CHAPTER VIII.

CONCLUSIONS TO BE DRAWN FROM EXPERIENCE WITH STATE LOANS TO FARMERS.

It is impossible to read the history of state loans to farmers in New Zealand and Australia, involving as it does the loan of more than $90,000,000 on farm mortgage security, without being forced to the conclusion that a system of state loans to farmers can be successfully managed even under a democratic form of government. It is equally impossible to read the history of the loan of state funds to farmers in this country without being compelled to acknowledge that it is possible to successfully operate a system of state loans to farmers even in the United States.

It is true that New York, New Jersey and our own state have had unfavorable experience with their attempts to derive profit from the investment of trust funds in real estate mortgage securities. This experience, however, seems to have been due to crudely drafted laws and lax, incompetent, and in the case of New York and Wisconsin, corrupt administration of the laws. It is no more indicative of a probability that a system of state loans to farmers would fail in Wisconsin than is the ruin of a bank by poor management or by a defaulting cashier indicative of the probability that for similar reasons all banks will fail. As has been shown in the preceding chapters, most of the states which have loaned money to farmers in the United States report that they have done so without losses to the funds from which the loans were made. There is no reason to doubt that the state of Wisconsin could manage a system of state loans to farmers as successfully as any state in the United States.

The essentials of a successful and equitable system of state loans to farmers, as demonstrated by the experience of New Zealand, Australia, the eight American states which now permit the investment of school funds in farm mortgages and the three states which have abandoned this policy, may be summarized as follows:

1. The system should be self-sustaining. It should receive no support from general taxation except at its initiation and at times of widespread calamity and the support given in such cases should be returned to the general funds of the state with interest as soon as possible.

2. The system should be managed by competent men giving their entire attention to this work alone or to this and other work closely allied to it.

3. Loans should be made only for specified purposes such as the purchase of land, the making of necessary improvements and the discharge of existing mortgage indebtedness.

4. Ample real estate security should be exacted for all loans, in addition to the security offered by the character of the applicant for a loan. Loans should be limited in amount to half, three-fifths or two-thirds of the market value of the land, exclusive of buildings, but the value of permanent improvements, such as the removal of stumps, to be made with the aid of a loan should be considered in determining the value of the land as security. If necessary to insure proper use of the loan, the loan should be paid in "progress payments," that is, in installments as the improvements to be made reach certain specified stages of completion.

5. The aggregate amount of loans to be made to any individual should be limited to, say, from $5,000 to $10,000, and preference should be given to applications for loans of smaller amounts.

6. Loans should run for twenty, thirty or forty years, and should be repayable, principal and interest, in equal annual or semi-annual installments. Borrowers should, however, be given the "on or before" privilege, that is, they should be permitted to pay a larger installment at any time than that required by the terms of the loan.

7. Funds for an ideal system of state loans should be obtained by the sale of state bonds and borrowers should be charged a rate of interest just high enough to discharge the interest on these bonds, pay the costs of administering the system of loans and create a reserve sufficient to cover probable losses. Provision should be made by law, where necessary, to permit the investment of the state trust funds, such as some of the university and school funds and the state life fund in Wisconsin, in these bonds.

The foregoing seem to the writer to be fundamental principles to be observed in the formulation of any plan for a general system of state loans to farmers. Additions will of course have to be made to this framework in order to adjust any system of state loans which may be proposed to the local conditions which it is desired to meet.