PROCEEDINGS

of

WESTERN FARM ECONOMICS ASSOCIATION

Seventh Annual Meeting

June 21, 22, 1934

And Papers Presented At The

CONFERENCE ON LAND-USE PLANNING
AMERICAN ASSOCIATION FOR THE ADVANCEMENT OF SCIENCE

June 18, 1934

University of California
Berkeley, California

THE FARM CREDIT ADMINISTRATION

- - -

ADDRESS BY WILLARD D. ELLIS,

GENERAL AGENT, FARM CREDIT ADMINISTRATION,

(Eleventh District)

Delivered Before the Western Farm Economics Association Convention.

Little less than a month ago, May 27, the Farm Credit Administration completed the first year of its existence. I think that year has been a significant one for agriculture, not only in our Western states but over the whole of the United States. It was made significant by the circumstance that over that period a new and constructive force in agricultural economics was born, began to function and even in the first brief year of its existence bore so heavily upon the perilous farm debt situation as very definitely to turn it from disaster and back to the long, up-hill road to recovery.

Yet, as you gentlemen well know, the Farm Credit Administration was not brought into being solely as an emergency measure designed to plug for a brief time the hole in the dike. In recent years we have seen measures like that conceived and put into more or less successful operation -- very often less successful. They were stop-gaps. Too often one followed another without any correlation and according to no basic plan; sometimes one emergency measure designed to relieve a special need in the agricultural field competed with another for the honor of saving the perplexed farmer, who did not know which one to use or how to use it.

It was in the mind of President Roosevelt when he made his first executive order after his inauguration -- that order which resulted in the creation of the Farm Credit Administration on May 27 -- that there were two very urgent ends to be served in the then paralyzed basic industry of agriculture. One was to prevent at once by every means possible its complete bankruptcy, which then threatened. The second, hardly less pressing, was to build a complete, coordinated and permanent agricultural credit system whereby investors' money from the country's financial centers could be brought to the door of the most isolated farmer at the lowest cost to him and at a price which did not fluctuate according to the the passing temper of the financial markets... To bring to that farmer all varieties of agricultural credit at the times he needed them and with a minimum of effort on his part.

So, during the year just past these two activities -- the saving and the building one -- have been poured out by the Farm Credit Administration from its central executive offices at Washington and from the credit units in twelve regional districts. Though it may be said the major concentration has been upon the business of saving the farm structure before it should be destroyed, even while the salvage process has been going top speed the reconstruction has progressed steadily. While thousands of farmers have been pulled back from the brink of bankruptcy by long-term, low-rate farm mortgages on an amortization scheme prompted by the necessities of the times, two new agencies -- that one providing short-term production credit to agriculture and a second admitting farmers' cooperatives to the benefits of working capital and facility loans -- have been built up from the ground on conservative and well-founded lines, and have been functioning eight or nine months out of the twelve.

A Significant Achievement

When I tell you that credits advanced by the Farm Credit Administration over its first year and through every agency embraced by the new organization have amounted, in round numbers, to $1,250,000,000, that gives you but a small part of the picture. I think you will agree with me that the most significant achievement of the year is not that one measured by the dollar sign; rather it is the improvement in the morale of agriculture everywhere -- the return of hope and beginnings of renewed confidence on the part of farm workers who saw nothing ahead but ruin fifteen months ago... You know the doctors say that when the fever patient begins to kick and find fault with physicians and nurses in attendance, that's the sign he has passed the crisis and is convalescing. We of the Farm Credit Administration recently have noted these favorable sick-bed signs.

I believe that all of you are sufficiently familiar with the set-up of the Administration and how its several credit agencies operate to bring credit to the farm to make it unnecessary for me to go into minute details concerning the structure of each. Instead, today I will make a brief survey on broader lines in attempting to give you sketchily what I conceive to be the new place occupied by the Farm Credit Administration in the field of agricultural economics; why such an Administration was necessary; what, in a broad sense, it already has accomplished. In so doing I may touch upon one or two topics which have sprung out of the FCA problems and are allied with them.

A few days ago I read in the papers a report by the Economic Policy Commission of the American Bankers' Association which questioned the soundness of the Government's entry into the banking and currency fields. Upon the arguments set forth I have no comment; but I wish to cite some figures from that report.

The banking crisis of March, 1933, brought a reduction of nearly 4,000, or 20 per cent, in the number of the country's banks, so it says. Aggregate resources decreased by nearly five-and-one-half billions, or 10 per cent. Compared with the peak of the aggregate resources, which was $74,000,000,000 in 1930, the country's banks in June, 1933, with a total of $51,000,000,000 showed a shrinkage from the peak of $22,700,000,000 or 21 per cent.

THE FARM CREDIT ADMINISTRATION

Nine Billions Against Farms

Let me add to these figures another, from a different source. At the beginning of the depression farmers of the United States owed approximately $9,000,000,000 on farm mortgages. The great bulk of this was in the form of relatively short-time loans, much of it either on a three or five-year basis. Of course, since the depression set in a large part of these mortgages either have become due or are now about to reach the time when they must be paid out.

Here was the situation confronting the newly established Administration. A debit of $9,000,000,000 against agriculture maturing daily for great sums which farmers could not meet. After four years of the lowest prices of farm products in several generations, these mortgaged farmers were hopelessly in arrears with payments of both principal and interest. In boom times creditors were very free with their extensions; but the depression hit the lending class almost as hard as it did the borrowers and by the spring of 1933 a steadily increasing wave of farm foreclosure action aggravated the acute situation. I need not recall to you the painful fact, still very close in retrospect, that when Congress passed the Emergency Farm Mortgage Act on May 12 and the Farm Credit Administration came into being 15 days later, the stability of agriculture in many sections of the country was gravely threatened. You recall, too, how the general pessimism of farm people was reflected by the increasing rush to sell farm properties by those who were not themselves in danger of foreclosure proceedings.

News of the passing of the Emergency Farm Mortgage Act, which gave the land banks new resources and authorized the land bank commissioner to make emergency loans up to 75 per cent of the value of farm property, either on first or second mortgages with temporary postponement of principal payments, started the flood of applications with which the twelve land banks are still grappling.

A Reasonable Interest Rate

Now there were two ways in which the Administration could approach the heavy task of refinancing the impoverished farmer -- yes and of saving thousands of them from imminent foreclosure and eviction. Decision upon which way to follow hung upon the fixing of the interest rate on farm mortgages made by the land banks and the land bank commissioner.

There was a very strong demand for a low interest rate; such as that proposed in the Frazier bill which provided for the issuance of greenbacks against farm mortgages. The Farm Credit Administration chose the plan of issuing Consolidated Federal Land Bank Bonds with the interest guaranteed by the Government.

This plan has brought into the farm mortgage field and will probably continue to bring at reasonable interest rates, large amounts of investment money. Last year the four per cent consolidated bonds with interest guaranteed by the Government were pledged to the Reconstruction Finance Corporation or the Treasury. None were sold to the general public. This week a new issue of consolidated bonds with an interest rate at four per centum have been offered the investment public. Neither the interest nor the principal of this new issue is guaranteed by the Government.

The proceeds from the new 4's will be used in calling all outstanding 4 3/4% bonds.

With the 4½ per cent rate for land bank loans and a 5 per cent interest charge on commissioner's loans the farmer-borrower who refinances himself through one or the other type of mortgage finds a profitable decrease in the cost of that operation. Let me follow this thought a bit further.

Recently the statistical department of the Farm Credit Administration in Washington made a study based on borrowers' liquidation of first and second mortgages and short-term commercial bank loans as indicated by debt schedules rendered by the land bank here in Berkeley. This analysis showed that prior indebtedness on farm mortgages in California carried an average interest rate of 6.3; in Nevada, 7.1; in Utah, 6.8; and in Arizona, 6.2. Of course, some farmers paid considerably more than the average struck. The usual interest rate on mortgage loans in Southern California is 7 per cent and throughout the state 10 per cent is not unknown.

When the Administration first began to function there was criticism, now considerably abated, that at 5 per cent the farmer-borrower could not service a loan large enough to compose all his debts. There has been criticism, too, to the effect that the land banks have been too conservative in their appraisals -- so much so that the borrower could not obtain a loan large enough to meet his outstanding obligations.

The Scale-Down Problem

I think the answer to these criticisms is that the banks consider their duty is not to help a borrower get deeper into hopeless debt with no prospect of paying out, but to show every consideration for a farmer-borrower who has a "fighting chance" to rehabilitate himself through virtue of a long-time loan and easy amortization payments. It is not the intent of the Administration to maintain through charity the economically hopeless sub-marginal farmers. It is obvious, too, that to maintain an investors' market for land bank bonds confidence in the security of the loans made must be maintained.

There is a way open for the farmer-debtor to compose his debts within what the land bank can advance him on a mortgage if the sum comes anywhere near the total amount of his obligations. That is through the cooperation of his creditors in effecting a scale-down. This is a practice which has come to the fore very markedly since the Administration began the heavy job of disbursing millions to resuscitate agriculture.

THE FARM CREDIT ADMINISTRATION

Let it be distinctly understood that the land bank's attitude toward scale-downs is purely the detached one of a "best friend" anxious to serve both sides to their mutual profit. The bank has neither the right nor the desire to appear to put pressure on a would-be borrower's creditors to secure a reduction of debts sufficient to bring the amount within the power of the bank to meet with a mortgage loan. But so generally have creditors themselves seen the wisdom of cutting down debtors' obligations for cash that from June 1, 1933 to the end of March this year -- so a recent survey shows -- farmers' debts were scaled down in one out of every 10 land bank loans and 18 out of every hundred commissioner's loans with an average of 29 cents and 26 cents reduction on the dollar respectively.

Still acting in the capacity of "best friend", the Farm Credit Administration has had considerable to do with bringing about this situation. Last October Henry Morgenthau, Jr., then governor of the Administration, sent requests to governors of all the states to appoint state and county farm debt adjustment committees to work out fair settlements of the farm debt problem in cases where farmers were so heavily involved they could not qualify for new loans, or to assist farmers to obtain extensions on old debts. Most of the governors complied with the request and state and county committees of volunteers began to function late last year. Now there are thirty-nine state committees and more than 2000 counties have their debt adjustment bodies working under the direction of a state committee. Before his recent death Governor Rolph completed, I believe, his appointment of committees for every county in this state. Men from the Administration in Washington have been in the field constantly, helping the setting up of county committees and launching them on their work of conciliation. One of the assistant secretaries of the land bank here has covered the four states of the district intensively on just such a mission.

These committees are getting results. Some have adjusted from 200 to 400 individual debts and have averted foreclosures through persuading the mortgage holder to grant an extension. The county body usually comprises from 5 to 10 individuals who volunteer their services as a public work. Creditors and farmers alike are represented on the committee. Local bankers and merchants, attorneys, retired judges -- men who know local agricultural conditions and who feel a sense of responsibility for the welfare of their communities give their time without compensation. Committee meetings are held in confidence, of course, and usually are preceded by a personal contact between a committee member and the farmer and his creditors. When this has been done, the committee usually is able to offer a practical solution, mutually advantageous to both debtor and creditor.

The Berkeley Land Bank man who accompanied a Washington field man on a tour of county committees tells me that in Utah and Nevada he encountered enthusiasm amounting almost to a crusader spirit not only among committee members but throughout whole communities. The farm debt adjustment idea was going over big, said he.

I find that I am giving the land bank section of the Administration emphasis at the expense of the other credit agencies in the set-up.

I have done this consciously because the whole drama of snatching agriculture from the wolf of Depression has been played by the land banks... And it has been a drama, with tense moments and occasional hair-raising climaxes. Nor is the curtain yet ready to be rung down on the end of it. Since Dr. Stokdyk has told you (will tell you) in detail of the banks for cooperatives, and the intermediate credit banks are familiar to you, I had better turn briefly to consideration of that other new feature added to the Farm Credit Administration, the production credit corporations and their attendant production credit associations.

Production Credit

Increasingly, so it is expected, the chief clients of the intermediate credit banks will be the production credit associations organized and capitalized by twelve production credit corporations -- one in each land bank district. These corporations and their subsidiary associations, of which more than 650 have been set up in the past six months, merit close examination because this feature is destined to play an increasingly large part in the picture of farm financing.

Through the cooperative feature of production credit associations and the collective action they represent, farmers in all parts of the country, no matter how remote they may be from the central money markets, may now obtain short-term production funds from those markets at low interest rates and on conditions suitable for production financing. In providing the machinery to enable farmers to obtain this type of credit, it is not the intent of the Administration to supplant credit made available by private agencies, but to supplement it. If a farmer can obtain a line of credit with a commercial bank for his agricultural financing, that is where he will probably go; but so frequently he has need for a type of credit which his bank cannot furnish -- such as crop production where the loan must extend for a period of from nine to twelve months; or for financing a dairy herd, where loans are required for periods of from one to three years; for range and pasture loans; and for orchard and poultry advances. Such types of loans the associations can make; but generally the commercial banks hesitate to meet these requirements because of the period of time they run.

In the past farmers have been slow to organize Agricultural Credit Corporations in order to obtain the rediscount privilege with the Intermediate Credit Bank.

The minimum capital required was $10,000 -- this amount would necessarily have to be raised in cash and largely by farmers who wished to borrow.

Stock in PCA's

In the case of the new type of production credit through production credit associations it is the Government which supplies the capital of the association through the corporation and all the borrower-member has to do to enjoy the facilities of short-term credit for his crop, livestock, dairy, or poultry production is to subscribe to stock in his local association with his first loan. This stock subscription is 5 per cent of the amount of that loan; carries with it one vote, no matter how small or how large the loan; implies no double liability. Furthermore, this original stock subscription which can be looked upon in the light of a membership fee, serves to enable the association member to borrow again next year without additional stock purchase unless the value of his original stock has depreciated through bad loans by his unit or other mismanagement.

By proper management and the use of the association's earnings to buy the original capital stock put up by the production credit corporation, farmers should eventually find themselves in complete ownership of this credit machine and assume full responsibility for its management. Until that time, however, management must be shared with the original stockholders, which is the corporation.

The money which these production credit associations receive from the sale of their Class A stock to the corporation for the original capitalization thereof is invested in Government or other high-grade bonds and deposited with the intermediate credit bank of the district. This provides further security for the farmers' notes which the associations discount with or sell to the intermediate credit organization and increases borrowing capacity up to four or five times.

Production credit associations are authorized to make loans for general agricultural purposes such as I have cited. Duration of the loan will be determined very largely by the type of enterprise financed. Ordinarily notes will not run longer than a year; but where security is ample and other factors are very favorable, renewals may be granted. Certain kinds of loans, such as those for financing dairy production, may be amortized on a monthly basis.

The security for production credit loans vary with the type. Usually, a first mortgage on the crop or livestock financed will be required, with additional collateral where necessary. Applicants are required to submit a definite plan for liquidating their loans; in other words, they operate on a budget approved by the intermediate credit bank before the credit is advanced. When -- as is customary -- the bank makes its advances in installments upon the basis of budget needs, the borrower profits necessarily in reduced interest charges.

The spread between the intermediate credit bank's discount rate and the rate of interest charged by the association is set at 3 per cent. This margin is designed to meet losses caused through bad loans and to permit of the upbuilding of a reserve and guaranty fund. Since the intermediate credit bank reduced its discount rate to 2 per cent, farmer-borrowers through production credit associations have been paying only 5 per cent.

One year ago commercial and savings banks were urging their borrowers who owed them upon the security of farm mortgages to go to the Farm Credit Administration for refinancing. Banks wished to become more liquid -- frequently they sent their best loans first they were so eager for cash.

THE FARM CREDIT ADMINISTRATION

A larger number of loans previously held by commercial and savings banks have been refunded by land bank and Commissioner loans than for any other group. Now, banks generally are trying to keep their better farm loans -- and, in some instances, they are actually seeking crop production and livestock loans. So that in a measure land bank loans and land bank Commissioner loans have made it possible for banks to reenter the crop production and livestock loan field competition with the new Production Credit Associations.

Gentlemen, I have given you an incomplete and not highly technical survey of what the Farm Credit Administration has done over its first year, both in refinancing the crushing debts of agriculture and in building within itself a well ordered, consistent and, above all, workable farm credit system designed to make future approach to credit as readily accessible to the farmer as it has been in the past to the industrialist. Under the various provisions of the Administration the farmer, both as an individual and as a member of a purchasing and selling cooperative or agricultural credit association, now can get credit at the lowest possible terms both for his short-time production needs and for the longer necessities of his farming business.

In this first year of stress all elements in the Administration have worked under heavy pressure and at top speed. It would be idle to maintain that mistakes have not been made but they have been errors in execution, not in the fundamental application of the whole system to the problems presented. In order to get the job going there has been a centralization of authority and executive action unprecedented in the past record of similar but less pretentious efforts. When pressure of the conditions of crisis finally is relieved, when the Administration shakes down into a steady-paced progress, there may be changes in its scheme looking toward a decentralization of executive authority and a wider spread of responsibility.

But it is my firm conviction that the Farm Credit Administration is a permanent institution and one to be increasingly reckoned with in the field of agricultural economics.