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W E S T E R N F A R M E C O N O M I C A S S O C I A T I O N

ANNUAL CONFERENCE

SALT LAKE CITY UTAH

August 9th and 10th

Subject of Paper

A G R I C U L T U R A L F I N A N C I N G

An Example of an Organization Plan

for

Agricultural Financing

By

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Nevada

THE NEVADA COOPERATIVE'S FINANCE CORPORATION

The Organization plan of the Nevada Cooperatives Finance Corporation is designed primarily for the purpose of facilitating the assembling of the credit of its members, making loans on the same, and securing loans for its members based on this credit from the most convenient sources and on the most favorable interest terms obtainable.

The Corporation may make loans direct from its own unpledged capital.

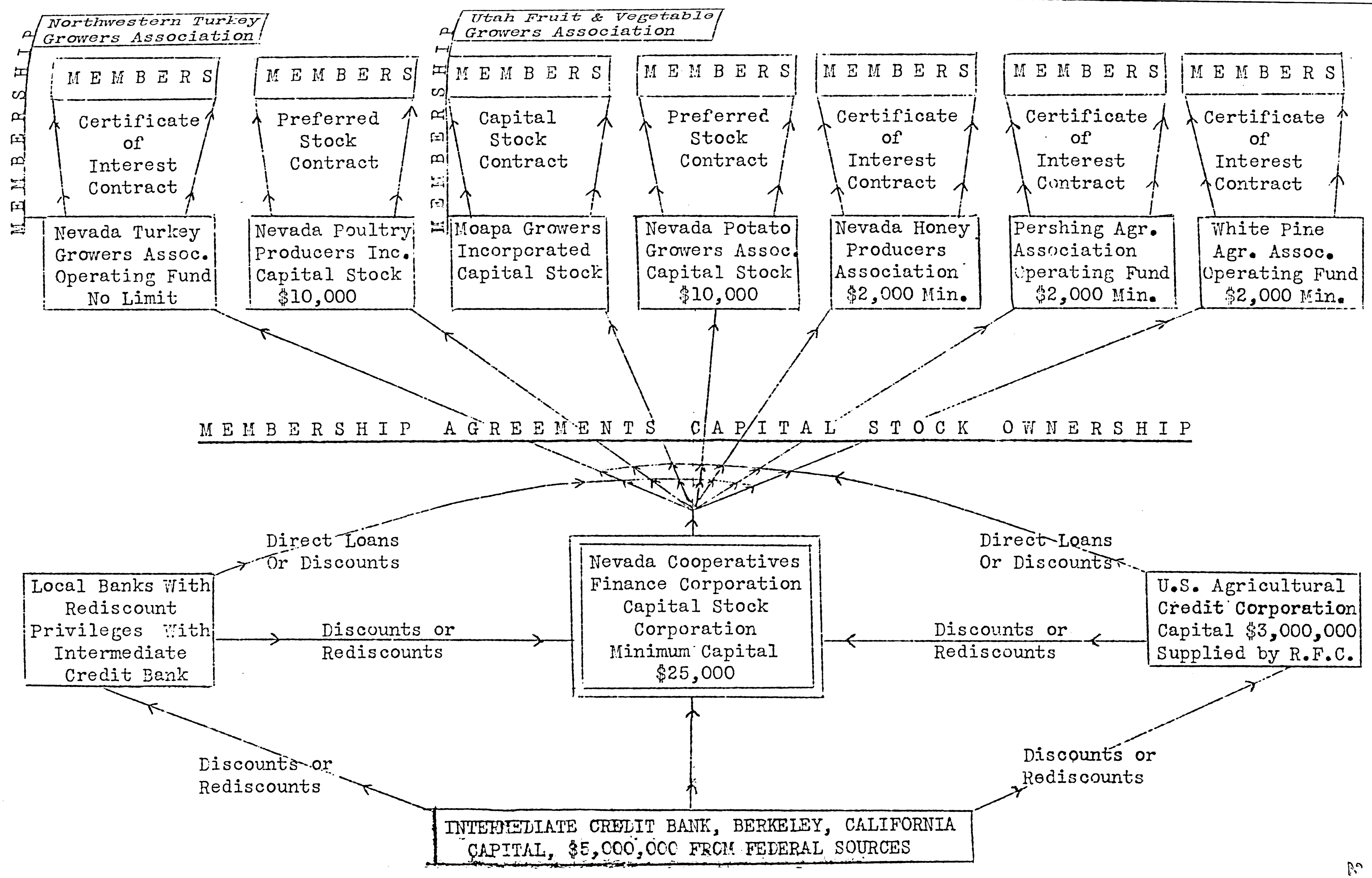
The Corporation may act as agent to arrange for direct loans for its clients from private banks or the U. S. Agricultural Credit Corporation etc.

The Corporation may use its discount privilege established with the Intermediate Credit Bank to secure funds for its clients.

In all cases where commodities pledged to a marketing association are to be used as collateral for loans by individual producers, the said marketing association will be a party to the loan agreement.

The arrows in the diagram indicate the course of the flow of funds from the various sources to the final agricultural producer or his commodity marketing association.

This Finance Corporation is in process of development.


MEMBERSHIP
Northwestern Turkey Growers Association
MEMBERS
Certificate of Interest Contract
Nevada Turkey Growers Assoc. Operating Fund No Limit
MEMBERS
Preferred Stock Contract
Nevada Poultry Producers Inc. Capital Stock $10,000
MEMBERSHIP
Utah Fruit & Vegetable Growers Association
MEMBERS
Capital Stock Contract
Moapa Growers Incorporated Capital Stock
MEMBERS
Preferred Stock Contract
Nevada Potato Growers Assoc. Capital Stock $10,000
MEMBERS
Certificate of Interest Contract
Nevada Honey Producers Association $2,000 Min.
MEMBERS
Certificate of Interest Contract
Pershing Agr. Association Operating Fund $2,000 Min.
MEMBERS
Certificate of Interest Contract
White Pine Agr. Assoc. Operating Fund $2,000 Min.
MEMBERSHIP AGREEMENTS CAPITAL STOCK OWNERSHIP
Direct Loans Or Discounts
Direct Loans Or Discounts
Local Banks With Rediscount Privileges With Intermediate Credit Bank
Discounts or Rediscounts
Nevada Cooperatives Finance Corporation Capital Stock Corporation Minimum Capital $25,000
Discounts or Rediscounts
U.S. Agricultural Credit Corporation Capital $3,000,000 Supplied by R.F.C.
Discounts or Rediscounts
Discounts or Rediscounts
INTERMEDIATE CREDIT BANK, BERKELEY, CALIFORNIA CAPITAL, $5,000,000 FROM FEDERAL SOURCES

AGRICULTURAL FINANCING.

An Example of an Organization Plan for Agricultural Financing.

It is generally recognized that agricultural activities require a larger unt of capital in proportion to net returns than most other industries. The turn r is slow, investments large and not very liquid. It is not practical for rators in any industry to maintain a ready cash balance to supply their needs at l times, and for the agricultural producer it seems impossible under present conditions, and we know with proper organized efforts it is not necessary. Until very cent times the agricultural industry has been greatly handicapped by a lack of oper methods of financing and by inadequate sources of funds. In many respects the ricultural producer has not the proper knowledge or training in the use of credit or knowledge of the present available sources of credit. In this respect our group ere of Agricultural Economists has a definite responsibility, and can render a real service. A new world of financing possibilities is opening up to the farmer and is being rapidly taken advantage of by some more alert groups but to a big percentage of the farmers, it is like a foreign language and is little understood or used so far.

By way of introduction to this paper I wish to review briefly the various federal agencies that have come into existence in comparably recent years and which are intended primarily to facilitate the financing of agriculture, in order that we may all be thinking along the same lines when I arrive at the more detailed discussion of a sample cooperative organization that has been set up to utilize these new financing facilities.

THE FEDERAL RESERVE BANK ACT passed in December 1913 served greatly to stabilize all credit and provided especial accomodations for agricultural credit. Short time agricultural loans for considerable sums have been greatly facilitated by Federal Reserve Banks, discounting or rediscounting agricultural paper for local banks. THE JOINT STOCK LAND BANK ACT passed just prior to the Federal Farm Loan Act intended to fill an urgent need at the time for long time credit for agriculture was soon followed by the establishment of the Federal Farm Loan banking system, ch was established by an act of Congress, July 17, 1916. THE JOINT STOCK LAND K ACT granted special favors to agriculture by allowing privately owned joint ock land banks to issue tax free bonds secured by first mortgages and limiting the erest rates to 6% to the borrower. THE FEDERAL LAND BANKS, established in 1916, rating under the supervision of the Federal Farm Loan Board, have gone a long way ard answering the need for long time credit at a lower rate of interest than viously prevailed and have relieved the great strain on agriculture in general, d have taken a great burden from local banks.

The Agricultural Credits Act of March 1923 establishing the INTERMEDIATE EDIT BANK SYSTEM with $5,000,000 capital from federal sources for each bank as amendment to the Federal Farm Loan Act, was enacted to provide short time credit n chattel mortgages for agricultural producers and handlers of agricultural products. E INTERMEDIATE CREDIT BANK through its rediscount operations has served to tabilize agricultural credit in a way that is hard for the laymen to appreciate. Corporations that have established discount relations with the bank, are able to yramid their borrowing power to a maximum of ten times the borrowing corporations' capital, and at the same time with good management, keep the borrowing corporations' original capital intact and earning interest.

The agricultural credits act of 1923 also provided for the establishment of NATIONAL AGRICULTURAL CREDIT CORPORATIONS for the purpose of providing credit facilities for agricultural and livestock industries in the United States.

These corporations must have a paid up capital of $250,000 before beginning business, are subject to certain federal regulations and may issue notes or debentures guaranteed by such securities as the corporation may have, subject to the regulations of the comptroller of the currency. These debentures or notes for rpose of raising additional capital may run for a maximum of 3 years. The st rates that may be charged by this corporation may be equal to that allowed states in which they operate. The federal government assumes no responsibi- n connection with these credit corporations. These corporations are required osit in Government Bonds with the Federal Reserve Bank of their district 25% ir paid-in capital and to keep on deposit in the form of government bonds he Federal Reserve Bank of the district an amount equal to 7½% of the ate indebtedness of the corporation.

Federal Reserve Banks may invest in the bonds of this corporation. Federal ision over the corporation is much the same as is exercised over National

The Federal Marketing Act of June 1929 created the FEDERAL FARM BOARD which ne to the aid of many large cooperatives of long standing in making capital facility loans and merchandising loans, and has given financial assistanse ting up several commodity marketing organizations on a regional and national providing them with immediate capital in a way that would have been prac- y impossible through ordinary commercial channels of financing.

All the foregoing financing institutions have been designed to place agri- al credit on a more flexible and permanent basis. Agricultural borrowers in recent years, have been in a serious condition indeed if they had been, previous times, entirely dependent on private banking institutions where l supporting the loans are subject to withdrawal at any time. The weakness vate banking systems has been greatly emphasized during the past two years, he withdrawal of deposits by customers and the placing of the same in deposit for safe keeping, has practically stopped the business of many banks.

It is hard to imagine the chaotic condition that would be prevailing at the t time among our agricultural people were it not for the federal financing ery into which investors are willing to place their funds and by which rowers are guaranteed a continuance of credit, when once established.

More recently the RECONSTRUCTION FINANCE CORPORATION has simplified agri-ltural borrowing and made direct loans as a relief measure to distressed agricul-al communities in the form of direct crop and feed loans, where local banks have been able to supply funds. While this was a temporary measure, it served to lieve shortage of agricultural credit with a promptness that was not possibl by other means, and also showed a tendency toward a more direct method of federal ancing of agriculture than has ever been evidenced before.

To complete the program of federal financing and complete the chain of deral financing institutions, one of the latest acts of Congress was an act tablishing AGRICULTURAL CREDIT CORPORATIONS in each of the twelve Federal Reserve nk districts, with a capital of $3,000,000 each provided by the Reconstruction nance Corporation. These AGRICULTURAL CREDIT CORPORATIONS with capital supplied om federal sources will be established to provide agricultural credit direct to dividuals or corporations on notes, mortgages, etc. in much the same way as ivate banking institutions do, and to discount or rediscount these instruments rough other Federal Financing agencies already established such as the Inter-diate Credit Bank or the Federal Reserve Bank. Agricultural loans provided rough this new link in the federal financing chain has a minimum chance of being opardized on account of withdrawal of capital causing embarrassment as is often e case with private institutions. If this new federal banking organization nctions, as the Act indicates that it will, it will greatly relieve the stringency credit in agricultural communities. This last adventure of the government into e field of banking is calculated to greatly simplify agricultural credit for the dividual and may make unnecessary the formation of many agricultural finance rporations that have been set up with private capital or that are now contemplated r the purpose of discounting or rediscounting through previously established deral financing agencies.

It will be interesting to observe the details of management that are to be up to facilitate operations and safeguard the capital of this new FEDERAL ICULTURAL CREDIT CORPORATION.

With these preliminary remarks covering very briefly the list of federal ancing agencies designed to facilitate agricultural credit, I wish to take up iscussion of a definite financing organization, to which I have given some time attention and which may be taken as an illustration of a type of organization ended to bridge the gap between the individual agricultural producer seeking edit or an agricultural commodity cooperative seeking credit and one of the deral financing agencies, which have been previously mentioned, more particularly e Intermediate Credit Bank organization. The organization to which I refer is lled "The Nevada Cooperatives Finance Corporation". The name is descriptive of e type of organization and the purpose for which it was formed. It is a cross etween a centralized and a federated type of organization. In spite of the fact at Nevadans are supposed to have a greater per capita wealth than citizens of the other states and in addition have a greater per capita area of these great wide open spaces of the west, they still seem to feel the need of the use of funds beyond what is available in their immediate communities.

Nevada has a number of agricultural commodity marketing cooperatives, such as are common to other agricultural districts and their business experiences and general need of funds I suspect are much like similar organizations in other localities. One of the principal handicaps of agricultural cooperatives in the past and even now to a great extent is the lack of adequate financing that will provide for early advances to the producer without the association becoming obligated to its trade and that will enable the association to hold its products for a more advantageous selling time or to ship to more distant markets.

Under our present keen competition in the business world, an agricultural cooperative marketing association that is poorly financed can render only a very limited service to its members in comparison with one that is well financed. The life of a cooperative these days will depend very largely upon how well it is financed. New types of organizations, which are being set up at the present time invariably provide for adequate financing. Usually this is accomplished by specific deductions from all transactions. Such provisions are essential to the building up of capital that makes it possible for cooperatives to avail themselves of federal financing facilities.

A group of Nevada Agricultural Cooperatives realizing the need for more adequate funds for proper operations conceived the idea of setting up a Cooperative Finance Corporation with the primary purpose of increasing or facilitating the borrowing power of its respective member associations. The foundation of this Finance Corporation consists of groups of agricultural commodity marketing associations of the state having a common purpose, viz, better financing of their operations and having practically uniform organization plans within each association regarding its participation in a finance corporation. The various associations that will hold membership in this corporation have practically uniform organization plans, and future associations that may become members of this corporation will be required to adopt this uniform plan insofar as possible. The organization plans of the Finance Corporation are also in accord with the plans of the commodity cooperatives in all essential respects, so that cooperative effort can be easily established and maintained.

The most essential provisions of the organization plan of the Nevada Cooperatives Finance Corporation are much the same as are now being incorporated in principle at least in new cooperatives organized for financing purposes. Membership in this corporation is to consist of incorporated producer-owned agricultural cooperative associations, organized under the provisions of the Capper-Volstead Act and incorporated under the laws of Nevada. The membership fee is nominal. This is a capital stock corporation with one class of stock, which may be owned by member ssociations, only. There is no limit to the amount of stock any one member may own. Each member has one vote in the affairs of the corporation regardless of the amount of stock it owns. The objects, powers and authority of the corporation empower it to do practically anything that any natural person might do in a business way, including the right to make and endorse instruments and obligations of debt and guarantee the payment of the same and to comply with any requirements of the Intermediate Credit Bank, Federal Reserve Bank, or the Federal Farm Board, etc. for the purpose of securing loans and giving security therefor, and for the repayment of the same. These are considered essential provisions in finance corporations intending to discount through federal financing institutions. The corporation is given the right to acquire stock and bonds of other corporations and to dispose of the same. In Nevada, members of a corporation are not held liable for the corporation's debts or liabilities. This provision of course is claimed in the Articles of this corporation..

Provision has been made in the organization plan of the member commodity associations for making deductions from the proceeds of sales of the producers' commodities for building up capital funds in the association, which may be used to buy the capital stock in finance corporations such as is here described. The Finance Corporation is given the first lien on all capital stock and interest thereon as security for any indebtedness of the member to the corporation. There is also a like provision in each member association's plan.

Capital stock of the corporation is non-assessable. Capital stock of the corporation may be pledged to further the business interest of the corporation. The capital stock may bear dividends but not to exceed 8%.

The corporation is set up to function for the mutual benefit of its members. Members' interests may be unequal but are equitably fixed on a basis of participation of the member in the business of the corporation. Provisions for dissolution of the corporation are also based on the same principle of participation.

The management of the corporation is vested in the board of directors and officers. The Board of Directors is made up of one director from each member association. This director is also on the Board of Directors of his particular association. An additional director at large is provided for in case there occurs an even number of associations in the corporation. The Board of Directors elect the officers. The president and vice-president only are chosen from the Board of Directors so that officers cannot perpetuate themselves. Other officers and employees may be chosen from the membership of the various associations or from other sources, providing no two persons among the officers and directors are related.

Directors may not be employees except the president and vice-president. An executive committee is provided for to conduct the affairs of the corporation between meetings of the Board.

By-Laws of the corporation are such as any well behaved corporation should adopt for the proper conduct of the corporation. The business of the corporation is to be done on an actual cost basis. Any excessive charges for services are to be refunded to the members.

As soon as the required capital stock of $25,000 is subscribed by the various member associations and discount relations are established with the Intermediate Credit Bank, the member associations may ask for loans on unharvested crops, ware house receipts, bills of lading, etc. The corporation will discount the notes together with supporting collateral and turn the same to the Intermediate Credit Bank in the Berkeley, California district, receive the cash therefrom, and turn the same over to the association or the individual applying for the loan.