

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Monday, April 3, 1950.

PRESENT: Mr. Szymczak, Chairman pro tem.
Mr. Draper
Mr. Vardaman

Mr. Carpenter, Secretary
Mr. Sherman, Assistant Secretary
Mr. Kenyon, Assistant Secretary

Letter to Mr. Koppang, First Vice President of the Federal Reserve Bank of Kansas City, reading as follows:

"In your letter of March 29, 1950, you outline certain impending changes in the hospitalization and surgical benefit contracts at Kansas City, Oklahoma City, and Omaha. The additional expense to the Bank under the revised contracts will approximate \$4,900 per year and the Board of Governors is requested to approve this expenditure.

"The Board of Governors approves the expenditure under the program as submitted, provided that, in the case of Kansas City, the additional expense is approved by the directors."

Approved unanimously.

Letter to Mr. Roger W. Jones, Assistant Director, Legislative Reference, Bureau of the Budget, Washington 25, D. C., reading as follows:

"This refers to your letter of March 15, 1950, requesting our comments concerning S. 2988, a bill 'To amend the Bankhead-Jones Farm Tenant Act so as to improve credit services available to farmers seeking to change or diversify their farming operations or adjust and improve their farming practices'. Enclosed with your letter was a copy of the proposed report of the Department of Agriculture with respect to the bill.

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"S. 2988 would increase the maximum amounts and periods for repayment of production and subsistence loans under the Bankhead-Jones Farm Tenant Act. The maximum amount which could be loaned initially would be increased from \$3,500 to \$7,000, and the limit on the total outstanding indebtedness of a borrower would be increased from \$5,000 to \$10,000. The maximum period for repayment would be increased from five years to ten years, with an additional two years for each \$1,000 loaned in excess of \$5,000. In other words, the proposed legislation would permit an initial loan of \$7,000 payable over a period of fourteen years and total advances of \$10,000 payable over a period of twenty years.

"This loan program was instituted to provide Government supervised credit for low-income farmers who are unable to obtain essential credit for operating purposes on reasonable terms through other sources. As indicated by its title, S. 2988 is designed to permit more liberal credit in connection with the so-called 'adjustment loans' made under this program. This type of loan normally should be larger than the ordinary production loan but how much larger is a matter on which the Board does not have the necessary information for an opinion. It is noted, however, in the Annual Report of the Farmers Home Administration for the fiscal year 1949, that with the present limit of \$3,500, the average new 'adjustment loan' during that year was only \$1,223 for all borrowers and \$1,471 for veterans. We have no information to indicate that an increase in the maximum limits on the size of the loans to the extent proposed in S. 2988 is required to carry out the program even taking into account changed needs because of the more substantial modifications now often required in farming operations. In so far as periods for repayments are concerned, again the Board does not have the information necessary to suggest precise limits, but it appears the limits proposed in S. 2988 are inconsistent with the nature and purposes of the loans and considerably out of line with terms which private lenders might reasonably be expected to accept for comparable loans.

"It is our understanding that, in determining whether to make a loan under this program, a basic consideration has been whether an estimate of the income and expenses of the applicant provides reasonable assurance that the

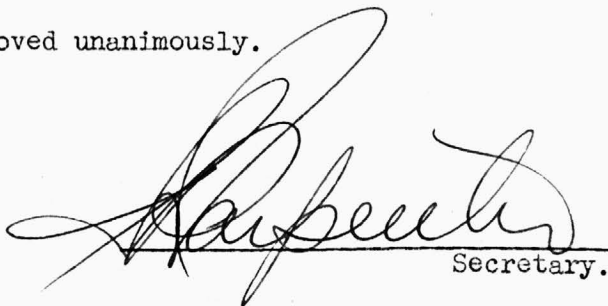
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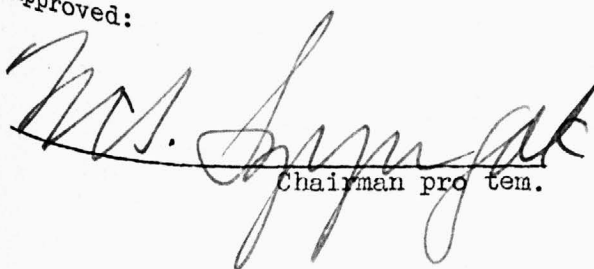
"loan can be repaid. It is essential that this policy be continued; and, in considering any liberalization of this program, it should be borne in mind that, with farm income prospects less favorable in the period ahead than they have been for a number of years, it may be increasingly difficult to adhere to such a policy and for borrowers to repay their loans.

"A further important consideration is the effect this legislation, or subsequent legislation that may follow, would have on Treasury expenditures. While S. 2988 does not deal directly with this matter, it undoubtedly contemplates an increase in the funds available for these loans. If it is determined that the legislation is desirable as a long-run policy and expenditures under the program would materially expand, it is the view of the Board that such expenditures should be kept under careful control, particularly in periods like the present when the Treasury is running a very substantial deficit during a period of high production and employment."

Approved unanimously.


Secretary.

Approved:


Chairman pro tem.