

**RURAL CREDIT AND MULTIPLE
INSURANCE: HEARINGS BEFORE THE
SUBCOMMITTEE OF THE COMMITTEE ON
BANKING AND CURRENCY OF THE
HOUSE OF REPRESENTATIVES ON H. R.
7879. AUGUST 11, 15, 16, AND 18, 1921**

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BEFORE THE

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COMMITTEE ON BANKING AND CURRENCY
OF THE HOUSE OF REPRESENTATIVES

ON

H. R. 7879

AUGUST 11, 15, 16, AND 18, 1921

STATEMENTS OF

MR. R. C. MELLIKEN, Monetary Statist, The National Society
of Record Associations, Washington, D. C.

DR. W. J. SPILLMAN, Associate Editor, The Farm Journal,
Washington, D. C.



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HOUSE OF REPRESENTATIVES,

SIXTY-SEVENTH CONGRESS, FIRST SESSION.

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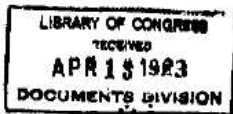
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SUBCOMMITTEE ON H. R. 7879.

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RURAL CREDIT AND MULTIPLE INSURANCE.

SUBCOMMITTEE ON BANKING AND CURRENCY,
HOUSE OF REPRESENTATIVES,
Thursday, August 11, 1921.

The subcommittee met at 10.30 o'clock a. m., Hon. Clarence MacGregor (chairman) presiding, and Hon. James W. Dunbar and Eugene Black, members, in attendance.

The CHAIRMAN. I would like to make this preliminary statement on this matter:

The chairman of the Banking and Currency Committee has appointed this subcommittee to consider generally the subject of rural and agricultural credits. This is a subject of vast importance to the welfare of the Nation. It is the hope of the subcommittee that we may aid in solving the perplexing problems of furnishing adequate financial facilities to millions of our citizens engaged in the basic industry of agriculture.

There are 6,448,366 farms in the United States, with an acreage of nearly 1,000,000,000 acres. The total value of all farm property is \$77,925,989,073.

It has been well said that the country can do without the city, but the city can not do without the country. The prosperity of the country is dependent upon the prosperity of the farmer. We must heed to the fact that the tendency for the youth of the country is to leave the farm for the city. The census figures shows that now the larger percentage of the population of the United States is in the cities and towns of the country. Many have left the farm because of the easier life of the city; many have left because they could obtain success with a less expenditure of physical effort. One of the great contributing causes to unsuccessful effort upon the farm is the failure of many to have at hand working capital. A young man could become a merchant in the village and secure credit from the village bank, but no machinery has been provided by which he could secure working capital for running the farm.

The enactment of the Federal farm loan law has been a great step in advance, but it does not go far enough. In most instances that affords a means of securing the farm, but it does not give him anything to work with.

We seek light upon this important proposition and will be pleased to listen to all who can aid in the solution of the problem.

Although this subcommittee is to consider the matter generally, we have before us at the present time H. R. 7879, introduced by Mr. McFadden, the chairman of the Committee on Banking and Currency, entitled "A bill to standardize paper for agricultural production, to establish discount markets for such paper, to create two necessary fiscal and financial agents for the Government of the United States, and for other purposes."

(The bill, H. R. 7879, referred to and submitted by the chairman, is here printed in full, as follows:)

A BILL To standardize paper for agricultural production, to establish discount markets for such paper, to create two necessary fiscal and financial agents for the Government of the United States, and for other purposes.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That the short title of this act shall be the rural credit and multiple insurance act, and the two corporations created by this bill shall be referred to, respectively, as follows: The rural credit society shall be referred to as the society and the liberty insurance league shall be referred to as the league.

SEC. 2. That the commissioners, directors, and trustees, respectively, of said two corporations and bodies politic and financial and fiscal agents hereby created shall, by the name of the rural credit society and liberty insurance league, have succession and be able to sue and be sued, implead and be impleaded, in

all the courts of the United States, and each to make and use a common seal, and the same to alter and amend at pleasure.

Sec. 3. That L. D. May, of Granville Center, Bradford County, Pennsylvania; Witt Sears, of Thorp Spring, Hood County, Texas; and ———, of ———, are hereby designated and created commissioners, with power and authority to negotiate, in the manner expressly provided in Article VI of the charter creating said liberty insurance league, with any solvent and well-established life insurance company incorporated under the laws of some one of the several States having approved assets of not less than \$400,000,000 for the purpose of inducing one of such companies to accept the terms of the charter creating said liberty insurance league, and agree and bind itself to operate thereunder and be governed solely by the terms and provisions thereof; and said commissioners are further authorized and empowered to organize said rural credit society in the manner expressly provided in Article VIII of the charter creating said rural credit society.

Sec. 4. That one of said financial and fiscal agents, to wit, the said rural credit society, shall operate and be governed solely by the terms of its charter, which shall read as follows:

CHARTER OF THE RURAL CREDIT SOCIETY.

ARTICLE I.

SECTION 1. NAME OF CORPORATION.—The name of the corporation shall be the rural credit society, which is referred to herein as the society.

ARTICLE II.

SECTION 1. NATURE OF BUSINESS.—The nature of the society's business shall be, and it is hereby authorized and empowered, to do and transact a general banking and credit business through its executive, branch and commune offices, and through such agents, agencies, and auxiliaries as its by-laws may prescribe, to buy and sell, and contract for the purchase and sale of, securities, of moneys of the United States, and of gold bullion, to buy and own in perpetuity such real estate as may be deemed necessary for its executive and branch offices and the same to dispose of at its pleasure, to own and hold for a period not to exceed ten years such real estate as it may acquire through foreclosure proceedings and the same to dispose of in like manner, to act as the fiscal and financial agent for the Government of the United States within the powers conferred upon it in this article and on such terms as may be prescribed by the Secretary of Agriculture and approved by the society's board of directors: *Provided*, That neither the society, its branches, communes, agents, agencies, nor auxiliaries shall issue demand payable printed bank notes, commonly denominated currency: *Provided further*, That the society's communes shall not receive deposits.

ARTICLE III.

SECTION 1. PLACE OF EXECUTIVE OFFICE.—The temporary executive office of the society shall be located by its board of directors at their first meeting, at which place it shall remain for a period of five years, when the board shall establish a permanent executive office by a majority vote: *Provided*, That the board may, by a two-thirds vote, change the location of such office thereafter. Board meetings may be held at such places in the United States as its by-laws may prescribe.

ARTICLE IV.

SECTION 1. CAPITAL.—The capital of the society shall consist of a guaranty fund and the stock of its branches and communes.

PARAGRAPH 1. GUARANTY FUND.—The guaranty fund shall consist of \$25,000,000, which shall be furnished and paid in by the Government of the United States.

SETPARAGRAPH 1. WHEN GOVERNMENT SHALL PAY IN GUARANTY FUND.—When the commissioners have induced such a life insurance company as is described in section 3 of the act creating this charter to accept the said liberty insurance league charter, and the Secretary of Commerce has approved their acts and issued a statement authorizing said league to begin business under such

charter, the Secretary of Commerce shall then draw a voucher on the Treasurer of the United States for \$25,000,000, who shall cause such sum to be paid into the treasury of such league, to be held in trust and invested by such league for the use and benefit of the society until the Secretary of Agriculture orders the league to pay the same, principal and interest, into the treasury of the society, less the compensation allowed for the risk and expense for accepting such trust, as is provided in Article X of said liberty insurance league charter.

SUBPAR. 2. SINKING FUND TO RETIRE GUARANTY FUND.—Within three months after the 1st day of January, each year, the society shall cause to be paid into the Treasury of the United States one-tenth of 1 per centum per annum on all loans and discounts made or renewed to its members the preceding year, ending December 31, which payments shall be invested under the direction of the Secretary of the Treasury, for the use and benefit of the sinking fund of said society to retire the guaranty fund and interest thereon; and when the sinking fund, principal and interest, equals the principal paid by the Government, together with simple interest at the rate which the Government has to pay for the money so advanced by it, then this subparagraph shall be of no effect and the society's obligation to the Government on account of the guaranty fund shall be canceled.

SUBPAR. 3. BRANCH STOCK.—Each of the forty-eight branches shall have a capital stock of \$50,000, and the stock of each branch shall be fully paid in cash before such branch begins business. Such capital shall be paid by the Liberty Insurance League, and the society shall cause stock certificates to be executed and delivered to the league as evidence of such payment and its ownership of such stock. Such stock shall be nonassessable and nontransferable and paid an annual dividend by the society, if earned, of 6 per centum, which dividend shall be cumulative.

SUBPAR. 4. COMMUNE STOCK.—The stock of the communes shall be subscribed and paid for in cash by the members of the respective communes. Such stock shall be of the par value of \$5 each, for which certificates shall be executed and delivered to the subscribing members by the managers of the respective branches. Such stock shall be nontransferable while the subscribing owner is a member of the society: *Provided*, That a member may reduce the amount of his commune stock by complying with the terms of the by-laws and subparagraph 4 of Article V of this charter. The commune stock shall be nonassessable and paid such annual dividend, if earned, as the advisory council of the respective director's district may declare: *Provided further*, That no dividend shall be paid on the commune stock of a director's district until such branch has accumulated a safe surplus in the judgment of the board of directors.

ARTICLE V.

SECTION 1. COMMUNE.—The word "commune" as used in this charter shall denote a voluntary local association of farmers for the purpose of improving their productive credit facilities, and the persons comprising the commune shall be referred to as members.

PARAGRAPH 1. CLASSIFICATION OF MEMBERS.—There shall be two classes of members, voting and nonvoting members. The privilege of voting the election of those to control the corporation shall be exercised by the voting members only.

SUBPAR. 1. HOW TO BECOME A VOTING MEMBER.—To become a voting member, a nonvoting member shall obtain the unanimous vote of the voting members of his commune.

SUBPAR. 2. MINIMUM NUMBER OF VOTING MEMBERS.—Each commune must have at least seven voting members.

SUBPAR. 3. EXPULSION OF A MEMBER.—The voting members of any commune may by a majority vote expel a member.

SUBPAR. 4. VOLUNTARY RESIGNATION OF MEMBERS.—Any member may voluntarily withdraw his membership from his commune at will, to take effect immediately; but a member of a commune of the first and second class shall be personally liable for the payments of the debts contracted by the commune while he is a member thereof and until the 1st day of January next after he ceases to be a member; and the commune stock of a member of any class of commune shall be liable for the payment of the debts contracted by the communes of that director's district, while he was a member and until the 1st day

of January next after he ceases to be a member, which liability shall attach and become binding in the order provided in section 3 of this article.

SEC. 2. CLASSIFICATION OF COMMUNES.—There shall be three classes of communes—first, second, and third class.

PARAGRAPH 1. COMMUNES OF FIRST CLASS.—Communes of the first class shall comprise those situated in States whose laws permit the waiver of homestead and execution exemptions of such members, and the members of which actually execute valid waivers of such exemptions and agree and bind themselves to become jointly and severally liable for each and every credit obligation contracted by the members of their respective communes while they were members and until the 1st day of January next after they cease to be members.

SUBPARAGRAPH 1. CREDIT LIMITATIONS OF THE FIRST CLASS.—The credit of each member of a commune of the first class shall be limited to twenty times his paid-up stock in his commune.

PAR. 2. COMMUNES OF SECOND CLASS.—Communes of the second class shall comprise those situated in States whose laws prohibit the waiver of homestead or execution exemptions, but whose members lawfully agree and bind themselves to become jointly and severally liable for each and every credit obligation contracted or made by the members of their respective communes while they are members thereof and until the 1st day of January next after they cease to be members.

SUBPARAGRAPH 1. CREDIT LIMITATION OF SECOND CLASS.—The credit of each member of a commune of the second class shall be limited to ten times his paid-up stock in his commune.

PAR. 3. COMMUNES OF THIRD CLASS.—Communes of the third class shall comprise those whose members' personal liability shall be unlimited for the credit obligations contracted or made by themselves and for which they become surety, but for the credit obligations of other members their personal liability shall be limited to their unpaid stock subscriptions in their respective communes.

SUBPARAGRAPH 1. CREDIT LIMITATION OF THIRD CLASS.—The credit of each member of a commune of the third class shall be limited to five times his paid-up stock in his commune.

SEC. 3. ORDER IN WHICH LIABILITIES ATTACH.—The order in which liabilities attach shall be as follows: The drawer of a granger or bill of exchange and maker of a promissory note and other credit instruments shall be primarily liable for their payment; next the drawer or maker's surety, if any; next the drawer or maker's commune stock; next the members of the commune of which the drawer or maker is a member, if the commune be of the first or second class; next the surplus of the branch situated in the district in which the drawer or maker's commune is situated; next the stock of all the communes of such district, which liability shall attach to each share of such stock; next the stock of the branch of the district in which the drawer or maker's commune is situated; and finally the guaranty fund: *Provided*, That any loss sustained by a branch other than by the failure of a member to meet his obligation shall be repaired, first, out of the surplus of such branch, and if that be insufficient, then out of the stock of the communes of the district in which such branch is located, and if that be insufficient, then out of the stock of such branch, and finally out of the guaranty fund: *Provided further*, That in no event shall the stock of the communes or branch of one director's district be liable for the debts or defaults of the members, communes, or branch of another director's district.

ARTICLE VI.

SECTION 1. DURATION OF CORPORATION.—The duration of the corporation shall be fifty years, but the Congress hereby retains the right to amend this charter decennially after the twentieth year.

ARTICLE VII.

SECTION 1. CORPORATE POWERS; HOW EXERCISED.—The corporate powers of the society shall be exercised by a board of directors, the members of which shall be elected in the decentralized manner provided in this section of this article, and such officers, agents, and committeemen as the board may elect, except as otherwise expressly provided in this charter. The board shall have power and authority to enact by-laws, rules, and regulations for the society, its branches and communes, their agents and members, not inconsistent with the terms of this charter.

PARAGRAPH I. CLASSIFICATION OF DIRECTORS.—The classification of directors' districts and the territory comprising each shall be as follows:

First class: First, Alabama; second, Arizona; third, Arkansas; fourth, California; fifth, Colorado; sixth, Connecticut; seventh, Delaware; eighth, Florida; ninth, Georgia; tenth, Idaho; eleventh, Illinois; twelfth, Indiana.

Second class: Thirteenth, Iowa; fourteenth, Kansas; fifteenth, Kentucky; sixteenth, Louisiana; seventeenth, Maine; eighteenth, Maryland and District of Columbia; nineteenth, Massachusetts; twentieth, Michigan; twenty-first, Minnesota; twenty-second, Mississippi; twenty-third, Missouri; twenty-fourth, Montana.

Third class: Twenty-fifth, Nebraska; twenty-sixth, Nevada; twenty-seventh, New Hampshire; twenty-eighth, New Jersey; twenty-ninth, New Mexico; thirtieth, New York; thirty-first, North Carolina; thirty-second, North Dakota; thirty-third, Ohio; thirty-fourth, Oklahoma; thirty-fifth, Oregon; thirty-sixth, Pennsylvania.

Fourth class: Thirty-seventh, Rhode Island; thirty-eighth, South Carolina; thirty-ninth, South Dakota; fortieth, Tennessee; forty-first, Texas; forty-second, Utah; forty-third, Vermont; forty-fourth, Virginia; forty-fifth, Washington; forty-sixth, West Virginia; forty-seventh, Wisconsin; forty-eighth, Wyoming.

PAR. 2. QUORUM.—Each director shall have one vote on the board, and a majority shall constitute a quorum for the transaction of business.

PAR. 3. TERMS OF OFFICE OF DIRECTORS.—The first board of directors shall be divided into four classes in the order provided in paragraph 1 of this section. The term of the first class shall expire on the second Tuesday in January next following; that of the second class one year from that time; that of the third class two years from that time; and that of the fourth class three years from that time, and so on, consecutively. In each and every year thereafter, so that all the directors of one class shall be elected annually thereafter for a term of four years each. All vacancies occurring in the board shall be filled by the advisory council of the respective director's district until the next general election of director for such district.

PAR. 4. QUALIFICATION OF DIRECTORS.—Each director shall be a citizen of the United States and bona fide resident and voting member of a commune of the first or second class and remain such during his term of office.

PAR. 5. MANNER OF ELECTING DIRECTORS.—The directors shall be elected by the ballots of their respective directors' districts, each visor being entitled to cast as many votes as there are members of his commune. Such ballots must be forwarded to the executive office of the society by United States post, inclosed in an official envelope on which the words "Official director's ballot" shall be printed or written in red ink on the address side thereof.

SUBPARAGRAPH 1. BALLOTS AND ENVELOPES—HOW FURNISHED.—It shall be the duty of the secretary, ninety days before the election of a director, to mail one official ballot and envelope to each visor of the district in which such an election is to be held.

SUBPAR. 2. INSPECTORS OF ELECTIONS.—The secretary shall, on the fourth Tuesday in November of each year, in the presence of the auditor or deputy auditor and a censor, open and count the official ballots cast for directors at the election held two weeks previously. Any candidate for director may, at his own expense, appoint, in writing, one representative to be present at such opening and counting, who shall have the privilege to examine each ballot.

PAR. 6. CANDIDATES FOR DIRECTOR.—Each eligible person who desires to become a candidate for director of his district shall notify the secretary four months in advance of such election, and the secretary shall inform such person of the approximate cost in postage and printing necessary to place his name before the visors of his district. If such person, within thirty days after the mailing of such information, make remittance to the secretary to cover such expense, it shall be the further duty of the secretary to cause the name and address of each such candidate to be printed on each ballot sent out by him and mail one of such ballots and official envelopes to each visor of that director's district. The candidate receiving a plurality of the votes cast at such election shall be declared elected. If two candidates tie at any election, then a special election shall be held to decide the contest between them, such special election to be called by the president for such time as he may deem meet.

PAR. 7. ANNUAL ELECTION OF DIRECTORS.—The annual election for the members of the board of directors to fill the places of the outgoing class shall be on the second Tuesday in November of each year, and the newly elected members of