THE DEVELOPMENT OF THE RURAL REHABILITATION LOAN PROGRAM

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The enactment of Title II of the Bankhead-Jones Farm Tenant Act\(^1\) marks the probable transition of the rural rehabilitation loan program from an emergency relief measure into a permanent activity of the Department of Agriculture. It is, therefore, particularly timely to consider briefly the objectives of the program and to review its development and present legal and administrative techniques.

**OBJECTIVES OF THE PROGRAM**

The rehabilitation loan program is designed to aid destitute and low-income farm families in becoming self-supporting at a decent standard of living, by the extension of credit for operating goods, furnished upon the basis of individual farm and home management plans, and through the provision to such families of the advice and guidance necessary for the successful completion of such plans. A brief summary of the economic and social justifications for this program is found in the *Report of the President's Special Committee on Farm Tenancy*,\(^2\) which pointed out that approximately 420,000 farm families, already near the bare subsistence level, had been forced below it by agricultural depression, that 500,000 or 600,000 families, normally well above the subsistence level, had, largely as a result of drought, exhausted their resources of capital and credit, and that another large class of farm families, including "probably the great majority of the 1,831,000 tenant and cropper families of the South," is obliged to seek operating capital at crippling rates and under such conditions as to perpetuate the cash-crop system. The *Report*, in developing the type of loan program suitable for these classes of farm families until they are able to qualify for bank credit, stressed the need of technical guidance to assure an effective expenditure of funds and stated that "a primary objective" of the system of rehabilitation loans "should be to stimulate the development of better lease contracts." The

\(^2\) *Farm Tenancy, Report of the President's Committee on Farm Tenancy* (Nat. Resources Comm., 1937) 14-15 (also printed as H. Doc. No. 149, 75th Cong., 1st Sess. (1937)).
belief was expressed that the "best of these farm families can be built up to the stage where they can undertake the purchase of a farm."

Of course, as the Report itself points out, the rehabilitation program deals with only one aspect of the problem of farm tenancy and farm destitution. Obviously, neither credit nor advice and guidance can restore eroded land, prevent ruinous fluctuations in farm prices, or increase the purchasing power of industrial workers for farm products. Likewise, credit and education alone cannot give security to farm tenants, in regions where tenure is traditionally unstable, until a more rational landlord and tenant relationship is established. Furthermore, the program cannot cope with the problems of migratory farm labor. For these reasons, other measures must supplement and parallel the rehabilitation loan program if substantial progress is to be made in relieving existent, and forestalling the further spread of, rural destitution. In addition, the present rehabilitation program proceeds upon the assumption of the continued economic feasibility of the family size farm. To the extent that this assumption may prove untenable, because of technological developments and a consequent trend towards the industrialization of agriculture, the techniques of the present program will have to be substantially modified.

Notwithstanding these limitations, the tangible achievements of the rehabilitation loan program were deemed by the Report sufficient to justify its recognition as an essential part of a really comprehensive attack upon the farm tenancy problem.

The report recommended various improvements in lease arrangements through state legislation as well as "vigorous programs to inform landlords and tenants concerning methods of improving farm leases."

The community pattern adopted in the planning of some of the "rural resettlement" projects of the Resettlement Administration was designed to take advantage of such technological developments. The community pattern adopted in the planning of some of the "rural resettlement" projects of the Resettlement Administration was designed to take advantage of such technological developments. First ANNUAL REPORT Resettlement Administration (1936) 33: "It would be both impossible and unwise to stem the tide toward mechanization. An effort must be made so to organize agricultural production that the advantages of mechanization and mass production in agriculture can be secured without losing the social values which have always been associated with rural living, and, also, to avoid the difficulties which arise from employer-labor and surplus income problems." Cf., also, Mitchell, Cabins in the Cotton (1937) 92 New Republic 175; Horne and McKibben, Mechanical Cotton Picker, W. P. A., National Research Project, Studies of Changing Techniques and Employment in Agriculture, Report No. 2A (1937).

As of March 31, 1937, 46.6% of maturities on loans outstanding throughout the country had been collected. The percentages of collections in states which were not affected by floods and droughts were much higher. See Hearings before the Subcommittee of the House Committee on Appropriations on the Emergency Relief Appropriation Act of 1937, 75th Cong., 1st Sess. (1937) 14-15. Since the borrowers were in the main destitute at the time loans were made, and, particularly in the South, were lacking in sound farm management training, the record seems surprisingly good.

Comprehensive data are not available as to the specific progress made in raising the standard of living of borrowers. However, the following figures from two states are presumably representative: In Alabama, from 1935 to 1937, after adoption of farm management plans, the average cash farm income of rehabilitation borrowers was raised from $91.00 per annum to $460.00, and the average net worth raised from $3,003 to $3,620.00. During the same period, the percentage of clients working mules or mares—instead of steers—was increased from 13% to 31.37%. Besides increasing the cash income, the farm management plans appear to have assured an increase in the production of food for home consumption. Thus, the ownership of milk cows by rehabilitation clients was raised from 47.5% to 79.1%, of meat hogs from 61.1% to 83.3%, of brood sows from 19.2% to 42.1%, and of poultry from 79.1% to 95.6%.

Similarly, the accomplishments of the home management plans are graphically illustrated by the following data from Arkansas: In 1936 approximately 6,000 steam pressure cookers had been acquired by rehabilitation clients from their loan proceeds. With this equipment, approximately 3,000,000 quarts of...
Origins. Under the Federal Emergency Relief Act of 1933, the Administrator of the Federal Emergency Relief Administration, established thereunder, was authorized “to make grants to the several States to aid in meeting the costs of furnishing relief and work relief and in relieving the hardship and suffering caused by unemployment.”

No differentiation was made in this statute between the methods of providing rural as distinguished from urban relief. The statute merely provided that the relief furnished could be “in the form of money, service, materials, and/or commodities to provide the necessities of life to persons in need as a result of the present emergency, and/or to their dependents, whether resident, transient or homeless.” Federal government responsibility for relief from destitution was a new departure, and its techniques yet to be developed. It was natural enough, therefore, that the statute should be vague. Indeed, despite some judicial pronouncements to the contrary, enactment of a detailed program would have been impossible.

At the start, the relief program in rural areas was carried out in the same manner as urban relief, either through relief grants or through the employment of destitute farmers on miscellaneous work relief projects. However, early in 1934 the relief vegetables, fruits and meats were canned or dried. In addition, there were stored for home consumption some 145,000 bushels of potatoes, some 13,000 bushels of other vegetables, 17,000 gallons of syrup and 250,000 pints of preserves. This accomplishment of the home management plans, and its importance in eliminating malnutrition and pellagra, would seem fully as significant as the increase in cash income provided through the farm management plans. Cf. note 40, infra. (Data furnished the writer by Philip F. Maguire, Director of Rural Rehabilitation, Farm Security Adm’n.)

8 In Franklin Township v. Tugwell, 85 F. (2d) 208 (App. D. C. 1936), it was held that the Emergency Relief Appropriation Act of 1935, in authorizing “housing” as one of the classes of work relief projects, was an unconstitutional delegation of legislative power to the President. “Here we have neither path nor program. Obviously, if the President were so disposed, he could use the entire sum appropriated in building houses exclusively for our colored population, or, on the other hand, he could exclude that portion of the population from any benefits whatever. Nor is any limitation on the use prescribed by the Act. The houses . . . may be constructed in cities where there is no demand, or in the country to create and build a new city in its entirety. Indeed, they may be built and left unoccupied; and, while, as a practical matter, this may be said to be a mere fancy, the principle is none the less involved. . . .” (Italics added.)
9 Cf. Greenwood County v. Duke Power Company, 81 F. (2d) 986 (C. C. A. 4th, 1936), holding that §502 of Title II of the National Industrial Recovery Act involved no unconstitutional delegation of legislative power, since (id. at 994), “it was out of the question for Congress to prescribe the details of an extended program of public works.” See also In re Community Co-op Industries, Inc., 279 Mich. 610, 273 N. W. 287 (1937) (holding notes given for a loan of funds granted to the State of Michigan under the Federal Emergency Relief Appropriation Act of 1933 were enforceable, and reversing a decision of the trial court denying recovery for lack of authority to make loans under said statute). The court said, at p. 289: “The Federal Act . . . clearly contemplated something other than a dole. In providing for work relief, relief of hardship and suffering caused by unemployment, not only by money but also by services, materials and commodities, as well as ‘relief,’ it carried the thought of practical aid to foster self-respecting self-support. In providing for relief of unemployed and for rehabilitation of families as well as relief of destitution, the state statute bore the same theme. Neither evidenced an intent to confine the aid strictly to alms, but by failing to prescribe a specific method of help, they conferred upon the Administrator the authority and discretion to meet the necessities by measures appropriate to them.”
administrations in the southern states began to make advances of capital goods instead of making relief grants. In April 1934, a special "Rural Rehabilitation Division" was established within the Federal Emergency Relief Administration, for the announced purpose of assisting destitute farm families throughout the country "to become self-supporting and independent of emergency relief aid."

As originally projected, the new program contemplated a variety of measures in addition to rehabilitation loans. However, the loan program soon became predominant. By June of 1935, 366,945 farm families had received rehabilitation advances, whereas only a fraction of that number had been taken care of through other rehabilitation measures.

The State Rural Rehabilitation Corporations. In administering the rural rehabilitation program, the Federal Emergency Relief Administration utilized the state emergency relief administrations which had been established as the state agencies for administering the general relief and work relief program. Each of these state administrations was instructed to organize a "Rural Rehabilitation Division." Budgetary requests for funds were currently submitted to the Federal Emergency Relief Administrator, with a separate breakdown for the funds required for rural rehabilitation work within the state. On the basis of these requests, funds were periodically transmitted to the governors of the respective states who, in turn, transferred them to the state administrators for expenditure for rural rehabilitation purposes.

In addition to establishing Rural Rehabilitation Divisions, the state relief administrations were also instructed to organize "Rural Rehabilitation Corporations" to perform the "legal and financial" functions of the rehabilitation program. Forty-nine such corporations were organized in accordance with the instructions issued

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12 Asch and Mangus, supra note 10, at 16: "This program recognized the variety of problems facing farmers who had been receiving drought or other emergency relief or whose resources were nearly exhausted. For those living on fertile land, it proposed to provide such resources as seed, livestock, equipment, buildings, building repairs, and more land if needed; to arrange debt adjustments if necessary; and to give training and advice in farm management and home economics. Displaced farmers would be relocated on the land. Farmers living on poor land would be moved to better land purchased under a land program in which the A.A.A. shared. Rural relief families living in towns having less than 5,000 inhabitants would be provided with subsistence gardens. Selected families would be transferred from the towns to subsistence farms. Families stranded by the decline of local industries would be encouraged to develop subsistence gardens and community farmsteads." Many of the projects contemplated were planned along lines similar to the subsistence Homesteads projects inaugurated under §208 of the National Industrial Recovery Act, 48 Stat. 195 (1933), 15 U.S.C. §701. For a detailed discussion of this program, see Glick, Federal Subsistence Homesteads Program (1935) 44 Yale L. J. 1324.
13 Asch and Mangus, supra note 10, at 18.
15 A total of 45 state corporations was organized, one in each of the states except Connecticut, Delaware and Rhode Island. In addition, corporations were organized for the District of Columbia, Puerto Rico, Alaska and Hawaii. Those established for the District of Columbia and the states of Maryland and Massachusetts never functioned. The Rural Rehabilitation Corporation of Puerto Rico was dissolved in September, 1935, when the rural rehabilitation program in that territory was assumed by the Puerto Rico Reconstruction Administration.
by the Rural Rehabilitation Division of the Federal Emergency Relief Administration. The corporations were in most instances established without any authorization from the state legislatures. A few of the corporations were formed under the laws of Delaware, the remainder being chartered under the general business corporation laws of the state or territory in question. The corporations were established as non-profit organizations. While nothing in the form of charter subjected the corporations to supervision or control by any agency of the state, the interest of the state was recognized upon dissolution.

The powers of the corporations were extremely broad and, in addition to grants of authority to carry on the rural rehabilitation program, included the usual powers with respect to the purchase and disposition of property, the making of loans, the organization of subsidiary corporations, the construction of buildings and operation of businesses, customary in the charters of business concerns. Management was vested in a board of directors, generally seven in number, who were also the stockholders. The initial incorporators usually consisted of state and federal officials connected with the administration of relief.

In their functioning, the state corporations operated with varying degrees of autonomy. While observing their status as state agencies, the policy of the Federal Emergency Relief Administration contemplated substantial federal supervision and control over the expenditures and activities of the corporations. As in the case of the

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17 The corporations organized under special acts of the state legislatures were the Maryland Rehabilitation Corporation, (Laws 1935, c. 415), the New York State Rehabilitation Corporation (Laws 1935, c. 526), the California Rural Rehabilitation Corporation (Stat. & Annot. to Codes, 1935, c. 14). In addition, the corporations after their establishment were recognized as state agencies by acts of the state legislatures in South Carolina (Acts 1935, Act 340), North Dakota (Laws 1935, c. 224), North Carolina (Pub. Laws 1935, c. 314), Montana (Laws 1935, p. 537, Jr. Res. 8), Oregon (Laws 1935, c. 396), and Hawaii (Laws 1935, pp. 340-341, Jr. Res. 12). In Vermont the corporation was designated as a state agency by the governor under authority of an act of the state legislature (Laws 1935, Act 156).
18 The Arkansas, District of Columbia and Nebraska corporations.
19 The following charter provision of the Alabama Rural Rehabilitation Corporation is typical: "VIII. The profits of this Corporation shall never accrue to the benefit of its members, stockholders, members of Board of Directors, or officers, but shall always be used to maintain and promote the Rural Rehabilitation Program of the State of Alabama."
20 Thus, the charter of the Colorado Rural Rehabilitation Corporation provided: "Seventh. The Corporation shall have a perpetual existence unless dissolved in accordance with the law, in which event its property shall be sold and disposed of, its debts paid and collected, its affairs properly settled; and the balance of funds on hand shall become a part of the general funds of the State of Colorado, subject to appropriation by the State Legislature." (Italics added.)
21 "To rehabilitate individuals and families as self-sustaining human beings by enabling them to secure subsistence and gainful employment from the soil, from coordinate and affiliated industries and enterprises, and otherwise, in accordance with economic and social standards of good citizenship"; and "to engage in and assist in any kind of charitable, educational, relief and health activities whatsoever." Ibid.
22 The official positions of the original directors of the Colorado Rural Rehabilitation Corporation were: Regional Representative, Federal Emergency Relief Administration; State Relief Administrator; Regional Director of the Land Policy Section of the Agricultural Adjustment Administration; Director of Rural Rehabilitation, Denver; Director of Extension Service, Colorado Agriculture College; Dean of Agriculture, Colorado Agricultural College; Member of Colorado Association State Relief. Ibid.
23 See note 20, supra, and note 33, infra.
state emergency relief administrations, the Federal Administrator always had the sanction of withholding further grants to the governor of any state in which the rehabilitation corporation was departing from the basic policies prescribed. In addition, the director-stockholders of each corporation were required to pledge their certificates of stock to the Federal Emergency Relief Administration as security "for the proper expenditure and administration" by the corporation of funds received "in compliance with the purposes of the grants or advancements thereof made or to be made by the Federal Emergency Relief Administrator to this corporation or to the Governor of the State." The rates of interest and the periods of amortization on rehabilitation loans differed greatly among the various corporations. Likewise, there were no standard accounting or auditing procedures. The administration of the rehabilitation program was carried out under the direction of a state director with county farm and home supervisors.

By June 1935, some 18,000 persons were employed by the state rehabilitation divisions in administering the rehabilitation program. The state corporations had total assets in excess of $80,000,000, the great bulk of which had been derived from grants made by the Federal Emergency Relief Administrator to the governors of the states. Such assets consisted, in the main, of promissory notes, chattel mortgages and conditional sales contracts received from rehabilitation borrowers, real and personal property, livestock, feed and other subsistence goods purchased for sale to rehabilitation clients, and, in some instances, substantial cash balances. In short, the corporations were going concerns of considerable size by the time the rehabilitation program was shifted to the Resettlement Administration.

The Resettlement Administration. By the Spring of 1935, the rehabilitation program, as a substitute for relief through grants and miscellaneous work projects, was sufficiently developed and recognized to be explicitly authorized by Congress in the Emergency Relief Appropriation Act of 1935. Section 1 of the Act, in specifying the classes of projects for which funds could be expended by the President, included the category: "Rural rehabilitation and relief in stricken agricultural areas." The legislative history of the Act indicates clearly that this language was intended to "Through its control of funds, the Federal Emergency Relief Administration will exercise veto power over the State corporations but State responsibility and initiative will be given full play." F.E.R.A. Release No. 3430, Sept. 18, 1934, p. 9, by Lawrence Westbrook, Assistant Administrator of the Federal Emergency Relief Administration. In a few states in which the state authorities were deemed unacceptable, the relief program was administered directly by the Federal Administration. Section 3(b) of the Federal Emergency Relief Act authorized the Administrator to "assume control of the administration in any State or States where, in his judgment, more effective and efficient cooperation between the State and Federal authorities may thereby be secured in carrying out the purposes of this Act."

24 It never became necessary to attempt to exercise rights under this pledge. While the pledge instruments were silent as to the remedies of the Federal Administrator, presumably it was intended that upon violation of its terms, he would have the right to vote the stock, with power of substitution. Cf. Clark v. Forster, 98 Wash. 241, 167 Pac. 908 (1917). When the Resettlement Administration assumed control over the rehabilitation program, the pledge agreements were supplemented to explicitly provide for such remedy. The normal foreclosure remedies of a pledgee would seem clearly unavailable. 49 Stat. 115 (1935), 15 U. S. C. A. §728.
embrace virtually all the activities being carried on by the state rehabilitation divisions under the old Act.27

The rural rehabilitation program under the new Act was placed by the President in a new agency, known as the Resettlement Administration, established by Executive Order 7027 of April 30, 1935.28 At the time this Order was issued it was anticipated that the rural rehabilitation program, though under the direction of the Resettlement Administration, would continue to be financed by grants to the states and administered by the state rural rehabilitation corporations, in substantially the same way as had been done under the Federal Emergency Relief Act of 1933.29

The Comptroller General, however, took the position that funds for rural rehabilitation could be expended only as a direct federal activity.30

27 While the Act was under consideration by Congress, the Acting Comptroller General, in answer to the written inquiry of the Chairman of the Committee on Appropriations, advised by Decision A-6091, March 7, 1935, (which was used as the basis for discussion in the Senate considerations of the Act, see 79 CONG. REC. 3367 (1935)) that the following types of projects, listed in a memorandum submitted by the Federal Emergency Relief Administrator, could be undertaken with funds allotted for "rural rehabilitation and relief in stricken agricultural areas:"

"Furnishing subsistence goods and services (food, clothing, shelter, medical service, school supplies, etc.) to destitute families in rural areas.

"Furnishing farm equipment and supplies, mules, horses, cattle, barnyard stock, seeds, fertilizer, and other rehabilitation equipment necessary for the operation of farms in order to enable destitute families to become self-sufficient on the land.

"Acquisition of land for rehabilitation purposes.

"Supervision and advice in connection with rehabilitation of destitute families.

"Construction of . . . barns, fences, farm buildings and other improvements for these families in rural areas. . . .

"Rehabilitation or resettlement of stranded populations in rural areas.

"Direct relief to families in stricken agricultural areas.

"Furnishing of feed and seed.

". . . purchasing, processing and distribution of livestock; purchase of land necessary for the prosecution of work projects."

28 This Order prescribed the following as the functions of the Resettlement Administration:

"(a) To administer approved projects involving [rural rehabilitation, relief in stricken agricultural areas, and] resettlement of destitute or low-income families from rural and urban areas, including the establishment, maintenance, and operation, in such connection, of communities in rural and suburban areas.

"(b) To initiate and administer a program of approved projects with respect to soil erosion, stream pollution, seacoast erosion, reforestation, forestation, and flood control [and other useful projects].

"(c) To make loans as authorized under the said Emergency Relief Appropriation Act of 1935 to finance, in whole or in part, the purchase of farm lands and necessary equipment by farmers, farm tenants, croppers, or farm laborers." (The words in brackets were not in the original Executive Order, being added by Executive Order 7200, Sept. 26, 1935).

29 One of the eight categories of projects authorized under the Emergency Relief Appropriation Act of 1935 was: "(g) loans or grants, or both, for projects of States, Territories, Possessions, including subdivisions and agencies thereof." It was assumed that under this category, grants for carrying out rural rehabilitation projects could be made to the governors of the states for expenditure by the rural rehabilitation corporations, as state agencies.

30 No formal decision was ever rendered on this question. A formal submission by the Administrator of the Resettlement Administration was forwarded on June 22, 1935. No written reply was ever given, but the Comptroller General informally advised the Administrator that grants to the states for rural rehabilitation would not be approved by the General Accounting Office. This position seems difficult to reconcile with views expressed by the Comptroller General, while the Emergency Relief Appropriation Act of 1935 was still before Congress, that rural electrification projects could be administered either as "purely Federal" projects under category (c) of §5 of the proposed Act, or as public projects of the state or political subdivision thereof, to be financed through loans or grants under category (g) of that section.
Transfer and Control of Rural Rehabilitation Corporations. The ruling of the Comptroller General, requiring that the new program be carried on directly by the federal government, made it necessary to establish a federal administrative organization to take the place of the rehabilitation divisions of the state emergency relief administrations. This shift from state to federal control would not have raised any particular difficulties if the state programs had involved merely direct relief. In that case, it would have been a simple matter to have the state administrations continue relief until their funds were exhausted, at which time the federal program could be placed in operation.

The actual situation was far more complicated. Projects had been started and loan commitments made to rehabilitation clients with the expectation that funds for their completion would continue to be made available through grants to the state corporations. Since the ruling of the Comptroller General prevented such further grants, it was apparent that half-completed projects would have to be abandoned, and uncompleted loan commitments to rehabilitation clients repudiated, unless some machinery was adopted to enable the Resettlement Administration to take over and continue the corporation programs. In addition, the corporation programs were such as to require continued administrative supervision even in cases where funds were available for completing construction work and fulfilling rehabilitation loan commitments. Unless the Resettlement Administration could take over the program, this necessary administrative work would have had to be soon abandoned.

To meet these problems, a form of resolution was submitted to the board of directors of each corporation, under which the corporation agreed to transfer its assets to the United States and, pending such transfer, authorized the Administrator of the Resettlement Administration to manage and direct the administration of its assets and the expenditure of its funds. Since the states might be regarded as possibly having a property interest in the assets of their respective corporations, the

The only limitation indicated by the Comptroller General was that, to the extent that funds for rural electrification were expended on the projects of states or political subdivisions, they would have to be charged against the total amount made available to the President for state projects under category (g) and could not be charged against the amount made available for rural electrification projects under category (c). See Decision Compt. Gen. A-6059, March 25, 1935 (unpub.).

This problem was acute because the Federal Emergency Relief Administration had made funds available to the corporations by periodic grants which were often not sufficient to carry forward either the loan or the construction programs for more than a few months. Quite frequently, farm management plans had been developed for thousands of farmers, calling for total annual advances far in excess of the amounts that had currently been advanced to the corporations. Similarly, many of the corporations had initiated community projects for which the funds allotted were sufficient to carry construction for several months but not to complete the projects.

As pointed out in note 40, infra, the furnishing of advice and supervision constituted an essential element in the rehabilitation loan program. Such advice and supervision had to be provided continuously even after the client received the full amount of his loan. Unless the completion and supervision of the loans of the corporation could be handled by the county supervisors of the Resettlement Administration, it would have been necessary to maintain duplicate administrative organizations in each state. The expense of such duplication would soon have exhausted the assets of the corporations.

The Comptroller General had held that funds granted to the governors of the states under the Federal Emergency Relief Act of 1933 and administered by the state emergency relief administrations
The legality of this coordinating arrangement was formally approved by the Comptroller General 44 and, with few exceptions, the resolutions were adopted by the boards of directors in the form in which they were submitted. The Resettlement Administration thereupon assumed responsibility for the administration of the corporation assets and provided the administrative personnel and funds necessary to continue the state programs without substantial interruption. In most of the states, the actual transfer of the assets of the corporations to the United States was postponed until the completion of audits. By September 30, 1937, transfer agreements had been executed by 34 of the corporations.

As was to be anticipated, the unusual character of the corporations and the rather unique relationship of the federal government to the funds acquired pursuant to the transfer agreements have raised a number of legal problems, particularly with respect to the applicability to the handling of these funds, of the rules of law govern-

were state funds, and that federal statutes and regulations with respect to the expenditure thereof were not applicable. Decision Compt. Gen. A-56783, Jan. 2, 1935 (unpub.) See also Harris v. Fulp, 178 S. C. 332; 183 S. E. 158 (1935). A contrary view was taken in two cases. In Dyess, Administrator of Relief v. Wisemann, 189 Ark. 381, 72 S. W. (2d) 571 (1934), it was held that vehicles purchased by the Arkansas State Emergency Relief Administration were not subject to the Arkansas automobile license tax, on the ground that the funds and assets of that administration were federal property. On rehearing, the court placed its position on the broader ground that even if the assets of the local administration "technically belong to the State," such assets were "not administered or used through any of the regular financial channels of the State Government," and being "a part of the plan and program of the Federal Emergency Relief Administration" whose "ultimate aim is to relieve from the distresses and burdens of unemployment," the funds "appropriated by the National Government for such beneficent purposes should not be diverted." (The theory of the foregoing case on rehearing seems somewhat analogous to a decision in Langer v. United States, 76 Fed. 2d 817 (C. C. A. 8th, 1935), holding that the conspiracy to divert monies expended by a state relief agency from grants received under the Federal Emergency Relief Act of 1933 was a violation of the federal conspiracy statutes, because conceding that such conspiracy would not cause pecuniary loss to the United States since the funds had become state property, there was nevertheless "an obstruction to the administration of the Federal statute." ) See also State v. Martin, 134 Me. 448, 187 Atl. 710 (1936), in which a bribery conviction was reversed on the ground that the employee of the State Emergency Relief Administration was administering federal and not state funds. "The court adopted the theory that the governor of Maine, in applying for and receiving funds from the Federal Emergency Relief Administration was acting "under Federal authority, solely in facilitation of, and to effectuate a Federal plan and program.""

44 Decision Compt. Gen. A-63140, July 31, 1935 (unpub.). It is difficult to see any basis for legal objection to these coordinating agreements either from the standpoint of the United States or the states. The funds in question had been granted to each state by the United States for the specific purpose of providing relief within that state. The transfer agreements were designed solely to prevent this purpose from being defeated. The interest of the state was fully protected by the provisions noted in the text.
Transfer of Program to Department of Agriculture. The rehabilitation loan program, which was developed under the Emergency Relief Appropriation Acts of 1935 and 1936, was administered by the Resettlement Administration, as an independent agency, until December 31, 1936. On that date, the President transferred all of the powers and functions of the Resettlement Administration and the Administrator thereof to the Secretary of Agriculture. While the existing organization of the old Administration was continued without substantial change, and continued to be known as the “Resettlement Administration,” its legal status was no longer that of an independent agency but rather that of a bureau within the Department of Agriculture. Additional funds for its program were made available for allotment by the President by the Emergency Relief Appropriation Act of 1937. On September 1, 1937, the name of the Administration was changed to “Farm Security Administration,” and under its new name charged with the additional responsibility of administering Titles I and II of the Bankhead-Jones Farm Tenant Act.

LEGAL AND ADMINISTRATIVE TECHNIQUE

The rehabilitation loan program, as at present administered by the Farm Security Administration, follows with virtually no changes the policies and procedures developed by the Resettlement Administration in the months following the enactment of the Emergency Relief Appropriation Act of 1935.

Organization. Originally, the rehabilitation loan and the rural resettlement programs of the Resettlement Administration were administered from Washington by a single division. It soon became apparent that the two programs were so different in technique that, for efficient operation, separate organizations were required. A Rural Rehabilitation Division was accordingly organized, with a small staff in Washington and in each of the twelve regional offices of the Administration. State offices, which were largely carried over from the State Emergency Relief Administrations, are also

It would appear that requirements, such as competitive bidding, designed to assure efficient and honest administration, should apply in the handling of these trust funds as fully as in the handling of appropriated funds. On the other hand, regulations and procedures designed to prevent the establishment of revolving funds would seem clearly inapplicable since the transfer agreements expressly provide that the trust funds would be maintained as revolving funds and none of the proceeds covered into miscellaneous receipts.

The appropriation contained in this Act was supplemented by the First Deficiency Appropriation Act, Fiscal Year 1937, 50 Stat. 8 (1937).
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maintained, though ultimate responsibility for the program in each region rests upon the Regional Director. While considerable supervision is exercised by the Washington, regional and state offices, particularly on questions of basic policy, the burden of administration is mainly upon the county rehabilitation supervisors and their staffs. Though loan applications and proposed farm and home management plans are passed upon in the regional office, it is the county office which is charged with the duty of preparing the plans, handling the execution of vouchers, notes and mortgages, making collections, and providing advice and supervision to borrowers in the carrying out of their farm and home plans. Expenditures for the last of the foregoing functions were for a time questioned by the Comptroller General.40

Individual Loans. Shortly after the enactment of the Emergency Relief Appro-

"The Administration Orders provided that: "Farm and home management plans will be designed so that the farm will make the largest possible contribution to the family living throughout the year in (1) vegetables and fruits, (2) dairy products, eggs and poultry, (3) meats and cereals, and (4) fuel," and "to incorporate an economy which promises sufficient cash income to provide economic stability and liquidation of obligations to the Resettlement Administration and to other creditors."

After a considerable exchange of correspondence, the Comptroller General, Decisions A-66999, A-79554, Oct. 6, 1936 (unpub.), withdrew objections to the furnishing of advice and supervision, specifically by home supervisors and home management supervisors, provided that such advice and supervision was limited to the "safeguarding of loans, or the furthering of the rehabilitation of persons to whom loans or grants have been made by the Resettlement Administration." Presumably, this restriction was intended merely to assure that advice and supervision are not given other than to destitute or low-income farm families. It would seem clear that no objection could reasonably be raised by the Comptroller General if it appeared possible to rehabilitate an applicant merely by working out farm and home management plans and providing the advice and supervision incident thereto without also providing financial assistance.

The following quotation from the letter of the Resettlement Administration to the Comptroller General constitutes a comprehensive description of the functions of the home management plans and the need for "advice and supervision:"

"The limitations of the Resettlement Administration render it impossible to make loans sufficiently large to enable families that are being rehabilitated to purchase all of the necessities of life. Loans must necessarily be kept small and careful planning is required to insure that the proceeds go as far as possible. . . . All phases of home management on the farm are so intimately related to the farming operations that they may prove the deciding factor in the failure or the success of the farming enterprise. . . . Unless the farm homemaker, therefore, does her part and assists the farmer in the production, conservation, and utilization of the farm commodities to cut down the cash cost of living, there is a real danger that an unnecessarily large portion of the cash income from the farm will be used for the support of the family instead of for the repayment of the loan. The County Home Supervisor has entire responsibility of this important phase of the program which is designed to safeguard the loan.

"After investigation, plans are worked out to insure effective and efficient expenditure of funds. The portion of the loan that is necessary to feed, clothe and house the farmer and his family is determined. In deciding on the amount of food that is necessary to feed the family, consideration is given to the number of chickens, hogs and other animals produced on the farm and available for meat, the quantity of milk produced on the farm and the portion which may be diverted from the market for use in the home, the amount of garden, truck or other commodities produced on the farm that can be utilized for home consumption.

"After rehabilitation loans are approved and the initial portion has been advanced, follow-up visits are made from time to time to determine whether or not the money advanced is being spent in accordance with the terms of the loan agreement. . . . The activities of Home Supervisors and Home Management Supervisors are definitely limited and restricted to furthering rehabilitation and to safeguarding loans as much as possible, and it is not intended that any employee delve into the personal affairs of borrowers which are unrelated to the formulation of a plan for their rehabilitation, nor will such activities be tolerated."
pation Act of 1935, general rules and regulations governing the making of loans by the Resettlement Administration were prescribed by Executive Order of the President.\footnote{41} This Order gave wide discretion to the Administrator in determining the purposes for which loans could be made.\footnote{42} The Administrator was authorized to fix interest rates at not less than three nor more than five per cent per annum.\footnote{43} Loans were required to be for such period, not to exceed forty years, as the Administrator should prescribe.\footnote{44} Loans for a period of two years or more were required to be repaid in equal annual installments except that when the loan was for a period of five years or more no principal payments need be required during the first three years.\footnote{45} To enable the completion of loan agreements executed by clients of the state corporations, the Administrator was authorized, upon receiving an assignment of such agreements from the corporations, to complete such loans according to their terms.\footnote{46} The Executive Order contained no requirements with respect to the taking of security.

In accordance with this Executive Order, Administration Orders were issued by the Administrator prescribing in detail the terms and conditions for rehabilitation loans. Under these orders loans for "recoverable goods"\footnote{47} are authorized for a period

\footnote{41}{Executive Order 7143, Aug. 19, 1935.}
\footnote{42}{Id. §1: "Loans may be made by the Resettlement Administration (a) for the purpose of financing, in whole or in part, the purchase of farm lands and necessary equipment by farmers, farm tenants, croppers, or farm laborers, and (b) for such other purposes as may be necessary in the administration of approved projects involving rural rehabilitation or relief in stricken agricultural areas." The reason for the differentiation between loans for the purchase of farm lands and equipment and loans for other purposes was that §1 of the Emergency Relief Appropriation Act of 1935, in addition to listing "rural rehabilitation" as one of the categories of relief and work relief, contained the following paragraph: "Funds made available by this joint resolution may be used, in the discretion of the President, for the purpose of making loans to finance, in whole or in part, the purchase of farm lands and necessary equipment by farmers, farm tenants, croppers, or farm laborers. Such loans shall be made on such terms as the President shall prescribe and shall be repaid in equal annual installments, or in such other manner as the President may determine." This last provision contained no restriction as to the income status of eligible borrowers. In administering its program, the Resettlement Administration made no loans under §1(a), except to destitute or low-income families as part of its rural rehabilitation program.}
\footnote{43}{Id. §3. "Interest shall be charged on all loans made by the Resettlement Administration at rates to be fixed by the Administrator, which rates shall not be greater than 5 percent or less than 3 percent per annum, and need not be uniform (a) throughout the United States or (b) on loans of different classes. Where circumstances so require, the Administrator may reduce the rate at which unaccrued interest shall be payable on outstanding loans, but in no case to a rate less than 3 percent per annum." Interest rates were in fact kept uniform throughout the United States. The only variation as between different classes of loans was the fixing of 3 percent on loans to cooperative associations as compared with 5 percent on individual loans.}
\footnote{44}{Id. §4, §5. The Administrator was given wide latitude in fixing amortization periods. The following general standards were prescribed: "The period for any loan or class of loans shall be fixed by the Administrator upon the basis of (a) the use to which the proceeds thereof are to be put, (b) the financial resources and earning capacity of the borrower, and (c) in the case of loans to finance the purchase of specific property, the probable rate of depreciation, the estimated life thereof, and the amount of the loan as compared with the total purchase price."}
\footnote{45}{Id. §5.}
\footnote{46}{Id. §7. This provision was necessary because of the wide variation in the interest rates and amortization periods adopted by the State corporations.}
\footnote{47}{R. A. Admn. Order 41, Rev. 1, §4(c) I. Purposes of loans for "recoverable goods" include: "Purchase of horses, mules, cattle, sows, sheep, or other livestock and poultry whose useful life is expected to exceed two years; construction and major repairs of buildings and fences; purchase of farm machinery and household equipment; refinancing of chattel mortgages and other liens on personal property, when
not to exceed five years and for "non-recoverable goods"\(^{48}\) for a period not to exceed two years. All loans are required to be secured.\(^{49}\) Borrowers are required, at their own expense, to record or file the security instruments wherever necessary under local law to be valid as against third parties.\(^{50}\) Where the proceeds of loans will not be used immediately by the borrower, interim security is obtained by requiring the deposit of the proceeds in a specified bank pursuant to a prescribed form of deposit agreement.\(^{51}\)

Under the foregoing procedures, loans during the period from July 1, 1935, to April 23, 1937, were approved in an amount exceeding $125,000,000, to approximately 500,000 farm families.\(^{52}\) A study of 50,000 rehabilitation loan cases disclosed an average advance of $360.00 per case, of which 52.6% went for fixed assets and 47.4% for working capital and subsistence requirements.\(^{53}\)

*Loans to Cooperatives.* Under Executive Order 7143, the Administrator was authorized to make loans either to individuals "or to such bona fide agencies or

\(^{48}\) Id. §4(c) II. Purposes of loans for "non-recoverable goods" include: "Purchase of feed, seed, fertilizer, and other seasonal farm supplies; minor repairs to buildings and fences, repairs to farm machinery and household equipment; and the purchase of farm tools; payment of rent on land and buildings; payment of recording and filing fees, labor, professional and transportation services, and other fees and services, including utility services; purchase of baby chicks, feeder pigs, or other livestock of a character that will be consumed or marketed in less than two years; purchase of foods, fuel, clothing, and other subsistence goods for human needs, and payment of indispensable medical services; payment of premiums for property insurance; payment of interest on chattel mortgages or other liens against personal property; payment of annual installments on chattel mortgages or other liens against personal property; payment of taxes on real and personal property."

\(^{49}\) Id. §4(f). The Order contemplated security not merely on the specific property purchased with the proceeds of the loan but also on all of the property of the borrowers. See note 50, infra.

\(^{50}\) Id. §5. While the cost of recordation is considerable, particularly in the cotton belt, it would seem justified not merely as a security device but as a measure frequently necessary to rehabilitation. The success of a farm management plan obviously requires that the borrower be left undisturbed in the possession and use of his capital goods, and that he restrict his expenditures and obligations to those contemplated in these plans. The taking and recordation of security instruments would seem of some value as deterrents against undue extension of credit to clients by prospective creditors, and as protection against dispossession by foreclosure or execution. Of course, creditors could legally foreclose or execute upon the property subject to the lien of the government. Practically, such action would not be likely since in most instances the assets of the client would be worth less than the indebtedness to the government, particularly on liquidation valuation.

\(^{51}\) The deposit agreements are executed by the designated bank, the borrower and the government, and provide that (1) the deposits are subject to withdrawal only upon the countersignature of the county supervisor or other designee of the government; (2) pending withdrawal, the borrower pledges the deposit to the government as security for the repayment of the loan; and (3) the bank waives any right of set-off. Such agreement would seem legally effective to prevent garnishment of the loan proceeds until withdrawal upon countersignature of the government representative. The propriety of this general type of deposit agreement was approved by the Comptroller General. Decision A-73755, May 19, 1936 (unpub.).

These agreements are often cumbersome in operation, and a statutory exemption of loan proceeds pending use for the purposes of the loan agreement would seem justified. *Cf.* §3 of the Act of August 12, 1935, 49 Stat. 607, 38 U. S. C. A. 450, exempting payments to disabled veterans from taxation or attachment either before or after receipt by the beneficiary. The exemption was held applicable to payments deposited in a bank subject to draft for the veteran's use, at least until expended or invested for his benefit. Lawrence v. Shaw, 300 U. S. 245 (1937).

\(^{52}\) See Hearings before the Subcommittee of the House Committee on Appropriations on the Emergency Relief Appropriation Act of 1937, 75th Cong., 1st Sess. (1937) p. 11.

\(^{53}\) Id. at 13, table 3.
cooperative associations as the Administrator shall approve." To be eligible it was required that such agencies or associations "impose no inequitable restrictions upon membership or participation therein" and "that they be so conducted under the supervision of the Resettlement Administration as to protect adequately the interests of the members of participants therein." As in the case of individual loans, the Administrator was given broad authority to determine the particular objects, the only restriction being that the loans be for such purposes "as may be necessary in the administration of approved projects involving rural rehabilitation or relief in stricken agricultural areas."

Besides the prohibition in Executive Order 7143 against inequitable restrictions against membership, the Administration Orders require that to be eligible for a loan the cooperative limit each member to one vote regardless of the number of shares of stock held by him, and provide against voting by proxy. Supervision by the government is generally limited to the requirement of periodic reports, responsibility for management being placed primarily upon the cooperative itself.

Loans to these cooperative associations have been made for such purposes as to provide facilities for crop harvesting, processing of agricultural products, grading, packing and storing, farm machinery repairing, and facilities for food conservation and processing. The value of such facilities in the rehabilitation of the members of the cooperative is so obvious that normally no legal question has been involved in the making of these loans. However, legal questions are occasionally presented. Thus, it would seem clear that the cooperative should ordinarily consist entirely of destitute or low-income farm families and that the inclusion of other farmers must be factually justified as necessary to enable the cooperative to adequately serve the destitute and low-income members. Likewise, it would seem that, under any circumstances, a loan would not be legally authorized unless at least a majority of the members were destitute or of low income. Similarly, the amount of probable benefit to each destitute and low-income member of the cooperative must be substantial when compared with the total loan in order to justify such loan as "necessary in the administration of approved projects involving rehabilitation."

In addition to loans to cooperative associations, the Administration Orders authorize loans to individuals to enable them to participate in "community and coop-

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64 The reference to "approved projects" is somewhat unfortunate, since as a matter of grammatical construction, the Order might be construed as requiring a "project" independent of the loan itself. It is clear, however, that this was not intended. The reference to "approved projects" appears in Section 1 of the Executive Order, which is applicable to individual as well as cooperative loans, and it is clear that as to individual loans there can hardly be an approved project other than the loan itself. The General Accounting Office has in practice construed Section 1(b), both in the case of individual and cooperative loans, as not requiring any project independent of the loan itself. See Decisions Compt. Gen. A-73755, May 19, 1936 (unpub.); A-82015, 16 C. G. 613.

65 On occasion, more direct control was deemed necessary, e.g., by requiring the selection of representatives of the government as officers or directors of the cooperative. The statute, 35 Stat. 1097, 18 U. S. C. §93, which prohibits a government official to transact business with any corporation of which he is an officer, was held not applicable since the representatives so selected would have no personal interest in the profits or contracts of the cooperative. Decision Compt. Gen., A-82015, supra note 54; cf. U. S. v. Chemical Foundation, Inc., 272 U. S. 1 (1926).
erative services." Under these orders, loans may be made to enable individual rehabilitation clients to purchase memberships in a cooperative where it is found that the services obtained through such membership will contribute substantially to their rehabilitation. Similarly, loans may be made to small groups of farmers to enable the joint purchase of farm equipment, bulls, stallions and jacks, and similar facilities and services, too costly to be purchased individually but not substantial enough to warrant the organization of a cooperative association eligible for a direct loan. In some regions, instead of financing these "services" through joint loans, a single loan is made to one farmer, who purchases and operates the services as his own property but undertakes by agreement to make them available to the rehabilitation families in his locality for stipulated maximum fees.

The Grant Program. The grant program of the Resettlement Administration was in the main administered as an activity separate and distinct from the rehabilitation loan program. Most of the grant recipients were families who needed temporary assistance because of drought or other disaster.

It was recognized that a direct relief program was at best an unsatisfactory approach to the relief problem. Being in the nature of a "dole," direct relief grants were regarded as likely, in the long run, to demoralize the recipients. However, the practical difficulties in establishing work relief projects made it necessary to use the methods of direct relief. Consideration was given to the possibility of avoiding whatever demoralizing effects might result from dole payments by having the recipients of the grants execute "voluntary work agreements." Under this plan, farmers receiving direct relief grants would be allowed and expected—although not required—to agree to perform a stipulated amount of work on work projects if, as and when they could be instituted either locally or by the federal government. However, it was deemed undesirable to enter into such arrangements unless compensation were available for injuries sustained by farmers working on such projects, to the same extent as the compensation provided for relief workers on direct work relief projects. The Compensation Commission ruled that such compensation would not be payable, so that employment under these agreements was limited to a few local projects in states in which such compensation was provided by law.

The Bankhead-Jones Farm Tenant Act

Three programs are provided for in the Bankhead-Jones Farm Tenant Act. Title I of the Act provides for loans by the Secretary of Agriculture to enable

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66R. A. Adm. Order 40, Rev. 2.
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69Title I of the Act provides for loans by the Secretary of Agriculture to enable
farmers, farm tenants, croppers and laborers to acquire farms. Title III authorizes a
program for land conservation and land utilization. Title II, with which we are
here concerned, provides for a program of "Rehabilitation Loans."

The administration of the rehabilitation loan program under Title II of the
Bankhead-Jones Act is vested in the Secretary of Agriculture. While the Act also
creates a Farmers' Home Corporation, the Secretary is not required to utilize it.
The statute merely authorizes him to delegate to the corporation such of his powers
and duties under Titles I and II thereof as "he deems may be necessary to the efficient
carrying out of the purpose of such titles." It is clear, therefore, that the Secretary
may administer the provisions of Titles I and II of the new Act, or any part thereof,
either through the Farmers' Home Corporation or through such bureau or administra-
tion as he may utilize or create within the Department.

The essential provisions of Title II with respect to the loan program are as
follows:

"Sec. 21. (a) Out of the funds made available under section 23, the Secretary shall have
da power to make loans to eligible individuals for the purchase of livestock, farm equipment,
supplies, and for other farm needs (including minor improvements and minor repairs to
real property), and for the refinancing of indebtedness, and for family subsistence.

"(b) Loans made under this section shall bear interest at a rate not in excess of 3 per
centum per annum, and shall have maturities not in excess of five years, and may be re-
newed. Such loans shall be payable in such installments as the Secretary may provide in
the loan agreement. All loans made under this title shall be secured by a chattel mortgage,
a lien on crops, and an assignment of proceeds from the sale of agricultural products, or
by any one or more of the foregoing.

"(c) Only farm owners, farm tenants, farm laborers, sharecroppers, and other indi-
viduals who obtain, or who recently obtained, the major portion of their income from
farming operations, and who cannot obtain credit on reasonable terms from any federally
incorporated lending institution, shall be eligible for loans under this section."

It would appear that the above provisions will enable the Secretary to continue
the rehabilitation loan program in substantially its present form. Thus, the purposes
for which loans may be made under Section 21(a) include (either by express enu-
meration or by the words "other farm needs") the purposes for which rehabilitation
loans are now authorized under Executive Order 7143 and the Administration
Orders issued thereunder. Likewise, the restriction of loan maturities to five years,
as provided in Section 21(b), accords with the usual amortization period now
provided for rehabilitation loans.63 Similarly, the requirement in Section 21(b)
requiring that all loans be secured follows the present policy of the Farm Security
Administration.64

In view of this similarity between the provisions of the new Act and the orders
and regulations covering the present program, it would seem, at this writing, that
the present administrative and legal procedures now employed can readily be
adapted to the administration of Title II of the new Act.

60 Supra note 2, 521.
61 See notes 47, 48 and 53, supra.
62 See p. 485, supra, and notes 49, 50, supra.
63 Id. 540(b).
64 See p. 484, supra.