CHAPTER IV.

THE LOANING OF STATE FUNDS TO FARMERS IN THE UNITED STATES AND THE PHILIPPINE ISLANDS.

It is sometimes asserted that a system of state loans to farmers, no matter how successful in Europe, Canada or Australia, could never succeed in the United States. Corruption, political influence and incompetent management, it is claimed, would inevitably cause failure in spite of all the administrative safeguards it might be possible for the most intelligent legislature to devise.

Those who make this serious charge against the efficiency of American political institutions evidently do not know that at least eight of the states of the United States are at the present time authorized by law to lend money to farmers and that most of these states are using the authority so given with apparent success and that the government of the Philippine Islands has established an agricultural bank whose sole purpose is to make farm loans. The states which now lend money to farmers include Idaho, Indiana, Iowa, North Dakota, Oklahoma, Oregon, South Dakota and Utah.

It is true that the money loaned in these states is, in every case except that of Utah where other funds are also loaned, part of an irreducible school fund and that the primary purpose in loaning the money to farmers is an investment purpose. The provision of credit for farmers at a fairly low rate of interest is, however, a secondary purpose. This is shown by the comparatively low rates of interest charged in most of the states.

If these eight states and the Philippine Islands have found it possible to lend money to farmers with safety, it is natural to ask why the state of Wisconsin cannot do the same. The administrative methods used, the amount of money loaned and the terms upon which it is loaned should therefore be given careful consideration. These details, so far as it has been possible to ascertain them by correspondence and the investigation of state and government reports, are presented below.
State Loans to Farmers.

Idaho.

Authority for Loans to Farmers.

Art. IX, sec. 2 of the State Constitution, adopted in 1890, reads, as amended in 1900, as follows:

"The permanent educational funds, other than funds arising from the disposition of university lands belonging to the state, shall be loaned on first mortgage on improved farm lands within the state; or on state, United States, or school district bonds, or state warrants, under such regulations as the legislature may provide. Provided, That no loan shall be made of any amount of money exceeding one-third of the market value of the lands at the time of the loan, exclusive of buildings." ¹

Amount of Loans to Farmers.

On September 26, 1912, according to a statement received from the Idaho State Board of Land Commissioners, the state had $1,509,191.33 outstanding in loans to farmers.

Terms on Which Loans are Made.

As required by the constitutional provision quoted above, loans to farmers are made on first mortgage security on improved farm lands up to one-third the market value of the land, exclusive of buildings, as fixed by the state's appraiser. The period for which loans are made is from one to five years and the principal of the loan is payable only at maturity. Prior to 1912 the amount of money loaned to one person was not limited and apparently loans of considerable size were made as the state board of land commissioners in taking up this question state that the amount loaned "in no case of record exceeded $25,000." Since January 1, 1912, however, the amount of loans which may be made to any one person has been limited to $5,000.

Until January 1, 1912, the rate of interest charged, except in the case of a few early loans made at five per cent, was six per cent per year. On that date, however, the rate was increased to seven per cent. Interest is payable semi-annually on the first day of January and the first day of July.

¹ The constitutional amendment of 1900 merely added the authority to invest the funds in school district bonds and state warrants.

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Administration.

The farm loan business of the state of Idaho is administered by the state board of land commissioners, which consists of the governor, the attorney-general, the secretary of state, the state auditor and the superintendent of public instruction. Appraisals of properties offered as security for loans are made by officers known as "state land appraisers" who are appointed for the purpose. All abstracts of title are examined and passed upon by the attorney-general of the state.

Success of the System.

The educational funds of the state of Idaho have been loaned to farmers for about twenty-two years. During this period, to again quote the state board of land commissioners, "very few foreclosures have been made, possibly not over six altogether" and "in no instance where foreclosure of mortgages have been made necessary is any loss reported."

Until 1911 the state board of land commissioners had been able to grant all satisfactory applications for farm loans, but during the past year the applications received have been far in excess of those which the funds available make it possible to grant. The extent of the business now being done by the board is shown by the fact that $1,008,600.33 of the $1,794,848.67 which has been loaned to farmers in the past ten years has been loaned since January 1, 1911.

The rate of interest now charged, as stated above, is 7 per cent. This rate, however, is not high for Idaho as the rates charged for the best farm loans obtainable from private money-lenders are said to range from 8 to 10 per cent.

Indiana.

Authority for Loans to Farmers.

Art. 8, sec. 185 of the State Constitution, adopted in 1851, provides that "The general assembly shall invest in some safe and profitable manner all such portions of the common school fund as have not heretofore been intrusted to the several counties and shall make provision by law for the distribution among the several counties of the interest thereof."
Art. 8, sec. 187 of the Constitution provides that "the several counties shall be held liable for the preservation of so much of the said fund as may be intrusted to them, and for the payment of the interest thereon."

Under the constitutional authority quoted the common school fund of the state of Indiana seems to have been at the disposal of the county authorities, when distributed to them, for investment in real estate mortgages and other securities ever since the year 1859 and possibly since an earlier date.

The existing laws provide that the common school fund shall be distributed among the counties of the state in proportion to their school population and that it shall be loaned by the counties to individuals on mortgage security, the counties being held responsible to the state for both principal and interest of the money distributed to them.

Amount of Loans to Farmers.

It is impossible to state how much of the common school fund is loaned to farmers and how much to owners of other real estate. The laws of Indiana do not discriminate in favor of farm loans but merely provide that loans may be made on real estate security. The "school fund interest" received during the fiscal year ending Sept. 30, 1911, is reported by the Auditor of State in his report for that year to have amounted to $526,986.

Terms on which Loans are Made.

Loans are made only upon first mortgage security. If the security is located within the borders of the county making the loan, the amount of the loan may equal one-half of the appraised value of the premises mortgaged. If the security is located elsewhere, the amount of the loan must not exceed 40 per cent of the appraised value of the premises mortgaged. In either case the loan is limited to $4,000.

The rate of interest charged is 6 per cent payable annually at the end of each year from the date of the loan. The maximum term of a loan is five years. A borrower may repay any part which is not less than 10 per cent of his loan at the end of any year during the term of the loan and he will not thereafter be required to pay interest on the part paid.
Administration.

Loans are made by the county auditor. The law provides that this official "shall inform himself of the value of the real estate offered in the mortgage and be satisfied of the validity of the title thereof; and all persons applying for a loan shall produce to said auditor title papers, showing, to his satisfaction, a good and sufficient title in fee simple, without incumbrance not derived from sale for taxes." The law further provides that "the auditor shall require three disinterested freeholders of the neighborhood to appraise any land offered in mortgage."

The county auditor is required to give preference in granting applications for loans to inhabitants of the county of which he is an officer, but if any of the school fund remains in the treasury for a period of three months without being loaned to an inhabitant of the county, the auditor may loan the money to any freeholder of any other county in Indiana upon compliance with the requirements of the laws governing the granting of loans from the school fund.

In addition to granting loans from the school fund it is also the duty of the county auditor to enforce, when necessary, the collection of the payments of principal and interest by foreclosure on the mortgaged security.

Success of the System.

No critical discussions of the success of the Indiana plan for the investment of the common school fund are available to the writer. Inasmuch, however, as the counties are responsible to the state for the maintenance intact of those portions of the fund entrusted to them and as the laws governing the investment of the funds are improved from time to time, it would seem that the system must be generally successful. Otherwise it would be expected that the taxpayers of the counties would secure the repeal of the laws authorizing the continuance of the system.

IOWA.

Authority for Loans to Farmers.

Art. IX, part 2, sec. 1 of the Constitution of Iowa, adopted in 1857, provides that "The educational and school funds and
lands shall be under the control and management of the general assembly of this state." With this authority the legislature has enacted laws which permit the loan of money to farmers and other owners of real estate from the permanent school fund through the agency of county officers in the manner described below.

Amount of Loans to Farmers.

It is impossible to state the exact amount of money which is loaned to farmers in Iowa from the school fund. Loans are made on real estate security both city and farm and the records are not classified to show the amounts loaned on the different classes of security. It is known, however, that on June 30, 1910, the aggregate amount of all outstanding loans on mortgage security of all kinds was $4,595,731.19.

Terms on which Loans are made.

Loans are made only upon first mortgage security and are limited in amount to one-half the value of the land taken as security exclusive of buildings. The rate of interest exacted by the state from the counties making the loans is 4½ per cent. The counties are allowed by law to charge not less than 5 per cent, and they usually receive rates varying from 5 to 6 per cent. No provisions as to the length of time a loan may run are found in the laws governing the investment of the school fund, except a provision which permits the county officers to renew loans without requiring either a new mortgage, if the security remains unchanged, or a new abstract of title, other than a continuance to date of the abstract given with the application for the first loan.

Administration.

Loans to farmers are not made directly by the state, but by county officers. The state places the permanent school fund of the state in the hands of county auditors and county boards of supervisors and authorizes them to loan the money to farmers on mortgage security. The counties are held responsible to the state for losses incurred through the corruption or incompetence of county officers. Sec. 2848 of the code provides in part:
Each county shall be liable for all losses upon loans of the school fund, principal or interest, made in such county unless the loss was not occasioned by reason of any default of its officers or by taking insufficient or imperfect securities, or from a failure to bid at an execution sale the full amount of the judgment and costs. All claims for exemption from liability on account of losses shall be examined into and adjusted by the state auditor, upon proof submitted to him in writing in behalf of the county within three months after the county auditor shall be advised by the state auditor of his willingness to receive the proof. In the absence of evidence, or if that submitted is insufficient, the loss may be charged against the county and be conclusive, but if found sufficient, the state auditor shall present the facts in his report to the next general assembly."

Success of the System.

The permanent school fund of Iowa has been loaned on farm mortgages and mortgages on other real estate for about sixty-five years. Until about 1860 the experience with the system in use is said to have been very unsatisfactory. This was due to the fact that the laws in force provided that loans should be made by the state superintendent of education, but failed to provide this official with the administrative machinery necessary to accurately ascertain the value of the securities taken. The securities required at the time referred to were both real estate and personal, as it was felt that farm land alone was poor security.

As a result of the inability of the state superintendent of education to properly examine the securities accepted for loans, the school fund by the year 1860 had sustained losses amounting in all to about $50,000. Accordingly, the laws governing the administration of the fund were repealed or amended about this time and the fund was placed in the hands of county auditors and boards of supervisors, to be loaned upon first mortgage security on real estate, as under the laws at present in force. This system, Mr. John L. Bleakly, state auditor of Iowa, informs the writer, has proven quite satisfactory. It is impossible, Mr. Bleakly says, to state exactly how much money, if any, the counties have lost in the long run in foreclosures upon securities accepted for loans. The counties are held responsible

*Revenue Laws of the State of Iowa, 1911. P. 415.
for the principal and interest of all money from the school fund handled by them and are not required to submit reports to the state auditor of the details of the loans made under their direction. Very little money, however, Mr. Bleakly states, has been lost by the counties in foreclosures, and such losses as have occurred have been due to "neglect in approving securities and lack of proper attention given to this fund by county officers."

Evidently the system has not, on the whole, worked badly, but the reason assigned by the state auditor for such losses as have occurred indicates a weakness in the system. The experience of all countries and states which have loaned funds on real estate security seems to demonstrate conclusively the truth of the contention that the loans should be placed by officers devoting all or at least the greater part of their time to the work of administering the system of loans. This conclusion is especially important in the consideration of plans under which the state would not merely loan its school fund or other trust funds for purposes of investment, but would actually borrow funds by the sale of state bonds, as is done in New Zealand, Australia, and the Canadian provinces named, for the purpose of lending money to farmers to promote land settlement and farm ownership.

The rate of interest charged by the counties in Iowa on the farm loans placed by them is "at all times," Mr. Bleakly reports, "a little in advance of the rates usually charged by private money lenders for similar loans." Yet the state auditor is not able to grant all the applications for loans accepted by the county authorities—a fact which indicates the popularity of the state or the county as a money-lender.

NORTH DAKOTA.

Authority for Loans to Farmers.

Art. 9, sec. 162 of the Constitution of North Dakota adopted in 1889 provided:

"The moneys of the permanent school fund and other educational funds shall be invested only in bonds of school corporations within the state, bonds of the United States, bonds of the state of North Dakota, or in first mortgages on farm lands in the State, not exceeding in amount one-third of the actual value of any subdivision on which the
same may be loaned, such value to be determined by the board of appraisers of school lands."

In addition to the constitutional provision quoted the statutes provide in detail for the investment of the school funds. Sec. 155 of c. 4 of the Political Code as amended in 1909, reads in part as follows:

"• • • at least one-third of the whole amount of the several permanent funds aforesaid, as computed by the commissioner of university and school lands at the end of each fiscal year, shall be invested in first mortgages on cultivated farm lands in this state, if there is a sufficient demand for investment in such loans • • •".

Amount of Loans to Farmers.

Although North Dakota has had authority to make loans to farmers ever since it became a state in 1889, it is only within the past few years that the school funds have been sufficient to permit the making of such loans in any amount. Most of the loans now outstanding in fact have been made since 1907.

On June 1, 1912, the state held 1,069 farm mortgages as security for loans aggregating $1,680,012.25. Of these loans 983, amounting to $1,646,462.85, had been granted since ch. 224 of the session laws of 1907 became effective. This law reduced the rate of interest from 6 per cent to 5 per cent.

Terms on which Loans are made.

Sec. 155 of the Political Code, as amended in 1909, provides in effect that the following conditions shall govern farm loans made by the state:

1. The loans shall be made only on first mortgages.
2. The term of the mortgage shall not exceed twelve years.
3. Interest shall be paid at the rate of 5 per cent.
4. The principal of the loan and the interest shall be repaid to the state in the following manner:
   (a) For the first five years interest only shall be paid annually.
   (b) Commencing with the sixth year the borrower shall have the privilege of paying installments of the prin-

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*This section was later amended but no change was made with reference to the investment of money in farm mortgages.
principal in addition to the annual interest in amounts equal to 10 per cent or multiples of 10 per cent of the principal.

(c) After three years the borrower may repay the loan in full on any interest date, provided that if he repay the loan before it is due, he shall pay an additional six months' interest on the principal for the privilege.

5. Loans shall be made only upon cultivated lands within the state to persons who are actual residents of the state.

6. No loan shall exceed in amount one-third of the value of the subdivision of land on which the loan is made as determined by the board of appraisal of school lands.

7. No loans shall be made upon lands of which the appraised value is less than 10 dollars per acre.

8. No loan of more than $5,000 shall be made to any person, firm or corporation.

Administration.

The loans are made by the state land department through its mortgage and bond division. All applicants for loans are required to make a sworn statement as to debts owed on mortgage security, the location, character, assessed and market valuation of their land, the kind and condition of crops growing upon it, the character of improvements made, and the value of buildings. In addition to this statement the applicant is required to file a report on his land made by the county board of appraisers. This report contains statements as to the accuracy of the statements made by the applicant, the estimated actual value (1) of the land exclusive of buildings and (2) of the buildings alone and individually. This report must be sworn to by the board, which consists of the county auditor, the county superintendent of schools, and the chairman of the county board of supervisors.

Applications for loans are listed as received and are considered in the order in which they appear upon the list.

Success of the System.

In a letter written August 1, 1912, Mr. W. E. Sellens, the officer in charge of the mortgage and bond division of the state land department, describes the success of the system in the following language:
"There has been one mortgage foreclosure, and the land was sold afterwards on contract at a profit to the state. The state has never lost a cent by such investments, and this system has in all probability had some effect in reducing the rate of interest as charged by private money-lenders. It is hard to determine as to this, however. There are no changes in the system contemplated.

"* * * The worst difficulty that we have to contend with is the handling and investing of these funds in an impartial manner. Last spring about $320,000 was loaned to the farmers, and our correspondence at that time indicated that we could have loaned perhaps $1,000,000 if it had been on hand, and it is rather difficult to place these loans in a way that those who are not successful in getting a loan will not feel aggrieved and think that others have been especially favored. Since that time I have adopted a system of placing the names of those who indicate a desire for a loan on a list and take care of them in the order in which they appear on the list, and I believe that this system will be successful and satisfactory."

**Future of the System.**

Mr. Sellens states that when the school lands are all sold the state will have a school fund in excess of $50,000,000 and that probably $18,000,000 or $20,000,000 of this amount will be available within the next ten or twelve years. At least one-third of this amount, according to law as stated above, must be loaned to farmers on farm mortgages. This means that the state of North Dakota will eventually have a fund of nearly $17,000,000 to loan to farmers, and that it will have from $6,000,000 to $7,000,000 of this amount in hand in the next decade.

**OKLAHOMA.**

**Authority for Loans to Farmers.**

Art. XI, sec. 6, of the Constitution of Oklahoma, adopted in 1907, provides:

"The permanent common school and other educational funds shall be invested in first mortgages upon good and improved farm lands within the state (and in no case shall more than 50 per centum of the reasonable valuation of the lands without improvements be loaned on any tract), Oklahoma state bonds, county bonds of the counties of Oklahoma, school district bonds of the school districts of Oklahoma, United States bonds; preference to be given to the securities in the order named."
"The legislature shall provide the manner of selecting the securities aforesaid, prescribe the rules, regulations, restrictions and conditions upon which the funds aforesaid shall be loaned or invested, and do all things necessary for the safety of the funds and permanency of the investment."

Amount of Loans to Farmers.

On August 2, 1912, the aggregate amount of loans made to farmers by the commissioners of the state land office since Oklahoma became a state in 1907, was $4,079,225.00. The total number of loans was 3,440.

Terms on which Loans are Made.

Loans are made for terms of five years at an interest rate of 5 per cent. As provided by the constitution the amount of a loan is limited to half the reasonable market value of the land offered as security exclusive of the value of improvements.

Administration.

The loans are made by the commissioners of the state land office through the farm loan division of the office. Applicants are required to make a detailed statement as to the security offered by them and titles to the land offered as security are required to be in perfect condition.

Success of the System.

In a letter dated August 2, 1912, the commissioners of the land office report that they have never had to foreclose a single mortgage held by the state. In the same letter they state that no changes in the present system of making loans are contemplated, although it is thought that it might be advisable to lengthen the term of loans from five to ten years. The purpose of the suggested change is to save the expense of renewing a mortgage if the borrower desires to keep his loan for a longer term than the statutory five years.
Oregon.

Authority for Loans to Farmers.

Art. VIII, sec. 5 of the Constitution of Oregon, adopted in 1857, provides:

"The governor, secretary of state, and state treasurer shall constitute a board of commissioners for the sale of school and university lands, and for the investment of the funds arising therefrom, and their powers and duties shall be such as may be prescribed by law."

Under this broad power the state has maintained a system of state loans to farmers since the year 1864.

Amount of Loans to Farmers.

On October 1, 1910, the state held mortgages on farm lands to the amount of $5,078,144.95. Later figures are not available. Since 1887 the state has made about 10,000 loans to farmers.

Terms on which Loans are Made.

Loans are made to an amount not exceeding one-third the value of the land offered as security, exclusive of improvements. The rate of interest charged has been 6 per cent since 1899. Previous to that year the rate was 10 per cent from 1864 to 1891 and 8 per cent from 1891 to 1899. Not less than $250 nor more than $5,000 may be loaned to any one person.

Administration.

Loans are made under the direction of the state land board. This board appoints an attorney in each county whose duty it is to examine abstracts of title and appraise property offered as security for loans. The attorney fees are one per cent of the amount of the loan with a minimum fixed at $10.00.

Success of the System.

It is impossible to speak very definitely of the success of the Oregon system of state loans to farmers without further investigation than the writer has been able to make. From an exam-
ination of the reports of the state land board published biennially beginning with 1904, it would appear that since that date the state has lost some money so far as payments of interest by borrowers are concerned, but that it has in the long run suffered no losses to the principal of the school fund. Data compiled from the reports of the board for the period beginning January 1, 1900, and ending September 30, 1910, show that the state sold during this period 119 farms which it had acquired at various times “through foreclosure or by deed from the mortgagors”; and that the aggregate of the prices obtained for these farms was $597,462.57, as compared with $480,393.00 the sum of the principals of the loans secured by the farms, and $709,533.80, the cost to the state of the loans, including interest to the date of foreclosure. The state, therefore, got back all of the principal of the loans made plus $117,069.57 of the $229,140.80 interest and expense involved.

The total number of foreclosures conducted by the state in the forty-eight years it has been loaning money on farm mortgages cannot be accurately stated. Mr. G. G. Brown, Clerk of the Oregon state land board, however, expresses the opinion in a letter dated July 18, 1912, that “the number of cases in which the state has been forced to foreclose * * * does not exceed 500,” which is only 5 per cent of the 10,000 loans made by the state since the year 1887.

In the cases in which the state has sold property held as security for less than the face of the mortgage, Mr. Brown attributes the loss to stringencies in the money market, such as the stringency which obtained during the years 1893 to 1896, and to errors in judgment on the part of the attorneys who represent the state land board in the several counties.

The situation in Oregon, even if not serious, reveals the necessity of a careful observance of two principles which are fundamental to a successful system of state loans to farmers. In the first place, the appraisal of the land offered as security for loans must be so carefully made that errors in appraisal will lie on the side of conservativeness rather than on the side of exaggeration. Probably the best way to secure such a careful and conservative valuation in Wisconsin would be to rely on the local tax officers and the state tax commission to check up the valuations set by applicants for loans in their applications to the state department in charge of the loan system.
In the second place, the possibility of financial stringencies should be foreseen and provision should be made for the creation of a reserve fund sufficiently large to tide over an emergency. This is absolutely necessary if the state issues bonds to secure funds for the system of loans. Otherwise, the only alternative is a recourse to general taxation, and it should be a cardinal principle in a system of state loans to farmers in a democratic country that the system shall be self-supporting and not a system of state subsidies. The function of such a system is not to extend charity, but to help the individual to help himself and thereby to promote the general welfare.

**SOUTH DAKOTA.**

*Authority for Loans to Farmers.*

Art. VIII, sec. 2 of the Constitution of South Dakota provided for the investment of the permanent school funds in first mortgages upon farm lands among other securities. This provision, as amended in 1904 to include municipal bonds among the list of permitted investments, reads as follows:

"**Article VIII. Section 2.** The moneys of the permanent school and other educational funds shall be invested only in first mortgages upon good improved farm lands within this state, as hereinafter provided, or in bonds of school corporations within this state, or in bonds of the United States or of the state of South Dakota, or of any organized county, township or incorporated city in said state. The legislature shall provide by law the method of determining the amount of said funds, which shall be invested from time to time in such classes of securities, respectively, taking care to secure continuous investments as far as possible."

*Amount of Loans to Farmers.*

Under date of September 30, 1912, the commissioner of school and public lands of South Dakota, states that the loans on farm mortgages from the school fund now in force in the state number about 7,000 and amount to an aggregate sum of $6,216,405.61.
Terms on which Loans are Made.

Art. VIII, sec. 2 of the Constitution, as amended in 1904, provides:

"The amount of each loan shall not exceed one-third of the actual value of the lands covered by the mortgage given to secure the same, such value to be determined by the board of county commissioners of the county in which the land is situated, and in no case shall more than five thousand dollars ($5,000) be loaned to any one person, firm or corporation, and the rate of interest shall not be less than five per cent per annum, and shall be such other and higher rate as the legislature may provide and shall be payable semi-annually on the first day of January and July. The legislature may provide by general law that counties may retain from interest collected in excess of five per centum per annum upon all said funds intrusted to them not to exceed one per centum per annum."

Most counties, the commissioner of school and public lands reports, do not take advantage of the law permitting them to exact an interest charge in excess of that prescribed by the state, but make their loans at 5 per cent.

Administration.

As indicated in the constitutional provisions cited, the administration of the funds invested in farm mortgages is divided between the state and the counties. Other constitutional provisions require the funds designated for investment in farm mortgages and public bonds to be divided among the counties as nearly as may be in proportion to their population. The counties are then held responsible for the principal and interest of all sums loaned to them and must make good any losses from their moneys received as general revenue. Each county is required to render an account of the funds intrusted to it semi-annually to the auditor of state and at the same time to pay to or account for to the state treasurer the interest due on all funds intrusted to it.

Applications for loans are received by the state commissioner of school and public lands from the county auditor of the county in which the applicant lives. The state's attorney and county auditor pass on the statements of applicants for loans and on the security offered and the board of county commissioners decide whether applications shall be allowed.
Success of the System.

In the twenty years during which the state of South Dakota has loaned money from its school fund to farmers in the manner described, it has been necessary for county officers, by whom all foreclosures are made, to foreclose in only one instance. In this case the property taken on foreclosure netted the county more than the amount of the loan.

The rate of interest usually charged by the counties is, as stated above, 5 per cent. This rate, generally speaking, is somewhat lower than the rates charged for similar loans by private money lenders. The popularity of the system among farmers is evidenced by the fact that the state commissioner of school and public lands had on file in his office on September 30, 1912, applications for loans aggregating nearly $1,000,000 which could not be filled because all available funds were already loaned.

UTAH.

Authority for Loans to Farmers.

When Utah became a state in 1896 it received from the federal government certain lands within the borders of the state which were granted to the state in the federal act of 1894. The funds derived from the sale of these lands and the sale of lands granted by congress in 1855 for the support of the University of Utah are known as the "land grant funds." They include moneys held in trust for the maintenance of the state agricultural college, the deaf and dumb asylum, the institution for the blind, the miners' hospital, the normal schools, public buildings, the reform school, reservoirs (for irrigation purposes), the common schools and the school of mines and, as indicated, the state university.

The constitution of the state, adopted in 1895, provides that the land grant funds "shall constitute permanent funds, to be safely invested and held by the state. * * *" (Art. X, sec. 5).

Under this authority legislation has been enacted permitting the investment of the land grant funds in farm mortgages among other securities. The law, as stated in the Compiled Laws of the State of Utah 1907 (sec. 2357), reads as follows:
"The board [that is, the state board of land commissioners] shall make the necessary orders for the investment or disposal of the funds, derived from the sale and rental of public lands of the state, in the state treasury. Such funds shall be invested * * * in government, state, county, city or school district bonds, or in scrip or warrants issued against the funds to be raised by special or local taxes or assessment * * * or notes of the state * * * or in first mortgages on improved farms, within the state * * * but no loan secured by mortgage on such improved farms shall exceed two-thirds of the assessed value of the same, exclusive of the improvements, and said farm loans shall be preferred. * * * The annual interest on all farm loans herein provided for shall be six per cent; provided that the expense of investigation of titles and values shall be paid by the intending borrower."

Amount of Loans to Farmers.

In a letter dated October 14, 1912, the Utah state board of land commissioners states that 903 loans have been made by the board on first mortgages on improved farm lands and that the aggregate amount of these loans is $1,089,174.47. Of this amount the sum of $387,239.97 has been repaid to the state.

Terms on which Loans are Made.

As prescribed in the statute quoted above, farm loans are made only on first mortgage security on improved farm lands to an amount not exceeding two-thirds of the assessed value of the land, exclusive of improvements. The rate of interest charged is 6 per cent per year, payable semi-annually.

Administration.

Applications for loans are received and granted or refused by the state board of land commissioners. This board consists of five members. One of these is elected secretary and placed in charge of the office of the board at Salt Lake City, while each of the four remaining members is assigned a district of the state in which to perform the administrative duties of the board. Part of these duties consist in the examination and appraisal of farm lands offered as security for farm loans.

Every applicant for a loan is required to fill out a blank application stating carefully, among other things, the location of
the land offered as security, the nature of the improvements effected upon it; the amount of crops raised in the previous season, the cash value of the land and buildings, the price paid for the property, the value of the property as assessed for taxation, the existing indebtedness on the property, if any, the amount of fire insurance on the buildings and the rights of the owner with reference to water for irrigation purposes.

Success of the System.

In the letter previously referred to, the board of land commissioners describes the success of their system of farm mortgage investments as follows:

"During the fifteen years in which the state has made loans of this character, there have been only two cases of foreclosure, one on August 15, 1910, for $1,000.00, and one being conducted at the present [October 14, 1912] for $2,000.00.

"Foreclosure on August 15, 1910, netted the state $1,000.00 principal and accumulated interest at the rate of six per cent, so that no money was lost on the transaction."

The rate of interest charged for state loans—6 per cent—is considerably lower than the rates exacted by private money-lenders. The state board of land commissioners informs the writer that information obtained from loan and trust companies particularly engaged in the business of making farm loans shows that the rates of interest prevailing in Salt Lake City range from 7 to 10 per cent.

Philippine Islands.

History.

The system of state loans to farmers now to be described, unlike those previously discussed in this chapter, is maintained not for investment purposes but solely for the purpose of promoting agricultural development and healthful conditions of country life.

The system was established by an act of the Philippine legislature, passed June 18, 1908, creating an institution called the "Agricultural Bank of the Philippine Government" to be managed and financed directly by that government. The passage
of the act of 1908 followed a vain attempt to induce private capital to set up an agricultural bank under the terms of an act passed by the congress of the United States on March 4, 1907. This act authorized the Philippine government to guarantee for twenty-five years a yearly income not exceeding 4 per cent upon the cash capital actually invested in an agricultural bank managed by private enterprise for the purpose of making loans to farmers on certain specified conditions. The need for a system of agricultural credit was urgent—farmers reported that they were compelled to pay from 10 to 40 per cent or more per year for borrowed money and that they were usually also required to sell their products to the lender at prices fixed by him. The Philippine legislature therefore determined at its first session, held in 1908, to itself establish a bank to be operated directly by the government. Accordingly, after the receipt of advice from the attorney-general of the United States that such action would be legal, the legislature enacted the law which created the Agricultural Bank of the Philippine Government.

Administration.

The law provides that the bank shall be managed by a board of directors composed of the secretary of finance and justice, the insular treasurer, and three other residents of the Philippine Islands, who must be citizens either of the Islands or the United States, appointed by the governor-general by and with the advice and consent of the Philippine commission. The secretary of finance and justice is ex officio president of the board of directors and the insular treasurer is ex officio manager of the bank.

The insular treasurer as manager of the bank is authorized to require, with the approval of the governor-general, any provincial or municipal treasurer to act as local agent of the bank in the performance of such duties as the insular treasurer may require of him.

The attorney-general of the islands is made the legal adviser of the bank and is required to render such legal services as may be requested by the board of directors or the manager.

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2 Sixth Annual Report of the Philippine Commission, part 1, p. 75.
Funds.

The act establishing the Agricultural Bank provides for the appropriation of 1,000,000 pesos, or $500,000 from the general funds of the insular treasury to be used as the capital of the bank. The act also authorizes the bank to receive "deposits of funds of provinces, municipalities, the Postal Savings Bank, societies, corporations, and private persons," and to pay interest on such deposits at a rate not exceeding 4 per cent per annum. Some provision similar to the latter might well be incorporated in any measure which may be proposed for use in Wisconsin.

**Purposes for which Loans may be Made.**

As provided in an amending act passed by the Philippine legislature in 1909 the bank may make loans

"* * * only for the payment or satisfaction of incumbrances on agricultural lands, for the construction, repair, or maintenance of drainage and irrigation works, for the purchase of fertilizers, agricultural seeds, machinery, implements, or animals to be used exclusively by the borrower for agricultural purposes, to aid in the purchase of agricultural land, to clear land and bring it under immediate cultivation, to pay for labor employed in agricultural work, and to pay any other expenses connected with planting, raising, cultivating, harvesting, or caring for any kind of farm crop or agricultural produce, or preparing the same for market; and no loan shall be made to any person, or corporation not engaged in agriculture."

**Amount of Loans.**

In accordance with an amending act passed in 1911 loans may now be made to an amount not exceeding 60 per cent of the value of the security which may consist of either—

(a) "A first mortgage on unimproved, improved urban property or upon unimproved agricultural land"; or
(b) "A chattel mortgage to the bank on crops already harvested, gathered, and stored".

The amount of a loan is further limited by a provision which prohibits the loan to any person of less than 50 pesos ($25) or more than 25,000 pesos ($12,500). The law also provides that 50 per cent of the capital of the bank shall be set apart for the making of loans of not more than 5,000 pesos ($2,500) to any one person.
State Loans to Farmers.

Repayment of Loans.

All loans are repayable in such time, not exceeding ten years, and in such installments as the board of directors may determine in each individual case.

The law provides that the rate of interest shall not exceed 10 per cent. The board of directors at first fixed 10 per cent as the rate to be charged for all loans, but on October 1, 1911, reduced the rate to 8 per cent in the case of loans guaranteed by property registered under the land registration act.

Success of the Agricultural Bank.

It was expected that the establishment of the Agricultural Bank would greatly improve the position of the Filipino farmer. This expectation has not been realized. The operations of the bank seem to have been thoroughly successful so far as the bank has been able to go, but the bank has not been able to go very far. The law provides—and wisely—that all property accepted as security for a loan must be property for which the borrower can show a valid title. But real estate titles in many parts of the Philippine Islands are so uncertain that farmers who would otherwise become borrowers of the bank cannot do so because they cannot establish the fact of their ownership of the land which they offer as security. During the first nine months operation of the bank—that is during the period from October 1, 1908 to June 30, 1909,—the board of directors of the bank were forced to reject 196 of the 417 applications for loans because of defective title to the security offered. The failure of the bank to more effectively meet the conditions which it was created to remedy seems indeed to be “due primarily to the lack of titles to the greater part of the agricultural lands” of the islands, as stated by the manager of the bank in his report for the fiscal year 1910.

However, in spite of the general lack of titles to farm property, the bank seems to have been able to accomplish something towards the improvement of farm credit conditions. “One of

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the good results already accomplished,” says the minister of finance and justice as manager of the bank in the report just quoted, “consists of the decrease of usury in the provinces.” In this connection it should be said that the rates of 8 and 10 percent charged by the bank for its loans are low rates for farm loans in the Philippines.

As a self-supporting institution the bank seems to have been reasonably successful. In his report for the fiscal year ending June 30, 1911—which is the last report to which the writer has access—the manager of the bank states that the profits of the bank since its organization amounted to 62,952.36 pesos, or $31,476.18.

The numbers of applications received for loans and the number and amount of the loans granted from the opening of the bank to June 30, 1911, are shown in the following table:

<table>
<thead>
<tr>
<th>Year</th>
<th>Number of applications for loans</th>
<th>Number of loans granted</th>
<th>Amount of loans granted</th>
<th>Pesos</th>
<th>Dollars</th>
</tr>
</thead>
<tbody>
<tr>
<td>Oct. 1, 1908–June 30, 1909</td>
<td>417</td>
<td>23</td>
<td>55,450</td>
<td>$27,725</td>
<td></td>
</tr>
<tr>
<td>June 30, 1909–June 30, 1910</td>
<td>148</td>
<td>89</td>
<td>229,000</td>
<td>114,500</td>
<td></td>
</tr>
<tr>
<td>June 30, 1910–June 30, 1911</td>
<td>123</td>
<td>61</td>
<td>250,450</td>
<td>115,225</td>
<td></td>
</tr>
<tr>
<td>Totals</td>
<td>688</td>
<td>173</td>
<td>514,900</td>
<td>$257,450</td>
<td></td>
</tr>
</tbody>
</table>

Of the 173 loans made, 12 loans amounting to a total of 39,281 pesos or $19,640.50 had been repaid by June 30, 1911. So far as can be learned it had been necessary up to that time to resort to foreclosure proceedings in only five cases.


*Data compiled from the reports of the secretary of finance and justice in the reports of the Philippine commission for the years given in the table.