



Farmers Respond To Tailor-Made Credit

It Has Mutual Advantages To Bankers And Farmers Alike

WHAT have been the changes in farm lending practices in the last 10 years, and how have these changed practices affected the loan volume? These questions prompted the Federal Reserve Bank of Cleveland to survey its district to find the answers. The study covered 113 commercial banks, of which 64% were member banks and 36% were non-members. Three quarters of the banks were in towns of less than 2500; the largest town was 16,200.

The results of the study have been published in a brochure which traces the relationship between the adoption of new practices in the farm lending field and changes in loan volume. Banks which lengthened the time of their loans, which adopted or increased the use of amortization and chattel mortgages and which lowered

interest rates, showed increases in loan volume, both for real estate and short term loans.

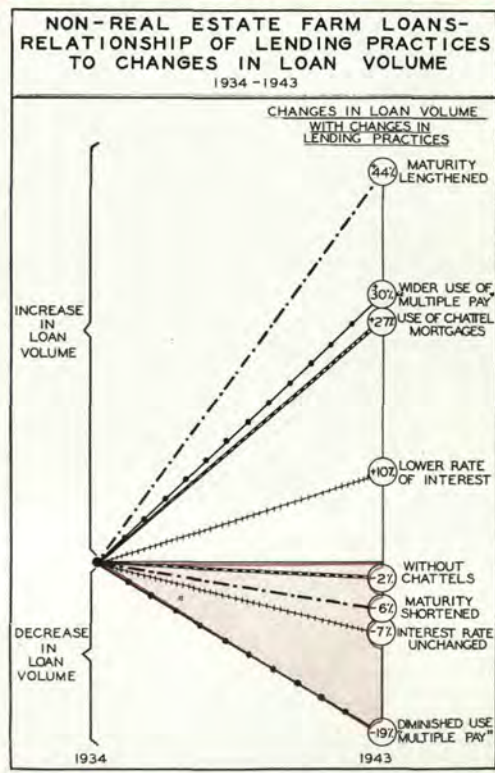
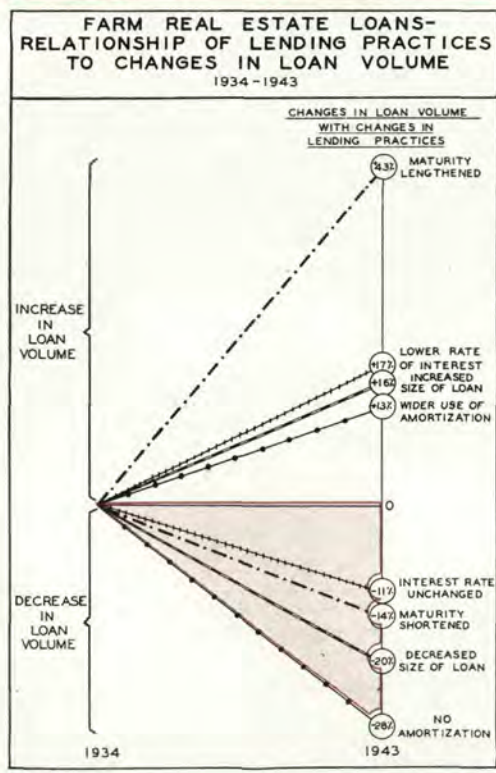
By contrast, banks whose policies remained unchanged or that moved counter to these new lending practices, experienced loan volume reductions. Some of the changes in practices were fundamental. There was a genuine trend away from required lump sum payments and a corresponding increased use of amortization in real estate loans and of multiple payment, or budget loans, in the short term field.

In 1934, 90% of the money loaned on farm real estate by these 113 banks was at 6%, and 10% of the money loaned was at 7%. By 1943, in keeping with the general trend of interest rates, 54% of the loans were at 5% (or less) and only 46% were at 6%. There was a similar, though a less marked reduction in the short term field.

Obviously it would be dangerous to conclude that adoption of the newer techniques was itself responsible for the increase in volume, for two banks in neighboring towns might each adopt these newer practices but with widely varying results. It is probably fair to say that the banks in this survey which were alert enough to recognize the need for new approaches were equally alert to capitalize on these selling points and, once they were adopted, to follow them up with effective promotional work.

As we have mulled over this survey for its significance to New England bankers, this reaction seems inevitable: Farmers are no different than other people. They prefer to deal with folks who understand their particular problems and especially is this true with credit. Shrewd farmers select their credit source on the same basis that they buy a mowing machine or tractor, on the basis of how well it meets their needs.

In many, many areas, Production Credit has made few inroads because local bankers were serving their community so well that there was no need for an additional agency. In that fact lies the most effective answer to Production Credit competition. Government sponsored lending agencies will continue as long as they fill a need. The best way to meet that competition is to improve the quality of our own service and this Cleveland survey points out how to start. These farm loans, however, can not be made by remote control. They must be made by men who have the necessary "know how", who understand farming and farm people and who keep in constant touch with agricultural developments in general and their customers in particular.





ASPIRATIONS

THIS is the first issue of an agricultural letter that will become a permanent feature of the Agricultural Credit Service of the Federal Reserve Bank of Boston provided the letters can fill a need and make themselves worthwhile.

In 1943, President Flanders appointed an Agricultural Committee composed of representatives of member banks, with the request that the committee survey the field and recommend whatever action seemed wise for the Federal Reserve Bank to take in the interests of New England banks and New England agriculture. Creation of the Agricultural Credit Service was the first outgrowth of that committee's recommendation.

A further recommendation was to acquaint bankers with information that would help them recognize trends and developments of which they should be abreast in their dealings with farmers. This letter, therefore, is a further outgrowth of the committee's recommendation. Our aspirations are to sift, weigh and pass along to our readers such information as will prompt them to look to these Letters for their background information on agricultural credit.

As the work develops, we shall try to strengthen the Letters to accord with the expressed wishes of the readers. The experiences, the reactions, and the procedures of men on the firing line concerned with agricultural credit can be most helpful news material. We solicit such information as well as your suggestions as to how these Letters may be made more suitable to your needs.

The whole program of the Agricultural Credit Service must be approached

from the viewpoint that agriculture probably already has all the credit available that it can soundly use. What is needed is not additional credit but rather the replacement of higher cost dealer and book credit with bank credit that is extended on terms that are tailored to agriculture's needs and in amounts that are geared to repayment capacity. The real measure of success will lie in the contributions that are made to better communities and to a sounder agriculture.

We hope that in co-operation with the state colleges, research work can be carried out to learn the real costs of the various types of credit that farmers are using. Surveys made in New York and New Jersey indicate that fully half of the credit used by good farmers is of non-bank and non-P.C.A. origin. If the same situation holds true for New England, educational work done to promote greater use of low cost bank credit can be of profound benefit to bankers and farmers alike.

HUTSON ADDRESSES STAFF OF FEDERAL RESERVE BANK

Under-Secretary of Agriculture Speaks on Some of Our Postwar Farm Problems

ON DECEMBER 3, in an informal talk before the officers and directors of the Federal Reserve Bank of Boston, Under-Secretary of Agriculture J. B. Hutson, outlined some postwar agricultural problems. The highlights of his talk follow:

Under the stress of war, farmers increased their total production 25% over prewar. True, part of this was due to successive years of phenomenally favorable weather, but even so agriculture is now geared to produce 20 to 25% more than it did in prewar. This is because of increased technological efficiencies, particularly mechanization, better seed, doubled use of fertilizer, tripled use of lime, and the like.

In spite of the increased production capacity, American agriculture need not slump back into the depression days of the '30s provided: (1) industry can run at a level to insure high purchasing power that will consume 88 to 90 percent of the farm products, and (2) that the remaining 10 to 12 percent can be exported. Mr. Hutson

believed that both of these premises were sound and pointed out that 5 to 15 percent of our agricultural production was exported in the '20s and can be again, if the policy of reciprocal trade treaties is continued.

The alternative is to run our farms at less than capacity and to control acreages. Neither is desirable; both are uneconomic and the Department of Agriculture hopes and believes that they can be avoided.

Parity Formula Needs Amending

Action on one of the biggest national agricultural questions must be taken very shortly, namely: How shall the parity formula be amended? The need of agricultural parity has won general acceptance, but the formula by which it is now being arrived at is archaic and outmoded. It is now based largely on 1909 to 1914 price relationships and in many cases these have no bearing on present day costs. Grain crops, particularly, are out of line, and inclusion of labor costs, as has been proposed, would not solve the problem because changes in labor requirements have followed a different pattern than changes in labor rates.

We need a renaissance in our thinking on the farm price problem, and our solution must be realistic. We must recognize that farm prices must be related to the quantity that will be produced on the one hand and the quantity that will be consumed on the other. If production and consumption are not considered, we will build up surpluses and simply postpone solution of the question.

In short term outlook Mr. Hutson expects prices received by farmers to decline from the high level reached in 1945 and to average moderately lower in 1946 than in 1945. Poultry is in the weakest position and there is likely to be a greater than average decline here. Vegetable crops and fruits will also likely decline more than the average but dairy products and meat are more likely to hold their present level.

Full employment, said Mr. Hutson, is closely related to heavy usage of milk and meat and to a lesser degree, to eggs, fruit and vegetables. Increased usage of these commodities is usually at the expense of bread and potatoes.

How Much Is A Billion Dollars?

NOTHING but a graphic illustration in terms of our everyday thinking can make us aware of how vast a sum is \$1,000,000,000. The best illustration that has come to our attention is this: Suppose you were to start in business in the year 1, A. D. If, in your operations, you made a profit of \$1,000 a day, every day, in every year, you would by 1945 still have to work for another 800 years before your profits totalled \$1,000,000,000.

AGE OF FARM OPERATORS AT A RECORD HIGH LEVEL

Twenty-One Per Cent Over 65; Sales
Will Afford Opportunities
For Re-Financing

IN 1940 the average of New England farmers was 53 years, with 46% of all New England farmers 55 years of age or older and with 21% of the total over 65 years of age. Transfers of title since then have not lessened the average age.

Two factors account for the high average age. First, throughout the 1930's farmers approaching retirement age were reluctant to sell at a low figure and they held onto their farms in hope of selling them later for more money. Second, when income increased and farm values rose, the most likely buyers were in the armed forces and sales were postponed still further.

The implications of the advancing age of New England farmers are important. First, in the next few years we can look for an acceleration in the number of transfers arising both from voluntary retirement and from deaths. Second, a substantial number of "unwilling owners" can help to slow down what since 1939 has been a steady upward movement of farm land values. The last big bulge in farm values was not during World War I but in the years immediately following the end of the war. If history repeats itself, that is what may be expected in the years directly ahead and anything which tends to arrest that upward movement of values is much to be desired.

Third, the increased number of

transfers presents both an opportunity to New England banks and a hazard. If 60,000 farms are sold during the next four to five years, the gross sales price will approximate \$300,000,000. Even if New England banks finance only 4% of the \$300,000,000, this 4% would exceed the total farm mortgage holdings of all New England banks on January 1, 1945. Much of the financing will be done by individuals, particularly by the sellers and by the relatives of the buyers. Nevertheless, banks that are alert to their opportunities can add to their portfolios as a result of these transfers.

The principal caution is that farm real estate values are working up to a peak, and in New England on March 1, 1945, were estimated by the U. S. D. A. as averaging 20 to 25% above their 1939 levels. Thus, buyers must make a 20 to 25% down payment before establishing any equity at all, based on prewar values. Sound banking will place the emphasis on limiting the loan to what the mortgagor can reasonably be expected to carry in more normal times.

ACKNOWLEDGMENT

The cuts from which the illustrations on page 1 are reproduced, were loaned to us by the Federal Reserve Bank of Cleveland. The photograph reproduced on page 3, illustrating strip cropping, was loaned by the Extension Service of the Pennsylvania State College of Agriculture, and the photograph illustrating erosion was loaned by the U. S. Soil Conservation Service.

SUGGESTED READING FOR COUNTRY BANKERS

These Publications Will Help You to
Keep Abreast of Farm
Developments

FARMERS like to obtain their credit from institutions that have a sympathetic and current knowledge of farm problems. How, then, can a country banker who aspires to develop his farm loan business keep informed of agricultural developments in his community. Nothing can replace personal contacts as the real key to closer banker-farmer relations. As a background for those relations, though, the following suggestions are in order:

First: The banker can ask to be placed on the mailing list of the county agricultural agent. He would then receive the same notices of meetings that farmers receive and if he made a practice of attending these meetings, he would not alone become acquainted with the newer developments in farm practices but he would stamp himself in the eyes of farm folks as being interested in agriculture and he would have a splendid opportunity to maintain contact with the better farmers of his area.

A second move is to be placed on the mailing list to receive the crop reports for the state. These may be obtained from the New England Crop Reporting Service, U. S. D. A., 1307 Post Office Building, Boston, Massachusetts.

Third, is to be placed on the mailing list of the State Agricultural College to receive any news letters on pro-



Farmers Who Follow Soil-Saving Practices Are Sounder Risks

LACK of humus and too many cultivated crops in the rotation account for much of the erosion in the field to the left. Strip cropping (illustrated on the right, where strips of cultivated crops are alternated with strips of sod) helps to arrest and hold

the run-off of surface water. Planting a crop up and down hill is an open invitation to erosion.

The need for conservation farming after the war will be greater than before the war because we have drawn heavily on soil fertility in our cash

crop areas and have expanded the acreage of cultivated crops. Especially is this true in Aroostook County.

Because of the prestige that bankers have, their support of soil saving practices can be a powerful force in furthering soil conservation.

duction and marketing problems of dairymen, poultrymen, and the like. Listed below, by States, is the information published by the various state agricultural colleges and available upon request. We suggest that you address to the Director of Extension at your State Agricultural College, a request for sample copies. If the material is to your liking, we suggest that you ask to receive it regularly.

Maine: Timely Topics for Poultrymen (monthly); Forestry Facts (quarterly); Milk Pail (monthly); Orchard Fruit Notes (monthly during spring months); Farm Economic Facts (quarterly).

New Hampshire: Extension Bulletin (quarterly); Rural Briefs (weekly).

Vermont: Ration Service (monthly); General Price Level Handbook (annually); Vermont Farm Business Prospects (annually).

Massachusetts: Farm Economic Facts; Dairy Digest; Featheredfax; Commercial Vegetable Grower; Forest Notes; (all published monthly).

Rhode Island: Better Rural Life (monthly); Outlook Material, published from time to time, prepared for county agents but available to bankers.

Fourth: Ask your county agent to allow you to inspect a monthly bulletin entitled: "The Agricultural Situation" published by the Bureau of Agricultural Economics of the U. S. D. A. It gives an over-all picture of the economic conditions of the Nation's agriculture. A subscription may be placed through the Supt. of Documents, Govt. Printing Office, Washington, D. C.

Reading of this type has as much a place in the program of a country banker who serves farmers as has the perusal of his favorite financial paper or magazine.

PRACTICAL ADVERTISING REGISTERS WITH FARMERS

A Key to Good Relations Is to Offer a Service that Recognizes a Need and Offers a Sound Solution

ON THIS PAGE is reproduced an advertisement that has struck a responsive note with us. It was run late last winter by a New England bank when hay was running low for many farmers as a result of the drought of the previous summer and when dairymen were counting the days until pasture season.

The ad offers advice that good farmers and county agents would at once endorse as being practical and that any agronomist would sponsor without reservation. Ads such as this stamp the advertiser as being aware of the worries that were plaguing his cus-

tomers at that particular season and who was alert to offer sound advice. It must have heightened the impression that this bank spoke the farmer's language. Practical advice is uppermost and the approach was from the angle of how the bank could help the farmers to improve their position. In an undertone, the bank offered its facilities to enable a farmer to pay cash in case this was necessary, but the undertone was sufficient to make it apparent that the bank is in the farm loan business.

Probably some other New England country banks have used a similar approach on related topics. If so, we shall welcome copies of the ads. May we also have copies of folders, stuff-ins, circulars and the like that you have used in your promotional work. Please address them to Agricultural Credit Service, Federal Reserve Bank of Boston, Boston, Massachusetts.

FARM LOAN DEVELOPMENT

WE have just reviewed some material that will be printed by the Federal Reserve Bank of St. Louis for the use of its member banks in the development of a farm loan program. Although prepared specifically for mid-western banks, there is much in the booklet relating to the technique of farm credit lending that is equally applicable to northeastern banks.

The St. Louis Reserve Bank has generously offered to make the material available to other reserve banks and arrangements are being made to obtain sufficient copies for the Boston Reserve Bank to distribute to the New England banks. Booklets will be mailed without charge as soon as received from St. Louis and we believe they will repay careful study.

IS YOUR HAY SUPPLY LOW?



Have you scraped the bottom of the hay-mow? Are you buying hay and paying unheard of prices? Are you forced to sell stock because of a roughage shortage?

If so, plan now to relieve your desperate plight at the earliest possible moment.

Early Spring grazing offers your first chance to get around the hay shortage. By topdressing your better grasslands and pastures you can "turn out" early and get a week to ten days of extra grazing.

Topdress pasture and haylands in early April with a high nitrogen complete fertilizer such as 7-7-7 or 10-10-10, apply at least 600 pounds of 7-7-7 per acre or 400 pounds of 10-10-10.

If you need money to purchase fertilizer, why not come in and talk with us. If we can make you the loan you can actually earn money by doing so, and thus pay for fertilizer needed; thus taking advantage of the cash prices offered by all fertilizer dealers. On a ninety-day loan, for example, you can earn as much as 8½ cents on a dollar.

PLAN AHEAD NOW — turn your cows out on nutritious, thick green—grow the pasture and hay you need on your own farm. Do this by fertilizing liberally and early. Earn money by paying cash for fertilizer needed.

FIRST NATIONAL BANK

(See news story in first column)