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investigated. Suggestions are to be made regarding programs, inducements, and incentives which from an economic standpoint will assist in establishing and maintaining conservation systems of farming.

THE LENDER LOOKS AT CONSERVATION

Alexander Joss
Farm Credit Administration

The lender has a definite interest in the continuing productivity of the security back of his loan. Loans, particularly those secured by farm real estate are made for long periods of time. For example, during 1949, there were recorded in Whitman County, Washington, 110 farm real estate mortgages on which the maturity dates of the loans were shown. These mortgages secured loans that were to run for the following number of years:

less than 2 years...........	8 mortgages
2 to 5 years.................	9 mortgages
5 to 10 years................	11 mortgages
10 to 15 years...............	8 mortgages
15 to 20 years...............	20 mortgages
20 to 30 years...............	11 mortgages
30 years and over............	43 mortgages

Thus, almost half of these loans were set up to run 20 years or longer. All of the loans made by life insurance companies and by the Federal Land Bank of Spokane were for 10 years or longer.

The lender needs good durable land as security for his loan. By this I mean land that produces a continuing flow of income sufficient to support the farm family, pay the operating costs of the farm, and service the debt. The Federal Land Banks recognize this need for income in their definition of the value on which loans are based. I would like to quote this definition:

"Normal agricultural value is the amount a typical purchaser would, under usual conditions, be willing to pay and be justified in paying for the property for customary agricultural uses, including farm-home advantages, with the expectation of receiving normal net earnings from the farm."

Proper conservation of land is necessary if there is to be "the expectation of receiving normal net earnings" for periods up to 40 years.

The law specifies that a land bank loan cannot exceed 65 percent of the normal agricultural value of the security. In addition to this legal limitation, the Bank has established certain minimum standards. A loan cannot be made unless the security offered meets each of the following:

(a) It must be capable of producing, under typical operation, sufficient normal agricultural earnings to pay farm operating expenses, including taxes and other fixed charges, maintain the property, and meet installments on a loan that would be proper to a typical owner of the property.

(b) It must be sufficiently desirable to be readily salable or rentable under normal agricultural conditions.

(c) It must be sufficiently durable to maintain satisfactory production during the loan term specified.

(d) It must have sufficient stability of value to assure that, on a loan that would be proper to a typical owner of the property, the bank could recover on its investment if unforeseen difficulties should result in acquirement of the property.

I mention these minimum security standards because it is under the third item in particular that the appraiser gives consideration to erosion and related factors. If a property is deteriorating, and there are indications that it will continue to deteriorate then it is probably ineligible security for a loan. On the other hand, if the operator is improving the property and has taken steps to check erosion, in all probability, the security can be judged sufficiently durable to meet the minimum standards.

The Federal Land Banks have been and now are engaged in a continuing project of classifying and mapping the land into five grades or, as we call them, "net income areas". In this district we have this mapping job about half completed. We received a real boost in our program through the work in land classification carried on by the Agricultural Economics Department of the State College of Washington. The results of our studies of loan experience by net income area have been extremely interesting and helpful in guiding present-day lending activity. I do not wish to burden you with statistics, but perhaps we can examine loss rates in each net income area on loans closed in the period 1917-1932. There were as follows:

Net income area 1......... 0.1 percent
Net income area 2......... 0.4 percent
Net income area 3......... 5.3 percent
Net income area 4.........12.4 percent
Net income area 5.........27.3 percent 1/

These data are from loans in 76 of the 175 counties in the four states of Washington, Oregon, Idaho, and Montana. The maps are based on physical and economic features observable now. The important fact relating to our discussion here is that some of these net income area 4 and 5 lands fall in these categories because proper conservation practices were not followed on them 25 to 30 years ago. Specific examples are range lands plowed up and planted to wheat and irrigated lands allowed to become wet and seeped. I do not wish to imply that all the land classified as poor in our net income area mapping is so because of erosion and improper land use. A great deal of the land we have placed in areas 4 and 5 is inherently infertile and poorly adapted to agriculture. Some of it has little or no erosion difficulties. The problems existing on these lands will not be solved by soil conservation. I do wish to point out that we are aware that on some land, improper land use can result in erosion, seepage and other difficulties which can eventually lead to low incomes per farm.

Lenders in putting up their money for long periods, do seek to protect themselves against improper land use. In signing a land bank mortgage, the mortgagor agrees "to maintain and cultivate the premises in a good and husbandlike manner, using approved methods of maintaining the fertility thereof." If

1/ Our studies indicate that these losses in the poorer areas were particularly heavy on loans that were heavy relative to the value of the security. Some money can be loaned safely in 4 and 5 areas if kept to a smaller proportion of the value of the security.

this is not done, the Bank may declare the whole indebtedness due and payable. Other lenders have similar provisions in their mortgages. Thus, conservation can be made a matter of compulsion, if necessary. However, lenders generally prefer to educate their borrowers in the ways of conservation farming, rather than compel them to do so. The American Bankers Association has done considerable work in the field of conservation education. Several years ago, the Federal Reserve Bank of Cleveland published a booklet entitled "Country Bank Action on the Soil Front". The Federal Land Bank of Houston, Texas has just recently issued a booklet entitled "Green Pastures on Black Land." Much of the material in these phamplets was obtained from research work carried on by the State Experiment Stations and the Soil Conservation Service.

Professor L. J. Norton of the University of Illionois in a recent article in the "Farm Journal" listed six features of a safe farm loan. I'm going to list these six features, because I believe that a borrower who has a "safe" loan by Professor Norton's definition, is in a better position to practice conservation farming than one who does not have such a loan. These six features are:

(1) Low interest rate for a long term
(2) Regular payments that cut down principal
(3) Permission to make extra payments in good years
(4) Privilege of arranging smaller payments in bad years
(5) A lender who will be in business for the life of the loan
(6) Small enough installments so that they can be paid even though income drops.

I think it definitely encouraging that a goodly proportion of the lending now being done includes some or all of these six features. The borrower who is relieved of the hazards of high-cost, short-term financing is in a better position to work out long-term conservation plans.

I have placed major emphasis in my remarks on long-term mortgage lending. This naturally ties in closer with the subject of soil conservation. The short-term lender has an interest in this subject also. A recent study that we made of the lending activities of one Production Credit Association brought out that members in the good areas were making substantially better financial progress than members in the poorer areas. This study also brought out that the demand for renewals on loans was somewhat greater among borrowers in the poorer land areas. The short-term lender will find that the success or failure of his borrower is, in the final analysis, dependent upon the productivity of the farm. He too has a vital stake in encouraging proper farming.

One last point before I close. I believe that the lender is interested in the overall results of conservation.

For example, if a farmer in trying to prevent erosion, follows cultural practices that do not effectively control weeds, the lender may find that his security hasn't eroded, but that it has become badly infested with noxious weeds. Some of my friends in the Big Bend Country west of here tell me that they have given up one-way disc plows and returned to mold-board plows because they couldn't control weeds properly. Possibly their action is associated with the current wet years we have enjoyed and if we again have a series of dry years, they may again become conservation minded. However, for the moment, they are not "sold" on one form of conservation farming. A lender would have difficulty under these circumstances in insisting that his security be "conservation" farmed while the farmer firmly believed that the newer practice was increasing weeds and reducing yields.