LINDLEY BECKWORTH
3D DISTRICT TEXAS

Congress of the United States
House of Representatives
Washington, D. C.

COMMITTEES:
CIVIL SERVICE
INSULAR AFFAIRS
MINES AND MINING
EXPENDITURES IN THE EXECUTIVE DEPARTMENTS
FLOOD CONTROL
IMMIGRATION AND NATURALIZATION

11/21/42

Dear Mr. Eccles:

I wish to quote a statement I have received from Mr. B. F. Payne, President of the First State Bank of Carthage, Texas:

"Lindley, if banking in the farming sections survives, some curb will have to be placed on government lending. They are hard competition since their funds are derived from government sources and they pay no taxes."

Your comments in this connection will be appreciated.

Very sincerely,

Lindley Beckworth

LINDLEY BECKWORTH, M. C.

LB:mg

Mr. Eccles, I was glad to meet you at our Delegation meeting. Your statements were sound, indeed.

Commodity Credit Corp—
Triple A - makes loans - 3%, on

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Copy to Dr. Warburton

November 24, 1942.

Honorable Lindley Beckworth,
House of Representatives,
Washington, D. C.

Dear Mr. Beckworth:

This is to acknowledge your letter of November 21. I was very glad of the opportunity to meet with the Texas Delegation and appreciate your comments.

With regard to the statement you received from Mr. B. F. Payne, President of the First State Bank of Carthage, Texas, I assume that he is echoing the complaint so widely heard from small independent country bankers in various parts of the United States to the effect that the Production Credit Associations are competing too successfully against them by using, as Mr. Payne states, funds derived from Government sources. I say that I assume that this is the meaning of Mr. Payne's comment to you because, curiously, the real competition comes from the AAA, that is, the Commodity Credit Corporation loans which are derived from Government borrowing and, as you know, are advanced in connection with the crop control programs. Apparently those bankers who complain about Government competition hesitate to attack on this line. Instead, they turn their fire on the Production Credit System which, as a matter of fact, is primarily financed through the sale of debentures to the investing public.

As I understand it, there are 530 active Production Credit Associations in the United States (including Puerto Rico) and they are the direct lenders. They have over 300,000 farmers and stockmen as member stockholders. Each borrower has to own Class B stock in his lending association equal to $5.00 for every $100.00 loaned and, of course, these Class B stockholders elect the association directors from their own members and the directors in turn appoint the officers and employees of the associations. The loans made are almost always on terms of one year or less, secured by a first lien on crops, livestock or equipment, and the interest rate charged by the associations is uniformly fixed by regulation at 3 per cent above the current discount rate of the Federal Intermediate Credit Banks. The discount rate in turn is determined by the interest rate which the Intermediate Credit Banks must pay on their debentures which are sold to the public. According to my information, the current discount rate is 1-1/2 per cent, hence the rate of interest on PCA loans is 4-1/2 per cent per annum.

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I noticed in a recent pamphlet of the Production Credit System the following statement as to the source of the funds that are loaned:

> "The associations obtain their loan funds for the most part by rediscounting their loan paper with the Federal intermediate credit bank of the district. They also borrow directly from such banks on their secured notes. The Federal intermediate credit banks obtain the funds from the sale of debentures to the investing public, the debentures being secured by discounted loans and notes receivable."

Accordingly, it is not correct to say that the funds are obtained from Government sources. They are mainly obtained from the market, that is, from the public.

The easy money conditions which have prevailed have, of course, resulted in low interest rates relative to pre-depression times when country banks were able to get 10 per cent, 12 per cent, or more for their loans to farmers. I think it is fair to say that the country banks in a sense have competed against themselves because they have traditionally and habitually carried correspondent balances with city banks. This has tended to concentrate funds in the money centers and to drive down rates through the action of the country banks themselves. Manifestly, if the country banker were still able to loan at 4-1/2 or even 5 per cent, he could compete successfully against the PCA's.*

So far as I am concerned, I think the Production Credit System is here to stay and I hope it is. It was instituted after extended hearings before Congress and was supported by the agricultural leaders from all parts of the country. For a good many years I have felt that the economy could not be soundly based on an interest rate structure as high as that which prevailed in times when we had a relative scarcity of capital. I do not want to see the day return when any such high rates as prevailed for the farmer or, for that matter, for the real estate purchaser are restored.

It is not in the interest of the lender to have interest rates which the economy cannot sustain. We found that out after '29. Lenders were not only unable to collect interest but they lost some or all of their capital in the collapse that was in part due to the attempt to sustain a rate structure that was no longer in keeping with the economic development of the country.

I am wholly sympathetic with the problems of the small country banker. I should be because my own banking experience has been largely in the fields most familiar to him, but I would be less than realistic if I did not recognize that the day has passed, rightly or wrongly, when the economic situation will continue to support literally thousands of independent small banks with small

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*He is able to reduce rates today because he pays an average of only 1-2% interest on time deposits or interbank deposits, whereas in the late 20's he was paying 4-5% interest on time funds. A 4½-5% lending rate now would equal 7½-8% then.

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capitalization. Nor can anyone interested as I am in unification of the banking system ignore the fact that it is these small independent banks which have been the real stumbling block to a sounder, better organized banking system in this country. I think they are bucking an inevitable, overwhelming tide today in sniping at the Production Credit System. Insofar as this trend leads toward a carefully integrated and supervised system of branch banking such as has been developed in England or Canada, I am for the trend. Even if I were not, it would make no difference in the outcome because the forces behind it are irresistible.

I had not intended to discuss this subject by letter at such length, but your inquiry invites it and the matter cannot be disposed of briefly. However, what I am saying I am writing to you for your own personal information and would prefer that you regard this as a confidential letter between us because this is a highly controversial subject and I do not want at this time when our minds are on the war to return to this old and bitter battle field.

Sincerely yours,

M. S. Eccles,
Chairman.

LT:b

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11/28/42

Dear Mr. Eccles,

Thank you so very much for your letter of 11/24/42. Indeed, you have thoroughly covered the subject. Call on me any time.

Your friend,

Lindley

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