FARM MORTGAGES.

In considering the plan for refinancing farm mortgages which President ROOSEVELT proposed to Congress yesterday, it is useful first to note the nature of the problem. Of the 6,300,000 farms in the United States nearly 60 per cent are wholly free of mortgage. The debt outstanding on the other 40 per cent is about $8,500,000,000, or somewhat more than one-third of the debt of the National Government itself. The creditors are insurance companies, to which 23 per cent of the debt is owed; commercial banks and mortgage companies, owed 21 per cent; Federal Land Banks and joint-stock banks, owed 19 per cent, and individual mortgagees, owed the remaining 37. The latest available figures of the Department of Agriculture indicate that on about one-third of the total debt interest is charged at less than 5½ per cent; on about one-half, the rate is between 5½ and 6, and on the remaining sixth it is more than 6 per cent—rising in a few cases to more than 10 per cent. The problem of paying interest has of course been made more difficult by the sharp fall of agricultural prices. The bulk of the mortgage debt was contracted during years when the general price level was about twice and the level of farm prices nearly four times as high as at the end of 1932.

The plan which the President has submitted to Congress is intended, in his own words, "to accomplish a more equitable readjustment of the principal of the debt" and "a reduction of interest charges." With this in view the Federal Land Banks would be authorized to issue during the next two years not more than $2,000,000,000 in 4 per cent bonds, on which interest would be guaranteed by the Government. With funds raised by the sale of these bonds the Land Banks could purchase first mortgages; or the bonds themselves could be exchanged for such mortgages, if the holders wished to trade. In either case, the price paid would be one "not exceeding the unpaid principal, or 50 per cent of the normal value of the land mortgaged plus 20 per cent of the improvements, whichever is smaller." The Land Banks would then refinance the farmer's debt for the amount paid for his mortgage, charging him interest at not more than 4½ per cent.

There are other features of the plan, such as the provision for new loans and for the voluntary liquidation of the joint-stock banks, but the core of the plan is the $2,000,000,000 bond issue and the uses to be made of it. The plan is permissive rather than mandatory. It could, in fact, be put into effect only gradually, as mortgage-holders consented to sell or to compromise their claims. It would involve no large outlay of public funds, if well administered. It offers no peg for currency inflation. Though it is intended to relieve the debtor, it might aid the creditor as well by thawing out "frozen" assets through the substitution of entirely liquid 4 per cent bonds, in certain cases with some reduction of principal, for mortgages on which interest at 5½ or 6 or 6½ per cent is not at present collectable. On the other hand, one element of danger is evident. It is obviously of great importance to safeguard the plan against any risk of taking over mortgages indiscriminately, without drawing a line against those that are badly impaired on the basis of existing values.