

**AMENDMENTS TO FEDERAL
FARM LOAN ACT AND FEDERAL
RESERVE ACT: HEARING, 67
CONGRESS, FIRST SESSION, ON
S. 2253 AND S. 2263**

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VARIOUS

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AMENDMENTS TO FEDERAL FARM LOAN ACT AND FEDERAL RESERVE ACT.

MONDAY, JULY 18, 1921.

UNITED STATES SENATE,
SUBCOMMITTEE OF COMMITTEE ON BANKING AND CURRENCY,
Washington, D. C.

The subcommittee met, pursuant to the call, at 10 o'clock a. m., in the room of the Committee on Banking and Currency, Senate Office Building, Senator Joseph S. Frelinghuysen presiding.

Present: Senators Frelinghuysen (chairman), Shortridge, and Glass.

Present, also, Senators Kellogg and Kenyon, and others.

The committee having under consideration S. 2253 and S. 2263, which are here printed in full as follows:

[S. 2253, Sixty-seventh Congress, first session.]

A BILL To amend subdivision 7, section 12, of the act approved July 17, 1916, known as the Federal farm loan act.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That subdivision 7 of section 12 of the act approved July 17, 1916, known as the Federal farm loan act, be, and the same is hereby, amended so as to read as follows:

"Seventh. The amount of loans to any one borrower shall in no case exceed a maximum of \$25,000, nor shall any loan be for a less sum than \$100."

[S. 2263, Sixty-seventh Congress, first session.]

A BILL To amend the Federal reserve act approved December 23, 1913.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That the first paragraph of section 10 of the Federal reserve act approved December 23, 1913, is amended to read as follows:

"Sec. 10. A Federal Reserve Board is hereby created which shall consist of eight members, including the Secretary of the Treasury and the Comptroller of the Currency, who shall be members ex officio, and six members, one of whom shall be a representative of the agricultural interests appointed by the President of the United States, by and with the advice and consent of the Senate. In selecting the six appointive members of the Federal Reserve Board, not more than one of whom shall be selected from any one Federal reserve district, the President shall have due regard to a fair representation of the different commercial, agricultural, industrial, and geographical divisions of the country. The six members of the Federal Reserve Board appointed by the President and confirmed as aforesaid shall devote their entire time to the business of the Federal Reserve Board and shall each receive an annual salary of \$12,000, payable monthly, together with actual necessary traveling expenses, and the Comptroller of the Currency, as ex-officio member of the Federal Reserve Board, shall, in addition to the salary now paid him as Comptroller of the Currency, receive the sum of \$7,000 annually for his services as a member of said board."

The CHAIRMAN. Senator, which bill do you wish to take up first? Senator KENYON. There are three bills in which we are particularly interested. One is to increase the maximum loan by

Federal farm loan banks to \$25,000. That is No. 1. The second proposition, covered by two bills, is to place on the Federal Reserve Board a representative of agriculture.

The bill I introduced provided for the placing of the Secretary of Agriculture on the board, and Senator Kellogg has introduced a bill providing for the placing on the board of a representative of agriculture. Those are the three bills.

The CHAIRMAN. Suppose we hear first what is to be said on Senate bill 2253, which increases the maximum loan from \$10,000 to \$25,000, under the Federal farm loan act. Do you wish to make any statement regarding it?

**STATEMENT OF HON. WILLIAM S. KENYON, UNITED STATES,
SENATOR FROM IOWA.**

Senator KENYON. I will make just this statement, before calling witnesses. The witnesses will be very brief.

Out in the Middle West country we find that the limit of \$10,000 is not satisfactory. There is a great demand for larger loans. That limit was apparently all right when lands were of smaller value and the cost of farming operations had not reached the point that they have now. \$25,000 now in purchasing power would hardly be any more than \$10,000 in the days when the law was passed.

There is a very general demand from the farmers in the West—I do not know how it is in the South—that that change be made. There are a number of gentlemen here. Mr. Howard is president of the American Farm Bureau Federation, an institution that has at least a million and a half farmers connected with it, and I will ask him to say a word. Mr. Howard has been traveling a great deal on this Great Lakes proposition to the ocean. He is rather tired but he is here to show his interest in the matter. Will you say a word, Mr. Howard, as to the need and demand for that change?

**STATEMENT OF MR. J. R. HOWARD, PRESIDENT AMERICAN
FARM BUREAU FEDERATION.**

The CHAIRMAN. State your name to the reporter.

Mr. HOWARD. J. R. Howard, president American Farm Bureau Federation.

There is no doubt but that the farms throughout the mid-west group of States, which are the largest agricultural producing States, would be very much benefited by an increase in the maximum of the Federal land bank loan. I have reference particularly to such States as Ohio, Indiana, Illinois, Iowa, Missouri, Minnesota, Kansas, and Nebraska. I would also like to include some of the range States where an immense acreage is necessary for the raising of live stock and a great deal of capital is required in the handling of live stock in that group of States.

As Senator Kenyon has told you, there might have been a time when \$10,000 would have been an adequate loan in those great producing States; but it is not at this time. As he told you, I am just in from a long trip and have not with me absolute data, not having expected to be present at this hearing.

I desire, however, to call your attention to the fact that the average farms of those States will run in the neighborhood of 170 or 180 acres; that the farm which is most economical to operate is perhaps 200 to 240 acres, and that the time has come when we must aim at economy of operation. The man must have a credit which will enable him to purchase an amount of land which will enable him to function in the operation of that land, to his greatest advantage.

Our American Farm Bureau has in those States a very large membership, running as high as 100,000 in three or four of the States, and I think above 50,000 in all of them. Our resolutions as adopted at our State and National conventions during the past two years have invariably asked the increase of the maximum from \$10,000 to \$25,000.

I think that brief statement is all the time I care to take, since those are present who can give you more detailed information than I am able to give.

The CHAIRMAN. Mr. Howard, one question. Why do you make such a large increase in the loan, from \$10,000 to \$25,000?

Mr. HOWARD. Mr. Chairman, there had to be a limit somewhere. Suppose a renter who had accumulated some means were to buy a farm which he could operate at the greatest efficiency. That farm would likely be 200 to 240 acres, and he ought to be allowed a credit which will enable him to get in on such an investment as that. I very much doubt if the maximum loan would be called for in very many cases, certainly not in every case. The probability is that the range of loans would run from \$10,000 up to the \$25,000. There had to be a figure put somewhere, Senator.

Senator KENYON. Mr. Silver, will you say a word, and then proceed yourself to call on the other witnesses?

STATEMENT OF MR. GRAY SILVER, WASHINGTON REPRESENTATIVE AMERICAN FARM BUREAU FEDERATION.

The CHAIRMAN. State your name to the reporter.

Mr. SILVER. Gray Silver, a farmer from West Virginia, speaking for the American Farm Bureau Federation as its Washington representative.

I have a word or two to say to call your attention to the fact that agriculture is not financed. We must have other opportunities of approaching the great national reservoir of moneys and credits. The farm loan bank, of which we are so proud, is splendid as far as it goes; it just does not go far enough.

Under the present maximum loan of \$10,000 the average loan is \$2,839. As a prediction or a guess I would say that if you increase the maximum to the amount asked, namely, \$25,000, that it will not be larger than twice that.

It is not hard at all for anyone to understand that the average loan, through this channel, of around \$5,000, or a little over, is not a large loan for the average American farmer. To think of limiting him to amounts that will average less than that would be a most unhappy thought. He will not be able to carry on unless credits are forthcoming; he must have credits; he must have an additional maximum. The question involved is that of adequately financing agriculture, the largest and most essential business.

An announcement from the Census Bureau this morning shows there are some \$4,000,000,000 of farm mortgage loans on land in the United States. Of course, lots of this money is loaned to others than banking agencies, such as fathers who are financing sons, or fathers-in-law doing the same thing. That money will remain, and in addition if this money were released by being put on an amortization plan, it would help the country banks which have jeopardized their welfare by extending loans when markets were open and prices good and with the turn of offices are now frozen. It is not a selfish thing for the farmer, alone.

In this case the country banks are needing relief as badly as the farmer needs relief, and this is one method by which the farmer can carry on and not take bankruptcy. The farmer is not disposed to take bankruptcy. He never has been doing it. He carries on and pays out. But if he is forced, under the conditions that now exist, to take bankruptcy, what happens to the bank that is financing him?

So we are asking that the maximum loan be allowed that will permit the banks to carry on and amortize his loan, and in that way pay pay it off, so that he can take care of himself and take care of his country bank.

I believe that is all I have to say at this time, and I am going to ask Mr. Corey to make a full presentation to you on that subject.

STATEMENT OF MR. M. L. COREY, ATTORNEY, FEDERAL LAND BANK OF OMAHA.

The CHAIRMAN. State your name to the reporter.

Mr. COREY. M. L. Corey; attorney for the Federal Land Bank of Omaha.

At the outset I want to present and file with the committee the argument which was compiled by all of the Federal land bank presidents in 1919 in favor of the increase of the loan limit from \$10,000 to \$25,000. While the article is short I shall merely state the outstanding points, and later file the article with you.

By way of summary the points they suggest are as follows:

1. The Federal farm loan act should be made of universal application, so that every actual farmer may be permitted to enjoy its benefits.

There has been a disposition in congressional debates to suggest that the purpose of the enactment of the Federal farm loan act was to take care of the poor farmer who could not get credit elsewhere.

Whatever may have been the purpose of Congress in passing this law, in actual operation it is proven that the Federal farm loan act is a necessity alike to the middle-class fellow as it is to the poor farmer.

If the Federal farm-loan act had restricted loans strictly to the poor farmers of the country, it could not have made loans at the low rate which has prevailed during the period of the operation of the act. And if the system is to continue, there is not any reason why every actual farmer, every man who actually holds the plow handles and operates his own farm, should not be permitted to become a part of the system.

It is just as important to him that he get a low interest rate, it is just as important that he should amortize his loan over a long period of years, and it is just as important that the middle-class farmers

enjoy the benefit of the Federal farm-loan system as it is the so-called poor class of farmers could enjoy it.

The farm unit in many sections of the United States is from 160 to 240 acres, which land is valued at an average of \$200 per acre.

That is not a theoretical proposition. Our agricultural colleges in the middle West tell us that the most economical farm unit is a unit from 200 to 240 acres, and that it will bring the greatest return on the capital invested and the greatest return on the labor or man power that is used on the farm.

Aside from the theory of the thing, the truth of the matter is that throughout the middle West this is the average-size unit in the corn belt, and the capital invested in those farms runs all the way from \$40,000 to \$50,000.

The CHAIRMAN. How do you get that average of \$200 per acre?

Mr. COREY. I will say that the Census reports of 1920, in the State of Iowa, show an average value of all the lands in the State of Iowa per acre of \$227.09. That is including the poor as well as the better lands of the State.

The CHAIRMAN. Is that average only in Iowa?

Mr. COREY. Oh, no. In the State of Illinois the average is \$231.98; in Indiana it is \$125.98; in the State of Minnesota, \$109.23; in California, \$109.67; and in Connecticut, \$100.20.

It must be recognized that in States like Indiana and Minnesota, while the general average is considerably below \$200, there are many needy and deserving farmers who do have lands that at least equal or are greater than the average value for the States of Illinois and Iowa.

3. The adequate financing for this type of unit, which is the high-priced land section, will therefore require that the maximum loan limit should be increased to \$25,000.

4. In the ranching districts of the United States the capital outlay required for a properly balanced ranch unit is substantially the same as in the more highly developed sections described above where more intensive farming is practiced, for while the cost of land per acre is less, the acreage must necessarily be larger in order to make a profitable ranch unit.

I think it is common knowledge that there is not any class in America so peculiarly distressed as are the ranchmen of the Middle West. The Farm Loan Bank of Omaha, for example, with scores and scores of ranchmen desiring to make loans, is absolutely prevented from making any loans whatever upon desirable ranch units. We can take care of the little sand hill fellows, but a well-balanced unit of a proper amount of hay land and grazing land, we are absolutely unable to take care of such men in that part of the section.

The Federal land banks must have a large proportion of the business in the most highly developed sections of the country where the profits in the loan business are greatest, so that they can make the loans in the poorer sections at the present low rate.

Loans must be made upon a large proportion of the most highly developed lands, so that capital may be attracted to invest in these securities.

This statement was concurred in, as I have heretofore stated, by all of the presidents of the 12 Federal land banks of the United States when they convened in Washington in November, 1919.

The Federal Farm Loan Board in two of its annual reports have recommended an increase of the loan limit from \$10,000 to \$25,000, and subsequent to the time when the report and recommendations were made by the convention of land-bank presidents.

I call your attention to these facts. The most distressed farmer in the Middle West to-day is not the poor farmer. The most distressed farmer in the Middle West to-day is the average farmer. You would be surprised, perhaps, to learn that there are many, many owners of quarter sections and half sections of land in the States of Iowa and Nebraska who have not any credit with local merchants, who can not borrow a dollar from the country bank, and whose sole means of support is the little cream and egg checks that comes in from week to week.

The fellow who is most distressed, I say, is the middle-class fellow, and for this reason. The man who owns the quarter section or a half section of land had almost unlimited credit in the country bank at the time of the general inflation of things. His paper is in that bank to-day. The bank relied and he relied upon a fair maintenance of commodity prices and a fair liquidation of the debt in the fall of last year.

We know what happened. The fearful tumble in commodity prices made it impossible for the farmer to liquidate his debts at the country bank. There is only one salvation for the farm, and through the farmer for the country bank and the country merchant. The farmer simply can not continue to have the great burden of debts that he has to-day at the country bank. From any possible, practical or economical standpoint he can not continue to carry short term paper at the country bank and pay the 10 per cent that the average farmer is paying in the Middle West to-day.

His only salvation is in the amortization of that debt over a long period of years, relying upon the general swing of things in the course of years to put the farm on an even plane with every other class and interest in the country.

Mr. LOBBELL. Would not a \$10,000 loan, as a rule, liquidate him at the country bank?

Mr. COREY. The average one. For many of them it would, and for many of them it would not. It would certainly not take care, Judge, of the ranchers out West.

Senator GLASS. Mr. Corey, why do the people of the Middle West—States permit a rate of 10 per cent in the banks?

Mr. COREY. They permit it because it is a situation where the rate is not important but the actual getting of the capital is. Possibly I ought not to say that the average rate is 10 per cent, but I think I am safe in saying that the average rate charged in the Middle West to-day is in excess of 8 per cent upon the farms.

Senator KENYON. They are willing to pay practically anything, are they not?

Mr. COREY. It is a question of getting the money rather than the size of the rate.

Senator GLASS. I can understand that a man might be willing to pay almost anything, but we have usury laws to prevent undue exaction, and I was wondering why you did not have that.

Mr. COREY. We have usury laws.

Senator KENYON. Mr. Corey modified his statement, and said that the average interest was in excess of 8 per cent.

Mr. COREY. I corrected my statement that the average was 10 per cent.

Senator SHOETRIDGE. The banks take advantage of the situation?

Mr. COREY. I would not say that. There are many of the country banks that are paying excessive rates for rediscount; they are not making any excessive profits.

Senator KENYON. Throughout the Middle West is it not true that most of the country banks are just hanging on by their eyebrows? May be you would prefer not to make that statement.

Senator GLASS. If they are exacting 10 per cent interest and are getting their rediscounts at 6 per cent, they ought to be making a lot of money.

Mr. COREY. Senator, they are not all getting rediscounts at 6 per cent.

Senator GLASS. Oh yes, they are; that is the rate.

Mr. COREY. The State banks that are——

Senator GLASS. I do not know about the State banks. I am talking about those in the Federal reserve system.

Mr. COREY. Pretty generally the banks are not in the Federal reserve system. They are compelled to rediscount their paper with the city bank, and the rate they pay is dependent upon what the city bank charges them.

Senator GLASS. The moral of that is that they ought to get into the Federal reserve system.

Mr. COREY. That is doubtless true.

If my proposition is right, that the only salvation for the farmer is the amortization of his loan over a long period of years, where is he going to get this money? If he wants a short-term loan he must borrow of the farm mortgage companies. I would hesitate to say, because I don't know, the general average of the rates that are being charged by the farm mortgage interests to-day; but there are numerous instances where they are getting all the way from 8 to 10 per cent. I think it is pretty safe to say that in these periods of distressed conditions the average rate that is being charged by the private farm mortgage interests is not very far from 8 per cent per annum counting all the commission charges, etc.

The CHAIRMAN. Let me ask you a question. What is the nature of this paper? Is it indorsed paper and for how long is the loan in the country bank?

Mr. COREY. You are referring to the short-time loans?

The CHAIRMAN. Yes, the short-time loan.

Mr. COREY. I think scarcely any of that paper is in excess of six months.

The CHAIRMAN. Is it to finance the crop?

Mr. COREY. Most of these loans were incurred a year ago last spring to finance the farmer over the crop-growing period.

Mr. LOBDELL. They represent a loss, do they not, either in his cattle or grain operations?

Mr. COREY. Yes, I think they do.

Mr. LOBDELL. He has exhausted his security.

Mr. COREY. Yes.

Mr. LOBDELL. And it is not eligible for rediscount now.