

and, thirdly, that capital should not be provided to credit societies for the purpose of general trading. As the legislation restricts the functions of co-operative rural intermediate credit associations so that they are not given any authority to enter into trading operations, the last-mentioned requirement is provided for. The other matters receive the close attention of the Board in the conduct of its lending operations, and a reference to the practice adopted is included in a later portion of this report dealing with the policy of the Board in regard to its lending business.

THE RURAL INTERMEDIATE CREDIT ACT, 1927.

3. The recommendations of the Royal Commission were given practical effect by the Rural Intermediate Credit Act, 1927. The main purpose of the Act is to organize rural credit upon a sound basis and thus secure a flow of capital for investment upon rural securities—mainly stock, produce, and other chattels—at the most reasonable rate of interest consistent with prudent administration. Initial funds for investment by the Rural Intermediate Credit Board, to which the administration of the scheme is entrusted, are provided by an advance from the Consolidated Fund, on loan and free of interest for the first ten years, of £400,000, of which one-third must be placed to the credit of a special redemption fund and is to be applied only for the purpose of redeeming debentures issued by the Board, and the remaining two-thirds is available for making advances by the methods and upon the securities permitted by the Act. Provision is also made for grants up to a total of £10,000 to cover the expenses of establishment and the preliminary cost of administration. The first-mentioned payment through the Consolidated Fund, as indicated, is by way of loan, and the permanent and main source of the Board's funds for investment will be the issue to the public of debentures secured upon the Board's assets. Apart altogether from the margins in the values of the stock, chattels, and other assets forming the securities of the individual advances by the Board, holders of debentures issued are assured of a margin of assets and investments above the amount of the Board's outstanding debenture issues equal to the amount of the original advance from the Consolidated Fund (£400,000); for the Act gives the debenture-holders, in effect, priority over the claims of the Crown to repayment of this advance, and restricts repayments to the Crown so that they may not exceed the amounts transferred from time to time to the reserve accounts of the Board. The total of the debentures issued is not at any time to exceed the sum total of the advance from the Consolidated Fund and the amount of the investments of the Board, or the sum of £5,000,000, whichever is the less.

The funds provided in these modes are to be made available to the farming community by four methods—

- (a) By advances to farmers as members of a special class of limited-liability company, termed "co-operative rural intermediate credit associations" (Part II of the Act):
- (b) By advances to farmers individually, the loans being additionally secured by the partial or entire guarantee of a company or private individual (Part III of the Act):
- (c) By loans to farmers' co-operative organizations (Part IV of the Act):
- (d) By discounting farmers' promissory notes or bills of exchange (section 15 of the Act, and paragraph 46 of the Rural Intermediate Credit Regulations of the 21st December, 1927).

The main features to be noted at the present juncture in regard to the Board's lending business are that the total advances which an individual farmer may obtain from the Board, whether he applies through an association or direct, or obtains accommodation through a promissory note or bill of exchange presented to the Board for discounting, may not exceed the sum of £1,000, and, in the case of loans to farmers as distinct from loans to co-operative organizations, the loan must be applied for one or more of certain specified purposes. The term of advances is fixed at five years in the case of advances to farmers, and three years in regard to farmers' co-operative organizations, while no maximum period is prescribed in the case of discounts.

The securities taken by the Board are mainly chattels securities—*i.e.*, mortgages of live and dead stock, implements, crops, produce, and the like—with, in suitable cases, collateral securities over land, and, in the case of loans to