

## SOME CREDIT AGENCY ADJUSTMENTS FOR WARTIME NEEDS

H. S. WHALIN

*The Federal Land Bank of St. Louis*

When the Food-for-Freedom program was originally announced, Claude R. Wickard, Secretary of Agriculture, made the following statement, "The Nation is calling on farmers this year to turn out the greatest farm production in history. The people of America and the United Nations need more meat, milk, eggs, vegetables, fruits, and oil crops. We must have them for health and strength and critical military supplies. They are munitions of war. . . ."

"The services of banks and of Government farm credit institutions must be used as well as these other services. Adequate financing is vital to the success of the farmers' production program."<sup>1</sup>

This statement was made in connection with the food production program in 1942. Since that time the need has increased tremendously and it does not appear today that we can possibly produce as much in 1943 as is needed. Increased production demands the extension of additional credit by agencies financing farmers.

To the casual observer it may appear that most credit agencies have not made many changes in their operations in order to keep geared to the needs of our wartime economy. No doubt, some credit agencies have found it necessary or desirable to make more changes than others. There are some demands from the other branches of our wartime economy which have affected all credit agencies; for instance, the armed forces have taken many of the younger men from their ranks. War industries have been strong competitors for experienced personnel. Such demands have caused many changes in personnel resulting in loss of efficiency, at least temporarily, and in loss of the time used in training new employees. In many cases, these shifts in personnel have resulted in increasing the duties of the remaining employees in the organization.

Increased wages and prices together with heavy Government borrowings have resulted in greatly increased bank deposits and have enhanced the purchasing power and the debt paying ability of many individuals. With this condition prevailing, it becomes the patriotic duty of all credit agencies to do what they can to discourage inflationary trends without operating on a basis which would hamper the war effort.

It is not possible to cover all credit agencies in a review of this nature; consequently, I shall confine my remarks to a limited number of well known ones.

### FARM CREDIT ADMINISTRATION

In the field of agricultural credit, the Farm Credit Administration holds an important position. The Federal Land Bank, the Production Credit Corporation, the Bank for Cooperatives, and the Intermediate Credit Bank are the four units which make up the Farm Credit Administration. As you may know, the Federal Land Bank makes long term loans to farmers on the security of first mortgages on farm lands; the Production Credit Corporation through the Production Credit Associations makes loans to farmers for production purposes, usually accepting chattel mortgage security; the Bank for Cooperatives finances farmers' cooperatives; and the Intermediate Credit Bank is a bank of discount. It discounts paper for the Production Credit Associations and the Bank for Cooperatives as well as for other agricultural lending agencies.

The Federal Land Banks hold a place of importance in the farm mortgage lending field. Together with the Federal Farm Mortgage Corporation, they have about 40 per cent of the farm mortgage loans outstanding in this country.

The Federal Land Bank of St. Louis, operating in Illinois, Missouri, and Ar-

<sup>1</sup>Bulletin: "How Banks can Assist in the Food-for-Freedom Program," by Agricultural Commission of the American Bankers Association. p. 5.

ansas, has adopted a balanced wartime program through which it and the National Farm Loan Associations are seeking to make their contribution to the farmers' war effort. This program is designed to emphasize the farmers' wartime responsibility and is divided into three sections: production, control of debts, and war bonds purchases. This program recognizes that farmers, like all other loyal citizens, are willing to do their full share in the Nation's war effort.

#### *Production*

All of us recognize that the farmers' most important wartime job is the maximum production of essential foods and fibers. The demand for food production on our American farms in 1943 is almost unlimited. The demand for certain farm products is acute and is increasing. We have not only the problem of providing food for ourselves and our armed forces, but have heavy demands coming from our Allies. Many conquered countries are looking to the American farmer ultimately to save them from starvation. Farmers did a commendable job in 1942 and they are planning to exceed this record this year in spite of shortages of machinery, supplies, and labor.

#### *Control of Debt*

Agriculture organized on a sound financial basis is a national asset. A sound financial program for the individual farm means much to the individual farm family. In periods of good farm income, farmers who are in debt should consider doing at least two things. First, anyone having a debt which cannot reasonably be expected to be repaid in full during these years of high farm income should put it on a long term amortized basis. He should also establish himself on a sound financial basis by setting up reserves. The farmer with a substantial mortgage debt needs to set up a reserve against that debt.

There are different methods which may be used to hedge against a mortgage debt. Term life insurance is an example. Under this plan, the borrower takes out a term life insurance policy at the time he obtains his mortgage loan. The amount and term of the policy are the same as for the mortgage. If he dies during the term of his policy, his mort-

gage is automatically paid by the insurance company.

The principle of hedging against a mortgage debt is so sound that the bank has incorporated it into its own program. Today any borrower from the Federal Land Bank can use his surplus funds to build to his credit a reserve in the bank to be drawn on for application on his loan as needed or as he sees fit. This reserve is called his "future payment fund." He receives an interest credit semi-annually on the money placed in this fund at the same interest rate he pays on his loan.

The other reserve which may be set up in periods of surplus income is one that will serve as a protection against unforeseen demands for cash. A reserve for such a purpose should be made up of the type of investments which meet two requirements. First, the investment should be of a liquid character under any and all circumstances; that is, the owner should be able to convert the investment into cash whenever he wants to do so. Second, it should also be the type of investment that can be converted into cash under any and all circumstances, at any time, at one hundred cents or more on the dollar.

#### *War Bonds Purchases*

Everyone should buy some War Bonds. The question for farmers is how much. On the basis of sound financial planning, the answer is easy:

1. Farmers who are still trying to get debts in shape should buy some war bonds; they will feel better for having done so.
2. Farmers who have reduced their indebtedness to a manageable basis under normal conditions should purchase the amount needed to fully establish adequate reserves.
3. Farmers who are out of debt should establish adequate reserves and buy as many more as their resources will permit.

It is not only good planning to have a reserve of War Bonds; it is also the patriotic privilege and the duty of every American citizen to buy them when his country is at war. William I. Myers, Consultant War Savings Staff United States Treasury says, "The financial welfare of farm people in the next two

decades depends to a great extent on the wise utilization of the higher farm incomes of the present war period. For the first time since the last World War, the incomes of farmers generally will provide a margin for reserves above necessary expenses. The overexpansion and speculation in agriculture between 1914 and 1920 resulted in suffering and loss in later years to thousands of farmers who expanded their business on credit at the inflated values of that period. The only effective way of avoiding the disastrous results of inflation and deflation is through using the increased incomes of this period to get debts in shape and to build financial reserves in War Bonds."<sup>2</sup>

The Federal Land Bank is continuing to make loans on the basis of "normal agricultural values." This loan policy is being followed by many of the other principal farm mortgage lending agencies in the country and it represents a sound means of preventing farm land booms.

Since the War started, the Federal Land Bank of St. Louis has liberalized its policy regarding the repayment of loans. Now, a borrower may pay any amount on his loan at any time, stopping accrual of interest on the amount paid on the day the payment is made, or he may retire his loan in full at any time without paying any penalty provided the funds are obtained from any source other than borrowing from a non-Governmental lending agency. This policy is in keeping with the purposes for which the Federal Land Bank System was originally organized; namely, to produce funds to finance farmers on terms suited to their needs with the lowest interest rates obtainable and on a basis which would enable them to retire the debt and finally own their farms clear of any encumbrance. During this period of above normal income, this policy has been beneficial to many farmers. The bank also allows its borrowers an interest credit on partial or full installment payments made in advance.

Many of the National Farm Loan Associations are assisting in the sale of War Bonds and stamps. In several instances, two or more of these associations have joined together as an operat-

ing unit using the same personnel, thereby releasing manpower for other work.

The Production Credit Corporation and the Production Credit Associations are taking an active part in financing agricultural production. The associations are ready and willing at all times to assist farmers with their financial problems. Their loans are all made for short terms and the turn-over is rapid and has stepped up since farm income has improved. The Production Credit Associations have given strong support to the war effort by standing ready to finance needed farm production at all times since the War started. Although the most important function of the Production Credit Associations is making loans to finance the production of Food-for-Freedom, they also have contributed much to the war effort in connection with the following programs:

1. Selling War Bonds and Stamps.
2. Encouraging the repair of farm machinery.
3. Discouraging unsound expansion.
4. Assisting the live-at-home program.
5. Encouraging payment of debts.
6. Helping farmers build financial reserves against future uncertainties.
7. Having representation on County USDA War Boards.

#### COMMERCIAL BANKS

The American Bankers Association has actively supported the Food-for-Freedom program since it was originally announced and has encouraged all commercial banks to take an aggressive part in financing the production of food. Perhaps the largest reservoir of credit in this country is to be found in the deposits of individuals in commercial banks. Since large amounts of credit are needed at all times for efficient operations of farms, and extending credit is a normal function of banks, they have had the responsibility of handling much of the credit required by farmers in meeting their production goals.

The general distribution of commercial banks throughout the country makes it possible for them to provide prompt credit service to practically all farmers. Banks have accepted their responsibility for financing agricultural production and

<sup>2</sup>"A Wartime Program for United States Farmers," by William I. Myers; page 10. U. S. Government Printing Office.

have made a valuable contribution to the war effort in doing so. In doing this, they have increased their incomes by handling a larger volume of good agricultural loans. The banks have recognized the vital importance of increasing the production of food. They know that for many farmers, assurance of adequate credit was required before increased production could be undertaken.

Many banks have followed the recommendation of the American Bankers Association that each of them pick one man from among its officers and designate him as its farm contact officer. Where possible, a man trained in agriculture was to be placed in charge of the bank's farm credit department. All the bank's activities pertaining to agricultural defense financing are under the supervision of this man. He is charged with the responsibility of familiarizing himself with the Food-for-Freedom program, of keeping in close touch with the agricultural agencies operating in the territory, and of consulting with the bank's farm customers regarding their plans and programs. He is expected to spend considerable time contacting farmers on their farms in order to keep informed of their credit needs.

The Association also recommends that county-wide bankers' meetings be held to study the needs for agricultural financing, and to bring out ways banks can cooperate with others in it. In addition to representatives from each bank in the county, representatives of the various federal and state agencies, farm organizations, and private agencies were to be asked to attend such meetings.

It is recommended that each bank weigh carefully every need for agricultural credit which comes to it, and if it cannot make the loan, steer it to some other commercial bank or other credit agency for consideration. Applications referred to other agencies are to be followed up to learn of their disposition. Applications that cannot be approved by any bank or credit agency are to be referred to the local War board with full information as to what would be required to justify the loan. When a loan is refused, the bank is expected to explain its reasons to the applicant as he may be able to correct the factors that caused the loan to be declined. It is also suggested that each bank explore every available

agricultural resource in the county and take active part in seeing that it is developed to its fullest producing capacity.

It is not expected that banks will assume risks inconsistent with their obligations to their depositors. Better prices for farm products together with the price supports provided by the Secretary of Agriculture have improved the farmers' debt-paying ability. This means the banks can safely increase the amount of credit extended for agricultural production.

The banks are expected to take an active part in urging expansion by experienced, well equipped farmers on good farms who require only short-term credit to take care of increased expenses to get increased production and who do not need to make large capital investments or to become heavily indebted. It is felt that through personal contacts, loan policies, and publicity, the banks can discourage extravagant expenditures, the accumulation of unnecessarily large inventories, and the purchase of farm land at inflated prices, or the purchase of farm land with down payments that are too small. Loan values on farm land are to be kept at levels which are justified by long term prospects.

The banks have supported the "live-at-home" program, the machinery-repair program, and have encouraged economy in local government expenditures. They have taken an active part in the sales of War Bonds and stamps, not only in the over-the-counter transactions, but in organizing and assisting in the promotional sales work which has been carried on so successfully. Commercial banks also have contributed directly to the war effort by financing much of the Government's short-term credit needs, and by financing industry in connection with war production as well as other production essential to our national welfare.

#### REGIONAL AGRICULTURAL CREDIT CORPORATION

The Regional Agricultural Credit Corporation seems to be the most misunderstood lending agency operating in the agricultural credit field today. The RACC was originally created under the Emergency Relief and Construction Act of 1932 to meet farmers' and stockmen's needs for short term credit.

Feeling the urgent need for maximum production on every American farm in 1943 and recognizing that there are always some farmers in every community who are unable to get financed properly for maximum production; also knowing that many farmers would be unwilling to take the financial risks inherent in expanding their operations for maximum production of war crops, Secretary of Agriculture, Claude R. Wickard announced early this year that \$225,000,000 had been made available for lending to farmers at the county level for the production of essential war-time food and fiber. This additional source of credit for farmers was made available through the RACC. These loans may be made upon the approval of the chairman of the County USDA War Boards and the County RACC loan representatives.

In announcing this program, Secretary Wickard said, "The purpose of this program is to provide adequate financing to assure maximum production of needed commodities. These loans will be made only if it will enable the borrower to engage in or increase his production of essential agricultural commodities. For an applicant to qualify for a loan his farming operation should afford every reasonable assurance that the indebtedness will be liquidated. This program is not a substitute for other sources of credit, nor is it intended to compete with other lenders. Its purpose is to supplement such other sources of credit where needed. Each producer is urged to obtain his financial requirements, if possible, from other sources. Our farmers are faced with a tremendous production job in the 1943 Food-for-Freedom Program. We are doing everything in our power to help them meet the exceedingly high goals. By making available this new source of credit, we hope to enable every producer, large, medium or small, to produce to the limit without being hampered by inadequate financing."<sup>3</sup>

The RACC had not been active since 1934 and had no field force to handle this credit for farmers. An effort is being made to handle this credit for the RACC by using persons who are already engaged in work for some agency of the Department of Agriculture. The Farm Credit Administration was charged with the responsibility of the supervisory

work of the program. F. W. Niemeyer, General Agent of the Farm Credit Administration, St. Louis, Missouri has been appointed as District Vice President of the RACC.

The RACC program is concerned primarily with increased production. It is not concerned with whether few or many loans are made. This is not a program for refinancing existing indebtedness. The mere transfer of a debt from one creditor to another will not aid production. Loans will not be made for the purchase of real estate or for the erection of extensive permanent improvements upon the farm.

Two types of loans are available through the RACC. One may be used for the production of general crops and all types of livestock and has been designated the "F-1 loan." The other type of loan is available for production of essential war crops and is called the "F-2 advance."

#### *F-1 Loans*

Loans under this program may be made to actual producers only. These include any farmer, stockman, or poultry producer, including any partnership or corporation engaged in agricultural or livestock production. Loans may also be made to any local group of farmers or stockmen formed for the purpose of acquiring larger items of machinery or equipment, sires, etc., for common use among the group, provided all members of the group join in executing the note, mortgage, etc.

Loans may be made to finance production, harvesting, and marketing of crops; purchasing, raising, breeding, fattening, and marketing of livestock; production and marketing of poultry, poultry products, and dairy products; purchase and repair of equipment essential to the farmer's production program; and for other purposes incident to the farming or livestock enterprise, including necessary labor and farm living expenses.

In general, the minimum collateral security required will be a first and paramount lien upon the crops to be produced, the chattels purchased, and the livestock or poultry in the production and care of which the proceeds of the loan are to be expended. Such other and additional collateral as the County War Board or

<sup>3</sup>Press release.

the Corporation's loan representative may deem necessary or advisable to afford adequate protection for the debt may be accepted.

All notes are to have a maturity date of one year or less and will draw interest at the rate of 5 per cent per annum payable at maturity. The maturity date should coincide as nearly as practicable with the usual time for marketing the crops or livestock from which liquidation is expected.

#### *F-2 Advances*

In cases where the County War Board finds that a farmer has capacity to produce essential crops and when such production can be related definitely to the use of the proceeds of the advance, the RACC through its local representative may advance to such farmers the amount determined by the War Board to be necessary to finance such production. Such advances may be made on the following terms, which shall be stated in the note or notes evidencing them: The borrower shall undertake production of a specified quantity of essential crops and shall be personally liable for the full amount of the advance; except that, if the County War Board certifies that

1. The borrower has used the amount advanced for producing the crops for the production of which the advance was made;
2. The borrower in good faith has diligently applied principles of good husbandry to the production of such crops;
3. The borrower has applied an amount equal to all proceeds of such crops to the repayment of the advance; and
4. Such amount has been insufficient to repay the advance in full,

then the RACC will not look to other assets of the borrower for the repayment of that part of the advance which exceeds such proceeds but will cancel the borrower's obligation for the balance of the advance.

The following crops have been designated by the Food Production Administration as "essential war crops" the production of which may be financed under this program:

Soybeans for beans  
Flax for seed or fiber

Peanuts to be harvested and picked  
Irish potatoes where farm goal is 3 acres or more  
Sweet potatoes on farms with goals determined  
American Egyptian cotton  
Hemp for seed or fiber  
Dry beans  
Dry peas (excluding wrinkled varieties)  
Castor beans  
Tomatoes, snap beans, lima beans, peas, and carrots for processing or sale fresh  
Cabbage, sweet corn, and table beets for processing only.

These advances shall be made only to farmers who are actual producers. The advances may be made to finance the actual current cash cost of producing and harvesting designated essential war crops and delivering such crops for sale or for processing. In all cases advances made must be secured by a first and paramount lien upon the specific crop to be produced. All notes shall be drawn with a maturity of one year or less and shall draw interest at the rate of 5 per cent per annum.

In making both F-1 loans and F-2 advances, the County USDA War Boards have definite responsibilities. It is their duty to see that the lack of credit does not stand in the way of maximum farm production in their counties in 1943. It is also intended that they handle the RACC loan so that it will not be in direct competition with credit available from other local short-term lenders. In order to assist the RACC loan representatives and the County USDA War Boards in determining when to make RACC credit available to farmers, the following yardstick, or guide, has been worked out for their use in considering applications:

1. Is the applicant eligible?
2. Will the loan maintain or increase production?
3. Does the application show the funds will be used for proper purposes?
4. Is there a probability of successful operation and repayment?
5. Can and will the applicant give satisfactory security?
6. Can and will the applicant produce as much if RACC funds are not available?

If answers to the first five questions are yes and to the sixth one no, then the loan should be made.

## SUMMARY

The lending policy of the Federal Land Banks, based on normal values, acts as a deterrent to inflated land values. This policy is much the same as that expressed for Commercial banks in handling real estate loans. The adjustments made by the Federal Land Bank since the war started all seem to be of the nature which are of direct benefit to farmer borrowers and indicate concern for the future. No doubt, the farmer who establishes adequate reserves now will be able to weather bad times better when they come.

The Production Credit Associations and the Commercial banks are doing a commendable job of handling the financing of production for farmers. Both organizations are making every effort to assist in the war effort and have not limited their activities in connection with aiding the prosecution of the War to lending money where credit would be beneficial to producers. Financing agriculture represents only a portion of the credit furnished by Commercial banks to assist the prosecution of the war.

The funds made available through the Regional Agricultural Credit Corporation make it possible for the County USDA War Boards to see that every farmer

has the credit needed for maximum production on his farm. This credit is to be used as a supplement to other sources of production credit which are available.

It does not appear that any of these credit agencies have permitted the difficulties resulting from the wartime economy to noticeably hamper the service they are rendering the public.

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