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"BANK CREDIT FOR A CHANGING AGRICULTURE" was the theme of the Fifth National Agricultural Credit Conference held this week in St. Louis. Sponsored by the American Bankers Association, the conference was attended by 500 agricultural lenders from all sections of the country.

The three-day program of speeches, round-table discussions and informal "bull sessions" was aimed at improving credit services to farmers in a period of a rapidly changing agricultural industry. However, considerable attention also focused on farm policy and the near-term outlook for agriculture, both important factors in the farm finance picture.

THE "STAGE WAS SET" by Mr. H. W. Schaller, a banker from Storm Lake, Iowa. Pointing out that new methods and materials continue to be made available to farmers, he concluded that capital and credit will play larger roles in agriculture as production is made more efficient and output per man and per farm continue to expand. "While these kinds of changes take place slowly, it is important to recognize the changes early and adapt credit policies and practices to the changing times."

Among the credit practices holding the attention of conference participants were correspondent banking and intermediate-term credit.

The place of correspondent banking. Discussions of this topic generally concluded that correspondent banking is admirably suited to accommodate credit lines too large for individual country banks. And the number of such credit lines may increase as farms continue to grow in size and the cash requirements for operating rise further.

It was noted that a recent survey of bank loans to farmers showed that participation loans accounted for less than 1 per cent of the more than 5 billion dollars of bank-held farm debts in mid-1956. However, it was generally expected that the portion would grow or other methods will be found to channel credit into agricultural areas which do not generate adequate loanable funds locally.

Intermediate-term credit always creeps into discussions of farm finance. And this conference was no exception. While the recent survey shows that one-third of all bank loans outstanding to farmers are for intermediate-term investment purposes—to finance machinery, breeding livestock and real estate improvements—credit for these purposes is granted on widely different terms in different areas. In one discussion group individual bankers reported that their typical practices ranged from a bona fide 2-5 year loan, to annual renewals with and without written agreements, to notes due on demand but with payments scheduled over a period of years.

The discussions suggested that the best policy in regard to financing intermediate-term investments depends on individual circumstances. For example, in dairy areas where the flow of income is relatively stable and time deposits often account for more than half of all deposits, banks may go much further in adopting a "bona fide term loan" than in a cash grain area. In the latter community income is highly variable and demand deposits frequently account for 80 per cent or more of all bank deposits. In these areas term loans may have to be held to relatively low levels in bank portfolios.

The current period was pictured by E. A. Wayne, Vice President, Federal Reserve Bank of Richmond, as one in which "a terrific increase in bank loan demand has pressed heavier and heavier upon the available credit supply." This has resulted from high levels of business activity and strong business and consumer confidence in the future.

The speaker pointed out that the current Federal Reserve policy is to attempt to limit the total supply of credit to the amounts that can be used effectively to expand the economy. In a boom period, where most resources are fully employed, the alternatives are inflation or direct control by government of prices and the allocation of goods and services.

The demand for loans in the months ahead by business, agriculture, government and consumers was indicated to continue strong. In this setting, Mr. Wayne said that farm customers will continue to find themselves in keen competition with their local businessmen, consumers and homeowners for the flow of credit which their banks and other lenders are able to supply.

Country bank lending policies, according to Schaller, are also likely to be dominated in 1957 by drouth or its aftereffects in much of the central plains region and for a number of farmers by the depletion of the financial cushion accumulated in the war and postwar years. Thus, when adversity strikes, lenders will likely have larger amounts of renewals and refinancings than in other recent years.

Research Department