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FARM BUSINESS NOTES

Prepared by the Divisions of Agricultural Economics and Agricultural Extension
Paul E. Miller, Director Agricultural Extension

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Financial Progress in Minnesota PCA's

SHERWOOD O. BERG and E. FRED KOLLER

Production credit associations are attaining a significant place in the financing of Minnesota farmers. They held more than 11 million dollars of short-term, non-real-estate loans to farmers on January 1, 1950 (see table 1). Their volume of loans rose steadily during the last decade. They also increased in importance relative to the other lending agencies, for the proportion of the total loans held by them in 1949 was greater than in 1940-45.

The production credit associations, commonly referred to as PCA's, were authorized by the Farm Credit Act of 1933. The associations are local cooperatives in which membership is represented by ownership of stock. Their function is to provide short-term financing for all types of farm and ranch operations. The policies of the local association are determined by a board of directors, usually of five members, elected by active borrowing members on the "one man, one vote" principle common to cooperatives.

Loan funds are obtained from two sources: (1) the federal intermediate credit bank of the district which rediscounts the members' notes bearing the association's endorsement; and (2) a local "cash loan fund" created from earnings and direct borrowings. The latter fund is kept on hand to expedite the closing of small loans and to permit the carrying of loans refused for rediscount by the federal intermediate credit bank.

In 1934, when these associations were first chartered in the state, many farmers were not in a financial position to provide the necessary capital to enable their organizations to rediscount their loans with and borrow from the Federal Intermediate Credit Bank. Funds were also needed to provide income during the period of building an adequate volume of business. This necessary capital was provided by the federal government which invested in Class A stock of the local credit cooperatives. This government equity in the local association was invested in bonds which provided income to help pay operating expenses and to maintain and build up adequate reserves. One of the overall objectives of the production credit system during its

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period of existence has been to reduce this government capital and to make the local associations completely farmer-owned and controlled.

In view of their growth in loan volume and in importance as a source of short-term credit to farmers, what has been the financial progress of Minnesota PCA's in recent years? What has been their achievement with respect to full member-

ownership? An examination of the financial statements for the period of 1940-1949 provides many of the answers.

The financial resources of the PCA's have increased in line with the increased volume of loans. The total assets per association rose slowly through 1946, but increased rapidly in the next three years (table 2). The assets per association averaged \$689,575 at the end of 1949 and for individual associations ranged from \$364,000 to \$1,137,000.

Major current assets, including cash, member loans, and accrued interest, increased more than 110 per cent from 1940 to 1949. In the meantime, investment assets in the form of U. S. obligations rose 43 per cent in 1946 but dropped off slightly in 1949. Investment under the Commodity Credit Corporation has dropped off sharply.

Ninety-eight per cent of the liabilities are in the form of rediscounted loans and notes at the Federal Intermediate Credit Bank, the chief source of loan funds.

The most significant trends are found in net worth and capital structure of these associations. The accumulations of member-owned stock and reserves has been substantial. The contingency reserve per association increased from \$13,387 in 1940 to \$47,775 in 1949, or 357 per cent. The guaranty fund, a special statutory reserve, had increased 81 per cent. By December 31, 1949, the total reserves of all 21 associations in the state amounted to \$1,369,968—the equivalent of 72 per cent of the total capital stock or 86 per cent of the member-owned stock. These reserves were accumulated out of net earnings from membership sources and from interest on securities purchased with proceeds from government capital invested in Class A stock.

As borrowers are required to buy \$5.00 of capital stock

for each \$100 borrowed, class B stock owned by members has increased proportionately with expanding loan volume. This growth also contributed to the decline in the proportion of paid-in capital represented by government-owned class A stock.

Another way in which PCA's moved toward full member-ownership was in increased member investment in non-voting class A stock and in the retiring of this type of stock held by the government. The government owned 80 per cent of the total paid-in association stock on December 31, 1940, compared with 16 per cent at the end of 1949. In the meantime, class A stock held by farmers and investors other than the government had increased from a total of \$13,110 in 1940 to \$458,420 in 1949. Because of this rapid increase in the farmers' equity in their associations, by June 30 of this year, 11 of the 21 PCA's in Minnesota were wholly member-owned, all government capital having been repaid.

Certain financial ratios have been employed as guides in the loaning operation of PCA's. By statute, the total of discounted loans and other liabilities cannot exceed 10 times the association's paid-in capital and reserves. In practice, the discounted loans and other liabilities have been about five times the paid-in capital and reserves. In 1940, the ratio of maximum volume of loans outstanding to member net worth (accumulated reserves and member stock) for all associations was six to one. By 1949, this ratio had improved to 4.2 to one. In this latter year, seven individual associations had a ratio of less than four to one; only two associations exceeded the five to one ratio.

Another guide is the relationship of total reserves to maximum loans outstanding. Each association establishes its own goal, based on factors peculiar to its area and type of loans. Most associations have set a goal of at least 10 per cent. In 1940, the total reserves of all associations were nine per cent of the maximum volume of loans outstanding; in 1949, this figure had risen to 11 per cent. In the latter year in 14 of the 21 associations, total reserves exceeded 10 per cent.

In general, Minnesota PCA's have shown substantial progress in their financing from their organization in 1934 to date. Virtually all of their operations, however, have been during a period of rising farm prices and favorable farm income. They have not been tested in a period of farm

income distress. Now that the capital structure of these associations is being established on a firm member-ownership basis, further progress will be dependent upon improved efficiencies in operation and conscious adaptability to changes in farmers' credit needs.

Table 2. Average of Balance Sheets, Minnesota PCA's, December 31, 1940, 1946, and 1949

	1940	1946	1949
Current Assets:			
Cash	\$ 4,378	\$ 6,983	\$ 9,178
Member accounts			
Loans (net)	239,543	308,185	534,312
Accrued interest (net)	5,280	6,607	14,705
Accounts receivable	2	1	2
Other accounts receivable	9	.....	72
Total Current Assets	\$249,212	\$321,776	\$558,269
Investment Assets:			
U. S. obligations	\$ 92,181	\$132,054	\$128,531
Accrued interest (U. S. Bonds)	1,360	607	510
Commodity Credit Corporation	7,078	6,985	120
Accrued interest (C.C.C.)	23	17	.....
Total Investment Assets	\$100,642	\$139,663	\$129,161
Fixed Assets:			
Building, furniture, and equipment	\$ 1,017	\$ 280	\$ 819
Other Assets:	4	3	1,326
Total All Assets	\$350,875	\$461,722	\$689,575
Current Liabilities:			
Loans rediscounted	\$211,881	\$255,226	\$460,035
Notes payable (FICB)	20,454	46,068	66,879
Accrued interest payable	1,617	2,367	5,404
Other liabilities	790	464	1,449
Total Current Liabilities	\$234,742	\$304,125	\$533,767
Net Worth:			
Contingency reserve	\$ 13,387	\$ 27,579	\$ 47,775
Guaranty fund	9,658	19,557	17,462
Class A stock: Government	74,230	68,810	14,524
Other	504	4,852	21,830
Class B stock	18,354	36,799	54,217
Total Net Worth	\$116,134	\$157,597	\$155,808
Total Net Worth and Liabilities	\$350,875	\$461,722	\$689,575
Number of Associations	26	21	21

Characteristics of Short-Term Bank Loans to Farmers

REYNOLD P. DAHL

During recent months, the Division of Agricultural Economics has analyzed 1,094 short-term agricultural production loans made by eight selected state banks located in four type-of-farming areas in Minnesota. The purposes of this study have been to determine the characteristics and quality of such loans and to examine the differences in loaning practices that exist among banks.

A large proportion of the loans made to farmer-borrowers are for small amounts. Of the 1,094 individual notes, including both new loans and renewals, about one half were for sums of less than \$250. This would indicate that farmers undoubtedly rely on their banks for many convenience loans. If the "median" size of loan is determined

Table 1. Non-Real-Estate Loans to Farmers: Amount Held by Important Lending Agencies, Minnesota, January 1, Selected Years*

Year	Production Credit Assn's. amount (\$1,000)	Commercial Banks amount (\$1,000)	Farmers- Home Adm. amount (\$1,000)	Other† amount (\$1,000)	Total amount (\$1,000)
1940-45 Avg.	6,177	66,975	19,370	1,602	94,123
1946	6,482	51,571	16,967	1,313	76,333
1947	6,482	54,088	15,811	1,258	77,639
1948	7,964	61,432	13,322	1,413	84,131
1949	10,252	81,470	11,159	1,578	104,459
1950	11,234	95,656	12,401	1,546	120,837

* Excludes loans guaranteed by Commodity Credit Corporation.

† Livestock loan company and agricultural credit corporation loans discounted at Federal Intermediate Credit Bank.

Source: Agricultural Finance Review.

in the northeastern dairy area, there were approximately 162 loans greater than and 162 loans less than \$159. The median size of loan, similarly determined, is \$200 in the central dairy area, \$300 in the southwestern livestock and cash grain area, and \$500 in the Red River Valley. Small borrowings in the dairy areas represent funds for the monthly operation of dairy farms, while loans in western areas are associated with seasonal crop production and livestock feeding.

On the average, three out of every ten notes the farmers signed involved a renewal. Renewals were relatively low in the two crop areas located along the western edge of the state, but were higher in the dairy areas. In fact, some form of renewal was involved in nearly one half of the notes in the northeastern dairy region. This record of renewals is indicative of the debt repayment difficulty experienced by dairy farmers during 1948. Normally, butterfat prices increase as production slackens off during the fall of the year and remain above the yearly average until the following spring. However, the opposite occurred in 1948. The price of butterfat declined 33 per cent from August through December of that year. As a result of this substantial decline in the price of butterfat, many dairy farmers having short-term obligations that matured in the fall could not pay off their loans and had to obtain renewals.

Comparatively few of the short-term loans in the study were drawn for a term exceeding six months. Fifty-five per cent of all notes carried a term of less than four months and 85 per cent for less than seven months. The average term for the 1,094 notes was five months. A borrower's banker customarily grants him a certain term for his loan. He is expected to satisfy that obligation by the time the contract term has expired.

The most common interest rate found among the short-term loans was seven per cent. Thirty-eight per cent of the loans carried this rate. However, interest rates of six and eight per cent were also common as 34 per cent of the loans were made at six per cent interest and 24 per cent carried a rate of eight per cent interest. Size of loan was the most important factor influencing interest rates. Rates declined progressively as size of loan increased.

Some type of security was required for one third of the notes in the study. Chattel mortgages were the most common form of collateral, but loans were also backed by other types of security in the form of endorsements, certificates of deposit, conditional sales contracts, cream and milk assignments, and government crop insurance assignments.

Financial Progress of Farmers
During 1949

TRUMAN R. NODLAND

Farmers cooperating in the southern Minnesota farm management services made relatively small gains in net worth during 1949. The accompanying table shows the average net worth statements for owners, part-owners, and

renters as of January 1 and December 31, 1949. The part-owner group operated the largest acreage and made the greatest financial progress during the year.

The average increase in total assets varied from a high of \$1,159 for the part-owners to a low of \$368 for the owner group. There were increases in the farm capital used in the operation of the farm business, real estate other than the farm operated, cash surrender value of life insurance, and in household and personal assets. Cash on hand was less at the end of the year. Much of the increase in farm capital was due to the erection of new buildings by the owners and part-owners and the purchase of new machinery and equipment by all groups. The value of feed and livestock on hand was lower at the end of the year because of declines in the prices of hogs, flax, and soybeans.

The owner-operator group showed a decrease in liabilities owed while the part-owners and renters showed increased liabilities at the end of the year. On the average, all the groups studied were in sound financial condition.

Net Worth Statement for Owners, Part-Owners, and Renters, 1949

	Owners	Part-Owners	Renters
Number of cases	67	36	38
Acres per farm	193	289	221
Owned	193	152	.....
Rented .....	.....	137	221
January 1, 1949			
Assets:			
Total farm capital	\$35,352	\$30,527	\$12,535
Real estate other than farm operated	1,985	754	79
Life insurance, cash surrender value	1,172	1,084	581
Household and personal assets	1,686	1,821	2,000
Accounts receivable	371	89	242
Stocks and bonds	3,138	3,872	1,411
Cash on hand and in bank	1,489	1,969	1,243
Miscellaneous	451	427	126
Total assets	\$45,644	\$40,543	\$18,217
Liabilities:			
Real estate mortgages	\$ 4,809	\$ 2,343	.....
Chattel mortgages	1,082	1,125	\$ 888
Notes payable	1,542	2,531	915
Accounts payable	288	169	334
Total liabilities	\$ 7,721	\$ 6,168	\$ 2,137
Net Worth	\$37,923	\$34,375	\$16,080
December 31, 1949			
Assets:			
Total farm capital	\$35,452	\$32,595	\$13,075
Real estate other than farm operated	2,143	909	67
Life insurance, cash surrender value	1,281	1,190	645
Household and personal assets	1,909	2,064	2,202
Accounts receivable	534	197	132
Stocks and bonds	3,134	3,639	1,415
Cash on hand and in bank	1,038	1,503	1,178
Miscellaneous	521	505	150
Total assets	\$46,012	\$42,602	\$18,864
Liabilities:			
Real estate mortgages	\$ 4,531	\$ 2,039	.....
Chattel mortgages	965	1,362	\$ 1,067
Notes payable	1,580	3,020	977
Accounts payable	186	182	349
Total liabilities	\$ 7,262	\$ 6,603	\$ 2,393
Net Worth	\$38,750	\$35,999	\$16,471
Gain in net worth	+827	+1,624	+391

Minnesota Farm Prices for July-August, 1950

Prepared by W. C. WAITE and A. B. LARSON

The index number of Minnesota farm prices for July, 1950 is 248.5. For August, the index is 242.6. This index expresses the average of the increases and decreases in farm product prices in the given month of 1950 over the average of the corresponding month 1935-39, weighted according to their relative importance.

Average Farm Prices Used in Computing the Minnesota Farm Price Index, July-August, 1950, with Comparisons*

	July 15, 1950	Aug. 15, 1950	Aug. 15, 1949		July 15, 1950	Aug. 15, 1950	Aug. 15, 1949
Wheat	\$ 2.15	\$ 2.10	\$ 1.90	Hogs	\$20.70	\$21.30	\$18.30
Corn	1.31	1.31	1.05	Cattle	25.50	25.00	19.90
Oats .....	.74	.65	.52	Calves	28.30	28.60	24.40
Barley	1.41	1.24	1.05	Lambs-sheep	22.91	23.93	20.03
Rye	1.26	1.19	1.15	Chickens .....	.169	.155	.205
Flax	3.46	3.38	3.58	Eggs .....	.286	.304	.450
Potatoes	1.30	1.30	1.50	Butterfat .....	.65	.66	.66
Hay	14.00	13.80	14.90	Milk	2.95	3.00	3.10
				Wool† .....	.54	.52	.44

* These are the average prices for Minnesota as reported by the United States Department of Agriculture.

† Not included in the price index number.

The Minnesota farm price index continued to rise in July, following the trend which began in January. Higher prices for livestock accounted for much of the July increase.

The index was 5.9 points lower in August than in July, due principally to lower crop prices. Oats and barley declined 12 per cent and rye was 6 per cent lower in price. However, corn was unchanged, and feed ratios rose only slightly.

Indexes and Ratios for Minnesota Agriculture*

	July 15, 1950	Average 1935-39	Aug. 15, 1950	Average 1935-39
U. S. farm price index	246.2	100	252.8	100
Minnesota farm price index	248.5	100	242.6	100
Minn. crop price index	239.8	100	234.4	100
Minn. livestock price index	298.9	100	298.7	100
Minn. livestock product price index	208.3	100	203.9	100
U. S. purchasing power of farm products	120.8	100	122.5	100
Minn. purchasing power of farm products	121.9	100	117.5	100
Minn. farmers' share of consumers' food dollar	57.2†	47.0	56.2‡	48.4
U. S. hog-corn ratio	14.9	11.9	15.0	12.3
Minnesota hog-corn ratio	15.8	14.3	16.2	14.6
Minnesota beef-corn ratio	19.4	12.0	19.1	12.0
Minnesota egg-grain ratio	10.1	14.4	11.1	15.9
Minnesota butterfat-farm-grain ratio	26.2	29.8	29.4	33.5

* Explanation of the computation of these data may be had upon request.

† Figure for April, 1950.

‡ Figure for May, 1950.

UNIVERSITY FARM, ST. PAUL 1, MINNESOTA

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Out of State Sales of Minnesota Farm Products

W. C. WAITE and B. PEIGHTAL

Out-of-state markets have increased in importance as an outlet for Minnesota farm products. Estimates of the destinations of 19 principal products (wheat, corn, oats, barley, rye, flaxseed, potatoes, soybeans, hogs, cattle and calves, lambs and sheep, butterfat, milk, eggs, chickens, turkeys, and wool) which together make up over 90 per cent of total farm sales, indicate the trend in out-of-state sales from 1910 through 1947. The following table gives the proportion of total sales consumed outside of the state for five-year periods from 1910 through 1947.

Proportion of Total Farm Sales Outside of Minnesota, 1910-1947

1910-14	58	1930-34	66
1915-19	63	1935-39	67
1920-24	62	1940-44	76
1925-29	67	1945-47	78

Minnesota has been a surplus-producing state for each of these commodities, with the possible exception of soybeans, for the entire period, 1910-47. Changes in per capita consumption and population increases in the state have not kept pace with expanded agricultural production.

Proportion of Out-of-State Sales Contributed by Commodity Groups

Five-year period	Crops	Livestock	Livestock products
1910-14	58	26	16
1915-19	48	37	15
1920-24	31	42	27
1925-29	22	47	31
1930-34	15	48	37
1935-39	19	46	35
1940-44	14	49	37
1945-47	17	43	40

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