

FEDERAL RESERVE BOARD

195

WASHINGTON

X-3329

February 15, 1922.

SUBJECT: Bill to enlarge powers of Farm Loan Banks

Dear Sir:

There is enclosed herewith, for your information, copy of a letter addressed by the Board, on January 26, 1922, to the Chairman of the Committee on Banking and Currency of the United States Senate, endorsing S. 3051 which proposes to enlarge the powers of the Farm Loan Banks. This bill, which was introduced by Senator Lenroot, is the same as H. R. 10058, introduced in the House of Representatives by Mr. Anderson, and embodies the recommendations of the Joint Commission of Agricultural Inquiry.

Very truly yours,

G o v e r n o r .

CHAIRMEN AND GOVERNORS OF ALL F.R.BANKS.

C O P Y

FEDERAL RESERVE BOARD
Washington

January 26, 1922.
X-3329a

My dear Mr. Chairman:

Receipt is acknowledged of your letter of January 23, 1922, enclosing a copy of Senate Bill 3051 and requesting the views of the Federal Reserve Board with regard to it. This is the bill, the enactment of which is recommended in the recently published report of the Joint Commission of Agricultural Inquiry. The same bill has also been introduced in the House of Representatives as H. R. 10058.

While the proposed bill deals mainly with the Federal Farm Loan System, the administration of which does not, of course, come within the jurisdiction of the Federal Reserve Board, the Board is glad of the opportunity to say that the bill has its cordial approval and support. The Board believes the bill to be sound and constructive legislation that is well designed to afford much needed relief to agricultural and live stock interests by adding to their available credit facilities, which at the present time are not adequate for their requirements.

The bill proposes to add to the Federal Farm Loan Act a new title, Title 11, consisting of Sections 201 to 209. Subdivision (a) of Section 201 provides that each Federal land bank, subject to regulation by the Federal Farm Loan Board, may discount for any bank or live stock loan company, with the endorsement of such bank or company, any note or other such obligation the proceeds of which have been used for an agricultural purpose or for the raising, breeding, fattening or marketing of live stock, and may make loans to any cooperative association of producers of staple agricultural products upon the security of warehouse receipts covering such products. Subdivision (b) of Section 201 provides for the issuance by Federal land banks of debentures or other such obligations with maturities not in excess of three years secured by discounts or loans made under subdivision (a). Section 204 provides that any Federal reserve bank may discount for a Federal land bank, upon the latter's endorsement, discounts or loans made under Section 201 which have a maturity at the time of discount by the Federal reserve bank not in excess of six months, and Section 206 provides that any Federal reserve bank may

buy and sell the debentures and other obligations of a Federal land bank issued under Section 201 to the same extent and subject to the same limitations as those upon which they may buy and sell Federal farm loan bonds. The other sections of the new title provide for the creation of a "farm credits department" in each Federal land bank for the purpose of exercising the powers conferred by the title, and provide that the capital of each such department shall be \$1,000,000, to be subscribed by the United States, and contain certain other necessary administrative provisions which are not important for the purposes of this general discussion.

At the present time the Federal Farm Loan Act provides the means for supplying the farmers long time credits upon the security of first mortgages upon agricultural lands; and under the terms of the Federal Reserve Act agricultural paper with a maturity not in excess of six months is eligible for rediscount by Federal reserve banks after it has been discounted and endorsed by a member bank of the Federal Reserve System. As pointed out, however, in the Report of the Joint Commission of Agricultural Inquiry, there is need for agricultural credits of an intermediate type, running from six months to three years, for production and marketing purposes. The farmers' turnover in the production of crops, including the planting, harvesting and gradual marketing through orderly processes designed to avoid flooding the market at any one time, normally requires approximately twelve months; and in the live stock industry the turnover may require as long as three years. Consequently, in order to make it possible for the farmer and live stock man to liquidate, out of the ultimate proceeds of his agricultural transactions, his indebtedness incurred for production and marketing purposes, it is necessary that such indebtedness be permitted to run for periods ranging from six months to three years, depending upon the particular commodities being produced and marketed.

Loans with such maturities cannot be granted, in sufficient amounts to meet the needs of agriculture, by ordinary banking institutions the liabilities of which are for the most part payable on demand, unless the banks can rely on being able to rediscount the loans in emergencies. The main purpose of the bill under consideration, as the Federal Reserve Board understands it, is to provide proper and adequate facilities for such rediscounts.

Bills have been introduced in Congress within the past year proposing to amend the Federal Reserve Act so as to make eligible for discount by Federal reserve banks agricultural paper with maturities up to twelve months, instead of six months as the law

now provides. The Board has expressed its disapproval of these and similar bills, because the enactment of any such bill would materially lessen both the liquidity of the paper held by the Federal reserve banks and the elasticity of the Federal reserve note currency which is based upon and secured by the paper so held. The bill recommended by the Joint Commission of Agricultural Inquiry avoids this danger, and at the same time offers far more adequate relief to the agricultural interests of the country than could be obtained through the enactment of such an amendment to the Federal Reserve Act.

The Federal Reserve Board has carefully examined the bill introduced in the Senate as S. 3051, and in the House of Representatives as H. R. 10058, and approves not only the purpose and substance of the bill, but also the form and language that have been adopted in drafting it. The Board is of the opinion that the bill is admirably designed to accomplish the purposes which its framers have in mind and that its various provisions are so coordinated as to provide the most efficient machinery for the performance of the new functions of the Federal land banks without in any way interfering with their present activities.

Very truly yours,

(Signed) W. P. G. HARDING

G o v e r n o r .

Hon. George P. McLean, Chairman,
Committee on Banking and Currency,
United States Senate.