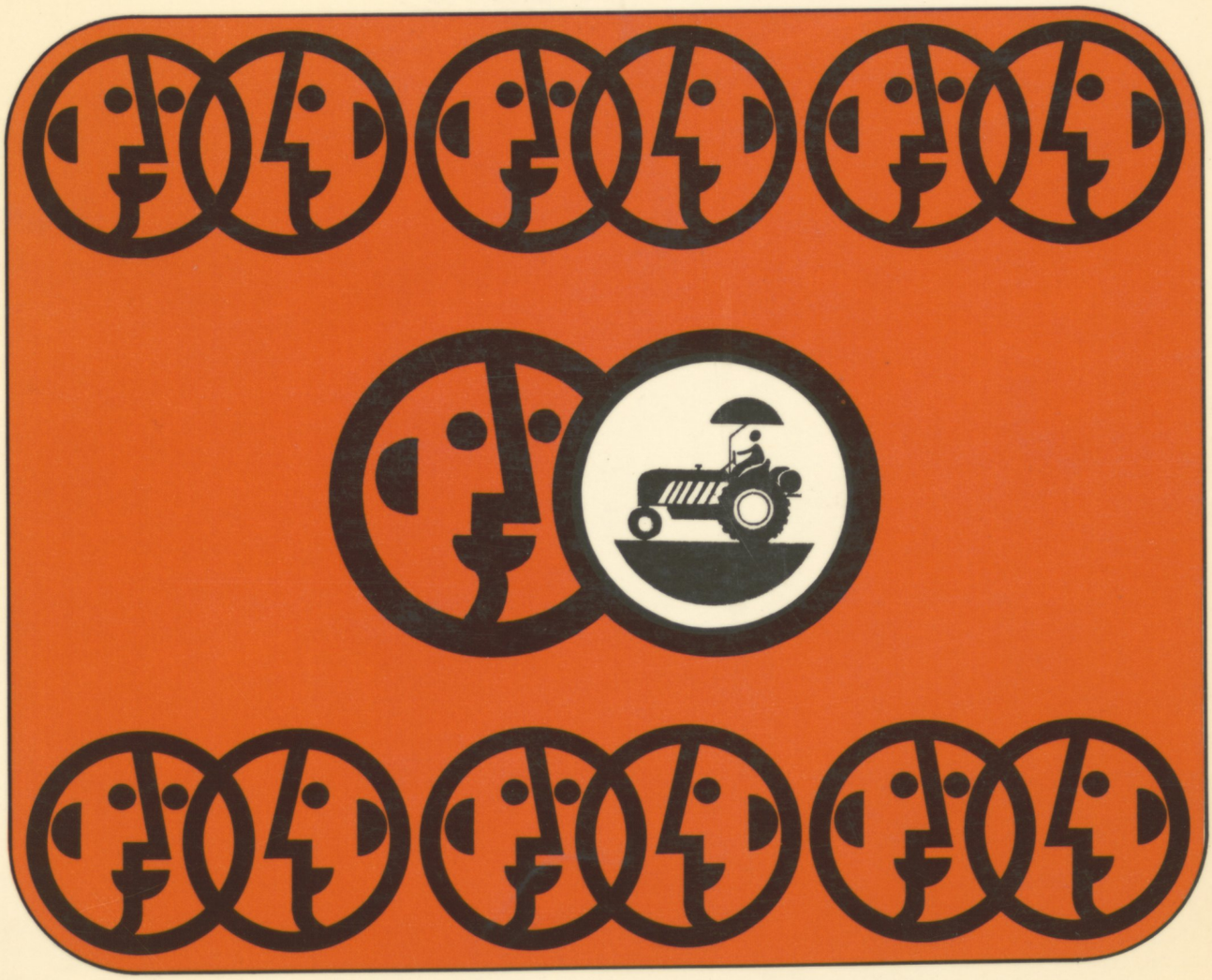
THE AMERICAN BANKERS ASSOCIATION

PROCEEDINGS
of the

20th NATIONAL AGRICULTURAL and RURAL AFFAIRS CONFERENCE



NOVEMBER 14-17, 1971

THE HOTEL MUEHLEBACH • KANSAS CITY, MISSOURI

PROGRAM

20th NATIONAL AGRICULTURAL AND RURAL AFFAIRS CONFERENCE
(2) Proceedings
"Agricultural Banking--Skills and Scope"

Muehlebach Hotel, Kansas City, Missouri
November 14-17, 1971

Sunday, November 14, 1971

3-8 P.M.

Mezzanine Assembly

REGISTRATION

6-7:30 P.M.

Grand Ballroom

RECEPTION

Monday, November 15, 1971

9:15 A.M.

Grand Ballroom

THOMAS R. SMITH, Presiding
Chairman, Agricultural and Rural Affairs Division, A.B.A.
President, The First National Bank,
Perry, Iowa

GREETINGS
THE HONORABLE CHARLES B. WHEELER, JR., Mayor of Kansas City, Missouri

KEYNOTE ADDRESS
ALLEN P. STULTS, President, The American Bankers Association; Chairman and Chief Executive Officer, American National Bank and Trust Company, Chicago, Illinois

AGRICULTURE--NEW DIMENSIONS AND DIRECTIONS
JOHN A. HOPKIN, Stiles Professor of Agricultural Finance, Texas A&M University, College Station, Texas

Monday, November 15, 1971

THE AGRICULTURAL OUTLOOK--
Selected Commodities

RAYMOND J. DOLL, Moderator;
Vice President and Senior Economist, Federal Reserve Bank,
Kansas City, Missouri

Hogs

GENE A. FUTRELL, Associate Professor, Iowa State University,
Ames, Iowa

Cattle

GLENN A. GRIMES, Associate Professor, University of Missouri,
Columbia, Missouri

Soybeans

THOMAS A. HIERONYMUS, Professor, University of Illinois,
Urbana, Illinois

Grain

J. WILLIAM UHRIG, Associate Professor, Purdue University,
Lafayette, Indiana

12:45 P.M.

Imperial Ballroom

LUNCHEON

PRESIDING
CONWELL S. SYKES, President and Chairman of Executive Committee,
Commercial National Bank, Greenville, Mississippi

ADDRESS
THE HONORABLE HERMAN E. TALMADGE, United States Senate;
Chairman, Committee on Agriculture and Forestry, Washington, D.C.

3:00 P.M. - WORKSHOP SESSIONS - Concurrent

FINANCING IRRIGATED AGRICULTURE — Trianon C

- Hoy B. Etling, Moderator;
Executive Vice President, The
Fidelity State Bank, Garden City,
Kansas

Monday, November 15, 1971

WORKSHOP SESSIONS, continued

FINANCING IRRIGATED AGRICULTURE, continued — Trianon C

- ARLIN AVERY, Agricultural Representative, Bank of New Madrid, New Madrid, Missouri
- L. M. NOVAK, Executive Vice President, Union Bank and Trust Company, Lincoln, Nebraska

FINANCING FEEDLOT CATTLE — Trianon A & B

- BENNETT L. HAUENSTEIN, Moderator; Vice President, The First National Bank, Chicago, Illinois
- RALPH E. MERCER, Senior Vice President, The Greeley National Bank, Greeley, Colorado
- TOMMIE E. STUART, Vice President, The First National Bank, Ft. Worth, Texas

FARM MANAGEMENT ANALYSIS STANDARDS — Rooms 471-473

- THOMAS E. BROWN, Moderator; Professor of Agricultural Economics, University of Missouri, Columbia, Missouri
- HERB B. HOWELL, Extension Economist, Iowa State University, Ames, Iowa
- WILTON B. THOMAS, Extension Economist, Kansas State University, Manhattan, Kansas
- HERMAN E. WORKMAN, Extension Economist, University of Missouri, Columbia, Missouri

Monday, November 15, 1971

WORKSHOP SESSIONS, continued

THE "ART AND SCIENCE" OF FARM LENDING — Trianon D

- HAROLD A. McCUTCHAN, Moderator; Vice President, People's Bank and Trust Company, Mt. Vernon, Indiana
- RALEIGH J. SOLOMON, Vice President and Farm Department Manager, Citizens National Bank, Macomb, Illinois
- VERNON E. WHISLER, Vice President, Agriculture, The American National Bank, St. Joseph, Missouri

JOINT BANK-GOVERNMENT AGENCY LOAN PROGRAMS — Lido Room

- EDWARD M. NORMAN, Moderator; President, The First National Bank, Clarksville, Tennessee
- ROBERT A. DARR, President, Federal Land Bank and Federal Intermediate Credit Bank, Columbia, South Carolina
- GEORGE L. DOAK, Executive Vice President, Kansas Development Credit Corporation, Topeka, Kansas
- WILLIAM B. WOOD, Director of Finance Office, Farmers Home Administration, St. Louis, Missouri

MAXIMIZING YOUR CORRESPONDENT BANK RELATIONSHIP — Tea Room

- ROBERT E. KNIGHT Moderator; Economist, Federal Reserve Bank, Kansas City, Missouri
- ERNEST L. HARMS, Vice President, Commerce Bank, Kansas City, Missouri
- ROBERT L. WALTON, President, Farmers and Merchants State Bank, Bushnell, Illinois

Tuesday, November 16, 1971

7:30 A.M.

EARLY MORNING TECHNICAL SESSIONS - Concurrent

These sessions will be unstructured with the entire time devoted to discussion of your questions including those of a technical nature.

BANK EDP FARM RECORDKEEPING — Tea Room

- ROBERT RETHORST, Vice President and Farm Service Director, Smith County State Bank, Smith Center, Kansas

FARM MANAGEMENT BY BANKS — Room 363

- ROGER H. JOHNSON, Vice President and Farm Manager, Hutchison National Bank and Trust Co., Hutchison, Kansas

DOCUMENTATION OF FARM LOANS — Room 364

- J. M. HOLCOMB, Professor, Farm Management and Finance, College of Agriculture, University of Illinois, Urbana, Illinois

TALK TO YOUR EXAMINER — Room 471

- JOHN R. BURT, Regional Administrator, 10th National Bank Region, Comptroller of the Currency, Kansas City, Missouri

MECHANICS OF SETTING UP A LOAN PARTICIPATION — Room 473

- E. L. TUBBS, President, Maquoketa State Bank, Maquoketa, Iowa

Tuesday, November 16, 1971

9:15 A.M.

Grand Ballroom

GENERAL SESSION

GRANT W. PERRY, Presiding
Senior Vice President, First National Bank of Oregon
Portland, Oregon

THE THIN EDGE IN FOOD
AND FIBER PRODUCTION

CARROLL G. BRUNTHAVER, Associate Administrator, Agricultural Stabilization and Conservation Service, United States Department of Agriculture, Washington, D.C.

ECOLOGY--A NEW DIMENSION
IN AGRICULTURE

The Kansas Story

MELVILLE W. GRAY, Director, Environmental Health Service, Kansas State Department of Health, Topeka, Kansas

EDWARD BARRETT and RONALD HUGHES, Owners, Flint Hills Feedlot, Emporia, Kansas

LEGISLATIVE REPORT

DERL I. DERR, Director, Agricultural and Rural Affairs Division, A.B.A., Washington, D.C.

CHARLES T. O'NEILL, JR., Associate Counsel, Government Relations Group, A.B.A., Washington, D.C.

AGRICULTURAL CREDIT TASK FORCE
PRELIMINARY REPORT

THEODORE D. BROWN, Task Force Chairman; Executive Vice President, The First National Bank of Denver, Denver, Colorado

Banking Sources of Funds

ROBERT E. HAMILTON, Vice Chairman, Central National Bank, Chicago, Illinois

Non-Banking Sources of Funds

LEW MEIBERGEN, Senior Vice President, The First National Bank and Trust Company, Enid, Oklahoma

Banker Apathy and Supervisory Agency Relations

HERMAN LERDAL, President, The Mitchell National Bank, Mitchell, South Dakota

Tuesday, November 16, 1971

1:30 P.M.

LISTENING SESSIONS

AGRICULTURAL CREDIT TASK FORCE	Trianon A & B Trianon C Trianon D
LEGISLATION	Lido Room

3:00 P.M.

CONCURRENT WORKSHOP SESSIONS - Repeated

FINANCING IRRIGATED AGRICULTURE	Trianon C
FINANCING FEEDLOT CATTLE	Trianon A & B
FARM MANAGEMENT ANALYSIS STANDARDS	Rooms 471-473
THE "ART AND SCIENCE" OF FARM LENDING	Trianon D
JOINT BANK-GOVERNMENT AGENCY LOAN PROGRAMS	Lido Room
MAXIMIZING YOUR CORRESPONDENT BANK RELATIONSHIP	Tea Room

6:30 P.M.

Imperial Ballroom

Banquet

THOMAS R. SMITH, Presiding

ADDRESS
GAYLE GUPTON, Vice President, Third National Bank, Nashville, Tennessee

Wednesday, November 17, 1971

7:30 A.M.

EARLY MORNING TECHNICAL SESSIONS - Repeated

BANK EDP FARM RECORDKEEPING	Tea Room
FARM MANAGEMENT BY BANKS	Room 363
DOCUMENTATION OF FARM LOANS	Room 364
TALK TO YOUR EXAMINER	Room 471
MECHANICS OF SETTING UP A LOAN PARTICIPATION	Room 473

Wednesday, November 17, 1971

9:00 A.M.

Grand Ballroom

GENERAL SESSION

E. A. MORSE, Presiding
President, The Citizens Bank,
Abilene, Kansas

TEN THINGS BIG BANKS FEAR MOST
FROM SMALLER COMPETITION
GARY H. RADDON, Second Vice President, Marketing Manager, Commercial Department, Continental Illinois National Bank, Chicago, Illinois

CAN THE COMMUNITY BANK COMPETE?
THOMAS J. PROSSER, President, Marine National Bank, Neenah, Wisconsin

BANKING--1980 STYLE
JON C. POPPEN, Associate, Banking Department, Booz-Allen & Hamilton, Inc., New York, N.Y.

COMMUNITY BANKING--1980 STYLE
WILLIS W. ALEXANDER, Executive Vice President, The American Bankers Association, Washington, D.C.

12:00 Noon

Grand Ballroom

LUNCHEON

THOMAS R. SMITH, Presiding

THE FUTURE BELONGS TO THOSE WHO
PREPARE FOR IT
EARL L. BUTZ, Dean, Continuing Education and Vice President, Purdue University Research Foundation, Purdue University, Lafayette, Indiana

REMARKS BY THOMAS R. SMITH

Chairman, Agricultural and Rural Affairs Division, ABA, and President, The First National Bank, Perry, Iowa, Presiding at the 20th National Agricultural and Rural Affairs Conference of The American Bankers Association, Muehlebach Hotel, Kansas City, Missouri, Monday morning, November 15, 1971.

Welcome to the 20th National Agricultural and Rural Affairs Conference here in the heartland of America.

Some of us have seen our segment of the banking industry emerge during these 20 years as a viable, potent, and significant element of community life.

We stand here on the threshold of our existence as agricultural bankers, as businessmen concerned about rural affairs, as community bankers, if you please. I think it is particularly fitting that our past Chairman, Tennessee Eddie Norman, challenged each of us with the subject of this year's conference.

SKILLS AND SCOPE

Skills implies a new breed of professionalism, new knowledge, new tools of the trade, orientation in new methods, development of abilities that we have not known before. Our customers need more counseling, improved services and new methods to meet their profit goals. Yes, perhaps even survive. Strangely enough, as we serve them better, we prosper ourselves.

Scope implies a broadening of our view, a bigger picture, a higher horizon, a larger backyard, and greater responsibilities to meet the changing profile of our society. This changing society will test the fiber of our trade. I predict that as this scope expands we will meet the challenge as community bankers -- the community banker of today and tomorrow.

It's all here in Kansas City, Ladies and Gentlemen -- all you need to increase your skills and enlarge your scope:

Speeches

Workshops

Technical sessions

Bull sessions

Questions and answers

I challenge you during the next two and one-half days to "fill 'er up" and go home and be the best damn community banker in Cuyoga County, or wherever you live.

AGRICULTURE - NEW DIMENSIONS AND DIRECTIONS

Address by John A. Hopkin, Stiles Professor of Agricultural Finance, Texas A & M University, College Station, Texas, before the 20th National Agricultural and Rural Affairs Conference of The American Bankers Association, Muehlebach Hotel, Kansas City, Missouri, Monday morning, November 15, 1971.

In broad terms, we can characterize U.S. agriculture over the past two decades by:

1. Declining farm numbers--off about 50 percent since 1950.

2. Larger size of farms. Acres per farm increased by about 75 percent during this period.

3. A moderate increase in output (up about 40 percent in 20 years), but with the capacity to produce much more.

4. Changing input mix, with a 36 percent reduction in nonpurchased inputs replaced by a 55 percent increase in purchased inputs. These input changes have led to a 400 percent increase in average investment per farm and to nearly a ninefold increase in per-farm debt.

5. A continuing cost-price squeeze. Farm production expenses per dollar of farm sales increased from 68 cents in 1950 to 83 cents in 1970.

6. And this last one might be at the root of the other characteristics: A changing (presumably an advancing) technology. Change is not a recent phenomenon in U.S. agriculture, of course. It began when our adventurous pioneer forefathers first landed on this continent and started growing new crops and finding new ways to grow old crops. But new technology

has come like an avalanche during the last two decades, and the end isn't in sight.

Without question, consumers have greatly benefited from this abundance of agricultural technology. Yet each new development places many farmers astride a two-horned dilemma. On the other hand, whenever a new technology proves to be economically successful, a farmer must adopt it in order to remain conpetitive. On the other hand, in order to adopt most new technologies, the farmer must incur such additional investment and operating costs that he is then forced to materially expand his operation in order to spread these higher costs over more units of product.

Characteristic of all sic of the above broad categories of changes is that they have increased the financing requirements for farmers.

Agriculture is Multidimensional and Multidirectional

My title deliberately refers to new dimensions and directions for agriculture. Both are plural. One thing we are coming to see rather clearly is that we no longer have an agricultural industry. Instead, it is composed of different and rather distinct groups which can be classified in various meaningful ways depending on our objective.

Commodity Orientation

First, since agriculture has become segmented along commodity lines, it can be classified (and often is) according to commodity groups. Beef raisers have different economic problems and political interests than cotton producers, or cranberry producers, or corn growers, or lettuce growers, or peanut growers, etc. Commodity groups are becoming increasingly organized and

vocal, and for political as well as economic purposes, the commodity groups are likely to hold more promise than most, if not all, of the general farm organizations.

Commercial Orientation

Alternatively, agriculture can be divided into segments according to the degree to which they have become commercialized. Conceptually, we can divide agriculture rather clearly into:

1. The large commercial enterprises that are leading the van guard of the industrial revolution in agriculture. Some have recently referred to this group as the Elite. They tend to have farm sales in excess of $100,000 per farm. In 1964, this group comprised but one-percent of the farms (about 31,000 farms), but produced 25 percent of total farm marketings, with sales of $272,000 per farm. Many of these firms are a part of some large industrial conglomerate such as Purex or Gates Rubber, or of some vertically integrated food system such as Kentucky Fried Chicken, Ralston-Purina, or Del Monte Foods. Others are strictly agricultural corporations which may be held closely in family corporations or have public ownership spread over a large geographic area. Some are large proprietorships.

Over the past decade, this group has been the most dynamic sector of agriculture. Even within this group, there appear to be differences in rates of growth. In general, the larger the size within the large-scale classification, the higher the rate of increase in numbers.

Size in Value of Sales	Number of Farms 1959	1964	Percent Increase
$1,000,000 or more	408	1,137	178
$ 500,000 - $999,999	800	1,705	113
$ 200,000 - $499,999	4,570	8,059	76
$ 100,000 - $199,999	14,201	20,500	44

2. The second group I call the modern commercial family farmer. Although still a minority of all farmers, this group produces the bulk of the nation's food and fiber. These farmers are in the business largely by choice and have resources and management capacity to succeed. They are well trained and competent.

Mostly, their sales range between $40,000 and $100,000 per farm, although a number in the lower sales classes logically can be classed as modern, commercial family farms. Any classification based on volume of sales alone is somewhat arbitrary. On the one hand, a number of young, able farmers who are just getting started and who possess the ingredients of success need to expand in order to effectively utilize their management capacity. When they reach their full potential, a number in this category will move up to the "over $100,000 in sales" classification. On the other hand, there are many on larger farms who are not succeeding as witnessed by a deteriorating financial position year after year. Although available statistical data do not distinguish between these two classes, it is important that those who serve these farms be able to distinguish them for a very obvious reason: those in the former

group are on their way up and will comprise the viable farming sector of the future, whereas those in the latter group largely are on their way out.

3. The third group in this classification we call marginal farmers--that large number who, for various reasons, are just not making the transition into commercial agriculture. They comprise the largest group within agriculture, yet account for a very small percentage of all farm sales. They tend to be relatively small scale, with farm sales of less than $10,000 annually. But, again, this sales classification is arbitrary, and many in the higher sales category belong in this group who are not quite holding their own financially. Most of the people who will leave agriculture during the next decade will come from this group.

4. The final category in this classification is the part-time farmer. An increasing number in this group are successful business executives and professionals who are using agriculture either as a hobby or as a means of converting ordinary income into capital gains for income-tax purposes. Oftentimes, it is both. Others were marginal farmers who discovered they had time to handle a full-time job in addition to farming.

In the last couple of decades, we have come to think of part-time farming not so much as a way to get <u>into</u> farming, but as a way to get <u>out</u>. Now we are seeing it emerge as a rather permanent way of life for an increasing number of people.

<u>Market Relationships</u>

Farms can also be classified rather meaningfully with respect

to their relationship to the market.

1. At the lowest level are those who still make their decisions on what to produce and when, based on habit and tradition, giving serious thought to marketing only after the product is grown. Consequently, they tend to be "price-takers" all the way. Those within this group who are not efficient producers are already in real trouble. They are marginal farmers in the fullest sense of the word. But many who are efficient producers, in the sense of growing healthy specimens with favorable yields or gains, are finding themselves in trouble because of lack of attention to markets.

2. At a higher level are those who study the market carefully to determine trends and shifts, and then make their individual production decisions so as to exploit their market opportunity. They may use individual contracts with processors and distributors, as well as futures contracts to decrease price risks. But they tend to operate by themselves, for the most part, as skilled entrepreneurs.

3. At the highest level of market orientation is that segment of agriculture which is an integral part of a highly coordinated food production, fabrication, and distribution system. One gets a rather clear insight into what is happening in and to agriculture by observing what is happening at this level of market coordination. Food-based corporations are continuing to integrate backward into land acquisition and agricultural production. At the other end of the system, some farmers' cooperatives are integrating forward into processing and distribution. These

two processes represent alternative routes by which to achieve the transition of our food production, processing, and distribution system, from one dominated by small, independent producers on one end, and small, independent food retailers on the other, into an integrated food production-market-service system. The final outlets of this elaborate system are the supermarkets and HRI (hotel, restaurant, and institutional) trade. Those farmers whose products are not linked in with the coordinated system serving these outlets will be hard pressed for economic survival.

Organization Alternatives

Still another meaningful classification of today's agriculture might be with reference to the legal form under which it is organized. Traditionally, this was a meaningless exercise because essentially all of agriculture was either a sole proprietor ship or a family partnership. These two types of farm organization still dominate agriculture. They likely provide the most efficient type of organization for conducting an agricultural business *if* the objective is to hold the business together at lowest cost until the present management passes from the scene. If, however, the business is to continue over more than one generation, there is much to be said for incorporating the business, either as a regular corporation or as a pseudo (or Chapter *S*) corporation. The advantages which the corporation can provide--limited liability, continuity of the legal enterprise, income-tax flexibility, minute divisibility of ownership, plus significant employee benefits with before-tax dollars--warrant serious consideration by most farmers.

A Look Ahead

I hope you noticed that the title assigned me does not require that I seriously attempt to forecast agriculture for the future, and I really see no reason for me to do so. On the other hand, if you have no more confidence in my projections than I have, it would be futile. On the other hand, if you did have confidence in them, it could be tragic. So I choose, instead, merely to point to some of the implications of the new dimensions and directions that are manifesting themselves in agriculture.

For example, let's return to the large-scale farms reported in the 1964 census. As a group, they appear to be well managed, and probably represent the prototype of foreseeable agriculture. If so, a reasonable question might be "how many large-scale farms would be required to produce the total U.S. agricultural output?"

There are a number of ways in which one could go about speculating on this question. Some interesting figures were obtained by Wirth and Rogers.[3] Using total output by type of farm as an approximate measure of the market demand for various commodities, they suggest that about 138,000 large-scale farms with productivity similar to those in the 1964 census could produce all the farm products sold by the 3.2 million census farms reported in 1964.

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[3]Wirth, M.E. and L.F. Rogers, "The Changing Nature and Environment of United States Farm Firms", A New Look at Agricultural Finance Research, ed. J.A. Hopkin, Agricultural Finance Program Report No. 1, University of Illinois, Urbana, 1970.

This startling conclusion would imply a reduction of nearly 94 percent of the total number of farms.

I don't know of anyone who has seriously projected that we might have only 138,000 farms by 1980. Yet, the assumptions one must make to postulate such an agriculture are not unreasonable if one ignores the fixed asset phenomenon of much agricultural labor. The development of a large-scale agriculture need not rely on any significant advancement in new technology, even though new technology will continue to be forthcoming. The kinds of farms we are talking about already exist--31,000 of them as long ago as 1964. At that time, large-scale farms were producing 78 percent of ARizona's total farm output. In California and Florida, they accounted for 54 percent of all farms and nearly 70 percent of total farm sales. They represented 62 percent of all sales of vegetable products, 47 percent of the sales of fruit and nuts, and 28 percent of the sale of all livestock products, other than poultry and dairy. In terms of farm inputs, they accounted for 41 percent of all hired labor, 40 percent of the purchases of livestock and poultry, 37 percent of farm expenditures for petroleum products, and 30 percent of all feed purchased.

Between 1959 and 1964, the number of large-scale farms grew at an annual rate of 9 1/2 percent. If that rate were to continue, the number of large-scale farms would reach 138,000 by approximately 1980. Perhaps you noticed a feature article in a recent ag finance magazine projecting 110,000 large-scale farms by 1980.

Over a century ago, Mark Twain made a classic comment that seems appropriate for this situation. He had just read about an

interesting phenomenon in a science quarterly, and was prompted to add:

> "In the space of 167 years, the Lower Mississippi has shortened itself by 242 miles. That is an average of a trifle over 1 1/3 miles per year. Therefore, any calm person, who is not blind or idiotic, can see that in the Oolitic Siluvian Period, just a million years ago next November, the Lower Mississippi River was upward of 1 million, 3 hundred thousand miles long . . . By the same token, any person can see that 742 years from now the Lower Mississippi will be only 1 mile and three-quarters long . . . There is something fascinating about science. One gets such wholesale returns of conjecture out of such a trifling investment of fact."

The development of large-scale agriculture will not proceed uniformly across all geographic areas. It will be tied closely to new technologies associated with particular types of farming. We have seen what happened to broilers, laying flocks, and turkey production during the '40s and '50s. Within a decade or so, these enterprises moved entirely off the small family farm into large, commercial enterprises, most of which were vertically integrated into a farm supply, production, processing, and distribution system. Dairying is moving faster than we sometimes think into fairly large-scale, integrated operations. Commercial fruits and vegetables largely are there now, and the direction is becoming clearer each year in cattle feeding. Today, according to the October issue of Banking magazine, 1.2 percent of our nation's feedlots produce 55 percent of the nation's beef.

New developments in swine production command attention. The concept of multi-stored housing for total environmental control in hog production is beyond the drawing board stages. Combined with this is the real possibility of efficiently collecting all

wastes into a vat innoculating them with micro organisms which quickly process these wastes into an edible feed, and then pumping them back into the system. If such a system proves to be anywhere nearly as promising as its advocates suggest, exciting and dramatic changes are on the threshold for the entire swine industry. Much of the traditional system would quickly become obsolete, and large-scale swine production--possibly as a part of a vertically integrated system--could quickly emerge.

I have purposefully omitted any discussion of the implications of these possible changes on the rural community (including rural people), on farm suppliers (both dealers and manufacturers), and on country bankers. Others on the program have been assigned much of the weightier task of addressing these difficult problems.

Omitted, also, has been the influence of our farm programs on the future size and market structures of agriculture. Historically, these programs have been ambivalent on both of these points. I expect that future programs will be directed more toward low-income, rural areas and might favor part-time farmers. However, I doubt that they will seriously impair large-scale agriculture in the foreseeable future.

Before we relegate all but 138,000 farmers to oblivion, however, let's take a look at some of the powerful forces at play which will tend to keep such a dramatic change from occurring. First, we must recognize that many of the less than large-scale farms are efficient, well managed, and sufficiently well financed to have substantial staying power. Many of these farms will remain

competitive with large-scale farms without desiring to become large scale themselves. Others which are slightly less efficient likely will be willing to accept increasingly lower returns for their capital and labor in order to stay in farming. That is, farming may be the best alternative for many people now on farms, even though they might be less than competitive with large-scale farms. More importantly, the increasing role of off-farm income to farm families must be reckoned with. In some recent years, off-farm income has become a more important source of income to farmers than farm profits. These proverbial "go-getters" have real staying power--that's one who will take his wife to work at 8 o'clock and "go get 'er" at 5.

We hear quite a bit about the three-day weekend as the normal objective for organized labor. Before we get a three-day weekend, however, we might get a four-day weekend, with which some companies in the metropolitan northeast are now experimenting. The work period consists of three consecutive 12-hour days, followed by four days off. Two work shifts per week are scheduled with the plant shutting down on Sunday. If such a practice should become widespread, many people will flee beyond the suburbs out into the country. The present 40-mile daily commute would be replaced, for many, with a 200-mile weekly commute. One would live with his family in the country and go back to the innercity to put in his three days of work per week, then return to his avocation of part-time farming.

If the three-day work week were to materialize in industries located in cities of 250,000 or more population, nearly every

farming area in the U.S. would be affected. The price on farmland would increase further. It is interesting to conjecture, also, what possible changes might occur in the demand for farm input services, including custom operations and finance. Both the demand for and supply of consulting services might be increased.

The problems of organizing the marketing functions for this possible growing number of part-time and hobby farmers are equally challenging. The heterogeneous products flowing off these farms so not fit in well with our highly organized system of food distribution based on product specification and standardization. Yet, these farms could comprise such an important part of the total resources and potential supply of a given product that they could not be ignored. In beef cattle production, for example, about 70 percent of all the beef cattlemen in the United States have 19 cows or less. In terms of voting numbers, the small operator already comprises more than a two-thirds majority of the nation's cattlemen. Their heterogeneous output accounts for most of the animals moving through local livestock auctions in many areas of the United States.

Fortunately, the large, commercial feedlots operating 12 months of the year are able to take these cattle of various kinds, colors, and age and transform them into a steady stream of quality fed beef to meet the specifications of today's discrimating housewife. But how do you make this kind of transformation with vegetables, or fruits, and similar products grown on small plots by part-time farmers? Because of the marketing problems, primarily,

one might resonably expect that as part-time farming expands, most of the changes in resource allocation resulting therefrom will represent shifts from crop production to beef animals. The trend is already underway. When the 1969 census data are finally available, I expect they will show that the average size of beef cow herd in the United States has significantly declined.

For most other types of agriculture, however (including cattle feeding, I might add), the trend will be strongly in the opposite direction--toward large-scale and fewer farms operated by competent and financially sophisticated managers. Many of them will be incorporated, even though they may be family controlled. A recent article in the Wall Street Journal featured the rapid growth in production contracts, with more and more products bypassing the traditional commodity markets. It quoted the head of market research for the American Farm Bureau Federation as saying that in the next 20 years, 75 percent of our farm marketings will be governed by contracts. At any rate, in one way or another, they will be closely linked to the food processing and distribution system, so that their products meet the total specifications of that system.

I might add that ideally this type of farmer will not only require substantially increased levels of debt capital, most of them will come to you having done his financial homework, with figures layed out clearly demonstrating the financial soundness of his program. Someone among you might smile and say, "It looks like we might be near the end of our problems in financing agriculture". It could be! Only don't be mistaken as to which end. Both your greatest challenges and opportunities in agricultural finance are ahead of you.

REMARKS BY RAYMOND J. DOLL

Vice President and Senior Economist, Federal Reserve Bank, Kansas City, Missouri, before the 20th National Agricultural and Rural Affairs Conference of The American Bankers Association, Muehlebach Hotel, Kansas City, Missouri, Monday morning, November 15, 1971.

This year, the agricultural industry in the United States will generate a record $58 billion of gross income, produced by fewer farmers than the Nation has had since well before the Civil War. This achievement is a tribute to the agricultural industry and all related sectors of the economy that helped make such increases in productivity possible. The banking industry certainly is one of these sectors.

For the past half century, farmers have been substituting technology, capital, and management for labor in the production of agricultural products. As this transition was gradually being made, farming was changing from a large number of largely self-sufficing, individual units to an industry composed to a high degree of fewer, more highly specialized and larger, business units. Many of our problems in agriculture today are caused by the large number of farming units that have been unable to make this transition satisfactorily. Today, about a sixth of our farms are producing about three-fourths of our farm products. The other five-sixths produce only about one-fourth of our products. Many of the latter farms are not viable business enterprises.

Banking has been, and continues to be, a major contributor to this transition from a largely self-sufficing type of agriculture to the current structure dominated by a half million highly organized business

units. These units use most of the $59 billion worth of credit used by farmers and are highly dependent on efficient production and good marketing for their success. Whether these farmers can repay the loans you make to them may be determined frequently by their managerial ability and the outlook for the commodities they produce. Furthermore, it should be emphasized that the outlook for the well-managed, highly efficient farm unit usually is different than that for the smaller, more nearly self-contained, type of farm. The larger business-oriented firm can make a substantially better rate of return, but also fail much more rapidly than the smaller self-contained unit.

It also is important to emphasize that the agricultural industry is highly dynamic. What may be a favorable outlook for the good avant-garde farmer may be unfavorable from the viewpoint of the average farmer. For example, there are developments in the meat animal industry today that may soon render obsolete some of the techniques being used on relatively efficient operations today. It is because of such developments that the modern agricultural banker must constantly evaluate what is happening in the industry and never forget that he is lending on the basis of a future outlook and not on the situation now or last year. That is why the outlook is extremely crucial.

Today, we are fortunate in having four experts from throughout the country who will make brief statements and be prepared to discuss the outlook for a selected group of the most important commodities. Last year, the beef industry accounted for $13.7 billion, the pork industry for $4.5 billion, feed grains and wheat for about $5.7 billion, and soybeans for $2.8 billion of cash receipts.

My assignment is to act as moderator, which generally means to preside. However, moderator in physics means a substance, as graphite or heavy water, used to slow down neutrons from the high energies at which they are released in fission to lower energies where they are more efficient. Consequently, I am going to turn these four high-energy neutrons loose for five minutes each, and then we will make an effort to slow them down so you can question or challenge them.

HOG OUTLOOK FOR 1972

Address by Gene A. Futrell, Associate Professor, Iowa State University, Ames, Iowa, before the 20th National Agricultural and Rural Affairs Conference of The American Bankers Association, Muehlebach Hotel, Kansas City, Missouri, Monday morning, November 15, 1971.

Returns to hog producers during the latter months of 1970 and the first half of 1971 were almost universally negative. Prices on barrows and gilts at 7 terminal markets during the October 1970-June 1971 period averaged about $17.15 per cwt., compared with $25.70 in the same months a year earlier. The price of corn in the same period averaged approximately 25 cents per bushel higher. This combination caused hog returns to drop sharply. The hog-corn ratio (bushels of corn equal in value to 100 lbs. of live hog) averaged only 12.0 in the October-June period, compared with 22.1 a year earlier.

Hog producers have responded to this very unfavorable profit situation by cutting back on farrowings. This showed up first in the March-May period of this year, when sow farrowings nationally were down 3% from the same months of 1970. In June, sow farrowing plans for the U.S. for the June-November period were estimated to be down 9% from the previous year. More recent estimates for 10 cornbelt states released by the USDA in September showed June-August farrowings down 10% and September-November farrowing plans down 11% from the previous year. Further, farrowing intentions for December-February were estimated at that time to also be down 11%. Farrowings outside the cornbelt probably will not be down this much, tempering the total decrease somewhat.

The reduction in farrowings in recent months and prospective decreases into next spring, in combination with sharply lower corn prices than a year ago, will bring substantial improvement in hog price and profit levels in 1972. For the very near term, however, hog marketings should be at or near their seasonal peak and prices at a seasonal low. Slaughter for the balance of the year is expected to average 4 to 5% below a year earlier with prices showing some rise from November levels.

Hog marketings during the first two quarters of 1972 will probably be 8 or 9% below the previous year. Volume in the July-September quarter will continue below 1971 levels--probably by from 7 to 10%. With lower feed costs and stronger hog prices, marketing weights are likely to average slightly higher than in 1971.

Demand for pork should be strong during the year ahead, reflecting improvement in economic activity, stronger employment conditions and personal income gains. Prices for barrows and gilts (at 7 midwest terminals) are expected to average within the $20 to $21 range during the January-March quarter. Some seasonal weakness is likely in late March-early April followed by recovery to around the $22 level in June. Based on present indications of December-February farrowing plans, prices should move on up to the $24 to $25 range in July.

Prices during the last quarter of 1972 will depend largely upon the size of the March-May pig crop. I expect the year to year downtrend in farrowings to continue into spring, with March-May farrowings probably down 3 to 5% from the previous year. On this basis, prices would decline seasonally in the late summer and fall but probably go no lower than $20 in the October-December quarter.

With low corn prices and good year to year improvement in hog prices, hog profits will be quite favorable during the first three quarters of 1972. I believe this will cause farrowings to at least level off by next summer followed by moderate expansion during the last three or four months of the year. While large feed grain supplies and low prices could encourage expansion by next spring, I do not expect this to happen. The very unprofitable conditions of late 1970 and early 1971 will not be so quickly forgotten. And improvement in profit levels since then has not been sufficient to bring such a quick turn around. If production follows the path projected, hogs will remain profitable during the first half of 1973, although less profitable than in 1972. Narrow profits could be in the picture by the latter months in 1973.

BEEF CATTLE OUTLOOK

Address by Glenn A. Grimes, Associate Professor, Iowa State University, Ames, Iowa, before the 20th National Agricultural and Rural Affairs Conference of The American Bankers Association, Muehlebach Hotel, Kansas City, Missouri, Monday morning, November 15, 1971.

Thank you, Ray. It certainly is a privilege and a pleasure to participate in your Agricultural and Rural Affairs Conference.

I am going to divide my discussion of the cattle situation into two parts--a look at what might happen during the next two or three years and the current situation.

The cattle numbers cycle gives a starting point to consider the situation for the next few years. However, one must use it with caution. The last numbers cycle has been considerably different than past cycles because of the development of the feeding segment of the industry. This has resulted in beef production increasing much faster than inventory numbers.

This factor started in the 1949 numbers cycle and really developed in the cycle that started in 1958. In fact, in the 1958 cycle, numbers leveled off in 1965 with only a three percent increase between 1965 and 1970 according to USDA; but production increased by over 15 percent in the same time period. This additional increase in beef production was brought about by reduced calf slaughter, and these animals that had been slaughtered as calves were fed to adult cattle, feeding more of the cattle that were slaughtered as non-fed and possibly a speed up in getting cattle to slaughter at a younger age.

According to USDA, we started increasing numbers during the year of 1969 and showed a two-percent-plus increase on January 1, 1970, as compared to a year earlier. This increase continued through 1970 at about the same rate. The buildup is continuing this year and our estimate is for total numbers to be up between two and three percent on January 1, 1972, as compared to a year earlier.

If the increase in production in relation to numbers that we have experienced during the past 12 years could be continued on top of a two- to three-percent increase as a result of larger herds, we probably would be in price trouble within the next two years. However, we believe the increased production in relation to numbers will be much less than in recent years. Our estimate is that it will not contribute to more than a one-percent increase annually for the next few years, if that much. Consequently, if demand continues to grow at the rate of recent years, we believe we may continue for several years with prices near the levels of the last two years, if the buildup in numbers is held to near two percent. A faster rate of increase in numbers would, of course, give stronger prices during the initial increase and larger supplies and lower prices two to four years later.

There is little information that one can develop that is a real good indication of how fast we will increase cow numbers during the next few years. Our guess is that they will stay in the two- to three-percent level because we are at a record high number and are scratching the bottom of the barrel for pasture without a major expenditure to improve pasture. Another source of pasture would be for cattle to outcompete some of the grain crops for land which they cannot do in very many instances on a strict economic basis.

Some observers believe USDA's inventories are too high and that they will be adjusted downward based on the 1969 census. I believe this certainly is a possibility. The inventories for January 1972, which will be released in February 1972, should tell the story. The level of the inventories is not the important thing. The real important part will be have we been increasing as present inventories indicate for the past three years? I believe we have for at least the last two years.

Now, for the current situation. As all of you are aware, the October 1 Cattle on Feed Report was moderately bullish. All of the increase was in relatively light cattle.

If our current strong demand holds, we should continue with prices above a year earlier through January of 1972. We could get some bunching of marketing in late winter and early spring that will weaken prices. However, this may not happen because a good percent of the cattle in the lower weight categories on feed October 1 probably went on feed at lighter than normal weights. Consequently, they will tend to distribute the marketings of these cattle.

Even if we do get some bunching, prices may not drop below the $30-$31.00 at the midwest river markets.

For all of 1972 we are now guessing an average price near the '71 level.

If these price expectations do develop, profits for cattle feeders next year will be about the same as in 1971. Feeder cattle costs will be higher enough to just about offset the lower feed prices.

REMARKS BY THOMAS A. HIERONYMUS

Professor, University of Illinois, Urbana, Illinois,
before the 20th National Agricultural and Rural Affairs Conference of The American Bankers Association, Muehlebach Hotel, Kansas City, Missouri, Monday morning, November 15, 1971.

The supply of soybeans available for use prior to the 1972 season is established and known within narrow limits. The carry-over on September 1, 1971 was 99 million bushels; and 1971 production was estimated at 1,175 million as of October 1 for a total of 1,224. From this we must subtract 65 million for seed, feed, and waste and an irreducible minimum carry-over of 75 million, leaving 1,134 million available for domestic crush and export to foreign processors.

During the crop year ending August 31, 1971, the crush was 760 million and exports were 433 million, for a combined total of 1,193 million. The combined total the preceding year was 1,170 million. The average rate of increase for the past decade has been 7 percent per year. This has been the pace of the long-term increase in the demand for soybean products.

The world has been used to using more soybeans each year, but there is a sharply smaller supply available during the year ahead. The reduced supply will have to be rationed by price. All that is at issue is how high a price will be necessary to cut use back to availability.

The demand for meal will be strong. The number of livestock in the U.S. will be the same to slightly larger. Feeding ratios should be quite favorable and this is conducive to a high rate of disappearance.

Exports of soybean protein as meal and of soybeans have increased faster than domestic disappearance in recent years. The same forces of increased livestock production and limited availability of competing proteins for animal feed should prevail again during the year ahead. In addition, there are early indications of increased demand from eastern European countries for feed for an expanding livestock population. The world is going to have to make do with less meal than it would like. Meal prices have averaged nearly $80 per ton for two years. I expect a higher average during the year ahead. However, moderate increases in meal prices cut customers out of the market. There is a limit to how high meal can sell.

The world requires about 800,000 metric tons more edible fats and oils each year to meet population growth. Much of this increase has been supplied from increasing soybean production in the United States and, for two years, the stocks that were built up in the United States prior to 1969. The reserve is now gone.

There will be larger supplies of rapeseed, palm, palm kernel, and coconut oils during the year ahead; but this increase will not nearly fill the increased requirement. World production of lard will be down, and I expect butter production to be stable. Production of sunflower seed and groundnuts oils is uncertain. However, at this time, production increases appear unlikely to be large enough to fill the gap.

Production of edible fats and oils comes from many crops scattered all over the world. Production and availability data are sparse and not very accurate. It appears likely that some reduction in fats and oils use per capita will be necessary. In contrast to meal, oil consumption is not very responsive to price so that it may be necessary to put oil prices quite high to curtail use.

A meal shortage appears nearly certain. Should a fats and oils shortage develop, the price of soybeans could go to quite high levels.

Soybean production in 1972 is a problem. Clearly less corn and more soybean acreage is needed. There will be more land set aside under the feed grain program which will have a tendency to take land out of soybeans. It will be necessary to draw land from corn to soybeans. Only a quite favorable price ratio at planting time next spring will get this job done.

FEED GRAIN AND WHEAT OUTLOOK FOR 1971-72

Address by J. William Uhrig, Associate Professor,
Purdue University, Lafayette, Indiana, before the 20th
National Agricultural and Rural Affairs Conference of
The American Bankers Association, Muehlebach Hotel,
Kansas City, Missouri, Monday morning, November 15, 1971

Feed Grain Situation

Feed grains consist of corn, grain sorghum, barley, and oats, with corn accounting for nearly three-fourths of the total supply. With the rapid advances in corn production technology achieved during the past decade, an abundant feed grain supply is often taken for granted. Since 1961, the Feed Grain Program has been geared to reduce production and to bring supplies in balance with perspective needs. During this time, from 25 to 39 million acres of feed grains have been diverted from production. Farm income was boosted by direct government payments for feed grains ranging from nearly $750,000 in 1961 to a high of $1.6 million in 1969.

During the summer of 1970, drought and the southern corn leaf blight reduced the prospects for the 1970 corn crop by 15 percent, from a potential record of 4.8 billion bushel forecast in July to 4.1 billion bushels. Total feed grain production in 1970 was 159 million tons, down 15.6 million tons or 9 percent below 1969 production. The higher corn prices last year cut utilization by about 250 million bushels and reduced carryover supplies by approximately 1/3. As of October 1, 1971, carryover supplies of corn were 665 million bushels, the lowest level since 1952. Total feed grain carryover stocks were around 33 million tons, the lowest level since 1954.

Changes in the 1971 Set-Aside Program for feed grains and the favorable price outlook for corn cut the acreage of feed grains diverted by 50 percent to 18.7 million acres. Despite an indicated shortage of resistant seed corn, farmers increased the 1971 corn acreage by 11 percent over 1970. In addition, sorghum acreage was boosted 19 percent, barley acreage was up 6 percent and oat acreage was down 15 percent.

Favorable weather provided nearly ideal growing conditions for feed crops over most of the nation. Spring came early, allowing farmers to plant almost two weeks earlier than usual. The dry spring was followed by adequate rainfall in May and June, and the corn crop got off to a good start. Southern corn leaf blight thrives in hot, humid weather. This year, the weather in the crucial July and August growing period was unseasonably cool in most places. The spores that cause the blight survived the winter and infestations of blight were reported throughout the corn belt. The favorable weather conditions prevented the blight from causing serious damage.

Total Feed Grain Supplies Up 13 Percent

The total supply of feed grains for the year ahead will amount to about 236 million tons, up 13 percent from last year and over 10 percent above the 1965-69 average. The 1971 feed grain production totals an estimated 202 million tons, 27 percent over last year's production.

The larger 1971-72 supplies have resulted in lower feed grain prices and more favorable livestock-feed price ratios. It probably also will bring a resumption of the upward trend in domestic use of feed grains. In 1970-71 the rate of feeding dropped about 3 percent from the record rate in 1969-70, but the larger number of livestock on farms offset part

of the reduced feeding rate. In 1971-72, domestic use would increase 6 to 10 million tons over the 155 million ton usage in 1970-71 if the feeding rate per animal unit should return to the 1969-70 level. Export demand is less promising because of prospective larger grain crops in both exporting and importing countries. U.S. will continue to meet with strong competition from Argentina and South Africa. European import demand will be dampened by prospective big crops of feed grains and wheat. The big U.S. feed grain crop is more than adequate to meet all anticipated domestic and export needs. It will also leave a much larger carryover into 1972-73--probably 15 to 20 million tons over the 33 million at the beginning of 1971-72.

Corn Production Up 32 Percent

U.S. corn production for 1971 was estimated as of October 1 at a record 5.4 billion bushels. This is 28 percent above last year's 4.1 billion bushel blight-plagued crop and 23 percent above the average of the last 5 years. The yield is predicted to be 84.3 bushels per acre as compared to 71.7 bushels last year and the previous record of 83.9 bushels in 1969. The 1971-72 corn supply will be over 6 billion bushels, based on October 1 indications, 18 percent above the 5.1 billion bushels of last year.

Utilization of the 1971 corn crop is expected to total about 4.7 billion bushels, up from 4.4 billion during 1970-71. Feeding rates and exports are both expected to increase slightly to account for this increased use. Heavier feeding rates and slightly larger numbers of grain-consuming animal units will result in about 3.7 billion bushels being used as feed. Exports are expected to increase moderately as a

result of more attractive prices to foreign buyers. Larger feed supplies in other grain-producing areas of the world will temper the increase in corn exports.

Carryover stocks will build up as a result of the big 1971 corn crop and are projected to total about 1.3 billion bushels on October 1, 1972, nearly double the supply on hand this year.

With the big crop in prospect, corn prices dropped 50 cents per bushel from mid-June to harvest time. A seasonal price rise of 15 to 20¢ per bushel is expected in the winter and spring after the bulk of the surplus corn has moved into commercial channels or under loan.

Sorghum Supplies Total Nearly One-Billion Bushels

Sorghum grain production was forecast at 892 million bushels on October 1, 28 percent above 1970 and 19 percent higher than 1969. The average yield of 54.6 bushels per acre for the U.S. compares with 50.7 bushels last year and 55.3 bushels in 1969. The strong demand for grain sorghum reduced carryover supplies to around 90 million bushels on October 1, less than half as large as a year ago. Current prices of around $1.85 per cwt., are down about 15¢ from prices received a year ago and 80¢ below prices received earlier in 1971. With the large corn crop, sorghum prices are likely to continue slightly below corn prices on a pound-per-pound basis.

Oat Supply Estimated at 1.4 Billion Bushels

The 1971-72 oat supply is estimated at 1.4 billion bushels, about equal to the last year's supply. Oat acreage was down 15 percent, following a three-year rise. With higher yields, the '71 crop was estimated at 885 million bushels, only 3 percent less than in 1970.

Relatively low oat prices resulted in a little heavier utilization in 1970-71. Even so, the carryover supply of oats reached the record high of 513 million bushels last July 1. The lower government loan rate this year (54¢ a bushel, 9¢ lower than in 1970) will be a factor tending to hold oat prices relatively low in 1971-72. Oat consumption probably will be about equal to the 1971 production.

Barley Supplies Below Last Year

The 1971-72 barley supply will total around 630 million bushels--a little below 1970, but 16 percent above the 5-year average. The July 1 carryover was down 81 million bushels from a year ago, more than offsetting an increase in production. The 1971 crop of 463 million bushels was 13 percent larger than a year earlier, the largest since 1958.

In 1970-71 both domestic use and exports increased sharply and total disappearance reached a record high of 500 million bushels. Domestic use probably will continue large in 1971-72 as the lower loan rate and the big crop will tend to keep barley prices favorable for livestock feeding. Exports, however, are expected to be sharply below the 77 million bushels shipped last year. Not only will world demand be lower, but much less will be exported under government programs.

1971 Wheat Production Set New Record

The 1971 wheat crop was estimated at 1,628 million bushels, 18 percent above 1970 and 11 percent above 1969. Yields of all wheat set a new record of 33.7 bushels per acre, 2.6 bushels above last year and 3 bushels above 1969. Acreage for harvest, at 48.4 million acres, was 9 percent above 1970. The winter wheat acreage was down 1 percent, but durum and other spring wheat were up 33 and 43 percent, respectively.

Total wheat stocks on July 1, at 730 million bushels, were down 17 percent from a year earlier. The decline, first since 1967, was due principally to a smaller 1970 wheat crop and a substantial increase in 1970-71 wheat exports.

The total supply of wheat for 1971-72 is estimated at 2,358 million bushels, up 4 percent from last year and 15 percent above the five-year average. A substantially larger "free" supply is on hand for the current marketing year. Domestic utilization is expected to decline 3 to 5 percent from last year's level. Wheat for food is likely to remain at recent levels of around 525 million bushels. This follows the trend of slowly declining per capita consumption being offset by the population growth. Wheat use for seed for the 1972 crop is expected to total 65 million bushels, about 5 million more than last year. U.S. exports for the 1971-72 marketing year is expected to fall about 15 percent below last year's relatively high level of 735 million bushels. Larger world production and lower import demand are the major factors in the reduced export prospects. Carryover supplies by next July are likely to increase by at least 200 million bushels.

As a result of the larger crop and prospects for reduced utilization, wheat prices are expected to average somewhat below last year's $1.34 per bushel.

REMARKS BY THE HONORABLE HERMAN E. TALMADGE

United States Senate, Washington, D. C., Chairman, Committee on Agriculture and Forestry, Washington, D.C., before the 20th National Agricultural and Rural Affairs Conference of The American Bankers Association, Muehlebach Hotel, Kansas City, Missouri, Monday afternoon, November 15, 1971.

I am very happy to participate in this year's National Agricultural and Rural Affairs Conference of the American Bankers Association. I hold the American Bankers Association and its members in very high regard. All of you are outstanding citizens and in your various capacities have contributed materially to the well-being, not only of the communities you serve, but to the nation as well.

The American Bankers Association has much to be proud of. This fine and highly honored organization, in its long history, has done much to contribute to a better understanding of the banking industry and its problems in carrying out its professed objective of serving the people of the nation. Your close contacts with various government agencies on matters affecting banking have led to improvements beneficial to all. You have been a prime source of information to Congress on matters involving banking, credit and finance. Your activities over a long period of time have created confidence in this organization as being truly representative of the industry as a whole.

Your interest in agriculture and rural America coincides with mine, as Chairman of the Senate Committee on Agriculture and Forestry.

Agriculture is the most basic and the most important industry in this country. The accomplishments and contributions of agriculture to the well-being of our nation is a never-ending story.

Farmers have provided magnificently for their country. Our farmers provide consumers with an abundance and variety of foods of every kind and in every form, readily available at all times at fair and reasonable prices. Our productivity is such we can readily share with the less fortunate both at home and abroad. More than 200 million persons in this country and many millions more throughout the world now depend upon our farms for most of their food and fiber. But there is more to the miracle of agriculture. Farmers have contributed beyond measure to the economic activity of this nation. Last year farmers spent over $40 billion to produce crops and livestock. This went for seed, feed, fertilizer, petroleum, supplies and equipment, property taxes, and a host of other items, all generating economic activity, especially in the small towns and rural communities.

Sales of crops and livestock introduced an additional $49 billion into our nation's economy. Transportation, processing, packaging, manufacturing, wholesaling and retailing all share in the economic activity generated by farming. Estimates on a national basis indicate that about 30 percent of all jobs in private employment are agriculturally related and that agri-business accounts for about from one-fourth to one-third of our gross national product. And all of this economic activity is generated by fewer and fewer farms and farmers. But, because of the diminishing farm population and number of farms, the contributions and accomplishments of agriculture receive less and less emphasis and attention in our national plans. But we know that agriculture is important. Its

continued productivity is absolutely essential for our very existence. We must have food and fiber.

It naturally follows that a sound, prosperous, and productive farm economy is vital to the well-being of our rural areas and to the nation. We will work toward this end. But it has not been achieved. Agriculture and our rural areas deserve more. Over the years, in excess of 20 million Americans have left our rural areas for what they believe to be better opportunities in the bigger cities. And I might add, they do not always find them. There must be better economic opportunity in rural areas. But this is only one part of a much larger problem. Our rural people must also have available good schools for their children, decent transportation systems, adequate medical care, and other services and facilities that are equal to the best if they are to remain. A truly viable rural area must offer all of the material as well as the spiritual benefits of life.

But, according to the Department of Agriculture, there is a continuing rural-urban gap in the good things of life. The percentage of persons living in poverty in non-metropolitan areas was nearly twice as high in 1969 as those living in the urban areas. Rural areas compare poorly with urban areas with respect to health and education. Rural areas with 30 percent of the population still have 60 percent of the substandard housing units. Because of generally lower income, rural people are able to spend only a fraction of that spent by the urban areas for government services, such as police and fire protection, medical services, education, roads, sanitation, and public welfare. This imbalance has been a major factor in the population distribution with over 70 percent of the people now living on less than 2 percent of the land.

In an effort to try to correct the deplorable situation existing in rural areas, I introduced a bill designed to finance major development programs for America's smaller communities and rural areas in the interest of a better balanced national growth. This bill establishes a new farm and rural development credit system consisting of two parts. First, it would establish an entirely new credit agency, namely, the Federal Rural Development Credit System; and second, it would reorganize the Farmers Home Administration.

The existing authorities of the Farmers Home Administration for the making and insuring of loans to farmers would be retained and in some instances expanded. Additional authorities relating to rural development would be added to existing FHA law for the making and insuring of loans to any prospective borrower for any rural community development project. The Federal Rural Development Credit System, on the other hand, as envisioned by the bill, would be an entirely new and separate agency. It would consist of two distinct but basic parts.

The first would be an agency established for the purpose of providing credit for public and private borrowers to undertake projects to carry out a rural development purpose. Simply put, prospective borrowers would make application for a loan from a qualified participating local unit, including private banks. The local lender could finance part or all of the loan with the financial agency. The financial agency in turn could sell or discount the loan with the regional development credit bank. In short, the lending procedure of the rural development credit agency would operate in a manner similar to that of the Farm Credit Administration.

The other part of the system would provide for rural development interest and capital incentives under certain conditions. These incentives are designed to encourage and facilitate rural industrialization, rural business enterprise, and higher quality rural community facilities and services. As you can see, both the new credit agency and the proposed amendments to the Farmers Home Administration have as their primary purpose the injection of additional capital into rural areas. The range of rural community development projects would include a host of activities. Funds from the banks could be used to establish and improve public works and public service; encourage private investment and promote the establishment and expansion of industrial and commercial enterprises; establish and improve educational facilities; improve health facilities and services; assist in the establishment of decent safe, sanitary, and comfortable housing; and assist in the solution of problems of law enforcement activities. Some questions have been raised regarding the broad range of projects and programs authorized under the bill. I would like to point out that this is no more than the federal government has been doing for many years in our foreign aid programs. For example, in 1969 alone, government loans to private enterprise were authorized for projects including a cement plant in Bolivia, hotel construction in Ceylon, a fertilizer plant and tractor-manufacturing plant in India, construction and farm machinery manufacturing in Israel, baking, noodle manufacturing, poultry processing, furniture manufacturing, electronics and poultry farming in Korea, cattle ranching in Morocco, pharmaceutical manufacturing and dry-cell battery manufacturing in Pakistan, hotel construction in Tunisia, and water-pump manufacturing in Turkey. Funds for these loans were generated from the sale of agricultural commodities under Title I of PL 480.

But that is only part of this country's contribution toward the economic development of foreign nations through our foreign aid programs. It is a matter of fact that the United States has made available to foreign countries for economic development a total of almost $103 billion since 1946. Of this, about $60 billion was in the form of grants while loans totaled about $43 billion.

Surely if the United States can make a gift of over $60 billion toward the economic development of foreign nations it can, at least, begin to show an interest in our own rural areas. Admittedly, success is a long-range project. It cannot and will not be achieved overnight. But it must begin, and I feel it must begin now. For too long we have ignored the needs of rural America and the nation is now suffering because of it. During the course of hearings on the so-called Rural Development Bank bill, your organization availed itself of the opportunity to testify, and I was glad to read your testimony. In essence, you agreed with and endorsed the general purposes of S. 2223 to assure that capital and credit is available in rural areas for sound, non-inflationary economic growth and to facilitate the flow of funds from the central money markets to rural areas. You indicated that it would be wise to broaden the scope of the Farmers Home Administration in making both direct and insured loans for rural development projects. However, your organization did oppose the establishment of a separate Federal Rural Development Credit System.

Now I want to make it perfectly clear that I respect your right to disagree. I want you to know also that I appreciate your comments and suggestions and the time that you have taken in presenting your views. It is undeniably true that S. 2223 would expand the existing

authority of the Farmers Home Administration to provide for making both direct and insured loans for rural development purposes. It is undeniably true that there are other agencies of government which are also engaged in one way or another in providing aid to rural America.

Why, then, is a new agency necessary? There are answers to that question. First, I would like to point out that the primary purpose, I might say the only purpose, of S. 2223, is to provide a means whereby the rural areas of America are given an opportunity to utilize and develop the resources available to them. In order to rectify the long neglect it is absolutely necessary to attack the problem across the broadest front possible. Second, it has been my observation that the old line agencies and the old line programs now in effect all have become enmeshed in bureaucratic red tape and in many instances in stilted thinking. It is not that the individuals administering these programs do not try to do a good job. It is just that the boundaries within which they are allowed to proceed have become progressively narrowed. This new proposal would bring into the picture new and unstilted thinking, the innovator, the doer. Multi-county planning and development commissions, local governments, local credit institutions, the expertise of the existing program managers, all would be involved in a primary sense in devising ways and means to accomplish the central purpose of the bill.

The scope of the task facing us is almost beyond comprehension. Old problems must be solved, inequities must be corrected, trends must be reversed, rigidities must be made to bend and vision must be to the future. That we can achieve success is not an idle dream. A study by the Center for Political Research recently concluded that broad economic forces in the private sector are major factors contributing to economic

development, and that most existing programs are not designed, administered, or funded to achieve a sufficient impact in this area. To put it another way, the report implied that heavy direct investment by business and government could result in the economic development of non-metropolitan areas. That is the objective of my bill.

This will not be an easy task, nor will it be accomplished in short order. But we must begin. Unless the first step is taken, there will be no progress, no accomplishment. It is my earnest desire to provide our rural residents with both the material and spiritual opportunities which will result in a happy, healthful, and wholesome life. I am convinced that our nation will be the better for it.

REMARKS BY HOY B. ETLING

Executive Vice President, The Fidelity State Bank, Garden City, Kansas, as Moderator of the Workshop Session "Financing Irrigated Agriculture," before the 20th National Agricultural and Rural Affairs Conference of The American Bankers Association, Muehlebach Hotel, Kansas City, Kansas, Monday afternoon, November 15, 1971.

Gentlemen: This workshop session is on "Financing Irrigated Agriculture." The two members assisting me in this workshop will make brief statements with respect to the areas which they represent and their observations in financing irrigated agriculture.

I would like to present - Arlin Avery, Agricultural Representative, Bank of New Madrid, New Madrid, Missouri.

I would like to present - L. M. Novak, Executive Vice President, Union Bank and Trust Company, Lincoln, Nebraska.

At the conclusion of the opening remarks of these two gentlemen the floor will be open for discussion and we will appreciate any thoughts, questions, or comments which you have.

I am Hoy B. Etling, Executive Vice President, The Fidelity State Bank, Garden City, Kansas. Garden City, Kansas, is located in the Arkansas River Valley approximately 55 miles east of the Colorado line and 65 miles north of the Oklahoma line or more commonly referred to as southwest Kansas. It is the county seat of Finney County which is the second largest county in Kansas and has a total land area of 880,000 acres. Of this amount 550,000 acres are in cultivation with 162,820 acres under irrigation either by flood irrigation or automatic sprinkler irrigation.

Irrigation has increased tremendously not only in Kansas but in our county and the five counties surrounding us and in which we do business. Irrigated acreage has increased from 426,933 acres in 1961 to 720,190 acres in 1970 or nearly a 41% increase. Our area has an annual rainfall of approximately 18 inches, thus, irrigation not only has benefitted it by increasing productivity but has also been a stabilizing factor in the production of crops as well as the economy of our area. This increased production of crops, primarily in the feed grains, has also been a contributing factor to the great expansion that has taken place in the commercial livestock feeding industry the past 10 years.

The problem of financing irrigated agriculture can be stated rather simply. From the financial institution's standpoint, it is purely a question of whether the additional benefits from irrigation will more than offset the increased costs of production. If the benefits will outweigh the costs the operation should and will be a good risk. If they do not, it will be a poor financial risk.

Unfortunately there are not any specific figures that are applicable to all farms as to the additional costs of irrigation. The additional costs will vary depending on the type of irrigation system used, soil types, topography, crops grown, temperature, evaporation, whether the labor used is family or hired as well as other factors. We have found that, in addition to the higher capital investments, labor costs go up, additional equipment is needed, fertilizers, insecticides and herbicides are required as well as additional supplies when irrigation is introduced on the farm--and I might say they vary from farm to farm. Therefore, I think it is safe to say that additional costs are substantially increased under irrigation and that an increase in

productivity per acre is essential to pay these additional costs. It may be of interest to you that farm management records for our area show that it costs $79.00 to produce an acre of corn, $56.00 to produce an acre of milo, $120.00 to produce an acre of sugar beets.

The amount of capital needed to finance a particular irrigation system will vary depending upon the kind of system, source of water, the acreage to be irrigated, topography, management as well as many other factors. Both long-term and short-term credit frequently are required to provide the capital needed in irrigation farming. Long-term credit is required to finance the original outlay for the irrigation system which in our area can easily run $50.00 to $150.00 per acre. It is also important to keep in mind that all additional capital needed will not be long-term but that substantial amounts of short-term credit will be needed to finance additional equipment, fertilizer, insecticides, herbicides, and other supplies. With the adoption of an irrigation system, a livestock enterprise may be another important credit need. I firmly believe that the financing institution and the farmer should be fully aware that both types of credit are needed if irrigation is introduced and that irrigation itself will be of little value unless short-term capital can be provided.

Irrigation is not magic: it will not make a good farmer out of a poor one.

IRRIGATION IN THE MISSOURI DELTA

Address by Arlin Avery, Agricultural Representative, Bank of New Madrid, New Madrid, Missouri, as a Member of the Workshop Session "Financing Irrigated Agriculture" before the 20th National Agricultural and Rural Affairs Conference of The American Bankers Association, Muehlebach Hotel, Kansas City, Missouri, Monday afternoon, November 15, 1971.

America is a relatively new country. If Columbus was the discoverer for the most of you we are 478 years old. Long before its discovery the American Indians of the Southwest United States, Central America, and parts of South America had recognized the value of irrigation. Remains of irrigation canals and other structures can still be found in these and semi-arid areas.

Irrigation in the humid regions of the United States on crops other than rice and horticultural crops is a relatively new practice. It is being used as crop insurance against crop failure from lack of moisture at critical times. With the increasing high cost of producing crops, a crop loss caused from a drought could and will be very disastrous under today's conditions.

Irrigation in Southeast Missouri has passed the experimental stage. We have research data and farm use experience to prove the value of irrigation. We have approximately 1/2 of the land in my home county, New Madrid, with a plan for some or total irrigation. In the past 20 years we have made many mistakes; we gained some valuable experience. We need to learn more.

The Southeast Delta area receives more rainfall on the average, in a year's time than other sections of the state. In a 20-year period we have ranged from a low of 32.5" to a high of 96". This was and has been spotted in both the extreme wet and dry years.

One source of trouble is in the recorded precipitation pattern. We receive most of our rainfall from September to March. The April through August rainfall averages slightly over 19". Another big problem is a study of precipitation records of official weather reporting stations in the localized drought. Rain must have a beginning and an end. It is most upsetting when everyone receives a rain and your neighbor gets 2" and you end up with a 1/4" shower. Every year we have these localized dry and sometimes wet areas. These localized drought areas follow no particular pattern from year to year and cannot be predicted as yet. We have this year, 1971, had examples of both wet and dry over the area. In a 5-week period we had a difference of 11" of rainfall with approximately 17 miles distance from one area to the other when all crops were up and growing. You may begin to see why we classify irrigation as insurance.

May I say (before going into observation concerning irrigation) that irrigation never makes a poor farmer a good one unless there are other changes in his farming picture. Irrigation will not replace management and sound decisions arrived from a careful analysis of the entire farm's potential.

Irrigation should be considered only after the best management practices of farm planning have been considered: Some of which are a soil resources map showing the depth of the soil, type, infiltration rate, good weed control, and a balanced plant food supply to support the crop and yields planned. Much dissatisfaction has been caused in my area for

lack of sound planning. The improper application of water after irrigation has been established will cause a lot of trouble. Cost of systems and variable and fixed cost of installations and operations need be considered. The cost of money must be included in the fixed cost of any system.

After 20 year's experience no one in the Delta area of Southeast Missouri has a good financing program. Lenders are basically Bankers and P.C.A.'s. FHA does a limited amount of financing. Federal Land Bank has made indirect loans in the past. The land bank now has a new policy for borrowers that will be available.

One would assume we would have guidelines in 20 years. This we have not accomplished. Much of the financing is based on the borrower's ability to pay without considering the gain from irrigation. One farmer expressed the situation this way. "If a farmer has sufficient collateral and credit to pay for an irrigation system without considering the system purchased, he can borrow the money." Factually, one would say no one depends on irrigation to pay its own cost.

REMARKS BY L. M. NOVAK

Executive Vice President, Union Bank and Trust Company, Lincoln, Nebraska, as a Member of the Workshop Session, "Financing Irrigated Agriculture," before the 20th National Agricultural and Rural Affairs Conference of The American Bankers Association, Muehlebach Hotel, Kansas City, Missouri, Monday afternoon, November 15, 1971.

During 1965 we analyzed the possibility of our installment loan department entering the field of discounting dealer contracts. Our bank was only 8 or 9 million dollars in assets at that time and our activity in the installment field was limited to serving our own customers on a direct loan basis. Consequently, the volume of our installment loan portfolio was low.

We had been told that there were good returns to be made in the dealer contract operation and that this was an excellent field to enter in order to build installment volume quickly. Investigation brought out both some favorable and unfavorable opinions of the discount field. True, volume could be built quickly and the yields appeared to be high. But further analysis showed that yields were reduced measurably with the payment of dealer reserves. Operating costs increased noticeably because of the need for additional personnel to properly service the dealers. Collection efforts increased measurably. Losses were greater than direct loan losses. Very few indirect customers could be persuaded to use additional bank services. Competition in the field was high. The major downtown banks and finance companies had been discounting paper

for 10 or 15 years and they were experts in the field. Furthermore, our commercial loan demand was high. We didn't have excess funds lying idle.

We decided that the additional expenses we would have to incur in order to establish a dealer discount department combined with the competitive aspects of the overall venture precluded our yielding a net return sufficient to justify the investment of time and money. But the idea of discounting dealer paper continued to be present in our thinking.

We have had a few original ideas but most of them we have copied from others. And the next idea we copied was the idea of financing farm equipment by buying farm equipment contracts. The good points about farm equipment contracts were learned from some of the experts in the field. We contacted several of the major farm equipment manufacturers who had years of experience in providing credit through their affiliated companies for the financing of farm equipment purchases. We learned that the term of the contracts was reasonable in our thinking for a commercial bank. On the average the term ranged from between 2 to 4 years. We learned that servicing of the contracts was generally limited to a quarterly or semi-annual payment program. Exceptions did include some monthly payment contracts, but the point is that delinquency servicing was cut on the average about 70%, when compared to consumer goods financing. Another advantage was that the size of the average contract was considerably larger than the average consumer goods contract.

So we approached one of our major farm equipment dealers. Our negotiations resulted in a very satisfactory arrangement for discounting farm equipment paper from him. The arrangement was profitable for both him and for us. As a result of this successful expansion of our banking activities we decided to pursue further a commercial application to farm equipment financing.

During the latter part of 1968 we became associated with a farm management company that had a record of over 20 years of experience in sound farm management. The area of their activities includes the states of Nebraska, Iowa, Kansas and South Dakota. At the present time the company manages over 100,000 acres of land. The company has offices in Norfolk, Columbus, Bassett and Lincoln, Nebraska. In each office, a farm manager is located who is trained and knows the area and type of farming or ranching that he best can manage. Our entrance into irrigation financing came as a result of the company's operation in the Bassett, Nebraska area.

If one were asked to identify regions where sand dunes cover thousands of square miles, he probably would name the Sahara or Libyan or Arabian or Gobi deserts and never think to mention the vast Sand Hills region near the center of the North American Continent. This region is by far the largest sand dune area in the Western Hemisphere and the sand hills area of Nebraska is more than 10 times larger than the State of Delaware and almost 3 times the size of Massachusetts.

But one distinct point stands out. The Nebraska Sand Hills region is not a desert. One of Nebraska's greatest natural resources is water. And the rocks beneath these mounds of sand are permeated to overflowing with water. Because of the rolling nature of much of the area near Bassett, Nebraska, where we first began financing irrigation systems, use of the gravity type of irrigation was quite limited. Recent improvements in the circular irrigation systems proved them readily adaptable for irrigating thousands of acres of rolling dunes that could previously support only an average covering of grass. The President of our bank and officers of the farm management company saw a great potential

here for expansion of the use in this area of the circular system. It was being used by some landowners, so, once again, the idea was not original, but the method of implementation was. A group of 10 investors was organized to purchase 10 quarters of land near Bassett. Arrangements were made with a successful implement and irrigation dealer to install the 10 irrigation systems. The farm management company had management contracts with some land owners in the area prior to this, and additional contracts were solicited. The final result was that the 1971 crop year saw 32 irrigated quarters under management contract for which Union Bank and Trust Company furnished the equipment financing for 18 quarters and the crop financing for 27 quarters. The average cost of the completed irrigation systems was approximately $27,000. We agreed to finance 100% of this cost provided the landowner had good equity in his land. In a few cases we required an investment by the landowner of about $5,000 where we felt the equity was not sufficient. The term of the equipment loan was set at 7 years. A master note was set up to conform to the Nebraska Installment Loan Act calling for equal annual payments. Since the note qualified under the Installment Loan Act, we were permitted to charge interest at the rate of 12% per annum. Most equipment financing in our area carries a rate of 12%. The landowner was required to enter into a farm management agreement with the farm management company. A part of this agreement was that as long as the landowner was in debt to Union Bank and Trust Company for either equipment or crop financing, complete management of the farm would be handled by the management company. We took a security agreement on all of the equipment and the crops. We took and recorded a financing statement with the same security listed. The landowner's wife was required to sign an unlimited guaranty.

A separate disclosure statement was executed to conform to regulation "Z". The borrower was required to sign a Severance Agreement, and in certain instances we also required the real estate mortgage or contract holder to join in the agreement. The farm management company was required to guaranty the equipment loan and we entered into an agreement with the equipment supplier which provided for a buyback arrangement with him in the event it became necessary to repossess the equipment. After the first year he agreed to buy back the equipment at 60% of original cost. Each year thereafter the figure was graduated downward at 10% and in later years, 5% intervals. The crop financing was also provided at 100% of cost. These expenses for the 1971 crop year have averaged approximately $13,000 per quarter. Here too we took a master note at 8½% interest per annum. In the case of both the equipment financing and the crop financing, advances were made to meet current expenses or bills through issuance by the management company of draw drafts which were chargeable against the master note. The borrower gave a power of attorney to the management company authorizing this. The drafts were encoded with our transit number and came to our bank in our cash letter following issuance by the management company to whomever the funds were owed. So much for the method of operation. Now, how about the results? Corn was the only crop planted. The management company had guaranteed the landowner that the management fee would be waived if the production did not reach 125 bushels per acre. Incidentally, the landowner has the option at the beginning of the crop year to select a fee schedule of either 10% of the gross income or 20% of the net income. The lowest yield per acre on any of the quarters was 135 bushels per acre. The highest yield was 183 bushels per acre. The average for all quarters was 160 bushels per

acre. This is after the corn has been dried to below 15% moisture content. In addition to the crop, those landowners without cattle herds have leased their land at a flat $1,000 per quarter to cattlemen who run their livestock on the stalks. We had estimated that the return on invested capital would range between 8 and 12 percent. This is before considering the cost of interest and is based on an average raw land cost of $150 per acre. The 1971 crop year produced a return of 8¼% for the least productive quarter and a 19% return for the best producing quarter. For the bank's part we realized an investment portfolio of over $400,000 in 7 year 12% equipment loans and over $300,000 in short term 8½% crop loans. Both lines require minimal servicing and no collection effort. We encourage other banks to study the program. It has been a good investment for our customers and a good investment for us. Perhaps it can do the same for you.

REMARKS BY BENNETT L. HAUENSTEIN

Vice President, The First National Bank of Chicago, as Moderator of the Workshop Session, "Financing Feedlot Cattle" before the 20th National Agricultural and Rural Affairs Conference of The American Bankers Association, Muehlebach Hotel, Kansas City, Missouri, Monday afternoon, November 15, 1971.

The objective of this workshop is to exchange ideas with you on financing the commercial cattle feeder and the bank customer feeding cattle in a commercial feedlot. If you have questions on this type of financing, you should obtain the answers from our panel or from participants in the workshop this afternoon. We are looking forward to your active participation in the discussion of soundly financing this important industry.

As background for our discussion, we will briefly review some of the developments in the cattle and feedlot industry, and present to you some broad guidelines for financing the commercial feeder and the bank customer feeding cattle in a commercial feedlot. It is our plan to bring out the more specific details of this type of financing in our discussion period.

In order to develop the climate for our discussion this afternoon, I would like to briefly review with you some of the developments in the feedlot and cattle industry.

The commercial feedlot industry, as we know it today, has largely developed since World War II. California has been the leading state in this development. Commercial feedlots were developed there due

to the rapidly growing population, which created a strong demand for beef; effective development of beef production capabilities; ample feed production in the early expansion phases, including by-products from other agricultural enterprises; and innovative management. Many of the management practices and techniques developed in California have served as a foundation for the development of the feedlot industry in other sections of the country. In addition, feedlot managers trained in California have made important contributions in the development of the feedlot industry in other sections of the country.

The most explosive growth in the commercial feedlot industry has occurred within the past 10 years - or even five years. This explosive growth has been in the plains states from Texas to South Dakota and in some of the adjoining states. The expansion of commercial feedlots in these states has resulted from the development of irrigation, hybrid mile, climatic conditions favorable to cattle feeding, a large cattle population, farmers and ranchers knowledgeable in the cattle business, and innovative investors and managers. The successful commercial feedlot uses sophisticated management in buying, feeding, and marketing cattle, and they have cost accounting systems to analyze the financial results of their operations.

With the growth of the commercial feedlot industry, there has been a dramatic shift in cattle feeding from the farmer-feeder to the commercial feedlot. With this shift, we now have about 2 percent of the cattle feeders, or 400 feedlots, finishing over 50 percent of the cattle for slaughter. It is my judgment this trend will continue and the rate of change may be accelerated.

The demand for beef and for fed beef has contributed to the growth of the feedlot industry. The percentage by weight of fed beef consumed has increased from about 40 percent in 1946 to 70 percent in 1970. In addition, the consumption of beef per capita has increased from 62 pounds in 1946 to about 114 pounds in 1970. During this period, our population in the United States increased about 40 percent.

The most dramatic developments in the cattle industry have occurred in the past 10 years, as follows:

The number of cattle slaughtered increased over 50 percent - 19.4 million head to 30.5 million head.

The pounds of beef slaughtered increased over 50 percent - from 14.7 billion pounds to 21.7 billion pounds.

The consumption of beef per capita increased over one-third - from 85 pounds to 114 pounds.

Farm and ranch income from cattle increased over 70 percent - $7.8 billion dollars to $13.7 billion dollars.

Cattle income as a percentage of gross farm income increased about 25 percent - from 21 percent to 26 percent of gross farm income.

Total cattle numbers increased about 16 percent - 96.2 million head to 112.3 million head.

Total cow numbers increased about 15 percent - from 44.6 million head to 51.3 million head.

These statistics point out rather dramatically the changes occurring in beef consumption, slaughter, and the fact that the cattle industry is the most important source of farm income in agriculture. In addition, these statistics point out our cow numbers and the cattle population have not increased in relation to cattle slaughtered and beef

consumption. This should indicate that we will have favorable cattle prices for the next few years.

The banking industry has played a dominant role in financing the major changes in the cattle industry. The Agricultural and Rural Affairs Committee of the ABA has selected an important topic for our discussion in this workshop session. We are looking forward to your active participation in this workshop.

REMARKS BY RALPH E. MERCER

Senior Vice President, the Greeley National Bank, Greeley, Colorado, as a Member of the Workshop Session "Financing Feedlot Cattle," before the 20th National Agricultural and Rural Affairs Conference of The American Bankers Association, Muehlebach Hotel, Kansas City, Missouri, Monday afternoon, November 15, 1971.

My part in this discussion is to visit with you on some of the aspects of bank financing of the farmer/feeder. Some of the characteristics of the farmer/feeder might be as follows: The man owns the farm where the feed lot is located, he owns the cattle in the lot, he has no custom feeding accounts, he feeds cattle on a year-round basis and most likely the farm does not produce enough feed to market all cattle being fed out. I believe this to be one of the more desirable types of credit that a bank can extend.

My remarks are going to be more of less of a rambling nature and because of the time situation, I will be unable to develop them to any extent. It is not my plan to describe how to set up a feed lot loan, as I am quite aware there are many ways to accomplish this, and most likely, no one best way. However, I do believe there are certain guidelines that are applicable to most loans, regardless of size or location. Let's briefly discuss some broad policy aspects, with a remark or two on procedures.

First, I think it absolutely necessary for your bank to establish a definite feeder loan policy, with the 100% endorsement of your Board. If your bank wants to develop and finance the feeder and establish

a reputation for this kind of business, you must do this. Neither do I think it necessary that you keep this policy a secret from your customer. Let him know what you expect, and what your bank looks for in feed lot loans. Time does not permit us to dwell on the details of this policy, but it should cover such items as deposit relationship, trade territory, margins, feed lot record requirements, financial information, appraisals, etc. Spend some time in developing this policy, and make it one you can live with, and not one in which you are continually making exceptions. Feed lot financing is just like any other type of financing, in that, you must adopt certain standards, and this old idea of making the loan from the "top of head" is long gone.

I further believe it most desirable that when the loan is set up, we give the customer not only a dollar commitment, but a commitment with respect to other loan terms. Perhaps some of you would prefer to call this a loan agreement. There is certainly nothing wrong with it being in a written form. I feel quite sure that some extra time spent with the customer in setting up the loan is time well spent, and can very well avoid misunderstandings at some subsequent time during the loan. Perhaps some of you are now issuing letters of commitment in regard to Regulation Z. It would seem to me that in certain cases we could issue a letter of commitment wherein we covered the Regulation Z requirements and, in addition, set forth other loan terms.

The next broad area we'll discuss is perhaps the most important of all. I'm referring to the obtaining of satisfactory and meaningful records from our customers. We have a long way to go in this area in my bank, but I'm sure that the sooner we get the job done, the better. It is disturbing to me, and sometimes I feel guilty, that when I set up a business

loan to one of our retail merchants in town, I require audits, cash flows, projections, operating statements, etc., but when the farmer/feeder comes in, such is not always the case. Is there any really good reason why we don't need the same credit information from the feeder. Most of us are now getting by with a once-a-year financial statement and perhaps a farm visit. But in my opinion, this is not going to be adequate in the years ahead. It appears that there will be no letup in the competition for loan funds, and I don't see how agriculture can meet this competition and obtain the funds we need, under our present methods. Again, we must obtain better records from our customers, and I further feel that this requirement can benefit the customer as well as your bank. How many of your farm customers can provide you with enterprise accounting records? Sometimes margins, poorly prepared financial statements, etc. don't always tell the complete story.

Another situation that has developed on occasion in our bank--and usually in the larger lines--is the diversion of cattle profits and some time loan funds into other areas, such as capital improvements, purchase of securities, etc. Perhaps there is nothing wrong in this, but I believe it desirable that we set forth requirements in our loan agreements, whereby we establish controls over this practice, and if possible, a predetermined procedure as to their refinancing, if it becomes necessary. This usually occurs during periods of good profits, and we are prone to overlook the situation until our margin has disappeared, and then we are forced to do something. Often times there is a reluctance on the part of the customer to refinance these on the proper basis, or, in some instances, actually dispose of the item in an effort to obtain some loan liquidity. This is where the loan agreement, or at least a good understanding when the loan is set up will prevent some frayed tempers later on.

I'm not too sure whether I should bring this next item up or not, but for what it's worth, here it is. I firmly believe that you, as a bank loan officer, should stay out of feed lot management advice, and price forecasting.

I'm sure that all of you have been asked many times as to your opinion on the price situation, how much should we pay for feeders, etc. Sometimes our ego gets the best of us, and we get a little carried away. In the satisfactory loan, I really can't see any reason why we should get involved in this. In my own case I have seen decisions made by the customer that I did not agree with at the time, but in more times than I care to admit, he was right. Admittedly, in the problem loan it is sometimes necessary for the bank to become involved in management decisions. If we have the confidence in the feeder to finance him, then we should let him buy the cattle, feed the cattle and sell the cattle.

In the area of procedures, just a few remarks.

First, establish a credit file that someone other than you understands. Make it complete. If you are out of the bank, your fellow officer should be able to carry right on in your absence. I would think it would be quite embarrassing to tell a customer that he would have to come back when you return from vacation.

Periodically, review the loan throughout its term. Don't wait for trouble to develop. Do projections on your loan throughout the loan term, and develop such figures as estimated collateral values and revised repayment plans. If your original projections are off, find out why.

Get out in the feed lot. A minimum of two visits a year should be made to the farm, one of which should be by the officer handling the loan.

If you have loan limits on your officers, which we don't have in my bank, have an understanding with your officer, and don't place him in an embarrassing position with the customer.

Detail your livestock inventory and loan balance controls. Again, a little extra time can prove invaluable later on.

Remember the relationship that exists between cattle prices and loan margins. Percentagewise, margins decline faster than prices.

I am quite sure that I have told you little, if anything new, and perhaps I have only brought up problems that you all are aware of, with no answers. Again, in spite of my remarks, this farmer/feeder loan is one of the best that your bank can make. Establish a sound loan policy, stick with it and have the intestinal fortitude to stay with the borrower during adverse periods, and over the long pull you will have a mutually satisfactory business arrangement.

REMARKS BY TOMMIE E. STUART

Vice President, The First National Bank, Ft. Worth, Texas, as a Member of the Workshop Session "Financing Feedlot Cattle," before the 20th National Agricultural and Rural Affairs Conference of The American Bankers Association, Muehlebach Hotel, Kansas City, Missouri, Monday afternoon, November 15, 1971.

Feeding and finishing of cattle for the market has been an important part of the cattle industry for many years. Until about the last twenty years, the feeding industry was pretty well confined to the corn-belt states and the cattle were fed by individual farmers on their own farms. This is still a very important part of our cattle feeding industry. But, about 20 years ago a new and highly imaginative phase of cattle feeding began to develop in the States of California and Arizona. That new idea was to concentrate large numbers of cattle in one specialized unit, under highly skilled management. The idea proved successful and spread into other areas, taking on a few other twists and turns.

In the late 1950's the commercial cattle feeding industry began to take root in the Texas-Oklahoma panhandles and has developed into a multi-billion dollar industry. Texas cattle feeders alone have approximately $90-million invested in feeding facilities. We will feed approximately 3.7-million cattle in Texas this year, and it will require about $270-million worth of feed grain; $90-million in other feedstuffs; $7-million in pharmaceutical products; $1.7-million in electrical supplies; $1-million for vehicle supplies and repairs; $1-million for

petroleum products, and $3/4-million for communications--plus transportation to move 10,000,000 tons of cattle, feed, and other supplies, and over 3,000 people being directly employed by the feed lots to feed, care for, and market the cattle.

Other states, including New Mexico, Oklahoma, Colorado, Kansas, and Nebraska are involved in the same type of cattle feeding change, even though not to as great an extent. What we are talking about is not just some people who have developed a different idea about feeding cattle--we are talking about dollars, and a lot of them. This amounts to over $375-million in daily operating capital in Texas alone, in addition to our normal agricultural requirements.

Many of you from states outside the commercial cattle feeding areas are probably wondering how this affects you, or why you should be particularly concerned about its success or failure. Someone has to produce the calves, grain, protein concentrate, pharmaceuticals, trucks, pickups, feed mills, and other equipment necessary for this giant industry to function properly. Every state is affected either directly or indirectly.

The commercial feed lot industry has developed a new kind of cattle feeder. Many of them are non-resident and never see their cattle. They come from all professions--from farming and ranching, to doctors and lawyers. Many of them pool their resources and form a cattle feeding club, some groups are brought together by the feed lot management, while others are formed by a management consultant. These people come from Florida to California, and from Texas to New York.

This brings on new and different problems, as well as, opportunities in finance. Many banks are unwilling to finance for their

customers cattle that are being fed in some other state. At the same time, many banks in the feeding area do not care to finance cattle for a feeder who lives and banks in another state. Cattle feeding lines of credit from $1/2-million to $2-million are common. This creates problems for rural banks with low lending limits. Larger banks have problems with inspections because most of them are not located near the feeding areas. Far too many of them do not have agriculturally trained personnel who are qualified to make sound judgments and analyses of feeding operations and assist rural banks.

Much of the risk in cattle feeding has been minimized with the development of commercial feed lots and rotation feeding. Rotation feeding on a monthly, semi-monthly, or weekly basis is a much safer feeding program. Feeding programs are financed in many different ways. The most popular method seems to be to finance 30% to 40% of the purchase cost of the cattle and 100% of the feed. A comparatively new innovation has been added to feed lot financing with the use of warehouse receipts. This further removes some of the risk for the financing institutions as well as for the feeder. Warehouse receipts also lessen inspection responsibilities. A new source of funds has also been developed through the use of bankers acceptances. In order for a bankers acceptance to qualify for sale in the public market, it must be accompanied by a warehouse receipt, or a similar document. This method of financing and source of funds will be limited, however, because of the comparatively small number of banks that will be able to merchandise the acceptances. Generally speaking, banks must have total assets of approximately $1/2-billion or more in order to find buyers for their acceptances in the money market.

I have not attempted to cover custom feed lot financing, but merely to point out the magnitude of the industry, and some of our problems with this rapidly developed beef factory, and to challenge you to the opportunities that exist in serving its financing needs.

FINANCIAL ANALYSIS AND AGRICULTURAL CREDIT

Address by Herbert B. Howell, Professor of Economics and Extension Economist, Iowa State University, Ames, Iowa, as a Member of the Workshop Session, "Farm Management and Analysis Standards," before the 20th National Agricultural and Rural Affairs Conference of The American Bankers Association, Muehlebach Hotel, Kansas City, Missouri, Monday afternoon, November 15, 1971.

The capital demands of today's farm business for short-, intermediate-, and long-term use are such that all modern farm businesses find it profitable to use credit. In the use of agricultural credit, three factors--returns, risk and repayment--are of concern to both the lender and the borrower.

Returns

The first of these factors, called returns, refers to the profitability in the use of credit. The question involves not only whether the particular planned use of the credit will be profitable, but whether any other use would be more profitable. Moreover, since credit is based on future income for repayment, both the lender and the borrower need to know whether the farm business is truly a profitable operation. Is the business making enough money to provide an adequate living for the family, plus additional earnings that can be retained in the farm business for capital growth? The use of the profit and loss or net income statement in analyzing past performance, along with both partial and total budgets for determining expected profitabilities, are the standard management tools used to answer the questions relative to the returns to cover cost.

Risk

The second factor is titled risk. The concern is with the risk-bearing ability of the business and its solvency if adverse conditions develop. Solvency over time is as significant as the current solvency of the farm business. Also, risk examination must concern itself with the amount and nature of the capital growth and the kinds of risks and the uncertainty involved. Historically, and today, the annual net worth or financial statement has been the main source of information used by lenders in determining the risk-bearing ability and in examining the current solvency of the business. Capital growth is also identified by net worth growth. In addition, the statement indicates the kind of resources used in the farm business and those who know agriculture find that the nature of many of the risks are thus identified.

With the need for more intermediate-term assets in the farm business, plus the capital growth requirements, financial statements that more clearly identify continued solvency potentials are needed. Far too many statements treat breeding stock and machinery as current assets. There is little question about their liquidity, but if they are liquidated most of the continued solvency of the business disappears.

Repayment

The third concern of lender and borrower is repayment capacity. In today's farm business it is necessary to clearly identify between self-liquidating and non self-liquidating loans, to determine whether the business has the capacity to make the loan repayments and to accumulate inventories. In addition, these determinations must recognize prior liens on income, including family living and income tax.

Financial Analysis

The financial analysis of any business forms a review of its past history. The goal, as it relates to the extension of credit, is a systematic approach for establishing guidelines for determining what will happen in the future and the uncertainties involved. Many of the criteria or factors determined here are much more meaningful when examined over time and related with other items. The Comparative Analysis, Form FM 1587, provides for several groupings for providing a financial analysis of the past performance of the farm business.

Assets, liabilities, and net worth. The summary of asset and liability items is similar to those found on most comparative analysis forms used in credit files. It indicates the changes in the various assets, liabilities, net worth, and the source of capital growth or decline in the farm business.

Security ratios. These are typical of those used by most lenders, except for the current assets to intermediate assets ratio (line 15). The growth of intermediate use assets in the farm business has often come from the liquidation of current assets, which results in increased current liabilities. The maintenance of a proper balance between current and intermediate assets is a must in maintaining the continued solvency of the farm business.

Earnings. These identify trends in production, expenses, net income, and capital earnings. If one were to reduce to the very minimum the information needed for the credit file, in addition to a financial statement, it would be the four items in this grouping.

Net Farm Production (line 18) represents the production of the farm business measured in dollars. It basically consists of the value of crop production plus the income added by processing feed through livestock, plus miscellaneous income. The net farm production, when related to total capital, provides information on the Rate of Capital Turnover (line 23). Net farm production and rate of capital turnover are the best volume of business measurements we have for a farm business.

Business performance. The Rate of Return on Capital (line 22) gives a picture of how competitive the capital resources used in the farm business are in terms of what they might earn if invested otherwise, plus the capacity of the business to use capital at current interest rates.

Production Per $1 Expense (line 24) and Percent Fixed Expense of Total Expense (line 25) provide information concerning the relationship.

Machinery, Power and Facility Cost Per Acre (line 26) along with Machinery and Power Investment Per Acre (line 27) provide information on the cost trends in mechanizing the farm business. The growth in these items without increasing Net Farm Production Per Man (line 28) can indicate cost control problems in the farm business.

One is challenged by the multitude of information that could be available to the lender and the borrower about a farm business if all of the systems of financial analysis, bookkeeping, computer analysis that have been, or are now being promoted by educators, accountants, professional managers and others, were used. On the other hand, in working

with lenders one finds the credit files on loans that are in trouble are generally the poorest documented. It is quite obvious that most of the management tools for analysis are far too sophisticated for the average farm borrower, or if used with this average borrower consume far more time by the lender than he is willing to devote to their development.

The question, then, is whether there is a source of information that could supply both the lender and the borrower with the knowledge which would assure a better use of the loan funds and provide knowledge about the business and its repayment capacity. There are two basic sources of information that every farm business operator should have and ought to be willing to make available if he wants to borrow funds. The two sources are his annual financial statement and his annual income tax return. In addition, every lender has a copy machine so there should be little difficulty in obtaining a copy if the lender is willing to ask for it.

The data as shown in FM 1588, Comparative Analysis, and discussed here are obtained from the combination of these two sources, the financial statement and the tax return. No other data sources were used. There is really no excuse for not having adequate financial analysis data to use in establishing better communication between lender and borrower and providing more facts for better planning of the use of credit by the individual operator.

If I have aroused your interest write me for a copy of the simplified procedures for developing the financial analysis discussed here.

COMPARATIVE ANALYSIS - AGRICULTURAL CREDIT

Name Pete Dugood

		Year 68	Year 69	Year 70	Year 71
Assets	FM 1585				
1. Cash assets	L. 1	273	621	1,472	511
2. Current assets	L. 2	44,404	45,317	50,255	33,324
3. Total cash & current assets (1+2)		44,677	45,938	51,727	33,835
4. Intermediate use assets	L. 3	10,360	12,420	16,200	24,550
5. Real estate assets	L. 4	56,000	60,000	60,000	60,000
6. Other sources of liquidity	L. 5	1,300	1,400	1,500	1,700
7. Total assets	L. 6	112,337	119,758	129,427	120,085
Liabilities and Net Worth	FM 1585				
8. Current liabilities	L. 7	27,650	32,049	32,626	26,500
9. Intermediate liabilities	L. 8	2,700	1,350	2,500	6,000
10. Long term liabilities	L. 9	37,500	35,000	32,500	30,000
11. Total liabilities	L.10	67,850	68,399	72,626	62,500
12. Net worth	L.11	44,487	51,354	56,801	57,585
13. Net worth change from prev. year		725	6,872	5,447	784
Security Ratios					
14. Current assets to current liabilities (3 ÷ 8)		1.6	1.4	1.4	1.3
15. Current assets to intermediate assets (3 ÷ 4)		4.3	3.7	3.2	1.4
16. Total assets to total liabilities (7 ÷ 11)		1.6	1.8	1.8	1.9
17. Debt to net worth (11 ÷ 12)		1.5	1.3	1.3	1.1
Earnings	FM 1586				
18. Net farm production	L.22	28,977	38,486	29,214	
19. Net farm income	L. 6	12,225	17,774	10,015	
20. Total expenses (18 minus 19)		16,752	20,712	19,259	
21. Capital earnings	L.12	11,484	15,152	8,228	
Business Performance	FM 1586				
22. Rate of return on capital	L.15	10%	13%	6.4%	
23. Rate of capital turnover	L.25	26%	32%	23%	
24. Production per $1 expense	L.28	1.46	1.86	1.52	
25. Percent fixed expense of total expense	L.38	47%	48%	47%	
26. Machinery, power and facility cost per acre	L.50	24.31	32.89	26.28	
27. Machinery and power investment per acre	L.53	25.62	33.12	43.78	
28. Net production per man	L.58	25,410	28,488	27,105	

REMARKS BY WILTON B. THOMAS

Extension Economist, Kansas State University, Manhattan, Kansas, a Member of the Workshop Session, "Farm Management Analysis Standards," before the 20th National Agricultural and Rural Affairs Conference of The American Bankers Association, Muehlebach Hotel, Kansas City, Missouri, Monday afternoon, November 15, 1971.

Beef cattle projects dominate livestock production in Kansas and many nearby states. Swine projects are in second place in Kansas and dairy is the third area of major interest. We will discuss the projects in that order, but recognize that in some communities this is not the order of relative importance.

Items of major concern in analyzing a project include the variable costs, of which feed is normally the largest one item; fixed costs, which are to a great extent a function of the investment in equipment and facilities; and returns from the project. These vary somewhat from farm to farm and from year to year. The manager, the credit agency, or the advisor working with the manager needs a sound working knowledge of the normal range for these measures of performance. Close study of research reports and of on-farm results is the basis for the following guidelines for the various projects.

BEEF PRODUCTION

Cow Herds

The cow herd is one basic unit in the beef production system. Following are projected costs and returns for this project under normal Kansas conditions.

Variable Costs Per Cow Unit

Feed	$ 75.00
Labor	20.00
Interest on Livestock investment	15.00
Other variable costs	25.00
TOTAL VARIABLE COSTS	$135.00
Fixed Costs	
Depreciation, interest, taxes and insurance on buildings, equipment and machinery	$ 7.00
TOTAL COSTS (VARIABLE AND FIXED)	$142.00
RETURNS:	
(450# ave. wt., 90% calf crop, 15% herd replacements)	
Sale of calves	$130.00
Sale Cull cows	24.00
TOTAL SALES, PER COW UNIT	$154.00
Return to Management	$ 12.00
Return to Labor and Management	$ 32.00

Backgrounding

Development of the feedlot industry has been accompanied by development of a demand for cattle ready for feedlot operations. The term "backgrounding" has been applied to the development of feeder cattle from weaning to the time they enter the feedlot for finishing.

The following guidelines are suggested as the basis for preliminary estimates of profit prospects with a backgrounding program.

(1) Feed costs of gain vary more widely with this project than with any other livestock production project.

For a dry lot operation with dry rolled wheat priced at $1.30 per bushel, sorghum silage of high quality at $9.00 per ton as fed, alfalfa hay at $25 per ton and soybean meal at $110 per ton, feed costs

of gain will be about $20.00 per cwt. where 300# or more gain per head is produced. Where good wheat pasture is available, this feed cost can be cut to about $14 to $16. This would include both the conventional November-December and March pasture, but also grazing of wheat to be destroyed before May 15th.

(2) Other variable costs including all labor will be approximately $5.00 per cwt. gain.

(3) Long run fixed costs tend to be in the range of $1.50 to $2.00 per cwt. Total cost of gain will vary from $21.00 to $26.00, but is usually about $22.00-$24.00 at 1971-1972 feed prices.

(4) Other important points:

It takes quality feed to produce satisfactory gains with the younger cattle.

Careful attention to herd health is essential.

Usually it takes 300# to 400# gain for a profitable backgrounding project. But build some flexibility with the program considering current markets, feed supplies, labor and facilities available.

A cost-return projection would be about as follows, assuming 350# gain on a 400# feeder steer calf:

	Per Cwt.	Per Head
Variable Costs:		
Feed	$16.00	$ 56.00
Labor	2.15	7.50
Other	3.55	12.50
TOTAL VARIABLE COSTS:	$21.70	$ 76.00
Fixed Costs:		
Depreciation, interest, taxes and insurance on equipment and facilities	$ 1.43	$ 5.00
TOTAL COSTS (VARIABLE AND FIXED)	$23.13	$ 81.00

	Per Cwt.	Per Head
RETURNS:		
750# feeder X $34.00 =	$34.00	$255.00
Cost 400# feeder X $42.00 =	$42.00	$168.00
Gross return on gain produced	$24.85	$ 87.00
Return to Management	$ 1.72	$ 6.00
Return to Labor and Management	$ 3.86	$ 13.50

Beef Cattle Feeding for Slaughter

This project is a rapidly expanding one in the total Kansas beef industry. The expansion is basically in the commercial feed lot sector. There is much discussion of the place of the farmer-feeder in finishing cattle. There can be little question that the commercial lots put the farmer-feeder under pressure. Commercial feed lots' great advantages include large scale of fixed investment in facilities, which lowers the per head costs of operation. Another major advantage, is that modern efficient feed processing facilities require a large scale of operation to permit their use. A third major advantage is in marketing the finished cattle.

Now that feed lot numbers in the irrigated areas have reached the point feed is no longer in large surplus there, one advantage of the farmer-feeder is that he may be able to put the feed in the feed bunk at costs no greater than costs in the big feed lots. If he can combine this with the use of high moisture grain sorghum, he can approach or perhaps even reach the feed efficiency of the feed lots. If he happens to be in a community with a major surplus of feed grain, he may even have some feed cost advantage relative to the commercial lots. Not many Kansas feeders will be in this position, but many in the corn belt will be.

The farmer-feeder who now has the fixed investment in satisfactory facilities who is, in fact, a skillful feeder and who either produces the feed efficiently or has access to local feed supplies at competitive prices has the opportunity to stay in competition if he chooses to do so. Major investment in new facilities puts him in a more difficult position and has somewhat lower probability of success. New facilities will need to be used to near capacity, and he will need to be in a strong position in regard to some other major points such as feed and livestock procurement if he is to prosper. The greater his distance from the major feed lot facilities, the better his full-feeding position will become. The nearer he is to the major lots, the greater his opportunity to background cattle.

Beef Cattle - Finishing for Slaughter

Kansas Farmer-Feeders - 37 Projects - 1970
North Central Kansas

	Per Cwt.	Estimates, 1971-72 (Lower Feed Grain Prices)
Variable Costs:		
Feed	$19.56	$18.00
Labor	1.25	1.25
Other variable costs	4.24	4.25
TOTAL VARIABLE COSTS	$25.05	$23.50
Fixed Costs:		
Depreciation, interest, taxes and insurance on equipment and facilities	$ 1.77	$ 1.80
TOTAL COSTS (VARIABLE AND FIXED)	$26.82	$25.30
Return to Management	$ 1.68 cwt.	
Return to Labor and Management	$ 2.93 cwt.	

Concerning the estimates for the current feeding season--in view of lower feed grain prices--the following observations are made:

Assume that 650# feeders are put in the lot, worth $36.00 per cwt. and fed to pay weight of 1050#.

Cost of feeder steer	$234.00
Variable costs	94.00
Fixed costs	7.20
TOTAL COSTS	$335.20

At estimated net sale value of $32.00, we have:

Returns 1050# x $32.00 cwt. =	$336.00
Return above variable costs =	$ 8.00
Return above total costs =	$ .80

Note that $5.25 per steer labor cost is included in the variable cost estimates. To the extent this is the farmer's own labor, it represents a spendable income item to him.

SWINE PRODUCTION PROJECTS

A high proportion of swine production involves the complete project of farrowing and finishing hogs. But feeder pig production and finishing out feeder pigs are two projects which are important to those producers involved in them; and they are better adapted to some producers' circumstances than the complete project.

The following guidelines provide the basis for evaluating prospects for possible expansion of a pork production project. They may also be used to check on effectiveness of a project now in operation.

Farrowing and Finishing

(1) Feed costs of gain vary with the price of feed, type of facilities used, herd health, and other factors which affect feed conversion. The lowest reasonable expectation is to hold feed costs to $12.00

to $13.00 per cwt. pork produced. Producers with problems affecting feed conversion may expect feed costs of $15.00 or higher per cwt.

(2) Other variable costs, including all labor, will be approximately $3.00 per cwt. pork produced.

(3) Long-run fixed costs will usually be in the range of $1.50 to $2.00 per cwt. pork produced. Total costs about $18.00 per cwt.

(4) Where entire new facilities are constructed with borrowed capital, the cash flow requirement will be about $4.00 per cwt. pork produced to meet the full payments if 7 years repayment period is established. If the repayment period is 4 to 5 years, the cash flow requirement will be $5.00 to $6.00 per cwt. pork produced if the facilities are operated at near full capacity. It takes $20.00 hog price to meet the cash flow requirements with 7 year repayment plan; $21.00 to $22.00 to meet the 4 to 5 year repayment plan.

Farrowing and Marketing Feeder Pigs

(5) This project requires about 2/3 the labor of the complete farrowing and finishing project.

(6) Skill and attention to detail in prevention and control of diseases and in saving pigs at farrowing time are requirements for success with this project.

(7) The market for feeder pigs is much more variable than for butcher hogs. Specific marketing plans should be developed.

(8) Net returns per litter will average slightly less than one-half that from the complete farrowing and finishing project.

(9) This project is especially suited to the producer skilled in care and management of the sow herd; who does not have ready access to large supplies of grain for the finishing phase.

(10) Feed costs at1971-72 prices will be about $70.00 per litter of eight, or near $9.00 per pig; labor about 1/2 feed costs; total variable costs about $125.00 per litter, including labor. It will require $16.00 return per pig, with litters averaging eight sold to cover all variable costs including labor.

Finishing Feeder Pigs

(11) This project requires about one-third the labor of the complete farrowing and finishing project on a per pig basis.

(12) Investment in facilities is usually less per feeder pig finished than for feeder pigs produced and marketed at weaning time.

(13) There are fewer critical management problems than with farrowing and raising the pigs to weaning age.

(14) One critical problem is locating a consistent source of satisfactory feeder pigs.

(15) Net income per feeder pig finished will average slightly less than one-half that from the farrowing and finishing project on a per head basis.

(16) Finishing feeder pigs for market is especially suited to the farmer who does not have the labor for managing a sow herd, but who has feed grain to market; has or can develop suitable finishing facilities; and who can secure a dependable supply of feeder pigs.

HIGHEST PRICE THAT CAN BE PAID FOR 40# FEEDER PIGS
AND PAY ALL VARIABLE COSTS

Corn or Milo	Variable Costs Per Pig	EXPECTED MARKET PRICE, 220# BUTCHER HOGS FOUR MONTHS LATER				
		$16.00	$18.00	$20.00	$22.00	$24.00
$1.00	$22.50	$12.70	$17.10	$21.50	$25.90	$30.30
1.10	24.00	11.20	15.60	20.00	24.40	28.80
1.20	25.00	10.20	14.60	19.00	23.40	27.80
1.30	26.50	8.70	13.10	17.50	21.90	26.30
1.40	28.00	7.20	11.60	16.00	20.40	24.80

DAIRY PRODUCTION PROJECT

Dairying is the third major livestock project in Kansas. It ranks number 1 in some Kansas communities and it ranks number 1 in some states. It is becoming more specialized and provides an example of substitution of capital for labor. Non-feed costs then become of increasing importance.

Two factors have combined to push dairy projects to larger size. One is economy of scale in the investment in labor saving feed storage, feed handling, dairy housing and milking facilities. In terms of a complete new facility the investment per cow may be $200.00 less in a 100 cow facility than in a 50 cow facility. ($1200.00 in a 50 cow unit vs. $1000.00 in a 100 cow unit.) The second factor involves a 2-man or larger unit vs. a one-man unit. Where two or more are involved it provides the opportunity for trading weekends or holidays away from the business.

The following cost-return projection is based on a recent two year study of costs and returns on northeastern Kansas dairy farms. Prices used are 1971 prices. Costs of raising herd replacements are included.

	Per Cow
RETURNS:	
Milk (ave. farm price, $5.50 cwt.)	$631.56
Calves and cull cows	88.56
RECEIPTS	$720.12
Variable Costs:	
Feed	$322.95
Labor (60 hours@$2.50; includes both hired and operator labor)	150.00
Other variable costs	120.40
TOTAL VARIABLE COSTS	$593.35
Fixed Costs:	
Depreciation, interest, taxes and insurance on buildings, equipment and machinery	$ 56.27
TOTAL COSTS (VARIABLE AND FIXED)	$649.62
Returns Above Variable Costs	$126.98
Return to Management	$ 70.50
Return to Labor and Management	$220.50

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REMARKS BY HERMAN E. WORKMAN

Extension Economist, Farm Management, University of Missouri, Columbia, Missouri, as a Member of the Workshop Session, "Farm Management Analysis Standards," before the 20th National Agricultural and Rural Affairs Conference of The American Bankers Association, Muehlebach Hotel, Kansas City, Missouri, Monday afternoon, November 15, 1971.

Farm management advisors and consultants frequently have need for short-cut methods of economic analysis. Lack of physical and economic data as well as time for more detailed analysis, prompt the use of "standards" for evaluating crop enterprise associated problems. In general, standard crop estimates and rule-of-thumb calculations represent "what it ought to be" type of information and should be used only as guides in the decision-making procedure.

Agricultural economists and others have developed many standards, cost estimates, and methods of calculation of costs for use in crop enterprise problems. These include: machinery and other crop costs, cost and return budgets, and various kinds of performance measures. Let's look at some of these standards:

Machinery and Other Crop Costs: Formulas and tables for estimating fixed and variable machinery and equipment costs are available in publications in most states. Kansas State and Purdue have excellent up-to-date information for estimating crop machinery costs.[1]

[1]Examining Your Machinery Costs, C-375, Kansas State University, Manhatten, September, 1967. Some Economic Considerations in Farm Machinery, EC 139, Purdue University, Lafayette, Dec., 1968.

In Missouri, we have assembled crop machine cost tables in our new Farm Planning Handbook.[2] In addition to calculated cost standards, annual record summaries from crop or grain farms provide a source of information for specific machinery and other crop cost estimates.

Per Acre Crop Costs Based on
Missouri Farm Business Summaries[3]

		1968	1969	1970
1)	Machinery investment	$40.51	$40.52	$40.99
2)	Crop cost	37.25	35.95	34.59
3)	Fixed machinery	11.59	11.27	10.85
4)	Variable machinery	8.61	8.53	7.92
5)	Fertilizer-lime	10.28	8.10	8.89
6)	Seed-supplies	7.44	8.06	6.93

Crop Budgets: Crop budgets are particularly useful in comparison of resource requirements, costs, and returns of different crop enterprises. Budgets for crops and livestock enterprises are available in farm planning publications.

Performance Measures: Crop performance measures are often used to evaluate the operational efficiency cropping operations. These include: yield per acre, machinery investment per acre, machinery cost per acre, total cost per acre, and ratios of costs to value of production per acre.

Use of crop cost standards and short-cut methods of analysis for this discussion primarily concerns the following topics:

[2]Missouri Farm Planning Handbook, Manual 75, FM 7000, University of Missouri, Columbia.
[3]Missouri Farm Business Summary - 1970, FM-7150, University of Missouri, Columbia, August, 1971.

1. Development and use of per acre area crop cost and return budgets.
2. Estimation of per acre machinery and labor costs using income tax records.
3. Evaluation of grain drying and storage alternatives using per bushel cost estimates.

SOYBEAN BUDGETS FOR NORTHWEST MISSOURI AREA

Description of Production: 81 HP diesel tractor; 16.5' disk; 5-16" plow; 6-30" planter and cultivator; 14' rotary hoe; soybeans sold at harvest; hauling 3¢ per bushel.

				MY FARM
1. Yield, bu. per acre	25	35	45	
2. Price per bushel[1]	$ 2.40	$ 2.40	$ 2.40	
3. Gross income per acre	$60.00	$84.00	$108.00	
4. VARIABLE COSTS PER ACRE:				
5. Lime and fertilizer	$ 6.00	$ 7.00	$ 8.00	
6. Machinery	6.75	7.35	7.45	
7. Custom machine hire	--	--	--	
8. Chopping labor	1.50	1.50	1.50	
9. Seed	4.50	4.50	4.50	
10. Weed chemical	9.00	9.00	9.00	
11. Bug chemical	--	--	--	
12. Irrigation	--	--	--	
13. Drying	--	--	--	
14. SUBTOTAL	$27.75	$29.35	$30.45	
15. Interest (Line 14 x 4%)[2]	$ 1.11	$ 1.17	$ 1.22	
16. Total variable cost	$28.86	$30.52	$31.20	
17. Income above variable cost	$31.00	$53.00	$76.00	

Labor hours/acre	Total	Dec.-Mar.	Apr.-June	July-Aug.	Sept.-Nov.
25 bu. soybeans	2.61	--	.96	--	1.65
35 bu. soybeans	2.81	--	.96	--	1.85
45 bu. soybeans	3.11	--	.96	--	2.15

[1] Price used is long-run expected average annual price at the farm.

[2] Interest is computed at 8% per annum. If the money is used for less than 12 months, the interest is reduced accordingly, e.g., 8% for 6 months equals 4%.

CORN BUDGETS FOR NORTHWEST MISSOURI AREA

Description of Production: 81 HP diesel tractor; 5-16" plow; 16.5' disk; 27' sprayer; custom spread fertilizer; 6-30" row planter and cultivator; 3-30" picker sheller; corn dried and 2¢ per bu. hauling charge; 150 bu. irrigated; all corn stored on farm; yield per acre computed at 13% moisture.

					MY FARM
1. Yield, bu. per ac. (13% moist.)	80	100	120	150	
2. Price per bu.[1]	$ 1.15	$ 1.15	$ 1.15	$ 1.15	
3. Gross income per acre	$92.00	$115.00	$138.00	$173.00	
4. VARIABLE COST PER ACRE:					
5. Lime and fertilizer	$13.00	$16.00	$19.00	$29.00	
6. Machinery	8.50	9.00	9.50	9.50	
7. Custom machine hire	1.00	1.00	1.00	1.00	
8. Seed	8.00	8.00	8.00	8.00	
9. Weed chemical	9.00	9.00	9.00	9.00	
10. Bug chemical	--	--	--	--	
11. Irrigation	--	--	--	5.00	
12. Drying, 2.5¢ per bu.	2.00	2.50	3.00	3.75	
13. _____	--	--	--	--	
14. SUBTOTAL	$41.50	$45.50	$49.50	$65.25	
15. Interest (Line 14 x 6%)[2]	$ 2.49	$ 2.73	$ 2.97	$ 3.92	
16. Total variable cost	$43.99	$48.23	$52.47	$69.17	
17. Income above variable cost	$48.00	$67.00	$85.00	$104.00	

Labor hours/acre	Total	Dec.-Mar.	Apr.-June	July-Aug.	Sept.-Nov.
80 bu. corn	2.60	.20	.90	--	1.50
100 bu. corn	2.85	.20	.90	--	1.75
120 bu. corn	3.21	.20	.90	--	2.11
150 bu. corn	3.97	.20	.90	.50	2.37

[1] Price used is long-run expected average annual price at the farm.

[2] Interest is computed at 8% per annum. If the money is used less than 12 months, the interest is reduced accordingly, e.g., 8% for 9 months equals 6%.

CORN SILAGE BUDGETS FOR NORTHWEST MISSOURI AREA

Description of Production: 81 and 41 HP tractors; 5-16" plow; 7.5' stalk shredder; 16.5' disk; fertilizer custom spread; 6-30" row planter and cultivator; 27' sprayer; 1 row silage field cutters; hauling--tractors and wagons.

	Field yield at harvest	12 T.	14 T.	18 T.	MY FARM
1.	Yield, T. per ac. (70% moisture)	10	12	15	
2.	Value per ton[1]	$ 9.00	$ 9.00	$ 9.00	
3.	Gross income per acre	$90.00	$108.00	$135.00	
4.	VARIABLE COST PER ACRE:				
5.	Lime and fertilizer	$15.00	$21.00	$26.00	
6.	Machinery	13.00	16.00	19.00	
7.	Custom machine hire	1.00	1.00	1.00	
8.	Seed	9.00	9.00	9.00	
9.	Weed chemical	9.00	9.00	9.00	
10.	Bug chemical	--	--	--	
11.	Irrigation	--	--	--	
12.	_____	--	--	--	
13.	Storage	--	--	--	
14.	SUBTOTAL	$47.00	$56.00	$64.00	
15.	Interest (Line 14 x 6%)[2]	$ 2.82	$ 3.36	$ 3.84	
16.	Total variable cost per acre	$49.82	$59.36	$67.84	
17.	Income above variable cost/ac.	$40.00	$49.00	$67.00	

Labor hrs./acre	Total	Dec.-Mar.	Apr.-June	July-Aug.	Sept.-Nov.
10 T. silage	6.63	--	.90	2.49	3.24
12 T. silage	9.13	--	.90	3.75	4.48
15 T. silage	11.03	--	.90	4.70	5.43

[1] Price used is long-run expected average annual price at the farm.

[2] Interest is computed at 8% per annum. If the money is used for less than 12 months, the interest is reduced accordingly, e.g., 8% for 9 months equals 6%.

BROMEGRASS AND FESCUE PASTURE BUDGETS FOR NORTHWEST MISSOURI AREA

Description of Production: Life of stand amortized over 5 year period; fertilizer custom spread; mowed in July; .25 hour for fence maintenance.

	BROME	BROME	FESCUE	FESCUE	MY FARM
1. Yield, AUM per acre	4½ AUM	9 AUM	4½ AUM	9 AUM	
2. Price per AUM[1]	$ 4.00	$ 4.00	$ 4.00	$ 4.00	
3. Gross income per acre	$18.00	$36.00	$18.00	$36.00	
4. VARIABLE COST PER ACRE:					
5. Lime and fertilizer	$ 2.50	$12.00	$ 2.50	$12.00	
6. Machinery	2.00	2.00	2.00	2.00	
7. Custom machine hire	--	2.00	--	2.00	
8. Seed	1.00	1.00	.65	.65	
9. Weed chemical	--	--	--	--	
10. Bug chemical	--	--	--	--	
11. Irrigation	--	--	--	--	
12. _____	--	--	--	--	
13. _____	--	--	--	--	
14. SUBTOTAL	$ 5.50	$17.00	$ 5.15	$16.65	
15. Interest (Line 14 x 4%)[2]	$ .22	$ .68	$ .21	$ .67	
16. Total variable cost/ac.	$ 5.72	$17.68	$ 5.36	$17.32	
17. Income above variable cost/ac.	$12.00	$18.00	$13.00	$19.00	

Labor hrs./ac.	Total	Dec.-Mar.	Apr.-June	July-Aug.	Sept.-Nov.
4½ AUM brome	1.01	.25	--	.68	.08
9 AUM brome	1.01	.25	--	.68	.08
4½ AUM fescue	1.01	.25	--	.68	.08
9 AUM fescue	1.01	.25	--	.68	.08

[1] Price used is long-run expected average annual price at the farm.

[2] Interest is computed at 8% per annum. If the money is used less than 12 months, the interest is reduced accordingly, e.g., 8% for 6 months equals 4%.

Labor and Machinery Costs Based on Schedule F (Form 1040)

A. Machinery Cost:

1. Repairs, maintenance	4,500	
2. Machine hire $2000 x .75	1,500	
3. Gasoline, fuel, oil	3,600	
4. Sub total	9,600	
5. Subtract: custom work done $1,600 x .75	-1,200	
6. Total Variable Machinery Cost		$8,400
7. Depreciation (only on mach. and equip.)	9,400	
8. Remaining value of mach. and equip. $34,000 x .10	3,400	
9. Total Fixed Machinery Cost		$12,800
10. Total Machinery Cost		$21,200

B. Labor Cost

1. Hired labor	7,500	
2. Machine hire $2000 x .25	500	
3. Your labor	3,000	
4. Sub total	11,000	
5. Subtract: custom work done $1,600 x .25	-400	
6. Total Labor Cost		$10,600

C. Cost Estimates Per Acre of Cropland

1. Cropland acres	1,000
2. Variable machinery cost: $8,400 ÷ 1,000 acres =	$8.40
3. Fixed machinery cost: $12,800 ÷ 1,000 acres =	$12.80
4. Total machinery cost per acre of cropland	$21.20
5. Total labor cost $10,600 ÷ 1,000 acres =	$10.60
6. Total Machinery and Labor Cost per acre of Cropland	$31.80

FIGURING GRAIN DRYING AND STORAGE PROBLEMS PER BUSHEL

			YOUR FIGURES
A. PRICES AND OPPORTUNITY COSTS PER BUSHEL:			
1. Average moisture at harvest: Corn	23.5%		_____%
*2. Bushels of wet grain to produce one bushel of dry grain (Table 1):	1.11 bu.		_____bu.
3. Market price dry grain:	Mo. Oct.	$1.10	Mo._____ $_____
4. Market price less moisture discount: $1.10 (Item 3) - 24 ¢ = $0.86			$_____
5. Opportunity cost/dry bushel: 1.11 (Item 2) x $0.86 (Item 4) =		$0.955	$_____
3. WOULD IT PAY TO DRY?			
6. On-farm fixed cost for new investment: (Table 2)		4.2¢	_____¢
**7. On-farm operating drying cost:		3.0¢	_____¢
8. Commercial drying cost:		_____¢	_____¢
9. Total drying costs: (Item 6 + Item 7 or 8)	1.2¢		_____¢
10. Extra loading and trucking:	1.0¢		_____¢
11. Total drying and handling costs: (Item 9 + Item 10)		8.2¢	_____¢
12. Breakeven price needed: (Item 5 + Item 11)		$1.04	$_____
13. Return for drying: (Item 3 - Item 12)		6¢	_____¢

* Budget figures are based on costs and returns per dry bushel.

** Average cost (electricity and fuel) for bin system ..... 2.5-3¢/bushel.

HEW:jw:11/69

REMARKS BY HAROLD A. McCUTCHAN

Vice President and Farm Department Manager, People's Bank and Trust Company, Mt. Vernon, Indiana, as Moderator of the Workshop Session "The Art and Science of Farm Lending," before the 20th National Agricultural Credit Conference of The American Bankers Association, Muehlebach Hotel, Kansas City, Missouri, Monday afternoon, November 15, 1971.

Today's society, with its multitudinous complexities, is quite gifted in providing circuitous solutions for many of our present problems. We are challenged as individuals to stiff-arm, sidestep, or stomp the rushing of this modern "offense" and use some basic thinking. Agriculturally, our position today is a prime example of this modern offense," but our lending activities must be founded on sound fundamentals.

Each of us has a responsibility to our bank and to our customers in obtaining information, analyzing the request, making the loan, and finally servicing the loan. The size of farm operation and the customer's financial condition may alter some of our procedures. We must be knowledgable about lending procedures, however, to perform a complete lending job we must be conversant with management guidelines. These will assist us in adequately projecting goals and evaluating performance. Frequent reevaluation is an absolute necessity to keep ourselves currently informed on credit lines and to keep the customer aware of his alternatives as conditions change. Lastly, we must constantly sell out loan programs directly and indirectly through our satisfied customers' word of mouth. This latter sales source is the cheapest and most effective.

Our panelists today are well equipped to focus our attention on game plans as well as fundamentals. In turn, we will be better equipped and motivated for the competition pacing the sidelines of our field--agricultural lending. These men are:

1. Raleigh J. Soloman, Vice President and Farm Department Manager of the Citizen's National Bank of Macomb, Illinois. His bank is located in a very fertile farming area.
2. Vernon E. Whisler, Vice President, Agriculture, from the American National Bank of St. Joseph, Missouri. His bank is located just north of Kansas City where community banks from surrounding states call on them for overline participation.

These gentlemen are going to give us their reactions, evaluations, and procedures used in their daily routines, as agri-lenders. Their bank operations are dissimilar in size and location, however, needs and uses for borrowers' information are indeed similar. Application of information in an activated credit line is also similar. The panelists will emphasize many tools we should carry in our agri-lending toolbox. Like a team trainer, or a carpenter, every tool will not be used on each case. We will have to be familiar with credit tool selection to efficiently guide the customer toward meaningful accomplishment.

We will make some general assumptions to clarify our positions. They are:

1. Your bank is positively identified as an agri-lender by policy and board action.
2. Your bank's staff organization provides for a currently qualified agricultural lender by experience and/or training.

3. The customer is morally and financially acceptable for a loan.
4. The purpose of the loan is compatible with local standards.
5. Your bank is capable of handling that size loan; with the help of the larger city bank if necessary.

Statistics, graphs, and other melodramatic aids could be used at this juncture to impress on you how essential the total, complete agricultural credit task list must be. You would not be in this session if you were so impressed. It is time to "artistically and scientifically" perform the agri-lending job if we are going to stay in business--agriculturally speaking. A fanfare is not needed at this point, so let's have Raleigh and Vernon get us right to the task at hand. Questions will be welcome at the conclusion of their formal presentation.

3. The customer is morally and financially acceptable for a loan.
4. The purpose of the loan is compatible with local standards.
5. Your bank is capable of handling that size loan; with the help of the larger city bank if necessary.

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REMARKS BY RALEIGH J. SOLOMON

Vice President and Farm Department Manager, Citizens National Bank, Macomb, Illinois, as a member of the Workshop Session, "The Art and Science" of Farm Lending, before the 20th National Agricultural and Rural Affairs Conference of The American Bankers Association, Muehlebach Hotel, Kansas City, Missouri, Monday afternoon, November 15, 1971.

To me the title "The Art and Science of Farm Lending" seems very appropriate. Certainly today's agricultural lender finds himself in a position where he must use all of his ability daily, along with the arts which he has perfected from years of experience or learning and the skills that have to be developed almost on a daily or weekly basis. If he doesn't, he'll soon find his borrowers are asking him for answers he doesn't have. What I'm trying to say, I guess, is that while the same old business of collateral, repayment, etc. are still the basis of extending credit, today the skills of budgeting, analyzing, preparing cash flows and projections three to five years into the future, have now become a necessity as a result of requests for larger and more complicated loans.

Specifically, Harold has asked me today to discuss with you--and I do hope this is a discussion and not a speech--some ideas on the fundamentals of the first two major steps in handling a line of credit. First, I'd like to talk to you about obtaining the information to support a loan inquiry; second, the analysis of the credit information and comparison with past performance.

Most loan applications originate at the loan officer's desk. I prefer to personally take the financial statement and the loan application at the desk. Some of us, I know, still hand a blank financial statement to the borrower and tell him to go home and fill it out and come back and see us. To me, this seems like a lazy man's way. Also, I believe information can be more accurately obtained by personally interviewing the borrower, especially in regard to pricing his livestock inventory and equipment and getting correct information regarding his outstanding payables. It is helpful if he has copies of his last few balance sheets, five consecutive ones preferably. Note here that farm balance sheets are more accurate if they are taken the same time each year to reflect inventories. Any account records are vital here, if he has them. If not, income tax records for the last three to five years are helpful. Tax records are an assist, however, they are not complete enough for any effective analysis. To effectively analyze an operation, complete records of income and expense, inventories of capital assets--livestock, feed supplies, and machinery--along with a depreciation schedule, crop records, and livestock production records such as pounds of feed fed per pound of gain, rate of gain, cost of gain, and seed and fertilizer costs per acre, etc. These figures will give you the information needed for a complete analysis. You and I both realize this is the Utopia. Seldom does a borrower bring along such information, but there's no reason we can't expect it. When loan requests are both large and complicated, we need this information. With this amount of information, we should know whether or not we want to pursue the loan. If not, there will never be a better time to say <u>NO</u> THAN RIGHT NOW. You have the reasons for your rejection at hand and can intelligently make the

rejection on a professional basis, and you may still retain a connection that at some later date might be valuable to your bank. The easy way, I'll admit, is to take it to Committee and write a rejection letter, but the warmest and best way is a personal rejection with the reasons pointed out to the applicant.

If I'm satisfied with what I've found, here comes one of the most important steps in getting information--a farm visit. A farm visit gives you the opportunity to go over any records he might have failed to bring to the first interview. In addition, it gives you a chance to verify your values of inventory, as well as a chance to get a good look at his managerial ability and the unit he operates. You can become acquainted with his family and possibly spot any problems not brought out at the desk interview. To some, this is not very fascinating work; however, it is vital. Personally, it's my favorite part of loan work. While you're out on the farm visit, it's a good time to stop by and check his credit rating with his suppliers, such as the fertilizer man, the fuel man, and the local elevators. After a farm visit, you should have a fair idea about the man's goals, his ability, ambition, reputation, his unit, and his property, real and personal.

With this information gathered, we are ready for the second step of processing the loan, that of analyzing. Past records, if available, are an important key. This is where a backlog of financial statements come in handy. They help you find out how your customer got to where he is today. Also it gives you an opportunity to "trim the fat", if any, out of the statement. Items important to consider here are: how land was acquired, was it purchased, inherited, or married; have the values been written upwards to reflect growth that really isn't there;

also have the inventory values been juggled from year to year and has proper depreciation been reflected in the machinery values.

So far I've been discussing the new customer in your bank for the first time. Where an old customer is involved, there is nothing that is more helpful than a good, complete credit file, with chronological financial statements, spread sheets, copies of income and expense statements, budgets, and cash flows.

Everything and everyone is measured by some kind of a yardstick. Past performance, properly analyzed, is the yardstick here. A study of past performance will indicate efficiency, volume, and organization of the farm enterprise. Many measuring devices are known to us from experience, also they are available from many sources, your universities, extension offices, etc. There are also some financial tests that can be used. Not all of those that are used on commercial loans are meaningful to us on ag loans, but some are helpful. For instance, the trends as discovered from a spread of consecutive statements or income and expense records really tell us a story. Also, ratios such as: 1. Current Assets to Current Liabilities indicate the safety factor. How many times do the current assets cover the current liabilities? This also gives us a picture of his available working capital. 2. Debt to Net Worth is the old reliable one we've all used for years and shows us our risk in relation to the borrower's. In most cases we like to have our borrower a little more heavily invested than his creditors, but not always. A study of his records may reveal a good loan risk where the debts are considerably higher than the net worth. A more important ratio to me is that of, 3. Annual Debt Servicing to Gross Receipts. This is where our repayment comes from and we're always interested in that.

As mentioned earlier, this is not supposed to be a speech, but only a few ideas of my own tossed out in hopes that you will toss yours in the pot. Give us some of yours. You know it's been said, if I have a dollar and give it to you and you have a dollar and give it to me, we each still have a dollar, but if we exchange ideas, we each have two ideas, and that's what this is really about.

REMARKS BY VERNON E. WHISLER

Vice President, Agriculture, The American National Bank, St. Joseph, Missouri, as a Member of the Workshop Session, "The Art and Science of Farm Lending," before the 20th National Agricultural and Rural Affairs Conference of The American Bankers Association, Muehlebach Hotel, Kansas City, Missouri, Monday afternoon, November 15, 1971.

My part in the Panel Discussion is a three-part assignment.

I. Projection of the Farm Plan

II. Presenting Loans to the Discount Committee

III. Techniques in Setting Up Credit Lines

I. PROJECTION OF THE FARM PLAN

I think it is well to establish at this point just what we mean by "cash flow" and "farm plan" projections in terms of the information we need. My interpretation is that cash flow and farm plan projections are one and the same and the lending officer needs the following information, if this projection is to be of value to him.

(A) The beginning loan balance, if any, and its ratio to the collateral pledged on the loan.

(B) Dates the borrower will need advancement of funds.

(C) Dates he expects to repay.

(D) The effect on the collateral with each transaction.

(E) The balance of the loan at the end of the period, again compared to the collateral loan ratio.

This plan can and hopefully will be accurate and quite detailed. The American Bankers Budget forms are designed particularly for this type of information. I have found these forms to be pretty sophisticated for the large majority of borrowers. However, the cash flow needs to be tailored to the customer's needs and ability, and may be rather simple, as long as they contain the above information. The majority of our loans originate with correspondent banks and these boys are rather ingenious at using short-cuts and short forms to arrive at the needed information. Since they know most of their borrowers personally, these work quite satisfactorily. There are some pitfalls to watch for in the use of these plans.

(A) We have two things that are bound to come ahead of us on loan repayments whether we like it or not. These are: (1) family living expenses, and (2) principal payments on term loans. It has been my experience that the latter is the more often neglected. Make sure these principal payments are included in the cash flow. If they are left out, your entire cash flow projection is useless as a large term loan principal payment wipes out the cash necessary for repayment on your operating note.

I have purposely avoided the mechanics of getting the information for this projection as I do not want to encroach on Mr. Solomon's part of the discussion.

II. PRESENTING LOANS TO THE DISCOUNT COMMITTEE

Discount Committees are generally made up of management people whose job it is to make sure sound lending procedures are used and the bank's policy followed in making any loans, agriculture or otherwise.

This committee may vary in size from a one-man bank owner to many people depending on the size of the bank. However, the size of the committee is not important. The important thing is getting the necessary information from the customer and presenting it in a decent form so the committee has a chance to understand what the loan is all about.

My procedures in this presentation are as follows: (Of course, circumstances may vary these some from time to time.)

(1) Preliminary investigation and accumulating the information referred to in Mr. Solomon's discussion.

(2) Review this information with one or more senior officers, who are members of the Discount Committee. This will give you a general feeling of the Discount Committee's reaction and, therefore, be of help in presenting this before the committee itself.

(3) If possible, on large requests visit the customer and verify the information you have accumulated. If possible, take a senior officer with you on this first visit.

(4) Make the presentation and "BE PREPARED." These are professional loan people and you will be surprised, either pleasantly or unpleasantly, depending on your preparation, at the grasp of the situation these men will have even though they have no technical training in the field of agriculture.

(A) Short family history, credit performance, management ability, family, business, or bank connections that may have an influence on this loan.

(B) Present statements (earning and financial) and other documents which you have in regard to this loan.

(C) Amount requested, how secured and mention any guarantees that may be involved which are not common to that particular type of loan.

(D) Repayment schedules with amounts and dates.

(E) Possible hazards or possible safety features, whichever the case may be.

(F) BE PREPARED to answer questions.

III. TECHNIQUES IN SETTING UP CREDIT LINES

All loan customers are better satisfied and a better working relationship exists between the borrower and the lender when the customer knows exactly what is expected of him and what can be expected of you.

(1) Have a clear understanding of credit limits and bank policies which will affect his line.

(2) Have a clear understanding of loan requirements; such as, rate structures, collateral to be pledged, signatures and guarantees, etc.

(3) Have a clear understanding of repayment plans. I find it helpful to have repayment schedules in writing in the credit file and review these from time to time when the customer is in the bank.

(4) Schedule of payout dates showing the date and the amount to be advanced.

I have found it helpful to go over #3 and #4 each time you make an additional advance.

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HELPFUL HINTS

(A) Keep financial statements consistent and current.

(B) Adjust for wide fluctuation in prices.

(C) Watch real estate values. These need adjustment from time to time, but this adjustment needs to be closely supervised by the lender inasmuch as many capital expenditures on the real estate do not necessarily affect its value.

(D) Keep a well documented credit file. It is too easy to forget what has been said.

(E) When you are concerned about the man's operation, show this concern so that both you and the borrower have time to make adjustments without creating a panic situation.

(F) Be cautious in the use of income tax information used for loan purposes. Watch especially for prepaid expenses and accounts payable. Also, be cautious of capital gain treatment and depreciation schedules.

I believe this is enough information to initiate discussion on these subjects.

REMARKS BY EDWARD M. NORMAN

President, The First National Bank, Clarksville, Tennessee, as Moderator of the Workshop Session, "Joint Bank-Government Agency Loan Programs", before the 20th National Agricultural and Rural Affairs Conference of The American Bankers Association, Muehlebach Hotel, Kansas City, Missouri, Monday morning, November 15, 1971.

Our subject covers a wide range of lending operations, more perhaps to agri-business and for rural development than for direct-to-farmer loans. There are many government agencies in the field now and if the trend continues, more to come. In Congress now is a bill to create the Rural Development Bank which has the possibility of becoming larger than the Farm Credit Administration.

Commercial banks have long considered government agencies as a threat to their activities. This may be justified by the ever increasing role of government agencies accompanied by a diminishing role in the total agricultural lending picture by commercial banks.

But, due to the tremendous need for credit in rural areas, we must accept the fact that all are necessary. This will extend into an ever increasing need for joint bank-government agency relationships to get the job done. The S.B.A.'s joint efforts with banks have worked wonderfully well in the business area. The F.H.A. rural development and young farmer loans have filled a need that could not be met by commercial banks. The Federal Land Banks make real estate loans that cannot be made by commercial banks and are not being made by insurance companies.

Many successful rural ventures have come about by joint bank-agency loans. For the benefit of all our communities it is our responsibility to do our best for our area. It is our responsibility to know the capabilities of these sources of funds and apply them to build a better rural America.

REMARKS BY ROBERT A. DARR

President, Federal Land Bank and Federal Intermediate Credit Bank, Columbia, South Carolina, as a Member of the Workshop Session, "Joint Bank-Government Agency Loan Programs," before the 20th National Agricultural and Rural Affairs Conference of The American Bankers Association, Muehlebach Hotel, Kansas City, Missouri, Monday afternoon, November 15, 1971.

I appreciate very much this opportunity to participate in this workshop session on "Joint Bank-Government Agency Loan Programs" and will attempt to discuss several areas of mutual interest among the Farm Credit Banks, Federal Land Bank Associations, Production Credit Associations, and their friends in commercial banking.

First of all, let me point out that the Farm Credit Banks are not actually a government agency, but rather farmer-owned cooperatives which are supervised by a government agency--the Farm Credit Administration--much as you are regulated by the various state banking departments--the Comptroller of the Currency, FDIC, or the Federal Reserve for member institutions.

As you doubtless know, the Federal Land Bank Associations typically make first-mortgage loans for five to 40 years, but normally from 20 to 30 years. Production Credit Associations make short and intermediate term loans for up to seven years for farm and farm family needs. The third member of the farm credit family--the Banks for Cooperatives--make loans to farmer-owned purchasing, marketing, and supply cooperatives. The 37 banks in this system across the country constitute an important source of farm credit, last year lending over $13-billion to American farmers and their cooperatives.

We are not banks of deposit and, therefore, we feel there is nothing in the proposed Farm Credit Act of 1971 now before the Congress which would jeopardize the fine relationship enjoyed between commercial banks and ours over the years. Actually, one specific provision in the legislation authorizing Production Credit Associations to participate in loans with commercial banks on the amount in excess of the lending limits of the commercial bank offers increasing opportunities for commercial banks to serve the ever-expanding credit needs of their farm customers and provides new opportunities for us in the Credit Bank-PCA system to work even closer with commercial banks in the future.

Under the pending legislation, the Federal Intermediate Credit Banks are authorized to discount for, or purchase from, any national bank, state bank, trust company, agricultural credit corporation, incorporated livestock loan company, savings institution, credit union and any association of agricultural producers engaged in the making of loans to farmers and ranchers, with its endorsement or guaranty, any note, draft, or other obligation the proceeds of which have been advanced or used for any agricultural purpose.

Another provision in the Farm Credit Act of 1971 would permit the Banks for Cooperatives to participate with commercial banks in over-line arrangements on loans to farmer-owned purchasing, marketing, or supply cooperatives. This could provide additional opportunities to many banks in loan participations of large loans to borrowing co-ops in these categories.

We hope that all of these new provisions, if enacted into law, will enable us to further improve the good relationships already existing among commercial banks, our farm credit banks, production credit associations and land bank associations as we all work together to provide for the ever-increasing capital requirements of farmers on a sound and constructive basis.

REMARKS BY GEORGE L. DOAK

Executive Vice President, Kansas Development Credit Corporation, Topeka, Kansas, as a Member of the Workshop Session "Joint Bank-Government Agency Loan Programs" before the 20th National Agricultural and Rural Affairs Conference of The American Bankers Association, Muehlebach Hotel, Kansas City, Missouri, Monday afternoon, November 15, 1971.

The topic today is Joint Bank Government Agency Loan Programs. There are several government agencies which have fine programs, which offer great working tools to the financial institutions and businesses. By using these tools many new jobs and payrolls can be created.

As an example of the use of a Government Agency Program, I would like to mention today our Kansas program entitled "Kansas Funds Promote Kansas Jobs."

This program is the result of cooperative action among the Kansas Development Credit Corporation, Small Business Administration, Kansas Bankers Association, and the Kansas Public Employees Retirement System. This new arrangement calls for the Kansas Development Credit Corporation to purchase the SBA guaranteed portion of the loans from Kansas banks as they desire to sell them, which in turn will be resold to pension funds. This greatly increases the potential of Kansas capital investment by:

1. The use of Kansas pension funds for investment in the state's economy.
2. Increasing the lending power of Kansas banks by releasing funds committed to present SBA-guaranteed loans.

3. Allowing Kansas banks to make new loans (which will be guaranteed by SBA) that they would not normally make because of loan limit or could not tie up the full amount of the funds over a long period of time.

This program will greatly increase the lending potential of small and large banks, by using this secondary money market tool. EXAMPLE: A small bank with a $15,000 legal loan limit could make a $150,000 loan providing it had a 90% SBA guarantee. The 90% guaranteed portion of the loan could be sold to the Kansas Development Credit Corporation leaving the bank with a $15,000 exposure. This could be a profitable loan for the bank providing there was good account activity and reasonable balances carried by the borrower. The bank would also receive 1/2 of 1% fee for servicing the loan.

When Kansas Development Credit Corporation tells a financial institution they can now buy the guaranteed portion of any SBA loan they might have, the first question that comes to mind is "Why would you want to sell a loan you have already made?" The answer to that question is "We do not want to buy the loans you have made; we want to help you make the loans you have not made, such as the loan that should have been made to your homegrown business but you do not have a large enough loan limit or money available or desire to make long-term (5- to 10-year) loans." By using the tool, "Kansas Funds Promote Kansas Jobs," this loan can be made. One of the biggest assets in our economy is our homegrown industry and business. This segment has been neglected because we are scrambling over ourselves to promote new industry which comes into the State, giving them the moon and doing little for our homegrown loyal manufacturing and business people. Now don't misunderstand me, we want the new industry

also, but think in your mind what we can do if we expand our homegrown industry and business along with new industry and business.

In the past the reason for not making these much-needed loans probably was low loan limit and shortage of funds to tie up for long-term periods.

This program will also help the small and large city development corporations. Assume for example, the development corporation received a $100,000 through taxes. Theoretically, they could lever this to $900,000 in loans with a 90% SBA guaranty behind the loans.

There is approximately $40 million in SBA loans in Kansas of which approximately $28 million is under their loan-guaranty plan. This means that Kansas banks have put up $28 million of the funds used in SBA loans in Kansas. Theoretically, the "Kansas Funds Promote Kansas Jobs" program could purchase this $28 million and release this capital for new loans.

The success of any promotion is measured by results. "Kansas Funds Promote Kansas Jobs" secondary money-market program was 15 months in the making. It has been operational approximately six months. To date, we have purchased from community banks, whose average size is $7 1/2 million, 20 loans amounting to over $2 million. Eleven of these loans were made to agri-related businesses such as feed lots, farm implement manufacturers, rural service organizations, irrigation dealers, feed mills, cattle feed brokers, land excavation and fertilizer services.

The balance made to small manufacturers of mobile homes, camper manufacturers (who employ farm labor in the off-season). Most of these loans were made in small towns of 5,000 or less population.

Without the "Kansas Funds Promote Kansas Jobs Program," most of these loans could not have been made.

We estimate the balance of 1971 will add an additional $1 1/2 million in loans and that in 1972 our loan portfolio will be near $10 million.

I would like to pay special tribute to Mr. C. I. Moyer, Regional Director of the Kansas City Region, and Mr. Deryl Schuster, Director of the Wichita District of Small Business Administration, and the fine staff of loan officers in both offices for their great work in making "Kansas Funds Promote Kansas Jobs" a success.

In closing, let me say, the Small Business Administration is one of the finest bank-marketing tools there is available. They have fine personnel who can help you and they have eliminated major portions of the red tape in getting a loan approved. Most loan applications are processed in 10 days or less. In fact, the paperwork in making an SBA loan takes no longer than making a regular conventional loan.

I would like to leave you with the following thought. In my opinion, if you are not using the Small Business Administration program along with other government agency programs, you are overlooking profit to your organization, along with not doing your duty to your community by not using these tools which could create more jobs and increase your local economy.

REMARKS BY WILLIAM B. WOOD

Director of Finance Office, Farmers Home Administration, U.S. Department of Agriculture, St. Louis, Missouri, as a Member of the Workshop Session "Joint Bank-Government Agency Loan Programs" before the 20th National Agricultural Credit Conference of The American Bankers Association, Muehlebach Hotel, Kansas City, Missouri, Monday afternoon, November 15, 1971.

The pattern of operations in American agriculture has changed drastically in the last few decades--not only in its technology, but in the realm of financing.

Thirty-five years ago a man might get started in farming for a few thousand dollars. He could rent a piece of land, buy some used equipment--a small tractor, a plow, a cultivator, a few livestock--and he was in business.

Today, you couldn't even be a subsistence farmer on those terms. The amount of capital needed today to establish and carry on a viable commercial farm will vary depending upon where the farm is located and what kind of farming will be done. But the beginning farmer who hopes eventually to earn an income comparable to what non-farm people earn may be faced with an investment of $100,000 to $250,000. By the year 1980, this requirement may be more than doubled.

The changes in capital requirements for established farmers are reflected in agriculture's total debt position. During the decade of the 1950s, farmers' debts doubled--from $12.4 billion to $24.8 billion. By 1970, farm debt had increased again by 134 percent to a level of $58.1 billion. There is widespread agreement among economists and other experts

in agricultural finance that this trend will continue. Federal Reserve Bank economists predict that the debt could be as high as $140 billion by 1980.

Farm credit today is extended more and more on the basis of a borrower's managerial ability--less on just assets, and the farmer's own attitude toward credit has changed drastically. To him, credit has become an indispensable farm tool, not a drag or a disgrace. The concept of permanent debt, that is, continuous financing, has come to be generally accepted in agriculture as in any other line of industry or business.

The role of the lender in rural areas also has changed.

A generation ago, the local rural banker, the Farm Credit System, and the Farmers Home Administration were almost solely concerned with providing credit for agriculture. The Farmers Home Administration had four major credit services, all of them for farmers.

Today our concern is with the total rural economy. By acts of Congress, we now administer a score of programs, covering not only farmer credit but also housing credit for non-farm rural people of low and moderate income, and community improvements such as the installation of central water and waste disposal systems in town and country areas.

On the terms laid down by Congress and the Administration, our credit remains a supplement to all resources available from banks and the other credit institutions serving rural areas. Our volume of lending is up; but our percentage of all dollars loaned in the United States for agricultural purposes has declined from the 5 percent level of 10 years ago to about 3 percent at the present time.

Our authorizations say that we will not supplant the bank or other commercial lender. We will serve only those who fail to qualify for the

services of other lenders, or applicants whose demand exceeds the lending capacity of other lenders active in a given rural area.

Actions taken by our Administrator and our State Directors within the past year to uphold this principle, through frequent and regular consultation with banks and other lenders, may be known to members of this committee. It is the Agency's policy to keep ourselves informed of the local bank's interest in serving applicants who may come to us for housing credit or farm credit. This may be done either by serving the applicant on a conventional basis if you find that he qualifies, or by your purchase of Farmers Home insured notes for loans that are made and serviced through our offices.

We seek in every state to maintain and improve this consultation with banking associations and your member institutions. We welcome always any opportunity for a better working relationship between your organizations and our Farmers Home Administration representatives in the states and the counties.

In agriculture, Farmers Home Administration credit never was designed to help the large commercial operator.

By providing a supplemental source of credit to small family-type operators, with particular emphasis on young and beginning farmers, we are helping to maintain a national reservoir of competently trained, productive operators to replace those who retire. Ours is often the only source of credit for those people. We help them to get a start or to expand their operations to a more profitable level, and then to see that they graduate to commercial sources of credit when they are qualified to do so.

Legislation the past year increased our Farm Ownership loan ceiling to $100,000. This action, plus a more aggressive working agreement

with the Federal Land Banks and other rural lenders where we make second-lien loans to the same borrower, makes it possible for the Farmers Home Administration and the other lenders jointly to help more farmers than either of us could serve separately. Together we can supply the farmer with a more realistic and adequate amount of financing.

The great rise in volume of Farmers Home programs overall--from a level of $300 million in 1960 to some $2.6 billion in the current fiscal year--has been brought about through shifts from direct government loan programs to insured lending.

Our current $350 million of farm real estate credit, the $300 million of community facilities credit for water and sewer systems, and $1.6 billion of housing credit this fiscal year will be insured lending. This adds up to more than 80 percent of our annual volume. Farm operating credit also will shift from the direct to the insured category if Congress completes the passage of legislation to that effect now in process.

In shifting from dependence on the Treasury to insured private loan funds, we have developed a much greater capacity to market Farmers Home loan notes to other lenders and investors. Note marketings have increased from less than $400 million in the fiscal year 1966 to more than $2 billion in fiscal 1971.

Notes are marketed for terms ranging from three to 25 years at rates consistent with the money market at the time of sale. The investors' terms of commitment seldom cover the life of a new loan, which range from 33 to 50 years' maximum term for real estate and community facilities. Any such long-term Farmers Home Administration loan note is certain to be resold one or more times if the loan runs its full course.

Three methods of note marketing are employed.

The first and traditional method is to offer an insured note to a bank or other commercial lender in the locality where the loan is made. Individual investors have the right to ask for such a note not claimed by a commercial lending institution. However, such individual investments are not to be solicited by the Farmers Home Administration, and they represent a negligible percentage of our insured note sales.

Notes that have failed to find local placement are referred to our national financial center, the Farmers Home Administration Finance Office in St. Louis, Missouri. From that point we market notes, singly or in blocks, to investors throughout the country.

We accept no orders at the Finance Office for less than $25,000. This minimum avoids the diversion of individual savings deposit funds which, two years ago, began to flow in from small, short-term speculative investors.

Our third method of note marketing is the underwriter's block issue, an offering for the large, longer-term investor such as a trust fund. Approximately every quarter of the year, a group of national securities marketing firms buys blocks of notes from our surplus inventory of notes available for sale or resale. Each package ordinarily totals about $500,000, and each issue is likely to total about $300 million of insured notes. After having bought the blocks from FHA, the underwriters in turn market them to investors, generally for terms ranging from five to 15 years and at rates approved by the Department of Agriculture with advice from the Treasury.

Farmers Home Administration programs today are seen as an essential part of achieving overall rural development. Farmers programs, along with our rural housing and community facility loan programs, figure

in the nation's effort to revitalize or stimulate the right kind of new community development in rural areas, and reverse the long procession of distressed rural emigrants into overburdened metropolitan areas.

As President Nixon has described it, the movement has been an emptying out of the middle of the country toward either coast. By and large, Federal programs have not permitted much assistance for job and enterprise development in rural areas.

In his recent Salute to Agriculture message and a series of actions to give it real effect, the President has recommended expanded credit for agriculture and for rural community development.

With its well-established system for credit delivery, and its experience as a supplementary lending agency in rural areas, Farmers Home Administration has been assigned a broad variety of responsibilities in this effort.

We know that our contribution can be significant only to the extent that we can support individual enterprise and community enterprise, and help to bring about the greatest possible application of private financial resources to fulfill the needs of rural areas.

REMARKS BY ROBERT E. KNIGHT

Economist, Federal Reserve Bank, Kansas City, Missouri, as Moderator of the Workshop Session, "Maximizing Your Correspondent Bank Relationship" before the 20th National Agricultural and Rural Affairs Conference of The American Bankers Association, Muehlebach Hotel, Kansas City, Missouri, Monday afternoon, November 15, 1971.

Correspondent banking relationships should always be two-way streets which are profitable both to smaller banks requesting services and to larger banks providing them. However, maximizing correspondent relationships may have different connotations to the two groups. To smaller banks it means obtaining the maximum value in services for limited balances, or alternatively, holding only the balances necessary to provide correspondents with satisfactory compensation for services performed. Maintaining excess balances in correspondents can be expensive, as recent periods of high interest rates have demonstrated. To the correspondent, on the other hand, the quality of a relationship is often determined by the profit it represents. Provision of most correspondent services is expensive. While correspondents appreciate the loanable funds they obtain from such relationships, particularly during periods of restrictive monetary policy, few are willing to provide services at a loss.

Just as a correspondent banker must know a small bank thoroughly to be able to offer useful assistance, a solid knowledge of the strengths and weaknesses of correspondents is necessary to maximize the value of a relationship. Familiarity with the services offered by correspondents is essential. You are all familiar with such standard services as clearing

checks, loan participations, bond portfolio advice and services, and the provision of currency and coin; but correspondent banks have rarely done a satisfactory job in stressing the variety of services available. Two years ago the Federal Reserve Bank of Kansas City conducted a survey of correspondent banking activity. Small banks were asked to check those services offered by their correspondents and to indicate which had been utilized. The list contained such basic services as credit information and international banking assistance, but a surprising number of banks had no idea which services on the list were available. The advice offered earlier today to "Just Ask" your correspondent whenever a specialized need arises could not be more important. If you have a good correspondent, he will seek a prompt solution to your problem.

Determining the appropriate size of correspondent balances is always a difficult problem. Too often the relationship between banks, instead of being a two-way street, becomes only one way. The correspondent does not fulfill its responsibilities to the small bank in services rendered, and the small bank does not maintain sufficient balances to compensate for the services. Small banks view their correspondents as always wanting more balances, and the correspondents see the small banks as always requesting more and better services. While no simple solution to the optimal balance size exists, the account analysis performed by correspondent banks provides a starting point.

Account analysis is not new; it has been performed for years on both corporate and correspondent accounts to determine the profitability of the accounts. In the analysis, correspondent banks determine the revenue from a typical correspondent account by multiplying the average collected balance, sometimes adjusted for reserve requirements, by an earnings

allowance. The charges for servicing the account are determined by multiplying the number of times a bank utilizes a given service by the cost (generally including an allowance for profit) of providing the service. Time does not permit a complete description of account analysis procedures. However, the Federal Reserve Bank of Kansas City has recently completed a study of practices among major correspondents, and the results will be released shortly in the Monthly Review.

In any event, reevaluate your correspondent relations. Ask yourself what your correspondent is doing for you--how he is willing to help solve your problems. Find out what services your correspondents offer. Request your correspondent banks regularly to send you copies of the analysis they perform on your account. Generally, they will be happy to cooperate. Find out what the charges represent, how important float is to your cash letters, and how profitable your bank's account is to the correspondent. If the account is inadequate to cover the services provided, consider increasing it. Remember that the account analysis rarely covers all services. Compare the charges and earnings credits among different correspondent banks. One of the more surprising conclusions of the forthcoming article is that charges vary widely among correspondents. Establishing new correspondent relations is never easy, but there is no sense in maintaining a balance with a banker who disappears just when you need him, or who is always suffering from the same problems you are experiencing. The system has been designed by the large banks; it should also work effectively for the smaller ones.

Evaluating the performance of the correspondent banking system in recent years is a difficult task. Instances in which small banks feel their needs have not been met are easy to document. Yet, the results of

the Federal Reserve survey suggest quite strongly that the system is performing well, and that bankers in general are pleased with their correspondents. Only a few banks indicated they have ever been unable to satisfy all of the loan needs of their customers because of an inability to obtain participations from correspondents. Nearly 99 per cent of the banks indicated they either were "satisfied," or were "well satisfied" with their correspondent relations. Of the 2,099 responding banks, only 26 were dissatisfied. In most instances the unhappiness was attributable to an inability to place loan participations with correspondents, or to the belief correspondents were requesting excessive balances for services rendered.

Nevertheless, one has the feeling that the satisfaction expressed is largely due to the fact the system has never been pushed to the limits. Numerous questions, furthermore, remain. If banks have experienced so few problems in meeting loan demands, why are there movements underway to establish corporations to assist banks in making farm loans, or to establish a Federally capitalized banking system to finance rural development? Despite the tremendous growth of total farm debt, the amount of farm loan participations placed with correspondents appears to have stabilized since 1966. Can the two facts be reconciled? Why do numerous rumors of difficulties in placing participations exist? The trend toward larger units in agriculture has created a shortage of credit which has been well documented. Given that a shortage of credit to agricultural areas exists, how does one rate the performance of the correspondent banking system when the net flow of funds is heavily toward the large correspondents rather than the rural areas?

The correspondent banking system has made a very significant contribution to fund flows in the economy, but future demands will be

even greater. Most of these needs could be met within the present framework. Many country banks have relatively low loan-deposit ratios. Increased swapping of loan participations with correspondents would provide a means of ensuring that the overline loan needs of these small banks will continue to be met. Alternatively, correspondent banks could place greater reliance on the charging of fees for services, and less on the need to maintain large compensating balances. Larger correspondent banks could develop pools of farm loans in which they sell participations. These could be similar to the packages of mortgage loans which banks have warehoused and serviced for years. Correspondents could tap national credit markets by selling farm loans in a fashion similar to bankers' acceptances. Other possibilities exist, but if the correspondent banking system is to continue to be the primary means for meeting overline loan needs at smaller banks, it must be alert to change and adapt. The system has been shown to be capable of functioning efficiently. What is needed is a determination by both local bankers and their correspondents that the credit needs of rural areas will be met in the future.

REMARKS BY ERNEST L. HARMS

Vice President, Commerce Bank, Kansas City, Missouri, as a Member of the Workshop Session "Maximizing Your Correspondent Bank Relationship," before the 20th National Agricultural and Rural Affairs Conference of The American Bankers Association, Muehlebach Hotel, Kansas City, Missouri, Monday afternoon, November 15, 1971.

The subject assigned me as a panel member of this workshop session is "Maximizing Your Correspondent Bank Relationship." During the next few minutes I would like to make some comments from the standpoint of a city correspondent bank.

City banks are taking correspondent relationships more seriously today. The old image of a handshaking public relations man from the city bank is going by the wayside. More time is being spent on training and more emphasis is being placed on loan experience.

There are many services that come to mind that a city bank can offer, however, there seems to be a reluctancy on the part of some rural banks to ask for assistance in these various services. For example, if a rural banker does not understand the mechanics of bankers' acceptances, or field warehousing, or inventory certification control, he should ask his city correspondent. If a city bank does not have the specific information available in their credit library, the information may be obtained from a Federal Reserve Bank of other business firms. I find them to be quite cooperative in assistance.

Although overline participation is not the most important service that a city bank provides according to a recent survey, it is a problem area where both rural and city banks need to be more cooperative. The overwhelming growth of individual agricultural units, through the merger of smaller units, has brought with it corresponding increases in the credit requirements of the average farm. As machinery prices increase, as projects become more specialized, as farms turn more and more into agricultural factories, the financial needs have far outpaced the small bank's ability to handle the needs. The local bank can stay in the picture by participating the overline to its city bank, providing that the city bank has the expertise that understands today's agriculture and agribusiness. By the same token, the rural bank must also understand the borrower's credit requirements. There have been numerous occasions where a borrower is informed that he is too large for the local bank to finance. The borrower is either forced to find a larger bank in his area or he becomes a customer of another competitive lending institution, usually a Production Credit Association. An agricultural specialist from the city bank should be asked to assist the local bank in loan documentation and so forth. If the local bank in an agricultural community is not willing to keep the larger farm customers (worthy of credit) in his shop, then it is apparent that this bank is slowly dying on the vine.

Another subject that I want to comment on briefly is city banks are definitely in a position of tapping the money markets in various ways. As larger credit lines are established, bankers' acceptances may become a more popular vehicle for funding agriculture. Another money market source is to joint venture lines of credit between national

agribusiness firms and banks. We all know that agricultural lending practices are becoming much more sophisticated and these firms have excellent expertise that banks can draw upon.

It seems to me that both rural and city banks shy away from good agricultural loan requests because they do not understand the overall picture. Therefore, those of us that are in the agricultural lending field must keep informed about the changes in today's modern agriculture. An aggressive city bank will conduct seminars for its correspondent banks, and we will see the trend for more ag lending seminars being conducted in strategic points in the field rather than in the city. These seminars will cover loan documentation, security, cash flows, budget projections, financial statements (including a profit and loss statement) and case studies. We, in the banking profession, have more homework to do in obtaining adequate records to justify larger lines of credit. The rural bank should feel free to ask its city bank to send in at least one of the loan officers to go through a training program. We offer this service in our shop and an exchange of ideas is beneficial for both banks.

There are rural banks that have too many city bank correspondents. To maximize your correspondent bank relationship, it would be more beneficial to work with one or two major banks, providing that they offer a well balanced program of services. In my opinion, the fewer the rural bank works with, the better the city correspondent understands your problem areas.

Of the various services a city bank can offer, one that will become more important is the exporting of agricultural products. This means that your city bank should have an International Department that can be of assistance in this marketing area.

The type of agriculture we will have in the years ahead will be dependent upon how well the various lending institutions regard the importance of agriculture to the total United States economy. No one lending institution can fund the agricultural credit requirements of tomorrow. However, the banking fraternity can continue to play a very vital role in agriculture through a team effort of rural and city banks that will and are updating their lending procedures and services. Management will be the key factor.

CORRESPONDENT BANKING - COUNTRY STYLE

Address by Robert L. Walton, President, Farmers and Merchants State Bank, Bushnell, Illinois, as a Member of the Workshop Session "Maximizing Your Correspondent Bank Relationship" before the 20th National Agricultural Credit Conference of The American Bankers Association, Muehlebach Hotel, Kansas City, Missouri, Monday afternoon, November 15, 1971.

Correspondent relationship is almost as old as banking itself in the United States. During the latter part of the nineteenth century, when checking deposits replaced banknotes as our main circulatory media and economic activities became truly national, banks in outlying places found it necessary to maintain balances with banks located in financial centers and city banks found it profitable to hold balances.

It is still the keystone upon which the survival of the small country bank rests, especially in a unit banking state such as I come from. Without this system, many smaller state banks that are non-Fed members would have a hard time operating. The correspondent system permits the extension of a wide variety of banking services in communities of all sizes, besides making a wealth of information and technology available on a call basis.

This afternoon I would like to break my brief discussion of the correspondent system into two general areas:

1. What can a correspondent bank do for you?

2. What does the city correspondent bank expect from the country bank?

Hopefully, I will raise some points or questions that can lead to a good general discussion on correspondent banking, its benefits and failures.

What Can a Correspondent Bank Do for You?

Traditionally, the backbone of the correspondent banking system relationship has been formed by overline loan participations, transit operations, bond portfolio advice, and service and loans to bank officers. Today, this still continues to be the case. In the past, personal relationships often determined where the balances would be. Today, however, this has become a secondary matter, with the banker being more interested in complete service for his bank and community. Friendship is still important, however, and there is continued loyalty between the banker and his correspondent, but note this - only if the correspondent furnishes all the needed services.

Correspondent banking, like most other aspects of banking, has experienced major changes in recent years, with the small bank demanding more and more services from its correspondent. I am sure that all of you are familiar with the many services offered by the normal correspondent. He can and will do or furnish almost any service you request. The more common ones are promoted hard and are all yours for the asking. The one thing I learned long ago in the banking business is you don't get any place without asking. Don't ever be afraid to make a reasonable request of your city correspondent. If it is within the ball park, he will do it.

Though you, as the agricultural representative of the country bank, are interested in what the correspondent relationship can do for your bank as a whole, some parts are more important to you than others, so let's concentrate on those for the balance of my time this afternoon. Your main concern, I am sure, would be three general items.

1. Your bank making a sufficient return so as to be in a position to hire the necessary personnel to properly service agriculture.
2. Your bank having the necessary tools and funds to service agriculture.
3. Your agricultural personnel keeping abreast of the latest developments in the economy - especially agriculture.

Therefore, I would like to narrow my discussion down to the general services that a good correspondent should offer to the agricultural bank to accomplish these. They are as follows - in outline form:

I. In the area of profits
   - A. Bond help
     1. Buying and selling for the bank.
     2. Safekeeping for the bank.
     3. Analysis.
   - B. Federal funds market
   - C. Purchase by the country bank of participations in the correspondent banks' loans.

II. In the area of tools and funds to work with
   - A. Overline arrangements.
   - B. Participations.
   - C. Developing specialized lending programs.

III. In the area of economics
   - A. Correspondent bank-sponsored clinics.
   - B. Field visits by certain personnel of the correspondent bank.

Now let's go back and briefly discuss these three areas one at a time, as I feel these are the areas that will allow you as an agricultural banker to better service your farm customers.

I. Your bank making a sufficient return so as to be in a position to hire the necessary personnel, including you to properly service agriculture.

Bond investments are an important source of income to the country bank, often amounting to 40% or more of its total income. Most country bankers will be the first to admit that they are not experts in the bond field and that they do not have the time available to do a real job of keeping up with them. It is therefore natural that the country bank turns to its city correspondent for advice in the handling of its bond account. They have both the time and personnel to keep abreast of the latest developments.

All correspondent banks offer some type of bond service and normally do a good job. Therefore, one of your objectives in selecting a correspondent is to find one who has the personnel in their bond department that you feel understands your bank and its objectives and whom you feel will help you promote these objectives to the fullest, while at the same time obtaining maximum returns. This means the bond man in question must not only know the markets, but also your portfolio inside and out, the type of bank you have and the seasonality of your loan and deposit swings. It takes a lot of knowledge and understanding for truly intelligent bond counseling.

Under the heading of "sufficient returns" I have also included the sale of Federal Funds. I realize that the examiners classify the sale of Federal funds as a loan, but we in the country look at it more as an investment, similar to a treasury bond, than a loan.

Idle cash accomplishes nothing except excess liquidity and in today's market can turn out to be rather expensive. For this reason we need to keep all excess cash working 100% of the time. Treasury bills are one avenue of doing this and are often used. But they have a drawback if you are investing excess funds on a day-to-day basis as they vary from day to day in price. Federal funds on the other hand are meant to be invested at will. I therefore look on Federal funds as the avenue of investment for these very short-term excess funds. All correspondent banks can and will help with your Federal funds program. Some, however, do a better job than others through a so-called automatic investment program that keeps your excess cash to a minimum at all times. Therefore, in selecting your correspondent, this is another important item to consider - can it help you put day-to-day temporary excess funds to work through an automatic investment program?

The third item under the general heading of "sufficient funds" is that of purchasing participations from your city correspondent. This not only can be an excellent and safe source of revenue for your bank, and I might add without any acquisition cost, but also can be a means of obtaining overline or participation help from your correspondent in times of tight money.

Let's now go to general item #2 which was --

II. Your bank having the necessary tools and funds to properly service agriculture in your community.

Total farm credit has grown from $24.7 billion in 1961 to $40.2 billion in 1966 and $59.3 billion in 1971, an increase of 140% over the 10 years. By 1980 it is expected to again more than double to an estimated $120 billion. The non-real estate portion of this credit grew from

$11.9 billion in 1961 to $19 billion in 1966 to $29.8 billion in 1971 or a 150% increase. Of this $29.8 billion in non-real estate farm credit, $11.1 billion came from banks, $5.3 billion from PCAs, $.2 billion from FICBs, $.8 billion from FHA and $12.3 billion from merchants, dealers, and so forth. This substantiates that banks are still the largest single supplier of credit, but the PCAs are still gaining fast, and their increase in outstanding debt over the last 10 years amounted to 253% compared to banks, 122%.

Country bankers are therefore facing a twofold problem - that of increased competition in agriculture credit from the Farm Credit System and secondly that of obtaining the necessary funds to properly service the ever-increasing needs of agriculture.

I am sure that we as agricultural bankers can and will rise to the challenge and meet the increased competition of the Farm Credit System headon, not only from a service standpoint, but also through development of new specialized lending programs that will keep us abreast of the ever-changing needs of agriculture. It is in this area that our correspondent banks can be of great help. Many of them have agricultural experts on their staffs who are always willing to come down and help you analyze a problem or new type of agriculture credit.

To obtain the necessary funds to retain our leadership in the farm credit field, however, is another problem, and one that will require some system of tapping the national money market to bring outside funds into our communities. It is my feeling that the quickest, easiest, and most practical way at present to accomplish this is through the existing correspondent system. Of all the services offered by the correspondent bank, I consider this to be the key - helping the rural bank with its loan demand through participation and overline arrangements.

Good general management, adequate records on your loans, and a satisfactory balance in the correspondent bank will go a long way in getting the overline and participation help you need from your city correspondent.

The third important area wherein your correspondent bank can be of help was entitled -

III. Your agricultural personnel keeping abreast of the latest developments in the economy - especially agriculture.

It is very important that your bank officers keep up with the latest economic trends and laws relating to banking, and this is especially true in the field of agriculture. Here your correspondent can be of great help to you through holding clinics covering economic trends and new laws. Along with this are visits to the correspondent bank by your officers and directors occasionally.

Another service often offered by the correspondent bank under this heading is help in the training of your young bank officers. Many times the country bank will send one of its officers to the correspondent bank for a two-week training period after they have been in the banking game a year or two. This can be a most enlightening and valuable experience.

One service that some correspondents offer is sending one of their economists out in the field to visit with the various country bank officers and directors in the country bank. This had the advantage of letting the directors and junior officers hear firsthand the forecasts of the correspondent bank on the outlook of the economy.

These services, as offered by your correspondent, can be very valuable and should be taken full advantage of by the country bank.

In summary these three major fields of correspondent relationship - that being

I. Helping your bank make a sufficient return in order to enable it to hire the necessary personnel to properly service agriculture.

II. Helping your bank obtain the necessary tools and funds to properly service agriculture in your community.

III. Helping your agriculture personnel keep abreast of the latest developments in the economy.

To me, the guts of the correspondent banking system should be the extras you look for in picking your major correspondent. Help in these lines can mean the difference between an ordinary country bank and an aggressive one.

Now that we have briefly covered what you as a country banker are looking for from your correspondent, let's put the shoe on the other foot and take a look at what the correspondent bank expects from you in return for the services it supplies.

When discussing correspondent services we must remember that it is a two-way street and that both the country bank and city bank must be satisfied with the results.

If they provide the services you desire and in an appropriate manner, they should be able to expect loyalty - and for the most part I think they receive this from the country bank.

Also, during times of tight money, to those country banks that have surplus loan funds, they would hope to sell participations to ease their own liquidity problem and help them service the country banks which are tight for money.

However, the major item they require is balances - demand deposits from your bank to work with in much the same manner as you require balances from your customers.

There has been a number of studies made on the possibility of putting correspondent services on a fee basis, rather than a compensating balance method, but in the long run I do not feel this would be a wise move. I am afraid, in that case, small country banks might limit their use of the correspondent service to an unwarranted degree in order to hold down costs. The fact that the many diverse and necessary banking services are rendered by large city banks and utilized by small outlying banks through the correspondent relationship assures that small outlying communities are provided many banking services which otherwise they might have to do without.

In summary, let me say that our country bank is no better than the service it offers. To compete in today's changing world, we in the rural areas must offer at all times "Full Bank Services," and to do this we must depend upon our correspondent banking system.

THE THIN EDGE IN FOOD AND FIBER PRODUCTION

Address by Carroll G. Brunthaver, Associate Administrator, Agricultural Stabilization and Conservation Service, United States Department of Agriculture, Washington, D.C., before the 20th National Agricultural and Rural Affairs Conference of The American Bankers Association, Muehlebach Hotel, Kansas City, Missouri, Tuesday morning, November 16, 1971.

The United States is in a period of real concern over its farmers, because many of our best farms are balanced on the thin edge of profitability year after year. American agriculture is becoming increasingly commercialized. This is not because we've planned to favor commercial farmers, but because our agriculture has evolved into a commercial pattern. Spurred by high-capital technology, the productivity of the big commercial farmer is so much greater than that of the small non-commercial farmer that we are forced to approach the two with different policies.

This is pretty easy to demonstrate. We now have a few less than 3 million farms in the United States, according to the Census definition. However, a great many of these so-called farms are not really farms in a business sense. Just about 20 percent of these farms sell more than $20,000 a year worth of farm products. It is these 600,000 farms that constitute our commercial agriculture--the productive, highly efficient sector of American farming.

These farms produce and sell about 75 percent of our farm products by value, and earn 60 percent of the net income from farming. They average more than a quarter of a million dollars in production

assets. They have operating budgets of about $50,000 a year, and their operators average $16,000 per year in net farm income.

These are the finest farm businesses in the world, with the best management and the best technology, and the best marketing system in the world. They're backed up by the world's finest support system ... banks supplying credit, farm equipment, fertilizer and chemicals and all the other things that contribute to our farmers' outstanding productivity.

That is our commercial agriculture.

Our non-commercial agriculture is very different. The remaining 2 million or so farms that the Census enumerates includes some real operating farms, which happen to be small and offer small incomes as a result.* It also includes a great many rural residences, small hobby farms, and many part-time farms. Most of these farms don't produce much, and their average gross is only about $5200 a year. These farms have about one-fifth as much land, less than one-fifth the production assets and about one-sixth of the net income of the commercial farms.

For most of these so-called farmers, farm income is only a supplement to their regular income. The non-commercial farms also include quite a number of very poor people who are farmers only in the sense that they live on rural acreage and attempt to produce some crops and livestock. These subsistence farmers in almost all cases lack land, capital or management ability to become successful business farmers. Predictably, they also have very small net incomes--about $2700 per farm in 1970.

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*Census defines a farm as having 10 or more acres and selling at least $50 a year worth of farm products; or selling at least $250 a year worth of farm products.

I should also point out that many of these small farmers are not poverty cases. In fact, when we analyze the poorest class of farms--those with less than $2500 in sales, we find they averaged about $1,000 in farm income--but $8000 in off-farm family income. Farming contributed only 12 percent of their family income. In contrast, on farms with $40,000 or more in sales, farming contributed more than 80 percent of the family income.

Obviously, our traditional price and income programs cannot have done as much for the non-commercial farmer as they have done for commercial farmers. The small farmers don't have enough bushels to sell or enough acres to divert to get major benefits.

In addition, the rural poor who do not live on farms have been almost totally neglected.

Let me say very clearly that we must have effective policies to deal with rural poverty, whether the poor be farmers or not. But let me say also that farm programs are not the most effective way to deal with rural poverty in this age of the mechanized farm. The idea of a farm program that can keep 3 million small traditional farms scattered about the countryside, and offer farming as an occupation to every farm boy, belongs to the 19th century ... and should be placed in a glass museum case alongside the McCormick reaper.

Parenthetically, I'd like to say that President Nixon's Family Assistance plan seems an excellent way to offer help to the rural poor. His proposal would give the rural poor of the United States ten times as much help as our farm programs have been giving them, and do it more efficiently.

Commercial Farm Policy

That brings me back to my primary concern ... an effective policy for our commercial farmers.

The thing that worries me is that our most productive and efficient farms are operating on a razor-thin edge today. They are extremely vulnerable to continued inflation or anything that cuts their net income significantly.

These farms have to be highly capitalized in order to be efficient. In most cases they carry a heavy debt load. They've had to extend themselves pretty far to get the land and equipment that make them so productive. And anything that cuts into their net returns threatens their very survival.

If even a small percentage of these commercial farms is forced out of business or forced to cut back on their investments, American consumers could well be faced with higher food costs.

At the same time, we would lose much of the contribution our farmers make to our commercial trade balance--about $6 billion a year. At the moment U.S. farmers can make that contribution because they are efficient enough to win markets in the international competition. Our commercial farms are more productive, more efficient and run by better managers than anyone else's. But if we should lose the cream of our crop of farmers ... it would be a different story.

If our commercial farmers are going to continue to make the needed investments in our farming industry; if they are going to continue to risk hail, drought, plant diseases and all of the other uncertainties in farming; if they are to continue feeding the nation efficiently and continue winning export markets--they must have adequate returns.

In the old days, farmers could tighten their belts and ride out bad times. Debts were smaller and cash expenses were lower. The farmer and his family simply tried to grow more of their own food and cut cash outlays to the bone. Most of the things the farmer needed to make his crop--seed, fertilizer and horsepower--were right on his farm.

Today's farmer has no way to tighten his belt. He has mortgages and loans to pay off, and three-fourths of his crop inputs must be purchased from off-farm suppliers.

Technological Revolution

A lot of people wish that we still had the little family farm of yesteryear. A good many farmers wish they didn't have so much pressure on their prices and incomes. I'm afraid there's a tendency to look for some villain who has it in for the farmer ... someone who can be blamed for the farmers' problems. I've heard people blame the government for the farm problem. Others blame big business, or middlemen or railroads or corporation farms or some other bogy-man.

If there is a villain lurking in the shadows, it's an unlikely one--technology. It is technological progress that's made the difference. Since it is also technology that has brought the farmer out of the age of kerosene lamps and the 16-hour day, it's hard to get too angry.

Farmers today are caught in a continuing technological revolution. New machines, fertilizers, seed varieties and techniques contribute to higher yields and higher production. Look at our corn yields. As recently as 1940, we were averaging only 29 bushels per acre on our national corn crop ... and this was after the development of hybrid corn, commercial fertilizer, and the gasoline tractor. In 1971, in spite of some corn blight, we're going to harvest nearly 85 bushels of corn per acre.

In 1910, the average U.S. farmer invested 135 man-hours to produce 100 bushels of corn. Today, he does it with only 8 man-hours.

Very simply, a farmer today with a 150-horsepower tractor, can turn out more products than could his grandfather with a team of horses.

In 1910, 100 acres would have been a big acreage for a Corn Belt family farm. A yield of 40 bushels per acre would have been very good ... and would have made the farmer's total corn output 4000 bushels. Today, the top farmers can handle up to 800 acres of corn, with a yield of perhaps 150 bushels. That means 120,000 bushels of corn for one man!

Each farmer can now produce more ... and so the number of places in farming has dwindled.

The profit margin per bushel gets smaller, and the less efficient producers find themselves in trouble. This is a painful position ... but we have not found any way to stop the development of new technology, and it would not be in our national interests to stop it even if we could. I'm sure the progressive farmers in other countries would soon pass us by if we did.

The key thing we now recognize is that it's the technological revolution that is principally responsible for the pressure on farmer's prices and incomes ... and that this will continue almost regardless of the farm policy we follow. Since we cannot stop technology, since we cannot preserve the agriculture of the past or present, then we must design a farm policy that works with technological progress instead of trying to hold it off.

It's not that we're <u>trying</u> to boost our farm output. But the things we do to cut our unit costs of production usually boost output too--like adding fertilizer.

Because of this, our agricultural productive capacity has outrun our markets. In recent years, the United States has had to hold 50 to 60 million acres of cropland out of production. Since yields are still rising, we must find additional markets for farm products or we will have to throttle our efficient commercial farms back still more in the years ahead.

Competitive Position

A second problem in designing a commercial farm policy is our sad experience in losing markets through keeping farm prices high and holding back production. For example, our cotton industry has lost all of its market growth to synthetic fibers, and most of its export market to foreign cotton growers.

When we raised the price support on U.S. soybeans from $2.25 to $2.50 in 1967, we lost our oilseed market growth to fishmeal, sun oil and rapeseed. While we held back our grain production during the 1950's, other countries were encouraging theirs ... and our share of the grain market fell.

Changing Consumer Demand

A third reason for the changes in agricultural policy has been the rapid growth in consumer buying power, and the recognition of consumer preferences for meat and livestock products. By the mid-1950's, it was clearly evident that housewives in the United States were prepared and actually wished to spend more of their disposable income on high-quality livestock products--particularly beef and poultry.

As a result, U.S. farmers have been able to substantially increase their gross receipts and net incomes through expanding livestock production and improving the quality of their meat.

While per capita beef consumption increased 80 percent from 1950 to 1970 and per capita poultry consumption more than doubled, the striking feature was the large increase in the proportion of high-quality beef produced for consumption. There was a 267 percent increase during this period. Similar changes occurred with respect to poultry meats.

Growing Export Opportunity

A fourth factor we must take into account is that overseas markets are expanding. As more people get more money around the world, they are buying more farm products. The value of world trade in basic food and feedstuffs has increased nearly 50 percent since 1962, and this last year it jumped a whopping 20 percent! Our own domestic market for food and fiber is growing only about 1-1/2 percent per year ... not enough to fully utilize our fast-growing ability to produce.

Political Climate

The final factor in U.S. farm policy is the changing political climate in the United States. Our agriculture has been separating itself more and more clearly into commercial and non-commercial segments. The American public and the U.S. Congress have already shown that they are not willing to support the same kinds of programs for large commercial farms in the future as they have underwritten in the past for small farms. The current limitation on farm program payments is proof of that.

A Policy for Commercial Farmers

These, then, are the major factors that our commercial farm policy must take into account: technological change; consumer buying

patterns, farmers' competitive position, our growing export opportunities, changes in our farms, and changes in our political climate.

Now, what do our commercial farmers need?

I think the first thing we can say is that they need decision-making freedom. With changes taking place so rapidly in agriculture, we simply cannot be tied to historical patterns of the past, as we've been with bases and allotments.

Allotments kept cotton in the less efficient areas of the Southeast long after we found it could be grown more efficiently in some other areas. When we developed self-propelled sprinkler irrigation rigs, a lot of wheat growers in Kansas and Nebraska suddenly found they could grow corn--but they didn't have feed grain bases, and that slowed down a shift that has enabled us to produce our feed grain supply at lower cost.

This is the sort of farm management decisions that farmers weren't allowed to make under previous programs. The crop-by-crop planting controls restricted them too much. The restrictions didn't give our commercial farmers the flexibility and planning freedom they needed.

The set aside program begun last year does offer farmers much more decision-making freedom. The program sets the overall level of crop planting, but it lets each farmer decide how he can best use the acres he plants. Farmers are already taking advantage of this freedom. In 1971, the Corn Belt was more heavily concentrated in corn and soybeans--its high profit crops--than ever before. The Great Plains and the Pacific Northwest were more heavily concentrated in wheat and barley, where their comparative advantage lies. The mid-South and Southeast

shifted heavily into soybeans. Cotton began a near-revolutionary shift to the most efficient growing areas such as the Mississippi Delta and the Texas High Plains. Those efficient cotton-growing areas upped their production by as much as 25 percent this year, while growers in less-efficient areas leased or sold their allotments and shifted to feed grains and soybeans.

It's no coincidence that our output per unit of input in 1971 went up sharply ... between 7 and 8 percent. It's the first time since 1961 that this important indicator of efficiency has risen significantly. Part of this is due to allowing more planted acres ... which our farmers in most cases already had the labor and equipment to farm. However, part of the increase can also be credited to the increased efficiency achieved through inter-farm and inter-regional shifts in cropping patterns, and to the increased management freedom that farmers had.

As I've said, we must give our farmers the management freedom they need to streamline their production costs.

We must also keep inflation from eating our commercial farmers alive. Farmers lost a billion dollars last year to rising production costs, and they cannot continue to absorb that kind of loss. I think President Nixon has moved courageously and effectively to halt inflation. The floating dollar has improved our competitive position in export trading. The import surcharge has given us added leverage and has already brought our trading partners to the negotiating table for serious discussions about monetary reform and reduction of trade barriers.

The wage-price freeze has stopped the inflationary spiral, and the machinery set up for Phase II should be effective in preventing a resumption that would hurt farmers and everyone else. However, this

machinery must be allowed to function, and it must deal fairly and equitably with everyone. That probably means that everyone must feel the pinch--including labor. Since wages have been one of the very biggest factors in the inflationary spiral, I cannot see how we can effectively control inflation while still giving labor the wage increases it wants.

Our commercial farmers also need just as strong a competitive position as we can give them. Their efficiency is pegged to higher output per man--and the more they can sell, the more efficient they can be. Obviously, that means expanding markets, and just as obviously, that means exports. We must assure our farmers an entry into foreign markets. We must take a strong stand against trade barriers that keep our farm products out of markets where they should be able to compete. Variable levys, import quotas and other artificial barriers still keep American commodities out of too many foreign markets. Here again, the Administration has given farmers strong support, with a long list of tariff and quota concessions from a number of countries. However, the current major problem is the entry of Great Britain into the Common Market, and the Common Agricultural Policy of the EC countries. This highly-protectionist farm policy not only keeps our grain out of the Common Market, but encourages EC surpluses that are dumped into still other third country markets at subsidized prices.

Our farmers' competitive position is also affected by the cost of moving our farm products to market ... and in fact whether we're able to move them at all. Farm exports this year have been disrupted by rail strikes, elevator strikes and dock strikes. And each of these strikes is likely to result in wage increases that will tack higher costs onto the farm products we ship overseas. Dock workers on the West Coast, for

instance, have already turned down a 37 percent wage increase. One of the points at issue is how much containerization will be allowed on the docks ... which will affect the productivity of dock workers.

Farmers simply cannot afford to have off-farm costs price our farm products out of competition.

Neither can farmers afford to have transportation tie-ups that prevent agricultural export shipments. Most of our foreign customers have to have a steady flow of commodities ... and when they cannot get it from the U.S., they will turn to our competitors.

Summary

Here, then, is how I'd summarize the requirements of a commercial farm policy to keep our farmers from losing their balance on that thin edge of profitability:

First of all, we've got to help farmers deal with the problem of overproduction. However, production controls cannot be the final answer. We've got to help in ways that will leave farmers free to compete for growing farm product markets, especially overseas. We must give farmers the management freedom to streamline their production costs and improve their efficiency. We've got to work with our technology instead of against it. I think the set aside programs are an important step forward in this direction.

At the same time, we must halt the inflation which has been boosting farmers' production and marketing costs. For this we are going to need the support of the entire nation behind the President's New Economic Policy.

Finally, we must stand behind our farmers, and their right to compete in the world's markets for farm products.

If we do these things, I think the ability of the American farmer will enable him to make a bigger contribution to the nation's production, and to earn a larger reward for doing it.

BANKING SOURCES OF FUNDS

Address by Robert E. Hamilton, Vice Chairman, Central National Bank, Chicago, Illinois, before the 20th National Agricultural and Rural Affairs Conference of The American Bankers Association, Muehlebach Hotel, Kansas City, Missouri, Tuesday morning, November 16, 1971.

As a so-called "City Banker", it has been a challenge and pleasure to serve on the A.B.A. Task Force, and equally so as Chairman of the Sub-committee to identify and recommend ways of marshalling and utilizing funds in the banking system to support the credit needs of agriculture. Serving with me on the sub-committee are:

Ted Brown of Denver, Colorado
Ed Norman of Clarksville, Tennessee
Irv Van Arsdale of Auburn, New York
Bob Walton of Bushnell, Illinois
Ole Mettler of Lodi, California
and Doug Oswald of Ocala, Florida

In addition, we asked two of the most able men associated with the industry to meet with us in a two-day session in August. Their names are familiar to most of you, - and to Ray Doll, Vice President and Senior Economist of the Federal Reserve Bank of Kansas City, and Dr. Robert Smith, Professor of Agricultural Finance at Cornell University, I say, many thanks for your most meaningful participation and contributions to our deliberations.

At our first meeting we rapidly agreed on the definition of our problem and the restraints under which we operate - legal loan limits, Regulation Q, marketability of paper, and the apathetic attitude or lack of knowledge toward or about agricultural finance in many rural area banks.

We also quickly agreed upon the opportunities for bankers who are willing and able to serve this dynamic industry - increased profitability for the bank, the farmer-producer and the community in general, relief for the farm suppliers from the financing problems of their customers and an indirect service to consumers through still lower food costs. To these can be added many others, a list which, if enumerated, would consume all my time.

We agreed there were several appropriate areas for the committee to examine and in which we could possibly find the solutions we seek. They include:

1. Establishment of a secondary market and/or a national or regional agricultural credit bank.
2. The present correspondent banking system.
3. Federal Reserve Discount Window.
4. Banking Structure.

In addition to these areas singled out for investigation and discussion, we are in general agreement on a number of observations relative to the task at hand. It was agreed that there will be a high level of continuous loan demand in rural areas which will exceed sources of loan funds. This demand will be large enough in dollar amount and continuous enough to support the need for a new mechanism for putting funds into the area through the banking system. We concluded that agriculture has, in most cases, been adequately financed in the past, and will be in the future. However, an increasing proportion of such financing is being done outside the banking and for agriculture and that definite steps should be taken to reverse it so that the banking industry will continue to be a

major supplier of agricultural credit. It was also agreed that the long run welfare of agriculture depends on the continuation of the presently strong, active and competitive roles as agricultural lenders by the Farm Credit System, insurance companies, and other major lenders, provided they are required or allowed to compete upon an equal basis with each other and with the banking system. Our committee, on the basis of cursory information, not fully documented, believes that the net flow of funds within the banking system is presently toward the urban centers. Also, that this is not only bad for agriculture but society in total, since a better balance between rural and urban areas would bring about a more desirable balance in the location of a population and industry.

There was a strong feeling expressed by your sub-committee chairman and other members of the committee that much needs to be done to educate and convince large urban and rural bank management of the soundness of agriculture and the profitability in agriculture lending. In general, we say that a commitment to the financing of agriculture must be a strong one supported absolutely, and for a long term, but the directorate and senior management of the bank involved who will be prepared to back up their agricultural specialists through the cyclical ups and downs of the business over which the farmer-producer has little, if any, control.

Now, if I may, I would like to turn my remarks to the four specific areas previously mentioned, on which we have made preliminary recommendations to the entire Task Force and which will provide the basis for our combined final report to the President of the American

Bankers Association under whose direction the committee was formed earlier this year. An examination of available evidence does not indicate that changes in the banking structure will necessarily solve the agricultural credit problem. As a matter of fact, it can be observed that in some states a branching system provides extremely good support for agriculture, while in other states the opposite is true. The same statement can be made for those states which allow multi-bank holding company operations, or restrict banking's operations to individual units. What this seems to tell us is that it is really a matter of what your bank wants to be and wants to do, and how good your people are at reaching the established objectives. In addition, we felt that in the interest of maintaining the desirable dual banking structure, the committee would be hard pressed to suggest that the A.B.A. take a position on a national basis with regard to rights which have been reserved for determination by the individual states.

Only the briefest discussion was given to the use of the Federal Reserve Discount Window. Perhaps this is in realistic recognition of our seeming lack of influence on this regulatory body whose functions and duties are often in conflict with our own individual desires. It was agreed that the proposals which were brought forth in the Fed's study several years ago, before the most recent money crunch, should be implemented. It was agreed that availability of the discount window would help in a limited way with seasonal and emergency credit needs, but would in no way help to solve the major long-term problem of banks to provide capital and development type credit to our agricultural borrowers.

In summing up the committee's discussions with respect to the use of the correspondent banking system, your sub-committee chairman must admit to a lack of objectivity and possessed with a personal ax to grind. As to the system in general, however, I can find no great quarrel with the feelings of those on the committee as to some of the problems agricultural bankers have had in always being able to count on their principal correspondent when needed. Basically it was agreed that aggressive country bankers have been successful through the use of the correspondent system in getting additional needed funds. At certain times, however, even this source probably will not be the complete answer for all bankers. The arrangement works successfully on a selective basis for certain bankers, with certain banks, at certain times. In the aggregate, as suggested earlier, the correspondent system does not serve as a mechanism for transferring funds from urban centers into rural communities.

The success of the system as it relates to agriculture and rural credit needs depends heavily upon the proper orientation of senior management towards agriculture and their continuing commitment to the field, once it has been entered. Conditions of the recent past caused by the generally tight liquidity position of major money center banks, certainly in many cases made it more difficult for the correspondent bank to serve all of their customers and, particularly those which do not have direct access to national money markets. I believe the main thrust of the sub-committee's initial statement on the correspondent banking system will be that although the system works effectively in many instances, a new market is needed to supplement the correspondent system. We plan to meet with the

representatives of the newly organized A.B.A. Correspondent Division to discuss the correspondent function in the overall, and particularly as it relates to agricultural loans. Perhaps these discussions will shed additional light on the problems and enable us to more knowledgably present our final recommendations to the entire Task Force. In the final analysis, after discussing what we felt to be appropriate areas within the scope of the sub-committee's charge, we came to the conclusion that a new mechanism is needed to supplement, but not necessarily supplant existing sources of funds. Therefore, in this preliminary report to the task force as a whole, we are recommending that consideration be given to establishing a regional or national mechanism to provide ready marketability for agricultural production credit paper and other credit closely related to agriculture. We suggest that two approaches might be explored in this regard. The first would be an organization of private banks operating on their own, with no special backing, and the second would be a similar organization of private banks with the possibility of governmental backing which might provide for a more ready marketability of the organization's paper to banks and others with a surplus of lendable funds.

Such an organization would require a charter, by-laws, regulations, credit standards, debt authority, and highly competent management to establish a facility which would permit it to compete nationally in the sale of debt instruments and inter-change of assets.

In making this tentative proposal for consideration by the task force a number of points for further research and study as well as ideas for the implementation of the program were presented. It is obvious that legislative and legal road blocks to the inter-state or intra-state operation of a state, regional or national unit would require research by qualified people and that appropraite recommendations for legislative or legal changes be made wherever necessary.

A regional or national bank or finance company would be capitalized by the participating banks. Each would be expected to contribute permanent capital inrelation to the line or amount of credit needed. In addition, each bank upon discounting one of its loans with the credit corporation would be required to place a pre-determined percentage of each loan on deposit in an interest bearing reserve account. This account would provide additional reserves to the corporation against which to charge loan losses of the originating bank for paper discounted before such losses of the corporation.

Loans approved as to quality, purpose, adequacy of financial information furnished and, perhaps on the spot inspection by corporation's management would be purchased without recourse from the tendering bank on an individual basis, as a participation in an individual loan, or by the purchase of a certificate backed by a segregated group of loans from the bank's loan portfolio. The Agricultural Credit Corporation would be authorized to sell negotiable debt instruments in the open market with maturities to meet ongoing requirements on a regular basis without individual registration with the

Securities Exchange Commission. Once its paper were established on an exempt basis with the S.E.C. the corporation itself or commercial paper dealers could be used to effect the distribution of the paper to potential investors. Market acceptance would be dependent upon achieving from recognized agencies an adequate rating indicative of the high quality of the corporation's underlying assets.

It is the unqualified opinion of the committee that there are sufficient funds within the banking industry today in areas where loan demand is weak or bank management is content to operate with a low loan to deposit ratio, to supply the vast bulk of the funds needed to accomplish the goal we seek. It is not inconceivable, however, that major agricultural suppliers with seasonal ebbs and flows of cash requirements would be potential investors in such paper, if they were made aware of the fact that such investments would be flowing directly into the farmer-producer operations to which they sell their product.

We do not envision the agricultural credit corporation to be an eleemosynary institution. Loans would be purchased on the basis of an operating margin that would provide for payment of all operating expense, the building of a permanent reserve, and providing a reasonable return on capital. Quite obviously, if this proposal which presents a new approach to the business of financing agriculture as far as the banking industry is concerned, is to be accepted and succeed, much additional research and effort will be required. Those of us who are members of the task force and this sub-committee would

welcome any comments or suggestions which you or your associates might have with respect to our proposal. I am sure they would be most helpful in guiding us towards an enlightened conclusion. Those of us on the sub-committee will be available later in the day for a question and answer session. Since the three sub-committees will be conducting such sessions in separate rooms on a concurrent basis, we obviously will not have the opportunity to hear all of your ideas, and I can assure you we probably will not be able to answer all of your questions.

Since the task force has a collapsible charter we hope to have our work and recommendations completed and in the hands of the A.B.A. President within the next several months. Now, therefore, is the time to think about our proposals and let us know your feelings. I would be happy to hear from anyone having specific questions or suggestions with respect to our sub-committee's prescribed area of exploration.

Thank you for your kind attention.

NON-BANKING SOURCES OF FUNDS

Address by Lew Meibergen, Senior Vice President, The First National Bank and Trust Company, Enid, Oklahoma, before the 20th National Agricultural and Rural Affairs Conference of The American Bankers Association, Muehlebach Hotel, Kansas City, Missouri, Tuesday morning, November 16, 1971.

The Nonbanking Sources of Funds Subcommittee was composed of:

George T. Chandler, Chairman

Lew Meibergen

John W. Cattle

Clark I. Jenkins

Thomas L. Prosser

Thomas R. Smith

Donald P. Woods

This subcommittee met on August 31 in Chicago, Illinois, and on November 1 and 2 in Denver, Colorado.

I believe the best way to report to this group would be to say that our committee viewed the period ahead in agriculture with the basic premise "that the credit needs of agriculture in this country must be served and that they will be served - if not by rural banks, then these credit needs will be served by others, with a resultant diminution of rural banking's place in the overall economy".

Our committee felt that the projected credit needs of agriculture would include possible problems in these categories:

(1) Credit requests will come for much larger individual loans.

(2) The total dollar credit needs in both loans for direct "food and fiber" production operations and loans for agriculturally related industries will aggregate a much larger total in the future.

(3) There will be more needs for longer term operating loans and specialized loans, particularly in processing operations.

(4) There is growing, and we think will continue to grow, the concept of continuous credit - "the leasing of capital or credit funds for capital" with the operation never planning to be out of debt, but simply managing debt continuously.

(5) There will be pressure for ways to finance "growth" operators and/or "comers". "Growth" and/or "comers" being those with some demonstrated or probable potential for success but needing credit on terms for more liberal than is usually considered bankable credit. These operators, of course, being those who show know-how through experience and education to become very successful.

We felt that these projected needs and problems could be partially defined as problems to rural bankers identified in these four categories:

(1) Does now, and in the future will, the rural banking system, as a whole, generate enough deposits to provide the funds necessary for the credit needs projected above?

If it is in doubt that sufficient deposit funds can be generated in rural areas, how can the rural banking system (a) generate additional deposits and/or (b) move some of the credits into secondary markets on a basis that the original bank can "live with" and that is an efficient enough system to attract secondary market funds without excessive costs?

(2) How can the rural banker deal with the very large individual loans that, to him, are enormous or overwhelming in size? He has psychological limitations based on his experience, as well as legal limitations and prudent limitations on how much risk his small bank should take.

(3) How can the rural bank make the high risk loans to "growth" operators and/or "comers" without problems with their bank examiners? How can the bank handle term or almost perpetual credits without problems with the bank examiners?

(4) For many rural banks, loans are a reverse problem - i.e., their particular area does not generate a strong loan demand at good rates. How can they "put their deposits to work" at yields that will enable them to pay their depositors a rate of interest as good as nonbank competitors who have a system of more mobility of funds to credit deficit areas?

I think we pretty well feel, as a committee, that we can approach these problems along three primary lines of action, these being:

(1) It appears that, at this time, there are sufficient deposits in the rural banking system AS A WHOLE to handle the present needs of agriculture for loans. The problem, then, is mobility of present deposits without undue costs.

(2) The future anticipated total credits needed in agriculture will not be within the capability of rural banks to generate sufficient deposits. Therefore, banks should be working toward identification of secondary markets for these credits and the development of trade channels or vehicles to move the credits into the secondary markets.

(3) There needs to be some way of sharing of risk or insurance of risk in addition to the usual way of participation in a loan, with the participation commensurate with the size of the bank's capital structure. Possibly, there should be an acceptance by society as a whole for the responsibility for some of this risk to encourage bountiful agricultural production.

Our committee did come up with the following conclusions and recommendations:

(1) That it would be well to have permissive legislation for banks to go together in forming an Agricultural Credit Corporation. Hopefully, this corporation could work with the FICB but, even if it worked out that FICB would not let us work easily with them, The Ag Credit Corporation, composed of quite a number of banks,

could be a significant vehicle in providing mobility of deposits and the sharing of loans to handle very large credits beyond the capability of the individual bank. Also, this would be supportive and reinforcing to the country banker in his psychological hurdle of handling very large credits - if the loan committee of the Ag Credit Corporation, of which his bank was a stockholder, approved the credit and helped him make it, it would be quite supportive.

Also, this Agricultural Credit Corporation could serve as the vehicle to approach secondary money markets. Perhaps not in the issuance of debentures, such as the Farm Credit System can do, but perhaps to approach insurance companies, pension funds, or other sources of funds, and offer participations in the credits held by the Ag Credit Corporation.

Senator Bellmon of Oklahoma has introduced a bill that would enable national banks to invest up to ten percent of their unimpaired capital and surplus in an Agricultural Credit Corporation. As for state banks, it would be up to the individual states to authorize their banks to invest in the Ag Credit Corporation. There are some states that permit this at the present time.

(2) Regarding the risk sharing or insurance of loans so that the small bank can help in a very large loan without being unduly exposed, we think that the Ag Credit Corporation mentioned above might offer the psychological help that the small town banker would need,

along with technical skill or experience to help him handle this loan. However, we think it important that the Small Business Administration be instructed they are not to refuse agricultural loans for insurance or guaranties. We think it most unfair to agriculture that they are excluded from the benefits of the SBA Act. This SBA guaranty or insurance or participation would take the loan off the bank examiner and the banker in agriculture credits in exactly the same way that it now so successfully does with small businessmen and their credits.

Our committee members felt that this authority for SBA could be immediately very rewarding in our banking system, and we felt that all efforts should be made along this line of legislative change.

Chairman Chandler and myself wish to thank the members of this committee for their deep concern and thoughts as well as the time and effort they spent in serving the ABA Agricultural Task Force Committee.

BANKER APATHY AND SUPERVISORY AGENCY RELATIONS

Address by Herman Lerdal, President, The Mitchell National Bank, Mitchell, South Dakota, before the 20th National Agricultural and Rural Affairs Conference of The American Bankers Association, Muehlebach Hotel, Kansas City, Missouri, Tuesday morning, November 16, 1971.

"Missed opportunities" appeared as a key phrase as our sub-committee worked to seek sources of agricultural credit.

It is apparent that many banks are missing opportunities to make loans due to the method of asset management that they are using. Consequently, there are banks which could serve their agricultural communities better. The chain reaction which begins by not serving the community, by providing credit for agriculture, often means that the bank is "missing the opportunity" for a more profitable bank.

In order to get an accurate appraisal of agricultural credit from a supervisor's point of view, our committee met with representatives of three examining bodies for an open and critical discussion of ag credit and the man extending the credit--namely, you, the banker.

The consensus of the supervisory men with whom we met is that Agricultural Credits are good credits. There are less problems with ag loans than with other types of loans. One of the main reasons for this is that agriculture is a well established and a proven industry. A description of the majority of the borrowers is one of diligence--integrity--experience and stability. Namely, farmers are the kind of people to whom bankers like to lend money and with whom they like to do business.

Our study indicates that agriculture could be better served if many of us, bankers, were more professional in our lending. The supervisors with whom we talked informed us that often a banker would do a good job of setting up and documenting a commercial loan but would be careless and haphazard in setting up the ag loan. This probably is meant to be a compliment to the ag customer but, probably, is a disservice to him, also. How can this be? Many ag credits are classified because an examiner does not have ample credit information available to make a fair appraisal of security and repayment ability. Some credits become classified when the banker does not plan with the borrower and set out the credits in a proper repayment program. Too often, it is easier to lump all borrowings together rather than separate short, intermediate and long-term credit with planned repayment programs for each.

Very few bankers would lend money to a business without a profit and loss statement, a current financial statement and a projected cash flow indicating the times of repayment, but it is with disappointment that I report that with ag credit, this is not the case. Most of us know our borrower--we know his operation and we are aware of his management capabilities; otherwise, we wouldn't have made the loan. The examiner can't know this unless we provide adequate credit information.

If I were to use one word in the area in which many of us are lacking it would be to say "professionalism." A pro is well trained, intelligent, and operates at his peak ability at all times. Remember a pro athlete plays for pay--don't you?

Asset management may not be the responsibility of some of you who make and service ag credit--but it is important to you. To those of you who are in management, may I suggest that you take a look at the job

you are presently doing in your shop, because many banks have "missed opportunities" due to asset management.

I am sure that no one here will disagree when I say that a healthy ag economy benefits our respective communities and, as a result, also affects our national economy. Historically, if farmers make money, they spend it. Each of you knows what a crop disaster or depressed prices does in your community. In light of this and the fact that supervisory authorities believe ag credits are sound, why don't more of you lend more of your funds to farmers? It would help you and help your community. Where do you get the money to lend? -- Through different asset management.

Let me cite some figures from the FDIC report for December 31, 1970. Let's compare the asset breakdown of the banks in the 5-10 million dollar size first. Twelve percent of the assets of the bank were in ag loans but 17.9% were in municipals and agency bonds. In the 10-25 million dollar breakdown, 6.4% of the assets was invested in agriculture, while 17.7% was invested in municipals and agencies. In reviewing this statistical report of banks in an agricultural state of the Midwest prepared by the FDIC from call reports as of December 31, 1970, only the banks under 5 million in size invested a greater share of the assets in agriculture than it did in any other type of loan or in municipal and agency bonds. So often when I travel, I read signs encouraging people to shop at home--support your home town merchant and the like. I believe many of our bankers should "invest at home in your home community!" A minor shift in assets, namely, an increase of 3% in volume loans to agriculture, would put millions of dollars to work in the business in which we have an interest--the business of agriculture.

I am not so naive that I believe all bankers will make a switch in their portfolios and, with ownership and with management, goes these prerogatives. However, having at one time been a banking superintendent, I ask that you do not use the examiners as your crutch for not making loans to worthy agricultural borrowers.

Before leaving the area of asset management, I would like to touch on the profitability of ag loans. Some banks have informed us that they get a better return on investments other than ag loans. Again, I call on you to be a professional. Farmers are businessmen and realize they are competing for the use of money with other segments of industry. Unless usury laws in your state prohibit it, your job as a banker is to make credit available to your borrowers at a current competitive rate. Your major competitor for the ag loan gets his funds in the national money market and prices it to his customers accordingly. This competition of the banking industry is not faltering or failing. Your borrower will not leave you if you serve him in the manner he needs and deserves. Be a professional.

Our sub-committee did not let the discussion with the supervisors take the form of a one-way street. We believe there are some areas where examiners and supervisory authorities can be of more assistance to bankers. It is our belief that examiners can play a more significant role in education. Local and area meetings of bankers with examiners as speakers could be beneficial to all lenders. Inviting supervisory personnel to association functions as speakers and panel members to air their views is recommended. We propose that rather than just being critical, the supervisory agencies assist in solutions. An example was given that the ag statement form being provided by the Federal Reserve Bank in our

area had not been updated for several years. Education meetings on the mechanics in utilizing the Federal Reserve Bank Discount Window would be helpful.

In summary, it appears that we, bankers, are guilty of missed opportunities--missed opportunities to serve our communities--to run more profitable banks--to contribute further to developing this nation's great agricultural resources. Be a professional and go home to capitalize on the opportunities available in your community.

TEN THINGS BIG BANKS FEAR MOST FROM SMALLER COMPETITION

Address by Gary H. Raddon, Second Vice President, Marketing Manager, Commercial Department, Continental Illinois National Bank, Chicago, Illinois, before the 20th National Agricultural and Rural Affairs Conference of The American Bankers Association, Muehlebach Hotel, Kansas City, Missouri, Wednesday morning, November 17, 1971.

1. A BANK WITH A MARKETING-ORIENTED PRESIDENT

Fortunately for large banks, there are very few marketing-oriented chief executive officers heading the smaller banks these days. Occasionally you will find one, and when you do, he usually heads a bank that is aggressive, profit-minded, and well ahead of industry growth rates. The marketing-minded president understands the value of doing enough research, and timing that research to support decisions. He understands that everything the bank does must relate to two principal guidelines: how will it affect profits, and how will it affect the customer? This means that all customer contact is planned and consistent. From signs and letter heads to teller-customer relations and luncheons sponsored for local businessmen, a clear line of continuity must exist. When this kind of creative philosophy is supported by superior communications, increased customer demand for all bank services is automatically assured.

In most banks a constant state of tension exists between chief executives advocating conservative banking principles and a new breed of professional marketing men seeking more creative latitude. While the

conservative operations chief rightly subscribes to a generally cautious approach, the marketing men constantly strive to promote bank services with more creative flair. In many ways this condition is analogous to the relationship existing between a star quarterback and an experienced coach who goes by the book. Normally, the coach lays out a complete game plan and relies heavily on tested strategies and fundamental execution. But if he doesn't give his quarterback the latitude to change the play at the line of scrimmage; doesn't grant him the freedom to adapt his skills and tactics to the situation he faces on the field, the entire team may wind up in the losing column. Balance is the key word both on the field and in the bank. The chief executive has every right to insist that traditional safeguards and tested operational methods be retained. But when this is done at the expense of imaginative marketing, many highly-disciplined, beautifully-organized banks find themselves suffering from limited growth and unsatisfactory profit expansion.

2. A BANK THAT UNDERSTANDS MARKET SEGMENTATION

There's no doubt about it. The full service banking concept is great if you are large enough to handle it. In our organization, for example, we have 179 products or services. Because we are the largest bank in the Midwest, we must try to be all things to all people. This is a costly proposition. And as costs continue to increase and margins are narrowed, banks throughout the country are asking one question: Can we afford to be all things to all people? In addition to this puzzler, small banks also must go a step further and determine where they can outperform the competition with specialization. In tailoring its approach to specialization, the small bank must uncover specialties that fit its market rather than specialties which match the particular talents of people on

the staff. Many otherwise astute bank managements have lost money because they placed a good man in charge of a service with little potential. Conversely, other banks err by putting a weak man in charge of a key service that spells the difference between success and failure. Knowing where your competitive advantage lies is probably the key principle for growth and success.

In American industry, small, aggressive organizations have historically used specialization to take on the giants and beat them at their own game. A good example of this is the Marriott Motor Hotel chain. From the beginning the Marriott chain ruled out any attempt to emulate Hilton, Statler and the Holiday Inn. Instead, they decided to specialize in providing a forum and facilities for business conferences and meetings. In its early growth stages, the Marriott organization was continually tempted to go beyond its specialty. And though proposals were received which seemed very attractive at the time, they stuck to doing their own thing. In today's business environment, similar examples abound. And in each one the small specialist first identified the segment of the market he could serve best. From this point on, all of the specialists simply focused their undivided attention on THEIR segment of the market!

3. A BANK THAT HAS AN AGGRESSIVE PROMOTIONAL POSTURE

When you have a great deal of money to spend on advertising and promotion, you can afford to broadcast a message that is bland, safe and conservative. For example, take United Air Lines. At the moment they seem to want to convince everyone in the world that they have the friendliest skies. I ask you--who can argue with the morality of friendly skies?

No, there's nothing wrong with this approach if you overlook the fact that you have to have a lot of money to keep saying it over and over again. By the same token, small banks can't afford to keep saying we're safe, secure and friendly. Every bank in the world is saying this. So let's face it. When you're small, you have to get more for your money. To do this, you have to come up with creative, punchy copy--copy that will not destroy your overall image or create a flamboyant irresponsible picture. Your message has to literally grab attention by talking directly to your audience. But when a conservative, credit-oriented bank president starts editing creative copy, you're in trouble. At times such as this two things usually happen: (1) All of the snap and pizzazz is cut from the copy, or (2) another good banker goes wrong by deciding that advertising isn't all that difficult and there's no reason why he and the little woman can't put the bank's ads together over the dinner table! This may be great for executive digestion but, believe me, it's a very dangerous practice. Just keep remembering that we have no copyrights or patents in this industry. We sell service. All money is green, and the only way you can identify yourself from the rest of the flock is through creative communications that really reach your public. While we're talking about money, here's another thing to remember: when you don't have it, you have to have imagination and guts. The guy with the big roll can perhaps get away with generalities, lack of controversy and repetition. A beautiful girl can wear a drab outfit and not suffer. But her plain Jane sister had better be doubly careful about makeup, clothes and her whole general appearance. One of the most difficult things in marketing is matching the sell with the product. Many small banks have failed in the past because they had a good idea and a good product, but

had a poor sales delivery. In other instances banks tried to push a very bad product with a super sales program. Then when the product fizzled, the blame was placed on the marketing or sales program! Obviously, the best possible combination is a quality product and a really creative message. When I was studying at Northwestern University, Marketing Professor Steuart Henderson Britt put this idea into humorous perspective by saying--and I quote--"Having a great product and failing to advertise is like winking at a girl in the dark; you have great intentions but the message never gets across."

4. A BANK THAT EXPLOITS THE INTIMATE CONTACT IT HAS WITH CUSTOMERS

At our bank we do a lot of research in an effort to discover why some people prefer smaller, competitive banks. We have to do this because we are situated in a metropolitan area with more than 250 individually-owned banks. Among other things we've found people are surprisingly apprehensive about handling their own money matters, particularly when it comes to checking. They feel insecure when cast in the role of financial managers. And, believe it or not, some actually have a guilty conscience about not saving money, being overdrawn, and relying too much on credit. This kind of thinking makes people very dependent. Like the man with a severe father complex, these people want someone they can pour their hearts out to without embarrassment. Small bankers who understand these basic emotional needs, and an increasing number of them do, easily outdistance larger banks in the general rush for business. At this point, I can't help remarking that it must have been empathy such as this that resulted in an ad which leads off with a headline that announces:

"WE TOOK OUR BUSINESS TO A BANK NAMED PHIL.

"I'm talking about our commercial officer at Continental Bank. Phil Lewin. As far as we're concerned, he is the bank.

"Phil gives us the answers and commitments we need on the spot. We don't have to fight our way through a bunch of committees to get decisions.

"That kind of speed is especially important to us here because much of our growth has been by acquisition.

"Time Industries started out 12 years ago as a tiny container company with an idea: Combining many different packaging services and making them all available through a single source.

"That 'total packaging concept' meant we had to acquire the companies we needed to keep pace with our internal growth.

"Phil Lewin was impressed with our potential. He knew we wanted to go public and he came up with a financing plan that made the whole thing successful. From then on, there was no question about it. Our business went to Phil.

"Through him, Continental Bank assists us with short-term financing, acts as our stock transfer agent, provides payroll services, and administers our employee-benefit plans.

"Whatever we want from a bank, we can be sure that Continental has it. All we have to do is get on the phone and ask Phil."

The speaker: Don J. Hindman, founder and president, Time Industries, Inc.

If you have the kind of growing business that needs a banker as well as a bank, call Phil Lewin, Vice President, at 828-2392. If he can't solve your problems himself, he knows someone at Continental who can.

CONTINENTAL BANK

In today's highly competitive environment, large banks must address themselves to this universal need for warm, personal interest. They must convince individuals in smaller companies that they really do want their business and that there is a live, warm person at the bank who is genuinely interested in THEIR money matters.

5. A BANK THAT IS AN INNOVATOR--INTRODUCES NEW SERVICES

Many small bankers like to play follow-the-leader. Let the big people do it, they say, and if it works out we'll follow suit. In my opinion, this is strictly a case of the blind leading the blind. And in too many cases small banks excuse this gross lack of imagination by claiming they don't have the talent, time or energy to do the proper research. In too many cases big banks also suffer the same limitations, but this doesn't keep them from forging ahead anyway! In my view, introduction of new services has to be one of the great management skills of the 1960's and 1970's in banking. Unfortunately, in this vital area too many small banks continue to believe the large banks can do no wrong. And in clinging to this misguided notion they make the fatal mistake of failing to recognize major differences in individual markets, separate organizations and varying styles of management. The solution to this ambivalence is obvious. Smaller banks should innovate and introduce new services based on an intimate knowledge of their own market. In many cases extensive market research isn't necessary since these banks are so close to their market they can prejudge without resorting to formal investigation ... be careful though. Fortunately for larger banks, many small banks are very conservative in introducing new services. Many are content to go to conventions and trade stories about how other banks lost their shirts while introducing new services. Yes, it does take risk, and talent, but the process doesn't require occult powers. In many instances, new services aren't even new! They may just be familiar services with a different slant or twist devised to reach a particular market by exploiting the demographics of that particular market. Sometimes the only difference lies in the naming of a product. In this respect, it's surprising to

note the number of product names which perversely defy sound marketing principles. A classic example that comes readily to mind is the installment loan. Talk about asking for trouble! The only thing more negative than this unhappy reminder is the actual process of making the payments when the end of the month rolls around. This situation becomes even more depressing when you realize that it would be just as easy to tell the customer how easy it is to get the money and how much he'll enjoy it when he gets it!

6. A BANK THAT PROMOTES THE FACT THAT IT CAN MAKE FAST DECISIONS

Many people rightly feel that large banks are nothing more than a bureaucratic collection of vice presidents and committees catering only to large organizations and attending an endless round of meetings instead of handing down decisions. On the other hand, when they deal with a small community bank, they deal directly with the man who makes the decision. Frequently, this man not only has complete decision-making powers, but he's also personally familiar with the customer's problems. The rapport which naturally develops in this one-on-one situation provides the emotional reinforcement the customer needs. It also assures him that in a most important area--the management of HIS finances--he can expect open-ended communication and fast decisions. Many small bankers suffer great losses by failing to exploit and promote this very significant advantage.

7. A BANK THAT COMMUNICATES THE IMAGE, SMALL AND HUNGRY--THE UNDERDOG

You're all familiar with the story of Avis, Continental Airlines and other relatively small firms currently enjoying great success. The list of smaller companies currently profiting from the natural empathy we all feel for the little guy is quite lengthy. In this area, the banking industry also has its share of inspiring examples. One that comes to mind is a bank in New Orleans that openly asked the community to help it become a billion-dollar bank. In this instance, a big drive ensued; there was plenty of sound promotion, and--guess what--they made it! However, without benefit of such built-in "small bank" appeal, the big bank continually has to reassure every customer that he is loved and that his affairs are matters of real concern.

8. A BANK THAT TRAINS AND MOTIVATES IT EMPLOYEES TO SELL

Fortunately for large banks, many small banks don't hire or train their people to sell. Normally, bank personnel are trained to perform specialized jobs, but they are not hired to sell. This condition continues to exist despite the fact that our industry is so dependent on customer satisfaction, tactful handling of complaints, and motivation that isn't based on price. All of these things require a great deal of sales knowledge and experience, and I for one believe selling can be taught. In fact, if I were the president of a small bank, I would assign top priority to a thorough and continuing sales training program. Although all of us from president to teller should consciously develop selling skills, I believe those who need it most are the commercial lending officers. Every day these people have opportunities to bring in

significant amounts of capital by counseling customers on eveything from existing interest rates to alternative methods of setting up sound individual financial plans. It's a big responsibility that calls for a big sales capability.

9. A BANK THAT USES OUTSIDE COUNSEL WISELY: CORRESPONDENT HELP, ABA, BMA, UNIVERSITIES, ETC.

Knowing when to go outside for information was a recognized American business virtue long before the phrase "do it yourself" gained such widespread popularity. In this regard, however, many small banks still don't realize how many good sources of information there are and just how helpful they can be. For example, since most large banks do have competent marketing talent, I would strongly advise turning to them when you need help. At this point I might add parenthetically that many large banks are currently working more closely with smaller banks on product innovations, but they are also taking a close look at balance requirements and sometimes the assistance carries a fee. In other areas the ABA marketing staff packages programs to assist the small banker. So does the Bank Marketing Association. The BMA has many aggressive programs for smaller banks, including the trading of information on advertising costs and creativity, research help, and new product advice. Finally, many smaller banks just overlook existing talent in their local community. It seems to me that this oversight is particularly glaring in relation to marketing professors familiar with banking and bank markets. In many cases, these men can be put on a small retainer and used very effectively by any bank that wants to augment its own marketing function.

10. A BANK THAT UTILIZES ITS SIZE ADVANTAGES IN INTERPRETING LEGISLATIVE TRENDS

In some areas, small bankers are able to operate with more freedom and discretion than their larger competitors. Frequently small banks are free to operate in a manner that would evoke negative reactions from legislatures and regulatory authorities if the small bank's methods were used by a large bank. In this regard small banks today are able to initiate mergers and affiliations. This of course enables the small bank to cut costs, raise lending limits and increase profit potential. And because smaller staffs are involved and each bank in the merged group has more intimate market knowledge, decisions can be made more quickly. This in turn serves as an effective stop-gap against business leakage to larger concentration banks since service to local businesses and industries is greatly improved. The Pullman Banking Group and the Beverly Banking Group in Chicago are good examples of this. These banks devise and sell packages of bank services to other banks in this area even though individual banks in these groups are not large. This broadening of services when smaller banks merge is often viewed in a most positive light. However, when larger banks entertain mergers and affiliations, regulatory authorities are prone to give great emphasis to the possibility that they may restrain competition.

CAN THE COMMUNITY BANK COMPETE?

Address by Thomas J. Prosser, President, The Marine National Bank, Neenah, Wisconsin, before the 20th National Agricultural and Rural Affairs Conference of The American Bankers Association, Muehlebach Hotel, Kansas City, Missouri, Wednesday morning, November 17, 1971.

In the November 1970 issue of Fortune magazine, there was an article entitled, "Are Those 11,400 Banks Really Necessary?" The caption to the picture included with the article stated that the smalltown bank is just what it used to be--long on cash, short on aggressive management, insulated from competition, and quaintly anachronistic. The article went on to state that the small banks were overliquid and overcautious and that their business lending was usually confined to long-established customers. It also stated that these same banks were painfully understaffed and unequipped to handle a complex or unusual loan request and, as a result, the smaller banks depended heavily on their big city correspondents for decisions of this type and that the big city banks, therefore, took advantage of this weakness by insisting that the small banks keep on deposit unusually heavy nonearning balances. While the article basically indicated that small banks served their local communities very poorly, it did indicate that the small banks possessed one outstanding characteristic--the capacity to survive. The figures used in the article indicated that approximately 85%, or 11,400 of the then existing 13,600 commercial banks in the country, had deposits of $25,000,000.00 or below.

How many of you have heard bankers described in the following terms: tight, glass-eyed, shrewd, cold, formidable, conservative, nasty, old, conniving, rate-fixers, greedy. About the only distasteful descriptive adjective that I have not heard bankers called would be a Shylock, but I suppose that most customers feel that their banker has already extracted a pound of flesh and, therefore, they don't have to bring it to his attention.

Most of the unfavorable image which has developed around the banker has been based on a historic willingness not to compete. This is the age of consumerism. Can the community bank compete, and do so profitably, during this time in history? I am here to suggest that we can.

Webster defines the word "compete" as follows: "To contend with another for a prize or profit; engage in a contest." He goes on to say that compete implies having a sense of rivalry and of striving to do one's best as well as to outdo another. For those of us community bankers who do not accept the definition of compete as the basic effort to do one's best as well as to outdo another with profit as a reward, we might just as well adjourn to the bar. For the rest of us, what is the first step that we must undertake so that we can compete successfully with other banks in our market area as well as the giants from the big city?

Once you decide that you do wish to compete, you have to determine what kind of a bank you want to have while you make this effort to compete. How many of you have a bank philosophy that not only you and your board understand but that all of the people who work in your bank understand and believe in? We established one two years ago and we still aren't positive that all of our people fully believe that the philosophy we have stated and printed in employee handbooks and framed

and left hanging on the wall is what we really mean and how we intend to run our bank. One of the points in our philosophy which is increasing in its degree of understanding throughout our staff is that we state we want our staff to be individually competent working within an atmosphere that encourages imaginative thinking and rewards individual initiative. It seems that this type of atmosphere has not been available to people in careers in banking and I highly encourage each of you to make an attempt to allow your employees this freedom. We have seen good results in the past in this regard and each day we work with this as part of our philosophy, our results continue to increase. Other things that we touched on in the development of our philosophy is that we want our bank to be developing services while anticipating change rather than following others, as well as expressing a desire to make our bank the leading financial institution in the area by helping our community grow and prosper, realizing that good profits are a by-product of good service.

Second, we have to determine what kind of a ball club we have at our disposal--the club that is going to allow us to compete for the dollar in our communities. As my marketing counsel tells me, what we have to do is identify the points of difference between our bank and our competition. The first thing we have to understand is that our product, if you can call it that, is absolutely identical with the product of our competitors. Once we accept this as fact, we can then go on to identify the innumerable areas which set our banking institution apart one way or the other, for good or for bad, from our competition. Let's briefly review a number of these potential points of difference.

Take a good look at all of the services your bank presently renders or potentially could render and determine which of these services

you can do best and which you might not be able to do at all. Although all of us take pride in being able to advertise that we are full-service banks, in a small bank it is impossible to provide all services at a high level of effectiveness. We simply cannot afford that luxury. Therefore, we should list the services which we could perform for our customers and select those which we feel we can best perform from both a service standpoint as well as a profit standpoint. These are the areas in which we should concentrate with respect to the allocation of capital as well as labor to strengthen our position. Let me give you an example of this that occurred in our bank 25 years ago.

At that time, our bank did not have a trust department. Practically all the bankers in our area stated emphatically that there was no reason for a smalltown Northern Wisconsin bank to attempt to develop a trust department when anyone with assets substantial enough to be thinking of a trust could certainly afford a trip to Chicago or certainly Milwaukee and get the high quality trust service which was available from banks in those two cities. The president of our bank at that time determined that this was a service which had great potential in our city, the paper capital of the world, which has been known from time to time to have the highest per capita income of any community in the country. Although I am sure this is no longer the case, his decision to move into the development of a total trust department has had great results for our institution. For approximately the first 20 years of our effort to develop a trust department, our competitors continued to state that we had no business being in the business. This was fine with us since our trust department was growing in size and in profitability. When it became quite evident, however, that we were providing a service which none

or our immediate competitors were providing and which even the larger metropolitan banks could not provide to the same degree on a highly personalized basis, our competitors joined the bandwagon. At the present time, our bank has the fifth largest trust department in Wisconsin, with the first four being located in Milwaukee and Madison, and has the 278th largest trust facility in the United States as indicated in the recently issued Information on Trust Assets of Insured Commercial Banks as of 1970 prepared by the joint effort of the Fed, the F.D.I.C., and the Comptroller of the Currency. This, gentlemen, is a good example of identifying a need--a service which you think you can do well in offering and in which perhaps your competitors aren't willing to invest capital and labor and then exaggerating constantly the point of difference between you and your competitors.

As our board looks at our bank the major point of difference which they see is in our people. We have concluded there is no way that a community bank can compete in today's environment with second rate people, and we have made every effort to continuously upgrade the competency of our entire staff. We are a long way from achieving what we have established as a goal in our total people package but we are at least heading in the direction of that goal and making progress as we move along. For instance, we have as a stated part of our personnel policy that our salaries will be above the average of the industry as a whole. We have written position descriptions for each of our officers and based on what they are doing, they are graded on the know-how required, the problem-solving ability required and the impact they have on the growth and profits of our institution. The higher the number of points for a job, the higher the salary which that job commands. We

have basically the same program for our employees, for each employee is placed in a pay grade based on the job he or she is doing at the time. Each pay grade has a minimum, maximum, and merit maximum pay range and our employees know that as they do well they can have increases within these limitations even though they do not have to change jobs to receive them. They also know that as new jobs open up in the bank because of turnover, we will make every effort to promote from within rather than hire from without. We are constantly striving to improve our methods of selectivity when hiring people and we encourage their continued education while on the job. We will pay for all A.I.B. courses completed and we also pay for all work done towards a college degree, either graduate or undergraduate, so long as the degree has some relationship to the banking or financial area. We strongly believe that our people are our biggest point of difference with our competition whether that competition comes from five miles away or 500 miles away. This philosophy is beginning to pay dividends as illustrated by our recent closing on a three-quarter of a million dollar industrial loan to a firm located approximately 100 miles from our bank headquarters. The firm had never done any business with our bank but its accountant had several experiences with loan officers in our institution which had proved quite favorable to him and his clients. As a result of their past experience and display of ability, he advised his customer to visit with us about their financial problems as they attempted to make a major expansion move. Although the package had been considered by some metropolitan banks, we were able to lay out a program with the firm and its industrial consultants which was acceptable to both the businessman and our bank, and then we brought in our sister bank in Milwaukee to handle the overline portion of the credit.

The businessman got his money on a basis which was acceptable and profitable to him, the credit will be a profitable one for us and the compensating balances are certainly nice to have.

Another point of difference you might consider is your facility. We took a good look at ours and realized that we were the only bank of approximately 15 banks in our area that was not operating out of a relatively new facility. In addition, with the growth that we have enjoyed, our bank was becoming more and more inefficient as we began hanging new employees from sky hooks. It was, therefore, quite easy to conclude that we were faced with a building problem not only from an internal standpoint but also from an external or marketing standpoint. People that we interviewed in our community indicated that one of the reasons, if not the main one, that they wound up at our competitors' was that when they looked at the two buildings, we looked old and stodgy and Morgan-like and our competitor looked new, modern, bright and aggressive. What better reason could we have to put building plans on the drawing board?

Another point of difference that I suggest you must identify is how profitable you want to be. We all know that we can compete if we give our shops away but competing on a profitable basis changes the rules of the game somewhat. We have determined in our bank the percentage of return on capital that we desire on an annual basis and our decisions on the introduction of new services or changing of fees or rates or incurring expenses are based on this basic return on capital objective. We have found that we have lost some types of business as a result. We have also found, however, that we are able to maintain the return on capital we desire by being more selective with our types of service as well as our marketing effort. Without this type of profit objective having been

established, you will have a difficult time attempting to compete since the normal tendency is to become very easy on rates and fees and very expansive on marketing expenditures.

We found in talking to people in our community that we really didn't know what they would like in a bank and they didn't really know what a bank was all about. So another point of difference which we established and are capitalizing on is that we set up an Advisory Council to work with our bank in the development of new marketing programs and new services as well as allowing our bank to provide these people with a far greater insight into the functioning of a commercial bank and its impact on the local community than they might otherwise have received. Approximately 50% of the people on this council, and we have 12 in number, are not customers of our bank. The interest that this group has expressed to us in the conduct of their job is very exciting to us and although this has only been in existence for one year we are already seeing results from the council's effort. For instance, these people told us that one of the things they didn't like in the bank was the high ceiling, straight line of teller windows, cold walls and floors effect of so many of our institutions. As a result, the building which we started last week will have a lobby ceiling of no more than 12 feet and in some areas only 9, the teller lineup is curved, it will be totally carpeted with wide use of wood and brick to create the warmth that these people ask for, and we have made other changes in our building to accommodate their comments. We're finding that our customers and potential customers really do have an interest in our building and the way we conduct our business and we hope to take advantage of the communications with these people that we have opened through this council.

Another point of difference which you have to develop is in your marketing program. I would like to say that we have been very successful with our marketing effort but, unfortunately, we have not. We continue to search for new marketing programs and approaches and we find that occasionally one will work very well but that generally we have been something less successful than we desire to be. We do know, however, that since our product is the same and since our major difference between us and our competitors are the people on our staff we have to have a good strong marketing program to expose these people to our market area.

Maybe this program all boils down to what type of image you have of yourself and your community has of you. If you don't have a good image of yourself, you certainly will not compete and if the community does not have a good image of your bank, your ability to compete will be limited. I would like to take just a few minutes to give you my definition of image and how we apply it in our institution.

"I" Imagination: Don't limit your thinking. Analyze the risks and take the good ones. Look at yourself from your customer's side of the desk. Apply new techniques and be leaders, not followers. Take the first step. Don't wait for someone else to make that move.

"M" Management: Participate in your community and in the development of programs for your operation. The need for management talent is great. Why don't you fill that void? Stay well-informed technically. Study and apply the "art" of management. The small businessman normally does not include this "art" in his bag of talents. Be a problem solver and a decision maker. Set objectives for yourself and for the people for whom you work and with whom you work and you will find you can accomplish much more than you otherwise might accomplish. Manage by results.

"A" Attitude: Read books written by Dale Carnegie, Napoleon, Hill, Peale, and others. Most of the writings of these men are similar in nature and they all have a story to tell. That is, the power of positive thinking or a positive attitude. Use "Harry's Principles" as you work.

1. View your present job as the most important job you will ever have and work accordingly.
2. Get enthusiastic and stay enthusiastic. Force yourself to act that way and you will be that way and surprisingly, it's catching.
3. Don't be afraid to fail. Be a practical risk taker and remember nothing takes the place of persistence. Try again if you believe in what you are pursuing.
4. Work smart! Use management by objective and don't just work busy.
5. Get lucky and stay lucky. Remember the harder you work the luckier you get.

"G" Generalship: Take charge! Control your environment and don't let it control you. Remember that your span of control is your army. Decide what your objective is. Review your friendly force and its capability. Review the enemy forces and their capability. Consider the alternate routes available to you. Review the adverse consequences of each choice of action. Choose one alternative. Set your strategy for applying that alternative. Begin the action necessary and review constantly, while changing to meet new resistance. Follow your action through to its conclusion and remember it will not always be successful, so admit your failure, benefit from it and don't make the same mistake twice.

"E" Effort: Now, I mentioned the various principles. I said, get lucky, and followed by saying that the harder you work the luckier you get. Remember to concentrate on effort and exposure. Communicate with the entire community, as well as the people with whom you do business. Be active in service groups and be known as a community leader and action person.

To recap my thoughts on how a community bank can compete, I would like to identify the steps which we have established in attempting to achieve this objective.

1. Determine what type of a bank you, your directors, and your staff really want to operate.
2. Analyze your present situation so that you have a good idea of your bank's strength and weaknesses.
3. Apply this same analysis to your competitors.
4. Analyze your market and, using the input from the knowledge of your own operation plus your knowledge of your competitor's operations, determine what types of services you can best offer to your public at a profit.
5. Develop as many possible tools to allow you to have information feedback on your success or failure to properly service your community after you have achieved market segmentation and as you begin to implement your marketing programs.
6. Concentrate heavily on the development of your staff. A professional staff in any bank in this country can effectively compete, but I must emphasize the word professional.

7. Work hard to improve your image for yourself, your staff, and your community.

I would like to think that in some future issue of Fortune magazine, one of their writers will be able to write a story which headlines, "Most of the 11,400 Banks Under $25,000,000.00 in Size Are Really Necessary," and that he can go on to cite example after example of the effectiveness of a well-run, aggressive, competitive, profitable community bank and how our own communities have benefitted and prospered as a result of this type of banking philosophy.

BANKING - 1980 STYLE

Address by Jon C. Poppen, Associate, Banking Department, Booze-Allen & Hamilton, Inc., New York, New York, before the Third General Session, 20th National Agricultural Credit Conference of The American Bankers Association, Muehlebach Hotel, Kansas City, Missouri, Wednesday morning, November 17, 1971.

INTRODUCTION

"The Challenge Ahead for Banking" is designed to forecast the environment ten years ahead and to discuss the issues which members of bank management must face today if they are to adapt their organizations to meet this new environment. The study is divided into four broad topic areas. First, it looks at the decade 1958 to 1968*, to provide perspective for a look ahead. It then projects some of the past trends into the future to demonstrate why these trends cannot continue. A projection of the banking system in the year 1980 is then presented. Lastly, some of the implications of the changing banking environment as they pertain to today's management are discussed.

*All of the data for the year 1969 were not available at the time of this printing (August 1970). Thus, the statistical analysis contained in this presentation is based on data through the year 1968. A review of available 1969 information, however, indicates that the inclusion of that year's data would not materially alter the analysis and conclusions detailed in this report.

A LOOK AT THE PAST DECADE

During the period 1958-1968, the commercial banking system—all 13,700 banks—more than doubled in size, with total assets jumping from $239 billion to $501 billion. The most significant growth came in loans, which grew at a compound annual rate in excess of 10% per year—very rapid growth. Accompanying this growth, however, was a significant change in the way bankers were acquiring funds. Gross demand deposits grew at an annual rate of only 4.3% per year. (Actual collected demand deposits grew at a lower rate.) Thus, bankers were forced to seek other sources of funds. Time deposits grew at about 12% per year, and other liabilities, principally federal funds, grew at about 22% per year. Figure 1, below, presents the ten-year comparative balance sheet information.

It might be concluded that the seeds of change in banking were sown in the '60's. With the banking system's traditional inexpensive source of funds growing only half as fast as the demand for funds or total assets, it has become increasingly clear that this trend cannot continue without some fundamental changes in the industry.

Figure 1
TOTAL UNITED STATES COMMERCIAL BANKING SYSTEM
10-YEAR COMBINED BALANCE SHEET ANALYSIS

	Dec. 31 1958	Dec. 31 1968	Compound Annual Growth Rate
ASSETS	(Billions of Dollars)		
Loans	$ 98.2	$265.3	10.4%
Securities	87.0	136.0	4.6
All Other Assets	53.5	99.0	6.3
Total	$238.7	$500.7	7.7%
LIABILITIES AND CAPITAL			
Demand Deposits	$150.2	$229.6	4.3%
Time Deposits	65.9	204.4	12.0
All Other Liabilities	4.1	29.7	22.0
Capital	18.5	37.0	7.2
Total	$238.7	$500.7	7.7%

Source: Federal Reserve Bulletin, Principal Assets and Liabilities for All Commercial Banks

One of the changes which appears to be taking place is in the very function of the commercial banking system. This is most clearly indicated by looking at a breakdown of the banking system's balance sheet by market or customer segment. The four broad customer sectors are individuals, businesses, state and local governments, and the federal government.

This breakdown is based on data reported in the Federal Reserve Flow of Funds Statistics and in essence, represents a source and application of funds statement for each sector. Figure 2 presents these data.

Between 1958 and 1968, *individuals* supplied $151 billion in time and demand deposits, almost 60% of the increase in all of the banking system's liabilities and about 70% of all deposits acquired. They borrowed some $61 billion, and thus on balance were net providers of $90 billion over the ten-year period. *Businesses* borrowed almost $100 billion from the system and, at the same time, reduced their demand deposits by almost $2 billion. They did supply about $22 billion in time deposits, but on balance were net users of some $79 billion.

State and local governments became more significant customers of the banking system during the past ten years, supplying close to $20 billion to the system- equal in amount to the business sector—while using some $42 billion. The *federal government* became a less significant customer. However, the way the funds were flowing through the banking system, we believe describes the function of the banking system. The data on the tabulation below have, therefore, been arranged graphically to illustrate more clearly what the function of the banking system was in the '60's.

Figure 2
TOTAL UNITED STATES COMMERCIAL BANKING SYSTEM
10-YEAR BALANCE SHEET ANALYSIS BY CUSTOMER SECTOR

	Dec. 31 1958	Personal	Business	State and Local Govt.	Federal Govt.	All Other	Dec. 31 1968
	(Billions of Dollars)						
ASSETS							
Loans	$ 98.2	$ 61.0	$ 99.2			$ 6.9	$265.3
Securities	87.0			$ 41.6	$ 3.2	4.2	136.0
All Other Assets	53.5					45.9*	99.4
Total	$238.7	$ 61.0	$ 99.2	$ 41.6	$ 3.2	$57.0	$500.7
LIABILITIES AND CAPITAL							
Demand Deposits	$150.2	$ 55.3	$ (1.6)	$ 4.8	$ 0.8	$20.1**	$229.6
Time Deposits	65.9	95.7	21.5	15.0		6.3	204.4
All Other Liabilities	4.1					25.6***	29.7
Capital	18.5					18.5	37.0
Total	$238.7	$151.0	$ 19.9	$ 19.8	$ 0.8	$70.5	$500.7
NET PROVISION/(USE) OF FUNDS		$ 90.0	$(79.3)	$(21.8)	$(2.4)	$13.5	

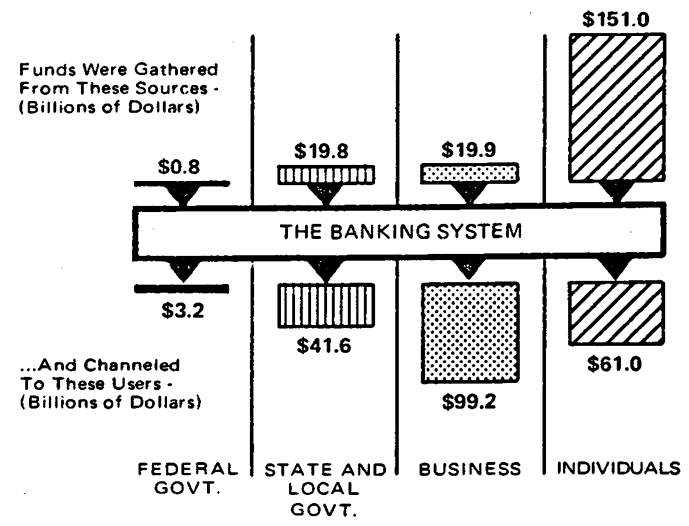
* Includes primarily float, legal reserves, and federal funds sold
** Includes primarily domestic and foreign correspondent bank balances
*** Includes primarily federal funds bought and federal borrowings

Source: Federal Reserve Bulletin, Flow of Funds Statistics

During the past decade, the commercial banking system served essentially the purpose of gathering up or collecting funds from individuals and of providing those funds to businesses. However, the individual and state and local government sectors were becoming more important users. Figure 3 illustrates this point graphically.

Figure 3

THE FUNCTION OF THE BANKING SYSTEM 1958-1968



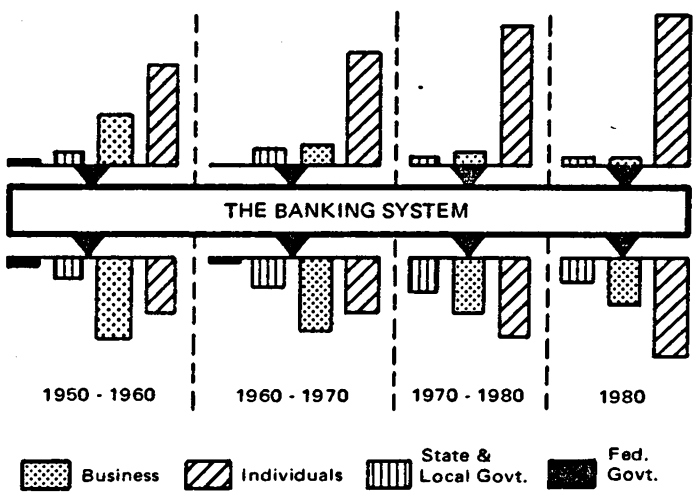
What will the principal function of the banking system be in the future? The trend, as we see it, seems to point in one direction, and Figure 4 illustrates our reasoning.

While data are not available, it can be hypothesized that, in the 1950's, the banking system served the function of channeling funds from individuals and mature businesses with excess cash to, primarily, cash-using businesses and, in smaller amounts, to the other sectors. As already indicated, during the past decade, businesses have become less significant as a source of funds. At the same time, individuals and state and local governments have become more important users of funds.

By 1980, as the United States becomes increasingly a mass-consuming society, it seems likely that individuals could surpass businesses as the major user of the banking system's funds. And by projecting this trend to the end of the 20th century, we believe the banking system will be heavily consumer-oriented, as far as its traditional funds activity is concerned, with individuals dominating both the supply and use sides of the banking system's balance sheet. In essence, the banking system will serve to channel the funds of individuals who are, on balance, net savers to individuals who are, on balance, net borrowers. Our projections, which are presented later, seem to support these conclusions.

Figure 4

THE CHANGING FUNCTION OF THE BANKING SYSTEM



Looking at profitability over the past decade, we find that the banking system fared very well. In spite of the costly changes that occurred in the acquiring of funds, banks reported net operating earnings of approximately $4.9 billion, up from $1.6 billion in 1958. This is indicated on Figure 5.

Figure 5
TOTAL UNITED STATES COMMERCIAL BANKING SYSTEM
10-YEAR COMPARATIVE INCOME STATEMENT ANALYSIS

	1958	(Billions)	1968
NET OPERATING EARNINGS	$1.6		$4.9

Source: Federal Reserve Bulletin, Insured Commercial Bank Income, Expenses and Dividends
Federal Deposit Insurance Corporation

However, in analyzing the profitability of banking over this period, three unusual factors which affected the earnings performance, summarized on Figure 6, should be noted.

First of all, interest rates in general rose very significantly, creating additional earnings for the industry. Secondly, as banks entered the '60's, they still had excess liquidity—in 1958, the system's loan/deposit ratio was 46%—thus, they had the ability to increase their higher yielding loans faster than their other assets. By the end of the '60's, the banking system could be considered generally loaned-up. Lastly, banks were able to include tax savings on security losses and the provision of loan loss reserves as part of net operating earnings.

It seems fair to conclude that probably none of these factors will prevail in the decade ahead. Few economists are predicting a doubling of interest rates—as occurred in the '60's. By most existing banking standards, there is no longer any excess liquidity, and the accounting rules have already been changed to eliminate the unusual treatment of security losses.

Figure 6
UNUSUAL FACTORS AFFECTING
COMMERCIAL BANKING NET OPERATING EARNINGS
1958-1968

1. RISING INTEREST RATES
2. EXCESS LIQUIDITY
   - 1958 LOAN/DEPOSIT RATIO 46%
   - 1968 LOAN/DEPOSIT RATIO 61%
3. ACCOUNTING PRACTICES

As shown on Figure 7, in adjusting for the impact of these factors, one learns that without the influence of these three factors, the banking industry would have had earnings of only $2.2 billion in 1968. The general increase in the level of interest rates over the ten-year period produced $800 million in after-tax earnings for banks in 1968. The changes in the asset structure of banks, primarily the increase in the proportion of loans, compared to 1958, produced $1.2 billion in after-tax earnings. And the tax savings on security losses which were included in net operating earnings added $700 million to 1968 earnings. Clearly, these three factors, none of which, it can be strongly argued, will affect the industry in the decade ahead, preserved the industry's profitability and covered up certain basic problems underneath. Without the influence of these unusual factors, it seems most likely that these problems will come to the surface in the '70's.

Figure 7
IMPACT OF UNUSUAL FACTORS ON 1968 EARNINGS

(Dollars in Billions)

1.	RISING INTEREST RATES	$0.8
2.	ELIMINATION OF EXCESS LIQUIDITY	1.2
3.	ACCOUNTING PRACTICES	0.7
		$2.7
	ADJUSTED NET OPERATING EARNINGS	2.2
	ACTUAL 1968 NET OPERATING EARNINGS	$4.9

Determined by calculating a variance between actual 1968 data and 1968 data adjusted to the 1958 banking system asset proportions and using average 1958 interest rates on assets and liabilities.

WHY CHANGE MUST COME ABOUT

Without these unusual factors, where will the industry be in 1980, if the historic trends of the '60's continue? In answering that question, a calculation of the banking system's earnings in the year 1980 was made essentially on the basis of a continuation of the trends of the '60's. The assumptions used for this calculation are shown on Figure 8.

Figure 8
ASSUMPTIONS FOR 1980 TREND PROJECTION

- NO CHANGE IN THE GENERAL LEVEL OF INTEREST RATES OVER THOSE OF 1968
- NO CHANGE IN THE LOAN/DEPOSIT RATIO OVER THAT OF 1968 (61%)
- NO TAX SAVINGS ON SECURITY LOSSES
- THE FOLLOWING INCREASES AT THE 1958-1968 GROWTH RATES
  - Total Assets 7.7%
  - Demand Deposits 4.3%
  - Expenses 9.3%
  - Other Income 9.1%
- THE ASSET STRUCTURE WILL REMAIN THE SAME AS IT WAS IN 1968
  - Loans 53%
  - Securities 27%
  - All Other 20%

As shown on Figure 9, this simple projection indicates that if there are no changes in these trends, the banking system will earn no more in 1980 than it did in 1968. If it has no security losses to report, its net income would be up, but because the system would be substantially larger in 1980 than it was in 1968, its return on assets and its return on capital would drop substantially. Return on capital would drop from 9.7% to 5.7%.

Figure 9
TOTAL UNITED STATES COMMERCIAL BANKING SYSTEM
PROJECTED INCOME STATEMENT

	1968 Actual	(Billions)	1980 Projected
NET OPERATING EARNINGS	$4.9		$4.9
SECURITY LOSSES AND PROVISIONS OF LOAN LOSS RESERVES	1.5		____
NET INCOME	$3.4		$4.9
NET INCOME/ASSETS	0.7%		0.4%
NET INCOME/CAPITAL	9.7%		5.7%

Now, undoubtedly this will not happen, but bankers will have to come to grips with some fundamental issues. These issues cannot be deferred, as they were in the '60's, by the expectation that additional earnings can be picked up through increasing interest rates.

Four basic issues are stated simply on Figure 10. A detailed discussion follows.

Figure 10
BASIC ISSUES FACING MANAGEMENT IN THE 1970's

1. REVISE CONCEPTS ABOUT BALANCE SHEET STRUCTURE
2. FIND WAYS TO INCREASE MARGIN ON FUNDS ACTIVITY
3. IMPROVE OPERATING EFFICIENCY
4. GENERATE OTHER SOURCES OF INCOME

1. Bank management must begin to revise their concepts about balance sheet structure. Traditional rules of thumb and guidelines, such as the loan/deposit ratio, must be discarded and replaced by other techniques that will allow banks to assume more risk on their balance sheets than they heretofore felt was prudent. Operations research techniques, for example, may allow bankers to manage their balance sheets with greater precision than did the simple ratios of the past.

2. They must find ways to improve the margin on their funds activity. More opportunistic lending and investment policies must be considered and more sophisticated funds management techniques must be employed to improve the spread.

3. Banks must become more efficient. Operating departments need to be streamlined and made as efficient as today's most modern manufacturing plant. In addition, the elaborate office facilities and expensive lending staffs, appropriate in the era when obtaining large corporate customers was most attractive, need to be geared more closely to the realities of the current environment.

4. Other possible sources of income must be explored, some which perhaps have not traditionally been considered part of the banking sphere, and fees must be charged for services now being performed free.

Most banks are focusing attention on the development of other sources of income (i.e., the one-bank holding company, etc.). However, all these issues require the thought of bank management. In looking ahead to the year 1980, we shall discuss each of these issues.

A LOOK AT 1980

The first issue to be discussed is the balance sheet structure of the banking system in 1980. The approach used to make a projection of the system's structure is as follows:

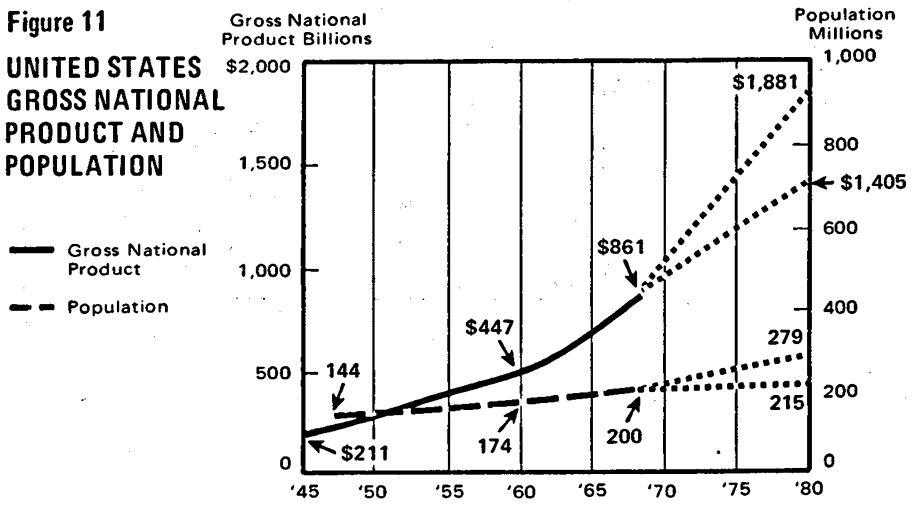
1. The balance sheet was divided into the banking system's natural markets (i.e., consumer credit, residential mortgages, business credit, etc.), and data were collected on these markets, both for the bank and nonbank portions, since the year 1945—a 23-year period.

2. These historic data were analyzed and growth rates calculated for various time intervals during the 23-year period. By selecting two growth rates from those calculated, two estimates of the size of each market in 1980 were determined.

3. Employing a computer model, the historic data covering 23 years were correlated with historic GNP and population figures. Independent forecasts of GNP and population for the year 1980 were selected and four projections of each market were made on the basis of historic correlation with these basic economic factors. The GNP and population forecasts which were used, representing high and low forecasts, ranged between $1,405 billion and $1,881 billion for GNP, up from the 1968 GNP of $861 billion, and the population estimates ranged between 215 million and 279 million. This is shown graphically on Figure 11.

Figure 11

UNITED STATES GROSS NATIONAL PRODUCT AND POPULATION



Source: Historical Data—Federal Reserve Bulletin, Gross National Product Statistics

4. These six estimates of the total size of each market were analyzed and weighted, on the basis of our own judgment and evaluation, and a weighted average was determined.

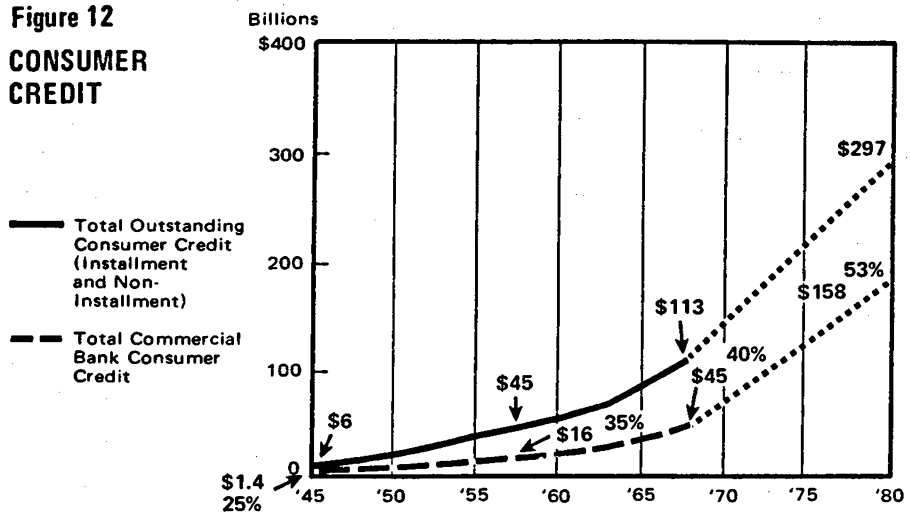
5. The banking system's share of each market was analyzed. By evaluating the historic trends and considering external factors, a market share percentage was selected for 1980 and, consequently, balance sheet data were determined.

The results of these projections follow.

With respect to consumer credit, as shown on Figure 12, our study indicated that, in 1945, the total amount of consumer credit outstanding equaled $6 billion, of which 25% or $1.4 billion was owed to commercial banks. By 1958, banks had increased their share to 35% and by 1968, held 40% of the total outstanding consumer credit or $45 billion out of a total of $113 billion. Our forecast indicates a substantial increase in this total market to $297 billion by 1980—almost tripling in size—with the bank's share increasing to 53%. This increased market share will be spurred, in our view, by the credit card, the desire on the part of bankers to increase their share of these high yielding loans, and in general by a more aggressive bank policy toward this market. By 1980, banks should hold some $158 billion in consumer credit, more than tripling the current amount and about 30% more than the total current amount of business credit held by banks.

Figure 12

CONSUMER CREDIT



Source: Historical Data—Federal Reserve Bulletin, Consumer Credit Statistics

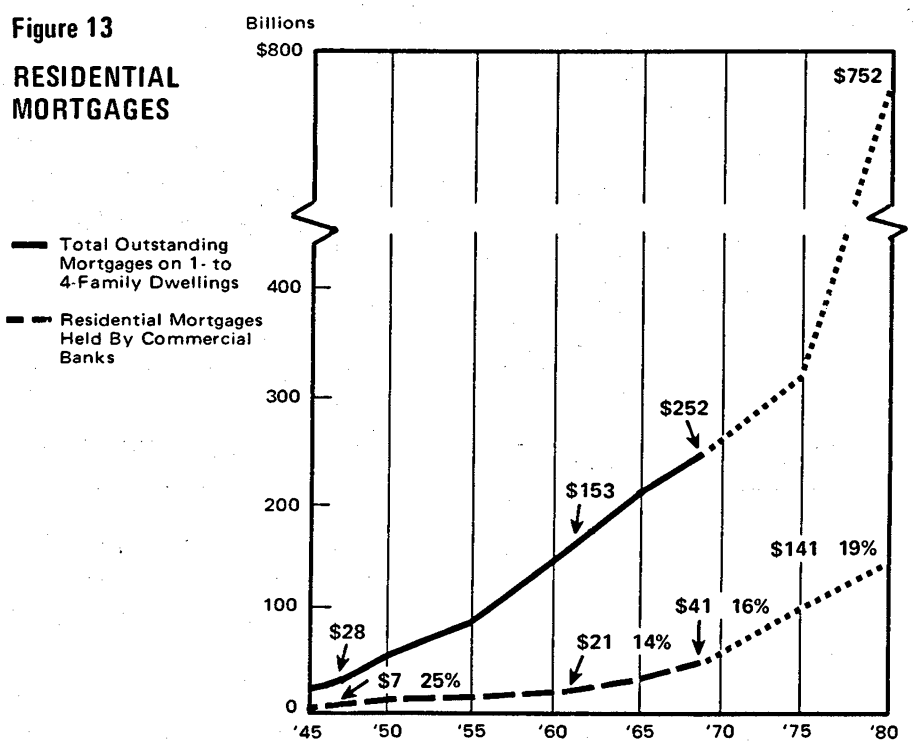
The residential mortgage market has shown a rapid rise and all indications are that the trend will continue at a fast upward pace. Our forecast, presented graphically on Figure 13, indicates total residential mortgages of $752 billion by 1980, triple the amount currently outstanding. This estimate would be lower, of course, if there is a significant move toward more multiple-family dwellings, as has been discussed by some economists. In that event, some of the funds projected in this market would be shifted to the commercial mortgage market discussed later. Nonetheless, the demand for funds to finance single-family dwellings should jump substantially.

There is no indication at this point that commercial banks want to increase their share of this market significantly. Our forecast indicates that banks might hold $141 billion in residential mortgages, or 19% of the total outstanding, up slightly from the recent historical share of the market. The demand for mortgage financing that will exist, however, presents a challenge to bankers to find new, yet profitable, financing vehicles to help meet the need.

This market should be viewed by bankers as an opportunity, and they should not write it off quickly as unattractive. Innovative thinking should be brought to bear on fulfilling the needs of this market as it currently is being brought to bear on developing new methods of acquiring funds.

Figure 13

RESIDENTIAL MORTGAGES



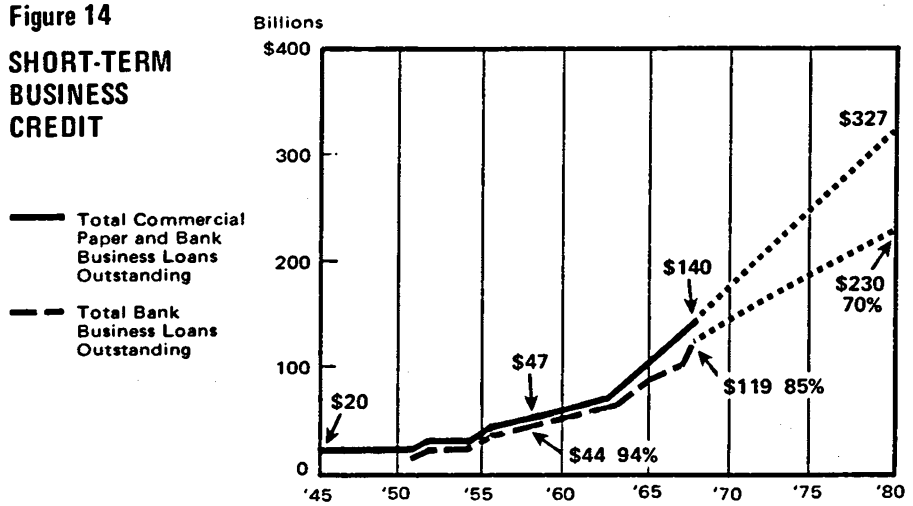
Source: Historical Data—Federal Reserve Bulletin, Real Estate Credit Statistics

In analyzing short-term business credit, we defined the market as total bank loans outstanding to business plus total commercial paper outstanding. The data are presented on Figure 14. In 1945, this market amounted to $20 billion and the banks had virtually all of it. By 1958, the market had risen to $47 billion and the banking system's share had declined to 94%. In 1968, the banks' share of this market decreased to 85%, or some $119 billion out of a total of $140 billion. Our forecast indicates that by 1980, total short-term business credit outstanding will amount to $327 billion and the banks' share will be down to 70% or $230 billion. The commercial paper market will amount to almost $100 billion, with an increasing number of large corporate borrowers shifting from banks to the open market for short-term credit.

With the trend toward conglomerates and concentration of business in larger units, more and more companies have an adequate credit standing to justify the issuance of open-market instruments. Given present reserve requirements, other regulations, and an expensive overhead structure, banks cannot possibly channel funds, purchased at prevailing interest rates, to corporations at a lower cost than the open market.

Figure 14

SHORT-TERM BUSINESS CREDIT

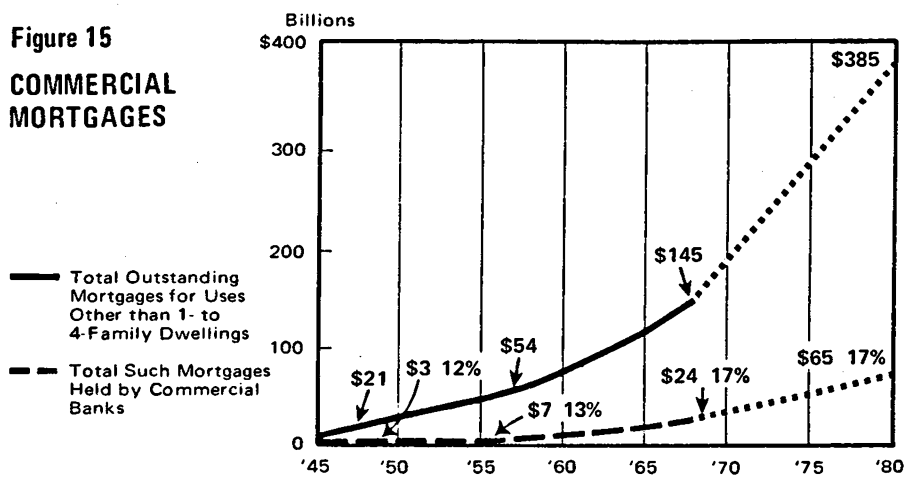


Source: Historical Data—Federal Reserve Bulletin, Commercial Banks Loan Investment Statistics, Commercial and Finance Company Paper Outstanding Statistics

The market for mortgages for uses other than one- to four-family dwellings, or the commercial mortgage market, will also show a rapid increase in the next decade, according to our forecast, as illustrated on Figure 15. Again, there is no indication today that banks will want to increase their market share substantially. Our forecast indicates that banks will hold some $65 billion in commercial mortgages by 1980.

Figure 15

COMMERCIAL MORTGAGES

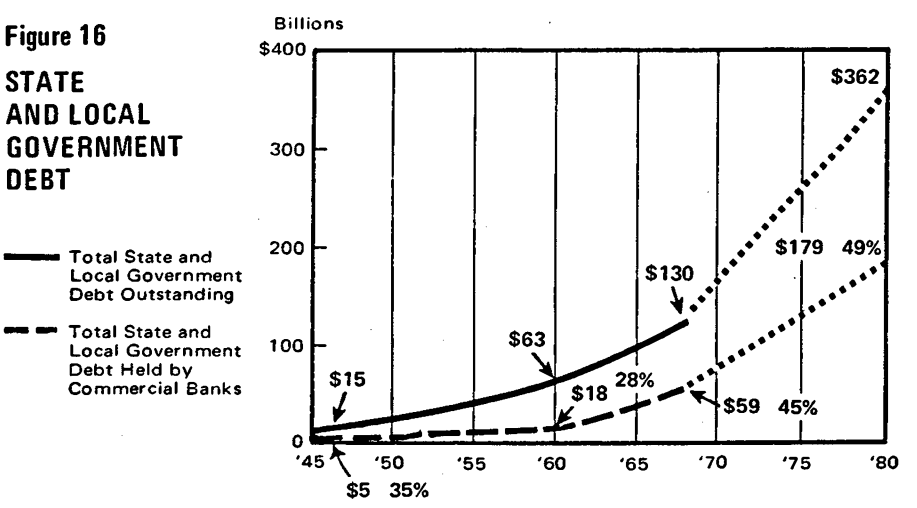


Source: Historical Data—Federal Reserve Bulletin, Real Estate Credit Statistics

Because of mushrooming urban demands, it is expected that state and local governments will need to increase their outstanding debt substantially. This demand should cause these municipal securities to continue to represent attractive investments for banks. In 1958, banks held 28% of the total outstanding state and local government debt. By 1968, with investment yields rising, banks increased their share to 45%. Our projection indicates that, by 1980, banks will further increase their share to 49%, or some $179 billion. Figure 16 shows this projection.

Figure 16

STATE AND LOCAL GOVERNMENT DEBT

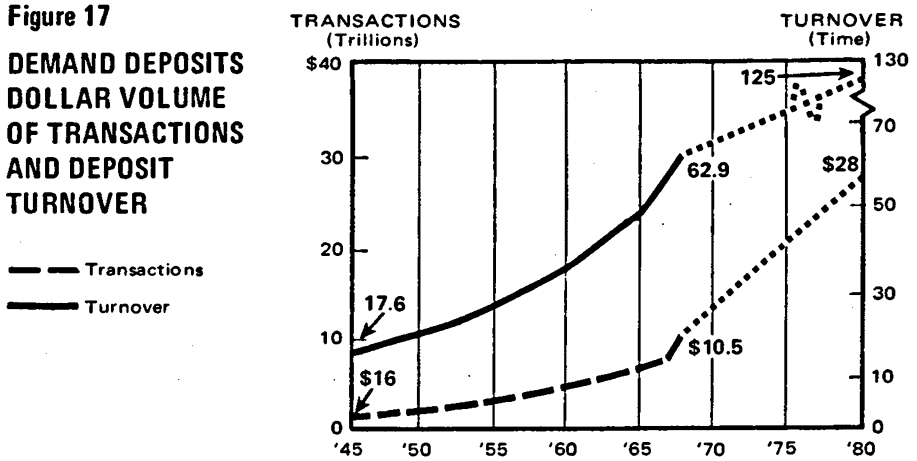


Source: Historical Data—Economic Report of the President
Federal Reserve Bulletin, Loan and Investment Statistics

Turning to the liability side of the balance sheet, it is our view that obtaining demand deposits will continue to present a problem for banks. While our projection shown on Figure 17 indicates that the total dollar amount of financial transactions (checks and other debit items) flowing through the system will almost triple, bankers can expect the turnover of deposits also to jump substantially. In 1968, demand deposits for the total banking system turned over 62.9 times per year, up from 17.6 times in 1945. The forecast turnover rate used in our study was 125 times by 1980. Thus, while banks will be handling a substantially larger volume of transactions, this volume will not translate into a substantial increase in usable funds.

Figure 17

DEMAND DEPOSITS DOLLAR VOLUME OF TRANSACTIONS AND DEPOSIT TURNOVER

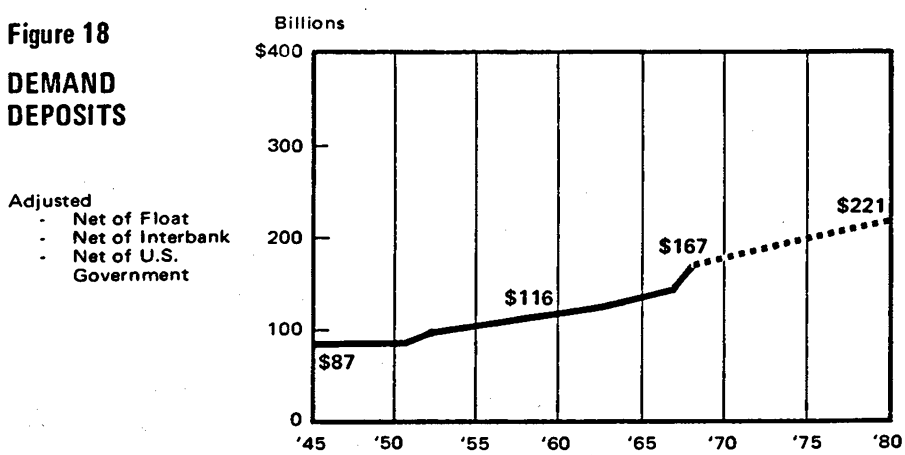


Source: Historical Data—Federal Reserve Bulletin, Bank Debits and Deposit Turnover Statistics (bank debit statistics adjusted)

As a result, the banking system can expect net adjusted demand deposits (net of float, government deposits, and correspondent bank balances) to increase at an annual rate of about 3% per year, reaching $221 billion in 1980 compared to $167 billion at the end of 1968. This is shown on Figure 18.

Figure 18

DEMAND DEPOSITS



Source: Historical Data — Federal Reserve Bulletin, Commercial Bank Reserve and Liability Statistics

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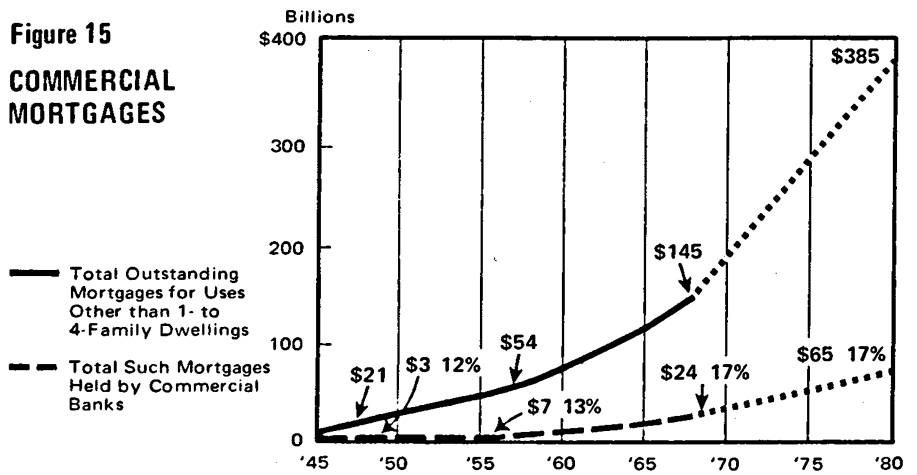

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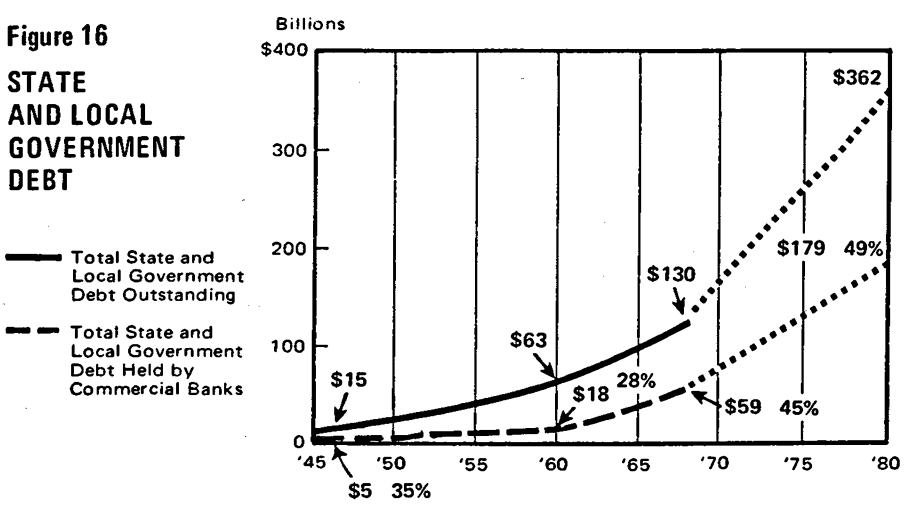

Source: Historical Data—Economic Report of the President
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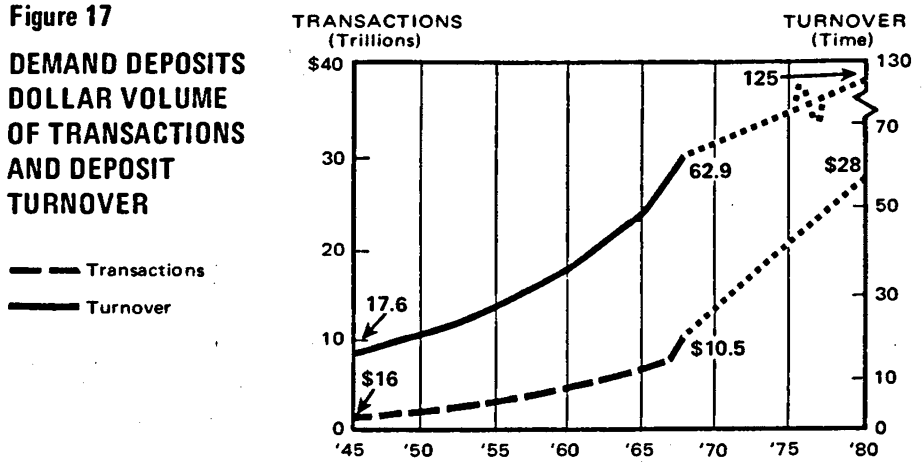

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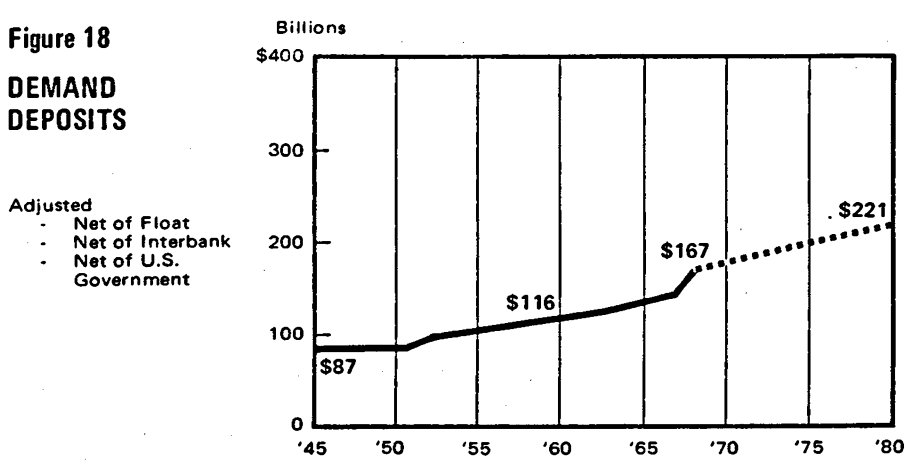
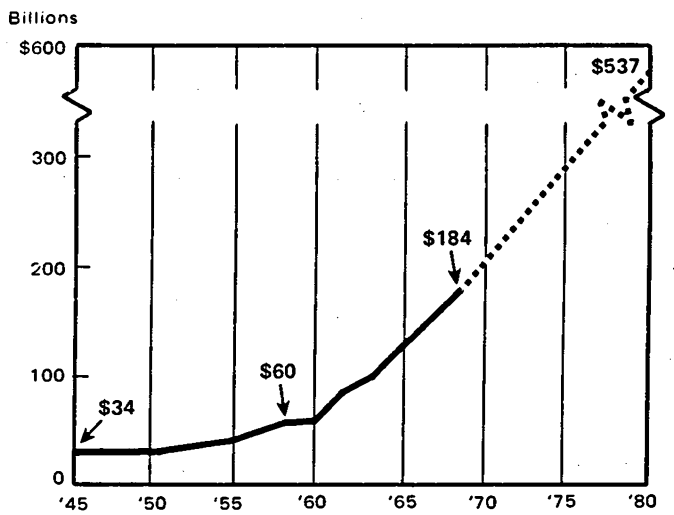


Source: Historical Data — Federal Reserve Bulletin, Commercial Bank Reserve and Liability Statistics

Consequently, to meet the 1980 demand for funds, banks will have to rely substantially on purchased money. To balance our projected balance sheet, assuming no change in the general capital ratio of the banking system and an average growth in miscellaneous liabilities and deposits of governmental units, purchased funds from individuals, partnerships, and corporations must total $537 billion in 1980, up from $184 billion at the end of 1968. This amounts to an increase of $353 billion. This projection is shown on Figure 19. Clearly, it points out that the banks that are successful over the next decade will be those that are effective in acquiring funds, not necessarily those that are skilled at just putting funds to work.

Figure 19

TIME DEPOSITS OF INDIVIDUALS, PARTNERSHIPS, AND CORPORATIONS IN COMMERCIAL BANKS



Source: Historical Data — Federal Reserve Bulletin, Commercial Bank Reserve and Liability Statistics

Our projections add up to a banking system in 1980 with total assets in excess of $1.1 trillion. The forecast balance sheet is compared with the 1968 balance sheet on Figure 20.

The projected balance sheet for 1980 indicates greater risk and less liquidity than in 1968. However, this balance sheet structure still will not be adequate to earn the kind of profits the banking system must earn in 1980 if bankers do not, at the same time, address themselves to the other issues they face. When an income statement was prepared from this balance sheet, on the basis of 1968 rate structure and the assumption that expenses and other income would increase at the same rates as they did in the '60's, we learned that the system's return on capital would amount to approximately 8%, up from the 5.7% that would result if the 1968 balance sheet structure were maintained to the year 1980. But this is still short of the return on capital which the system actually earned in 1968. To equal that 1968 return on capital percentage, an additional $3.4 billion in before-tax earnings must be generated.

Figure 20
TOTAL UNITED STATES COMMERCIAL BANKING SYSTEM
BALANCE SHEET
ACTUAL 1968 AND PROJECTED 1980

	1968 (Billions)	Percent	1980 (Billions)	Percent
ASSETS				
Loans–Personal	$104	21%	$ 346	30%
Business	159	32	334	29
State & Local Govt. Securities	64	13	179	16
U.S. Govt. Securities	59	11	65	5
All Other Assets (Net of Float)	115	23	231	20
Total	$501	100.0%	$1,155	100.0%
LIABILITIES				
Demand Deposits	$230	46%	$ 388	33%
Time Deposits	206	41	597	52
All Other Liabilities	28	6	75	7
Capital	37	7	95	8
Total	$501	100.0%	$1,155	100.0%

Thus, we examined the other three issues mentioned earlier in this booklet to see what would have to happen to each if the banking system was to earn an additional $3.4 billion by the year 1980. The impact on each was considered independently, exclusive of changes in the others. As Figure 21 indicates, the banking system could earn an additional $3.4 billion, first of all, by improving the spread or margin on its total funds by approximately 3/10 of 1%– this would mean reversing the trend toward narrower margins.

Secondly, these additional earnings could be picked up by slowing down the system's expense growth to a compound annual rate of 8.1% instead of the 9.2% which prevailed during the past decade. This is not an easy task, since bankers will have to be more competitive for talent, etc. Lastly, an additional $3.4 billion could be earned by increasing the growth in income from nonfunds sources– trust services, data processing services, etc. Other income would have to grow at 12% per annum to accomplish this, up from 9% during the '60's.

No matter how you look at it, the challenge to be more efficient, innovative, and aggressive in managing a bank in the decade ahead is quite apparent.

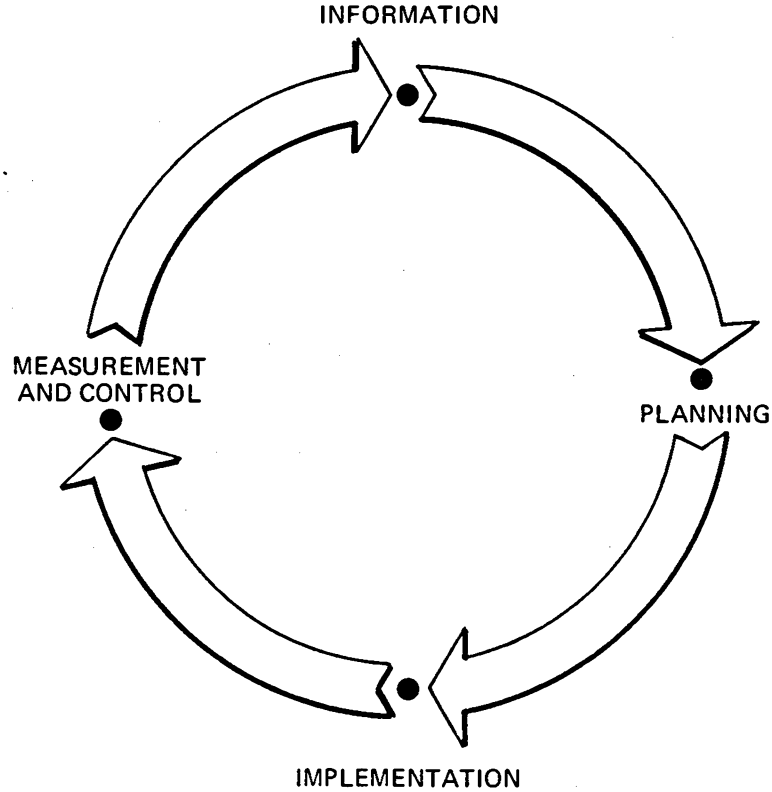
Figure 21
HOW BANKING SYSTEM CAN EARN AN ADDITIONAL $3.4 BILLION IN BEFORE-TAX EARNINGS ON 1980 PROJECTED BALANCE SHEET

		1980	1968
1.	MARGIN ON FUNDS ACTIVITY	3.4%	3.1%
2.	OPERATING EFFICIENCY	8.1% Per Annum	9.2% Per Annum 1958-1968
3.	OTHER INCOMES	12%	9% Per Annum 1958-1968

IMPLICATIONS FOR TODAY'S MANAGEMENT

What does this mean bank management should be doing today? The discussion which follows is intended to review a few of the implications of the changing banking environment. Some of these implications have already been touched on in the earlier discussion. However, we will endeavor to summarize them now within the framework of what might be called the management cycle. As illustrated in Figure 22, the management of a bank and, for that matter, any company starts with information—about the company's markets, profitability, personnel resources, etc. This information forms the basis for management's planning. The plans are implemented and the effectiveness of the implemented plans is then measured, with the results being fed back in the form of new information. A discussion of the implications of our 1980 forecast for each of these areas follows.

Figure 22
THE MANAGEMENT CYCLE



Information

With respect to information, in order to tackle many of the problems facing banks, the type and scope of information needed by management must be expanded. A better understanding of the markets being served and a bank's abilities to fill the needs of these markets is required if intelligent decisions are to be made. Thus, improved marketing research and an information system that can report the bank's position in various markets and the profitability of its services will be increasingly important.

Secondly, new techniques to analyze information will be needed. The old traditional rules of thumb (loan/deposit ratio, capital/deposit ratio, etc.) have served satisfactorily in the past, but new techniques must replace these if banks are to assume the new risks they will encounter in the future. For example, operations research techniques must be developed into practical tools that will permit systematic, comprehensive, and timely analysis of information.

Planning

In the planning area, the most fundamental issue facing management concerns the "role" which the bank will play in the increasingly broad banking industry. Will the bank be a "generalist," serving all markets and all customers, or will it be a "specialist," emphasizing a particular function which it perhaps can fulfill better than any of its competition? With increasingly scarce personnel resources, this latter role may be the best and most profitable one for some banks.

Secondly, if banks are to be able to generate more income from other sources, bankers must broaden their concepts about the very nature of the banking business. Several important markets have been lost in the past (the mutual fund market, for example), in part because bankers have viewed their industry in a traditional and narrow way. The one-bank holding company is, of course, a step toward broadening the banker's view of his industry.

More effective planning for utilization of the computer is also needed. Banks plunged "feet first" into computerization five or ten years ago out of necessity. There is now a need to stand back and plan better how the computer can be harnessed as a tool in managing the bank, not just maintaining its records.

Lastly, better long-range corporate planning which includes specific programs of action is needed. The development of projected balance sheets and profit and loss statements is an interesting exercise, but not the most effective planning technique.

Implementation

Certainly the most important issue which management must consider is the question of its organization. If the key to being a successful and profitable bank in the future is effectiveness in acquiring money, then having an organization geared to putting funds to work or lending money, as most banks continue to have today, must be questioned.

Also, if the issues discussed earlier are to be resolved, the "management by committee" philosophy which prevails in most banks will have to be deemphasized. Individual managers must be given the authority and responsibility to tackle these issues. Not only is the committee system cumbersome, but it tends to produce "watered-down" and compromised decisions. Committee decisions are usually devoid of risk; however, they are also inert and consequently do little to bring about change.

Measurement and Control

Improved accountability is also an important problem that must be resolved. New systems and techniques must be employed to pinpoint and measure the performance of various aspects of the bank and to pinpoint individual responsibility for results. Increased delegation of authority and responsibility to individuals, as advocated earlier, must be accompanied by effective techniques for measuring their performance.

A comprehensive information and reporting system that will produce data on unit profitability, market segment profitability, service line profitability, and customer profitability is needed to give management the data essential for effective management and control of the bank's performance.

Summary

In summary, our review and analysis of the commercial banking industry indicates that it will face a difficult challenge in the decade ahead. It must adapt to the realities of a new economic era. It can no longer avoid making fundamental changes, since most of the traditional solutions to the problem of maintaining adequate profits, that were employed in the past decade, will probably no longer be available or tolerated in the decade ahead. While part of this change must undoubtedly be brought about by regulatory and governmental authorities, bank management must also begin to ask themselves fundamental questions about their business. What is this business of banking? How do you organize it? How do you market its services? How do you control its destiny?

Thus, unless these questions are resolved the banking industry will face stagnation. While it will undoubtedly always perform some of the old-line functions, it will find it harder to attract the kind of people and the capital to serve the financial needs of this country effectively. Some industry will meet these needs. Will it be the commercial banking industry? Bankers are faced with that decision today.

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COMMUNITY BANKING - 1980 STYLE

Address by Willis W. Alexander, Executive Vice President, The American Bankers Association, Washington, D. C., before the 20th National Agricultural and Rural Affairs Conference of The American Bankers Association, Muehlebach Hotel, Kansas City, Missouri, Wednesday morning, November 17, 1971.

Discussing community banking, 1980 style is quite an assignment. 1980 is hard to see from here. To tell the truth, I can't even see who'll win the game between Nebraska and Oklahoma on Thanksgiving Day.

John Dewey, the philosopher, spoke at the turn of the century of the difficulties in looking ahead. He said a parent could not really prepare a child for adulthood. The problem...he said...was the rapid rate of change which made it impossible to foretell what civilization would be like when the child grew up.

Looking ahead is even more difficult today than it was during John Dewey's lifetime. It is increasingly hazardous. For the pace of change he described in 1897 was a slow process compared to that we in this room have seen. Television. Social reform. Jet planes and space capsules. The computer. Movement to a service economy from the industrial economy which in our century had replaced an agricultural economy dating back to the dawn of time. And population explosions and shifts. Most Americans lived in the country 30 years ago...today four out of five are in metropolitan areas. We zip around the nation and the world with abandon. At least one out of five changes addresses each year.

More change is coming. The experts tell us to expect a greater amount of change during the remainder of the 20th century than the

world has known in its entire history.

And Alvin Toffler warns against "Future Shock" in his best-selling book of the same name. Toffler says all this rapid and accelerating change -- that is, the sudden arrival of the future -- subjects us to a dangerous amount of stress and disorientation.

But, human beings are adaptable. For evidence, we need look no further than our television screens on any Sunday afternoon during football season. There aren't too many of us who could get out there with the professionals and survive.

Yet, these pros were not born to be supermen. Their advantage lies in preparation. They've put themselves in the best of physical condition. They've adopted a positive, even an aggressive, attitude. They've practiced and trained and studied. It has become second nature for them to cope with situations which, for you or I would prove disastrous.

If we as bankers are properly prepared for tomorrow, then we will have nothing to fear. We will meet the challenge of change. Not only for our banks but, as members of a service industry, on behalf of our customers. We can help our customers avoid future shock by offering them solid, stable support. To do so, we must provide essentially the same service we've always provided.

This is not to suggest that we resist change. For changing conditions demand changing methods. And, by 1980, many changes in our methods will be necessary to improve, indeed even to continue our traditional service role.

Let us consider some of these changes.

The credit card will be in much wider use than it is now. The electronic transfer of funds will be far advanced. We will be

helping to meet consumer demands for new products. For example, we might be involved in hovercraft or helicopter loans...We will be financing crop production based on new strains of wheat, corn and soybeans...We will be supporting the purchase of new environmental-portective pesticides...We will be helping farmers buy computer-controlled equipment...We will be handling the financial arrangements needed to obtain needed farm equipment whether the technique is loan or lease.

In 1980, we will be serving a population that is more heavily suburbanized. There will be more and more residential communities clustered around urban cores. There will be less and less of a dichotomy between urban and rural communities. We noted these changes three years ago by abandoning the term "country banker" in favor of "community banker".

The community banker of 1980 will face sterner and more pervasive competition than he has faced to date. Not simply from other banks, but also from other types of financial institutions. I suspect that in the future many of these other institutions will be general purpose - exercising broader powers and furnishing a variety of services. Perhaps many of them will have actually converted to banks. The possibility of switing from a savings and loan association to a bank or the reverse will certainly introduce a new dimension to the dual system concept.

At the same time, the increasing mobility of the population will endanger the species of customer who patronized a particular bank because it was conveniently located, or because it traditionally served his family. Even today, this customer in his home is the target of TV appeals from big city banks.

Education as well as mobility threatens tradition. The customer of today is better educated. He knows what he wants. More important to him than traditional loyalties is the bank's service potential - what it can do for him and his money.

Specialization will be the key to success for many community banks. This will mean, first, that we carefully and accurately identify the markets available to us.

We must keep abreast of the changing financial needs and desires of our customers...and our potential customers.
This knowledge...continually updated...will permit us to make the hard decision as to which of our potential markets we can best serve...and then to tailor our services accordingly.

We may have to give up trying to be all things to all people. At a minimum, we may meet some markets' needs by producing the service, others by brokering it. A small bank might, for example, choose to do without its own trust department or data-processing center in order to devote its people, resources and expertise to other areas.

Whatever we call this...specialization or segmentation...it is a practice that follows the best traditions of marketing. It is simply a case of determining what is needed most and then going all-out to meet that need.

The banker of tomorrow will also be called upon to discriminate in choosing the methods by which he renders public service. It may not be enough for him to serve on the school board or to fill another position that others could as easily fill. The community will receive a greater return from his investment of time if his service is special. His greatest effectiveness as a community leader...and

his greatest contribution to the community...can be achieved only if he brings his special skills and financial expertise to bear on community problems.

Let me mention one other crucial test for banks, and for all other service institutions: The test of measuring performance.

This is a relatively easy task in manufacturing. After all, it's readily obvious when one worker isn't keeping up with the flow of the assembly line. But, Business Week magazine asked a good question in a recent article: How do you measure the productivity of a loan officer? Is the measurement the loans he makes, the loans he is shrewd enough not to make, the rate of default on loans he has made, or the social progress of the community?

And, how do you gauge the performance of a bank? Sure, you look at earnings, savings deposits, total assets, market percentage. But, what do you measure them against? And, what else do you consider? What are the factors in deciding whether the bank is doing the right things? How do you weigh the strengths and weaknesses of your bank's economic environment? Is the environment a limitation on your growth or a specialized situation which can be converted into an asset? And, how do we decide what the bank should aim for next week, next month, next year?

These questions confront bank management like moving targets defy the shooting gallery patron. Speedy and accurate responses are necessary. Hit all the targets and win the game...but they pop right back up and a new game begins. Provide all the right answers today, but don't relax: The questions will re-surface in search of tomorrow's right answers.

Timely answers will be supplied by the banker well-grounded in

the unchanging fundamentals of training, experience and attitude.

There is every reason to believe that the challenges of the future will be met eagerly and effectively by the banking industry. For banking...more than others...is moving rapidly but carefully to embrace today's change and to plan for tomorrow's change.

The history of banking in America is filled with successful response to powerful forces and events, with change and adaptation, with bold innovation, all in the context of service to community and nation. From the past and the present of banking can we take a great deal of pride, and a great deal of confidence in a successful future.

THE AMERICAN BANKERS ASSOCIATION
20th NATIONAL AGRICULTURAL AND RURAL AFFAIRS CONFERENCE
Muehlebach Hotel, Kansas City, Missouri
November 14-17, 1971

ADVANCE REGISTRATIONS
to Noon, Monday, November 1, 1971

ARIZONA

Hakes, Clay H., Vice President, Valley National Bank, Phoenix
Langfitt, Warren R., Vice President and Area Manager, Valley National Bank of Arizona, Mesa

ARKANSAS

Beasley, Howard H., Executive Vice President, Bank of Cherry Valley
Gairhan, Earl, Vice President, Mercantile Bank, Jonesboro
Nickels, Wallace E., Vice President and Farm Representative, The Security Bank, Harrison
Reed, Fred E., Farm Loan Officer, First National Bank, Siloam Springs
Sulcer, Bert, Senior Vice President, Planters Bank and Trust Co., Forrest City
White, J. J., President, Helena National Bank, Helena

CALIFORNIA

Clark, Vance L., Regional Vice President, Bank of America NT and SA, Fresno

COLORADO

Billings, Russell F., Vice President, First National Bank of Greeley
Brown, Theodore D., Executive Vice President, The First National Bank of Denver
Haddan, J. T., Vice President and Farm Service Officer, The Security State Bank of Sterling
Magnuson, C. H., Vice President, Farmers National Bank, Ault
Manion, Jack S., Executive Vice President, First National Bank of Windsor
Mercer, Ralph E., Senior Vice President, The Greeley National Bank
Norberg, Carl O., Executive Vice President, American Society of Farm Managers and Rural Appraisers, Denver
Rhoades, Dennis L., Executive Vice President, First National Bank, Otis
Smith, Harold V., Cashier, The State Bank of Wiley
Starks, Charlie, President, Citizens State Bank, Keenesburg
Uhrich, J. Rodney, Senior Vice President, The First National Bank of Denver
Woods, Jerome B., Jr., Assistant Vice President, The First National Bank of Denver

CONNECTICUT

Fletcher, George A., Second Vice President, The Travelers Insurance Company, Hartford

DISTRICT OF COLUMBIA

Alexander, Willis W., Executive Vice President, The American Bankers Association, Washington
Brunthaver, Carroll G., Associate Administrator, Agricultural Stabilization and Conservation Service, United States Department of Agriculture, Washington
Darrow, Allen, Journalist, The American Bankers Association, Washington
Dennis, Gloria, Supervisor of Registration, The American Bankers Association, Washington
Derr, Derl I., Director, Agricultural and Rural Affairs Division, The American Bankers Association, Washington
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Lowrie, Gerald M., Executive Director Banking Professions, The American Bankers Association, Washington
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Savidge, Edgar T., Executive Manager, The American Bankers Association, Washington
Shahan, Catherine, The American Bankers Association, Washington
Street, Harold K., Journalist, The American Banker (Newspaper), Washington
Talmadge, Honorable Herman E., U. S. Senator, United States Senate, Washington
Trainor, Edward J., Assistant Director, Agricultural and Rural Affairs Division, The American Bankers Association, Washington
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FLORIDA

Crews, J. W., Jr., Executive Vice President, Wauchula State Bank, Wauchula
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Oswald, Douglas H., Farm Representative and Vice President, The Commercial Bank and Trust Company of Ocala

IDAHO

Davis, Frank H., Agricultural Representative, First Security Bank of Idaho, N.A., Boise
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Meikle, Steve, President, Idaho Bank of Commerce, Rexburg
Stucki, Merrill G., Agricultural Representative, First Security Bank of Idaho, N.A., Lewiston

ILLINOIS, continued

Stults, Allen P., President, The American Bankers Association, Chairman and Chief Executive Officer, American National Bank and Trust Co., Chicago
Sutter, Lynn R., AGRI FINANCE MAGAZINE, Arlington Heights
Walton, J. C., Senior Vice President, Farmers and Merchants State Bank, Bushnell
Walton, Robert L., President and Trust Officer, Farmers and Merchants State Bank, Bushnell
White, Harry C., Second Vice President, Old Republic Life Insurance Company, Chicago
Wilkins, Gerald L., Editor, AGRI FINANCE MAGAZINE, Chicago

INDIANA

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Bush, John D., Assistant Cashier and Farm Loan Representative, The Fairland National Bank, Fairland
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Colbert, Jack L., President, Washington National Bank, Washington
Drake, Loran E., Vice President, Franklin Bank and Trust Co., Franklin
Dugan, Dan S., Indiana Division Officer, American Fletcher National Bank, Indianapolis
Fancher, Harold L., Vice President, The Shelby National Bank, Shelbyville
Jaqua, John J., President, The Citizens Bank of Portland
Lutes, Clarence C., Vice President and Representative, The Citizens Bank of Portland
Mays, Charles T., Director of Agriculture, Bank of Indiana, N.A., Gary
McCutchan, Harold A., Vice President, People's Bank and Trust Co., Mount Vernon
Melcher, Herbert F., Assistant Vice President, Lincoln National Bank and Trust Co., Fort Wayne
Murray, Loyd H., Loan Officer, American National Bank, Noblesville
Pinney, Harvey W., Branch Manager, First-Merchants National Bank of Michigan City, Wanatah
Rush, Roscoe N., Assistant Vice President, First National Bank, Elkhart
Rusk, Tom, Farm Management Officer, Irwin Union Bank and Trust Co., Columbus
Sinclair, Fred, Vice President, Indiana Lawrence Bank and Trust Co., North Manchester
Swackhamer, J. B., Senior Vice President, Clinton County Bank and Trust Company, Frankfort
Taylor, Robert F., Agricultural Representative, Lincoln National Bank and Trust Co., Fort Wayne
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ILLINOIS

Beermann, Howard H., Vice President, Central National Bank, Chicago
Behm, Edward J., Vice President and Director of Farm Services, First National Bank, Mattoon
Benjamin, Gary L., Economist, Federal Reserve Bank of Chicago
Blum, O. B., Farm Representative and Director, The Ashton Bank and Trust Company, Ashton
Campbell, Lyle P., Second Vice President, The Northern Trust Company, Chicago
DeRosier, H. Peter, Assistant Vice President, National Boulevard Bank of Chicago
Fry, Robert E., Farm Manager and Assistant Trust Officer, McLean County Bank, Bloomington
Green, I. Frank, Vice President, Commercial National Bank of Peoria
Hamilton, Robert E., Vice Chairman, Central National Bank in Chicago
Hauenstein, Bennett L., Vice President, The First National Bank of Chicago
Henderson, J. D., Second Vice President, Continental Illinois National Bank and Trust Co., Chicago
Hieronymus, Thomas A., Professor, University of Illinois, Urbana
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Holst, Dean H., Vice President, State Bank of Freeport
Hostetter, W. Ross, Vice President, First National Bank of Freeport
Ledlie, J. P., President, The Ashton Bank and Trust Co., Ashton
Lee, R. Bland, Vice President, Old Republic Life Insurance Company, Chicago
Long, Charles M., President, First National Bank of Litchfield
McKinty, J. Owen, Vice President, Bank of Yates City
McManigal, Judson, Assistant Vice President, First National Bank of Chicago
Moore, A. L., Vice President, The State Bank of Hammond
Obrecht, Wayne H., Second Vice President, Central National Bank, Chicago
Otto, Myron L., Assistant Vice President, Bank of Pontiac
Pearson, Jerry H., Assistant Vice President, Harris Trust and Savings, Chicago
Raddon, Gary H., Second Vice President, Continental Illinois National Bank, Chicago
Rudny, James M., Chief, Loans Department, Federal Reserve Bank of Chicago
Sarra, Robert L., II, Midwest Advertising Manager, AMERICAN BANKER, Chicago
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Spencer, Calvin C., Assistant Cashier and Assistant Manager, Farm Department, Citizens National Bank of Macomb
Stewart, Cal, Vice President and Cashier, Farmers State Bank of Benson
Stinson, R. J., Manager, Farm Department, Farmers and Merchants State Bank, Bushnell

IOWA

Abel, Paul A., Vice President and Farm Representative, First National Bank, Burlington
Ahlers, Henry A., Vice President, Le Mars Savings Bank, Le Mars
Amlie, Rodney B., Chairman, The Farmers National Bank of Webster City
Anderson, Jim, Vice President, Farmers State Bank, Hawarden
Anderson, Kermit J., President, Nevada National Bank, Nevada
Auestad, Roger, Assistant Vice President, Story County State Bank, Story City
Barnett, G. M., President, Guthrie County State Bank, Guthrie Center
Baur, R. Edward, Board Member, Federal Farm Credit Board, Van Meter
Beatty, W. G., Vice President, Atlantic State Bank, Atlantic
Beavers, Tom, Agricultural Representative, The City National Bank, Shenandoah
Brantley, Bill, Vice President, Creative Services, Inc., Des Moines
Broderick, B. Michael, Assistant Vice President, First National Bank in Sioux City
Brown, E. J., Assistant Regional Manager, Equitable Life of New York - Farm Mortgage, Des Moines
Bruning, Ted A., Assistant Cashier, Citizens First National Bank, Storm Lake
Burnett, Rodney L., Vice President, Wilton Savings Bank, Wilton
Campbell, J. L., Jr., President, Humboldt Trust and Savings Bank, Humboldt
Campbell, Mrs. J. L., Jr., Humboldt Trust and Savings Bank, Humboldt
Campidilli, William, Agricultural Loan Officer, Perry State Bank, Perry
Carter, William J., Executive Vice President, National Bank and Trust Co., Chariton
Cartwright, Loren W., Vice President, Central National Bank and Trust Company, Des Moines
Chelesvig, James E., Assistant Cashier and Farm Representative, First State Bank, Belmond
Coffey, William D., Agricultural Representative, National Bank and Trust Company, Chariton
DeRosear, Paul L., Vice President and Cashier, Security State Bank, Casey
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Ewing, G. G., Vice President, Mahaska State Bank, Oskaloosa
Fitzer, Herchal, Director, Wilton Savings Bank, Wilton
Focht, Richard O., Vice President, Nodaway Valley National Bank, Villisca
Fox, Donald D., Assistant Cashier, Wright County State Bank, Clarion
Fulcher, William C., Assistant Cashier, Jefferson State Bank, Jefferson
Futrell, Gene A., Associate Professor, Iowa State University, Ames
Gleckler, Ben, Cashier, Norwalk Cumming State Bank, New Virginia
Godbersen, H. W., President, Ida County State Bank, Ida Grove
Gowing, Jack, Field Representative, Security Trust and Savings Bank, Shenandoah
Haas, Lester F., Vice President, Council Bluffs Savings Bank, Council Bluffs
Hall, Richard R., Vice President, Houghton State Bank, Red Oak
Harris, William, Director, Iowa Falls State Bank, Iowa Falls
Hay, R. Thomas, President, Security State Bank, Casey

IOWA, continued
Hayes, Oran, Vice President, State Bank of Wapello
Helvig, Neil, Farm Manager, First National Bank in Sioux City
Herder, W. Dale Den, Assistant Vice President, First National Bank, Sioux Center
Hess, John W., Assistant Vice President, Decorah State Bank, Decorah
Higgins, S. J., Agricultural Representative, Citizens Savings Bank, Sac City
Hinman, G. S., Vice President, First State Bank, Belmond
Howell, Herb B., Extension Economist, Iowa State University, Ames
Hunt, Charles W., Director, Atlantic State Bank, Atlantic
Iserman, C. J., Sr. Vice President, First National Bank, Cedar Falls
Judge, B. A., Vice President, The Citizens National Bank, Boone
Juergens, Dale E., Branch Bank Manager, State Savings Bank, Bedford
Knittle, Sam K., Vice President, The City National Bank, Shenandoah
Knoploh, Eugene, Assistant Cashier and Farm Representative, First National Bank of Sumner
Krumme, Richard, Associate Managing Editor, Successful Farming, Des Moines
Laughery, Wayne, Vice President and Farm Representative, Guthrie County State Bank, Guthrie
Lembke, Robert H., Farm Representative, Tipton State Bank, Tipton
Lewis, Forest T., Executive Vice President, Plaza State Bank, Des Moines
Lineberry, Fred L., Farm Representative and Cashier, Farmers Savings Bank, Traer
Lines, Lowell, Assistant Cashier, The Page County State Bank, Clarinda
Little, Ernest R., Vice President, Security State Bank, Casey
Lowenberg, Terry, Vice President, Iowa State Bank and Trust Co., Fairfield
Luckow, Dale R., Vice President, Iowa-Des Moines National Bank, Des Moines
Martin, Thomas S., Assistant Vice President, Merchants National Bank, Cedar Rapids
McMullin, Richard, Vice President and Agricultural Representative, The State Bank of Toledo
McNeil, W. P., President, State Bank of Wapello
McWhirter, T. R., President, Farmers Savings Bank, Traer
Mickelson, Michael D., President and Cashier, First State Bank, Battle Creek
Mittag, Dennis P., Cashier, Swea City State Bank, Swea City
Mohr, Alvin (Whitey), Director, Central Trust and Savings Bank, Eldridge
Moore, James E., President, Tipton State Bank, Tipton
Muller, John H., Assistant Cashier, Okey Vernon National Bank, Corning
Olson, Maurice D., President, Perry State Bank, Perry
Ortmann, Cy, Vice President and Farm Representative, First National Bank in Le Mars
Paulson, Duane M., Executive Vice President, Roland State Bank, Roland
Petersen, Harald J., Vice President, Iowa Trust and Savings Bank, Estherville
Pierson, Arlie A., Farm Representative, LeMars Savings Bank, LeMars
Pothoven, John, Farm Representative, Iowa Falls State Bank, Iowa Falls

IOWA, continued

Ralston, Robert J., Vice President, First National Bank, West Union
Reding, Larry L., Agricultural Representative, Sac City State Bank, Sac City
Rickert, William J., Vice President, National Bank of Waterloo
Riggs, Craig, Executive Vice President, Tingley State Savings Bank, Tingley
Roberts, Donald M., Vice President, The First National Bank in Humboldt
Rummells, L. C., President, West Branch State Bank, West Branch
Sabbann, Don, Vice President and Agricultural Representative, The Newton National Bank, Newton
Septer, Hugh J., Vice President and Farm Representative, Ida County State Bank, Ida Grove
Shipman, Wesley, Director, State Bank of Wapello
Shissler, I. W., Vice President, First National Bank, Colfax
Sidney, Dexter J., Associate Editor, NORTHWESTERN BANKER, Des Moines
Smith, Thomas R., President, First National Bank of Perry
Stempel, Alfred P., Second Vice President, The Mutual Benefit Life Insurance Co., Ames
Stephens, David E., Vice President, Central Trust and Savings Bank, Eldridge
Stewart, Roger, Vice President, Maquoketa State Bank, Maquoketa
Strange, J. W., Agricultural Representative, First National Bank, Fort Dodge
Sunde, Carroll O., Vice President, Security Bank and Trust Company, Decorah
Taylor, Richard C., Vice President and Cashier, First National Bank in Sioux City
Tillman, Leroy, Director, State Bank of Wapello
Trepp, Larry W., Assistant Cashier and Agricultural Representative, First National Bank of Waverly
Tubbs, E. L., President, Maquoketa State Bank, Maquoketa
Underwood, Roger, Cashier, Guthrie County State Bank, Guthrie Center
Walther, John A., President, Renwick Savings Bank, Renwick
Willer, W. D., Vice President and Farm Representative, Decorah State Bank, Decorah
Wollenhaupt, A. T., Executive Vice President, State Bank of Wapello
Wright, J. Joe, Assistant Vice President, Central State Bank, Muscatine
Young, William G., President, State Savings Bank, Bedford

KANSAS

Aldridge, Gary L., Assistant Agricultural Representative, The Fidelity State Bank, Garden City
Altman, Wally, President, Home State Bank, Clearwater
Barndollar, Pratt, Senior Vice President, First National Bank, Coffeyville
Barrett, Edward, Partner, Flint Hills Feedlot, Emporia
Bauer, Wade A., Assistant Cashier and Farm Representative, The Peoples National Bank, Clay Center
Becker, Dorman C., Vice President and Cashier, Durham State Bank, Durham
Berry, Emery W., Agricultural Representative, Citizens National Bank, Minneapolis
Birkbeck, James S., Vice President, Commercial National Bank, Kansas City

KANSAS, continued

Bonine, Dan R., Agricultural Representative, Merchants National Bank, Topeka
Bowman, Carl A., Executive Vice President, Kansas Bankers Association, Topeka
Brenner, Leo J., Executive Vice President and Cashier, Bazine State Bank, Bazine
Broadie, Harold E., Vice President, First National Bank and Trust Co., Larned
Brodine, Vernon T., Senior Vice President, The First National Bank and Trust Co., Salina
Brooks, R. R., Vice President, The Farmers and Drovers National Bank, Marion
Brown, Charles F., Assistant Cashier and Farm Representative, The First State Bank, Edna
Buchele, Robert, Chairman of Board, Howard National Bank, Howard
Bugbee, R. W., President, First National Bank, Quinter
Casement, William, Jr., President, Sedan State Bank, Sedan
Catlin, Harry L., Cashier, The Oxford Bank, Oxford
Chestnut, Sam I., Assistant Vice President, First National Bank, Quinter
Classen, Matthew H., President, Marion National Bank, Marion
Cordts, John N., Executive Vice President, The First National Bank, Overbrook
Crutcher, J. S., Assistant Cashier, The Citizens National Bank, Fort Scott
Custine, Richard J., Vice President, Union National Bank of Wichita
Davidson, Lloyd A., Assistant Vice President, Kendall State Bank, Valley Falls
Delaney, Dick M., President, The Farmers Bank of Leona
Detrich, Neil, President, Chapman State Bank, Chapman
Dickerson, Max, Senior Vice President, Commercial National Bank, Kansas City
Doak, George L., Executive Vice President, Kansas Development Credit Corporation, Topeka
Drouhard, Leo F., President, The Farmers and Merchants State Bank, Argonia
Eisenbeis, Don, Cashier, First National Bank, Wamego
Elliott, Norman V., President, First National Bank, Gaylord
Engleman, Dale, Vice President, Security State Bank, Great Bend
Esslinger, Charles L., Farm Representative, Bank of Commerce, Chanute
Etling, Hoy B., Executive Vice President, The Fidelity State Bank, Garden City
Evans, David E., Cashier, The State Bank of Lebo
Fabricius, Cecil, Cashier, Farmers State Bank, Bogue
Fowler, David, Cashier, First State Bank, Burlingame
Gideon, Clarence J., President, Silver Lake State Bank, Silver Lake
Gray, Bill, First National Bank, Goodland
Gray, Melville W., Director, Environmental Health Services, Kansas State Department of Health, Topeka
Green, William W., Vice President, Citizens State Bank and Trust Co., Hiawatha

KANSAS, continued

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Haddock, Dean D., President, Guaranty State Bank and Trust Co., Beloit
Hadley, Niles A., Cashier, First State Bank, Mullinville
Hamilton, Robert E., Cashier, The Saline Valley Bank, Lincoln
Harris, Loren, Vice President, National Bank of America, Salina
Haskins, David, Assistant Cashier and Agricultural Representative, The Cloud County Bank, Concordia
Hays, Earl H., Vice President, Farmers State Bank, Oakley
Hazlett, Dale, Vice President, First National Bank, Sterling
Henderson, Ed., Vice President, Fidelity State Bank and Trust Co., Topeka
Henry, Thad, Loan Officer, The Peoples Bank, Pratt
Herrold, Gary D., Assistant Vice President, Farmers State Bank, Galva
Holloran, Charles Guy, Kansas State Bank, Garnett
Hubbell, Melvin, Agricultural Representative, First National Bank, Winfield
Hughes, Ronald, Partner, Flint Hills Feedlot, Emporia
Ingle, Don, Agricultural Representative, Home State Bank, Clearwater
Jester, Thomas H., President, The Oxford Bank, Oxford
Johnson, Dean K., Correspondent Bank Officer, Hutchinson National Bank and Trust Company, Hutchinson
Johnson, Roger H., Vice President and Farm Manager, Hutchison National Bank and Trust Co., Hutchison
Kirkwood, Roger D., Secretary, Kansas Bankers Association, Topeka
Lanie, Larry J., Vice President, Union State Bank, Clay Center
Lull, Linton C., President, Smith County State Bank and Trust Co., Smith Center
McComb, John G., Assistant Vice President, Central State Bank, Hutchinson
McReynolds, J. M., President, Farmers National Bank, Lincoln
McVicker, Earl D., Farm Representative, Bazine State Bank, Bazine
Morgan, L. D., Senior Vice President, First National Bank, Goodland
Morse, E. A., President, The Citizens Bank, Abilene
Moyer, Charles I., Vice President, First National Bank, Phillipsburg
Newsom, Joe, Vice President, Hutchinson National Bank and Trust Company, Hutchinson
Overmiller, John W., Agricultural Representative, First National Bank, Smith Center
Padgett, Gary W., President, The Citizens National Bank, Greenleaf
Patrick, Curtis C., Vice President and Cashier, The State Bank of Oskaloosa
Payer, V. Eugene, President and Chairman of Board, National Bank of Wichita
Pershall, Ray, Vice President, Allen County State Bank, Iola
Ploger, Donald, Vice President, Garden National Bank, Garden City
Ramsey, Duane K., Vice President and Cashier, Security State Bank, Scott City
Ransom, W. G., Vice President and Farm Representative, Peoples National Bank, Ottawa
Rethorst, Robert, Vice President and Farm Service Director, Smith County State Bank, Smith Center

KANSAS, continued
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Riordan, R. D., President, Solomon State Bank, Solomon
Robinson, Bayard T., Cashier, Murdock State Bank, Murdock
Rolfs, E. W., Chairman of the Board, Central National Bank, Junction City
Sharpe, Graydon, Vice President, First National Bank in Wichita
Shore, Carl L., Vice President, The Peoples Bank, Pratt
Stanley, Jim, Assistant Vice President, First National Bank in Wichita
Sturgeon, Larry, Farm Representative, Fidelity State Bank, Dodge City
Sundgren, Tim, Assistant Cashier, Farmers State Bank, Winona
Sweat, Ronald J., Vice President, Guaranty State Bank and Trust Co., Beloit
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Walker, Harold, Vice President, The Home National Bank, Arkansas City
Walter, Gerald, Vice President and Agriculture Representative, The Saline Valley Bank, Lincoln
Wilhite, K. Jon, Assistant Cashier, Kansas State Bank, Overbrook
Williams, Larry K., Executive Vice President, The Halstead Bank, Halstead
Winter, Russell, President, The State Bank of Satanta

KENTUCKY
Atherton, Faye, Executive Representative, Citizens Bank and Trust Company, Glasgow
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Pace, James T., President, Citizens Bank and Trust Co., Glasgow
Pugh, Ed, Agricultural Representative, Citizens Bank and Trust Co., Glasgow
Shouse, H. T., Vice President and Cashier, Morganfield National Bank, Morganfield
Sturgill, Paul B., Vice President, First Security National Bank and Trust Company, Lexington
Wilson, Earl, Manager, Mammoth Cave P.C.A., Citizens Bank and Trust Company, Glasgow

LOUISIANA
Hankins, T. E., Vice President, Bank of Dixie, Lake Providence
Loftin, William G., Agricultural Representative, First National Bank of Delhi
Wilkerson, Wayne, Vice President, Rapides Bank and Trust Company, Alexandria

MICHIGAN
Burdick, John M., Vice President, Community Bank, Bad Axe
Stover, Don, Assistant Vice President, First National Bank of Southwestern Michigan, Niles

MINNESOTA

Anderson, Wendell H., President, Northwestern State Bank, Tracy
Babcock, Sam, Director, Clay County State Bank, Dilworth
Bartholomay, Thomas H., Assistant Vice President, First Bank System, Minneapolis
Christison, Charles, Director, The First National Bank, Plainview
Erickson, J. Leonard, Assistant Vice President, Marquette National Bank, Minneapolis
Fick, Avery G., Vice President, Marquette National Bank, Minneapolis
Gruman, Robert G., Assistant Vice President, First National Bank of Minneapolis
Halvorson, Harry A., Vice President, The First National Bank, Plainview
Hart, Vincent F., President, The Security State Bank, Wells
Haskins, Gary D., Executive Vice President and Cashier, Clay County State Bank, Dilworth
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O'Connor, Gerald L., Vice President, O'Connor Bros. State Bank, Renville
Prust, Bertram H., Vice President and Cashier, The First National Bank of St. Peter
Strand, D. J., Peoples State Bank, Milan
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Zabel, T. V., Vice President, Peoples State Bank, Plainview
Zimmerman, Earl, Agricultural Representative, Citizens Bank and Trust Co., Hutchinson

MISSISSIPPI

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MISSOURI

Akers, Frank N., Agricultural Representative, Gentry County Bank, Albany
Avery, Arlin, Agricultural Representative, Bank of New Madrid
Belshe, Charles, Vice President, First National Bank, Gallatin
Benitz, Gordon O., Vice President and Cashier, First National Bank of Richmond
Bond, Wayne, Vice President, First State Bank of Caruthersville
Brown, Thomas E., Professor, University of Missouri, Columbia
Burk, Joe, Assistant Farm Loan Officer, Farmers and Merchants Bank, Cape Girardeau
Burt, John R., Regional Administrator, Comptroller of the Currency, U.S. Treasury, Kansas City
Cline, John R., President, Commerce Bank of Mexico
Coulson, Fred N. Jr., Vice President, Commerce Bank of Kansas City
Cusick, John A., Vice President, Chillicothe State Bank, Chillicothe

MISSOURI, continued

Daniel, David G., President, Livestock Board of Trade, Inc., Kansas City
Dewhirst, Victor E., District Manager, The Mutual Benefit Life Insurance Co., St. Joseph
Dittman, Marcus W., President, First National Bank of Richmond
Doll, Raymond J., Vice President and Senior Economist, Federal Reserve Bank of Kansas City
Donnell, Roy, Vice President, Wood and Huston Bank, Marshall
Duncan, Norvel W., Assistant Vice President and Director of Farm Loans, Kansas City Life Insurance Company, Kansas City
Eisenhauer, C. A., Vice President, Commerce Bank of Moberly
Flentje, Winston, Agricultural Representative, Trenton Trust Company, Trenton
Franklin, T. H., Vice President and Cashier, Citizens Bank of Eldon
Green, Ruby, Director, Commerce Bank of Kirksville, N.A., Kirksville
Greiner, Frank, Commercial Banking Representative, Commerce Bank of Kansas City
Griffin, Glen H., Assistant Director of Farm Loans, Kansas City Life Insurance Company, Kansas City
Grimes, Glenn A., Associate Professor, University of Missouri, Columbia
Gnuse, L. A., President, Lewistown State Bank, Lewistown
Harlin, John, Executive Vice President, Bank of Gainesville
Harms, Ernest L., Vice President, Commerce Bank of Kansas City
Hays, Robert L., Vice President, Thornton National Bank, Nevada
Henson, J. C., Vice President and Agricultural Representative, Bethany Trust Co., Bethany
Hoozer, Max Van, Executive Vice President, First National Bank, Tarkio
Hugenot, Verle R., Assistant Vice President, First National Bank, Centralia
Hurner, Ken, Executive Vice President and Cashier, Bank of Skidmore
Jessee, Belle, Commercial Bank Officer, Commerce Bank of Kansas City
Johnson, Rex, Vice President, Commerce Bank of Mexico
Johnson, Sam F., Agricultural Representative, Salisbury Savings Bank, Salisbury
Kerr, Joseph S., Vice President, Bank of Kennett
Klein, Milton G., Regional Manager, The Equitable Life Assurance Society of U.S., Kansas City
Knight, Robert E., Research Officer and Economist, Federal Reserve Bank of Kansas City
Lammers, Robert C., Vice President, United Bank, Macon
Lasley, K. Adrian, Cashier, State Bank of Willow Springs
Lanpher, Harry, Agricultural Representative, Trenton Trust Company, Trenton
LeGrand, Felix, Executive Manager, Missouri Bankers Association, Columbia
Lockridge, Kenneth, Home Exchange Bank, Jamesport
Meyer, Harry M., President, Jackson Exchange Bank, Jackson
Mayer, John A., President, Commerce Bank of Tipton
Minor, Carl A., Vice President, The Farmers Bank of Maysville

MISSOURI, continued

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Nowland, Frank, Agricultural Consultant, Home Exchange Bank, Jamesport
Olson, Charles H., Manager, The Travelers Insurance Company, Kansas City
O'Neal, Benton, Vice President, First National Bank, St. Joseph
Overton, Bob, Executive Vice President, Princeton State Bank, Princeton
Poor, Ron R., Cashier, First National Bank, Neosho
Reynolds, Don, Agricultural Representative, Commerce Bank of Kirksville
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Schrier, John K., Executive Vice President, Citizens State Bank, Maryville
Schutte, Robert W., Loan Officer and Agricultural Representative, Exchange Bank of Kahoka
Selby, Robert S., Vice President, Commerce Bank of Kansas City
Skelton, John B., President, Wellington Bank, Wellington
Spillman, Grimes, President, Home Exchange Bank, Jamesport
Steck, Frank, Vice President, Farmers and Merchants Bank, Cape Girardeau
Thompson, Luther H., Executive Vice President, The Bank of Atchison County, Rock Port
Tracy, Harold C., Agricultural Representative, Trenton National Bank, Trenton
Weiss, Norman, Director, Jackson Exchange Bank, Jackson
Wharton, Jack, Vice President and Cashier, Farmers and Commercial Bank, Holden
Whisler, Vernon E., Vice President Agriculture, The American National Bank, St. Joseph
Wilmot, Fred W., Special Representative, Thornton National Bank, Nevada
Winkler, Vernon, Farm Representative, Allen Bank and Trust Company, Harrisonville
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MONTANA

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NEBRASKA

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Beachly, Ramey, Executive Vice President and Cashier, Otoe County National Bank, Nebraska City
Beavers, Valdean R., Vice President, First National Bank, Wahoo
Bonham, Marion C., President, The First National Bank of York
Bortz, Eugene W., President, Bank of Panama

NEBRASKA, continued

Braun, Walter W., Vice President, The Beatrice National Bank and Trust Co., Beatrice
Brown, David, Correspondent Bank Representative, American National Bank and Trust of Chicago, Omaha
Brown, Everett P., Assistant Vice President, U.S. National Bank of Omaha
Bruning, Frank L., President, Bruning State Bank, Bruning
Burson, Alfred, Chairman of the Board, First National Bank of Ord, Nebraska
Caley, L. Clark, President, Bank of Clarks
Dewey, T. E., President, Havelock Bank, Lincoln
Doehring, Arlo, Vice President, Farmers State Bank, Superior
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Grasmick, John J., President, Gresham State Bank, Gresham
Jackman, F. W., Chairman, The Farmers National Bank, Grant
Jepson, Lowell D., Senior Vice President, The Cattle National Bank, Seward
Johnson, Laverne, President, First National Bank, Ord
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Jones, David, The Cattle National Bank, Seward
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Lindekugel, Claude P., Vice President, The First National Bank of North Platte
Loewenstein, Elbert, President, Stamford Bank, Stamford
Lutes, James D., President, Scribner Bank, Scribner
Morse, Frank L., Vice President, The Albion National Bank, Albion
Mulig, Vernon R., Vice President, First National Bank and Trust Co., Beatrice
Nelson, Carlyle K., Assistant Cashier, Citizens State Bank, Lincoln
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Nielson, Howard W., Vice President, U.S. National Bank of Omaha
Norman, Conway O., Livestock Inspector, The Omaha National Bank, Omaha
Norris, Allen, Vice President, Adams County Bank, Kenesaw
Novak, L. M., Executive Vice President, Union Bank and Trust Company, Lincoln
Osterberg, William H., Executive Manager, Nebraska Bankers Association, Omaha
Paulson, John, Vice President, Nebraska State Bank, South Sioux City
Peters, Jay D., Executive Vice President, Fillmore County Bank, Geneva
Phelps, Ralph V., Vice President, First National Bank, Hastings
Pohlmann, Dale E., Assistant Vice President and Agricultural Representative, Commercial State Bank, Wausa

NEBRASKA, continued
Randecker, Jack, President, Farnam Bank, Farnam
Rathman, Russell L., Cashier, Bank of Norfolk
Richards, Bill, President, First Security Bank, Holdrege
Rohn, Marvin G., Second Vice President, The Omaha National Bank, Omaha
Rossiter, James B., President, First National Bank, Walthill
Schomburg, David L., Vice President, Commercial National Bank and Trust Co., Grand Island
Sibert, Frank J., Vice President, Northwestern National Bank, Omaha
Spence, George H., Agriculture Officer, American National Bank and Trust of Chicago, Omaha
Terwilliger, R. J., President, Citizens State Bank, Decatur
Thayer, Ernest J., Vice President, First National Bank, Grand Island
Whiteaker, Joe, Vice President, The Sioux National Bank, Harrison

NEW YORK
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NORTH DAKOTA
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OHIO
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Buckley, Don, Deputy Manager, Ohio Bankers Association, Columbus
Carter, David H., Assistant Vice President and Manager, The First Knox National Bank, Fredericktown
Feller, Robert A., President, The First National Bank of Findlay

OHIO, continued

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Johnson, Thereon, Executive Vice President, The Farmers Bank and Savings Co., Pomeroy
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OKLAHOMA

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Boehlje, Michael D., Assistant Professor, Oklahoma State University, Stillwater
Borelli, George, Director, The Peoples National Bank, Kingfisher
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Carey, Gerald, Agricultural Representative, Citizens National Bank, El Reno
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Hammons, J. Roy, Vice President, American State Bank, Thomas
Hill, James L., Correspondent Banking Officer, Liberty National Bank and Trust Company, Oklahoma City
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Parker, Garland, Executive Vice President, Citizens National Bank, El Reno
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Reid, George, Executive Vice President, First National Bank, Stillwater
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Stone, Jack R., President, The First National Bank, Tipton
Stoner, Charles L., President, Welch State Bank, Welch
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Tubbs, Alan R., Extension Economist, Oklahoma State University, Stillwater
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OKLAHOMA, continued
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OREGON
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PENNSYLVANIA
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Button, Basil W., Assistant Vice President, County National Bank, Montrose
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Whipple, Paul B., Credit Manager, Pennfield Corp., Lancaster

SOUTH CAROLINA
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SOUTH DAKOTA
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Ekstrum, Charles W., Assistant Vice President and Agricultural Representative, First National Bank, Philip
Lerdal, Herman, President, The Mitchell National Bank, Mitchell
Mehlhaff, D. O., President, Eureka State Bank, Eureka
Milner, Neil, Executive Manager, South Dakota Bankers Association, Huron
Morrill, Stan D., Vice President, National Bank of South Dakota, Sioux Falls
Stedronsky, Ray, Vice President, Andes State Bank, Lake Andes
Tengwall, Arlan, Vice President, First National Bank of Aberdeen
VanVleet, N. F., President, Community Bank, Hartford
Vermillion, William F., Cashier, First National Bank of Beresford
Whealy, D. S., Vice President, Community Bank, Hartford

TENNESSEE
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Fisher, James W., Vice President, First National Bank, Clarksville
Gayle, Gupton, Vice President, Third National Bank, Nashville
Hunter, Joseph D., Assistant Vice President, First National Bank, Clarksville
Norman, Edward M., President, The First National Bank, Clarksville

TEXAS

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Garrison, Gene, Vice President, National Bank of Commerce of San Antonio
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Love, George N., Regional Credit Manager, Elanco Products Company Dallas
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Prater, Tom E., Economist-Management, Texas Agricultural Extension Service, College Station
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VIRGINIA

Godsey, Roie M., Vice President, Virginia National Bank, Charlottesville
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Stacey, Burton E., Vice President, National Bank and Trust Company, Charlottesville

WISCONSIN

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Mangold, J. A., President, First National Bank and Trust Company, Burlington
Prosser, Thomas J., President, The National Manufacturers Bank, Neenah
Smithrude, Eric P., Cashier, Sharon State Bank, Sharon
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Zweifel, Erwin L., Assistant Vice President, Merchants and Savings Bank, Janesville

CANADA

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THE AMERICAN BANKERS ASSOCIATION
20th NATIONAL AGRICULTURAL AND RURAL AFFAIRS CONFERENCE
Muehlebach Hotel, Kansas City, Missouri
November 14-17, 1971

SUPPLEMENTAL REGISTRATIONS

ARIZONA

Ellsworth, E. W. Jr., Assistant Vice President, The Arizona Bank, Phoenix, Arizona

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Fletcher, Donald C., Vice President, Security Pacific National Bank, Los Angeles, California

Harmon, Charles P., Assistant Vice President, Security Pacific National Bank, Riverside

COLORADO

Bosley, Steven K., Commercial Banking Officer, United Bank of Denver, Denver

Harker, John E., Chairman of the Board, First National Bank, Burlington

Peterson, Francis, Vice President, United Bank of Denver, Denver

Risinger, Al, Agricultural Representative, First National Bank, Loveland

Scarboro, J. C., Executive Manager, Colorado Bankers Association, Denver

Wilson, Michael A., Cashier, Palisade National Bank, Palisade

Winter, Donald, Vice President, First National Bank, Burlington

DISTRICT OF COLUMBIA

Loyd, F. Glennon, Deputy Director Information Division, USDA Soil Conservation Service, Washington

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ILLINOIS

Becker, Ralph A., Senior Vice President, DeWitt County National Bank, Clinton

Clark, George, Vice President and Cashier, Farmers National Bank, Knoxville

Cummings, Fred D., Senior Vice President, Drovers National Bank of Chicago, Chicago

Finch, Lindley, Vice President, Continental Illinois National Bank, Chicago

Hull, William, John Warner Bank, Clinton

Johnson, Harry, Vice President, The National Bank of Rochelle, Rochelle

Kirby, Owen R., General Manager, Producers Livestock Credit Corporation, Chicago

McEwen, Gilbert J., Assistant Vice President, Harris Trust & Savings Bank, Chicago

Miller, Bernard D., Vice President, Drovers National Bank of Chicago, Chicago

Spong, Larry, Old Republic Insurance Company, Chicago

Summers, Robert L., The Illinois National Bank of Springfield, Springfield

INDIANA

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IOWA

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Bartik, E. C., President, Corwith State Bank, Corwith

Brown, Robert R., President, Hardin County Savings Bank, Eldora

Brunsvold, Otto, Assistant Cashier, Northwood State Bank, Northwood

Clawson, Robert D., Vice President, The State Bank, Fort Dodge

Cody, James T., Vice President and Cashier, Dallas County Savings Bank, Minburn

Dannenberg, Robert E., Vice President, The Toy National Bank, Sioux City

Fordyce, Jay A., President, Mount Vernon Bank and Trust Company, Mount Vernon

IOWA (cont.)

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Hessing, Brock L., Corresponding Banking Officer, Iowa-Des Moines National Bank, Des Moines

Honken, Stanley, Assistant Vice President, Citizens State Bank, Clarinda

Jackson, K. W., President, The Lone Rock Bank, Lone Rock

Klug, Michael J., Teller, Security State Bank, Radcliffe

Loudon, Hugh H., Vice President, Citizens State Bank, Clarinda

Macha, Ernest F., Director, Renwich Savings Bank, Renwick

Martinson, Dale R., Cashier, Security State Bank, Radcliffe

Moklebust, John, Vice President, Humboldt Trust & Savings Bank, Humboldt

Nance, Raymond L., Vice President, Hardin County Savings Bank, Eldora

Norland, Ed, Cashier, Iowa Trust and Savings, Emmetsburg

Olson, Larry L., President, Home State Bank, Royal

Peterson, Robert W., Vice President, United Home Bank & Trust Company, Mason City

Schakel, Mark E., Vice President, Jasper County Savings Bank, Newton

Schaller, H. W. President, Citizens First National Bank, Storm Lake

Schultz, Arnold, Executive Vice President, Grundy National Bank, Grundy Center

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Burger, James P., Assistant Cashier, Union State Bank, Monona

IOWA (cont.)

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Luett, David, Vice President, Jackson State Bank and Trust Company, Maquoketa

Mallen, James E., President, Farmers State Bank, Kanawha

Rukgaber, J. R., Assistant Vice President and Farm Director, Union Bank and Trust Company, Ottumala

Wolf, Eddie A., Vice President, Central National Bank and Trust Company, Des Moines

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KANSAS

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Duwe, J. Rex, President, The Farmers State Bank, Lucas

Evans, Phil, Jr., Vice President, Citizens National Bank, Eureka

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Fort, Earl, Vice President, Grant County State Bank, Ulysses

Good, Arnold, Executive Vice President, First National Bank of Barnard, Barnard

Hall, Harold, Jr., Executive Vice President, First National Bank, Dighton

Heiman, E. F., President, The Baileyville State Bank, Baileyville,

Koehn, Harold, Manager, Pawnee Beefbuilders Feed Lot, Larned

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KANSAS (cont.)

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Luder, Stuart D., Vice President, First National Bank, Wellington

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Pruter, Keith L., Cashier, First National Bank, Natoma

Rowson, Jack, Vice President, The Assaria State Bank, Assaria

Ruggels, Frank L., Vice President, The First National Bank, Natoma

Rundquist, Ralph, President, The Assaria State Bank, Assaria

Wilson, Clarence A., President, The Home State Bank, LaCrosse

Wilson, L. G., Vice President, The Bank of Louisburg, Louisburg

Beutler, Boyd, Vice President and Cashier, First State Bank, Ness City

Bradley, Dale A., Cashier, The Citizens State Bank, Miltonvale

KANSAS (cont.)

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KENTUCKY

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MINNESOTA

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Peterson, Leslie, President, Farmers State Bank, Trimont

Ray, F. Gordon, Pipestone Vocational School, Pipestone

MISSOURI

Barton, Murl, President, Farmers Bank of Green City, Green City

Beggs, Stanley K., Director, Jackson Exchange Bank, Jackson

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Broyles, Roy, Vice President, First National Bank, Bethany

Burk, Charles F., Farm Service Director, The Aurora Bank, Aurora

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Clark, Charles, Agricultural Vice President, First National Bank, Joplin

Downing, Everett, Agricultural Representative, Park Bank, St. Joseph

Fesperman, Don F., Assistant Vice President, Union National Bank, Springfield

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MISSOURI (cont.)

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Jett, Herbert G., Executive Vice President, Barton County State Bank, Lamar

Maslanka, Thomas E., Branch Manager, Lawrence Systems, Inc., Kansas City

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King, Elston B., President, First National Bank, Plattsburg

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McCoy, Robert J., Vice President, First National Bank and Trust Company, Joplin

Miller, Glenn A., Vice President and Cashier, Canton State Bank, Canton

Miller, Philip R., Assistant Vice President, First Stock Yards Bank, St. Joseph

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Mottaz, Ed, President, Security Bank of Auxvasse, Auxvasse

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NEBRASKA

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Bahe, Theodore L., Vice President, State National Bank and Trust Company, Wayne

Booth, Jim, Vice President, Home State Bank, Beaver Crossing

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Liggett, George, Vice President, First National Bank, Utica

NEBRASKA

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Morehead, John, President, Richardson County Bank, Falls City

Nutzman, Deane E., Director, The Nehawka Bank, Nehawka

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Stillahn, Richard, Jones National Bank, Seward

Wanitschke, George, President, Bank of Doniphan, Doniphan

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NORTH CAROLINA

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NORTH DAKOTA

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