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U. S. FEDERAL FARM LOAN BUREAU  
TREASURY DEPARTMENT

Circular No. 2 *Q*

# HOW FARMERS MAY FORM A NATIONAL FARM LOAN ASSOCIATION

ISSUED BY THE  
FEDERAL FARM LOAN BOARD

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NATIONAL FARM LOAN  
ASSOCIATION

**FEDERAL FARM LOAN BOARD.**

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APRIL 1921

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## HOW FARMERS MAY FORM A NATIONAL FARM LOAN ASSOCIATION.

### WHAT THE FARM LOAN ACT PROMISES.

Farmers want cheaper money. They ought to have it. The Federal Farm Loan Act aids them to get it.

The operation of this law is under the control of the Federal Farm Loan Board. The board is the head of the Federal Farm Loan Bureau which is under the Treasury Department at Washington, D. C.

The Federal Farm Loan Act provides a way of getting mortgage loans for farmers at low rates of interest, at lengths of time to suit the borrower, and on easy terms of repayment. All farmers have to do is to form themselves into national farm loan associations. The Government will do its part in helping them. Farmers can easily form loan associations as prescribed by the new law. Let us see how this may be done.

### FARMERS ONLY NEED APPLY.

Ten farmers may unite to form a national farm loan association. That is the least number the law allows, and farmers only can be members. If more than 10 get together for this purpose, so much the better. But if only 10 farmers are willing to join an organization to borrow on farm mortgage, that number satisfies the law.

Let us suppose these 10 men are farm owners. They may all be close neighbors and know each other well. But they may live some distance from each other, though being in the same community, or district, or county. In that case they may not know each other so well. But that makes no difference. They all have the same thing in view. They want to borrow money on farm mortgages at six per cent interest. They want the mortgages to run 5, 10, 20, or 40 years, perhaps. They want to pay the mortgage debt off a little at a time. They know this will help them and so they get together.

### CALLING A NEIGHBORHOOD MEETING.

Now, these 10 or more farmers in a community call a meeting. It may be held in a schoolhouse, a hall, a church, or in one of their houses most convenient for them all.

When the farmers have come together, they discuss the subject informally and decide to form themselves into an association to borrow money on mortgage. They appoint a committee to draw up articles of association. These articles should set forth the object of the association and the territory within which it proposes to do business. They may follow a prescribed form furnished by the land

bank, or they may be modified to suit the needs of any particular body of farmers. But nothing can be included in the articles of association that is contrary to the letter and spirit of the law.

The farmers who thus unite themselves into a national farm loan association then sign the articles. A copy of them is made to be sent to the Federal land bank of the district within which the association is situated. When the articles of association are received by the land bank they are filed for future reference.

#### APPRAISING BY A LOAN COMMITTEE.

A loan committee of three members must be appointed to pass on loans. A written report is drawn up by them after they have examined the lands. The committee examines the farms and farm lands for the purpose of appraising their value. The report of this loan committee, signed by all three members, must be sent to the land bank with the articles of association. All three members must sign the report or it will be worthless. The land bank will not consider the request for loans unless all three members sign their report about the value of the farms. Their report should state distinctly that the said committee had examined the lands and appraised their values. The lands and farms should be described, and the value of those upon which the members desire loans should be stated.

It is very important that the loan committee put a just valuation on the lands. Care should be taken not to put the valuation too high nor too low. The former would be rejected by the land bank; the latter might prevent the farmer from getting as high a loan on his farm as he wanted.

Loan committees should remember that their appraisal is only preliminary; it is not binding on the Federal land bank of their district. For later on the land bank will send its own appraiser to fix his values on the same farms. It would be a fine thing for the members of the association if the two independent appraisements of the same farms should come close together. It would prove to the officers of the land bank that they were dealing with an upright, intelligent body of farmers. That would be a moral and intellectual credit to the community. It certainly would help their financial credit. So loan committees should be fair at the beginning. Let them fix just values on the farms of those members who are asking for loans.

The report of the loan committee should also give any other information which would help the land bank to understand conditions in that community.

#### MAKING AN AFFIDAVIT.

With the list of proposed members, the articles of association must be signed and acknowledged, which, with the report of the loan committee, must be sent to the Federal land bank. An affidavit must be signed and acknowledged by the secretary-treasurer, whose residence and post-office address must also be stated on the affidavit. This affidavit, thus signed and acknowledged, will set forth that each subscriber is the owner of farm land, or is about to become the owner of farm land qualified under the Farm Loan Act as the basis for a

mortgage loan. That is, a person in the community may not be in actual possession of a farm, but expects to be in a short time, by purchase, the owner of the particular farm described in his application; in that case he could legally join the association and become a member. The affidavit should also state that the desired loans added together amount to \$20,000 or more.

#### FARMERS ONLY CAN BE MEMBERS.

The national farm loan associations are to be organized and run by farmers and for farmers. Persons not farmers need not apply for membership; they could not legally be admitted. For the law says that no one except farmers shall be members, and no one except members can borrow. The lowest sum any farmer can borrow is \$100; the highest is \$10,000. These are the limits fixed by law.

The associations will grow by the admission of new members. After the affidavit, showing that the loans amount to \$20,000 or more, has been sent to the land bank and the farm loan association has become a corporate body through a charter being granted to it by the Federal Farm Loan Board, a farmer who wants to borrow \$100 only can be admitted to membership. In fact, there is no limit to the growth of the association after the first ten or more have become a chartered association. Any farmer may be admitted to membership who wants to borrow on farm mortgage any sum ranging from \$100 to \$10,000. In this way the national farm loan associations will grow in numbers.

#### FARMERS AS SHAREHOLDERS.

But farmers can not join without buying shares in their association. The value of the shares is fixed at the low price of \$5 each. Every farmer who becomes a member of a national farm loan association also becomes a borrower and a shareholder at the same time. For the law says that he must subscribe for stock to the amount of 5 per cent of his desired loan. If he wants to borrow \$100, he must take 1 share of stock; if \$200, 2 shares; if \$1,000, 10 shares; and if \$10,000, 100 shares.

The borrower may pay in cash for his stock at the time he applies for membership, or he may wait until his loan is received and then pay for his stock from the loan. He may, if he wishes, even add the cost of his stock to the amount of his loan, providing this does not increase his loan above 50 per cent of the appraised value of the land and 20 per cent of the permanent improvements thereon. But the owner must keep the buildings insured.

This plan of buying stock makes the national farm loan associations cooperative in character. When the farmer borrows money, the shares of stock he has to buy are held by the association as part security for his loan. But if the association prospers, dividends on his stock must be paid to the owner. When his debt is paid off, the stock owned by the borrower is canceled. That is, if a farmer has held two shares of stock he is paid \$10, the stock is canceled, and the farmer is no longer a member of the association. The payment of a debt automatically removes a farmer from membership in a national farm loan association.

Each farmer is liable for the debts of his association to twice the par value of the stock he owns. One-half of this liability has already been paid as represented by his shares of stock held by the association. So that, in case of the failure of an association, a member who held one share would be liable for only \$5 more. Thus the members take little risk and reap all the benefits of cooperative mortgage credit.

#### THE ASSOCIATIONS AS SHAREHOLDERS.

The money the farmers pay their association for stock is turned over to the Federal land bank to buy stock in that bank for the association. The cash may or may not be sent in with the subscription for stock. If cash is sent, the secretary-treasurer of the association must procure it from the prospective borrowers. Each farmer pays his share according to the amount of his loan. For example, if one member wants to borrow \$500 and another wants to borrow \$1,000, the first one has to pay \$25 and the second one \$50. The subscription price of \$1,000 for the land bank stock is provided in this way.

If for any reason, however, any or all of the loans should not be granted by the land bank, the money paid in advance on account of stock subscriptions would be refunded. But the cash need not be sent in advance with the subscription made by the secretary-treasurer. When the loans are granted by the land bank, the amount of the subscription to the stock may be deducted from the total amount of the loans. In such case the balance is forwarded to the secretary-treasurer of the association. That is, if the loans total \$20,000, the secretary-treasurer would receive \$19,000. He would then pay over to the farmer who asked for a \$500 loan the sum of \$475, and to him who wanted \$1,000 the sum of \$950. That is to say, 5 per cent of each farmer's loan would be deducted to help pay for the association's subscription for stock of the land bank; but, if the stock subscription of 5 per cent is raised in cash, the whole amount of the loans would be remitted.

Now, let the farmer members understand this, that the associations and not they are the owners of the stock in the Federal land bank, and this plan is adopted that the associations may ultimately become the sole owners of the Federal land banks. This stock is held by the land bank as part security for the loans granted to the association. This plan makes the borrowers indirectly part owners of the land banks with the Government from the beginning, and through these cooperative organizations provides the method whereby they ultimately become the exclusive owners.

The profits of the land banks go to the associations. The stock held by the Government draws no dividends, but earnings will be divided on the stock owned by the associations. Thus all profits of the land banks, after the Government has withdrawn its holdings of stock, will go to the associations, who will ultimately become the owners of all the Federal land banks in the United States. The law provides for the gradual withdrawal of Government holdings in the land banks, leaving the whole field open to the farmers themselves through their national farm loan associations. The importance of organizing these associations of borrowers, therefore, can not be unduly emphasized.

## ELECTION OF OFFICERS.

When the application for the charter is sent to the land bank, it must state that a temporary organization has been formed. This temporary organization elects a board of directors, a loan committee, and a secretary-treasurer. The board of directors must consist of not less than five members; the loan committee must consist of three members. The board of directors elects a president, vice president, loan committee, and secretary-treasurer. The last-named officer need not be a member of the association or resident of the district, but the others must be members and residents. The secretary-treasurer receives a small salary, which is fixed by the board of directors. All other officers are supposed to serve without pay, unless the payment of salaries is approved by the Federal Farm Loan Board.

## HOW LOANS MAY BE USED.

If a farmer has a mortgage on his farm and borrows money from the land bank, his mortgage lien must be the first thing paid off with the money. If any surplus of his loan remains, he can apply it for the purchase of fertilizers or live stock, the construction of a silo, the building of a barn, the erection of poultry houses, or for any other purpose which will improve the farm's value.

But, if a farmer has no mortgage on his farm and desires to borrow for improving it in any of the ways mentioned above, he can borrow money from the land bank by giving a first mortgage on his farm.

## THE FARMER HAS LITTLE TO DO.

The practical work of a national farm loan association is done by the secretary-treasurer. He writes and answers letters, keeps the books, handles the funds, secures the loans from the land banks, pays over the money to borrowers, and does all the active work of the association for the members.

The loans are made on first mortgages on farm lands. The mortgages may run not less than 5 years nor more than 40 years. The borrower himself decides the length of time his loan shall run. The interest rate is now 6 per cent, the maximum rate prescribed by the farm loan act. Every six months, or once each year, the farmer pays the installment on his debt. This includes interest, part of the debt itself, and a small amount to cover expenses of the land bank. The secretary-treasurer makes the collections, gives his receipt for them, and sends the money collected to the Federal land bank. Thus most of the work of the associations is done by this officer. That is why he is allowed a small salary.

The Federal land bank which receives the application for loans and other papers from the association then sends an appraiser to examine the land and the financial condition of the proposed borrowers. If these conditions are found satisfactory, the land bank forwards the papers to the Federal Farm Loan Board with their recommendation. On approval by the Federal Farm Loan Board, a charter is granted to the applicants to do business in their district, the charter being forwarded to the association by the Federal land bank.

When the charter has been granted, the association can borrow money of the land bank. The mortgages are then prepared and delivered to the secretary-treasurer, who forwards them to the Federal land bank of the district. On its part, the land bank sends the money for the loans to the secretary-treasurer of the association. He in turn delivers the proper amount of money to the respective borrowers and the farm mortgage transaction is closed. The farmer has thus been enabled to borrow money on first mortgage with practically no trouble or expense on his part.

#### BENEFITS TO FARMERS.

In this way the farmers themselves become the owners and directors of the national farm loan associations. They become investors as well as borrowers. The Government has not only made the way easy, but it helps the farmers to reap the benefits of the profits derived from their own united efforts of borrowing.

But more than this. By becoming subscribers to the capital stock of the Federal land bank of their district, which the associations have to do when applications for loans are made, the farmer members of the national farm loan associations will ultimately become the owners of the land banks also, for the Government will gradually withdraw its stock holdings from the Federal land banks and leave their ownership with all their profits entirely in the hands of the farmers themselves.

Here, then, is a great opportunity open to all farm owners in the United States. The power lies within their hands to extend the benefits of this system into every rural community at practically no loss of time and at little expense. There is no reason why a national farm loan association should not be established in every rural district. The Government has placed its money and its moral support at the command of our farmers. But they must get behind this system and take advantage of it if they would reap all its benefits. The Federal farm mortgage credit system thus becomes a field of unlimited promise to American agriculture.

#### FARMERS MAY ORGANIZE AT ONCE.

Let it be plainly understood that farmers can form their preliminary organizations at once. They can have their directors chosen, as well as their president, vice president, loan committee, and secretary-treasurer. But they can not receive their charter until the loans have been approved, nor can they borrow money of the land banks until the associations are chartered by the Federal Farm Loan Board.

But, if the farmers have all the preliminary work done ahead, they can make their applications to the land bank at any time. This will help them to get their loans quicker or when the members most need them. Let 10 or more farmers in every community go ahead at once and form a national farm loan association.

Copies of this circular may be secured free by addressing the Federal Farm Loan Bureau, Treasury Department, Washington, D. C.

