
EMERGENCY FARM MORTGAGE ACT OF 1933

APRIL 10, 1933.—Committed to the Committee of the Whole House on the state of the Union and ordered to be printed

Mr. JONES, from the Committee on Agriculture, submitted the following

R E P O R T

[To accompany H.R. 4795]

The Committee on Agriculture, to whom was referred the bill (H.R. 4795) to provide emergency relief with respect to agricultural indebtedness, to refinance farm mortgages at lower rates of interest, to amend and supplement the Federal Farm Loan Act, to provide for the orderly liquidation of joint-stock land banks, and for other purposes, report thereon with a recommendation that it do pass.

STATEMENT

The condition of farm financing is one of the major difficulties today confronting the American people. Directly it affects lives of millions of farm families, oppressed by burdens they cannot carry and threatened with the loss of their farms and homes. In altogether too many cases has the menace of that threat already culminated in the tragedy of foreclosure and eviction. Less directly the demoralization on agricultural finance affects the solvency of the banks, the insurance companies, and the personal investments of many American families.

The source of the difficulty is not only that land values have been greatly deflated; the more potent cause of distress is the violent decline in the prices of farm commodities which has prevented the payment of mortgage interest and installments of principal even by farmers whose mortgages represent but a small fraction of the value of their farms.

The following significant figures should be borne in mind in considering the scope of the problem of agricultural finance and the nature of the required remedies:

1. The amount of farm mortgage indebtedness outstanding in 1933 is estimated at about \$8,500,000,000.
2. The personal or short-term farm indebtedness is estimated at \$3,500,000,000.
3. Approximately 42 percent of the farms of the United States are covered by mortgage.
4. The Federal land banks, as of November 30, 1932, held farm mortgages amounting to \$1,121,000,000. The joint-stock land banks as of the same date held farm mortgages amounting to \$415,000,000. Together, the Federal land banks and the joint-stock land banks held 19 percent of the volume of outstanding farm mortgages; 23 percent was held by insurance companies; 11 percent by commercial banks; 10 percent by mortgage companies; 7 percent by other firms or agencies; and 30 percent by individuals.
5. In March 1932 farm land values stood at 89 percent of 1912-14 value.
6. Gross farm income amounted in 1919 to \$17,000,000,000; in 1923 to 1929 between \$11,000,000,000 and \$12,000,000,000; in 1930 to \$9,347,000,000; in 1931, \$6,920,000,000; in 1932, \$5,000,000,000.
7. Forced sales numbered for the year ending March 1, 1931, 26.1 per thousand farms; for the year ending March 1, 1932, 41.7 per thousand farms.

The remedies proposed by the bill are designed to deal with the situation which the recited facts very plainly reveal.

The major purposes of the bill are four in number:

1. To enable the Federal Land Bank System to secure new capital and thereby to resume its functioning as an effective agricultural credit agency.
2. To reduce the burden of mortgage debt now oppressing the farmer and to lift the threat of imminent foreclosure.
3. To provide for liquidating in an orderly fashion the affairs of the joint-stock land banks.
4. To refinance the short-term indebtedness of the farmer, to provide him with working capital when necessary, and to help him redeem or repurchase his foreclosed farm home.

In accomplishing these purposes no new agencies of Government are created and the obligations of the Government are kept to the very minimum consistent with the successful consummation of the plan proposed.

TERMS OF THE BILL

Section 1 of the bill authorizes the Federal land banks to issue not exceeding \$2,000,000,000 of farm-loan bonds, at a rate of interest of not more than 4 percent, which shall be guaranteed as to interest by the United States. The authority to issue such guaranteed bonds is to cease whenever in the judgment of the Farm Loan Commissioner farm-loan bonds of the Federal land banks not so guaranteed are readily salable in the open market at a yield not in excess of 4 percent and in any event at the expiration of 2 years.

These bonds may be used in three ways: First to exchange for or purchase outstanding farm mortgages on the best terms possible; second, to make new loans on farm mortgages; third, after the expiration of 1 year, if the bonds are not required for the first two purposes in the judgment of the Farm Loan Commissioner, to refinance at lower interest any outstanding issues of Federal farm-loan bonds.

Section 2 authorizes the Federal land banks to buy or to exchange bonds for outstanding farm mortgages. The savings thus effected must be passed on to the farmer borrower. This is accomplished by

issuing him a new mortgage under the Farm Loan Act and by his subscribing for stock and otherwise complying with that act as in the case of other borrowers who secure land-bank loans. The price paid for any mortgage must not exceed the amount of unpaid principal nor must it exceed 50 percent of the value of the land mortgaged plus 20 percent of the value of the permanent insured improvements.

Section 3 authorizes the Federal land banks for 5 years to grant extensions to farm borrowers who, after investigation, are shown to be deserving. In order to enable the Federal land banks to grant such extensions the Secretary of the Treasury is directed upon request of the Federal land bank and with the approval of the Farm Loan Commissioner to subscribe to the paid-in surplus of the Federal land bank an amount equal to the amount of the extensions. Fifty million dollars is authorized to be appropriated for the purpose. Repayment of these subscriptions may be made at any time by the bank with the approval of the Farm Loan Commissioner and must be made when he believes the bank has resources available for the purpose.

Section 4 reduces for a period of 5 years the interest rate on all outstanding and new mortgages held by the Federal land banks to 4½ percent per annum and suspends the payment of principal during the same period. The rate on loans made through branches is not to exceed 5 percent. In order to compensate the Federal land banks for the loss of interest incurred by reason of the reduction in interest the Secretary of the Treasury is directed to pay to each Federal land bank the amount of such loss less any savings effected through the refinancing of farm-loan bonds. Fifteen million dollars is authorized to be appropriated for this purpose for the fiscal year 1934 and such additional amounts during subsequent fiscal years as may be necessary.

Section 5 raises the maximum limit of Federal land bank mortgage loans from \$25,000 to \$50,000. But in each case where a loan is in excess of \$25,000 it must be approved by the Farm Loan Commissioner.

Section 6 authorizes the Federal land banks to make direct loans to farmers in localities where national farm loan associations have not been organized or in localities where, although such associations have been organized, the farmers are unable to apply for loans because of the inability of the land bank to accept applications from the association. The interest rate charged on such direct loans is to be one half of 1 percent higher than on loans made through associations, but such interest rate is to be reduced when the borrowers join an association. The option is given the borrower to covenant to join a farm loan association when formed in his locality.

Section 7 authorizes receivers appointed under section 29 of the Federal Farm Loan Act to borrow, with the approval of the Farm Loan Commissioner, from the Reconstruction Finance Corporation for the purposes of paying taxes on real estate on the security of receivers' certificates.

Section 201 prohibits joint-stock land banks from issuing tax-exempt bonds or from making any farm loans except such as are incidental to the refinancing of existing loans or to the liquidation of their real-estate holdings.

Section 202 directs the Reconstruction Finance Corporation to make \$100,000,000 available to the Farm Loan Commissioner to be used for 2 years in making loans to joint-stock land banks at a rate

not exceeding 4 percent upon the security of first or purchase-money mortgages on farm property or other collateral as may be available to the banks. Loans must not exceed 60 percent of the value of the real estate represented by the collateral. Loans are to be made to aid orderly liquidation in accordance with a plan submitted by the borrowing bank and approved by the Farm Loan Commissioner. The Commissioner, before he approves the plan, must be satisfied that it carries out the purposes of the section and that money borrowed which is to be devoted to settlements with bondholders will be used only in effecting an equitable settlement with all bondholders.

No loan to a joint-stock land bank may be made under such section 202 until it agrees:

1. To reduce the interest rate to all its first-mortgage borrowers to 5 percent per annum.

2. Not to proceed against the mortgagor for 2 years from the date of the enactment of the act on account of default in interest or principal, nor to foreclose its mortgage during the same period except for abandonment of the mortgaged property or unless in the opinion of the Farm Loan Commissioner such foreclosure is necessary for other reasons.

Section 203 authorizes the Farm Loan Commissioner, out of the funds made available to him under section 202, to make loans at a rate of interest not exceeding 4 percent per annum to joint-stock land banks for the purpose of securing the postponement for 2 years of the foreclosure of first mortgages held by such banks on account of default in payment of interest and principal and delinquent taxes. During the period of postponement the bank is to charge the mortgagor interest at a rate not to exceed 4 percent per annum on the aggregate amount of such delinquent taxes and defaulted interest and principal.

The amount so loaned to any bank is to be made without reappraisal but the amount loaned with respect to any mortgage on account of unpaid principal is not to exceed 5 percent of the total unpaid principal of the mortgage, and the maximum which may be loaned with respect to any mortgage shall not exceed 25 percent of the total unpaid principal.

No such loan is to be made unless the Farm Loan Commissioner is satisfied, that after exercising ordinary diligence, the mortgagor is in default and unless the bank agrees to the satisfaction of the Commissioner that during the 2-year period the bank will not foreclose its mortgage unless the mortgaged property is abandoned or such foreclosure is necessary, in the opinion of the Commissioner for other reasons. Each such loan is to be secured by an assignment to the Commissioner of the lien of the taxes and/or the bank's mortgage, but the amount of the lien so assigned representing the unpaid principal and interest is to be subordinated to the existing lien of the bank for the balance of the indebtedness due under the terms of the bank's mortgage. The Commissioner may also require the bank to furnish additional collateral as security for any such loan if such collateral is available.

Section 301 authorizes and directs the Reconstruction Finance Corporation to make \$300,000,000 available to the Farm Loan Commissioner to be used in making direct loans to farmers upon first or second mortgage. The maximum loan to any one farmer is to be

\$5,000, and the amount of the mortgage given as security plus all prior mortgages on the same farm property must not exceed 75 percent of the value of such property. The interest is not to exceed 5 percent per annum. The principal is made repayable in 10 installments, beginning during the fourth year after the loan is made. The proceeds of these loans are to be used:

1. To enable the farmer to refinance on better terms any secured or unsecured indebtedness.
2. To provide the farmer with working capital.
3. To enable the farmer to redeem or repurchase a farm home lost by him, through forced sale or voluntarily alienated to discharge mortgage indebtedness, within 2 years prior to the date of enactment of the act or hereafter.

No loan is to be made under this section unless the holder of any prior lien "arranges to the satisfaction of the Farm Loan Commissioner to limit his right to proceed against the farmer and such farm property for default in payment of principal."

Section 302 authorizes the Farm Loan Commissioner to make necessary rules and regulations.

Section 303 provides for making the facilities of the Federal land banks and the national farm loan associations available to the Farm Loan Commissioner.

Section 304 imposes a penalty of \$1,000 or six months imprisonment, or both, for fraud in securing a loan.

Section 401 authorizes the Reconstruction Finance Corporation to lend not more than \$50,000,000 to refinance the indebtedness of drainage, levee, irrigation, and similar districts and of States and political subdivisions which have undertaken such projects. The project of the borrower must have been completed and it must be devoted chiefly to the improvement of land for agricultural purposes. Loans are to be made under the same terms and conditions as loans made under the Reconstruction Finance Act, but they may be made for a period not in excess of 40 years, and are to be secured by secured refunding bonds. Safeguards are provided to insure that, under the refinancing, the indebtedness of the district will be properly reduced, the benefits will be passed on to the landowner, and the Reconstruction Finance Corporation will be repaid. The benefits of the section are extended to Alaska, Hawaii, and Puerto Rico.

Section 402 increases the borrowing power of the Reconstruction Finance Corporation by \$300,000,000.

Section 403 provides that when any Executive order heretofore transmitted to Congress under the recent reorganization law becomes effective, the functions and powers vested in the Farm Loan Commissioner by this act shall be exercised by him subject to the terms of that order.

Section 404 contains the short title of the act.

CHANGES IN EXISTING LAW

In compliance with paragraph 2a of Rule XIII of the Rules of the House of Representatives, changes in existing law made by the bill are shown as follows: Existing law proposed to be omitted is enclosed in black brackets; new matter is printed in italics; existing law in which no change is proposed is shown in roman.

SEC. 32. The Secretary of the Treasury is authorized, in his discretion, upon the request of the Federal Farm Loan Board, to make deposits for the temporary use of any Federal land bank, out of any money in the Treasury not otherwise appropriated. Such Federal land bank shall issue to the Secretary of the Treasury a certificate of indebtedness for any such deposit, bearing a rate of interest not to exceed the current rate charged for other Government deposits, to be secured by farm loan bonds or other collateral, to the satisfaction of the Secretary of the Treasury. Any such certificate shall be redeemed and paid by such land bank at the discretion of the Secretary of the Treasury. The aggregate of all sums so deposited by the Secretary of the Treasury shall not exceed the sum of \$6,000,000 at any one time.

The Secretary of the Treasury is further authorized, in his discretion, upon the request of the Federal Farm Loan Board, from time to time during the fiscal years ending June 30, 1918, and June 30, 1919, respectively, to purchase at par and accrued interest with any funds in the Treasury not otherwise appropriated, from any Federal land bank, farm loan bonds issued by such bank.

Such purchases shall not exceed the sum of \$100,000,000 in either of such fiscal years. Any Federal land bank may at any time repurchase at par and accrued interest for the purpose of redemption or resale any bonds so purchased from it and held in the Treasury.

The bonds of any Federal land bank so purchased by the Secretary of the Treasury, and held in the Treasury under the provisions of this amendment one year after the termination of the pending war, shall upon thirty days' notice from the Secretary of the Treasury be redeemed or repurchased by such bank at par and accrued interest.

The temporary organization of any Federal land bank as provided in 12 U.S.C. 671-683 [F.F.L. Act § 4] shall be continued so long as any farm-loan bonds purchased from it under the provisions of this amendment shall be held by the Treasury, and until the subscriptions to stock in such bank by national farm loan associations shall equal the amount of stock held in such bank by the Government of the United States.

Until such time as the aggregate paid-in capital stock of the twelve Federal land banks shall be \$50,000,000 or more, the Secretary of the Treasury may in his discretion make deposits in addition to those authorized by the preceding paragraph, to be secured, redeemed, and paid in the same manner as provided in such paragraph, except that any additional deposit made hereunder shall be called by the Secretary of the Treasury and redeemed by the bank or banks holding the same, within fifteen days after the conclusion of each general offering of farm-loan bonds by such bank or banks. The aggregate of such additional deposits outstanding at any time shall not exceed the difference between the aggregate paid-in capital stock of the twelve Federal land banks on the last day of the preceding month, and the sum of \$50,000,000. The certificates of indebtedness issued to the Secretary of the Treasury by the Federal land bank for such additional deposits shall bear a rate of interest not exceeding by more than one half of 1 per centum per annum the rate borne by the last bond issue of the land bank receiving such deposits.

Until such time as the Farm Loan Commissioner determines that Federal farm-loan bonds (other than those issued under this paragraph) are readily salable in the open market at a yield not in excess of 4 per centum per annum, but in no case more than two years after this paragraph takes effect, Federal land banks may issue farm-loan bonds as authorized under this act, for the purpose of making new loans, or for purchasing mortgages or exchanging bonds for mortgages as provided in paragraph "Second" of section 18 of this act. The aggregate amount of the bonds issued under this paragraph shall not exceed \$2,000,000,000, and such bonds shall be issued in such denominations as the Farm Loan Commissioner shall prescribe, shall bear interest at a rate not in excess of 4 per centum per annum, and shall be fully and unconditionally guaranteed as to interest by the United States, and such guaranty shall be expressed on the face thereof. In the event that the issuing bank or banks shall be unable to pay upon demand, when due, the interest on any such bonds, the Secretary of the Treasury shall pay the amount thereof, which is hereby authorized to be appropriated out of any money in the Treasury not otherwise appropriated. Upon the payment of such interest by the Secretary of the Treasury the amount so paid shall become an obligation to the United States of the issuing bank or banks and shall bear interest at the same rate as that borne by the bonds upon which the interest has been so paid. After the expiration of one year from the date this paragraph takes effect, if in the opinion of the Farm Loan Commissioner any part of the proceeds of the bonds authorized to be issued under this paragraph is not required for the purpose

of making new loans or for purchasing mortgages or exchanging bonds for mortgages as herein provided, such bonds may be issued within the maximum limit herein specified for the purpose of refinancing any outstanding issues of Federal farm-loan bonds; but no such bonds shall be issued after two years from the date this paragraph takes effect for the purpose of such refinancing.

Sec. 13. Every Federal land bank shall have power, subject to the limitations and requirements of this act—

* * * * *

Second. To invest such funds as may be in its possession in the purchase of qualified first mortgages on farm lands situated within the Federal land-bank district within which it is organized or for which it is acting.

In order to reduce and/or refinance farm mortgages, to invest such funds as may be in its possession in the purchase of qualified first mortgages on farm lands situated within the Federal land bank district within which it is organized or for which it is acting, or to exchange farm loan bonds for any duly recorded first mortgages on farm lands executed prior to the date this paragraph takes effect, at a price which shall not exceed in each individual case the amount of the unpaid principal of the mortgage on the date of such purchase or exchange, or 50 per centum of the value of the land mortgaged and 20 per centum of the value of the permanent insured improvements thereon, as determined upon an appraisal made pursuant to this Act, whichever is the smaller: Provided, That any mortgagor whose mortgage is acquired by a Federal land bank under this paragraph shall be entitled to have his farm-mortgage indebtedness refinanced in accordance with the provisions of sections 7 and 8 of this Act on the basis of the amount paid by the bank for his mortgage.

【SEC. 13.】 Tenth. When in the judgment of the directors conditions justify it, to extend, in whole or in part, any obligation that may be or become unpaid under the terms of any mortgage, and to accept payment of any such obligation during a period of five years or less from the date of such extension in such amounts as may be agreed upon at the date of making such extension. The sum of \$25,000,000 of the amount authorized to be appropriated under 12 U.S.C. 698 [F.F.L. Act § 5, as amended], shall be used exclusively for the purpose of supplying any bank with funds to use in its operations in place of any amounts of which such bank may be deprived by reason of extensions made as provided in this paragraph. The terms of any such extension shall be such as will not defer the collection of any obligation due by any borrower which, after investigation by the bank of the situation of such borrower, is shown to be within his capacity to meet. In the case of any such extension made prior to the expiration of five years from the date this paragraph as amended takes effect, or in the case of any deferment of principal as provided in paragraph "Twelfth" of section 12 of this Act, it shall be the duty of the Secretary of the Treasury, on behalf of the United States, upon the request of the Federal land bank making the extension, and with the approval of the Farm Loan Commissioner, to subscribe at such periods as the Commissioner shall determine, to the paid-in surplus of such bank an amount equal to the amount of all such extensions and deferments made by the bank during the preceding period. Such subscriptions shall be subject to call, in whole or in part, by the bank with the approval of the Commissioner upon thirty days' notice. To enable the Secretary of the Treasury to make such subscriptions to the paid-in surplus of the Federal land banks, there is hereby authorized to be appropriated the sum of \$50,000,000, to be immediately available and remain available until expended. Upon payment to any Federal land bank of the amount of any such subscription, such bank shall execute and deliver a receipt therefor to the Secretary of the Treasury in form to be prescribed by the Farm Loan Commissioner. The amount of any subscriptions to the paid-in surplus of any such bank may be repaid in whole or in part at any time in the discretion of the bank and with the approval of the Farm Loan Commissioner, and the Commissioner may at any time require such subscriptions to be repaid in whole or in part if in his opinion the bank has resources available therefor.

Sec. 12. No Federal land bank organized under this act shall make loans except upon the following terms and conditions:

First. Said loans shall be secured by duly recorded first mortgages on farm land within the land bank district in which the bank is situated.

Second. Every such mortgage shall contain an agreement providing for the repayment of the loan on an amortization plan by means of a fixed number of annual or semiannual installments sufficient to cover, first, a charge on the loan at a rate not exceeding the interest rate in the last series of farm loan bonds issued by the land bank making the loan; second, a charge for administration and profits at a rate not exceeding 1 per centum per annum on the unpaid principal, said two rates combined constituting the interest rate on the mortgage; and, third, such amounts

to be applied on the principal as will extinguish the debt within an agreed period, not less than five years nor more than forty years: *Provided*, That after five years from the date upon which a loan is made the mortgagor may, upon any regular installment date, make in advance any number of payments or any portion thereof on account of the principal of his loan as provided by his contract or pay the entire principal of such loan, under the rules and regulations of the Federal Farm Loan Board: *And provided further*, That before the first issues of farm loan bonds by any land bank the interest rate on mortgages may be determined in the discretion of said land bank, subject to the provisions and limitations of this act.

Third. No loan on mortgage shall be made under this act at a rate of interest exceeding 6 per centum per annum, exclusive of amortization payments.

Fourth. Such loans may be made for the following purposes and for no other:

- (a) To provide for the purchase of land for agricultural uses.
- (b) To provide for the purchase of equipment, fertilizers, and livestock necessary for the proper and reasonable operation of the mortgaged farm; the term "equipment" to be defined by the Federal Farm Loan Board.
- (c) To provide buildings and for the improvement of farm lands; the term "improvement" to be defined by the Federal Farm Loan Board.
- (d) To liquidate indebtedness of the owner of the land mortgaged incurred for agricultural purposes, or incurred prior to January 1, 1933.
- (e) To provide the owner of the land mortgaged with funds for general agricultural uses.

Fifth. No such loan shall exceed 50 per centum of the value of the land mortgaged and 20 per centum of the value of the permanent, insured improvements thereon, said value to be ascertained by appraisal, as provided in 12 U.S.C. 751. [F.F.L. Act § 10.] In making said appraisal the value of the land for agricultural purposes shall be the basis of appraisal and the earning power of said land shall be a principal factor.

A reappraisal may be permitted at any time in the discretion of the Federal land bank, and such additional loan may be granted as such reappraisal will warrant under the provisions of this paragraph. Whenever the amount of the loan applied for exceeds the amount that may be loaned under the appraisal as herein limited, such loan may be granted to the amount permitted under the terms of this paragraph without requiring a new application or appraisal.

Sixth. No such loan shall be made to any person who is not at the time, or shortly to become, engaged in the cultivation of the farm mortgaged. In case of the sale of the mortgaged land, the Federal land bank may permit said mortgage and the stock interests of the vendor to be assumed by the purchaser. In case of the death of the mortgagor, his heir or heirs, or his legal representative or representatives, shall have the option within sixty days of such death, to assume the mortgage and stock interests of the deceased.

Seventh. The amount of loans to any one borrower shall in no case exceed a maximum of ~~[\$25,000]~~ \$50,000, but loans to any one borrower shall not exceed \$25,000 unless approved by the Farm Loan Commissioner, nor shall any one loan be for a less sum than \$100, but preference shall be given to applications for loans of \$10,000 and under.

Eighth. Every applicant for a loan under the terms of this Act shall make application on a form to be prescribed for that purpose by the Federal Farm Loan Board, and such applicant shall state the objects to which the proceeds of said loan are to be applied, and shall afford such other information as may be required.

Ninth. Every borrower shall pay simple interest on defaulted payments at the rate of 8 per centum per annum, and by express covenant in his mortgage deed shall undertake to pay when due all taxes, liens, judgments, or assessments which may be lawfully assessed against the land mortgaged. Taxes, liens, judgments, or assessments not paid when due, and paid by the mortgagee, shall become a part of the mortgage debt and shall bear simple interest at the rate of 8 per centum per annum. Every borrower shall undertake to keep insured to the satisfaction of the Federal Farm Loan Board all buildings the value of which was a factor in determining the amount of the loan. Insurance shall be made payable to the mortgagee as its interest may appear at time of loss, and at the option of the mortgagor and subject to general regulations of the Federal Farm Loan Board, sums so received may be used to pay for reconstruction of the buildings destroyed.

Tenth. Every borrower who shall be granted a loan under the provisions of this act shall enter into an agreement, in form and under conditions to be prescribed by the Federal Farm Loan Board, that if the whole or any portion of his

loan shall be expended for purposes other than those specified in his original application, or if the borrower shall be in default in respect to any condition or covenant of the mortgage, the whole of said loan shall, at the option of the mortgagee, become due and payable forthwith: *Provided*, That the borrower may use part of said loan to pay for his stock in the farm loan association, and the land bank holding such mortgage may permit said loan to be used for any purpose specified in subsection fourth of this section.

Eleventh. No loan or the mortgage securing the same shall be impaired or invalidated by reason of the exercise of any power by any Federal land bank or national farm loan association in excess of the powers herein granted or any limitations thereon.

Twelfth. Notwithstanding the provisions of paragraph second, the rate of interest on any loans or mortgage made through national farm-loan associations, or through agents as provided in section 15, by any Federal land bank, outstanding on the date this paragraph takes effect or made within two years after such date, shall not exceed 4½ per centum per annum for all interest payable on installment dates occurring within a period of five years commencing sixty days after the date this paragraph takes effect; and no payment of the principal portion of any installment of any such loan shall be required during such five-year period if the borrower shall not be in default with respect to any other condition or covenant of his mortgage. The foregoing provisions shall apply to loans made by Federal land banks through branches, except that the rate of interest on such loans for such five-year period shall be 5 per centum in lieu of 4½ per centum. The Secretary of the Treasury shall pay each Federal land bank, as soon as practicable after October 1, 1933, and after the end of each quarter thereafter, such amount as the Farm Loan Commissioner certifies to the Secretary of the Treasury is equal to the amount by which interest payments on mortgages held by such bank have been reduced, during the preceding quarter, by reason of this paragraph; but in any case in which the Farm Loan Commissioner finds that the amount of interest payable by such bank during any quarter has been reduced by reason of the refinancing of bonds under section 32 of this act, the amount of the reduction so found shall be deducted from the amount payable to such bank under this paragraph. No payments shall be made to a bank with respect to any period after June 30, 1938. There is authorized to be appropriated, out of any money in the Treasury not otherwise appropriated, the sum of \$15,000,000 for the purpose of enabling the Secretary of the Treasury to make payments to Federal land banks which accrue during the fiscal year ending June 30, 1934, and such additional amounts as may be necessary to make payments accruing during subsequent fiscal years.

SEC. 7. * * *

[Whenever it shall appear to the Federal Farm Loan Board that national farm-loan associations have not been formed in any locality in the continental United States, or that the farmers residing in the territory covered by the charter of a national farm-loan association are unable to apply to the Federal land bank of the district for loans on account of the inability of such association to indorse such loans, the Federal Farm Loan Board may, in its discretion, authorize said bank, at any time within five years after this paragraph takes effect, to make direct loans to borrowers secured by first mortgages on farm lands situated within any such locality or territory. Except as herein otherwise specifically provided, all provisions of this act applicable with respect to loans made through national farm-loan associations shall, in so far as practicable, apply with respect to such direct loans, and the Federal Farm Loan Board is authorized to make such rules and regulations as it may deem necessary with respect to such direct loans: *Provided*, That no such loan shall be made for more than \$15,000. Each borrower who obtains a direct loan from a Federal land bank shall subscribe and pay for stock in such bank in the sum of \$5 for each \$100 or fraction thereof borrowed.**]**

Whenever it shall appear to the Farm Loan Commissioner that national farm-loan associations have not been formed in any locality in the continental United States, or that the farmers residing in the territory covered by the charter of a national farm-loan association are unable to apply to the Federal land bank of the district for loans on account of the inability of the bank to accept applications from such association, the Farm Loan Commissioner may, in his discretion, authorize said bank to make direct loans to borrowers secured by first mortgages on farm lands situated within any such locality or territory. Except as herein otherwise specifically provided, all provisions of this act applicable with respect to loans made through national farm-loan associations shall, insofar as practicable, apply with respect to such direct loans, and the Farm Loan Commissioner is authorized to make such rules and regulations as he may deem necessary with respect to such direct loans.

The rate of interest on such direct loans made at any time by any Federal land bank shall be one half of 1 per centum per annum in excess of the rate of interest charged to borrowers on mortgage loans made at such time by the bank through national farm-loan associations.

Each borrower who obtains a direct loan from a Federal land bank shall subscribe and pay for stock in such bank in the sum of \$5 for each \$100 or fraction thereof borrowed. Such stock shall be held by such Federal land bank as collateral security for the loan of the borrower and shall participate in all dividends. Upon full payment of the loan such stock shall, if still outstanding, be canceled at par, or, in the event that such stock shall have become impaired, at the estimated value thereof as approved by the Farm Loan Commissioner, and the proceeds thereof shall be paid to the borrower.

Each such borrower may covenant in his mortgage that, whenever there are ten or more borrowers who have obtained from a Federal land bank direct loans under the provisions of this section aggregating not less than \$20,000, and who reside in a locality which may, in the opinion of the Farm Loan Commissioner, be conveniently covered by the charter of and served by a national farm loan association, he will unite with such other borrowers to form a national farm loan association. Such borrowers shall organize the association subject to the requirements and the conditions specified in this section, so far as the same may be applicable, and in accordance with rules and regulations of the Farm Loan Commissioner. As soon as the organization of the association has been approved by the Farm Loan Commissioner, the stock in the Federal land bank held by each of the members of such association shall be canceled at par, and in lieu thereof the bank shall issue in the name of the association an equal amount of stock in said bank, which stock shall be held by said bank as collateral security as provided in this section with respect to other loans through national farm loan associations. Thereupon there shall be issued to each such member an amount of capital stock in the association equal to the amount which he previously held in said bank, which stock shall be held by said association as collateral security as provided in section 8 of this Act. The board of directors of said association shall adopt a resolution authorizing and directing its secretary-treasurer on behalf of said association to indorse, and thereby become liable for the payment of, the mortgages taken from its charter members by the Federal land bank. When it shall appear to the satisfaction of the Farm Loan Commissioner that all the foregoing conditions have been complied with, and upon the granting of the charter by the Farm Loan Commissioner, the interest rate paid by each charter member of such association whose loan is in good standing shall, beginning with his next regular installment date, be reduced to the rate of interest paid by borrowers on new loans made through national farm loan associations in the same Federal land bank district at the time the said loan was made to such charter member.

Charges to be paid by applicants for direct loans from a Federal land bank shall not exceed amounts to be fixed by the Farm Loan Commissioner and shall in no case exceed the charges which may be made to applicants for loans and borrowers through national farm loan associations under the provisions of sections 11 and 13 of this Act.

MINORITY VIEWS

Agriculture needs assistance and we must take immediate steps to refinance farm-mortgage indebtedness at a low rate of interest if we are to prevent disastrous results to the farmers and the entire country. This bill will not give adequate relief, and if enacted will prove to be a disappointment, and it contains many objectionable features, of which the following are but a few:

First. It provides for issuance and circulation of additional tax-exempt bonds, bearing interest at the rate of 4 percent, which interest is guaranteed by the Federal Government. This is not justifiable, because the country is in need of more currency and the Government could refinance these farm loans by issuing new currency, which would not bear interest and which would reduce the buying power of the dollar, increase the commodity price level, and afford the necessary stimulant to restore economic stability.

Second. The rate of interest which the farmer would be obliged to pay would undoubtedly amount to $4\frac{1}{2}$ percent per annum. This is only about 1 percent less than the average rates now being paid. In addition, he would be obliged to buy stock in a farm-loan association in an amount equal to 5 percent of the loan. This amount would be deducted from his loan and he would receive in cash only 95 percent of the amount upon which he must pay interest.

Third. In many instances, the amount of the new mortgage which can be placed under the terms of the bill is entirely inadequate. The bill limits the amount of the mortgage to 50 percent of the value of the land and 20 percent of the value of the permanent insured improvements thereon. In the highly developed dairy and agricultural sections of the country this cannot amount to more than 35 to 40 percent of the whole value of the real estate and experience will show that this is not sufficient to refinance the mortgages already existing. There may be some scaling down of these debts, but the creditors would not voluntarily reduce the debts to an amount less than the value of the farm—and certainly not to an amount less than 50 percent of the farm value. The farmer will not be given relief unless the amount to be loaned will enable him to refinance his indebtedness.

Fourth. The bill renders many favors to the joint-stock land banks and Federal land banks and as consideration therefor they should be required to correct some abuses now prevalent. It is well known that the avarice and cupidity of some of these banks impel them to foreclose and secure title to the land and then sell it and invest the proceeds in their own bonds which they can buy at a mere fraction of par. In this way they reduce their own indebtedness and make enormous profits out of their foreclosure to the serious disadvantage of the mortgagor. We think that provisions should be made to check this evil and to allow the mortgagors to present these same bonds, either in whole or in part, in payment of or as an offset or counter-

claim to the mortgage debt. Many well-advised persons say with reason that Congress heretofore has not had constitutional power to require this right of offset to be given to the mortgagor without the consent of the bank. This opinion is based upon the belief that Congress cannot require a person to accept his own obligation which is not yet due in payment of a debt to him which in fact is already due and matured. But now at the time of the passage of this bill the legal situation is changed and an opportunity is given Congress to enact an amendment wherein the right of offset would be specifically provided and whereby the banks would be required, within limitations and safeguards, to grant the right of offset as a consideration for the privileges and benefits contained in this bill. Such an amendment would be both proper and legal and constitutional and the present opportunity to enact it ought not be lost.

We believe that the so-called Frazier bill is sound in principle, and that a bill embodying such principles must be enacted if we are to save our country. The Frazier bill provides as follows: (1) Farm debts would be refinanced at 1½ percent interest and 1½ percent on the amortization payment, through a controlled expansion of the currency, instead of the provisions of the bill which authorize interest payments of 4½ percent, plus future amortization payments and which provides that the money be made available through the issuance of tax-exempt bonds. (2) Issuance of farm loan bonds, bearing interest of 1½ percent, with a provision that such bonds as cannot be readily sold, be turned over to the Federal Reserve Board, and such board shall forthwith cause to be delivered to the Federal Farm Loan Board, Federal reserve notes equal to the par value of such bonds as are presented to it.

It is estimated that if the refinancing principles of the Frazier bill were enacted into law a maximum of two and one half billion dollars of new currency, used as a revolving fund, would be sufficient to refinance all of the farm mortgage indebtedness of the Nation.

We are of the opinion that the circulation of more tax-exempt, interest-bearing bonds is detrimental to our country, but that the circulation of a larger amount of currency will increase commodity prices and go a long way toward restoring prosperity. Much lower rates of interest must be offered to the farmer than can be offered if we are to provide the money through the sale of bonds. We must have more money and the principles of the Frazier bill will afford an excellent method of distribution.

The members signing this report desire that the bill be amended as herein recommended, but make no commitments with regard to their final votes in the absence of such amendments.

GERALD J. BOILEAU.

FRED C. GILCHRIST.

WALTER M. PIERCE.

O