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CONFIDENTIAL

SUMMARY OF OPERATIONS OF  
THE FEDERAL INTERMEDIATE CREDIT BANKS  
FOR THE YEAR ENDED DECEMBER 31, 1936.

The results of operations of the Federal intermediate credit banks for the year 1936 having been completed and reviewed, it is believed that the following brief summary may prove to be of interest.

The law under which the Federal intermediate credit banks operate was not amended during the past year. However, certain provisions of the Farm Credit Act of 1935, which was approved in June of that year and affected the 1935 operations of the banks for only a few months, became more fully effective during 1936. For instance, the Act just mentioned authorized the credit banks to issue consolidated debentures, upon which all twelve banks would be jointly and severally liable. Although only consolidated debentures have been issued since October 15, 1935, it was not until September 15, 1936, that all debentures outstanding were of this type. It is our belief, based upon experience to date, that this change in the form of the debentures has improved their marketability and influenced favorably the cost basis upon which they have been sold.

Again it can be said that the credit banks have benefited from the most satisfactory debenture market since their organization, this being the fourth successive year for which this statement could be made. All issues during 1936 bore an interest rate of  $1\frac{1}{2}\%$  per annum, and were sold on a substantially lower average yield basis than ever before, each issue having been heavily oversubscribed. Continued progress has been made towards broadening the debenture market, both geographically and among different types of investors.

The other amendment to the law, approved in June of 1935, which became more fully operative during 1936, was that under which it became possible for the banks for cooperatives to make commodity loans to farmers' cooperative associations, and to rediscount such loans with the credit banks. The total of loans to cooperative associations and discounts of such loans for the banks for cooperatives during 1936 amounted to \$34,026,396. Of this amount, only \$3,754,650 represented loans made directly by the credit banks. Of the aggregate amount of loans discounted, a substantial portion represented loans made to associations of national or broad regional scope by the Central Bank for Cooperatives located in Washington, D. C., and rediscounted by it with the Federal Intermediate Credit Bank of Baltimore which, under a plan put into operation in 1936, offered to other credit banks the privilege of participation in such discounts.

The banks extended credit during 1936, aggregating \$381,660,510, as compared with \$414,156,107 during 1935. The amount of paper handled for privately capitalized financing institutions was \$106,205,652 in 1936, as compared with \$116,909,172 in 1935, a decrease of \$10,703,520. There was a decrease, also, in the amount of loans made to farmers' cooperative associations and in such loans discounted for the banks for cooperatives, the total of both types having been \$34,026,396 in 1936, against \$54,042,435 during 1935. No paper was discounted during the year for the regional agricultural credit corporations while, in 1935, \$32,534,185 was advanced to these institutions. A substantial increase occurred, however, in the volume of paper handled for production credit associations, the amount having been \$241,428,462 in 1936, as compared with \$210,670,315 during 1935.

Substantial liquidation of loans and discounts occurred during the latter part of the year, the net total outstanding dropping from a month-end peak of \$199,509,832 on July 31, 1936, to \$170,653,072 on December 31, 1936. This resulted from a high percentage of liquidation in crop production loans due to generally improving conditions and price levels and a greater than normal liquidation in livestock loans due partially to drought conditions in some of the principal livestock areas, but due, as well, to satisfactory prices, particularly those which have prevailed for wool. Substantially improved prices in certain specialized crop areas, such as those producing potatoes and hops contributed towards greater 1936 liquidation of loans for the production of such commodities discounted by several of the banks.

During the year, total cash repayments received amounted to \$255,966,613, and the aggregate amount of new credit extended was \$274,146,789, excluding renewals of \$107,513,721.

Although net income from operations of the banks in 1935 was considered generally satisfactory, it was substantially greater in 1936. Such income increased from \$596,735.21 in 1935 to \$1,022,025 in 1936. (Net income from operations represents the difference between interest earned on loans, discounts, etc., and the total cost of operations, including interest on debentures, operating expenses, examination expense and General Agent's expenses paid by the credit banks.) This increase in net income from operations was accomplished notwithstanding a decrease (from \$4,028,309 to \$3,787,199) in gross income from loan operations. This favorable showing was due primarily to substantial reductions in operating expenses and the cost of borrowed funds.

All the banks effected operating economies during the year; some of them quite substantially, and others to a lesser extent. It seems apparent, however, that additional economies will be possible in some of the banks. Even those which accomplished material reductions in 1936 will endeavor to effect further economies in 1937.

During 1936 the debenture and other interest costs amounted to \$837,108. Although these costs were lower in amount than for 1935, and were at a lower average rate than ever before, they still represented a substantial part of the banks' total expenses. Since the cost of these funds to the banks is large and may fluctuate widely, it is obvious that the most careful attention must be given at all times to the maintenance of sound credit policies, as well as to the most advantageous fiscal policy in order that the banks may maintain loan and discount rates at the lowest possible point, in the interest of low credit costs to farmers and stockmen. At the same time, it is essential that every effort be made to assure the banks of an operating income adequate to cover all debenture and other interest costs, operating expenses and ordinary losses, leaving other income, including that on securities owned, to accumulate as a safeguard against extraordinary contingencies and as an additional margin of protection to the holders of debentures.

The fiscal policy under which the credit banks operated in 1935 took into account the following basic factors:

1. Coordination of debenture maturities with the maturities of loans and discounts;
2. Issuance of debentures with nine and twelve month maturities to finance the probable minimum amount of outstanding loans and discounts during the annual cycle, with shorter maturities to provide funds for the seasonal peaks.
3. Present and prospective short-term money rates.

This policy was reviewed during the June conference of credit bank presidents in Washington and the conclusion was reached that its application had produced good results and should be continued.

The consolidated balance sheet at December 31, 1936, shows that the twelve banks are in excellent financial condition. In addition to paid-in capital of \$70,000,000, and paid-in surplus of \$30,000,000, they had earned surplus of \$8,385,596. Loans and discounts (net) amounted to \$170,653,072, or 66.9% of total assets, while cash, and securities consisting of United States Government obligations (direct and fully guaranteed), carried at par, amounted to \$82,090,620, or 32.2% of such total. Debentures were outstanding in the amount of \$143,950,000.

The net gain from all sources during the year was \$2,423,813, after writing off all premium on securities purchased, charging off all known losses and providing full reserves for doubtful assets, including reserves amounting to more than \$1,000,000 in two of the banks against possible losses due primarily to drought conditions.

The amounts of these reserves were determined on a basis which would provide more than would be needed for the purpose indicated. This net gain in 1936 compares with \$2,564,903 in 1935.

The banks are going into the new year well equipped and with the prospect of conditions favorable to an even more complete fulfillment of their primary functions as banks of discount for agriculture. With each recent succeeding year, it has been possible for the banks to show marked improvement over the preceding year's accomplishments. Nevertheless, there is opportunity, through careful study, to bring to light other means by which the banks can increase their field of usefulness and improve their methods.

As will be observed in an earlier part of this report, our business with privately capitalized institutions is decreasing. This is due in some degree, perhaps, to the competition of other lenders and substantial liquidation brought about by drought conditions. While it will be the continuing policy of the credit banks to work closely and in full cooperation with the production credit corporations and associations, we must not overlook the fact that the Act under which we operate makes our credit facilities available to various other types of organizations. Under the law, the other types of institutions which are eligible to rediscount paper with the credit banks are national and State banks, trust companies, agricultural credit corporations, incorporated livestock loan companies, savings institutions, cooperative banks, credit unions, cooperative associations of agricultural producers, organized under the laws of any State, or of the Government of the United States, and the banks for cooperatives.

Some increase in the average cost of money in 1937 over that in 1936 may be expected. On the basis of present indications, it seems unlikely that such an increase would be sufficiently large to necessitate a change in the discount rate. Any increase in this item of cost, coupled with less rapid progress in effecting operating economies as the minimum is approached, would render improbable operating results in 1937 as favorable as those obtained in 1936. An increased volume of business would, of course, tend to offset these factors. However, with continuing improvement in general conditions there will be increasing activity on the part of lenders and the banks must not, regardless of operating results, deviate from sound credit policies. Experience tells us that the desire for volume too frequently leads to excessive and unsound extension of credit.

There will be found attached a condensed, consolidated financial statement for the years ended December 31, 1932 to 1936, inclusive.

GEO. M. BRENNAN,  
Intermediate Credit Commissioner.

**FEDERAL INTERMEDIATE CREDIT BANKS**

Condensed consolidated statements of condition  
as compiled by the Farm Credit Administration, Division of Finance and Research

ASSETS	Dec. 31, 1936	Dec. 31, 1935	Dec. 31, 1934	Dec. 31, 1933	Dec. 31, 1932
Loans and discounts (net):					
Financing institutions	\$146,698,732	\$143,150,130	\$155,347,438	\$134,252,402	\$82,517,754
Banks for cooperatives	22,313,575	8,046,501	-	-	-
Cooperative associations	1,640,765	2,731,280	33,969,171	15,210,549	9,865,615
Notes receivable (net)	988,453	1,586,544	3,023,866	2,752,838	589,546
Cash on hand and in banks	8,875,621	9,586,748	5,315,652	8,979,033	8,510,619
Cash deposited with the Treasurer of the United States for retirement of matured debentures (principal and interest)	-	-	-	-	* 50,708
U.S. Government obligations, direct and fully guaranteed (par value)	73,215,000	73,260,000	73,566,625	32,619,900	6,702,250
Other securities (par value)	-	-	53,000	77,440	15,000
Unamortized premium on securities	-	1/ 5,338	637,963	142,049	109,952
Accounts receivable	102,214	108,025	334,524	193,677	181,801
Accrued interest receivable	1,133,372	1,223,214	1,089,015	733,071	541,256
Furniture, fixtures and equipment (net)	-	-	21	13,340	9,211
Prepaid and deferred expenses	3,192	8,049	27,225	10,463	26,816
Other assets (net)	114,958	60,003	84,946	664,050	51,304
Capital stock subscription callable from U.S. Treasury	-	-	-	-	28,000,000
<b>Total</b>	<b>\$255,085,882</b>	<b>\$239,755,156</b>	<b>\$273,449,446</b>	<b>\$195,648,812</b>	<b>\$137,171,832</b>
LIABILITIES					
Debentures outstanding (unmatured):					
Individual	-	\$68,955,000	\$164,370,000	\$128,185,000	\$72,270,000
Consolidated	\$143,950,000	62,050,000	-	-	-
Matured debentures (principal and interest)	-	-	-	-	50,708
Rediscounts	-	-	-	310,021	349,421
Notes payable	-	-	1,000,000	-	-
Trust accounts	370,181	247,941	-	-	-
Accounts payable	5,795	9,616	577,311	325,896	168,792
Liability for cash collateral	802,338	942,376	682,497	662,450	690,514
Deferred proceeds, loans and discounts	5,441	69,317	1,142,094	73,282	397
Accrued interest payable, not yet due	829,902	813,005	1,312,873	848,472	580,970
Interest collected, not earned	136,470	154,384	410,843	1,007,918	632,609
Unamortized premium on outstanding debentures	525,514	505,327	347,059	525,347	170,997
Other liabilities	74,645	46,407	209,890	131,059	91,330
Capital stock:					
Paid in	70,000,000	70,000,000	70,000,000	60,000,000	32,000,000
Callable from U.S. Treasury	-	-	-	-	28,000,000
Surplus paid in	30,000,000	30,000,000	30,000,000	-	-
Surplus earned and reserve for contingencies	8,385,596	5,961,783	3,396,879	3,579,367	2,166,094
<b>Total</b>	<b>\$255,085,882</b>	<b>\$239,755,156</b>	<b>\$273,449,446</b>	<b>\$195,648,812</b>	<b>\$137,171,832</b>

Condensed consolidated statements of earnings  
as compiled by the Farm Credit Administration, Division of Finance and Research

	Year ended Dec. 31, 1936	Year ended Dec. 31, 1935	Year ended Dec. 31, 1934	Year ended Dec. 31, 1933	Year ended Dec. 31, 1932
Net income, after all operating charges and expenses	\$3,805,955	\$2,741,495	\$2,872,041	\$1,717,729	\$1,293,233
Charge-offs and adjustment of valuation reserves	1,443,101	394,409	3,583,390	623,539	3,421,831
Less: Recoveries	60,959	217,817	528,861	319,083	347,756
<b>Net</b>	<b>1,382,142</b>	<b>176,592</b>	<b>3,054,529</b>	<b>304,456</b>	<b>3,074,075</b>
Increase in surplus earned and reserve for contingencies	\$2,423,813	\$2,564,903	** \$182,488	\$1,413,273	**\$1,780,842

\* Deposited with Federal Reserve Bank of New York.

\*\* Decrease.

1/ Unamortized discount; unamortized premium on securities owned written off during December 1935, investments carried at the lower of pay or cost on December 31, 1935 and December 31, 1936.