The Rural Credits and Federal Reserve Laws

At the meeting of the farmers of this section held recently to discuss the state and Federal Rural Credits laws, C. S. Hudson, president of the First National Bank, of Bend, read a paper in which he discussed the two measures and also the Federal Reserve law. Mr. Hudson's paper follows:

Mr. Hudson's Paper

I assume that you are all more or less familiar with the Rural Credits laws, recently passed; also with the Federal Reserve law, but as both of these laws are of equal importance to farmers and bankers, I thought you might be interested in knowing how the same were regarded by one of your home bankers.

I regard these measures as the two greatest pieces of constructive legislation that have been passed in the United States in the last fifty years.

They effect the very heart of our agricultural and financial prosperity. The prosperity of the United States depends on the prosperity of the farmer.

The farmer and commercial interests in turn depend on the stability of our financial interests.

The failure of either rocks the boat of prosperity and frequently wrecks the same.

Federal Reserve Law.

I do not believe that it is possible to have a financial panic in the United States in the future, unless caused by protracted hard times, due to repeated crop failures.

In order to make this point clear to you it will be necessary to give you a few facts as to the Federal Reserve law and its workings.

The law was passed in 1913, and is therefore three years old. Like all new legislation it has been severely criticised by its opponents, but after three years' trial, with several amendments in the interim, it has been found, although not perfect, workable, and to have the confidence of the people and foreign nations.

The financial system of the United States has been regarded as the least efficient in the civilized world. The panics that have resulted by reason of this inefficiency have caused untold losses of money, property and lives, in the past.

The greatest loss, however, has been in the confidence in our banks. This lack of confidence has caused hundreds of millions of dollars to be withheld from circulation, which in turn has retarded development, in all lines, to the detriment of the whole nation.

How Panics Effect Banks.

I want to illustrate to you how panics effect banks, and therefore the people as a whole:

Under the old law, each bank was a separate unit, doing business independently. You farmers deposited your money with us. We loaned out a certain per centage of these deposits; retained a certain percentage in our vaults and carried the balance with our correspondent or city banks in Portland, New York, or wherever these accounts were maintained.

Under prosperous conditions we extended our loans as far as we could consistently, in order to make money for our stockholders; as long as times were prosperous and you did not want your money, this was a proper procedure.

We will assume that another panic such as we experienced in 1907 takes place. At the first sign of trouble all well-regulated banks begin to strengthen their reserves. That is, convert their deposits into cash. This is accomplished by calling in their loans, selling their securities, etc. Country banks call on their city correspondents to ship them gold or currency, to meet the demands of their depositors.

These demands come to the city banks from thousands of their country bank customers. To meet these demands they in turn must call in their loans; the result is that interest rates in the money centers advance to 10, 20, 50 and even 100 per cent. Banks that cannot collect fail, and thousands are ruined.

This was the condition three years ago, but today is a thing of the past, and I sincerely believe impossible in the future. My reason for this statement is that the National banks of the United States are now working together under the Federal Reserve law, backed up by the government.

I want to illustrate this to you briefly, and ask your earnest consideration, as it effects you vitally.

Instead of each bank working independently, trying to strengthen itself at the expense of the other, resulting in the sure downfall of the weakest, and sometimes the strongest, the National banks are now working as a unit, backed by the government of the United States and with almost unlimited resources.

We will assume, for the purpose of argument, that we have another panic such as we experienced in 1907. In order to bring the illustration home to you, we will assume that you people are doing business with the First National Bank, of Bend; that you desire the money you have on deposit with us. While we now have deposits of over $600,000, and carry nearly $300,000 of this ... [illegible] ... lies which have in our vaults and with our city correspondents; while our legal reserve is nearly 45 per cent, and we are only required by law to maintain 12 per cent; if all of you desired the $600,000 that you have on deposit, and we only had $300,000, we could not pay you.

We would have two remedies: We could ask our city correspondents to lend us the money. They could do this or not, as they saw fit. If they did not, under the Federal Reserve law we could send the notes you farmers owe us to the Federal Reserve bank for this district, located in San Francisco, California, and they would in turn send us the currency for these notes, or deposit the same to our credit in any National bank we might designate.

Should the demand for currency on the San Francisco bank be so great that they could not supply the same, they in turn would have two remedies: Under the Federal Reserve law, we have 12 districts in the United States with a branch bank located in each; governed by the Federal Reserve board, located in Washington, D. C.

The law provides that one district bank may borrow from another. It might occur that San Francisco had a large demand for money to move their fruit crop, or for other reasons; at the same time Minneapolis, or Richmond, Virginia, might have a large amount of surplus cash. If this was so, San Francisco could borrow from either of these district banks. Should a panic occur and a united demand was made throughout the United States at the same time these banks have authority under the law, and the supervision of the government of the United States, to issue currency, against the notes of you farmers, called Federal Reserve notes, which are also backed up by a reserve of 40 per cent in gold. This reserve in gold may be waived or suspended. Therefore in times of panic the Federal Reserve banks have the right to issue currency in almost unlimited amounts. This currency is put out with a tax on the same, that will cause it to be retired as soon as normal times are restored. This currency is now printed, in the hands of the different Federal Reserve banks, and ready for issuance, if required.

Every National bank must belong to the Federal Reserve system, and private or State banks may, if they submit to the same rigid rules and examinations, by the government and Federal Reserve authorities, imposed on National banks.

For these reasons, I believe that panics in the United States are a thing of the past; that the United States has a safe, sane banking law, based on similar laws in force in foreign countries for centuries.

Rural Credits Laws.

We have had printed and delivered to you a little booklet, giving in full both the State and Federal Rural Credits laws.

While, personally, I should prefer that we had only the Federal law, and gave it our full support and cooperation, both laws have their advantages and disadvantages.

While time will not permit, and I have not sufficiently studied these laws, and the different systems in force in other countries, to go into a detailed discussion of the same, there are a few points that have occurred to me to which I desire to direct your attention.

We should not expect too much from either measure too soon. I feel, however, that these laws will eventually prove of incalculable benefit to the whole nation. I think that they will prove especially beneficial to the western states.

The average rate in Oregon on farm loans is 8 per cent; rates in some of the eastern states are as low as 4 per cent. This is due to the fact that Oregon is so far removed from the capital available for farm loans. Most of this money, coming from the New England states, Scotland and other foreign countries. The distance causes the loan companies to assume, erroneously, that the risk is greater, and therefore the rate must be increased. As a matter of fact, Oregon farm loans are just as safe as any in the United States, if wisely made.

The Rural Credits laws will eliminate distance, and Oregon should receive the same rate as New York or Illinois.

It is estimated that there are 35 million dollars loaned on Oregon farms, at an average rate of 8 per cents. If the Rural Credits laws reduce this rate to 5 per cent, it will save the farmers of Oregon over a million dollars in interest annually. This saving in itself justifies the enactment and support of either of the bills.

The greatest benefit that we are to receive, however, in my judgment, is the length of time for which these loans may be procured. It is almost impossible for farmers to purchase lands in some sections of Oregon under present conditions, pay for the same under the terms of the companies disposing of them, or borrow the money at 8 per cent or 10 per cent, buy the land, clear it, make the necessary improvements, and meet the mortgage, which ordinarily matures in five years. At that time the farmer is just commencing to receive the benefit of his labor, and is confronted with the payment of the principal of the loan.

Under these conditions the farmer is reluctant to go into debt, and wisely so. There are many unscrupulous loan agents, who exact bonuses, and get unreasonable fees in connection with loans; each company has a different kind of contract, mortgage or agreement, all of which deters the ordinary farmer from taking out a loan, no matter how badly he may need the same. If he does not take out the loan through a responsible company and agent, he is constantly worrying over the fact that he has to meet the high interest, and make payment of the principal in five years.

I do not wish you to assume that I take the position that good loans at reasonable interest, by perfectly legitimate companies and agents cannot be secured, because they have aided materially in the advancement and development of Oregon, and especially this Central Oregon country, but as in all lines, there are unscrupulous agents, who reflect on the responsible ones.

Under the new laws, the farmer will deal with the state and government. Fear of not securing a square deal will be allayed, and he will receive instead of five years' time, any number of years he may select, up to 36, under the state law, and 40 under the Federal.

Amortization Plan

Under either law these loans must be paid back under what is known as the amortization plan; which provides for payment of part of the principal, in addition to the interest, each year. At the end of the period for which the farmer selected the loan, both interest and principal have been discharged.

You will note, by turning to the first page on the cover of the book on Rural Credits which you have, that we have prepared a table showing a loan of $1000, and the payments necessary to retire the same. If you borrowed $1000 for five years, you would have to pay, in addition to your interest charges of 4 to 5 per cent, $200 per year, if the loan was taken out for five years. If for 40 years, your annual installment would be $25 and interest.

You may select the time, and know definitely in advance just what your total payments will amount to annually.

Another advantage will be the large amount of new land that will be reduced to cultivation under this system, that it would have been unprofitable to reclaim under previous conditions. It is estimated that Oregon has at least 20 million acres of desirable land, that will be brought to a high state of cultivation under these laws. This means more population, more taxable property and a consequent reduction in the tax rate; better transportation facilities and better markets for our products.

One of the greatest benefits of these laws is the fact that they will to an extent classify the lands of our state. A minimum value will be placed on every farm on which the state or government makes a loan. If a loan is made of $20 per acre, it will be notice to purchasers, or the world, that the State of Oregon or government of the United States values that land at at least $40, for agricultural purposes. This will have a tendency to establish a sale price, not at that figure, but a higher figure, because either the state or government will make a conservative appraisement. A minimum value will, however, be established by a reliable authority.

Comparison of Laws

I want to say just a few words of comparison of the two laws. Under either law, the mortgages which are given by you farmers are held in trust, and Farm Loan bonds issued against the same, which are to be sold. Under the state law it is possible at this time to issue approximately 18 million dollars of these bonds, or 2 per cent of our assessed valuation. The state guarantees these bonds, and as a citizen of Oregon, you in turn are liable for their payment. Any direct liability is, probably, remote, but nevertheless exists, and is therefore objectionable.

Under the Federal law you do not assume this liability. The Federal law provides that you may borrow 50 per cent of the value of your land and, in addition thereto, 20 per cent of the value of your improvements. The state law limits you to 50 per cent of the value of the land.

A minimum sum of $100 may be borrowed under the Federal law, and a maximum sum of $10,000.

The state law provides a minimum loan of $200 and maximum loan of $5,000, with a provision, or restriction, to the effect that any loan shall not exceed $50 per acre. In case a man had five or ten acres, worth $500 per acre, with improvements thereon worth $5,000, he would be limited to a loan of $50 per acre, or $250 in one case, and $500 in the other. This seems rather objectionable, as compared with the Federal law, which places no per acre limit on the size of the loan.

Interest Rates

The state law provides for a minimum rate of 5 per cent, which may be increased, owing to the price for which the bonds sell. This rate cannot be revised or reduced. The Federal law provides that the rate charged for loans shall not exceed 1 per cent above the price at which the bonds sell. As these bonds bear 4 per cent interest, and are non-taxable it is safe to say they will sell readily at par. This would mean a rate to the farmer of 5 per cent. Should the expenses of operating the Federal Land banks be less than this difference of 1 per cent, the residue, if any, will be returned to the farmers, who are stockholders, in the shape of dividends on their stock. Under the state law, any residue reverts to the state, and is placed in what is known as an irreducible "Rural Credits Reserve Fund," and is handed down to posterity.

Remote Districts

It is argued, and probably rightly, that many people who live in remote districts, where it is not feasible or possible to form Farm Loan associations, as required under the Federal law, requiring at least $20,000 in loans before an association may be formed, will be unable to secure money under the Federal system, but can do so under that of the state. That under the state law, you will be doing business closer at home and with less delay.

Under the Federal bill, the farmers, who are borrowers, conduct the business of the organizations. Under the state bill, you will negotiate your loans through the State Land Board.

There seems to be advantage and disadvantage to both bills, and I think time alone will tell which system is the more feasible and to your advantage.

I earnestly recommend that each of you familiarize yourself with these measures and be prepared to take advantage of them at the earliest opportunity.

The more outside capital we can bring into the State of Oregon, and especially Central Oregon, where it is so badly needed for development purposes, the more prosperous we all will be; interest rates in all lines will decline.

The production of livestock will increase in quantity, due to more favorable conditions, and decrease in cost of production for the same reason. All of this will tend to make you farmers more prosperous, and you will in turn contribute to the prosperity of the country and towns.

SOPHIE SMITH DIES

Sophie Marie, the three and a half year old daughter of Mr. and Mrs. Cole E. Smith, died yesterday afternoon of pneumonia, from which she had been suffering for the past two weeks. The body was taken by the parents last night to Hartline, Washington, for burial. Except for an adopted daughter the little girl who died was her parent's only child.

FOREST SERVICE TESTS NEW SHOVEL FOR FIRE FIGHTING

Tool is Take-Down Affair—Handle is in 20-Inch Lengths—Can Be Assembled Quickly.

District Forester George H. Cecil, of Portland, is having a number of take-down shovels made locally, to be tested by fire patrolmen in different parts of the district and if found suitable to be made part of the forest service standard fire-fighting equipment. The model was made and furnished by Deputy Forest Supervisor Harris, of Tacoma, who tried it out with satisfactory results on the Rainier national forest, Washington, during the last fire season.

The model is made from a regular round point, long handle irrigating shovel. The handle is removed from the socket and cut in 20-inch lengths, which are joined by a five-inch steel ferrule when the tool is put together. The shovel blade forms a third section. Spring fasteners, like those used on automobile shovels, lock the three sections together. The tool is 51 inches long when assembled.

POTATO GROWERS MEET

A most successful meeting of the Deschutes Valley Potato Growers' Association was held at the county agriculturalist's office at Redmond on Saturday, over thirty being present. It was voted to order stenciled sacks in which to ship the product of the association, and also to procure "mugging" labels to be placed in the ends of the sacks and explain the grades and guarantee of the contents. J. L. Gibson was appointed as the representative of the association to the county agricultural council. The next pool of potatoes will be offered for sale on December 16.

SPEAKS ON BOOKS

The members of the audience that heard Miss Mary Richardson, of Spokane, speak at the council room on Friday, on the subject of "Fathers, Mothers and Books," were enthusiastic over her address. It was through books, Miss Richardson explained, that parents could find the way to civilize the young savages that children were until their early years were passed. She prescribed the best books for different ages, pointing out the ways in which they aided the mental growth of the child. To illustrate the talk, a collection of children's books was on exhibition.

ERSKINE IS CANDIDATE

Charles W. Erskine, deputy district attorney and manager of the Bend Commercial club, announces that he is a candidate for the position of calendar clerk for the coming session of the Oregon legislature. Mr. Erskine has attended three sessions of the legislature, acting in several clerical capacities. At the session two years ago he was calendar clerk.

MARTIN TO MEET MILLER

Max Martin, of Bend, has signed to meet Ernest Miller, of Sandpoint, Idaho, former lightweight champion wrestler of the United States, at the Hippodrome, in Bend, December 26, under the auspices of the Bend Athletic club.

REST ROOM PROVIDED

The sale of the Commercial club room and its occupancy as a grocery having done away with the rest room hitherto maintained in the rear, the council has granted permission for the use of the council room as a rest room.

CAR SHORTAGE FELT KEENLY BY LOCAL LUMBER COMPANIES

Shipments to Eastern Points Held Up on Account of the Scarcity of Carriers—Prospects Dark.

The most perplexing problem facing the local lumber companies at present, for the solution of which there is little immediate hope, is the shortage of freight cars. With large orders to eastern points on their books, the lumber companies are almost incapable of filling them and stock is being stored in dry sheds awaiting a betterment of the situation.

The railroad companies are able to furnish scarcely 25 per cent of the cars necessary for the local companies to fill their orders, and no definite time is given when the situation may show improvement.

As soon as the new demurrage regulation being prepared by several railroad companies is made effective, under which extra charges will be made for delay of cars more than a certain period of time, it may be that more cars generally may be available.