in the proposed bill, it is doubtless true that these earnings will be extremely satisfactory from the standpoint of revenue to the United States Treasury.

Yet the benefits conferred by the System amply warrant it in paying rates and charges which may net the Treasury a lucrative franchise tax.

As the money invested by Federal Rural Credits Company in shares of the debenture banks is not entitled to dividend, it is all the fairer, simpler and more expedient that all the net earnings of that parent of the System shall accrue to the government as a franchise tax.

On the Other Hand, this plan goes far to insure that the member capital invested in the shares of each Federal Debenture Bank shall receive 6%, cumulatively. Thereafter the bank's earnings go into its surplus until that fund reaches 25% of its capital, when it may pay an extra dividend of 2% per annum. Excess earnings then go to surplus until it amounts to 50%.

Then remaining profits of each debenture bank must be used to buy back and retire at

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par the shares subscribed for in the first instance by Federal Rural Credits Company. Here again it is conservative to believe that earnings, plus new member capital, will enable the debenture banks thus to pay back within a reasonable time all the initial capital that was advanced by Washington.

Thereupon the balance of each bank's extra earnings all goes to the United States as a franchise tax. It is believed that the revenue which the government will obtain from this source may total even more than its prospectively large income from the net earnings of Federal Rural Credits Company.

It will be seen that the new system recognizes the wages of capital to be an expense, second only to the wages of labor and of other expenses. After capital is paid the reasonable returns permitted, the government receives as a franchise tax the entire earnings of the national and state phases of the rural credits system.

Building-Loan Associations. Just the

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difference between being an owner, or a tenant or hired man, may be governed by the extent to which such people take advantage of the facilities for cashing farm mortgages second to federal first mortgages which my bill affords. But why should it be extended to farmers and not to other people?

Partly because nearly every wage earning or salary earning person can enjoy the privileges already long established whereby he may with relative ease and convenience acquire the ownership of a home of his own. The local co-operative building and loan association is the most perfect institution for this purpose ever devised. The great number of these local co-ops, the vast aggregate of their thousands of loans, and the extent to which large numbers of people already have acquired or are now paying for homes of their own, is a record as honorable as it is gratifying.

This form of self-help, however, calls for monthly payments by its member borrowers. Hence it is not adapted to farmers,

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whose income is spasmodic or seasonal rather than coming at regular intervals.

Fake Competitors—So pronounced has been the success of the genuine co-operative building and loan associations, that certain spurious or speculative types of competition have developed.

One such type is the notorious installment-deposit-loan concern, which obtains depositors by specious promises of big loans at nominal rates. The history of this type shows it to be founded upon a delusion and a snare. Being based primarily upon the lottery principle, it garners in its victims by loans to those who draw early or lucky numbers (dates), while the chances of the late comers obtaining loans become more and more remote, according as their numbers or dates are belated. The whole history of these fakes is such a record of disastrous failure that it is surprising that such schemes should still be permitted anywhere within the United States.

Veterans Are Recognized by two outstanding provisions.

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In the first place, all the charges customarily authorized to be collected by banks, associations or others under the Act for services performed, are not to be imposed in the case of a veteran. The only exception to this is such registration fees and the like as are required by existing law.

Furthermore, the definition of the term "veterans" is sufficiently broad to cover all those who have honorably served their country in or since the Spanish war of 1898, including specifically women in service as nurses or otherwise.

Another proviso in the special interest of veterans is the proposed amendment to the Farm Loan Act, extending its privileges to veterans whose farms are as small as one acre in extent. Under the farm loan system, the census basis of three acres as the minimum for a farm is recognized in theory, but in practice first mortgages are seldom placed through any federal land bank upon a farm smaller than 10 acres in size.

I feel that this proposed amendment may enable veterans to acquire little farms of

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their own, by means of federal first mortgages supplemented by second mortgages financed through debenture banks.

And all the institutions and individuals concerned or employed in financing such veterans' realty loans should perform such service "free gratis for nothing," and gladly, too.

The cold truth, however, is that many a service man, instead of being helped by lenders, agents, brokers and even banks, at times has been unmercifully plucked or otherwise imposed upon when he attempted to get a little farm or home of his own. Put it right into the law that our veterans shall have this service performed without charge, so far as this may be done legally! Of course, regulations will be framed to obviate any abuses that possibly might be practiced under this proviso.

Women Are Showing exceptional ability in financial matters and in the administration of practical business. Hence the bill specifically provides that nothing therein

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shall be held to debar women from any office or position named therein.

It is altogether true that much of the success achieved by men often is due directly or indirectly to the guidance, encouragement or judgment of wife, mother or sister. In agriculture, especially, the wife often has more business acumen than the husband.

As to the Taxation of securities issued under the proposed Rural Credits System, much can be said.

For thirty years the author labored to establish the principle that notes secured by first mortgages on farms, or the bonds or credit instruments issued against such collateral to an amount not exceeding the taxable value of the property, should be free of all tax whatsoever other than inheritance taxes. This for the reason that the real estate is taxed as such in the first instance. Subsequently to again tax any instrument representing such realty is double taxation of the rankest kind.

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This viewpoint has been sustained by the United States supreme court upholding the constitutionality of the non-taxable features of the Federal Farm Loan Act.

Conditions Are Widely Different, however, in rural credits. Even in its real estate department, the new system deals with first mortgages only upon the business property of co-operatives. Doubtless the bulk of the business of this department will be in second mortgages upon farms owned, occupied and worked by their owners whose first mortgage is held by a federal land bank.

In the latter class, many of the loans will be for an amount which, together with the balance outstanding upon the first mortgage, may even exceed the taxable value of real estate mortgage. And surely there is no possible ground upon which to claim taxation upon that portion of a mortgage obligation which exceeds the taxable value of the real estate held as security.

On the other hand, co-operative associations will be competitors of other persons in commercial business whose property,

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goods and instruments of credit are subject to taxation according to the laws of the state. To exempt the co-ops and to tax their competitors certainly would be unfair discrimination.

No such favors are asked by the co-operative movement. Its demand is simply for "a fair field and no favors."

Personal Security for credit instruments, whether in the form of mortgages on chattels or otherwise, differs still more widely from the real estate and securities of the Federal Farm Loan System. Wherein is the justice or logic of exempting from taxation such rural credit instruments?

The General Welfare of all the people, in other vocations as well as in agriculture, of course is subserved by any fair means which relieves agriculture of undue burdens. A strong argument also may be advanced for encouraging investment in rural credit instruments by providing that such paper, the principal of which does not exceed in the aggregate \$5,000 "owned by one person," may be tax exempt.

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In view of all the foregoing, and of the many arguments, pro and con, upon this or other phases of the tax problem, the bill submitted adopts the phraseology of the Norbeck measure. This also seems to be favored by some of the farm organizations which have taken a positive stand against any form of tax exemption. S 3639 would exempt rural credit securities issued prior to July 20, 1925, while thereafter subjecting them to income and property tax. Weigh the footnote in connection with section 22.

Live Stock Loan Companies are not to be incorporated under the proposed federal Act. Such corporations always have been under state law. The nature of the business is such that a cattle loan company necessarily must be circumscribed in the area of its operations, so that its officers may be personally familiar with each security offered as well as with each borrower.

Cattle paper has won enviable confidence in certain financial circles because these precautions, and the character of the men identified with such paper—borrower, lend-

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er, broker and discounter—have been such as to justify that confidence.

A mortgage on chattels with four legs may easily stray out of its bailiwick. I recall how, as a boy in Colorado, in "the good old days before the crime of '73," my father was paying $4\frac{1}{2}\%$ a month in advance on his chattel mortgage. The rush for the Black Hills started from our town. When I urged my father to join the rush and start the first paper in the Black Hills, his principal objection was that his property was mortgaged and could not be moved until the debt was paid, to which the boy replied excitedly:

"That's nothin', everybody here's mortgaged. They are taking their mortgages with 'em. The sheriff is going along, too. He says the mortgages will be no good after we get our stuff over the line into Wyoming or Dakota. We can make money so fast in the Black Hills that we can pay our debts and still have a big wad to the good!"

It Is Equally True Today that every proper precaution may well be employed to insure the security of cattle paper. Long

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and stern experience emphasizes this truth. Every cattle man and western banker realizes it and agrees to this statement.

Yet in spite of all these precautions insuring its stability, borrowers on live stock too often have had to pay commissions, interest or discount to well nigh extortionate rates. Yet experience shows that, one year with another, or over a series of years, live stock may not fluctuate in value any more than grain or cotton, or stocks and bonds on Wall Street. Every wise means that tends safely to facilitate the mobilization of live stock as a basis of sound credits, has a tendency to improve the standing of live stock paper, to broaden its market and to reduce its cost to the borrower.

The Bill Provides that a live stock loan corporation under the laws of whatever state incorporated may be examined by Federal Rural Credits Board, and after having its approval, live stock paper issued by such company and upon which it has borrowed from any national or state bank, co-operative association or federal co-operative bank, shall be entitled to full recogni-

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tion for rediscount, not only in the Rural Credits System but also (to a wisely limited extent) through the Federal Reserve system. Under Title III, the bill specifically provides a larger discount market for live stock paper. Indeed, Section 2 of that Title in its third paragraph actually provides:

“(B) Notes, drafts or bills of exchange secured by chattel mortgage upon live stock may be discounted with a maturity not exceeding two years, provided such live stock is at the time of discount being prepared for market under such conditions that it will be ready for market on or before the date of maturity of such note, draft or bill.”

The Bank which in the first instance loans upon live stock paper will satisfy itself that such paper complies with the conditions stated. Having done that, and the leading bank being a member of the Federal Reserve, the cattle paper thus safeguarded is eligible for rediscount by any member bank with its Federal Reserve bank, to an extent not exceeding the limit prescribed by the Federal Reserve board.

Right here it should be observed again

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how carefully the bill avoids any possible interference between or complication with the Federal Reserve, the Rural Credits or the Farm Loan Systems. Each are independent, but dovetail into the service of the common weal.

Without setting up the complicated machinery for a special or independent system of live stock loans, as some of the other bills propose, the draft herewith aims to embody the essentials of those measures. In a word, it is hoped that due and ample, as well as safe and sound provisions are made in the bill herewith for the handling of cattle paper as an important part of one comprehensive federal rural credits rather than as a separate and distinct institution.

CHAPTER EIGHT

FEDERAL CO-OPERATIVE BANKS

AN INTEGRAL PART of an efficient Rural credits system must allow the people in any neighborhood or community to establish a little local bank of their own upon the co-operative principle. Let it receive deposits, make loans and transact any or all commercial business the same as any institution under the national bank act and laws amendatory thereof.

Too much cannot be said in favor of granting the common people the privilege of doing their own banking for their own benefit. And instead of opposing this idea, many of the larger banks favor it. They realize that the customers of these little co-operatives, both depositors and borrowers, will be mostly of the class that do not now do business with existing banks of discount. In this way these little banks may be feeders for larger institutions, either directly by depositing with the latter, or by educating

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great numbers of people into banking practice who as they attain a competency may become customers of larger institutions.

In Rural Districts and little communities where even a small national bank could not expect to operate profitably, the little co-op may thrive and do good service because of its simple plan, low expenses and co-operative support.

The value of the little institution to its clientele will not be measured merely by its service in receiving deposits or making loans. Its educational value will be most marked.

Indeed, it has been suggested already that a little co-operative bank could serve as an admirable school of instruction for the senior class in the agricultural high school or consolidated school in any county or community. Boys and girls as well as adults could be shareholders, would make their little deposits therein and borrow therefrom for financing their club work in buying and feeding poultry, pigs, calves, beeves or in crop raising or other activity.

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Title Two of the bill herewith provides briefly but comprehensively for federal co-operative banks. Each member has but one vote regardless of the number of shares, so that it would be impossible for banks under this title to be manipulated by "chain" operators. As a further precaution, one person may hold shares only in one such bank.

The shareholder is liable for the debts of the bank only to the par value of its shares standing in his name, thus avoiding the double liability imposed upon national banks or federal co-operative agricultural associations. Congress may think it best, however, to impose the usual double liability.

Starting with at least \$5,000, the little federal co-operative bank may go ahead and do business under the national banking laws. It thus comes under the supervision of the Comptroller of the Currency and of the Federal Reserve Board. It is a very little cog in the big wheel of the country's system of commercial finance, subject to the same supervision, laws, rules and regulations as national banks.

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When it gets big enough it must even join the Federal Reserve System.

It Is Obligatory that each Federal Co-operative Bank become a member of the debenture bank of its state, by investing therein not less than 10 percent of the co-op's cash capital.

This is a much larger proportion than is required of either national or state banks, but it is none too much. These little institutions, being a minor but important feature of the whole system of co-operative finance or rural credits, will mostly serve the local farming community of moderate means, who need its facilities for small deposits, checks and current loans, in order to supplement the service done for such people by their co-operative agricultural association or debenture bank.

As a member of its debenture bank, the co-operative institution may rediscount its paper therewith—another reason why at least one-tenth of its capital and surplus should be invested in shares of the debenture bank.

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A Real Estate Department in any federal co-operative bank, also in any national bank, is provided for in section five of title two.

This is done so conservatively and prudently that with suitable management such a department may be of real service to the community and profitable to the bank without interfering with its commercial department.

The bill provides that, the real estate department must be wholly segregated from the other departments of the bank. Not less than five percent nor more than ten percent of the institution's capital and surplus may be segregated to and employed by this department.

It may invest in United States securities, federal farm loan bonds or federal debentures. It can also loan to nearby co-operative associations secured by their real estate.

The little bank also may loan on first mortgages on farms within thirty miles of the bank and also may take a second mortgage subject to the federal land bank's first

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lien. These mortgage loans must not be for more than five years.

This is an even closer restriction than existing law applies to national banks.

Any national bank outside of a central reserve city is now authorized to make loans upon improved and unencumbered farm lands within its federal reserve district or within a radius of 100 miles, irrespective of district lines for not longer than five years, or upon other real estate for not longer than one year up to not exceeding 50 percent of the actual value of the property. Such loans in the aggregate may equal 25% of its capital and surplus or one-third of its time deposits.

Savings Department—In practice, however, national banks do not freely exercise their privilege of making loans on real estate. Evidently it was enacted in connection with the clause that "Such banks may continue hereafter as heretofore to receive time deposits and to pay interest on the same."

This quotation is the only warrant in law

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for the savings departments of national banks, a feature of their operations which has been much criticised as absorbing popular savings for commercial purposes in contra-distinction to and without the safeguards of the mutual savings banks, which are the secret of much of New England's thrift and prosperity but which are relatively unknown west of the Hudson River.

Of course Federal co-operative banks likewise might have a savings department.

Small Loans will be especially popular with these little co-operative banks. Many American banks and bankers of late years have encouraged small deposits, but I do not know of any of them that have encouraged the business of making small loans.

They are glad enough to get the little deposits of little people, but they are averse to making little loans to little people. This may be because such petty business "costs more than it is worth" under present methods of banking with its relatively large overhead expenses.

Yet the Bank of France actually makes millions of loans every year in sums of 100

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francs or \$20. It even employs an army of collectors to go out and collect its notes when due, instead of having the borrower come to the bank as is the usual custom in the United States.

Undoubtedly there is a large field for these little co-ops in making petty loans. This business can be so simplified that the expense will be nominal, the chances of risk reduced to a minimum, and the rate therefore may be made reasonable to the small borrower for the first time in American history.

Towns and Cities possibly may offer a limited field for the activities of these little people's bank. Experience may show that, under the auspices of labor unions, charitable organizations or eleemosynary institutions, a Federal Co-operative Bank may be developed to encourage thrift and to supply small loans and current credits to people of very limited means. With such facilities for self-help these people who today are below the level of the classes that patronize existing banking institutions, may be en-

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abled to help themselves to a better estate gradually and slowly, but surely.

It is an economic sin that this large constituency should have been so long deprived of such an agency, or forced to submit to Shylock extortion in order to obtain the loans or credits required to meet imperative necessities. At least there can be no objection to offering this constituency the help to self-help which may be afforded by a Federal Co-operative Bank. The successful operation of one such institution might alone be worth, as an example for others, all the effort involved in the enactment of the bill submitted.

The Absence of this type of little commercial bank upon the co-operative principle is a grave defect in the financial system of the United States. This defect is not remedied by the so-called credit unions which, originally created under the laws of Massachusetts, now exist in several other states, notably North Carolina. Excellent in their way, credit unions are not banks, they are not quite in keeping with the cus-

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toms of the American people and have not proven of particular efficacy.

There is no valid reason why the common people should not be encouraged to have little banks of their own. To be sure, this will put some extra work upon the office of the Comptroller of the Currency at Washington, but that is a petty matter compared to the great advantages that may accrue to such of the masses as work together to establish, patronize and conduct a Federal Co-operative Bank.

Let a Labor Union in any community start such a little bank of its own, and develop the same gradually under the tutelage of national supervisors, this of itself will enable those organizations to get an experience and acquire a knowledge that may be of constructive value to them and their members.

Righteous ideas of thrift, proper financing by lowly people, will be conserved best through their individual and associated experience in little co-operative banks of their own.

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“O P M.” is a formula that has done much harm. Certain institutions, groups or individuals have waxed fat by the manipulation of “Other People’s Money”, but this gives them no vested right to manipulate the little savings of the little people for the benefit of selfish interests or big combinations.

The wage earner, the person of really small means, women and children—each is a capitalist. The prejudice against capital, in the minds of some of these people, is prejudice against capital in big bunches, not in the small amounts that they possess!

When as a boy I hit the city of Denver with only ten cents in my pocket, the boy went without a couple of meals until he could begin earning at least something, for he said to himself: “As long as I have got ten cents in my pocket, I am a capitalist. If I spend that I am broke—up against it, busted!”

And it may be added as a fresh illustration of the power of small savings that to keep down his expenses during his first week in Denver the lad slept on old news-

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papers under the printing office bench. When he received his wages of \$10 the first Saturday night, he paid \$5 for his meals which he had obtained on credit, sent \$5 to his father who was in need, and still had his original ten cents in his pocket. The joy of that triumph still lingers in the memory, for the boy tasted the priceless pleasure of having met and conquered the world!

The least that our national financial system can do to encourage young and old to similar thrift, greater effort and larger success, is to authorize the common people to employ their own savings, their own resources and their own character in the development of their own finances through their own federal co-operative banks.

CHAPTER NINE

FEDERAL RESERVE AMENDMENT

IT IS UNDOUBTEDLY true that the Federal Reserve System was of immeasurable service to every interest throughout the United States, especially prior to and during the war. But for the facilities afforded by this system, it would have been well nigh impossible to have handled the gigantic financial operations of the war period.

It is equally true that, in the sudden and drastic deflation of 1919-21 the Federal Reserve took a prominent part. The evidence seems to show, however, that its most drastic policies were forced upon the Federal Reserve Board by the then Secretary of the Treasury, D. F. Houston.

With all its faults of omission or commission, however, the usefulness of the System has been amply demonstrated. It is something to be wisely used but not unfairly abused.

Also it is true that only a comparatively small number of all the banks in the United

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States as yet are members of the Federal Reserve. These member banks carried the load and sustained the responsibility of the system during the critical period, while the much larger number of non-member banks shared in the benefits of the system but escaped its responsibilities.

At the Most Critical Period in the financial history of this country about 30 June 1921, out of a total of 30,748 banks in the United States, only 9,745 were members of the reserve system. Of these member banks, 8,150 were national banks which, under the terms of their charters, must become members of the system. The remaining 1595 member institutions were state banks, which had applied voluntarily for admission to the system. Furthermore, of the 8150 national banks that were members at that date, no less than 7730 were classed as country banks, 374 were national banks in reserve cities and 46 were nationals in the central reserve cities.

Of the 1595 state banks and trust companies that were members, 55 were in central reserve cities, 198 were in other reserve

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cities and 1342 were other banks which may be classed as "country banks".

State banks have been coming into the system since, but at the date named out of 21,003 non-member banks in the United States, no less than 19,672 were state banks and trust companies, 623 were mutual savings banks and 708 were private banks.

Some Non-member Banks, especially in the smaller cities and rural communities, carried the deflation policy to an extreme. When remonstrated with, they "passed the buck" to the Federal Reserve, yet were not even its members! The detailed table on page 142 affords illuminating insight into this situation.

It should not be allowed to continue. Many member banks are insistent that these non-members be brought into the system forthwith. "If they won't come in voluntarily they should be forced in".

Indeed, some bankers have gone so far as to suggest that any state banking institution, other than mutual savings banks, which fails to join the Federal Reserve System within say six months from the amend-

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ment to the reserve Act proposed herewith, should be denied the privileges of the United States mails!

They ask why should the government allow non-member banks to use the mails, when the alternative seems to be the only way in which the federal government can force recalcitrant state banks into the system.

“We Take Pride in the fact that we are not members and have not even rediscounted any paper with any correspondent bank that is a member of the Federal Reserve System”, say some non-members. But practically every banker who is a member and who uses the Reserve System recognizes the fallacy of such pride. In almost every case non-member banks often fail to extend the accommodation to which their customers were reasonably, safely and morally entitled.

The Federal Reserve System was erected for the use of all the banks and all the people all the time. Any institution which stays out of the system for fallacious reasons may easily find itself unable to do its

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full duty toward its customers and the people of its bailiwick in times of storm and stress.

Many a banker who was loath to join the Federal Reserve system has learned by experience of its great merit and the value of the insurance which it offers. Non-members may well imitate such men.

The Failures of Banks in former times was partly due to lack of thrift in a community. Banking failures also were brought about by a spirit of speculative adventure or reckless plunging—characteristics which occur more frequently among people where the thrift instinct is not generally prevalent.

The disgraceful frequency with which bank failures occurred in former years was due also to the absence of any such mobilization of banking resources and of credits as has been brought about under the Federal Reserve System. Before it went into effect, however, too many of the so-called average bankers opposed it or other plans for safeguarding finance. Among bankers, as among men in other vocations, leaders of broad vision, men of understanding of the

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science as well as of the art of banking, are not overly numerous.

Men of this type knew why it was that, during the twenty years ended with 1910, banks failed in the United States at the rate of about one bank every four days! These men who can see all around the problem realize today that under the safeguards outlined herein, as well as those provided by existing law, the little federal co-operative banks I suggest doubtless would make a better record for success in the coming twenty years than did state and national banks during the twenty years referred to in which they "went broke" at the rate of one bank about every four days.

Co-operative Enterprises in former years also harvested a big crop of failures, but experience and better organization, coupled with more knowledge and forced by necessity, insures success in many of the properly financed co-operative undertakings of the present day. I feel sure, therefore, that this adequate method for rural credits with its Federal co-operative banks,

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together with associations for the co-operative assemblage, grading, packing, distributing and marketing of produce, is certain to make a record in accomplishing its purpose even more favorable than was the banking record for the two decades cited.

The Co-operative Idea is the very basis of the whole Federal Reserve System. Each member of a Federal Reserve bank has only one vote in its affairs and in the election of representatives on its directorate. The bank with \$100,000,000 of resources has no more voting power or influence than an institution with only \$100,000, although the latter's holdings in shares of the reserve bank are infinitely smaller than the former, though upon the same percentage basis.

The mobilization of banking brought about through the reserve system is fundamentally co-operative. In view of the great benefits resulting therefrom, how or why can any interest oppose granting to people of very limited means the privileges of co-operative banking for their own benefit, as outlined for federal co-operative banks.

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The First Amendment proposed in the bill herewith strikes out the following provision in existing law:

“Provided that notes, drafts and bills drawn or issued for agricultural purposes or based on live stock and having a maturity not exceeding six months, exclusive of days of grace, may be discounted in an amount to be limited to a percentage of the assets of the Federal Reserve Bank, to be ascertained and fixed by the Federal Reserve Board.”

In Lieu Thereof, broader provisions for the discount of agricultural and live stock paper are proposed in Section two of the amendments.

Not only member banks of the Federal Reserve, but Federal Rural Credits Company or any federal debenture bank, it is suggested, may discount agricultural or live stock paper having a maturity of not exceeding six months.

It is further urged that the discount privilege be extended to agricultural paper when secured by warehouse receipts conveying

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title to readily marketable and non-perishable agricultural products, when within one year of maturity. But the Federal Reserve Board is to draft regulations designed to insure that only such paper shall be discounted as is "a part of a program of orderly marketing of such agricultural products and not for speculative holding."

Live stock paper, thoroughly secured by chattel mortgage may be discounted with a maturity not exceeding two years, but only in case the live stock is being prepared for market under such conditions that it would be marketable on or before such paper matures.

The Present Limit for the discount of farm or live stock paper is six months, while commercial paper is limited to three months but as a matter of fact is subject to repeated renewal.

The longer terms proposed—up to one year on certain agricultural paper and up to two years on live stock instruments of credit, are very much needed. The amendments provide against this privilege being abused,

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as Federal Reserve Board may prescribe the extent to which any member bank be allowed to discount such longer term paper.

Strong Opposition is voiced to any such extension of the discount privilege. The opponents are of three classes:

(a) Large and wealthy institution that do not favor any policy which may have a tendency to liberalize this service that banking can render to the agricultural and live stock industries at other than high rates. This objection has little standing because based upon selfishness.

(b) Really competent students of finance who fear the introduction into the Federal Reserve of any paper whatsoever having longer than six months maturity. These fairminded authorities seem to dread allowing federal reserve notes, which so largely compose the cash of the country, to be issued against either non-perishable agricultural products or live stock, even when either or both are practically enroute to the consumer.

Such critics admit that cloth, copper,

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lumber and practically any and all other merchandise enroute from producer to consumer is a safe basis upon which to issue federal reserve notes for a limited time. But is not the food which must be consumed and that must be paid for before it is consumed an even better basis for such credits than other forms of merchandise which are not nearly so indispensable as human food?

The Third Objecting party is most numerous. It is composed mainly of people who look wise but who do not know what they are talking about! The less they know as to the science of exchange and the art of banking, the more loudly they oppose the slightest innovation upon the system.

This party is most numerous among the officials and directors of the large majority of banks that are not even members of the system. That bunch "holler" the most against any evolution, yet have never done a thing to support the system as it is! Of course opposition from such a source should have no weight before the public or in Congress.

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Admittance to the Reserve is granted to smaller banks as described in Section 3. Under the present law the bank must have at least \$25,000 paid up capital in order to become a member of its Federal Reserve Bank.

The amendment now proposed also would allow any federal co-operative bank to become a member when it attains the amount of paid up and unimpaired capital required of national or state banks.

No valid objection can be raised to either of these modifications. Indeed every reasonable effort should be made to encourage all banks, the small as well as large, to join the Federal Reserve system, provided only that they are sound, regardless of their size.

Indeed, a smaller bank often is much closer to its customers than larger institutions. At least the smaller bank may better serve the people of limited means who most need encouragement to thrift and reasonable facilities for employing their little credits to economic advantage.

A New Feature is the granting to member

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banks, by section 4 of the proposed amendments, the right to discount their direct obligations when secured by notes of Federal Rural Credits Company or by Federal debentures, or to rediscount paper thus secured.

The Discount Privilege is also extended to export paper issued by Federal Rural Credits Company pursuant to section 7 of Title I, which paper is amply secured by warehouse receipts and has not more than one year to run.

Federal debentures issued by any Federal debenture bank also may be discounted in the Federal Reserve when within one year of maturity, according to paragraph 4 of section 2 of the amendments outlined under Title III.

It Is Conservative to say that all these amendments tend to strengthen and not weaken the Federal Reserve System. Most of these changes already have been sponsored by substantial authorities. They are further justified by the experience of War Finance Corporation. They do not infringe

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upon the safety or efficiency of the reserve system.

Rules for the use of the privileges proposed will be made by Federal Reserve Board in a way to accomplish maximum efficiency at minimum of hazard.

Because Heretofore the Federal Reserve has confined its discounts so largely to commercial paper, including also paper representing deals of a highly speculative character, it has come to be the fashion with a certain element in the banking fraternity to take firm ground against any liberalizing of the discount privilege. But going back a few years we would find many of these same gentlemen wholly opposing the Reserve System itself.

What is there about grain, flour or cotton, when it has passed from the producer into the hands of the speculator which so transforms its character as to make it better collateral? To be sure, that process tends to make the product more mobile and to that extent more salable or pushes it further along enroute to the ultimate consumer who must pay for it before he can

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get it. But the organization herein proposed for intermediate credits imparts similar mobility to such products when in the hands of the producer.

Right here we get down to the real nub of the opposition. The present or old plan operates primarily in the interest of the middleman—of the speculator who would profit from the producer's inability of finance himself. My plan aims to mobilize products while still in the producers' hands, and to do this through an organization and a system and with a safety, stability and availability that will make these products even better security than heretofore.

MEMBERSHIP IN FEDERAL RESERVE

NUMBER OF MEMBER AND NONMEMBER BANKS IN EACH
STATE AS OF THE END OF JUNE 1921.

STATE	TOTAL NUMBER			MEMBER BANKS	NONMEMBER BANKS			
	Member Banks	Non- member Banks	All Banks	National Banks	State Banks and Trust and Companies	State Banks and Trust Companies	Mutual Savings Banks	Private Banks
Maine	64	94	158	61	.	52	42	.
New Hampshire	56	70	126	56	.	25	45	.
Vermont	49	59	108	49	.	39	20	.
Massachusetts	193	277	470	162	31	80	197	.
Rhode Island	20	28	48	17	3	13	15	.
Connecticut	69	154	223	64	5	67	80	7
New York	601	478	1,079	505	96	238	143	97
New Jersey	265	137	402	220	45	111	26	..

RURAL CREDITS SYSTEM

STATE	TOTAL NUMBER			MEMBER BANKS	NONMEMBER BANKS			
	Member Banks	Non-member Banks	All Banks	National Banks	State Banks and Trust Companies	State Banks and Trust Companies	Mutual Savings Banks	Private Banks
Pennsylvania	917	690	1,607	861	56	559	10	121
Delaware	22	33	55	18	4	31	.	.
Maryland	96	189	285	90	6	172	17	..
Dist. of Col.	16	31	47	15	1	31	.	..
Virginia	190	321	511	174	16	321	.	..
West Virginia	132	218	350	123	9	217	1	..
North Carolina	102	539	641	87	15	539	.	..
South Carolina	99	361	460	81	18	361	.	..
Georgia	165	558	723	95	70	558	.	..
Florida	68	204	272	56	12	204	.	..
Alabama	125	233	358	107	18	233	.	..
Mississippi	34	321	355	31	3	321	.	..
Louisiana	50	219	269	36	14	219	.	..
Texas	749	860	1,609	557	192	833	.	27
Arkansas	118	370	488	83	35	370	.	..
Kentucky	145	457	602	134	11	457	.	..
Tennessee	113	457	570	98	15	457	.	..
Ohio	459	673	1,132	375	84	549	3	121
Indiana	274	809	1,083	252	22	637	5	167
Illinois	574	1,319	1,893	494	80	1,319	.	..
Michigan	276	461	737	117	159	407	.	54
Wisconsin	189	809	998	153	36	802	7	..
Minnesota	371	1,165	1,536	341	30	1,156	9	..
Iowa	458	1,345	1,803	354	104	1,245	.	100
Missouri	169	1,503	1,672	131	32	1,500	.	3
North Dakota	185	669	854	180	5	669	.	.
South Dakota	152	548	700	134	18	548	.	.
Nebraska	207	977	1,184	186	21	977	.	.
Kansas	275	1,104	1,379	267	8	1,104	.	.
Montana	202	218	420	143	59	211	.	7
Wyoming	51	104	155	47	4	103	.	1
Colorado	146	253	399	143	3	250	.	3
New Mexico	57	69	126	50	7	69	.	.
Oklahoma	379	602	981	359	20	602	.	.
Washington	150	250	400	96	54	250	.	.
Oregon	129	156	285	96	33	156	.	.
California	355	377	732	309	46	376	1	.
Idaho	129	87	216	83	46	87	.	.
Utah	64	65	129	28	36	65	.	.
Nevada	11	24	35	11	.	24	.	.
Arizona	25	58	83	21	4	58	.	.
TOTAL	9,745	21,003	30,748	8,150	1,595	19,672	623	708

Appendix

Full Text of Bill Drafted
by the Author

for the

Rural Credits System
of the United States

THE BILL PROPOSED

To provide credit facilities for the orderly marketing of agricultural products, and for the preservation and development of agriculture and of the livestock industry of the United States; to extend and stabilize the market for United States bonds and other securities; to provide fiscal agents for the United States; to amend the Federal Reserve Act; to provide for Federal Co-operative banks, and for other purposes.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled. That the short title of this act shall be the "Rural Credits Act of 1922."

DEFINITIONS

Paragraph 1. Section 1. That the ^{Member} term "member," unless otherwise specified shall be held to mean any bank or association which has subscribed to, paid for and owns stock in the Federal Debenture bank for the state in which the member is domiciled to the amount required by this Act, and who has received a certificate of membership issued by the board of directors of said bank.

FOR RURAL CREDITS

Agricultural purposes

P 2. The term "agricultural purposes" shall be held to include the cultivation of lands, the planting, harvesting, assembling, grading, distribution and marketing of crops and the purchasing, breeding, feeding and marketing of live stock. or the ownership thereof.

Agricultural business

P 3. The term "agricultural business" shall be held to include the ownership and operation of real estate and commodities required for agricultural purposes, including plants co-operatively owned by producers for the manufacture or preparation for market of dairy products and other agricultural products or for producing, buying, selling or storing any merchandise, goods or commodities which may be required for or employed in agricultural purposes.

Agricultural loans

P 4. The term "agricultural loans" shall be held to mean loans, the proceeds of which have been used or are to be used for agricultural purposes and agricultural business as defined by this Act, exclusive of live stock paper, commodity paper or real estate obligations.

Live stock paper

P 5. The term "live stock paper" shall be held to mean notes, drafts, bills of exchange or accept-

THE BILL PROPOSED

ances issued by a company incorporated under the laws of any state which is authorized by law to make, and the principal business of which shall consist in making, loans and advances on the security of live stock, such live stock paper to be secured by the notes given to it for loans on live stock together with the chattel mortgages securing such obligations. Provided that only the paper issued by live stock loan companies approved by the Federal Rural Credit Board and issued to an amount not exceeding ten times the paid in cash capital, may be discounted or sold through the Federal Rural Credits System.

P 6. The term “commodity paper” shall be held to mean credit instruments secured by relatively non-perishable agricultural products in warehouses, fully insured, and represented by warehouse certificates issued by warehousing associations or corporations approved by Federal Rural Credits Board. ^{Commodity paper} Commodity paper also shall be held to include credit instruments secured by chattel mortgages, bills of lading, shipping documents or other instruments in writing conveying and securing marketable title to agricultural products, including live stock products but not live animals.

FOR RURAL CREDITS

Co-operative association

P 7. The term "co-operative association" shall be held to mean any association upon the co-operative principle composed of five or more persons duly incorporated pursuant to this Act or under the laws of the state in which its principal office is domiciled, and which association is approved by Federal Rural Credits Board engaged in producing staple agricultural products, organized for the purpose of marketing in an orderly manner agricultural products belonging to the members composing such association, or for conducting co-operatively an agricultural business for supplying its members with any commodities they may require for agricultural purposes, such product by agreement having been transferred to the association as security for the obligations of such association.

Real estate obligations

P 8. By the term "real estate obligations" is meant (a) first mortgages upon real estate owned by incorporated co-operative associations for agricultural purposes or agricultural business; (b) second mortgages upon farms, the first mortgage on which is held by the Federal Land Bank for the district in which the Debenture bank is lo-

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cated, both (a) and (b) being strictly limited according to section 13 of this Act.

Co-operative principle

P 9. By the term "co-operative principle" is meant co-ownership and operation in which each member has only one vote regardless of his shareholdings, and capital is limited to reasonable interest, earnings in excess thereof being apportionable as dividends among those who create the profit.

Veteran

P 10. The term "veteran" means any individual, a member of the military or naval forces of the United States in the war with Germany, the war with Spain or in suppression of the insurrection in the Philippines and honorably discharged therefrom or placed in the regular army or naval reserve, or any woman who was officially enrolled in such services and is still in such service or honorably discharged therefrom.

FEDERAL RURAL CREDITS BOARD

P 1. Section 2. That there is hereby established at the seat of government in the Department of the Treasury a bureau charged with the

FOR RURAL CREDITS

execution of this Act and all Acts amendatory hereof, to be known as the Federal Rural Credits Bureau, under the general supervision of the Federal Rural Credits Board.

How appointed

P 2. Said Federal Rural Credits Board shall consist of five members, including the Secretary of the Treasury, who shall be a member and chairman ex-officio, and four members to be appointed by the President of the United States, by and with the advice and consent of the Senate. Of the four members to be appointed by the President, not more than two shall be appointed from one political party, and all four of said members shall be citizens of the United States.

Qualifications

P 3. Each member of the board shall be a resident in and fairly representative of a different geographical region of the United States, and each of them shall be experienced in agriculture and finance. Each of said four members shall receive an annual salary of \$12,000 payable monthly, together with actual and necessary traveling expenses. Any member receiving from the United States any salary or compensation for services shall not receive a salary from the board and Federal Rural Credits Company in an amount

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which, together with such salary or compensation from the United States, makes the total amount of such salary or compensation and of such salary from the board and Company exceed \$12,000. Each member shall devote his entire time and attention to the duties of the board.

Terms—superintendent

P 4. One of the members to be appointed by the President shall be designated by him to serve for two years, one for four years, one for six years and one for eight years, and thereafter each member so appointed shall serve for a term of eight years, unless sooner removed for cause by the President, which cause shall be reported to the Senate. One of the members shall be designated by the President as superintendent, and he shall be the active executive officer of said board. Each member shall within 15 days after notice of his appointment take and subscribe to the oath of office.

First meeting

P 5. The first meeting of the Federal Rural Credits Board shall be held in Washington as soon as may be after the passage of this Act, at a date and place to be fixed by the Secretary of the Treasury.

FOR RURAL CREDITS

Disinterested

P 6. No member of the board shall during his continuance in office be an officer or director of any other institution, association or partnership engaged in banking or finance. Before entering upon his duties as a member, he shall certify under oath to the President that he is eligible under this section.

Vacancies

P 7. The President shall have power, by and with the advice and consent of the Senate, to fill any vacancy occurring in the membership of the board; if such vacancy shall be filled during the recess of the Senate, a commission shall be granted which shall expire at the end of the next session.

Custodian

P 8. The Federal Rural Credits board shall appoint a Custodian for each Federal Debenture Bank to receive applications for issues of Federal debentures and to perform such other services as are prescribed by this Act. It shall appoint as many debenture bank appraisers and examiners as it shall deem necessary. Said Custodian, appraisers and examiners shall be public officials, and shall, during their continuance in office, have no connection with or interest in any other institution, association or partnership engaged in

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banking or similar business; provided, that this limitation shall not apply to persons temporarily employed by the board to do special work.

Paid by United States

P 9. The salaries and expenses of the Rural Credits Board, custodians, appraisers and examiners authorized under this section shall be paid by the United States.

Others paid by company

P 10. The board shall be authorized and empowered to employ such attorneys, experts, assistants, clerks, laborers and other employees as it may deem necessary to conduct the business of said board. All salaries and fees authorized in this section and not otherwise provided for shall be fixed in advance by said board, and shall be paid by Federal Rural Credits Company. All such attorneys, experts, assistants, clerks, laborers and other employees, and all custodians, examiners and appraisers shall be appointed without regard to the provisions of the Act of January 16, 1883 (Vol 22 U S statutes at large, page 403), and amendments thereto, or any rule or regulation made in pursuance thereof.

Reports

P 11. The board shall annually make a full report of its full operations to the Speaker of the

FOR RURAL CREDITS

House of Representatives who shall cause the same to be printed for the information of the Congress.

Regulations

P 12. The board shall have power to prescribe all necessary rules and regulations for the enforcement of the provisions and for carrying out the purposes of this Act.

Examinations

P 13. The board shall from time to time require examinations and reports of condition of all Federal debenture banks or federal co-operative agricultural associations established under the provisions of this Act, and shall publish consolidated statements of the results thereof.

Other bodies

P 14. The board may require similar information from live stock loan companies or cooperative associations incorporated under state law before approving same for membership in any debenture bank.

Quorum

P 15. Three members of the board shall constitute a quorum for the transaction of its business.

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POWERS OF FEDERAL RURAL CREDITS BOARD

P 1. Section 3. That the Federal Rural Credits board shall have power—

Debenture banks

P 2. (a) To organize and charter Federal Debenture Banks subject to the provisions of this Act.

Fix rates

P 3. (b) To establish, review and alter at its discretion the rate of interest to be charged by Federal Debenture Banks or by co-operative associations or live stock loan companies for loans or advances or for purchases of paper made by them under the provisions of this Act, said rates to be uniform so far as practicable.

Debentures

P 4. (c) To grant or refuse to Federal Debenture Banks authority to make any specific issue of Federal debentures.

Regulations

P 5. (d) To make rules and regulations respecting all charges made for or in connection with business transacted under this Act.

P 6. (e) To prescribe all necessary rules and regulations for the enforcement of the provisions and for carrying out the purposes of this Act.

FOR RURAL CREDITS

Examinations

P 7. (f) To require reports and statements of condition and to make examinations of all banks, associations or corporations doing business under the provisions of this Act, other than Federal Co-operative banks.

Debentures—surety

P 8. (g) To describe the forms and terms of Federal debentures, and the form, terms and penal sums of all surety bonds required under this Act, and all such other surety bonds as they shall deem necessary, such surety bonds to cover financial loss as well as faithful performance of duty.

Supervision

P 9. (h) To exercise general supervisory authority over the debenture banks, co-operative associations or livestock loan companies herein provided for.

Removals

P 9. (i) To suspend or to remove for cause any director, official or employee of any Federal Debenture Bank, or any Custodian, or examiner or other officers appointed by said board under authority of this Act, the cause of such suspension or removal to be communicated in writing to the board by the person suspended, and in case of a

THE BILL PROPOSED

debenture bank director, officer or employee, to the said bank; and to remove incompetent or dishonest officials of any federal co-operative agricultural association incorporated hereunder.

Other powers

P 10. (j) To exercise such incidental powers as shall be necessary or requisite to fulfill its duties and carry out the purposes of this Act.

FEDERAL RURAL CREDITS COMPANY

Name

Section 4. That the Secretary of the Treasury and the other four members of the Federal Rural Credits board hereby are created by a body corporate and politic in deed and in law by the name of "Federal Rural Credits Company," hereinafter referred to as the Company. This coporation shall have succession until dissolved by Act of Congress.

Capital

P 1. Section 5. That the original capital stock of the Company shall be \$500,000,000 divided into shares of a par value \$100 each, all of which shall be subscribed by the United States of America and paid for and reduced by the retirement of capital stock of the War Finance Corpo-

FOR RURAL CREDITS

ration, and the transfer and liquidation of its assets in the following manner :

Liquidates war finance corporation

P 2. The War Finance Corporation, within ninety days from the date upon which the Company hereby created is authorized by the President to commence business, shall, after depositing with the Treasurer of the United States a sum sufficient to retire all outstanding obligations of the War Finance Corporation and making provision for the payment of any and all other liabilities, transfer and deliver to the corporation hereby created all of the assets, of every kind and description, belonging to or held by or for account of the War Finance Corporation, including all moneys on deposit with the Treasurer of the United States or other depository, all bills, notes, drafts, and other evidences of debt, and all securities and property of every kind and description, including office furniture, equipment, fixtures and supplies, wherever situated, which said assets shall forthwith be and become the property of said Company.

Successor

P 3. The War Finance Corporation having paid or provided for all its outstanding liabilities

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and transferred all its assets as hereinbefore provided, the entire capital stock of the War Finance Corporation held by the United States, amounting to \$500,000,000, shall thereupon be retired and canceled, and simultaneously the corporation hereby created shall issue with the retirement and cancellation of the capital stock of the War Finance Corporation its capital stock in an equal aggregate amount in the name of the United States and deliver the same to the Secretary of the Treasury, who shall have power on behalf of the United States to assign and transfer such certificates in the manner and for the purpose provided by this Act.

Powers—privileges

P 4. All assets so transferred to the Federal Rural Credits Company shall be taken up on its books at the value at which such assets are carried on the books of the War Finance Corporation and the amount by which such assets exceed \$500,000,000 shall be carried into the surplus fund of the Company. In the liquidation of such assets the Company shall succeed to and be vested with all the powers, rights, and privileges of the War Finance Corporation.

Capital reduced

P 5. When the Company has received the sum

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of \$250,000,000, either upon the transfer of the cash assets or from the liquidation of other assets, all further sums received as a result of the transfer to it of the assets of the War Finance Corporation shall be carried into a special account and deposited with the Treasurer of the United States and from time to time applied to the retirement of the capital stock of the corporation held by the United States until the stock so held by the United States shall be reduced to \$250,000,000. Provided, however, that the entire capital stock of the corporation shall at no time be reduced to an amount less than \$250,000,000. All sums paid to the Treasurer of the United States in retirement of the capital stock of the corporation shall be covered into the general fund of the Treasury as miscellaneous receipts.

P 6. That the principal office of the corporation shall be located in the District of Columbia, but agencies or branch offices may be established as hereinafter provided or under rules and regulations prescribed by the board of directors.

POWERS OF COMPANY

P 1. Section 6. That the Company shall have power, subject to the limitations prescribed by this Act—

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By-laws

P 2. (a) To prescribe by its board of directors by-laws regulating the manner in which its general business may be conducted and the privileges granted to it by law may be exercised and enjoyed.

Powers

P 3. (b) To exercise by its board of directors or duly authorized officers or agents all powers specifically granted by the provisions of this Act, and such incidental powers as shall be necessary to carry on the business for which it is incorporated, within the limitations prescribed by this Act.

Capital in debenture banks

P 4. (c) To invest its capital in shares at par of any Federal Debenture Bank as defined by this Act at the rate of \$1,000 for each million dollars of value of all farm property within the state for which said bank is established, as shown by the fourteenth census of the United States, and to purchase debenture issued by any such bank or make advances or loans thereto. Provided, that in any state wherein such total value of all farm property is under \$500,000,000, the Company shall invest its capital in said shares to the amount of \$500,000; except, that in any State

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where such values total less than \$100,000,000 said investment shall be \$100,000.

Discounts

P 5. (d) Upon the indorsement of any Federal Debenture Bank, which indorsement shall be deemed a waiver of demand, notice, and protest by such bank as to its own indorsement, to discount notes, drafts, bills of exchange or other evidences of debt representing agricultural loans or live stock paper, commodity paper or real estate obligations as defined by this Act.

Buying paper

P 6. (e) To purchase in the open market or otherwise from any cooperative association incorporated hereunder, or from any agricultural co-operative association or live stock loan company incorporated under the laws of any state and approved by Federal Rural Credits Board, live stock paper, agricultural loans, commodity paper or real estate obligations as defined in this Act bearing proper indorsement or to make loans on promissory notes of incorporated cooperative associations secured by commodity paper.

Buys Bonds

P 7. (f) To subscribe for, acquire, and own,

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buy, sell, and otherwise deal in the bonds and other obligations of the United States, or Federal Farm Loan bonds to such extent as the directors from time to time may determine.

Agencies

P 8. (g) To establish agencies in any city or cities of the United States under rules and regulations prescribed by the directors.

Reserve discounts

P 9. (h) To discount with any Federal Reserve bank paper eligible for rediscount under the Federal Reserve Act and owned or issued by the Company.

U. S. depository

P 10. (i) To act, upon request of the Secretary of the Treasury, as depository of funds belonging to the United States Government and to perform any other service as fiscal agent of the United States.

Guarantee

P 11. To guarantee the principal and interest of Federal Debenture bonds issued pursuant to this Act as specified in Section 16 hereof.

Sell certificates

P 12. To issue and sell its notes or certificates of indebtedness in an amount not to ex-

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ceed the sum required to enable it to fulfill the provisions of Section Seven hereof.

Temporary powers

P 13. For a period of six months after the President has authorized the Company to commence business said Company, subject to conditions and limitations contained in this Act which apply to transactions with Federal Debenture Banks and under such rules and regulations as the directors may prescribe, shall have power to purchase or rediscount notes, drafts, bills of exchange and other evidences of debt for, and to make loans and advances to banks and to corporations of the character referred to in this Act which have not become member corporations: Provided, however, that all such rediscounts, loans and advances and all renewals thereof shall mature within a period of one year from the date of the passage of this Act, and from and after the expiration of said six months' period no renewals shall be granted and no rediscounts, loans or advances shall be made except as provided in this Act.

EXPORT CREDITS

Abnormal surplus

P 1. Section 7. That whenever the board of

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directors of the Company shall be of the opinion that general business conditions have resulted in or may result in an abnormal surplus accumulation of any staple agricultural product of the United States or lack of remunerative market for the sale of the same or that the ordinary banking facilities are inadequate to enable producers of or dealers in such products to carry them until they can be manufactured, processed, exported or sold for export in an orderly manner, the Company shall thereupon be empowered to make advances, for periods not exceeding one year from the respective dates of such advances, upon such terms, not inconsistent with this Act, as it may determine;

Advances, domestic

P 2. (a) To any person engaged in the United States in producing, dealing in, or marketing any such products, or to any incorporated co-operative association engaged in producing or marketing such products, for the purpose of assisting such person or association to carry such products until they can be manufactured or processed or sold for domestic consumption or for export in an orderly manner. Any such advance shall bear interest at a rate not exceeding 1 per centum in

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excess of the discount rate for six months agricultural paper prevailing at the Federal reserve bank of the district in which the borrower is located at the time the advance is made and shall be secured by adequate security of such character as shall be prescribed by the directors. The Company shall retain the power to recall any such advance or to require additional security at any time.

Advances, foreign

P 14. (b) To any person without the United States purchasing such products, but in no case shall any of the money so advanced be expended without the United States. Every such advance shall be secured by adequate security of character to be prescribed by the directors. The rate of interest charged on any such advance shall be determined by the directors. The Company shall retain the power to recall any such advance or to require additional security at any time.

Advances to bank

P 15. (c) To any bank, banker, or trust company in the United States which makes or has made an advance or advances to any such person as is described in paragraph (a) of this section for the purpose therein set forth or which makes

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or has made an advance or advances to any producer for the purpose set forth in paragraph (a). The aggregate of the advances made to any bank, banker, or trust company shall not exceed the amount remaining unpaid of the advances made by such bank, banker, or trust company for the purposes herein described. Such advances shall bear interest at rates determined by the directors.

P 16. (d) The aggregate of all such advances or of securities purchased pursuant to this Section shall not at any time exceed \$500,000,000.

Security

Sec. 8. P 1. That all advances made under section seven of this Act shall be made against promissory note or notes, or other instrument or instruments in writing, imposing on the borrower a primary and unconditional obligation to repay the advance at maturity, with interest as stipulated therein, with full and adequate security in each instance by indorsement, guaranty, pledge, or otherwise. The Company shall retain the power to require additional security at any time.

How payable

P 2. All notes or other instruments evidencing advances to persons outside of the United

FOR RURAL CREDITS

States shall be in terms payable in the United States in gold or currency of the United States and shall be secured by adequate guaranties or indorsements in the United States, or by warehouse receipts, acceptable collateral, or other instruments in writing conveying marketable title to agricultural products in the United States, all under rules and regulations to be approved by Federal Rural Credits Board.

FEDERAL DEBENTURE BANKS

One in each state

P 1. Section 9. One Federal Debenture Bank may be organized in each state by the Federal Rural Credits Board. The initial capital of said bank shall be an amount equal to \$1,000 for each one million dollars of total value of all farm property in said state, as shown by the fourteenth census of the United States. Such initial capital shall not be increased or decreased, but may be replaced as hereinafter set forth. Provided that in any State wherein such total value is under \$500,000,000, the Company shall invest said shares to the amount of \$500,000, except that in any State wherein such values total less than \$100,000,000 said investment shall be \$100,000.

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Initial shares

P 2. The shares representing the initial capital shall be of a par value of \$100 each, all of which shall be subscribed and paid for in cash by Federal Rural Credits Company, which shall have one vote for each of said shares it holds.

Title

P 3. There shall be only one Federal Debenture Bank in each state of the United States, the name of which shall include the name of the state, together with the words "Federal Debenture Bank," and it shall not be lawful for those words to be used in any other title under penalty of \$1000 for each day during which such violation is committed or repeated.

Temporary directors

P 4. Each Federal debenture bank shall be managed temporarily by five directors appointed by the Federal Rural Credits board. Said directors shall be citizens of the United States and residents of the State. They shall give a surety bond, the premium on which shall be paid from the funds of the bank. They shall receive such compensation as the Rural Credits Board may fix, payable by such bank. They shall choose from their number, by majority vote, a president, a

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vice-president, a secretary and a treasurer. They are further authorized and empowered to employ such attorneys, experts, assistants, clerks, laborers and other employees as they may deem necessary, and to fix their compensation, subject to the approval of the Federal Rural Credits board.

Application

P 5. Said temporary directors shall forthwith under their hands apply for a charter to the Federal Rural Credits board in an organization certificate which shall specifically state:

P 6. (a) The name assumed in such bank.

P 7. (b) The amount of its initial capital stock and the number of shares into which the same is to be divided.

P 8. (c) The fact that the certificate is made to enable such persons to enable themselves of the advantages of this Act. Such certificate shall be acknowledged before a judge or clerk of some record or notary public and together with the acknowledgment thereof, by the seal of such court or notary, shall be transmitted to the Superintendent of Federal Rural Credits Board who shall record and carefully preserve the same in his office, where it shall be at all times open to public inspection.

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Charter

P 9. When the application has been approved, the Federal Rural Credits Board shall issue a charter for such debenture bank whereupon it shall become, as from the date thereof, a body corporate, and as such and in the name designated in its charter, shall have power—

P 10. (1) To adopt and use a corporate seal.

P 11. (2) To have succession until it is dissolved by Act of Congress or under the provisions of this Act.

P 12. (3) To make contracts.

P 13. (4) To sue and be sued, complain, interplead, and defend, in any court of law or equity, as fully as natural persons.

Directors, officers

P 14. (5) To elect or appoint directors, and by its board of directors to elect a president and a vice president, appoint a secretary and a treasurer and other officers and employees, define their duties, require bonds of them, and fix the penalty thereof; by action of its board of directors dismiss such officers and employees, or any of them, at pleasure and appoint others to fill their places.

By-laws

P 15. (6) To prescribe, by its board of directors, subject to the supervision and regulation

FOR RURAL CREDITS

of the Federal Rural Credits Board, by-laws not inconsistent with law, regulating the manner in which its stock shall be transferred, its directors elected, its officers elected or appointed, its property transferred, its general business conducted, and the privileges granted to it by law exercised and enjoyed.

Incidental powers

P 16. (7) To exercise, by its board of directors or duly authorized officers or agents, subject to law, all such incidental powers as shall be necessary to carry on the business herein described.

Action by state

P 17. Provided that no Federal Debenture Bank shall begin business in any State until said State by act of its Legislature shall have decreed that the debentures issued by such banks shall be a legal investment for all funds administered by courts, trustees, savings banks, state banks, trust companies or other corporations incorporated under laws of said state or doing business therein; provided further, that the State shall agree to buy at par with the state's funds the first debentures issued by said bank to an amount not to exceed the initial capital thereof paid up by the Federal Rural Credits Company, and further

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agrees to have not less than that sum constantly invested in said debentures. When the state shall have taken such action the board of directors of the Federal Debenture Bank therein shall be increased to seven members, the additional two members being appointed by the Governor of the state or otherwise as its legislature may direct and shall serve until the permanent organization is effected.

Permanent directors

P 18. After said debenture bank shall have been in operation for not less than two consecutive years, a permanent board of seven directors shall be selected in the following manner: four of such directors shall be known as Federal directors, and shall be chosen by Federal Rural Credits Board as representative of the national interest which has supplied the initial capital. Of these Federal directors, one shall be chosen for one year, another for two years, a third for three years and the fourth for four years; thereafter their term of office shall be four years. The remaining three shall be known as state directors. One of them shall be appointed by the governor or as the state legislature may direct and be representative of the

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state's interest invested in the bank's debentures. The remaining two directors shall be chosen by and be representative of the member shareholders, one serving for two years and the other for three years. Vacancies that may occur in the Federal directors shall be filled for the unexpired term by the Rural Credits Board, in other cases by the governor of the state.

Qualifications

P 19. Each director must have been for at least two years resident of the State for which he is appointed or elected, and at least one Federal director shall be experienced in practical farming and actually engaged at the time of his appointment in farming operations within the State. No director of a federal debenture bank shall, during his continuance in office, act as an officer, director or employee of any other institution, association or partnership engaged in banking, or in farm finance.

Compensation

P 20. Directors shall receive, in addition to any compensation otherwise provided, a reasonable allowance for necessary expenses in attending meetings of their respective boards, subject to the approval of the Federal Rural Credits Board.

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Not jointly liable

P 21. The Federal Debenture Bank in each state shall be liable for its own obligations exclusively, and is exempted specifically from any and all liability for, to or on account of any other debenture bank.

MEMBERSHIP IN DEBENTURE BANKS

Banks as members

P 1. Section 10. Any national or state bank or trust company may become a member of the debenture bank for its state by investing at par in the shares thereof a sum equal to the amount required for its membership in the Federal Reserve Bank of its district.

Co-operative banks

P 2. Each Federal Co-operative Bank shall become a member of the Federal Debenture Bank for its state by investing at par in the shares thereof a sum equal to ten percent of the paid up capital of said bank.

Co-operative association

P 3. Each co-operative agricultural association incorporated under this Act shall become a member of the Federal Debenture Bank for the state in which it is domiciled by investing at par in the shares thereof a sum fairly

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relative, in view of the volume of the business of such association, to the amount that this Act requires Federal Co-operative Banks to invest in said shares, all as may be prescribed by Federal Rural Credits Board. Any agricultural co-operative association or live stock loan company incorporated under the laws of any state may become a member of the debenture bank for its state, upon a similar basis by agreeing at the same time to abide by the terms of this Act and of all rules and regulations made pursuant to this Act. Such regulations shall prescribe for increases or decreases in the holdings of said shares by co-operative associations or live stock loan companies upon a basis fairly relative to such increases or decreases by Federal Co-operative Banks.

Member capital

P 4. The member capital of a Federal Debenture Bank shall consist of shares of a par value of \$5 each, subscribed and paid for by its member institutions, each of which shall have one vote in the shareholders meetings regardless of the number of shares owned. Members shall be liable for the debts of the bank only to the amount of their investment in its shares.

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Increases

P 5. When a member of any Federal Debenture Bank increases its capital stock, it thereupon shall subscribe to an additional amount of the capital stock of the debenture bank in the same proportion that it subscribed originally to said capital stock, such subscription to be paid upon call of the directors of the debenture bank. Members who join the Federal Debenture Bank after the organization thereof must subscribe for an amount of said capital stock the same as though they had joined at the time of organization, plus one-half or one per centum per month from the period of the last dividend of said debenture bank.

Decreases

P 6. When the capital stock of a debenture bank shall have been increased, either on account of the increase of the capital stock of its members or on account of the increase in the number of its members, the board of directors shall cause to be executed a certificate to the Federal Rural Credits Board showing the increase in capital stock, the amount paid in and by whom paid.

Surrenders

P 7. Whenever any member of a federal member bank reduces its capital stock, it shall surrender a proportionate amount of its holdings in

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the capital stock of said bank, and whenever any member voluntarily liquidates, such member shall surrender all of its holdings therein, in either case receiving the book value thereof.

Retire initial capital

P 8. When the surplus of any debenture bank equals fifty per centum of its then total capital, its initial capital shall be retired by the purchase at par of its initial shares from the Secretary of the Treasury, who thereupon shall cancel the same. Such purchase shall be made with funds thereafter received from accretions of member capital and from earnings as stated in Section twenty.

Retire federal director

P 9. When not less than fifty per centum of the initial capital of any debenture bank shall thus have been replaced, the place shall be declared vacant of the Federal director (other than the Custodian) whose term is nearest to expiry, and the vacancy shall be filled by vote of the members. When not less than one-half of the remaining initial capital shall have been replaced by member capital, another Federal director shall be retired and replaced in like manner. When all of the initial capital shall have been replaced, one of the remaining two Federal directors

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shall be retired and replaced in like manner. Provided, however, that the Federal directors thus retired shall in no case be the Custodian; that at all times the debenture bank shall continue under the general supervision of Federal Rural Credits Board, and

No impairment

P 10. That at no time shall the total capital and surplus of any debenture bank be less than the figure at which this total stood at the beginning of the retirement of initial capital.

FEDERAL CUSTODIAN

Chairman, custodian

P 1. Section 11. One of the directors in each Federal Debenture Bank appointed by the Federal Rural Credits Board shall be designated as chairman of the board of directors and shall perform the duties of the Federal custodian prescribed by this Act.

Office, salary

P 2. Such Custodian shall be furnished with suitable office and vault facilities on the premises of each Federal Debenture Bank, and with the approval of the Federal Rural Credits Board shall be authorized to employ such counsel, assistants and clerical force as may be necessary. The sala-

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ries or compensation of all persons so appointed shall be paid by the Federal Debenture Bank in which they are employed.

Represents company

P 3. In addition to his duties as chairman of the board, the Custodian shall be the representative of the Federal Rural Credits Company for the state in which the debenture bank is located.

POWERS OF FEDERAL DEBENTURE BANKS

Section 12. Every Federal Debenture Bank shall have power, subject to the requirements and limitations of this Act—

Issue of debenture

First. To issue, subject to the approval of Federal Rural Credits Board, and to sell its own debentures of the kinds authorized in this Act, to buy the same for its own account and to retire the same at or before maturity.

Investment

Second. To invest such funds as may be in its possession in the debentures issued by other Federal Debenture banks or in mortgages as described in Section 13 hereof.

Discount

Third. Upon the indorsement of any Federal Debenture bank, national bank, Federal co-opera-

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tive bank, state bank or trust company, which indorsement shall be deemed a waiver of demand, notice and protest of such bank as to its own indorsement, to discount notes, drafts, bills of exchange, acceptances or other evidences of debt representing agricultural loans, livestock paper, commodity paper or real estate mortgage obligations as defined by this Act.

Purchase of paper

Fourth. To purchase in the open market or otherwise from any Federal or approved co-operative association, or approved livestock loan company, agricultural loans, livestock paper, commodity paper or real estate obligations defined in this Act, bearing proper indorsement, or to make loans on promissory notes of incorporated co-operative associations secured by commodity paper, livestock paper, agricultural loans or real estate obligations.

Deals in U. S. bonds

Fifth. To subscribe for, acquire, own, sell and otherwise deal in the bonds and other obligations of the United States, or Federal farm loan bonds, to such extent as the directors from time to time may determine.

Rediscounts with reserve

Sixth. To rediscount with any Federal Reserve

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bank paper eligible for rediscount under the Federal Reserve Act and owned by the Debenture bank.

U. S. depository

Seventh. To act, upon request of the Secretary of the Treasury, as depository of funds belonging to the United States government, and to perform any other service as fiscal agent of the United States.

Securities

Eighth. To receive and to deposit in trust with the Custodian, to be held by him as collateral security for debentures, agricultural loans, live-stock paper, commodity paper, and or real estate obligations, and to hold or release the same as provided in this Act.

Real estate for own use

Ninth. To acquire and dispose of—

(a) Such property, real or personal, as may be necessary or convenient for the transaction of its business, which, however, may be in part leased to others for revenue purposes; provided that no debenture bank may invest in such real estate a sum in excess of 5% of its capital, except with the consent in writing of Federal Rural Credits Board.

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Other real estate

(b) Parcels of land acquired in satisfaction of its purchase of debts or purchase at sales under judgments, decrees or mortgages held by it. But no such bank shall hold title and possession of any real estate purchased or acquired to secure any debt due to it, for a longer period than five years, except with the special approval in writing of Federal Rural Credits Board.

May deposit

Tenth. To deposit its securities and its current funds subject to check with any member bank of the Federal Reserve System, and to receive interest on the same as may be agreed.

Deposits received

Eleventh. To accept deposits of securities or of current funds from incorporated agricultural cooperative associations holding its shares, but to pay no interest on such deposits.

May borrow

Twelfth. To borrow money, to give security therefor and to pay interest thereon.

Charges

Thirteenth. To charge applicants for loans and borrowers or for the purchase or discount of paper herein authorized, under rules and regulations promulgated by Federal Rural Credits Board,

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reasonable fees not exceeding actual cost of service. No such fees or charges shall exceed the maximum limit established by Federal Rural Credits Board.

Federal land bank

Fourteenth. To call upon the Federal Land bank for the district in which the Debenture bank is located, for information regarding any farm property upon which a second mortgage may be applied for, and said Federal Land bank shall give such information forthwith.

Export credits

Fifteenth. To invest its funds in obligations of Federal Rural Credits Company issued for the purpose described in Section Seven of this Act.

RESTRICTIONS ON FEDERAL DEBENTURE BANKS

Section 13. No Federal Land Bank shall have power—

Deposits limited

First. To accept deposits of current funds payable upon demand except from its own shareholders, or to transact any banking or other business not expressly authorized by the provisions of this Act.

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Second mortgage loans

Second. To loan on second mortgages except upon farm lands the first mortgage upon which is held by the Federal Land Bank for the district in which the debenture bank is located. No such mortgage shall be for a longer term than five years. No such second mortgage shall exceed \$5000, nor exceed 30% of the Federal Land bank's appraised valuation of said farm land, and 10% thereof shall be held by the bank as a reserve against such loan.

First mortgages

Third. To accept any first mortgages on other real estate for the agricultural business or agricultural purposes of Federal or approved incorporated co-operative associations. No such mortgage shall be for a longer term than five years, nor be for more than \$20,000, nor be in excess of fifty per centum of the Debenture bank's appraisal of said real estate, and five per centum thereof shall be held by the bank as a reserve against such loan.

Debentures tenfold

Fourth. To issue or obligate itself for outstanding debentures to a total sum in excess of ten times the amount of its capital and surplus; or to receive from any member additional agricul-

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tural loans, livestock paper, commodity paper or real estate obligations when the principal remaining unpaid upon such securities already received from such member shall exceed 20 times the amount of its capital stock owned by such member.

No commission

Fifth. To demand or receive, under any pretense, any commission or charge not specifically authorized in this Act.

Limit to rediscounts

Sixth. To rediscount for any one member an aggregate of notes, drafts, bills of exchange, acceptances or other evidences of debt bearing the signature or indorsement of any one borrower, whether a person, firm or corporation, in excess of ten per centum of the unimpaired capital and surplus of the member corporation, but this limitation shall not apply to commodity paper or to real estate securities defined by this Act, provided that in the case of a member co-operative association the limitation may be prescribed by Federal Rural Credits Board.

Length of loans

Seventh. To make any loan or advance, whether by rediscount or otherwise, having a maturity at the time of such advance of more than one year; but the bank may, in its discretion, from time

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to time extend the time of payment of any such loan or advance, through renewals, substitution of new obligations or otherwise, for a maximum period of three years from the date upon which such loan or advance was originally made, provided that loans upon real estate mortgages as herein provided for may be for not less than one year nor more than five years.

Interest rate

Eighth. To make any loan or advance pursuant to the provisions of this Act at a rate or rates of interest in excess of the charge prescribed by Federal Rural Credits Board. In no event shall the interest rate so charged exceed the legal rate prevailing in its State.

FEDERAL DEBENTURES

Provision of

P 1. Section 14. Any Federal Debenture Bank may issue and have outstanding at any one time its debentures in an amount not more than ten times its paid in capital and surplus. Debentures shall mature not less than six months nor more than three years from the respective dates of issue. Provided, that debentures secured wholly by mortgages as described in Section 13, may mature in not more than five years from the

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respective dates of issue. Debentures shall bear such rate of interest and be issued upon such terms and conditions as the directors of the debenture bank may determine.

First lien

P 2. Such debentures shall constitute a first and paramount floating charge on all of the assets of the issuing bank, which shall not at any time otherwise mortgage or pledge any of its assets. Such debentures may be offered for sale publicly or to any individual, firm, corporation or association at such price or prices as the directors of the issuing bank may determine, subject to the approval of Federal Rural Credits Board.

FORM OF FEDERAL DEBENTURES

Denominations

P 1. Section 15. That the debentures provided for in this Act shall be issued in series as determined by Federal Rural Credits Board and may be in denominations of \$25, \$50, \$100, \$500, \$1,000, \$5,000, \$10,000 \$50,000 or \$100,000; they shall run for specified periods, payable at maturity in gold or lawful money.

Term of

P 2. Each debenture secured in whole or in part by personal security shall have a maturity

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of not less than six months and not exceeding three years from its date. Debentures the security for which consists wholly of mortgage obligations upon real estate shall have a maturity of not less than one year and not exceeding five years.

Coupons

P 3. Debentures having a maturity of not less than one year nor more than five years shall have interest coupons attached, payable semi-annually. They shall bear such rate of interest as may be fixed by Federal Rural Credits Board.

Printing debentures

P 4. In order to furnish federal debentures for delivery at the Federal Debenture Banks, the Secretary of the Treasury is hereby authorized to prepare suitable debentures in such form, subject to the provisions of this act, as the Federal Rural Credits Board may approve. Such debentures when prepared shall be held in the Treasury subject to delivery upon order of the Federal Rural Credits Board. The engraving plates, dies, bed pieces, and so forth, executed in connection therewith, shall remain in the custody of the Secretary of the Treasury. Any expense incurred in the preparation, custody and delivery of such debentures shall be paid by the Secretary of the

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Treasury from any funds in the Treasury not otherwise appropriated; provided however, that the Secretary shall be reimbursed for such expenditures through assessment upon the Federal Debenture Banks in proportion to the work executed.

SPECIAL PROVISIONS OF FEDERAL DEBENTURES

Bound by its officers

P 1. Section 16. That each Federal Debenture Bank shall be bound in all respects by the acts of its officers in signing and issuing federal debentures, and by the acts of the Federal Rural Credits Board in authorizing their issue.

Specific liability

P 2. Every Federal Debenture Bank shall obligate itself to become liable upon its debentures as provided in this section, by appropriate action of its board of directors, duly recorded in its minutes.

Certified by F R C Co

P 3. Every Federal debenture issued by a Federal Debenture Bank shall be signed by its president and attested by its secretary and shall contain in the face thereof a certificate signed by the president of the Federal Rural Credits Com-

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pany to the effect that it is issued under the authority of Federal Rural Credits Act, has the approval in form and issue of Federal Rural Credits Board, and is legal and regular in all respects; that it is not taxable by national, state, municipal or local authority except as specified in this Act; that it is issued against collateral security of United States government bonds or indorsed real estate mortgages and or secured agricultural loans, live stock paper or commodity paper exceeding in amount the debentures issued as provided by this Act; and that the principal and interest of each debenture are both unreservedly guaranteed by the Federal Rural Credits Company.

Guarantee of principal and interest

P 4. The Federal Rural Credits Company hereby is authorized and instructed to obligate itself to become liable for the principal and interest of federal debentures, as provided in this section, by appropriate action of its board of directors duly recorded in its minutes.

APPLICATIONS FOR FEDERAL DEBENTURES

Margin for debentures

P 1. Section 17. Any Federal Debenture

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Bank which shall have voted to issue Federal debentures under this Act, shall make written application to Federal Rural Credits Board through the Custodian of the bank for approval of such issue. With said application said bank shall tender to said Custodian as collateral security United States bonds not less in aggregate amount than the sum of the debentures proposed to be issued; or other properly secured paper qualified under the provisions of this Act, not less in amount than \$100 of first mortgage real estate obligations for each \$95 of debentures proposed to be issued; not less in amount than \$100 of second mortgage real estate obligations for each \$90 of debentures proposed to be issued; not less in amount than \$100 of commodity paper for each \$90 to be issued; not less in amount than \$100 of live stock paper for each \$85 proposed to be issued; not less in amount than \$100 of agricultural loans for each \$80 proposed to be issued.

Custodian verifies

P 2. Upon receipt of such application the Custodian shall verify said schedule and shall transmit the application and schedule to Federal Rural Credits Board, giving such further information pertaining thereto as he may possess. The

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Board forthwith shall cause to be made such investigation and appraisalment of the securities tendered as it shall deem wise, and it shall grant in whole or in part, or reject entirely, such application.

Board decides

P 3. The Board shall promptly transmit its decision as to any issue of debentures to the bank applying for the same and to the Custodian thereof. Said custodian shall furnish in writing such information regarding any issue of debentures of his bank as the board may at any time require.

Guarantee

P 4. No issue of Federal debentures shall be authorized unless Federal Rural Credits Board shall approve such issue in writing, and such approval shall carry with it the agreement on the part of the Federal Rural Credits Company to guarantee the principal and interest of said debentures.

ISSUE OF FEDERAL DEBENTURES

Delivery

P 1. Section 18. Whenever any Custodian shall receive from Federal Rural Credits Board notice that it has approved any issue of Federal debentures under the provisions of Section 15, he

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shall forthwith take such steps as may be necessary, in accordance with the provisions of this Act, to secure the prompt execution of said debentures and the delivery of the same to the debenture bank applying therefor.

Rejection

P 2. Whenever Federal Rural Credits Board shall reject any security tendered to the Custodian as collateral, the same shall be returned forthwith to said bank by him.

Securities

P 3. Whenever Federal Rural Credits Board shall approve an issue of debentures by any Federal debenture bank, the federal Custodian having the custody of the securities tendered as collateral for such issue of debentures, shall retain in his custody those securities which are to be held as collateral against said debentures, and shall return to the bank owning the same any of such securities which are not to be held by him as collateral. The Federal debenture bank which is to issue said debentures shall transfer to said Custodian, by assignment, in trust, the paper representing all real estate obligations, commodity paper, live stock paper or agricultural loans, and all mortgages, liens or other security supporting same, which are to be held by the

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Custodian as collateral security for said debentures, said assignment providing for the right of redemption at any time by payment, and reserving the right of substitution of other qualified securities. Said collateral shall be deposited in such deposit vault or bank as Federal Rural Credits Board shall approve subject to the control of said Custodian and in his name as the trustee for the Federal debenture bank issuing the debentures and for the prospective holders of said federal debentures.

Classes of

P 4. It shall be the duty of each Custodian to see that the Federal debenture bonds delivered by him and outstanding do not exceed the amount of collateral security pledged therefor. Said collateral for any issue of bonds may be wholly or partly of any of the four classes of paper above described or a mixture thereof; provided, that only real estate obligations may be used as collateral security for debentures with a maturity longer than three years nor more than five years. Such Custodian may, in his discretion, temporarily accept, in place of securities withdrawn, United States government securities or cash.

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P 5. The Federal Rural Credits Board may, at any time, call upon any Federal debenture bank for additional security to protect the debentures issued by it.

APPLICATION OF PAYMENTS

P 1. Section 19. Whenever any Federal Debenture Bank shall receive any interest, partial payment or total payment upon any collateral pledged as security for the issue of Federal debentures, it forthwith shall notify the Custodian of the item so received. Said Custodian shall cause such payment to be duly credited forthwith upon the security and title of such credit. Whenever any such instrument is paid in full, the Custodian shall cause the same to be cancelled and delivered to the debenture bank, which shall promptly satisfy and discharge any lien of record and transmit such cancelled instrument and all of the papers appertaining thereto to the original maker thereof or his heirs, administrators, executors or assigns.

P 2. Upon written application to its Custodian, any Federal Debenture Bank may be permitted, in the discretion of the Custodian, to withdraw any

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securities pledged as collateral under this act and to substitute therefor other similar securities or United States government securities not less in amount than the securities desired to be withdrawn.

How payable

P 3. Whenever any Federal debentures, or coupons or interest payments thereon are due under their terms, they shall be payable at the debenture bank by which they were issued, in gold or lawful money, and upon payment shall be duly cancelled by said bank. At the discretion of Federal Rural Credits Board, payment of any federal debenture or coupon or interest payment may, however, be authorized to be made at any other bank, including Federal Reserve banks.

Withdrawal

P 4. When any Federal Debenture Bank shall surrender to its Custodian any of its Federal debentures of any series, cancelled or uncanceled, said bank shall be entitled to withdraw the collateral pledged as security for said series of debentures to an amount equal to the debentures so surrendered, and it shall be the duty of said Custodian to permit and direct the delivery of such securities to said bank and to see to it that said debentures are duly cancelled.

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Collateral

P 5. Interest payments upon securities hypothecated as collateral shall be at the disposal of the Federal Debenture Bank pledging the same, and shall be available for the payment of coupons and the interest upon Federal debentures issued by such bank as they become due.

Payments of

P 6. Whenever any debenture matures or the interest on any debenture is due, or the coupon on any coupon debenture matures, and the same shall be presented for payment, as provided in this Act, the full face value thereof shall be paid to the holder. Partial and other payments upon the principal of securities held by a Custodian as collateral for the issue of Federal debentures shall constitute a trust fund in the hands of the debenture bank receiving the same, and shall be applied or employed as follows:—

P 7. (a) To pay off debentures issued by said bank as they mature.

P 8. (b) To purchase at or below par debentures issued by said bank or by any other Federal Debenture bank.

P 9. (c) To purchase the bonds or other instrumentalities of the United States.

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Trust fund

P 10. The securities constituting the trust fund aforesaid, shall be deposited forthwith with the Custodian as substituted collateral security in place of the sums paid on the principal of securities held by him as collateral in trust.

Trustees power

P 11. Every debenture bank shall notify its Custodian of the disposition of all payments made on the principal of securities held as collateral for an issue of debentures, and said Custodian is authorized, at his discretion, to order any of such payments or the proceeds thereof, wherever deposited or however invested, to be immediately transferred to his account as trustee aforesaid.

DIVISION OF EARNINGS

Applied to surplus

P 1. Section 20. After all necessary expenses of Federal Rural Credits Company shall have been paid or provided for, including reserve for contingencies, the earnings shall be paid into a surplus fund until such funds amount to \$100,000,000. Thereafter all net earnings of Federal Rural Credits Company shall be paid to the United States as a franchise tax.

Six percent dividend

P 2. After all necessary expenses of any Fed-

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eral debenture bank have been paid or provided for, including reserve for contingencies to an amount approved by Federal Rural Credits Board, the shareholders (other than Federal Rural Credits Company) shall be entitled to receive the annual dividend of six per centum upon the paid in capital stock, which dividend shall be cumulative and non-taxable.

25% surplus

P 3. After the aforesaid dividend claims shall have been fully met or provided for, the earnings shall be paid into a surplus fund until such funds shall amount to 25% of the total capital stock of any Federal debenture bank.

P 4. Thereafter, all net earnings over and above those necessary to pay cumulative dividends and to maintain said surplus of such bank shall be used—

Extra dividend

P 5. (a) To pay an additional non-cumulative dividend of not to exceed two per centum per annum upon all member shares.

50% surplus

P 6. (b) To increase the surplus fund of the bank until such funds equal fifty per centum of its initial capital.

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Retire initial capital—franchise tax

P 7. (c) The balance, if any remain, shall be paid to the Secretary of the Treasury to retire shares of the initial capital as provided in paragraph 8 of section 10 hereof; and after all of the initial capital shall have been retired, such balance, if any remain, shall be paid to the United States as a franchise tax.

LIABILITY OF THE UNITED STATES

No liability

P 1. Section 21. That the United States shall not be liable for the payment of any note, debenture or other obligation or the interest thereon issued or incurred by Federal Rural Credits Company or by any Federal Debenture Bank, nor shall it incur any liability in respect of any act or omission of said institutions.

Except on its shares

P 2. It shall in no event be liable for any debts of Federal Rural Credits Company beyond the amount of its subscription to the capital stock of that company through the latter's taking over of the assets of War Finance Corporation.

TAX EXEMPTION*

Exemption

P 1. Section 22. That any and all credit instruments issued by Federal Rural Credits Com-

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pany, or by any Federal Debenture Bank, shall be exempt, both as to principal and interest, from all taxation now or hereafter imposed by the United States, any State, or any of the possessions of the United States, or by any local taxing authority, except (a) estate or inheritance taxes, and (b) graduated additional income taxes, commonly known as surtaxes, and excess-profits and war-profits taxes, now or hereafter imposed by the United States, upon the income or profits of individuals, partnerships, corporations or associations. The interest on an amount of such instruments the principal of which does not exceed in the aggregate \$5,000, owned by an individual, partnership, corporation, or association, shall be exempt from the taxes referred to in clause (b).

Other exemptions

P 2. The Company and said debenture banks, including their franchise and the capital and reserve or surplus thereof, and the income derived therefrom, shall be exempt from all taxation now or hereafter imposed by the United States, any State, or any of the possessions of the United States, or by any local taxing authority, except that any of their real property shall be subject to state, county or municipal taxes to the same ex-

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tent, according to its value, as other real property is taxed.

***SPECIAL NOTE.** This section 22 is quoted from the Norbeck bill, S 3499. The preliminary draft of the bill prepared in the office of the American Farm Bureau Federation, not yet introduced, is in accord with the paragraph just quoted.

The Lenroot-Anderson bill, S 3051, is silent as to taxation.

The Capper bill, S 3639, provides tax exemption upon securities issued prior to June 30, 1925, but after that date they "shall be subject to income tax imposed by the United States or any state," and all such securities issued after that date "shall be subject to general property tax to the same extent according to their value as other personal property is taxed."

The Simmons bill, S 3390, follows substantially the phraseology of the Federal Farm Loan Act which, adapted to this measure, would read as follows.

Sec. Any and all credit instruments issued by Federal Rural Credits Company, or by any Federal debenture bank, including the capital and reserve or surplus therein and the income derived therefrom, shall be exempt from federal, state, municipal and local taxation, except taxes upon real estate held, purchased or taken by said company or bank under the provisions of sec twelve of this Act. Mortgages executed to any Federal debenture bank, also Federal debentures issued under the provisions of this Act, shall be deemed and held to be instrumentalities of the government of the United States, and as such they and the income derived therefrom shall be exempt from federal, state, municipal and local taxation. Nothing herein contained shall be construed to exempt the real property of Federal Rural Credits Company or any Federal Debenture Bank from either state, county or municipal tax, to the same extent, according to its value, as other real property is taxed.

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FEDERAL RURAL CREDIT SYSTEM ASSOCIATIONS

Organization

P 1. Section 23. Associations to be operated upon the co-operative principle for the purpose of engaging in making loans on agricultural products as defined in this Act, and to act when required by the Secretary of the Treasury as fiscal agents of the United States, and to assist in the production, assembling, grading, distribution and marketing of agricultural products and livestock in an orderly manner, and for the production, buying or selling of any or all products, merchandise or commodities incident to agriculture, or for agricultural purposes or agricultural business as defined by this Act, may be formed by any number of natural persons not less in any case than five who are producers of farm products.

How formed

P 2. The persons desiring to form such associations shall make an organization certificate under their seals which shall specifically state the name of the association to be organized, the place in which its principal office is to be located, the amount of the capital stock with which it is to begin business (which shall be in shares of \$5 each with one vote only to each member irre-

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spective of the number of shares owned), and the fact that the certificate is made to enable the association formed to avail itself upon the co-operative plan of the advantages of this Act.

Named

P 3. The name selected shall be subject to the approval of Federal Rural Credits Board. All corporations not created in the manner and for the express purpose hereby provided, are prohibited from using the words, "Federal Agricultural Co-operative" as a part of their corporate firm, partnership or association name under penalty of \$50 for each day during which such violation is committed or repeated.

Certificate

P 4. The organization certificate shall be acknowledged before a judge of some court of record or notary public and shall, together with the acknowledgment thereof, be duly authenticated by the seal of the court or notary, and transmitted to the superintendent of the Federal Rural Credits Board who shall file, record and carefully preserve the same in its office.

Charter

P 5. When the board finds that such certificate is in accordance with this Act and complies with all rules and regulations pursuant hereto, the

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board shall issue a charter to said association, whereupon it shall become a body corporate and as such and in the name approved shall have power—

May make loans

P 6. (a) To make loans to persons, firms or corporations engaged in producing agricultural products as defined by this Act, including live stock.

Deal in paper

P 7. (b) To purchase, sell, discount, issue and negotiate livestock paper, agricultural loans, commodity paper and real estate obligations as defined by this Act, or federal farm loan bonds or United States bonds or United States certificates of indebtedness.

Legal entity

P 8. (c) To receive and hold and enjoy lands and chattels of any kind or effect whatsoever, the same to grant, sell and dispose of, sue and be sued, plead and be impleaded, contract and be contracted with, and to establish and put into execution by-laws for its government.

Member debenture bank

P 9. (d) To become a member of the Federal Debenture bank for its state as specified in Sections 10 of this Act.

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At least \$1,000 capital

P 10. No such association shall be organized under the provisions of this section with a capital stock of less than \$1,000 to be paid in, invested and held in the manner prescribed by the association.

Shareholders liability

P 11. Shareholders of any such association shall be held individually responsible for all contracts, debts and engagements of such association, each to the amount of his stock therein at the par value thereof in addition to the amount invested in such stock. The shareholders in any such association who shall have transferred their shares or registered the transfer thereof within sixty days, next before the date of the failure of such association to meet its obligations, or with knowledge of such impending failure, shall be liable to the same extent as if they had made no such transfer to the extent that the subsequent transferee fails to meet such liability. But this provision shall not be construed to affect in any way any recourse which such shareholders might otherwise have against those in whose names such shares are registered at the time of such failure.

Supervision

P 12. All such associations shall be subject to

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rules and regulations made pursuant hereto by Federal Rural Credits Board, shall make to it such reports of conditions as it may require, shall be subject to such general or special examination by auditors appointed or selected by the board as it may prescribe, and shall not charge for its services a sum in excess of the limits prescribed by the board.

Forfeiting charter

P 13. Failure of any such association to comply with the just and legal orders, rules or regulations of the Board, or the failure of said association to meet its obligations, shall warrant the Board in withdrawing and forfeiting its charter whereupon it shall liquidate forthwith.

EXAMINATIONS

Examiners

P 1. Sec. 24 That the Federal Rural Credits Board shall appoint as many examiners as in its judgment may be required to make careful examinations of the banks and associations permitted to do business under this Act.

Responsibilities of

P 2. Said examiners shall be subject to the same requirements, responsibilities and penalties as are applicable to national bank examin-

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ers under the National Bank Act, the Federal Reserve Act and other provisions of law. Whenever directed by the Federal Rural Credits Board, said examiners shall examine the condition of any incorporated co-operative association doing business pursuant to the terms hereof and report the same to the chairman of the Federal Rural Credits Board. They shall examine and report the condition of every federal debenture bank at least twice a year.

Salaries

P 3. Said examiners shall receive salaries to be fixed by Federal Rural Credits Board.

DISSOLUTION AND APPOINTMENT OF RECEIVERS

Failures

P 1. Sec. 25. That upon receiving satisfactory evidence that any Federal debenture bank, federal co-operative bank or federal co-operative agricultural association has failed to meet its outstanding obligations of any description, Federal Rural Credits Board forthwith may declare such association insolvent and appoint a receiver and require of him such bond and security as it deems proper; Provided that any such institution so declared insolvent may

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appeal to the Federal Reserve Board, which shall give a hearing to the parties in interest and the verdict of such Board shall be binding. Such receiver, under the direction of Federal Rural Credits Board, shall take possession of the books, records and assets of every description of such institution, collect all debts, dues and claims belonging to it, and with the approval of Federal Rural Credits Board, or upon the order of a court of record of competent jurisdiction, may sell or compound all bad or doubtful debts, and on a like approval or order may sell all real or personal property of such institution, on such terms as Federal Rural Credits Board or such court shall direct.

Receiver

P 2. Such receiver shall pay over all money so collected to the Treasury of the United States, subject to the order of Federal Rural Credits Board, and also make report to said Board of all his acts and proceedings. The Secretary of the Treasury shall have authority to deposit at interest any money so received.

Liquidation

P 3. No such institution shall go into voluntary liquidation without the written consent

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of Federal Rural Credits Board, but federal co-operative agricultural associations may consolidate under rules and regulations promulgated by said Board.

PENALTIES

No graft

P 1. Sec. 26. Except as herein provided, any officer, director, employee, agent for or attorney of any bank mentioned herein or of any federal land bank or of any joint stock land bank, incorporated agricultural co-operative association or incorporated live stock loan company who stipulates for or receives or consents or agrees to receive under any form or pretense, any fee, commission, bonus, gift or thing of value from any person, firm or corporation, for procuring or endeavoring to procure for such person, firm or corporation, or for any other person, firm or corporation any loan from or the purchase or discount of any paper, note, draft, check, acceptance, bill of exchange or obligation by such bank shall be deemed guilty of a misdemeanor and shall be imprisoned not more than one year or fined not more than \$5000 or both.

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Middlemen unnecessary

P 2. It shall not be necessary for any would-be borrower of any institution named herein to employ an agent, attorney, middleman or other person, firm or corporation to negotiate any loan from or the purchase or discount of any paper, note, draft, check, acceptance or bill of exchange by any institution referred to in this act, and any borrower or his agent, middleman, intermediary or attorney who stipulates to give or gives or consents or agrees to give under any form or pretense, any fee, commission, bonus or thing of value to any person, firm or corporation for procuring or endeavoring to procure for such borrower or his agent, middleman, intermediary or attorney, any loan from or the purchase or discount of any paper, note, draft, check, acceptance, bill of exchange or obligation by any institution named herein, shall be deemed guilty of a misdemeanor and shall be imprisoned not more than one year or fined not more than \$1,000, or both.

No gratuities

P 3. No Federal co-operative bank, Federal debenture bank or the Federal Rural Cred-

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it Company and no officer, director or employee thereof shall hereafter make any loan or grant any gratuity to any legally appointed examiner for or auditor of such bank. Any such bank officer, director or employee violating this condition shall be deemed guilty of a misdemeanor and shall be imprisoned not more than one year or fined not more than \$5000 or both. He may be fined a further sum equal to the money so loaned or gratuity given.

Penalty

P 4. Any such examiner or auditor accepting a loan or gratuity from any such bank examined or audited by him or from an officer, director or employee thereof or borrower therein shall be deemed guilty of a misdemeanor and shall be imprisoned one year or fined not more than \$5000 or both and be fined a further sum equal to the money so loaned or gratuity given and shall forever thereafter be disqualified from holding office as an examiner for or auditor of such banks.

False statements

P 5. That any applicant for an advance, loan, rediscount, purchase or sale of securities under this Act who shall knowingly make any

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false statement in his application therefor, and any member of a loan committee or any appraiser provided for in this Act who shall willfully over-value any security offered as collateral for loans under this Act, shall be punished by a fine of not exceeding \$5000 or by imprisonment not exceeding one year or both.

Counterfeiting

P 6. Any person who shall falsely make, forge or counterfeit, or cause or procure to be falsely made, forged or counterfeited, or willingly aid or assist in falsely making, forging or counterfeiting any debenture, coupon or paper in imitation of or purporting to be in imitation of the debentures or coupons issued by any federal debenture bank or by Federal Rural Credits Company; or any person who shall pass, utter or publish, or attempt to pass, utter or publish any false, forged or counterfeited debenture coupon or paper purporting to be issued by any such bank or the Company, knowing the same to be falsely made, forged or counterfeited; or whoever shall falsely alter, or cause or procure to be falsely altered, or shall willingly aid or assist in falsely altering any such debenture, coupon or paper, or shall pass, utter

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or publish as true any falsely altered or spurious debenture, coupon or paper issued, or purporting to have been issued by any such bank or by the Company, knowing the same to be falsely altered or spurious, shall be punished by a fine of not exceeding \$5000 or by imprisonment not exceeding five years or both.

No consideration

P 7. Other than the usual salary or director's fee paid to any officer, director or employee of Federal Rural Credits Company, a federal debenture bank or a federal co-operative agricultural association, and other than a reasonable fee paid by such institution to any officer, director, attorney or employee for services actually rendered, no officer, director, attorney or employee of any institution organized under this Act, or employee of the Company or federal debenture bank or federal co-operative agricultural association organized under this Act shall be a beneficiary of or receive, directly or indirectly, any fee, commission, gift or other consideration for or in connection with any transaction or business of such association or bank. No such institution organized under this Act shall charge or receive any fee, commission,

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bonus, gift or other consideration not herein specifically authorized. No examiner, public or private, shall disclose the names of borrowers to other than the proper officers of Federal Rural Credits Company or federal debenture bank or federal co-operative agricultural corporation without first having obtained express permission in writing from the chairman of Federal Rural Credits Board or from the board of directors of such company, bank or association, except when ordered to do so by a court of competent jurisdiction or by direction of the Congress of the United States or of either House thereof or any committee of Congress or of either House duly authorized. Any person violating any provision of this paragraph shall be punished by a fine of not exceeding \$5000 or by imprisonment not exceeding one year or both.

Embezzlement

P 8. Any person connected in any capacity with the Federal Rural Credits Company or any federal debenture bank or federal co-operative agricultural association, who embezzles, abstracts or willfully misapplies any moneys, funds or credits thereof, or who without authority from the directors draws any or-

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der, assigns any note, bond, debenture, draft, mortgage, lien, judgment or decree thereof, or who makes any false entry in any book, report or statement of such institution with intent in either case to defraud it or any other company, body politic or corporate, or any individual person, or to deceive any officer of such institution or any agent appointed to examine into the affairs thereof, and every person who with like intent aids or abets any officer, clerk or agent in violation of this Section, shall be punished by a fine of not exceeding \$5000 or by imprisonment not exceeding five years or both.

Fraud

P 9. Any person who shall deceive, defraud or impose upon, or who shall attempt to deceive, defraud or impose upon any person, firm or corporation, by making any false pretense of representation regarding the character, issue, security or terms of any credit instrument issued under the terms of this Act; or by falsely pretending or representing that any debenture or coupon issued under the terms of this Act is anything other than or different from what it purports to be on the face thereof, shall

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be fined not exceeding \$500 or imprisoned not exceeding one year or both.

Secret service

P 10. The Secretary of the Treasury hereby is authorized to direct and use the secret service division of the Treasury Department to detect, arrest and deliver into custody of the United States Marshall having jurisdiction any person or persons violating any of the provisions of this Section.

MISCELLANEOUS

Women

P 1. Section 27. That nothing in this act shall be held to debar women from any office or position named herein.

Preference to veterans

P 2. That no charge shall be made for services under this act to veterans other than registration and similar fees required by law, under rules and regulations to be prescribed by federal farm loan board, and federal rural credits board in their respective spheres.

AMENDMENT TO FEDERAL FARM LOAN ACT

Section 28. That the Federal Farm Loan Act approved 17 July, 1916, is hereby amended by

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adding to paragraph 6 of section 12: "Provided that such loans may be made to any veteran (as defined in the Rural Credits Act of 1922) who lives upon and cultivates the owned farm, provided its extent is not less than one acre; and provided further, that none of the charges for making loans under the Farm Loan Act shall be collected from such veteran, other than registration or similar fees required by law."

LIMITATION OF COURT DECISIONS

Section 29. That if any clause, sentence, paragraph or part of this Act shall for any reason be adjudged by any court of competent jurisdiction to be invalid, such judgment shall not affect, impair or invalidate the remainder of this Act, but shall be confined in its operation to the clause, sentence, paragraph or part thereof directly involved in the controversy in which such judgment shall have been rendered.

REPEALING CLAUSE

Section 30. That all Acts or parts of Acts inconsistent with this Act are hereby repealed and this Act shall take effect upon its passage. The right to amend, alter or repeal this Act is hereby expressly reserved.

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TITLE II

FEDERAL CO-OPERATIVE BANKS

Section 1. This title may be cited as ^{Title} "Federal Co-operative Bank Act of 1922."

P 1. Section 2. Five or more natural persons, residents in the community in which it is to be established, may form a banking institution to be conducted upon the co-operative principle, the title of which shall include the words, "Federal Co-operative Bank," which words may be employed only in the title of institutions chartered pursuant to this title under penalty of \$10 for each day during which such violation is committed or repeated.

P 2. The capital stock of any federal co-operative bank shall be in shares of a par value of five ^{\$5 shares} dollars.

P 3. Each share holder shall be liable for the debts of the bank to total the amount of par value of its shares standing in his name. ^{Liability}

P 6. Shares may be owned only by natural persons, each of whom may hold shares only in ^{One vote}

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one such bank, and have but one vote irrespective of the number of shares held.

Minimum capital

Section 3. No federal co-operative bank shall be organized with a less capital than \$5000 in any place the population of which by the last federal census does not exceed 1500 inhabitants; nor with a less capital than \$10,000 in any place the population of which does not exceed 6000; nor with a less capital than \$15,000 in places having in excess of 6000 inhabitants.

Business

P 1. Section 4. Each Federal co-operative bank shall establish a commercial department in which it may receive deposits, make loans and transact a general banking business in the same manner and under the same laws, rules and regulations as any national bank; except that its suitably secured agricultural loans and or live stock paper may be for not longer than one year, with such safely restricted renewal privileges as may be approved by the Comptroller of the Currency.

Joins reserve bank

P 2. Any federal co-operative bank shall apply for membership in the Federal Reserve Bank for its district when it shall have complied with the provisions of Section 3 of Title III of this

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Act and of all other provisions of the Federal Reserve Act and of acts amendatory thereto pertaining to said application.

Joins debenture bank

P 3. Each federal co-operative bank shall become a member of the Federal debenture bank for its state by investing in the shares thereof not less than ten per cent of the paid up cash capital of such Federal Co-operative bank.

Real estate department

P 1. Section 5. A real estate department may be created in any Federal co-operative bank or in any national bank. The assets and liabilities of such real estate department shall be segregated from the assets and liabilities of any and all other departments of the bank.

Limit of capital

P 2. Not less than five per cent nor more than ten per cent of the capital and surplus of the bank may be segregated to and employed by its real estate department.

Investments of

P 3. Any of the funds of the real estate department may be invested in (a) bonds or other credit instruments of the United States, or in Federal farm loan bonds or Federal debentures; (b) in first mortgages on real estate located with-

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in 30 miles of such bank and owned by any incorporated co-operative association and used by it for agricultural purposes or agricultural business, or (c) in mortgage on a farm located within 30 miles of such bank which may be a first mortgage or second to a first mortgage thereon owned by the Federal land bank. No such mortgage shall be for a longer period than five years and shall comply with the provisions of this Act.

Rediscounts

P 4. Such bank may rediscount its paper with the Federal debenture bank in accordance with the provision of this Act.

When reserved

P 5. When any Federal Co-operative Bank meets the provisions of paragraph 2 of Section 3 of this Act it shall apply for membership in the Federal Reserve banks for its district.

Supervised by comptroller

Section 6. The Comptroller of the Currency, with the sanction of the Secretary of the Treasury, shall have supervision over all Federal co-operative banks the same as he has supervision over all institutions incorporated under the National Bank Act of June 20, 1874, and of all Acts amendatory thereof.

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TITLE III.

AMENDMENTS TO FEDERAL RESERVE ACT

Section 1. This title may be cited as "Federal Reserve Amendments of 1922."
Title

Amends Section 13
P 1. Section 2. That section 13 of the Federal Reserve Act, as amended, be further amended by striking out the proviso at the end of the second paragraph of said section, so that said paragraph shall read as follows:

Discounts
P 2. "Upon the indorsement of any of its member banks, or of Federal Rural Credits Company or any federal debenture bank, which shall be deemed a waiver of demand, notice and protest by such bank as to its own indorsement exclusively, any Federal reserve bank may discount notes, drafts, and bills of exchange arising out of actual commercial transactions; that is, notes, drafts, and bills of exchange issued or drawn for agricultural, industrial, or commercial purposes, or the proceeds of which have been used, or are to be used, for such purposes, the Federal Reserve Board to have the right to determine or define the

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character of the paper thus eligible for discount, within the meaning of this Act. Nothing in this Act contained shall be construed to prohibit such notes, drafts, and bills of exchange secured by staple agricultural products, or other goods, wares, or merchandise from being eligible for such discount, but such definition shall not include notes, drafts, or bills, covering merely investments or issued or drawn for the purpose of carrying or trading in stocks, bonds, or other investment securities, except bonds and notes of the Government of the United States. Notes, drafts, or bills admitted to discount under the terms of this paragraph must have a maturity at the time of discount of not more than ninety days, exclusive of days of grace."

New section

P 1. Section 2. That the Federal Reserve Act, as amended, be further amended by adding at the end of section 13 a new section, to be numbered section 13a and to read as follows:

"DISCOUNT OF AGRICULTURAL AND LIVE-STOCK PAPER

Rediscounting commodity paper

P 2. "Section 13a. Upon the indorsement of any of its member banks, or of Federal Rural

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Credits Company or any federal debenture bank which shall be deemed a waiver of demand, notice and protest by such bank as to its own indorsement exclusively, any Federal reserve bank may discount notes, drafts, and bills of exchange issued or drawn for an agricultural purpose, or based upon live stock, and having a maturity, at the time of discount, exclusive of days of grace, not exceeding six months: Provided, however That (a) notes, drafts, or bills of exchange secured by warehouse receipts or other such negotiable documents, conveying or securing title to readily marketable, non-perishable agricultural products, may be discounted with a maturity, at the time of discount, not exceeding one year, under regulations to be prescribed by the Federal Reserve Board. Such regulations shall be designed to insure that such notes, drafts, or bills of exchange were drawn or issued as a part of a program of orderly marketing of such agricultural products and not for speculative holding of such products.

Live stock and agricultural paper

P 3. “(b) Notes, drafts, or bills of exchange secured by chattel mortgage upon live stock may be discounted with a maturity not exceeding two

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years provided such live stock is at the time of discount being prepared for market under such conditions that it will be ready for market on or before the date of maturity of such note, draft or bill. Notes issued by incorporated co-operative agricultural associations, or drafts or bills accepted by any such association, shall be deemed to have been issued or drawn for an agricultural purpose, within the meaning of this section, if the proceeds thereof have been or will be advanced by such association to any member thereof for an agricultural purpose, or if such proceeds have been or will be used by such association for its agricultural business, or to meet expenditures incurred by the association in connection with the grading, processing, packing, preparation for market, or marketing of any agricultural product or live stock handled by such association for any of its members.

Debentures discounted

P 4. “(c) Federal debentures issued by any Federal debenture bank may be discounted by any Federal Reserve Bank when having a maturity, at the time of discount, not exceeding one year. Obligations of Federal Rural Credits company issued pursuant to section 7 of the Rural Credits Act of 1922, may be discounted

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by any Federal Reserve Bank, either direct for said Company or for any Federal debenture bank or any member bank.

Limits of

P 5. "The Federal Reserve Board may, by regulation, limit to a percentage of the assets of a Federal Reserve bank the amount of notes, drafts, or bills, having a maturity in excess of three months, but not exceeding six months, exclusive of days of grace, which may be discounted by such bank, and the amount of notes, drafts, or bills having a maturity in excess of six months, but not exceeding two years, which may be discounted by such bank."

P 1. Section 3. That the ninth paragraph of section 9 of the Federal Reserve Act be amended to read as follows:

Little banks in reserve

P 2. "No applying bank shall be admitted to membership in a Federal reserve bank unless it possesses a paid-up, unimpaired capital sufficient to entitle it to become a national banking association in the place where it is situated under the provisions of the national bank Act: Provided, however, That an applying bank organized in a place the population of which does not exceed six thousand inhabitants may, in the discretion of the

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Federal Reserve Board, be admitted to membership, if it possesses a paid-up, unimpaired capital of at least \$15,000, and if the application is accompanied by adequate undertakings of such bank and of its principal stockholders that the capital of such bank will within three years be increased to \$20,000: And provided further, That an applying bank, organized in a place the population of which does not exceed three thousand inhabitants, may, in the discretion of the Federal Reserve Board, be admitted to membership if it possesses a paid-up unimpaired capital of at least \$10,000, and if it is accompanied by adequate undertakings of such bank and of its principal stockholders that such capital will within three years be increased to \$15,000. If any such undertakings have not been fulfilled within three years the Federal Reserve Board may require it to withdraw forthwith from membership in the Federal reserve system.”

Depositories

Section 4. That the Federal Reserve Banks are hereby authorized to act as depositories of and as fiscal agents for Federal Rural Credits Company or any Federal Debenture Bank, and subject to the maturity limitations of the Federal Reserve Act as hereby amended and to regulations of the

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Federal Reserve Board, to discount the direct obligations of member banks of the Federal Reserve System secured by notes of Federal Rural Credits Company or by Federal debentures, and to rediscount for member bank notes, drafts or other negotiable instruments secured by notes of Federal Rural Credits Company or Federal debentures and indorsed by member banks.

P 1. Section 5. That Section 11 of the Federal Reserve Act is amended by adding thereto a new paragraph, to read as follows :

Rural credits discounts

P 2. "The Federal Reserve Board shall be authorized to permit or require Federal Reserve banks to rediscount paper held by the Federal Rural Credit Company or by any Federal Debenture bank which conforms to the maturity and other requirements of eligible paper, including obligations of Federal Rural Credits Company issued pursuant to Section 7 of the Rural Credits Act of 1922."

P 3. That Section 5202, Revised Statutes, as amended, is hereby further amended by adding thereto a new paragraph to read as follows: "8. Liabilities incurred under the provisions of the Rural Credits Act of 1922."

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The Right Use of Health

AN INVOCATION

Uttered in humility and penitence, by one who feels implicit confidence in God's infinite power, sublime mercy and universal presence

WHATEVER powers be in me, dedicate anew to larger service, to wider usefulness, to nobler endeavor.

INSPIRE me with the divine energy which seeks expression in duty well done. Grant me the sight always to see that which I should do, and the will to do it aright.

TEACH me to conserve my physical, mental and spiritual forces so that they may unite in a Trinity of Health. Enable me to consecrate my health to the service of God from whence it comes, and to do this by better serving my fellow-men.

LEAD me into the Infinite Harmony, the poise of Nature, "the peace of God which passeth all understanding." Attune my being to receive Thy vibrations, make of me an instrument for transmitting Thy will.

HELP me, O God, to nourish my Body in holiness and health—to keep it free from all evil tendencies or unrighteous actions, to

know its marvels and wisely to use them, rather than ignorantly or wickedly to abuse its wonders.

AND help me yet more, O Lord, in Mind-growth and mental strength. Aid me to expand my thinking powers, further develop my reason, enrich my affections and emotions, increase my vigor of will, guide my hopes and enthusiasms, banish my fears and worries, encourage me to bear my burdens, stimulate my self-control, refresh my earnestness of purpose, enlarge my love for the beautiful.

THUS, with Thy ever-present help, Lord God Almighty, may my Body and Mind always be a fitting temple for my Soul—for Thy spirit in me with which in its fullness I am Truth and Strength, Faith and Love, Health and Happiness, but without which I am merely human.

FEED Thou my whole life—direct Body, Mind and Soul to co-operate in unison for efficiency, progress, contentment, joy, service, truth. Amen.

—Herbert Myrick

