AGRICULTURAL CREDIT IN EUROPE

BY

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THIS IS TO CERTIFY THAT THE THESIS PREPARED UNDER MY SUPERVISION BY

Charles Nelson Hill

ENTITLED Agricultural Credit in Europe

IS APPROVED BY ME AS FULFILLING THIS PART OF THE REQUIREMENTS FOR THE

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Instructor in Charge

APPROVED:

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INTRODUCTION

A widespread movement has been inaugurated in the United States to obtain better banking facilities for our farmers. The platform of the three leading political parties contain sections pledging the respective parties to the improvement of rural credit conditions if placed in power. The State Department has collected information on rural credit activities in European countries. Ex-President Taft in a letter to the governors of the states urged them to a conference to consider the matter of state legislation regarding agricultural credit. The Southern Commercial Congress has sent a commission of one hundred members - two from each state - to Europe to study the conditions there. The First National Conference on Marketing and Farm Credits, held in Chicago in April, 1913, had as its chief topic the subject of rural credit. Practically every program appearing in connection with farmers' institutes, national farmers' congresses, and agricultural workers carries one or more titles on rural cooperative subjects with rural credit holding first place.

Ambassador Herrick, the foremost American authority on rural credit says: "There is nothing so important today before the American people, in my opinion, not even excepting the currency reform, as the establishment of rural credit systems", for our farmers.

Because of this widespread interest in agricultural credit a short description has been given of rural credit banks.
of Europe, which have been of incalculable value to European farmers, with the hope that the discussion might help, in a small way, in the solution of our own problem.
I. SHORT-TIME AGRICULTURAL CREDIT BANKS

In agriculture two kinds of loans are needed: short-time loans, and long-time loans. The first of these is for temporary purposes, such as sowing and reaping grain, buying hogs, cattle and other live stock, marketing and moving crops, etc. The person making such a loan expects to pay it off within a short period of time; and because of the short time it runs, personal pledges are given as security. The second class of loans are used for the purpose of purchasing farms, or making permanent improvements. For these purposes the cost should extend over a long period of years, and for security a mortgage is given on the farm or real estate.

In recognition of these two classes of loans needed for agricultural purposes, two different kinds of banks have been organized in order to supply the farmers of Europe with credit - viz., rural credit banks, and mortgage banks. When a farmer makes a loan at a bank, he is said to have "credit" at that bank, and hence we have the term "agricultural credit".

The following outline, based upon the two different kind of institutions which supply farmers with credit, is used in this thesis.

I. Short-time Agricultural Credit Banks.

A. The Raiffeisen System.
B. The Schulze-Delitzsch System.

II. Land Mortgage Banks.

A. The Landschaften of Germany.
B. The Credit Foncier of France.
The Raiffeisen and Schulze-Delitzsch systems, and the Landschaften have achieved success mainly through the use of cooperative principles, in which the farmers are the owners and proprietors of the banks. These institutions are local in character and are decentralized. The Credit Foncier is an incorporated institution, does business over the whole of France, and is centralized.

The above institutions will be discussed in order.
A THE RAFFEISEN SYSTEM

1. Introduction

The main factor in the introduction of co-operative features in agriculture in Europe during the Nineteenth Century has been the adverse economic conditions against which European farmers have been struggling. Chief among the difficulties has been the competition of new countries of immense territory and virgin soil. These countries, owing to the great improvement in the means of transportation, have been able to flood the markets of Europe with agricultural products. By the use of cold storage in railroad cars and ships, even the most perishable articles can be taken to Europe from the most distant soils of the world (1). In many of the European countries the usurers found a favorite field among the peasants, and were gradually absorbing not only all their profits, but also their lands and cattle.

To overcome these conditions, an economic transformation has been necessary, comparable to the transformation which has taken place in industry, and the European farmers have accordingly reorganized not only their technical but their business methods. These new methods consist, in the main, "in the application of cooperation and mutuality - combined efforts and the acceptance of mutual obligation - to the various branches of the business of agriculture" (2). Mr. Lubin, the American Delegate to the Institute at Rome, gives the following as the most impor-

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(2) International Institute of Agriculture, Rome; An Outline of the European co-operative credit system p. 5. This will be re-to later as "Outline".
tant of the cooperative features of agriculture:

(1) The provision of capital.
(2) The purchase of agricultural implements.
(3) The preparation and sale of agricultural produce.
(4) Farm insurance.

It is with the application of cooperative and mutual methods of providing capital for agricultural purposes that we are here concerned.

The growth and development of agricultural credit in Europe was not haphazard and spontaneous. "It was brought about" says ambassador Herrick, "by the insistence of public and private individuals, philanthropists, scholars, bankers, legislators, agricultural societies, government commissions, and national assemblies, all studying and working in a common cause."

(2) Herrick Land and agricultural credit in Europe, p. 9.
2. The Early Raiffeisen Banks.

Economic conditions were the cause of the establishment of rural credit banks; and they have gained their fullest development in Germany, the place of their birth. In the first half of the past century the small farmers of Germany were at the mercy of the usurers from whom they procured the credit necessary in the exercise of their business. These small farmers and artisans could not borrow directly from capitalists and banks, and thus suffered severely at the hands of the only ones from whom they could borrow - the usurers. (1)

The seriousness of their situation was clearly recognized by two men, "who have deserved well, not only of Germany but of the whole civilized world, by devising and putting into practice the best methods of remedying the evil". (2) One of these was Frederick William Raiffeisen, burgomaster of Weyerbusch, the other Francis Frederick Schulze, who is better known under the name of Schulze-Delitzsch. The rural credit banks which have spread to all civilized countries were originated by the former; the urban popular banks were founded by the latter. (3) Unlike Herr Schulze, who was a talented writer and speaker, Herr Raiffeisen was poorly educated, and lived among the peasants in a sparsely settled and impoverished district and was deeply imbued with religious feelings.

(1) Systems of Rural Cooperative Credit, p. 5.
(2) Systems of Rural Cooperative Credit, p. 5.
(3) Systems of Rural Cooperative Credit, p. 5.
Although Raiffeisen knew nothing of finance he understood the need of those who, under the most discouraging circumstances, were bravely trying to gain a living from the soil—a class among whom credit was the particular and essential thing lacking. His sole object was to help the lowest classes, and the thought of profit was discarded, the societies he founded being run gratuitously by their members.

It was while he was burgomaster at Weyerbusch in 1843 that his attention was called to the wretched condition of the peasants, "and his indignation was excited by the heartless extortions to which they were subjected by the usurers, and by cattle dealers and by others who practiced usury upon them under disguised forms." (1)

His first attempt to help the peasants in 1847 was a failure. (2) In 1848 he was removed to another district where the peasants' holdings were very small, and they themselves were generally poor. Not having any farm animals, they were forced to hire them from the cattle dealers, and had to accept almost any terms offered them, so dependent were they upon this class. (3)

In 1849 Raiffeisen got the peasants to organize themselves into an association called the Flammersfield Mutual Aid Association for the Protection of Needy Cultivators. (4) This association borrowed money on three months' time, with

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(1) Peter's Cooperative Credit Associations, p. 56.  
(2) Ibid  
(3) Ibid  
(4) Ibid
which it bought farm animals, which were sold to members on five years' credit, the debt to be paid in five yearly installments. The association soon simplified its business by loaning its money directly to its members, and ceasing to buy and sell live stock. (1) This was the formation of the first rural credit association.

It was the founder's motive to make association an instrument which would enable members to secure credit on better terms than they could obtain separately. This idea, in fact, is still one of the main features of rural credit associations. In the "Systems of Rural Cooperative Credit", Mr. Lubin says (2) "The main principle underlying all forms of cooperative credit is that if a group of persons combine to furnish a collective guaranty they can, on the security of that guaranty, obtain money at lower rates of interest than they could obtain individually".

Having seen under what condition the Raiffeisen cooperative societies were organized we will pass to a discussion of them as they exist today.

(1) Ibid
3. Organization of the Raiffeisen Banks.

The fundamental principles of the true Raiffeisen banks are:

1. Unlimited liabilities of the members.
2. A restricted area of operations.
3. Gratuitous management.
4. No dividends.

The members of these banks are farmers, usually peasant-proprietors. In 1909 there were 12,614 banks of the Raiffeisen type in Germany comprising a membership of 1,163,186. Although the membership differs in the various districts the average is 92 per bank. In Westphalia the banks have an average of 160 members; in other regions the membership is as low as 7, the minimum number required by law. The highest number recorded is one bank having 1,400 members, but this is an exceptional case.

It was only natural that the above principles were adopted considering the conditions under which these banks were organized. Under the existing conditions the individual members were practically without credit and it was only by assuring unlimited liability for all members that they could hope to acquire any collective credit. It was a matter of little consequence to the individual member whether he had limited or unlimited liability. But at the present time as the banks spread to the more prosperous agricultural sections of the country the principle of limited liability has been adopted.

(1) Outline Op. Cit., p. 9
(2) Price: Rural Credit in Germany, p. 22.
Although rural credit societies are increasingly adopting the system of limited liability - especially in other countries - in Germany the unlimited liability principle is still regarded as best adapted to the needs of their societies. In that country 92 per cent of the existing banks have unlimited liability, and 8 per cent have limited liability. (1) In the province of Saxony, however, one of the most prosperous and fertile agricultural sections in Prussia, there are nearly seven hundred rural banks, practically all of which are organized on the limited liability basis. (2)

Restricting the operations of the banks to a limited area was the natural consequence of adopting the principle of unlimited liability. Members would only be willing to join such an organization where they knew each other personally. Consequently a restricted area of operations is one of the fundamental principles of the rural credit banks. The nature of the business done makes it necessary for members not only to know each other personally, but also to know the purpose for which each loan is made, and to see that the money borrowed is so used. Raiffeisen wished the operations of each society to be confined to a commune or a parrish; and this principle of having banks do business in local and limited territory is carried out not only in the older banks, but also by the new organizations.

(1) Outline, p. 10.
(2) Price, Rural Credit in Germany, P. 22.
By carrying out this provision the banks have become the center of the economic life of the rural community or parrish and at the same time a member of a larger general organization described below. (1)

The management of the banks is very simple and democratic. Each bank has a General Meeting, a Board of Directors, a Council of Supervision, and a Treasurer, the last three of which are appointed by the General Meeting which also fixes the rate of interest on loans. (2) The Committee of Management is intrusted with the conduct of the business, and upon it often sit the best educated men in the community.

One of Raiffeisen's principles was that the management should be carried on gratuitously. This is the case with all committees; but the Treasurer, who is the executive of the bank, and his employees, receive pay. A recent writer says that the principle of gratuitous management has been emphasized much more than it deserves. Free management is the rule in the small bank, where very little time is taken up in performing their duties. In recent times, however, as the business of the rural banks has increased and the duties of the officials increased, a system of paid officials has immediately replaced that of gratuitous services. (3)

Since the Treasurer is still the only paid member of the small bank the expenses of the societies are very light. In 1909 they averaged only 638 marks per bank. (4)

(1) See Federations and Central Institutions, p. 23 ff.
(2) Devine: Cooperative Banks, p. 35.
(3) Price: Rural Credit in Germany, p. 23.
(4) Outline, p. 11.

When first organized the Raiffeisen banks were mutual associations bound together simply by articles of agreement in the nature of a partnership, in which the members were jointly and severally liable without limit for all loans made. (1) The working capital of these early institutions consisted mainly of money borrowed on the combined security of the members. (2) Not only was there no share capital, but also no entrance fees were charged. The only requisite for membership was good character and the poorest peasant was equally welcome with the rich farmer. Upon this point Mr. Wolff, the best English authority on this subject, says: "Calling upon a poor man, who deliberately joined in order to borrow, to pay down money, would to his mind have amounted to sheer mockery". (3)

Up until 1889 the Raiffeisen banks had no share capital whatever; but the law of that year forced all such organizations to issue shares of stock. (4) To meet this requirement the rural banks issued their stock in as small denominations as possible, the share being generally from 10 to 19 marks, payable in installments. In 1909 the average paid up capital was 19 marks per member, this amount being little more than nominal, and was so intended from the beginning. (5) In the banks which have unlimited liability only one share can be held by each

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(3) Wolff: People's Banks 3rd Cop., p. 122.
(1) Herrick: Preliminary Report, p. 16.
(5) Outline, p. 10
member, in the others, however, many can be taken. The value of
the shares is fixed by rule, and in case a member withdraws from
the society, the shares are repayable by the bank. (1)

In 1912 the working capital of the Raiffeisen banks
in Germany exceeded two billion marks. In 1909, the last year
for which statistics are available, the working capital was
distributed as follows: (2)

<table>
<thead>
<tr>
<th></th>
<th>Marks</th>
<th>% of Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Capitol Stock</td>
<td>22,358,433 M</td>
<td>1.2 %</td>
</tr>
<tr>
<td>Reserve Fund</td>
<td>50,981,069 M</td>
<td>2.6 %</td>
</tr>
<tr>
<td>Deposits on Current Acct.</td>
<td>189,077,842 M</td>
<td>9.8 %</td>
</tr>
<tr>
<td>Savings Deposits</td>
<td>1,455,618,456 M</td>
<td>75.2 %</td>
</tr>
<tr>
<td>Other Liabilities</td>
<td>217,487,462 M</td>
<td>11.2 %</td>
</tr>
<tr>
<td></td>
<td>1,935,523,262 M(3)</td>
<td>100.0 %</td>
</tr>
</tbody>
</table>

Under the head of "Other Liabilities" is included the
sums borrowed from other banks and individual capitalists. The
remaining working capital or 88.8 % is furnished by the farmers
themselves and others who keep their savings deposits in the
banks. A striking thing is the enormous amount of business
done on such a small amount of capitol stock and reserve, the
outside capitol - including savings deposits - being 25 times

(2) Outline, p. 12.
(3) 461,089,632 dollars.
the amount of capitol stock and reserve. This proportion is generally considered too high, and the present tendency is to increase the value of the shares raising them to 50 or 100 marks, in order to provide the rural banks with a wider margin to cover possible fluctuation in the deposits.

It should be noted that deposits can be made by either members or non-members, but that deposits on current account can only be made by members, the latter being similar to ordinary deposit accounts in our own banks. The savings deposits averaged 115,000 marks per bank in 1909; those for current account 22,905 marks per bank, and 247 marks per member. The savings are received in sums from one mark upward, the small amounts being collected by penny stamp books. "The willingness with which the peasants bring their savings to the banks", says Fay, "is a triumphant proof of Raiffeisen's contention that the small agriculturalists by a combination of unlimited and close supervision can become absolutely credit worthy". As it is, the small savings accounts form a steady and comparatively cheap source of working capital. The rate of interest allowed on savings averaged about 3 to 3 1/2 per cent varying with the length of time the deposit stays in the bank, and the notice of the withdrawal, which is usually considerable. The great merit of these savings deposits is that being the savings of non-borrowers they are less likely to be withdrawn just when they are most required.

(1) Outline, p. 13.
(2) Ibid.
(3) Fay: Cooperation at Home and Abroad, p. 44.
The main purpose for which the rural banks were organized was to grant loans to members. To reduce the risk of loans granted on personal security many safeguards have been devised which are adopted to varying extents in different sections. The principal ones are:

"(1) That loans are only made to members of the group and that only persons known to be trustworthy are admitted.

(2) That membership is confined to persons residing within a small district and that, therefore, the members are personally known to one another.

(3) That the members being mutually responsible, it will be to the interest of all members to keep an eye upon a borrower and to see that he makes proper use of the money lent to him.

(4) That, in like manner, it is to the interest of all members to help a member when he is in difficulties.

(5) That the borrower is required to find sureties or give other collateral security for the repayment of the loan.

(6) That the borrower binds himself to apply his loan to a specific purpose which will bring in a monetary return sufficient to enable him to repay the sum borrowed, to pay the interest charged, and to leave a profit for himself.

It is not to be supposed that the whole of these safeguards are adopted in all cases. Loans, for example, are sometimes given on the borrower's mere note of hand, without any collateral security. The fixing of the application of the loan, again, is most important where the borrowers are small cultivators unaccustomed to commercial methods, and is usually relaxed as their economic education becomes more advanced."
current account and loans for fixed periods. At the end of 1909 the loans outstanding to members were as follows:

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount (Marks)</th>
<th>% of Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Loans on current account</td>
<td>425,995,403</td>
<td>28.3%</td>
</tr>
<tr>
<td>Loans for fixed periods</td>
<td>1,082,446,388</td>
<td>71.7%</td>
</tr>
<tr>
<td>Total</td>
<td>1,508,441,791</td>
<td>100%</td>
</tr>
</tbody>
</table>

The loans on current account are advances made by the banks against which the members draw checks and they pay interest only on the amount they actually check out. This form of loan is rare in the rural banks — comprising only about one-third of the total — but there is a tendency in all the banks to extend the practice of granting loans on current account. It is recognized that this form of loan is more convenient, but it requires a higher economic education in the members and more advanced social conditions, and consequently, at the present time, most of the loans are for fixed periods of time.

In every case the specific purpose for which the loan is wanted must be stated, and it must be used in that way. The loan must be strictly for a creative purpose, and one to acquire something merely for consumption is not tolerated, no matter what may be the security offered. "This is the first cardinal principle", says Ambassador Herrick, and so rigorously is it adhered to in Europe that the credit societies invite to their circle only those who are producers of wealth."

The members guarantee the fulfillment of their obligations to the banks by finding sureties, by the deposit of valuables such as stocks and bonds, by giving a mortgage, or

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(2) Ibid; also Fay, Op. Cit., p. 46.
(3) Preliminary Report, p. 29.
by their mere promise. 

Although the Raiffeisen banks have loans of $45,000,000 secured by mortgage, by far the largest amount of business consists of short time loans on personal security. Usually the loans are secured by the guaranty of two associate members, although some valuables are deposited as collateral, and some are on the single name of the borrower, the latter being called "character" security.

Strict oversight is exercised in order to diminish the risk of the loans granted by the rural banks. Thus, for example, the law relating to cooperative societies requires that the General Meeting shall fix the maximum limit beyond which loans must not be made to the members, whatever may be their financial position or whatever the security offered.

"The principal safeguard, however, for the success of the rural banks lies in their very constitution. The limited area of operations and the nature of rural life make it possible for each member to keep an eye upon the affairs of his fellow-members, in which, moreover, he is directly interested, so that he can easily judge at any moment of their solvency and of the manner in which they are utilizing the money obtained from the bank." 

The period of the loans varies from six months to two or three years and even to ten years in exceptional cases. The length of loans made characterize the purpose of the rural banks. They were organized for the farmer and have striven to meet the needs of the farming class. This is natural because they are owned, controlled and managed by the farmers.

themselves, and they always endeavor to meet their own needs. As shown above this is particularly true in the lengths of loans made. In towns where commercial loans are needed, sixty or ninety day loans are sufficient, but in agriculture the loan is needed not only through the growing season, but should also extend until the crop is harvested and marketed.

The proximity of the banks to the farmers is very convenient, owing to the relatively small territory to which the business of the bank is restricted. In fact they are generally located in the midst of the farmers, so that they are accessible to all members.

The average size of loans is slightly below 500 marks. The average rate of interest is not definitely known, but it appears to be between four and five per cent, and is nearly one per cent cheaper than interest charged by the town banks.\(^{(1)}\) It is always one per cent higher than the interest allowed on savings deposits. When a farmer makes a loan on current account he has a right to check or draw against it at any time. This kind of loan is the one so familiar to American businessmen, and is very convenient. One distinctive feature of it is that the farmer of Europe has to pay interest only on the amount he actually draws out. In case the farmer makes a loan for a fixed period - in which case he usually draws out the entire amount at one time - he pays interest on the whole of it, until it is paid off.

\(^{(1)}\) Fay: Cooperation, etc., p. 48.

\(^{(2)}\) Price: Rural Credit in Germany, p. 27.
The loan is repayable in small installments, although all of it can be paid in one sum if the member wishes. The bank reserves the right to call the loan on four weeks notice; but this is never done, unless the conditions of the farmer warrants it.

Practically no loss has ever been incurred by these banks through loans. "The inculcation of punctuality in payment, as a moral duty", says Fay, "was the hardest of Raiffeisen's tasks, as it was his greatest triumph". (1)

To give credit to their members on favorable terms and not to make a commercial profit is the object of the rural banks. In most cases the Raiffeisen banks do not admit of any distribution of profits, although in a few instances dividends are paid; and rarely do they exceed four per cent of the paid up capital. The dividends paid must never exceed the maximum rate of interest charged to borrowers. In 1909 the Raiffeisen banks made a net profit of 7,000,000 marks, and only a small part of it was paid out in dividends. (2)

The bank has two surplus funds, and by far most of the profits are carried to them. In 1908 about 7,000,000 marks were carried to these reserve funds, or 87 per cent of all the net profits. (3) One of these reserve funds is used exclusively to cover losses, and the other being the principal reserve fund

(1) Fay: Cooperation, p. 49.  
(2) Outline, p. 15.  
(3) Ibid.
is commonly used for "positive improvements such as the extension of the premises or the establishment of a burial fund". (1) This reserve has been called "the backbone of the whole system"; (2) and in it must be placed two-thirds of the annual profits. It can not be distributed among members, even though the bank be dissolved. In such a case it is held as a trust fund for a time for a new bank, should one be established, and if one is not established, it must be used for some work of public utility. (3)

The typical Raiffeisen bank is described by Fay (4) as "a small single room, probably at the back of a farm building, opened twice a week and presided over by a single occupant", the treasurer. At these times the peasants make their small deposits, or present an application for loans. A biennial audit is made of the account of each bank by an accountant employed by the district or central union; and the books of the banks, except the individual deposit ledger, are open to the inspection of all members. (5)

(1) Fay: Cooperation, etc., p. 44.
(2) Wolff, People's Banks, 3 Ed., p. 136.
(4) Fay, p. 47.
TABLE I.

The following table shows the number of Rural Banks in Germany on June 1st in each year from 1890 to 1910. (1)

<table>
<thead>
<tr>
<th>Year</th>
<th>Number</th>
</tr>
</thead>
<tbody>
<tr>
<td>1890</td>
<td>1729</td>
</tr>
<tr>
<td>1891</td>
<td>2134</td>
</tr>
<tr>
<td>1892</td>
<td>2647</td>
</tr>
<tr>
<td>1893</td>
<td>3040</td>
</tr>
<tr>
<td>1894</td>
<td>3850</td>
</tr>
<tr>
<td>1895</td>
<td>4872</td>
</tr>
<tr>
<td>1896</td>
<td>6391</td>
</tr>
<tr>
<td>1897</td>
<td>7612</td>
</tr>
<tr>
<td>1898</td>
<td>9208</td>
</tr>
<tr>
<td>1899</td>
<td>9208</td>
</tr>
<tr>
<td>1900</td>
<td>9793</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Year</th>
<th>Number</th>
</tr>
</thead>
<tbody>
<tr>
<td>1901</td>
<td>10487</td>
</tr>
<tr>
<td>1902</td>
<td>11121</td>
</tr>
<tr>
<td>1903</td>
<td>11750</td>
</tr>
<tr>
<td>1904</td>
<td>12477</td>
</tr>
<tr>
<td>1905</td>
<td>13151</td>
</tr>
<tr>
<td>1906</td>
<td>13635</td>
</tr>
<tr>
<td>1907</td>
<td>14096</td>
</tr>
<tr>
<td>1908</td>
<td>14709</td>
</tr>
<tr>
<td>1909</td>
<td>15158</td>
</tr>
<tr>
<td>1910</td>
<td>15517</td>
</tr>
</tbody>
</table>

It should be noted that these figures are derived from information which the societies are bound by law to publish.

(1) Outline, p. 16.
The following table relates to the business done by the 12614 rural banks embraced in the National Federation in 1909. The figures are privately collected by the Federation, and more particularly by the National Federation. (1)

### TABLE II.

**Business Done by the Rural Banks in 1909.**

<table>
<thead>
<tr>
<th></th>
<th>Aggregate Figures</th>
<th>Average per Bank</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Number of banks</strong></td>
<td>12,614</td>
<td></td>
</tr>
<tr>
<td><strong>Membership</strong></td>
<td>1,163,186</td>
<td></td>
</tr>
<tr>
<td><strong>Total business done (incomings and outgoings)</strong></td>
<td>4,456,161,532 M (2)</td>
<td>353,271 M</td>
</tr>
<tr>
<td><strong>Total liabilities</strong></td>
<td>1,935,523,262</td>
<td>153,442</td>
</tr>
<tr>
<td><strong>Paid up share capitol</strong></td>
<td>22,358,433</td>
<td>1,773</td>
</tr>
<tr>
<td><strong>Reserve funds</strong></td>
<td>50,981,069</td>
<td>4,042</td>
</tr>
<tr>
<td><strong>Deposits in hand at end of year</strong></td>
<td>1,644,696,298</td>
<td>130,387</td>
</tr>
<tr>
<td><strong>Loans outstanding at end of year</strong></td>
<td>1,508,441,791</td>
<td>119,584</td>
</tr>
<tr>
<td><strong>Loans granted during the year</strong></td>
<td>901,227,744 M (3)</td>
<td>71,446</td>
</tr>
</tbody>
</table>

The Raiffeisen banks are organized into provincial federations with provincial banks at their head, and these in turn into a national federation with a central bank at its head. These provincial banks and the central bank "equalize the need of credit of the individual banks, supplying them with

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(1) Outline, p. 16.
(2) $1,061,568,167
(3) $214,694,794
money when required and employing their surplus funds." (1) This
is done by current deposit accounts which the rural banks keep
in the central institutions. The importance of these central
banks is shown by the fact that in 1909 10987 of the 15000
Raiffeisen banks were members. (2) A large proportion of the
German cooperative banks and other cooperative agricultural
societies are federated in a single national organization, the
National Federation of Darmstadt. In 1910 it included 18962
cooperative societies of different kinds, 12894 of which were
cooperative credit societies. (3)

The benefit which these banks have conferred on the
European farmers is beyond calculation. "These associations",
says Ambassador Herrick, (4) are in fact the only banks which the
farmers will patronize for short-time loans in the nations where
they abound in the greatest numbers. With their aid poverty
and usury have been banished, sterile fields have been made
fertile, production has been increased, and agriculture and
agricultural science raised to the highest point. Their educa-
tional influence is no less marked. They have taught the far-
mers the use of credit as well as of cash, given them a commer-
cial instinct and business knowledge, and stimulated them to
associated action. They have encouraged thrift and saving.

(1) Outline, p. 17.
(2) See table, Ibid, p. 21, for business done.
(3) Outline, p. 17 ff.
(4) Land and Agricultural Credit in Europe, p. 10.
created a feeling of independance and self-reliance, and even
elevated their moral tone."
I. Organization

Strictly speaking, the banks organized by Schulze Delitische are not rural credit banks. They were organized for the purpose of helping the poor artisans and small townspeople instead of peasant farmers which characterize the Raiffeisen banks. But the fact that the agriculturist class has more members than any other single class of people, and that there are many points of organization different from the Raiffeisen system, it has seemed best to briefly discuss them.

The cooperative idea of personal credit in Germany originated with Schulze Delitische. His first effort was the organization formed in 1849 - the year following the great distress throughout Europe - for relief in sickness, and during the same year an association of shoemakers for the purpose of purchasing raw materials was formed. His first loan society was formed in 1850, in Delitzsch -Eilenberg. All the members were artisans, and it was remodelled two years later "as a self supporting institution with capital and shares" (1). This idea of putting the societies on a business basis was the governing idea in Schulze's mind. He wished that his banks "should be quite above suspicion of any connection with charity and still more with religion" (2), as contrasted with the Raiffeisen banks. Above all things he wanted his banks to be independent, self-sufficient, profit-making concerns, differing from joint stock banks "in that the members alone were to have an interest in

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(1) Fay; coop, at home and abroad, p. 20.
(2) Hobsen, Agricultural credit banks, p. 6.
profits earned"(1); and their associations are formed to provide
credit facilities for its members only(2).

For the purpose of providing capital and of encouraging
self-help and thought comparative high price was charged for
shares, the minimum being about $30.00(3), a sum not too high to
shut out small industrialists who have credit needs to satisfy.
The average amount of capital per member, however, is no less than
$85.00 and the payments are made in installments within a reason-
able length of time(4). On the other hand, until the capital is
fully paid, all profits are credited to the cost value of the
shares(5).

After once started, his societies grew very rapidly.
He used his own wonderful influence and "his convincing eloquence"
to spread his ideas. "He 'stumped' the country with a will, making
clear with remarkable lucidity of exposition to audience after
audience the principles of his system, the benefits of its ap-
plication, the incalculable gain which it must bring alike to
individuals and to the community"(6). At the time of his death
there were no less than 4000 associations founded on his prin-
ciples, with a membership of 1,200,000, a capital of more than
$50,000,000, and a business of at least $500,000,000 per year(7).

(1)Ibid.
(2)Fay, p. 22. (3)Hobson p. 6, Fay p. 22.
(6)Wolff; Peoples Bank, p. 79.
(7)Ibid. p. 80.
Both in regard to the number of members and the amount of capital, there is a marked difference between the Schulze-Delitzsch popular bank, and the small banks of Raiffeisen model. In 1910 the average membership of the former was 639, which is considerably higher than that of the rural bank\(^1\).

We saw while discussing the rural bank that the membership was drawn exclusively from the farmers. This is not the case with the Schulze banks, which include members of various occupations.

The different classes which composed these banks for the year 1910 is shown in the following table\(^2\):

<table>
<thead>
<tr>
<th>Class</th>
<th>Per cent</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Independent agriculturists (farmers, etc)</td>
<td>26.57%</td>
</tr>
<tr>
<td>2. Wage-earning agriculturists, laborers, etc</td>
<td>2.41%</td>
</tr>
<tr>
<td>3. Artisans</td>
<td>23.03%</td>
</tr>
<tr>
<td>4. Merchants, manufacturers, etc</td>
<td>8.93%</td>
</tr>
<tr>
<td>5. Workmen, apprentices and wage-earners generally</td>
<td>10.55%</td>
</tr>
<tr>
<td>6. Professional men, clerks, etc</td>
<td>8.93%</td>
</tr>
<tr>
<td>7. Persons living on pensions</td>
<td>8.79%</td>
</tr>
</tbody>
</table>

It is thus seen that the class most highly represented are the independent agriculturists, who usually cultivate small or medium-sized holdings\(^3\), which are usually larger than those cultivated by peasants.

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\(^1\) Outline of Eur. Coöp Credit, p. 23
\(^2\) Taken from outline p. 23.
\(^3\) Outline p. 23.
The Schulze-Delitzsch banks are divided as to whether it is best to have limited or unlimited liability. At first they were inclined to the latter, but since the law of 1868 permitted banks to organize with limited liability(1), many have done so. This marked a distinction between Raiffeisen and the Schulze-Delitzsch propaganda(2). In 1910 out of a total of 939 banks 567 or 60.3 per cent were based on the unlimited principle, and 37.2 on limited liability. Although still in the lead, the unlimited liability banks have been losing and the limited growing in numbers in recent years(3). In districts which are unfamiliar with cooperative credit "unlimited liability is still considered the best system on which to establish popular banks".(4)

As we have already remarked, the shares of the members are rather large. At the general Congress of the Popular Banks held in 1896, it was recommended that shares should be at least 300 marks, while a subsequent Congress advocated that banks with limited liability should have shares with a minimum of 500 marks, limiting the liability of members to three times the amount of the shares(5). The average share capital is now 360 marks, although the tendency is to increase it. The average share in 1882 was 223 marks, which has been successively increased to 226 marks in 1892, to 276 in 1902, and finally to 360 marks, the present figure, with the tendency to continue increasing in

(1) Hobson:
(2) Herrick Prelim. Report p. 16.
(3) Outline p. 24. (4) Ibid.
the future "in view of the desire to ensure for the popular banks a greater stability and independence" (1).

(1) Ibid.
2. THE BUSINESS OF THE POPULAR BANK

The administration of these banks consists of a directorate elected by members in their general meeting, and the Vorstand, or management committee, of which there are three members appointed by the directorate (1) (auffichtsrat). Another business-like feature of Schulze's plan was that officials should receive compensation for their services, "a weak feature of the scheme being the commission allowed to them on business transacted" (2). The actual working of the bank is superintended by the "Vorstand", which also receives and deals with applications for loans and advancements, the same, however, being subject in certain cases, to the possible intervention of the Aufsichtsrat; the latter also determines questions of policy, and acts also as an audit and inspection committee (3).

"The real key-stone of the system", says Mr. Wolff, "is the accumulation of capital of the bank's own. Towards that goal all methods adopted converge" (4). A member must have money to begin with, and is thus unlike the Raiffeisen, which banks admit members who are very poor, but of known honesty.

In 1910 the aggregate working capital of the popular banks was nearly 1,500,000,000 marks "giving the truly remarkable average of 1,500,088 marks per bank" (5). In 1886 it was 617,000 marks, in 1900 it rose to 800,000 marks, and reached the

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(1) Hobson; Ag. Cr B. p.6.
(2) Ibid.  (3) Ibid.
million mark in 1902. The aggregate funds of the bank have thus trebled in the last twenty years.

The funds which make up the working capital are (1) share capital and reserve funds, (2) deposits, (3) loans from central banks, and outside sources (2).

The following figures show the amount and percentage of each, for the year 1910 (3).

<table>
<thead>
<tr>
<th></th>
<th>Marks</th>
<th>Percentage of total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Share capital</td>
<td>216,330,103</td>
<td>14.8%</td>
</tr>
<tr>
<td>Reserve funds</td>
<td>94,187,564</td>
<td>6.5%</td>
</tr>
<tr>
<td>Capital from outside sources</td>
<td>1,145,014,688</td>
<td>78.7%</td>
</tr>
<tr>
<td>Total working capital (1)</td>
<td>1,455,532,355</td>
<td>100%</td>
</tr>
</tbody>
</table>

The banks' own funds - the capital and reserve - are much higher than in the case of the rural banks. It is not known, from the information, what part of the "capital from outside sources" is derived from deposits, or secured from third parties. There are several kinds of deposits.

1. Small savings accounts, both of nonmembers who can not borrow, and of members who do not borrow. This means of securing funds is desirable, since they are stable. From 3 to 3 1/2% interest is allowed them on their deposits, a sum larger than that offered by savings banks; a notice of from two weeks to twelve months must be given before funds can be drawn out. The rate of interest allowed on them varies according to the length of time that they are kept in the banks, thus making

(1) Ibid.
(2) Hobson; p. 7.
(3) Outline, p. 24.
this feature agreeable to the depositors. (1)

2. Drawing accounts. These are what we would call deposits. They use them either with or without the cheque system, although they are much more useful with cheques, which are now growing in favor in Germany. (2)

3. Public Monies. These are received from savings banks, and are desirable because they are not likely to be withdrawn suddenly. (3)

These together with capital and reserve funds, and loans obtained from other institutions and individuals, at sight or for fixed period, against acceptances or mortgages of their property (4) form the working capital of the Schulze-Delitzsche banks.

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(2) Fay pp. 24-25.
(3) Ibid, p. 25.
(4) Outline p. 25.
3. Banking Operations

Broadly speaking, the Schulze-Delitzsch banks carry on every kind of banking business, their primary purpose, however, being to grant loans for comparatively short periods of time to their members only. In 1910 for this purpose they employed 4,000,000,000 marks, of which 1,200,000,000 marks were still outstanding at the end of the year(1).

There are two kinds of loans made: first, called an advance, which is a single definite advance of money. The second is in the form of credit limit, which the borrower draws against, the limit of which is fixed by the society - this is what is known in Scotland as the cash credit(2). The advance is made on a kind of note (an I.O.U. or bond), or on an advance bill of exchange, the latter being preferred by the bank(3). One reason for this is that the bank can rediscount the bill of exchange, but can not that of the bond(4).

The advance is made against one of four different forms of security:

1. On the pledge of one or two friends.

2. On land mortgage.

3. On deposit of collateral in the form of script or valuables.

4. On the good name of borrower alone.

(1) Outline p. 25.
(2) Cf. Fay p.25 FF.
(3) For reason see Fay 26.
The first of these, the personal pledge "is the key-stone of the Schultze Delitzsch system"(1). Its superiority over other kinds of security is due to the fact that "it lends itself to supervision of the borrower's conduct"(2).

Of the sums advanced during 1910, 41.50 per cent were on current account; the remainder were loans for fixed periods, such as those on pledge or on mortgages or by discounting bills of exchange(3). The different percentages of the separate kinds of loans for 1905 were: In the definite advance, blank credit 3%, against personal pledge 77%, against collateral 20%(4).

The average length of time which loans run is three months, although renewals are frequently made(5).

Sometimes, but not often, pledges or mortgages are given as security for loans. When this is not done, loans are guaranteed by sureties or by acceptances, sureties usually being preferred; and a small number of loans are granted without any guarantee(6).

Two means are open for the use of surplus funds, both of which are used. The first is to deposit sums of money with

(1) Fay page 26.
(2) Ibid p. 27. Each of these forms is described in Fay, p.27 ff; and in Wolff's Peoples Banks.
(3) Outline p. 25.
(4) See Fay p.33.
(6) Outline p. 25.
other institutions, which amounted to 61,000,000 marks in 1910. The second method of dealing with surplus funds is to invest them in securities, of which they had 98,000,000 marks in 1910, and to invest in first rate bills (banker's acceptance), which represent the safest means of realization, in case they need ready funds. Of these they had 22,000,000 marks of easily realizable assets. (1) Their investments in real estate, including office buildings and property acquired as the result of unpaid loans amounted to 51,000,000 marks in 1910. (2)

On the total amount of working capital of 1,455,532,355 marks in 1910, the gross profits amounted to more than 76,000,000 marks. Of this sum it took 43,000,000 marks to pay the interest on sums borrowed from outside sources, the average rate of which was 3.76%. This rate is thus not too high to enable them to earn a moderate profit. The expenses for management were 12,000,000 marks, or 16.51% of the total gross profits. After full deductions of interest, depreciation and various losses, the net profit exceeded 18,000,000 marks, which is 8.60% on the share capital. Most of this, however, was paid out in dividends, which range from 5 to 7% in various banks on the paid up capital; the high dividend of 10% was distributed to 19 banks, and one paid a 25% dividend. The remainder of the profits are carried to the reserve fund and donated to objects of public utility. (3)

(1) Ibid.
(2) Ibid.
(3) Ibid, 25-26; also in Fay and Wolff.
II. LAND MORTGAGE BANKS

The Raiffeisen banks loan mainly on personal security, and the loans obtained are used mainly for temporary purposes, such as planting and harvesting crops. There was also a need of institutions which would make loans for long periods which could be used for permanent improvements or for the purchase of farms. For such purposes it is customary to give a mortgage on real estate as security. Thus instead of going to a Raiffeisen bank when he needs a loan for a long time, the German farmer goes to a land-mortgage bank which is typified by the well-known German Landschaften.

A. THE LANDSCHAFTEN OF GERMANY.

These institutions - the originals of all land banks - are cooperative, and are organized to do business in a province or some other administrative unit. They are thus decentralized, although an attempt has been made to extend their business to provinces other than those in which they are organized. The object of these institutions is "to obtain for their members the credit they require for land improvement by means of bonds guaranteed by the landowners of the province collectively." (1)

The first Landschaft was organized in 1769. On account of the Seven Year War the large estates of Prussia were devastated, the owners could not pay their debts, nor borrow more money without paying ruinous rates of interest. To help this

situation Frederick the Great, under the advisement of Herr Bühring, a Berlin business man, issued a royal decree which forced all the nobles of Silesia, who owned most of the land in that province, to join an association whether they wished to borrow or not, and their lands were made jointly liable without limit for all loans granted by the association. (1)

The institution thus founded was an association of landowners. The members had no shares, and received no dividends, the profits, when there were any, going to reduce the loans of members. Because the members and borrowers are the same, and the associations are run gratuitously, these institutions have been able "to lend money at lower rates than any other kind of institutions". (2)

Thus instead of making loans, individually the members pool their interests and issue bonds secured by their combined land holdings. For 142 years the first Landschaft formed in Silesia has served the land owners and enabled them to secure their loans far below the rate charged in other provinces where similar institutions have not been organized. (3)

There are now 25 Landschaften in Germany. Five of them were founded directly by the State, nine by the Provinces, and the rest voluntarily. Fourteen of the total number are in Prussia. Besides these, there are five private land mortgage companies that have adopted the Landschaften principle of cooperation. (4) The largest Landschaften is in Silesia and it has bonds outstanding to the amount of 608,634,180 marks; the smallest one has bonds aggregating 10,360,425 marks. (5)

Originally these institutions were founded for the nobles only who owned large tracts of land and were called Ritterschaften. It seems strange that this system of land credit has not met with favor outside of Germany, but has remained almost exclusively a German institution. The only nation that has copied them is Austria-Hungary. "It seems possible", says Mr. Robinson, (1) "that its aristocratic lineage and the traces it bears of German feudalism have militated against a more general adoption of the Landschaften system".

The Landschaften are semi-public institutions. The General Assembly of the state in which they are organized must approve their constitutions and by-laws. A government official oversees their business, and the government must approve the selection of the higher officers of the association, although they are selected by the members.

Although most of these institutions are based on the same general principle in their organization and management, their constitutions vary considerably, each being adapted to the special needs of its province. Each, however, has a Committee of management and a General Assembly of landowners. (2) One of the most important differences is the amount of property a member must own to become a member and a borrower. Of late years the tendency has been to decrease the amount of property required for membership. There has been an association established in East Prussia for the small land holders exclusively.

Originally the associations limited the amount that they would loan on property to fifty per cent of its value

(1) Scientific Farming and Scientific Financing, p. 5.
(2) Outline, p. 32, Ibid, p. 34.
but now in most cases loans are granted to the amount of two-thirds the assessed value for taxation purposes. In all cases the mortgage must be a first lien, and in case the farm is already incumbered the association will help the proprietor to pay off previous mortgages in order to obtain a new loan.

When a landowner joins the association his title deeds are examined, his property inspected and given an estimated value. If he wishes to make a loan he sends in his application, and the loan cannot be denied provided he complies with all the strict formalities required. The maximum loan is for two-thirds the assessed value of the land, and the lowest one-half the appraised value.

At any time if waste is committed or threatened the association may take possession of the mortgaged farm. In case of default it may levy on all personal property and sell the same simply by serving notice. If the proceeds of the same are not sufficient, it may then attach the land, and obtain an order to sell it simply by showing the overdue installments from its own books; and the court cannot go into the merits of the case. The practice of the association to take possession of the property of a debtor and force a sale without resort to regular foreclosure proceedings is one of the characterizing features of the Landschaften.

(1) Outline, p. 32, Ibid, p. 34.


When all formalities have been executed, the member gives the association his note and mortgage, and receives not cash but debentures exactly representing his loan, which must be a first lien. The borrower can either take these bonds and sell them himself or have the association sell them for him. There is usually a banking department connected with the association which takes the bonds and sells them for the members, thus making the debentures more negotiable. The banks are not run for a profit, but have been instituted in connection with the Landschaften in order to facilitate the sale of the bonds. (1)

These debentures are secured first by the mass of mortgages, next by the reserve of the association, and finally by the unlimited liability of its members. (2) They are made payable to bearer, and have no fixed time for maturity. The holder has no right to demand their payment, but the association has the privilege of paying them at any time. The association calls them at option; for example, they may be called in eight months after they are issued, or fifty years; but as a matter of fact the bonds to be redeemed are selected by lot, and usually run from 35 to 70 years. Under no circumstances must the amount of the bonds outstanding exceed the amount of mortgages held by the association. (3)

The business of the Landschaften has been done very conservatively. The land bonds are regarded as the very best of security and are favorite investments for trust funds, savings

(1) Outline, p. 33.
(2) Herrick, Land and Agricultural Credit, p. 18.
banks, and other capital seeking safe investment, as well as for
thrifty individuals. They are listed on the stock exchange, quoted
daily in the financial market reports, may be bought through
the bank, and are as negotiable as any government bonds and sell
as readily. The associations issue them in denominations rang-
ing from 100 to 500 marks, with interest coupons to be paid
semi-annually. These bonds yielding four per cent interest now
sell at par, although money is now dear in that country; formerly,
when the rate was only three to three and one-half per cent they
sold at par. (1) Very moderate rates of interest have always
characterized the bonds. Only once has the interest been five
per cent and that was on the issue from 1868 to 1878, which was
a period of trouble and unrest, in spite of abundance of capitol. (2)

The Rate of Interest.

The rate of interest which the bonds bear is at the
option of the member making the loan, and at present is three
per cent, three and one-half per cent and four per cent. "The
market price of bonds", says Price (3) depends upon the rate
of interest it bears and the condition of the money market, and
since the farmer in making his loan does not get the money itself,
but the bonds of the association (or the proceeds from their
sale), he is interested in choosing the rate of interest that
will give him the largest net return. He usually chooses the
rate of the bond that is selling nearest at par. As a matter
of fact, the farmer usually receives the bonds at one desk,

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(1) Myrick: Cooperative Finance, p. 259.
(2) Outline, p. 35.
(3) Price: Rural Credit in Germany, p. 12.
and cashes them at another in the banking or sales department of the same institution. The latter proceeds to sell them through the usual channels. (1)

On July 1, 1912, in the Province of Saxony 3% bonds were selling at 81, 3 1/2 per cent at 90, and 4 per cent at 99.80, and at the same time 4 per cent national bonds of Germany were selling at 100. In these cases if the farmer who wants to borrow $1000 chooses the 3 per cent bonds selling at 81 he gets only $810 in cash but gives his note and mortgage for $1000, and pays $30 interest per year. If he takes the 4 per cent bonds selling at 100 he receives $1000, gives his note for $1000, and pays $40 interest per year. (2)

As stated above, a farmer can pay off all his loan at one time if he chooses, and when bonds are selling above par he often does so, and then issues new bonds bearing a lower rate of interest. This is a distinct advantage that the farmers reserve to themselves. In the seventies they had to pay 5 per cent interest on bonds due to the scarcity of money. Ten years later when 3 per cent bonds were selling at par the farmers rapidly paid off the higher rate bonds by issuing new ones at the lower rate. On the other hand when interest rates advance, the farmers are secure and satisfied. They still pay the low rate. This happened in the nineties when they sold 3 per cent bonds at par; although at present the rate has advanced to 4 per cent, they still pay 3 per cent on them. In

(2) Price: Rural Credit in Germany, p. 12-13.
this way the farmer can take advantage of the money market at any time, and is always secure against advances in rates of interest.

Formerly it was the practice to require the whole loan to be paid in one sum. This was only slightly in advance of private money lending. But this practice was abolished, in place thereof the loans were made repayable by annual installments running through a long period of years, and the installments were placed in a reserve for the purpose of redeeming the bonds. This feature of amortization is one of the most valuable from the standpoint of the farmer. "The whole theory of the organization of land credit", says Ambassador Herrick, (1) "is based upon the bebenture bond and system of amortization and sinking funds devised and introduced by the Landschaften". By this system the farmer pays off his loan through annual payments made with the interest. It is for this reason that the farmer usually pays from 1/2 to 1 per cent more interest to the landschaften, than the landschaften pay to their creditors. This 1 per cent, besides being used as a reserve, also includes the expenses of administration. Thus if the bonds sell at 4 per cent the farmer pays 5 per cent yearly upon his mortgage or $50 yearly upon $1000 loan. Of this payment $40 covers the 4 per cent interest of the bonds $7.50 is annually applied upon the principal (amortization) and $2.50 goes to the landschaften for its expenses. Not only does the latter 1/4 per cent pay "its extraordinary modest expenses", but annually affords a large surplus to the landschaften. After putting aside ample

reserves, this surplus, together with other earnings is credited to borrowers as profit-sharing dividends to be applied upon their debt. (1)

It is always obligatory for the farmer to pay his loan by amortization, although he can pay it all off at once if he prefers, and at the same time profit by the amortization already paid. In Saxony the amortization is 3/4 per cent and 1/4 per cent for expenses on 4 per cent bonds. By the payment of 5 per cent the loan will be paid off in about forty to forty-five years. In Saxony after 10 per cent of the loan has been paid on the original loan an additional loan can be made. The average length of their loans is about twenty-five years. (2)

It should be noted that the absolute amount of amortization is the same for the entire period the loan is to run. But each year the proportion of principal and interest to the remaining debt changes - that is, since part of the principal is paid each year the annual interest charge decreases, and the part applied to the principal grows larger and larger. (3)

Because the whole amount paid is always the same, it is seen that the last payment will consist almost entirely of principal, and very little of interest. Amortization thus has a two-fold value. It lessens the debtor's burden year by year and increases in an equal ratio the security of the lender, provided the reserve fund is properly used.

The amortization principle should be emphasized. If the farmer pays an extra 3/4 per cent yearly or $7.50, besides

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(1) Myrick: Cooperative Finance, p. 259.
(2) Rural Credit in Germany, pp. 13-14.
his 4 per cent interest, on the bond, in 46 years this sum compounded at 4 per cent amounts to $1000; and with scarcely missing the amount his entire debt is wiped out. Seldom does the amortization payments and contributions toward expenses exceed 1 per cent annually upon the principal of the debt. The interest and the amortization together do not equal as much as the American farmer usually pays in interest alone on his mortgage loan. The loans of the Landschaften given for a long period "make the payments so small that any industrious farmer can meet them, and if through any adverse circumstances he should fail in any payment the local banker helps him out. This spreads the payments well into the future, allows more income to be invested on the farm, and practically removes all chance of foreclosure.\(^1\)

The great advantage of a long time loan repaid in annual payments is that it enables the farmer to make permanent improvements from which he gets returns very slowly. "The building of a barn", says Price, \(^2\) "could seldom be expected to increase a farmer's profits sufficiently to enable him to pay for it in five years, but in twenty-five to forty years it may prove an extremely profitable investment". This is true with many other permanent improvements, such as planting orchards, clearing and draining land, building roads, installing water systems, and many other things. All of these represent things the farmer gladly makes when he gets his capital at a low rate repayable with small annual payments extending over a long period of time.

\(^1\) B. F. Harris: The Essentials of Farm Credit, p. 6.

\(^2\) Price: Rural Credit in Germany, p. 14.
A Landschaft usually confines its operations to a single province or smaller area. The institutions usually owns and occupies a large building, with offices, committee rooms and assembly halls ample for their purposes. These buildings are "conveniently arranged, simply but artistically furnished, and possess an atmosphere of stolidity and dignity that reflect good agriculture and sound finance".  

In 1873 a Central Land Mortgage Association was founded at Berlin by several of the provincial associations, in order to extend the markets for their bonds, and especially in the hope of securing an international market for them. The results have not been as good as expected. The bonds issued by the Central institution, and secured by all the mortgages of the provincial banks, do not sell any better than do the bonds of the local institutions. Investors seem to prefer the provincial bank's bonds.

A great feature of the Landschafter is that they furnish an intermediary between the lender and the borrower of money. The bonds are put on the market in such sizes that a man with only $25 can invest in them. In this way great sums of money are mobilized, and the money of small savers becomes available for agricultural purposes. The small savers who could not loan directly to farmers - because their savings are too small - have an opportunity of investing their money at a profitable rate, and of helping the farmers at the same time. This system also allows the farmer - who is relatively a small borrower - to get loans on as favorable terms as regards time and interest and repayment as the large borrower. The system seems to

standardize loans and offers advantages to both the borrower and the lender. A fair idea of the magnitude of their operations can be gained from the fact that their outstanding bonds amount to over nine hundred millions of dollars. (1)

One vital feature in the cooperative mortgage finance is the law which enables the lending institution to foreclose upon the mortgaged property in case of defaults by the borrower. This so adds to the security of the mortgage as partly to account for the low rate at which investors are willing to take the bonds. They know the company can realize upon the property without the manifold delays usually imposed by law upon mortgage foreclosure. (2)

This readiness on the part of investors to take these bonds, and the ease with which the borrower gets his money is shown by the fact that the bonds of the Prussian Landschaften increased from 469,407,530 marks in 1866 to 2,507,164,675 marks in 1906, and 2,742,344,385 marks in 1909. This large amount would seem to indicate an astounding increase of debts on mortgage, but it is difficult to determine whether these are new debts or old ones converted into the more favorable ones offered by the Landschaften. At the same time, from 1866 to 1906 the funds for the extinction of the bonds have increased from 20,512,945 marks to 169,901,635 marks. (3)

B. THE CREDIT FONCIER OF FRANCE

Of the non-cooperative land credit institutions probably the best type is the Credit Foncier of France. This famous bank was organized in 1852, after much agitation. Owing to the backward state of French farming just before the Revolution of 1848, France had been almost entirely without land and agricultural credit. (1) Out of the discussion which followed such wretched conditions emerged the plan for a land-mortgage bank which should have resources sufficient to command the confidence of the money markets of the world. The institution intended to provide money for farmers, was organized under Governmental control granted a monopoly for twenty-five years, and a subsidy for a short time. (2) Many of the most important features were taken from the successful Landschaften of Germany. There is one very important thing in which the Credit Foncier is unlike the Landschaften, and that is that it is an incorporated company while the Landschaften are cooperative associations. (3) The Credit Foncier is a centralized institution doing business for profit for its stockholders; the Landschaften are decentralized institutions, mainly for mortgaging farms, and are operated in the interest of borrowers. At the close of 1911 the Credit Foncier had made altogether 122,000 loans amounting to $935,000,000 on city property, and 48,500 loans amounting to $246,000,000 upon rural property. (4)

(4) Myrick: Cooperative Finance, p. 262, 265.
The essential features of the Credit Foncier are:

1. Its reputation and credit are international. This enables it to command enormous sums of money at the lowest rate at which it is obtainable in international markets.

2. It obtains its funds at these favorable rates by the issue of bonds which are based upon the aggregate of its mortgage assets. These bonds are negotiable without difficulty and with little fluctuation.

3. It lends the money thus obtained to the farmer at a rate which is not permitted to exceed by more than six-tenths of one per cent the rate at which it gets the money from the investing public.

4. It subdivides the principle of the debt, by the system of amortization, into such small parts that the entire amount is repaid at the end of a long term like fifty or seventy-five years, in such a way that the periodical payments, both principal and interest, are no larger than the American farmer ordinarily pays in interest charges alone.

At the time of organization the Credit Foncier had a capital stock of 25,000,000 francs, but this has been increased until at the present time the capital is 200,000,000 francs, or about $40,000,000, divided into 400,000 shares of $100 each. The bank has authority to increase the capital to 500,000 shares or to $50,000,000, which will be done before the debentures issued pass the legal limit of circulation. The shares of capital stock can not be issued below par, are dealt with on the

Bourse, and sell for about 750 francs per share, or 250 francs above par. (1) They are non-assessable, and can be held by any one. Despite the fact that the Credit Foncier makes loans at very low rates - about 4.3 per cent - it is a paying institution. In 1910 it paid a dividend of 6.4 per cent on its large capitalization, besides putting 5 per cent of its net profits into the reserve fund it is required to have after the payment of dividends. It is always necessary to put from 5 to 20 per cent of the remaining profits into the reserve fund, and it must continue to do so as long as the reserve does not equal one-half of the capitalized stock.

At first, in order to help the bank make loans, the government granted it a subsidy of 10,000,000 francs. This sum was not renewed, and the state, except occasionally to exercise control, does not now intervene in the business of the bank. (2) In spite of this, the bank's relations have always been very close to the state. This is shown, at the present time, by that fact that the governor and subgovernors are appointed for life by the President of France, while the governor in turn appoints and dismisses all the agents of the society. The governor is also president of the board of directors, who are elected by 200 of the largest share holders at their annual meeting. This general assembly of stock holders also decides on resolutions to increase the capitalized stock, amend the by-laws and constitutions, vote the dividend, certi-

(1) Herrick, p. 25.

fies the reports of the bank, and pass generally on all matters not otherwise specifically provided for. The acts of both the general assembly and the directors are subject to the veto of the Governor, but this perogative is rarely used. The Council of Administration - or directors - meet once each week to pass upon all loans.

The main things which the Credit Foncier does are the following:

1. It lends money to landowners, counties, communes, and public services.

2. It issues debenture or mortgage bonds, the amount sold not to exceed the amount due from borrowers.

3. It carries ordinary banking business, and receives deposits, the sum of which must not exceed 100,000,000 francs. These funds are used to discount two name commercial bills with not more than three months to run.

The two principle kinds of loan are commercial loans, and mortgage loans, only the latter of which will be considered here. There are now outstanding loans to the amount of 4,000,000,000 francs, or $870,000,000.

"The fundamental basis of the credit Foncier, however", says Mr. Conant, "is sound - to extend land credit on the lowest terms by establishing between the borrower and the lender an intermediary which is in a position to obatin money at the lowest rate at which it is offered in the market".

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(3) Ibid, p. 176.
This result is accomplished by the issue of its own bonds, guaranteed by its capitol of $40,000,000, which must never be less than one-twentieth part of the bonds which are in circulation, and the first mortgages on the real estate against which they make real estate loans.

The loans made to farmers are on the following terms:

1. Short time loans to run from one to nine years, without amortization.

2. Long time loans, to run from ten to seventy-five years with annual amortization.

Although the credit Foncier does a big business in short time mortgage loans, its main purpose is to grant long time loans, and the greatest part of its operations consists in doing this. These loans are made attractive to the borrower by the system of amortization by which they are paid off gradually. Although the system of amortization is well understood in this county in relation to sinking funds and insurance reserves, it has rarely been applied to mortgage loans. In the cases where it has been used in connection with such loans, the terms have been so short that the interest and amortization together imposed a heavy burden upon the borrower. (2) Of the loans made by the Credit Foncier more than three fourths run for periods of fifty years or more.

As already stated the long time loans are amortized, and the annuities paid for amortizing the loan for the average farmer are so small as to be insignificant. By the use of this

ingenious plan of paying annually both interest and a small additional percentage of the principle the entire debt is extinguished after a period of years. The borrower himself fixes the time the loan is to run, and since the amortization extends over the entire period, the sum of interest and principal paid yearly is constant. Consequently the length of the loan and the rate of interest fixes the rate of amortization.

During the last few years the rate of interest on loans has been 4.30 per cent. For a loan payable in thirty years, the semi-annual payment required has been 2.982 per cent or just under 3 per cent, making the two payments for the year equal to 5.964 per cent or just under 6 per cent. For a period of forty years the annual rate is 5.259 per cent; for sixty years 4.663 per cent, and for seventy-five years it is 4.484 per cent. The principle thing to bear in mind is that this rate includes not only the yearly interest on the loan, but also part of the principal, so that when the last payment is made the entire debt is extinguished. The borrower has the privilege of paying all the principal at one time, if he wishes to.
An amortization table of the society follows:

Annuity of a capital of $100, interest at 4.3 per cent, payable semi-annually. (1)

<table>
<thead>
<tr>
<th>Duration</th>
<th>Annuities</th>
<th>Duration</th>
<th>Annuities</th>
</tr>
</thead>
<tbody>
<tr>
<td>5 years</td>
<td>$22,440,405</td>
<td>45 years</td>
<td>$5,043,495</td>
</tr>
<tr>
<td>10 years</td>
<td>12,409,111</td>
<td>50 &quot;</td>
<td>4,881,753</td>
</tr>
<tr>
<td>15 &quot;</td>
<td>9,115,217</td>
<td>55 &quot;</td>
<td>4,758,395</td>
</tr>
<tr>
<td>20 &quot;</td>
<td>7,504,843</td>
<td>60 &quot;</td>
<td>4,663,140</td>
</tr>
<tr>
<td>25 &quot;</td>
<td>6,566,976</td>
<td>65 &quot;</td>
<td>4,588,881</td>
</tr>
<tr>
<td>30 &quot;</td>
<td>5,964,436</td>
<td>70 &quot;</td>
<td>4,530,558</td>
</tr>
<tr>
<td>35 &quot;</td>
<td>5,552,593</td>
<td>75 &quot;</td>
<td>4,484,483</td>
</tr>
<tr>
<td>40 &quot;</td>
<td>5,259,040</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

The Credit Foncier is forced to keep the interest and amortization payments in separate accounts, the latter forming a reserve for the retirement of outstanding debentures, and as loans are paid up debentures must be paid off, so that at all times loans and bonds must balance each other. (2)

The regulations for granting loans are very strict. The mortgage must be a first lien, the property must have a clear and unencumbered title yielding a certain durable income and the loans granted must not exceed that of one-half of the value of the property, or one-third of such value for

(1) Herrick: Land and Agricultural Credit, p. 27.
(2) Ibid.
vineyards, woods, or plantations. It avoids loans on theaters, mines, quarries, and on properties the title of which is divided. The loan is recallable only if the borrower sells his property without notice to the company or allows it to deteriorate. (1)

In case of default of payments of instalments the Credit Foncier does not have to resort to ordinary foreclosure for the recovery of the loan. No delay can be granted the defaulter by the court. The property is attached by order of the civil court, and during attachment it has the right to all rents and returns of the estate. It can proceed without attachment to sell the property at public auction after due notice is given and published, in the event that interest or dues are not paid, or if waste or deterioration occur. The proceeds are given to the company up to the amount of its claims. (2)

The manner in which the Credit Foncier is able to draw freely upon the resources of international money markets and make advances at low rates of interest to farmers is by the sale of its transferable bonds. In recent years it has been able to sell its bonds at an interest rate of three and nine-tenths per cent, "and they have been among the most sought after of investments because they are secured by land — the ultimate source of value — and yet escape the immobility of mortgages as such by ready convertibility". (3) So much sought after are these bonds, that whenever a new issue of them is

(3) Country Gentlemen, April 12, 1913.
announced they are subscribed many times over by thrifty French shopkeepers and farmers who put them away "in their stockings to provide for old age or pay the dowries of their daughters". (1) The issue of 1912 for $100,000,000 at 3 per cent payable within 70 years was oversubscribed 18 times. These bonds are based upon the substantial wealth of the county, and are less subject to violent increase and decrease in value, than are government bonds, which are based upon faith in the endurance and stability of the state. The debentures outstanding are now approaching $1,000,000,000.

One great secret of the success of these bonds is that they are issued for convenient sums, the smallest of which is $20, are easily bought and sold on the market, and have a reputation which requires no investigation by the investor.

The debentures are calculated to be redeemed simultaneously with loans they represent; i. e., as loans are paid up the same amount of bond must be paid off, the bonds being selected by lot. The bonds have no fixed time for maturity and are recallable at option.

There is a lottery feature with the bonds. In each issue a certain number of them are repayable by lot, with prizes for the lucky holders. Last year one bond drew a prize of $40,000. (3)

The Credit Foncier does business all over France, but its transactions cover only a small amount of the farm mortgage loans in that country. Of the loans made, most of

them are to cities, and towns upon the security of their public bonds. Thus from the beginning up to the end of 1911 it has made 122,000 loans amounting to $931,000,000 upon city property, and only 48,500 loans for $246,000,000 upon rural property, not all of the latter being farms.

The French farmers are very dissatisfied with the Credit Foncier. This is not surprising, and their complaint is justified in that it does not serve agriculture with any such efficiency and singleness of purpose as do the Landschaften.

This powerful bank is run primarily for profits to its stock holders, and the small peasants can not, as a rule, go to it for their small loans. This dissatisfaction is so widespread that other attempts are being made to provide the farmers with cheap capital, chiefly through credit agricole and the rural and regional banks, subsidized by the government.

The Credit Foncier has helped to do one thing which is proving to be advantageous in an indirect way to all classes of farmers. As stated above it can not very well trouble itself about the business of small proprietors, because the trouble is too great, and the recompense is too small. But by its influences the powerful Credit Foncier has become a general regulator of mortgage interest, and this fact, together with other individual efforts has caused the capitalists who made loans at 5 per cent and over to reduce their rates to small farmers.

(1) Myrick: Cooperative Finance, p. 264.
(3) Wolff: Chapter in "Coop. Mortgage Credit" in Cooperative Banking, p. 227; also Peoples Banks, p. 434.
The French farmer is relieved of anxiety regarding maturing mortgages by the long term for which his loan runs. If his business is conducted with ordinary prudence and good faith he can never be confronted by the shadow of foreclosure and eviction because he finds himself unable to renew a big loan in an unfavorable market. The mortgage pays for itself at maturity if he can meet the annual payments. The last year for which his mortgage loan runs is a year of contentment, because he knows that it will all be paid. With the American farmer it is different. His loan runs for only a few years, and at the end of the time he has great anxiety and worry as to its renewal, with the attendant commissions and renewal charges which characterize our system.

The regulations for granting loans, however, are very strict.

An American banker says that we are mistaken in our view of cheap money rates in Europe; and that the cost of the prizes offered with the bonds increase the actual cost of the bonds, so that the 3 per cent rate of the credit Foncier is raised to about 4 per cent and the money is then loaned to the farmer at 4 3/4 per cent. (1) Even if this is true, nevertheless the admirable qualities of the credit Foncier more than counterbalance this objectionable feature - and it is objectionable to the American people - and the farmers get money at much lower rates, and on better terms, than American farmers with our cumbersome system of farm mortgage loans.

(1) Woodruff: Report on Agricultural Credit to the Southern Commercial Congress.
CONCLUSION

We have seen that the cooperative credit banks of Germany, typified by the Raiffeisen and Schulze-Delitzsch systems, serve for providing the farmers with personal credit facilities usually for small amounts and short terms. These societies help the farmers in the sale, production, or transportation of agricultural products and in the purchase of fertilizers and farming implements. In fact all branches of agriculture find an advantage in having recourse to cheap credit. The greatest testimony in favor of the rural credit banks is shown by the fact that "the goal of a cooperative loan bank in practically every parish of the whole monarch has now been nearly reached". (1)

In Germany alone there are now 17000 agricultural cooperative banks, with a total membership of over 1,500,000. The turnover in 1910 of 14,729 of them amounted to about $1,308,325,000. The sound principles upon which they are organized can not be doubted. In 16 years from 1895 to 1910 only 19 of them have been involved in bankruptcy.

The Landschaften and the Credit Foncier deal exclusively with landed properties, and enable farmers to make investments, the expense of which should be proportioned over a long period of years. This is done in paying off the loans.

It is impossible to say in advance whether any of

(1) Co-partnership, London, April, 1913, p. 53.
(2) Ibid.
these systems could be adopted in their entirety by the American people. They probably could not. This is not a one-idea country; it has many varying conditions, and the system which would apply to one section, might not be good for another part. But there is no doubt that European models can be found that might be used as a basis for devising systems and institutions suitable to the needs of the American farmers.

That we are awakening to the great possibilities of the European rural credit systems is shown by the fact that a large mortgage bank has been established in Illinois, and a law for the establishment of such institutions has been passed by the Louisiana State legislature; and similar statutes, for the purpose of establishing short-time cooperative banks have been passed by the legislatures of Massachusetts and Texas. (1) No doubt the acts of these states will be followed by others and before many years we shall have a system of banks from which our farmers can secure long-time credit for permanent investments, and short-time credit for temporary purposes.

(1) See issues of the Orange Judd Farmer for May, 1913.
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