26. It will be seen that the most energetic steps have been taken to ensure that the merits of the intermediate credit system are brought before all classes of the farming community and other persons and organizations likely to be interested in the lending operations of the Board. The success of the measures taken during the past year and the initial period of the Board's operations is reflected in the marked increase in business recorded during the year, and it is confidently anticipated that equally satisfactory progress will, as a further result, be recorded during the coming year.

POLICY OF THE BOARD.

27. *Nature of System.*—Despite the full measures taken to explain the system set up by the Rural Intermediate Credit Act of 1927, it has been brought to the knowledge of the Board at different times that misapprehension exists as to the classes of security which the Board is able to accept and the standard of security which, in view of its responsibility to debenture-holders, the Board finds it necessary to maintain. The true nature of the system was explained in the first report of the Board in the following terms:—

> "The main purpose of the rural intermediate credit system is to improve the existing credit machinery by organization and supervision and to create a greater degree of confidence in rural securities—mainly chattels and the like—than has existed in recent years, and so to secure a flow of funds for investment upon those securities at reasonable rates. In accordance with developments abroad, the individual lender, from one point of view, or borrower, from the other, will be replaced by a corporate concern, the Rural Intermediate Credit Board, which, by reason of the extent of its operations and the wider spread of risk, will, it is anticipated, be able to secure the necessary funds on more advantageous terms than would be possible in the case of individual borrowers. The success of the Board's operations must depend to a large extent upon its ability to secure a flow of funds through debenture issues, and confidence upon the part of the investing public cannot be expected if the Board does not maintain a prudent standard of investment. The Board is also a trustee in respect of the advances received by it from the Consolidated Fund, which are by way of loan only, and it is equally under an obligation to safeguard those funds. In view of the fact that by the Act debentures are constituted trustee securities it is evident that it was the intention of Parliament that advances should be made only against adequate security. To adopt any other lending policy would be inconsistent with the Board's responsibility to the Government and the debenture-holders, and would be opposed to and almost certainly defeat the accomplishment of the objects aimed at by the introduction of this system.
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> "The producer will benefit from the policy followed by the Board not only by reason of the more favourable rates of interest at which accommodation is procurable, but also because of the security of finance provided where arrangements are made with the Board for accommodation."

It is clear, however, that the system is regarded by some applicants as a measure designed to provide loans for farmers who have not an adequate amount of security to support applications for the amounts which they require for stocking up or developing their farms, or discharging pressing liabilities. While the Board is prepared to take into account all factors having a bearing upon the applications submitted to it, including the worth of the personal element, which is an important factor in this class of finance, or the value of collateral securities offered in the form of second mortgages of land, charges over other classes of assets or independent personal security such as guarantees, there have been a number of applications which the Board has felt it would not be justified in granting. These cases are not confined to applications where the security offered is inadequate. In some cases it has been apparent that the farming proposition is, in view of liabilities attaching to it, economically so unsound that the applicants will not be in a position to continue for long with their operations. Where this is the position it is felt that no real relief