FROM:
THE AMERICAN BANKERS ASSOCIATION
THE NEWS BUREAU
John De Jong, Associate Director
Correspondent Agribanking Forum Headquarters
Chase-Park Plaza Hotel
St. Louis, Mo.

RELEASED AT NOON
MONDAY, SEPT. 16, 1963

BANK'S POSITION IN FARM FINANCE

Address of M. Monroe Kimbrel, President, The American Bankers Association, before the Correspondent Agribanking Forum Sponsored by the Agricultural Committee of The American Bankers Association, Chase-Park Plaza Hotel, St. Louis, Mo., Monday, Sept. 16, 1963. Mr. Kimbrel is also chairman of the board, First National Bank, Thomson, Ga.

At the outset, I think we should all express our gratitude to the committee which made the arrangements for this meeting. More particularly, I believe we should acknowledge our thanks to the person or persons responsible for selecting this particular date and this particular city.

You will recall the date and place for this meeting were set back in June. I am sure you all agree that it took a tremendous amount of foresight to schedule this meeting so it would coincide with the arrival of the Dodgers for a three-game showdown series with the Cardinals.

In a more serious vein, it is indeed a pleasure for me to be here and to participate in these discussions. The problem we are addressing ourselves to has serious implications for the banking industry. Moreover, it is a problem with which I have been closely identified for several years.

The changes that have taken place in agriculture in the post-war period are well known to all of you. The number of farms in operation keeps decreasing. The size of the farms in operation keeps increasing and the capital requirements of the larger farms continue to grow.

(More)

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

In my home state the number of farmers in the labor force dropped from 33 per cent in 1940 to about 8 per cent in 1960. This has caused some serious problems. People who were running inefficient units have had to be assimilated into the labor force. It is not a simple transition. However, it seems to me that it is a necessary adjustment and it must be made.

While most observers agree that these adjustments cause problems, opinions differ on the nature of the problems. I, for one, believe it is basically a social challenge rather than an economic one. In short, I do not believe that unlimited credit on the easiest terms would be of use in the long run for an inefficient farmer, any more than it would be for an inefficient business of any other type. Moreover, attempts to finance inefficient units can only lead to more trouble for both the borrower and the lender. This, again, is just as true of agriculture as it is of a small manufacturer or any business you might name.

Then, too, as capital requirements of agriculture continue to climb, we bankers on the firing line find that we have trouble meeting credit demands of the efficient operators.

Last week, for example, when I was starting to put some thoughts together for this meeting, a local beef cattle operator stopped in to see me. I had recently arranged a line of credit of $119,000 for him. In going over his situation, I couldn't help but be impressed by the fact that in 1954--just under 10 years ago--this man's line was $6,700.

By no stretch of the imagination can he be considered average. However, I am sure that every banker in the country could cite dozens of similar cases from his own experience. The demand is there. And I can assure you that aggressive individuals who conduct their operations in a businesslike manner are going to find the capital they need.

The big question we in the banking industry should concern ourselves with is this: Will the banking industry continue to play a dominant role in providing

(More)

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

credit to agriculture? If we do not, it is obvious that our competitors and Government agencies will.

Historically, banks have been the leading institutional lenders to agriculture. Before the farm depression which followed World War I, commercial banks were the only institutional lenders supplying non-real estate loans to farmers. When the bottom fell out--when European production returned to more normal patterns--the Government made over $3 billion available for emergency crop and feed loans.

As Professor Trescott points out in his book, "Financing American Enterprise," the 1920's were tough years for small country banks. They closed at an average rate of 500 per year throughout the 20's. Dr. Trescott said that in subsequent investigations, it was shown that many of the rural bankers were just too liberal in extending credit to farmers.

Needless to say, bankers became more cautious. In the meantime, the Government spawned several agencies which began to supply non-real estate credit to farmers. By the mid-thirties, federal agencies or agencies sponsored by the Federal Government held more than 50 per cent of the non-real estate loans extended to agriculture.

Since then, of course, commercial banks have made much progress in filling the needs of farmers. In fact, in recent years banks have been making about three-fourths of the loans made by institutional lenders.

Currently, two million farm families use borrowed funds totaling $28 billion. Banks are serving over one-half of these farmers by providing $8 billion or 29 per cent of total farm credit.

But to present the complete picture, I should point out that during the past 10 years, the volume of non-real estate loans to agriculture extended by commercial banks increased by less than 70 per cent, while production credit associations raised their loan volume by 192 per cent. Moreover, the average PCA loan is larger than the average bank loan.

(More)

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

As a result, few people were surprised when the 1962 year-end agricultural credit survey, taken by the A.B.A., showed that 46 per cent of the respondent banks were experiencing increased competition for farm loans.

In view of this trend, it doesn't seem necessary to belabor the fact that farm loans are profitable. It is obvious that if these loans were not profitable, the banking industry wouldn't have to worry about intense and growing competition for them.

To anyone willing to sit down and examine the facts it should also be obvious that commercial banks have many competitive advantages in the field of farm lending. However, like deposits, these advantages are not of much value unless put to use. And, to get the best results, commercial banks--both large and small--will have to work on a cooperative basis.

The major burden, of course, must rest with the banks serving agricultural areas. Unless these banks are willing to meet the credit needs of farmers in the areas they serve, more and more of the capital requirements of agriculture are going to be supplied by sources outside the banking system.

And, to be quite frank, I don't believe some banks are doing as well as they should in this area of agricultural credit.

During the past few years, while traveling for the association, I have had many opportunities to talk to country bankers. Quite frequently I have heard them complain about competition. Several points were mentioned in most of the discussions.

First, bankers mentioned the restrictions imposed by statutory lending limits. As you know, this is quite a handicap under which many small banks must operate. In fact, last year about 29 per cent of the banks serving rural areas had one or more loan requests that exceeded their legal lending limits.

(More)

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

Now there is no question that these limits are restrictive particularly for the small country banks. They should be increased. But we would only be kidding ourselves if we assumed for one minute that higher lending limits would solve the problem completely. Even if the limits were raised to 20 per cent of capital and surplus, there would still be many loan requests that rural banks couldn't handle alone. Therefore, I don't think banks should consider higher lending limits as a panacea for their problems.

Secondly, I have often heard bankers say they cannot compete with Production Credit Associations because they cannot arrange their terms as flexibly as the PCA's. In other words, the banks don't feel they can supply intermediate credit. Some have even said that the examiners frown on longer terms on farm loans.

As much as I hate to admit it, some of these banks are just sitting back and watching their customers go to PCA's for their credit needs. But the banker soon finds out that the PCA is supplying all the farmer's needs. Just as we work on the sound principle of combining credit needs, the PCA's are aggressive in selling their credit program. And in many cases, working with a Federal Land Bank, they offer a complete credit package. As a result, the country banker finds that his customer is not coming to him for short-term credit let alone intermediate credit.

I would not be speaking honestly if I didn't state that some of these arguments are overplayed. I know from my own experience that small banks can compete, and very effectively, against PCA's. In fact, PCA's are doing very little business in McDuffy County, Georgia. Where small banks have gone out and made the necessary efforts to meet the credit needs of their customers they are doing a good business.

As far as examiners looking askance at intermediate term loans for farmers, I think it is mostly myth. I have never had a sound loan questioned by an examiner. Naturally, eyebrows are going to be raised if a loan is going sour.

(More)

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

But isn't this true of any loan to any type of business? Let's face it squarely. Farm loans are judged on the same basis as other loans by the examiners.

I dislike using personal references so often, but the farmer I mentioned earlier who has a line of credit of $119,000 has better accounting procedures, uses more accurate projection methods and modern business practices and has more assets than many small businesses with which I have dealt. Why shouldn't his credit be as good as another businessman's? Moreover, why shouldn't a commercial bank which can offer such a complete line of services get this business?

Many banks, the majority of small banks in fact, are pushing this advantage and are making full service banking a reality in agricultural areas. These bankers--the ones that realize their future depends on their ability and willingness to compete--are the ones that need, and the ones that will benefit most from, cooperation with the larger banks.

There have been very few legitimate needs on the part of small banks that have not eventually been filled by correspondents. The starting point in this matter does not rest with you. It is up to the smaller banks to make you aware of the particular problems they face and what you might do to help.

A good many bankers in the past year or so have been quick to point out the wide range of services which they are able to offer because of increased interest on the part of their correspondents. In my own case, I have received valuable help in credit investigations and loan agreements and I have appreciated the suggestions given to me by correspondents.

Much help has also been offered in the field of trusts and estates. International departments of large correspondents have also been useful in meeting the needs of customers. The same could be said of many other services in addition to loan participation and assistance during peak loan periods.

It seems to me that as the credit requirements of agriculture continue to grow, both the small bank and its correspondent are going to have to make some

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

efforts to keep the banking industry in its position of leadership in this field. When the small bank runs into situations that it cannot handle, the banker is going to have to come to you and be able to count on you for assistance.

Once you have thoroughly examined some of the aspects of agricultural credit and have devised ways to assist your small correspondent banks, many other areas of cooperation will suggest themselves. The most important step for both the large and small banks is the first step. In most cases the small bank will come to you and explain the problem. By doing this the small bank has made the initial move. When you find you can be of help, why not let your other correspondent banks know about it. If they know you have taken the first venture in this area they will be less reclutant to seek your assistance or guidance.

In closing, I would like to stress three points. First, small banks can, and in most cases are, competing effectively for farm loans in spite of some of the handicaps which I mentioned earlier. Second, as the demands for credit for agriculture continue to mount, the small banks serving agricultural areas are going to have to increase their efforts in order to meet the growing demands and remain competitive.

My third and final point is this: Large correspondent banks can and should acquaint themselves with some of the problems faced by small banks in the field of farm lending. By doing this they can be in a position to assist when the needs are made clear. Many large banks have not been active in this field because they were not fully apprised of the need. I believe you will be hearing more and more about this subject in the months and years ahead. I am confident that as the demand develops the correspondent banking system will meet it just as successfully as it has adapted to changing conditions in the past.

#

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis