

Financing the Farmer

The U.S. Federal Farm Loan Scheme—Its Great Success—Similar Scheme Needed in Canada

By J. H. Haslam

I have during the last two weeks consulted with the high officials of the United States Government having to do with banking and credit, particularly those having to do with farmers' credit, both permanent and temporary. Through the courtesy of two United States Senators, I was invited to the committee room when Secretary McAdoo outlined the plans of the new finance corporation which has been formed under the auspices of the United States Treasury to finance industries in connection with the war. For two hours and a half the secretary of the treasury discussed with the committee various plans that were in his mind. He had beside him the experts of the department, Governor Harding, the head of the federal reserve board and Paul Warburg, vice-governor, the greatest banking expert in the United States. I have also discussed this matter with John Skelton Williams, the comptroller of the currency, who is the official head of the banking system of the United States under the secretary of the treasury. He was good enough to provide me with information which I found it impossible to get anywhere else; namely the rate of interest that was paid by the national bankers on savings deposits in different parts of the country. He took infinite pains to provide me with this information and spent half an hour in going over the reports which had been sent in to him from the different states from all the banks in the country. The rate varies from two per cent. in the very large cities for some kinds of deposits, those subject to checking accounts, to six per cent. in such states as Oklahoma on time certificates. The average rate, however, all over the United States is four per cent. Four per cent. is paid in Washington on savings deposits, in some of the National banks. It is paid in New York city in most of the large savings banks and by very large and wealthy banks, many of them having as much as 100 millions of dollars in deposits.

Mr. Williams told me that he has known of cases where farmers have paid as high as 500 per cent. per annum for short-term loans from the banks previous to the introduction of the federal reserve banking system. This, of course, would be on loans of a few days. The purpose of the present administration of the banking system of the United States is to have the banks perform their functions at a very much less cost to the public than in the past. The principle is recognized that banking is a public utility and that the banking system in operation here has been clumsy, expensive and inefficient. Regarding the Federal Farm Loan Act, I will briefly outline what it has accomplished, how it is organized and the effect it has on the general farm loan banking system.

The Federal Farm Loan Act

The basis of the farm loan banking system in the United States, as it exists at the present time, is a

group of borrowers which must consist of at least 10 farmers which is called a "Farm Loan Association." They subscribe for and take the stock of their local land bank to the extent of five per cent. of the amount which they intend to borrow. On this a dividend is paid, determined by the amount of profit made by the operations of the system as a whole. They are advanced the money on a basis of 50 per cent. of the valuations which are placed on the real estate which is pledged as security and on 20 per cent. of the improvements thereon. The amount of the loans are based on a very conservative valuation. In some of the newer districts which are subject to drought they are based on what the land would be worth providing it went back to ranching again. There are three different bases of valuation. First of all there is the productive capacity of the land over a period of 10 years. Then there is the pioneers' profit. And then in addition to that there is what is called the sentimental value. What is meant by the pioneer's profit is that the land that the pioneer receives is practically a gift by the government and may have a value of \$10, \$15, \$20 or as high as

and accepted on an altered basis of valuation.

The United States, by the Federal Farm Loan Act, is divided into five districts, each having a farm loan bank. Each of these banks starts with a capital of \$750,000, which original stock is supplied by the United States government free of interest. The five per cent. individual subscriptions which are deducted from the loans given to the farmers will eventually become the entire capital of the farm loan banks and as they increase it is contemplated that the \$750,000 will be paid back to the government, thus leaving the farmers as owners of the bank.

The governing board of each federal farm loan bank consists of six members, each receiving a salary to be determined on by the federal farm loan board. This board consists of four members named by the president, the secretary of the treasury acting as chairman. The federal farm loan board exercises supervision over the entire system. The federal land banks make the loans and issue their bonds or debentures to investors. The National farm loan associations are local organizations of borrowers and through them application for loans are made to the federal land banks. When a bank is first established the federal farm loan board names five directors from its district to run it temporarily. When it has loaned as much as two million dollars so that the farm loan associations subscribe to \$100,000 of its stock, being five per cent. thereof, it is to have nine directors, to be elected by the national farm loan associations of its district and three to be appointed by the federal farm loan board. Directors are elected and appointed for three-year terms, two being elected and one appointed each year. The directors choose the bank officers.

Location of the Land Banks

The federal farm loan board locates these banks with a view to serving most advantageously the farm loan needs of the country. The demand for money from the federal land banks has surpassed all expectations. It was thought that it would be some time before farmers in different communities would organize themselves into these borrowing groups which the five per cent. stock to which they subscribe is a fund, which guarantees the loans. We were told that it would be impossible in Anglo-Saxon communities to get farmers to act in this way. I personally did not believe it and so stated. The one thing that is the most gratifying in connection with the farm loan banks is the readiness with which farmers seem to be willing to act together.

The United States government has been teaching the farmers the necessity of co-operation in every field of effort. They have had to buy their goods from manufacturers who are more or less acting in concert and from banks who were organized up to the hilt, and they were told that the only way they

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The U.S. Treasury Building, Washington, D.C., from which the Federal Farm Loan Scheme is administered

\$50 an acre in a year or two thereafter; all depending on its productivity based on the lands which have been producing in the near neighborhood over a period of at least 10 years. What is meant by sentimental value is land that adjoins thickly settled districts, mainly occupied by people of one nationality, such as Danes, Bohemians, Germans, Poles, or otherwise. These people are very anxious to have their sons near them when they go into business for themselves, and they will therefore pay a very much higher price for land in the immediate vicinity of their homes than they would in other districts equally productive. This principle is well established in the valuations but often works, as borrowers think, a hardship to them because lands are valued 10 miles away perhaps at some times not over 50 per cent. as much as lands situated close to these communities. Though the federal farm loan board has thus adopted a policy which it does not depart from, many of the applications which have been turned down are renewed



The Conference Between the Dominion Government and the Various Provincial Premiers on Food Production and Other War-Time Problems

The meetings covered most of a week and were held in the board room of the Dominion Railway Commission at Ottawa, the first session being held on Thursday, February 14. All the provincial premiers were present except Hon. T. C. Norris, Manitoba, whose place was taken by Hon. Thomas Johnson, Attorney General of Manitoba. Front row (left to right): Hon. Thomas Johnson, Winnipeg; Sir Lomer Gouin, Quebec; Hon. J. A. Calder (chairman of the conference), Minister of Immigration and Colonization; Sir Robert Borden, Prime Minister; Sir William Hearst, Premier of Ontario; Hon. H. C. Brewster, Premier of B.C.; Hon. A. L. Sifton, Minister of Customs. Rear rows (left to right): Hon. C. A. Dunning, Director of Food Production; Hon. C. A. Stewart, Premier of Alberta; Hon. W. M. Martin, Premier of Saskatchewan; Hon. A. E. Arsenault, Premier of Prince Edward Island; Hon. C. W. Robinson, ex-premier of New Brunswick and Minister without Portfolio; Hon. Murdoch MacKinnon, Provincial Secretary P.E.I.; Hon. G. H. Murray, Premier of Nova Scotia; Hon. N. W. Rowell, President of the Privy Council; Hon. W. E. Foster, Premier of New Brunswick; Hon. George Bell, Minister of Telephones, Saskatchewan; J. D. McGregor, Director of Agricultural Labor; Hon. T. A. Cramer, Minister of Agriculture; Hon. J. E. Caron, Minister of Agriculture, Quebec; Hon. Thomas Crothers, Minister of Labor.