



Reviewing the History and Development of USDA Farm Loans, Part 2: 1937 to 1946

Jonathan Coppess

Department of Agricultural and Consumer Economics
University of Illinois

March 11, 2021

farmdoc daily (11): 36

Gardner Policy Series

Recommended citation format: Coppess, J. “[Reviewing the History and Development of USDA Farm Loans, Part 2: 1937 to 1946.](#)” *farmdoc daily* (11): 36, Department of Agricultural and Consumer Economics, University of Illinois at Urbana-Champaign, March 11, 2021.

Permalink: <https://farmdocdaily.illinois.edu/2021/03/reviewing-the-history-and-development-of-usda-farm-loans-part-2-1937-to-1946.html>

The U.S. Department of Agriculture’s farm loan programs were initiated during the New Deal with the Bankhead-Jones Farm Tenant Act of 1937 and continue to be reauthorized in farm bills. The farm loan program authorities reside in the Consolidated Farm and Rural Development Act (ConAct), previously the Consolidated Farmers Home Administration Act of 1961 which was Title III of the Agricultural Act of 1961 (P.L. 87-128). Continuing the review of the history and development of the farm loan programs, this article looks at the developments from enactment of the 1937 Act through the Farmers’ Home Act of 1946.

Background

The Bankhead-Jones Farm Tenant Act of 1937 was signed into law by President Franklin Roosevelt on July 22, 1937 (P.L. 75-210). As discussed previously, the law created the Farm Security Administration to implement: (1) farm tenant purchase loans; (2) rehabilitation loans; and (3) a program to retire submarginal lands from cultivation and production. Congress was concerned with increasing farm tenancy during the Depression, as well as the corresponding challenges for rural communities. Congress also expressed concerns about soil erosion on lands owned by absentee landlords, particularly during the Dust Bowl. Buried in the backstory were the consequences of acreage reduction policy under the farm support programs, particularly in the cotton producing regions (*farmdoc daily*, [March 4, 2021](#)).

From the outset, concerns were raised that the tenant purchase loans would be ineffective or unavailable for the poorest tenants and sharecroppers most impacted by acreage reduction policies, the Depression and the social situation in the Jim Crow South (Maddox 1937). The subsequent record of discrimination begs questions with uncomfortable answers about the persistence of problems, concerns and consequences. One method for understanding and answering these questions is to unpack the mechanisms by which discrimination and disparate treatment operate; analysis of program design and development, connecting actions of individuals in agency offices to the actions and intentions of those in

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Congress. To review this is to delve deeper into the realities of systemic discrimination, a case study in creation, operation, perpetuation and more.

Discussion

Research and review of the 1937 Act uncovered three specific mechanisms of note for the issue of systemic discrimination. First, while only tenants, sharecroppers and farm laborers were eligible for a purchase loan, Congress included a preference for those who could afford an initial down payment on the loan, as well as those with livestock and farm implements necessary for successful farming (P.L. 75-210). These provisions drove concerns that the tenant purchase loans would not benefit those farmers most in need (Maddox 1937). Second, Congress restricted the farms that could be the subject of a loan to those “sufficient to constitute an efficient farm-management unit and to enable a diligent farm family” to successfully farm in the area (P.L. 75-210 (emphasis added)). This vague requirement provided for substantial discretion in the loan making decision. Combined with and magnified by a small authorization for funding, these provisions narrowed the field of potential borrowers significantly and purposefully.

It was the third component of loan program administration that would prove to be its most consequential and problematic, however. Congress required that eligibility for any loan was to be determined by a local county committee consisting of three appointed farmers residing in the county:

“If the committee finds that an applicant is eligible to receive the benefits of this title, that by reason of his *character, ability, and experience* he is likely successfully to carry out undertakings required of him under a loan which may be made under this title, and that the farm with respect to which the application is made *is of such character* that there is a reasonable likelihood that the making of a loan with respect thereto will carry out the purposes of this title, it shall so certify to the Secretary. The committee shall also certify to the Secretary the amount which the committee finds is the *reasonable value* of the farm”

(P.L. 75-210, Sec. 2(b) (emphasis added)). Consider reality in context of time and place; the farmers most likely appointed to the county committees would not have been tenants or sharecroppers. In the South, they would have been from among the farmers who were using the AAA programs to drive tenants and sharecroppers towards wage labor or off the farm entirely; the farmers who provided the leases and furnish to tenants and sharecroppers; who divided the proceeds of the cotton and calculated repayment of furnish; who held all the power in a system considered “debt peonage” by historians (Daniel 1972; Mann 1984, at 418; Conrad 1965, at 4-7; Woodman 1979, at 332-34; Vance, at 263). For Black farm tenants and sharecroppers, in particular, the fate of a loan application was placed in the conflicted hands of the very white farmers who were the landlords, cotton planters and lenders. Research has identified devolution to local decision makers with vast discretion was one of the primary methods by which Southern policymakers protected and fortified the Jim Crow system (see e.g., Katznelson 2013; Bensel 1984). In 1999, the federal district court overseeing the discrimination lawsuit against USDA concluded that “[t]here does not appear to be much dispute that racial discrimination has occurred throughout USDA and that the USDA and the county committees discriminated against African American farmers for decades in evaluating their applications for farm credit and benefits” (*Pigford v. Glickman*, 185 F.R.D. 82, 104 (D.D.C. 1999)).

The discriminatory intent built into the programs from the start was subsequently reinforced by key Members of Congress. Review of early FSA leadership concluded that the tenant purchase loan program was operated conservatively which generally kept the program on favorable terms with Congress (Banfield 1949; Baldwin 1968). In addition to the tenant purchase loans, FSA also operated a large suite of programs under the general umbrella of farm and rural rehabilitation. These rehabilitation programs were the primary source of significant political problems for the agency. Rehabilitation efforts that encouraged cooperative farming and other group farming efforts, especially for Black farmers and families, drew conservative attacks sometimes built on accusations of Socialism and Communism. For example, Oscar Johnston, founder of the National Cotton Council, accused the agency in a hearing of trying to “undermine the principle of fee simple land ownership in the United States” (quoted in Baldwin 1968, at 385). Notably, Johnston had been a high level USDA appointee in the early years of the Roosevelt Administration, while also managing one of the largest cotton plantations in the Nation which received some of the largest federal payments from USDA in the early New Deal (*farmdoc daily*, June 4, 2020; Nelson 1999; Nelson 1974).

The FSA was viewed “as a disturber of the peace” in the South where “virtually every FSA program and policy seemed to touch a nerve” because any federal assistance to Black tenants, sharecroppers, laborers and their families was considered “subverting the southern *status quo*” (Baldwin 1968, at 275-79). FSA leadership was attacked in hearings, sometimes with conspiracy theories and lies such as claiming FSA loans were used to pay poll taxes. Southern opponents used appropriations provisions to undercut, limit or otherwise retaliate by restricting funds for administration, tightening loan limits and reducing the overall funding available; a sustained effort of “political interference [that] handicapped the administration of the program” concentrated in the war years 1941 to 1946 (Banfield 1949, at 475). In 1944, Representative Harold Cooley (D-NC) led a scorched-earth investigation of the FSA, helping advance efforts to abolish the agency that finally succeeded in 1946 (Baldwin 1968).

The Farmers’ Home Administration Act of 1946 created a new agency to replace the FSA. Congress consolidated and revised various lending authorities and required an expeditious liquidation of all resettlement and rural rehabilitation projects; instead of rehabilitation, it created production and subsistence loans for farmers and livestock producers (P.L. 79-731). Congress continued the tenant purchase lending program of the 1937 Act, however, adding veterans as an eligible category. The 1946 Act also authorized federal insurance of farm mortgages in addition to direct lending, allowing the new agency to insure loans to farmers by commercial lenders and the Farm Credit System. Congress created the Farm Tenant Mortgage Insurance Fund as a revolving loan fund for mortgage insurance. With this, “Congress provided the machinery for rapid expansion” of USDA’s farm lending capabilities “by creating [a] mortgage insurance program to supplement the direct loans” (Banfield, at 470). Since it required a loan from a commercial lender, this expansion was not designed to benefit the farm tenants, sharecroppers or farm laborers left behind under the 1937 Act, but rather an expansion that reinforced the disparate outcomes of the original program.

Most critically, Congress again placed the lending decisions in the hands of an appointed county committee of local farmers. It also included approval by the county committee for insuring farm mortgages. Congress continued vast discretion for the committee, which determined eligibility for a loan “by reason of [the applicant’s] character, ability, industry and experience” (P.L. 79-731). It added a requirement that the applicant was unable to obtain sufficient credit on reasonable terms from commercial lenders, cooperative lending agencies, or “other responsible source” (P.L. 79-731). The county committee was also to certify the “fair and reasonable value of the farm based upon its normal earning capacity” and an appraisal (P.L. 79-731).

Conclusion

In the long history of the farm loan programs, honest evaluation struggles to balance the good the loans have done for those who received them with the vast discrimination in lending operations and the substantial damage to those discriminated against. The persistent record of discrimination and disparate treatment began with Congressional design, particularly devolution of loan decision making to local committees of appointed farmers. It developed through the actions of individuals in agency offices and local committees, as well as decisions by agency leadership. That development was reinforced by the subsequent actions and reactions of Congress; hearings, appropriations, funding and statutory revisions provided clear lessons to agency leadership and personnel. The troubling legacy haunting these programs has many authors and actors. The next article will trace development through 1961.

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