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DC BRANCH

Federal Reserve Bank of Chicago --

May 22, 1970

THE FARM CREDIT SYSTEM may significantly expand its lending activities as well as broaden its role in other credit related areas. This was the path suggested by the Commission on Agricultural Credit—a blue ribbon commission established by the Farm Credit Board early last year to evaluate and recommend changes and improvements in the Farm Credit System's operation. The Commission focused on trends in agriculture, anticipated credit and related needs of farmers and their cooperatives, methods of obtaining funds, and organizational changes to provide better services.

The Farm Credit System is a farmer-owned cooperative made up of the Federal Land Banks established in 1917 to provide long-term real estate credit to farmer-members; the Federal Intermediate Credit Banks and the Production Credit Associations, created in 1923 and 1933 to provide short- and intermediate-term operating credit to farmers; and the Bank for Cooperatives, also established in 1933, to provide credit to other farm service cooperatives.

Initially created by Congress with government capital, the System is now completely farmer owned. Currently, more than a fifth of institutional credit used directly by farmers and three-fifths of the credit used by their cooperatives is provided through the Farm Credit System.

Among the major recommendations of the Commission were new programs to finance farm related businesses, broader eligibility requirements for loans to farmer cooperatives, new programs to assist young farmers, and increased emphasis on borrowers' potential earning ability in granting loans.

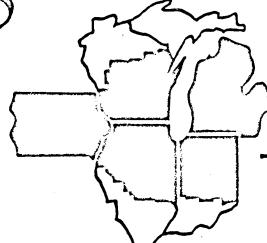
Heretofore, the Federal Land Banks and Production Credit Associations have loaned only to individuals engaged in agricultural production. The Commission suggested broadening this authority to include firms furnishing services directly to farmers. To qualify for credit, the individual or corporation would have to provide such services as their primary business.

In recommending the broadening of lending authority, however, the Commission stopped short of adopting numerous suggestions calling for authority to lend to all of the broad spectrum of businesses loosely grouped under the term "agribusiness." Rejected also were suggestions to broaden lending activity to include nonfarm rural residents. But the Commission did suggest that the Farm Credit System might study ways to assist in financing various projects in rural areas.

In regard to liberalizing eligibility requirements for a cooperative to borrow from a Bank for Cooperatives, the Commission recommended legislation to reduce the proportion of farmer-members a cooperative must have to be eligible for a loan to 60 percent. Present rules require that a cooperative include at least 90 percent farmer-members to be eligible for a loan.

Programs to assist young farmers included such methods as special reserves, guarantees, joint loans, and partnership ven-

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tures to ~~compensate~~ ^{June 20, 1970} lack of individual financial equity. Partially as an aid to young farmers but for the benefit of all farmers ~~it was recommended~~ ^{CURRENT SERIAL RECORDS} that management ability, repayment capacity, cash flow, and other factors should be given greater weight in making loan judgments. Along these lines, the Commission called for removal of the statutory limit on the amount Federal Land Banks can lend on farm real estate. The limit is presently set at 65 percent of the "normal value" of the farm.

A goal of providing farmers with one-stop comprehensive credit service was urged by the Commission, and numerous modifications in the organizational structure of the System were recommended to achieve that goal. Included were improved intra-agency coordination, joint housing, and common management for Federal Land Banks and Production Credit Associations. Although the Commission stopped short of recommending merger, apparently because of the controversy surrounding the issue, it did urge a continued review of the situation to determine the feasibility of merger at some future time.

Perhaps of greatest interest to country bankers were the recommendations concerning credit related services and acquisition of loanable funds. The Commission recommended that the System strive to assure the availability of a wide array of credit related services to member-borrowers, including record keeping, credit life insurance, and estate planning.

The Commission also urged exploration of new methods of obtaining loanable funds, including new ways of selling bonds and debentures, use of commercial paper and capital notes, and sales to individual investors. The latter, of course, has already been instituted on a limited scale.

Production Credit Association members currently may place orders with the local Production Credit Association for forthcoming issues of Federal Intermediate Credit Bank debentures. These securities are sold in \$5,000 multiples. Through the first five months of this year, farmers had purchased about \$34 million of these debentures. More recently, the Farm Credit Administration authorized a new security for farmer members. The new security will be issued each month in multiples of \$1,000, with a maturity of five years and interest rates reflecting current money market levels.

Roby L. Sloan
Agricultural Economist

FARM BUSINESS CONDITIONS

ITEMS	1970		1969
	February	January	February
PRICES:			
Received by farmers (1957-59=100).....	120	119	110
Paid by farmers (1957-59=100).....	132	131	125
Parity price ratio (1910-14=100).....	75	75	73
Wholesale, all commodities (1957-59=100)	116.4	116.0	111.1
Paid by consumers (1957-59=100).....	132.5	131.8	124.6
Wheat, No. 2 red winter, Chicago (dol. per bu.)	1.55	1.49	1.36
Corn, No. 2 yellow, Chicago (dol. per bu.)	1.26	1.26	1.18
Oats, No. 2 white, Chicago (dol. per bu.).....	.67	.69	.75
Soybeans, No. 1 yellow, Chicago (dol. per bu.)	2.59	2.55	2.64
Hogs, barrows and gilts, Chicago (dol. per cwt.)	28.58	27.64	20.65
Beef steers, choice grade, Chicago (dol. per cwt.)....	30.26	29.31	29.11
Milk, wholesale, U. S. (dol. per cwt.)	5.69	5.81	5.45
Butterfat, local markets, U. S. (dol. per lb.)71	.71	.68
Chickens, local markets, U. S. (dol. per lb.).....	.14	.15	.14
Eggs, local markets, U. S. (dol. per doz.).....	.47	.53	.39
Milk cows, U. S. (dol. per head).....	320	315	285
Farm labor, U. S. (dol. per week without board).....	--	75.50	--
Factory labor, U. S. (dol. earned per week)	130.54 ^P	131.93	124.80
PRODUCTION:			
Industrial, physical volume (1957-59=100)	169.8	170.2	170.1
Farm marketings, physical volume (1957-59=100)....	99	133	98
INCOME PAYMENTS:			
Total personal income, U. S. (annual rate, bil. of dol.)	778.5	774.5	723.9
Cash farm income, U. S. ¹ (annual rate, bil. of dol.) ..	51.8	49.8	47.1
EMPLOYMENT:			
Farm (millions)	3.0	2.9	3.2
Nonagricultural (millions).....	74.5	74.4	72.9
FINANCIAL (District member banks):			
Demand deposits:			
Agricultural banks (1957-59=100)	138.3	140.6	133.6
Nonagricultural banks (1957-59=100).....	130.5	130.7	128.3
Time deposits:			
Agricultural banks (1957-59=100)	347.4	344.9	318.3
Nonagricultural banks (1957-59=100).....	305.5	324.1	324.1
NATIONAL AGRICULTURE LIBRARY			
¹ Based on estimated monthly income. ^P Preliminary	JUN 25 1971		
CURRENT SERIAL RECORDS			

Compiled from official sources by the Research Department, Federal Reserve Bank of Chicago.