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1-50

CREDIT -- MASTER OR SERVANT?
Remarks by J. H. Atkinson, Purdue University
PCA Seminar, 1960

In every generation, I suppose, discoveries have been made and innovations applied about which people asked, "Will mankind master this thing or become servant to it?" At the dawn of civilization, this questiom must have been asked about fire, the wheel, and human speech. Although the question asked about speech may have been, "Will the Mistress become the Master?" In more recent times alarmists warned that the iron moldboard plow would poison the soil and lay waste the countryside. Then came trains, automobiles and planes. Our concern now is nuclear power, space travel, and television. How many of you have asked, "Am I, or is that infernal television set, Master of my house?"

Credit, too, has been viewed with alarm. In Biblical times, we find that credit could literally become master of a man, and reduce him to the status of bondservant or slave. You recall the account of the widow's oil which begins, "Now there cried a certain woman....saying, Thy servant my husband is dead...and the creditor is come to take unto him my two sons to be bondmen."1/ And credit mastered men in debtors prisons until fairly recent times. Little wonder that Shakespeare said,

> Neither a borrower, nor a lender be;
> For loan oft loses both itself and friend;
> And borrowing dulls the edge of husbandry.

But credit can also be a servant -- a very useful one. Millions of businessmen, farmers and consumers have proved this fact. Agriculture always has been capital-hungry and credit -- whether extended by merchants, dealers, banks, insurance companies, individuals, government, FLB or PCA -- has played a vital role in the development of our highly efficient agriculture.

Thus we see the contrast -- credit, even in this modern age can become a master or it can be used as a servant. I am not able to offer a simple solution like, "Reduce the amount of credit you extend lest it become master of your borrowers," or "Increase the amount of this useful servant." Actually you are faced with doing both, to different people at the same time and maybe to the same people at different times. I find myself agreeing with the writer of the following words:

> "There is no magic about credit. It is a powerful agency for good in the hands of those who know how to use it. So is a buzz saw. They are about equally dangerous in the hands of those who do not understand them. Speaking broadly, there are probably almost as many farmers in this country who are suffering from too much as from too little credit. Many a farmer would be better off today if he had never had a chance to borrow money at all, or go into debt for the things which he bought. However, that is no reason why those farmers who do know how to use credit should not have it."2/

1/ II Kings, Chapter 4, Verse 1.

2/ "How to Use Farm Credit," USDA, Farmers' Bu. 593, Washington, D. C. 1914, p. 1.

No, these words were not written last year nor even last decade but 10 years before I was born and I am 36. Your big job is to spot the farmers who know how to use credit.

There are two kinds of loans. First are those about which there is no question -- they are either good or bad. Your head office girl could make decisions on these. Second, are the tough ones that are neither black nor white. These are the loans you lose sleep over -- the ones your loan comittee works on.

You have two alternatives: 1. "Skim off the cream," taking only the obviously good loans, throwing together the bad and questionable. 2. Take the good and spend the time and energy necessary to ferret out the potentially good from the questionable pile. But if you chose the first alternative, I remind you of the parable of the talents -- the man with one talent, when his master returned, said, "I was afraid and went and hid thy talent.... His lord said unto him, 'Thou wicked and slothful servant'.... Take the talent from him and give it unto him which hath 10 talents. For unto everyone that hath shall be given....but from him that hath not shall be taken away even that which he hath."3/ I wonder if this parable may apply to those who take the easy way out and "skim off the cream."

How do you make good decisions on the tough loans? Again, I have no "cut and dried" answer but will make 3 suggestions:

1. Determine the goal of the applicant. In addition to the ~~good~~ goal of maintaining or increasing farm incomes, there is the young family whose goal is to become established in farming. There are growing numbers of part-time farmers whose goal may be to keep a farm as a place to live and have as security in case of "lay-offs." Finally, there is the "over 55 or 60" group who are at a stage in life where they want to start dis-investing. This latter group is of growing concern and may easily be passed by if we adhere too strictly to conventional thinking. In dealing with this group, let's not forget that "living up our capital" is no sin. Credit may be necessary to "coast" into retirement and thus use some of the security that many of our farmers have built over the years.

2. Evaluate management and potential management. This is difficult but not entirely impossible. You don't have to be 100% right because you are in position to "average out" a few mistakes. It has been said that the lending agency which has no losses over the years probably is not doing a very good job because lending involves judgment and human judgment is not infallible. And so I suggest you can do a pretty good job of evaluating management.

How? Performance is still an indication of level of management. In my book, comparative farm business analysis is still a useful tool. According to some standard, how does a given farm stack up with regard to size, crop yields, pigs per litter, milk per cow, % calf crop, fertilization rate, etc? Where are weak spots and why? Are they fortuitous or do they indicate weak management?

3/ Matthew, Chapter 25, Verses 25 ff.

But what about the beginning farmer who has no record? First, these are -- or should be -- few in number. Second, does he have any idea where he's going and how? Does he recognize the size of farm -- the capital required to make a living in farming? Third, you ought to be close enough to your farm youth through FFA, 4-H, Jr. PCA, etc. to gain some knowledge of the potential of these boys.

While on this subject of management, let me give you my biased opinion about how much farm management should be furnished by PCA. Danged little! If you have to furnish management, I question whether you ought to make the loan. Some of you sat in class under E. C. Young -- he used to say that the function of credit is to bring together capital and management. There are a lot of pitfalls connected with furnishing management. Your job is to recognize management, not furnish it and I hope our PCA fieldmen and secretary-treasurers stick to credit extension.

Don't misunderstand me -- you ought to know farm management -- to be able to recognize sound planning -- to explore alternatives with farmers -- yes, even to teach management but not to furnish management.

3. Be realistic about the future. PCA pioneered in the use of budgeted loans -- I'd like to see you make greater use of this technique. Are there not cases where far more detailed budgeting is useful? How close are you to this matter of family living expense? How many of you a year or year-and-a-half ago failed to forsee trouble for the hog farmer? Did you budget loans on prices you hoped to receive or what you might receive? Would it not have been helpful to know, last January, that if hogs were $16, Farmer Brown could pay out but that at $13 levels, he would need to renew half his loan? You could then say to the bank, truthfully, "Planned renewal." And how many of you are now unaware that we may run into trouble with cattle prices in the next few years?

Loan budgeting is a useful tool -- I urge you to make good use of it.

In summary, I have suggested that credit is a useful tool but dangerous in unskilled hands -- that you must continue to give attention to the goals of your members, the evaluation of management and expanded use of loan budgeting. I challenge you to keep credit in its place as a good and useful servant and to strive to keep it from becoming Master of your members.