MONTHLY REVIEW

FEDERAL RESERVE BANK OF ATLANTA

Volume XXXV Atlanta, Georgia, May 31, 1950 Number 5

Bank Procedure in Farm Lending

THE extending of credit has played and will continue to play an important role in shaping the financial destiny of farm people. And to some extent, the future of business and professional men in towns and cities throughout the Sixth District is implicated in the future of the farmer.

To suppose that the extension of credit is mechanical or a result of weighing assets against liabilities and risks against interest rates is to overlook or to ignore completely the heart of the transaction—human problems, ambitions, and attitudes. Credit instruments are merely the meeting places of ideas and evaluations in the minds of at least two people. The ideas and evaluations of the two people are greatly influenced by their financial health and managerial capacity in a constantly changing economic and political environment. Credit problems do not arise in a vacuum. The mechanics of farm lending, therefore, cannot be treated in isolation. It is always a person who borrows and a person who repays or defaults.

The story of lending for farm purposes is fascinating and is interwoven with much of the history of that part of the South lying in the Sixth Federal Reserve District. Few of the colonists who pushed back the forests and planted cotton, rice, and tobacco were wealthy men. They had to borrow on their future earnings in order to buy slaves and the supplies they needed to plant and harvest their crops. Men, called factors, supplied those credit needs. The factors bought and sold for the planter—bought his supplies for him and sold his cotton—and on each transaction charged a customary fee of $2\frac{1}{2}$ percent. Cash advances were also made, secured by "next year's crops." Small farmers operating without slave labor dealt primarily with local merchants. For all practical purposes the "furnishing merchant," as he was later called, was an intermediary between the small farmers and the cotton factors in the cities.

These two extenders of credit, the factor and the merchant, emerged in those early days to meet a need, the expansion of cotton production. Profits from farming were usually used to buy more land, thereby accentuating the lack of operating capital. Had there been no sources of credit or had farmers not had faith in their own ability to use productively more capital than they could accumulate from their own operations, the exploration and exploitation of the region's agriculture would have been greatly delayed. It could be argued, of course, that the development was too rapid and that farmers, pushing back the frontiers, left in their wake eroded and depleted farms. But the attitude of farmers toward land was influenced more by the seemingly limitless supply than by other considerations.

Planters in pre-Civil War days saw an insatiable demand for cotton, abundant new land at low prices, and cheap slave labor. Their plans, therefore, were cast almost solely in terms of cotton growing and they were interested in obtaining loans for the production of that commodity alone. It is unlikely that they would have been interested in credit for diversification, soil improvement, or livestock expansion even had it been available for those purposes. Fluctuations in the volume of credit or in interest rates could have influenced the *rate* at which the farmer increased his acreage of cotton, but it is doubtful that his creditors could have changed the *direction* of agricultural development.

Farmers will continue to base their decisions on many elements other than bank credit. At present some of the more influential of these are the physical characteristics of the farm; availability of markets; price supports; Government acreage and marketing controls; and, significantly, personal likes and dislikes. Generally, and this is the crux of the problem, there is no one best alternative use for the employment of the agricultural resources heretofore employed in the growing of cotton. The farmer's alternatives, and hence his credit needs, are now quite diverse. Since credit is merely one means to an end, bank policy, procedure, and instruments, should be so devised that the farmer's rate of adjustment with borrowed funds is reasonable, manageable, and credit-worthy. In fairness to the farmer and in deference to the community as a whole, credit should be available for all alternatives within those bounds.

Bank Credit for Agriculture

In the days of the cotton factors and furnishing merchants, bank credit for agriculture was usually extended indirectly, the factors borrowing from banks by discounting the notes of the planters and merchants. By dealing with intermediaries rather than directly with farmers, bankers gained in convenience but perhaps lost something by not having an intimate contact with the ultimate user of the borrowed funds. Literally, the security of loans to factors, even though they carried the endorsement of merchants, was inherently dependent upon the fortunes of cotton.

The amount of credit that banks extended to agriculture was governed largely by the financial position of the factor. A farmer rarely applied for a loan directly to a bank, presenting his farm plans and specific credit needs to the bank's lending officer. The factor, playing the dual role of commission merchant and banker, was hardly inclined to be conservative in lending to farmers since he stood to gain both from the sale of supplies to the planter and from the sale of the cotton that was produced. Measured by present standards, the credit practices of the factors would be considered inadequate. For the most part the relationships between the factors and the plantation operators were intimate and loans, often in large amounts, were made upon oral agreements. Both the dual position of the factor and this informal procedure resulted in many cases in an over-extension of credit. Without detailed analyses, adequate procedures, and central banking facilities which could give the individual banks flexibility, a breakdown of the early farm lending system was inevitable. All three—the banker, the factor, and the planter—were gambling on cotton. And all three experienced periodic, heavy losses.

Cotton in Bank Lending Practices

The Civil War and the long period of reconstruction that followed it caused many changes in the economic and social life in the Sixth District. This was especially true in rural areas. The plantation system as a farm organization declined in importance; the factor largely disappeared; and the furnishing merchants gradually came to reduce the volume of their advances to farmers. Dependence upon cotton as the major cash crop, however, continued.

As commercial banks were re-established after the war and as their number and deposits grew, they sought new borrowers to replace the factors and merchants. The need for operating capital in agriculture continued and even increased. Thus these two needs, the banks' need for customers and the farmers' need for credit, resulted in banks lending directly to farmers.

The banker was now brought into direct contact with farmers having varying capacities, and net worth and operations of various sizes. In order to separate the good risks from the bad and to lend only to those who were credit worthy, the banker had to develop certain standards and procedures. The farmer, in turn, had to lay out his plans, estimate his credit requirements, and prove to the banker that he, personally, and his plan were a good credit risk. The common denominator in all of those problems, however, was cotton.

The reasons why cotton was singularly qualified to be a common denominator in farm credit considerations were many. The production of cotton was almost the sole field in which credit was used. Cotton, moreover, had a world market and could be stored indefinitely at low cost; it was easily transported; and, significantly, there was a background of experience in the growing and marketing of cotton that enabled bankers to calculate fairly accurately the risks involved.

The standardization of cultivating practices during the first quarter of the twentieth century made lending for cotton production a rather easy procedure for a bank. With the standard Georgia stock plow and a mule, a man could plant and cultivate just so many acres of cotton. For that reason the size of a farmer's operations could be measured by the number of plows he "ran." Operating credit needs could then be computed—an allowance for fertilizer; another for seed; and, perhaps, a third for living expenses until harvest. In determining the amount of credit to be extended for each plow or acre in cotton, the banker, of course, assumed normal yields. Within a bank's territory, the variations in soil types or physical productivity were so unimportant that it was seldom necessary for a banker actually to see a farm.

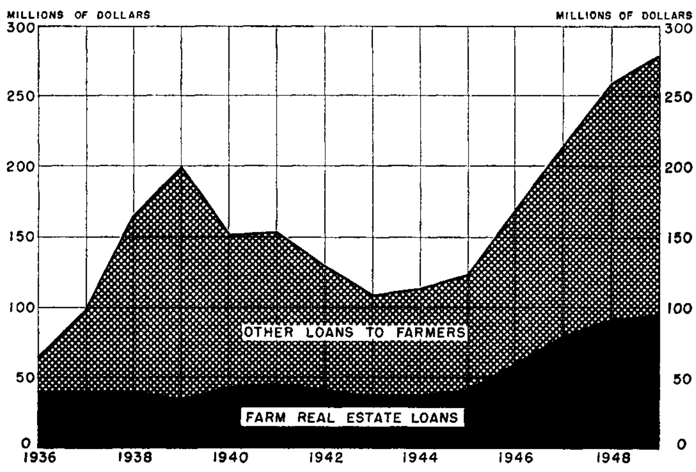
Up to this point, credit considerations were based on cotton as a commodity. When the banker had figured the amount he would lend per acre or per plow to one customer, that amount became a standard, or yardstick, against which other requests were measured. This did not mean that personal factors were not considered in every request. The applicant, of course, had to be a good moral risk, but if he had also proved himself to be a superior cotton grower he could, and usually did, receive a greater amount than the average grower. If a borrower had a net worth considerably above average, a loan would often be approved even though the amount exceeded the cotton standard. In loans of that nature, however, the banker was making the usual cotton loan as well as one based on the operator's general financial responsibility.

The calculation of the standard cotton loan, as well as an appraisal of the applicant's managerial capacity and net worth, was rather easy to make. In fact they were so easily made that many bankers did their calculating and kept some of their records in the back of their heads. Estimates had to be made for only about nine months. Prices of fertilizer and seed and wage rates at the time the commitment was made were known. That left only two important variables, the weather and the price of cotton. The effect of the weather was taken account of in the assumption of normal yields, and there was sufficient data and experience to provide a reasonable basis for estimating the normal. Price uncertainties, of course, were great, but the future markets gave the banker a forecast against which or with which he could make his own predictions. Lending for cotton growing thus became a standardized procedure.

Violent changes in the price of cotton, however, often resulted in extreme hardship to both borrower and lender. If something could be done to minimize those wide fluctuations, the farmer and the banker could feel more secure in their operations. Attempts to do this were made both by the Government and by farmer cooperatives. It was not until the 1930's, however, under the Agricultural Adjustment Administration, that price control became effective and cotton growing and lending on cotton became less hazardous. The inauguration of crop insurance during the latter part of the 1930's reduced uncertainty still further.

Although lending for cotton production was made easier by the Government program of price support, new problems arose. That farmers were required to adjust their acreage, usually downward, meant reduced income, unless the lands diverted from cotton could be used to produce some other cash crop. Many farmers simply made the reductions without

AGRICULTURAL LOANS OF INSURED COMMERCIAL BANKS
JUNE 30, 1936-49
Sixth District States



adding new enterprises in the hope that the cuts would be restored in the following year. Other farmers, realizing that the cuts might continue, planned new crops and livestock enterprises. When the latter group sought loans from commercial banks, however, the cotton yardstick and the bank procedures based on it were found to be no longer fully applicable.

Farm Lending After World War II

During the recent war, farmers had an extremely wide choice of uses to which land, labor, and capital could be put. Government restrictions and limitations were off and quotas were replaced by goals. These were often the most that a farmer thought he could produce. Because of their experience, equipment, and widely available markets, most farmers chose to concentrate on the production of traditional crops.

The demand for farm products during the war period made agriculture in the District a highly profitable business. Mortgages were paid off or were greatly reduced and farmers increased their liquid assets—both cash and bonds. The extension of credit presented no particular problems in a period when both prices of farm products and net incomes of farmers were rising. Although the war demand made agriculture profitable, it also forced a postponement of many adjustments that inevitably lay ahead for cotton and peanut farmers.

Stocks of goods and products made from cotton, peanuts, and other farm products were so depleted that the abnormally high demand continued even after the war. Many farmers, seeking to ride the boom, continued to postpone shifting to less intensive crops. Acreage allotments on peanuts in 1949, together with adverse weather and heavy insect damage on cotton, brought the decade of rising prices to a close.

In addition to changes in crop acreages, important technological developments also took place during the past decade. Farming, indeed, became a highly complicated, systematized, and integrated business operation because of the increased mechanization, new chemicals and insecticides, improved varieties of crops, increased capital investment, and Government price-support operations. It also became a continuous operation whereby the land produced either cover crops or cash crops throughout most of the year.

Realizing the need for special attention to farm loans under these altered conditions, many banks have added agricultural men to their staffs. Some of these agricultural men are credit men, others are primarily field men, who make appraisals and obtain other information for the lending officers. With a man of either type on its staff, a bank obtains information and analyses that banks in general do not have. For banks that are large enough to employ such specialists, lending to farmers is not particularly difficult. The majority of commercial banks in rural areas, however, probably cannot afford these additions to their staffs and their problem is how to make sound farm loans with their present personnel and facilities.

Present Lending Practices

Farm lending practices vary widely among commercial banks, depending to a great extent upon the personal interest or lack of interest of the agricultural lending officers and upon the differences in the types of loans requested. There seems to be much less standardization of procedure and fewer clearly defined policies in regard to farm loans than in regard to other types of loans. If a lack of standardization meant that each credit applicant received close, individual attention, there would be little point in attempting to suggest standards. However, there is little reason to believe that such is the case. In most instances the lack of a high standard, or indeed any standard, in lending practices is due to a lack of information. The problem, then, is to determine, first, what information is essential to the banker and, secondly, how he can use that information in an analysis.

Farmers usually wait until just before planting time to apply for a loan. When they line up in a bank in February or March, impatiently awaiting their turn to see the lending officer, neither the farmer nor the banker has the time to obtain or to record the information that is necessary to evaluate a loan which happens to differ greatly from the customary crop loan in amount, time, or purpose. If the farmer could know what kind of information the banker wants, and if he had this information in usable form when he applied for a loan, operations in the bank could be speeded up considerably.

A farmer, however, isn't likely to keep records or fill out forms until he is required to do so. The banker, moreover, is not likely to adopt record forms until he finds it necessary. As long as both farmer and banker are satisfied with present practices and procedures, no forms, however useful they may be, will likely be adopted. The pertinent question is, Has farm lending reached the point where both borrower and lender will profit by the use of special forms and records?

There seems to be a unanimous opinion among bankers and farmers that significant adjustments lie ahead. In all probability the farmer will find record-keeping necessary in order that he may be certain that he is adhering to his plans in making the proper adjustments in his farm operations. Similarly, the banker will likely find it advantageous to have records of the farm operations in order that he may properly analyze the loan risks and have on hand information which will enable him to observe more closely the progress of the borrower.

Information Needed

Information about a farm program should be sufficient to enable the banker to determine whether the purpose for which the loan is being obtained is justifiable and whether the amount of the loan is reasonable. He should also be able to calculate in some detail the risks involved.

Efforts of some bankers to induce their farm customers to keep records, even when the forms were furnished by the banks, have met with little success. One of the reasons why farmers have not been more receptive to the idea is that the information usually called for is too detailed and the job of keeping the records is too tedious. In many cases, the detailed information is not specifically useful. For example, it may be interesting to know whether a farmer lives on a paved road or has electricity, but this information is not essential in determining whether the farmer can afford to borrow money to add five acres of permanent pasture to his farm, to buy a purebred bull, or to purchase a tractor. Only the absolutely essential information should be required. The criterion should be usefulness, and the goal brevity.

Farmers are businessmen and although their records may not be kept as formally as those of retailers and processors, they can, nevertheless, give the information essential for credit analysis. The farmer usually knows, for example, what he is striving for in the way of a farm program and he can, within reason, set forth his objective. If he expects to utilize fully the services of his commercial bank, he should not and probably would not be averse to supplying an inventory of his assets together with a clear, concise statement showing step by step and year by year how he proposes to achieve his goal. The farmer should also submit a budget, rough though it may be, showing estimated receipts and expenditures. The budget should include a plan for repaying the loan based on the amount, nature, and regularity of income.

The accompanying illustration shows the essential data for a farm on which the owner is cutting down on cotton acreage and expanding his dairy herd to produce Grade A instead of Grade B milk. Although the information shown on this form by no means answers all the questions that might arise in a banker's mind, it does show the proposed change in the organization of the farm. Moreover, it indicates that the farmer not only has made definite plans but has formulated them in some detail. Unless such plans show the banker how the farmer will be able to repay a loan out of future earnings, the banker will not be able to make the loan on a sound basis nor to service it properly if it is made.

Such detailed plans should be of value to the farmer, whether his farm is large or small, as well as to the county agents who are called upon to advise with farmers about adjustments and improvements on their farms. Detailed farm plans, however, would not be necessary in the making of bank loans to many farmers. A farm credit survey in mid-1947 showed that 59 percent of all the farm production loans from insured commercial banks in the District were for amounts less than $250. Moreover, 51 percent of the loans were to farmers with a net worth of less than $2,000. With few exceptions, loans in that amount or to farmers of that net worth can be handled without the use of special forms.

Only an intensive educational program will teach farmers to think ahead and record even the minimum of information about their farms. Obviously, bankers cannot be expected to launch such a program, but perhaps the Extension Service,

1/15/50

FARM BUSINESS SUMMARY

Classification: General Changing to Dairying

Name and Address: John Doe, Route 4, Covington, Georgia Owner 220 Acres

LAND USE

	Now	Next Year	Goal (5 Years)	Comments
Cotton	35	28	10	Depends on Govt.
Corn	45	35	35	Hybrid
Truck	15	15	0	
Pasture	30	35	60	Permanent
Grazing	10	20	40	Mainly perennials
Woodland	75	75	65	
Other	10	12	10	
Total	220	220	220	

LIVESTOCK

	Now	Next Year	Goal (5 Years)	Comments
Beef Cattle	1	1	0	
Dairy Cattle	15	22	40	Expanding to Grade A
Hogs	4	4	4	Home use
Mules	1	1	1	
Poultry	50	50	50	

ANNUAL STATEMENT

Inventory (January 1st)	This Year	Next Year	Goal (5 Years)	Comments
Land and Buildings	$17,000	$18,000	$20,000	Improvements to dairy barn
Livestock	2,500	3,700	6,300	Herd increases
Crops	800	500	500	
Machinery and Equipment	5,500	5,500	6,000	
Total	25,800	27,700	32,800	
Personal Assets				
Cash	1,200	1,200	1,500	
Property	3,500	3,500	4,000	
Total	4,700	4,700	5,500	
Total Assets	30,500	32,400	38,300	
Indebtedness				
Mortgage	9,000	9,000	5,000	
Current	1,800	1,500	1,000	Operating accts.
Total Liabilities	10,800	10,500	6,000	
Net Worth	$19,700	$21,900	$32,300	

OPERATING STATEMENT

	This Year	Next Year	Goal (5 Years)
Estimated Receipts			
Cotton	$2,800	$2,200	$900
Truck	1,800	1,800	--
Seed	150	200	500
Timber	125	125	100
Milk	2,500	4,000	7,500
Cattle	--	200	1,200
Total Receipts	7,375	8,525	10,200
Estimated Expenses			
Fertilizer	1,200	1,000	800
Labor	500	750	1,000
Fuel and Supplies	250	300	500
Seed	500	500	200
Livestock Purchases	400	700	1,000
Veterinarian	50	100	150
Overhead, Taxes, Ins.	600	700	1,000
Total Expenses	3,500	4,050	4,650
Estimated Net Income	$3,875	$4,475	$5,550

whose function is that of education, could undertake such a program with the assistance of bankers. The county key banker or some representative of commercial banks could attend meetings of farmers and explain how this information could enable local banks to serve their farm customers better. The banker or representative would then have an opportunity to answer questions concerning the use of credit.

Another way in which the banker could assist in the program would be to insist that the farmer present his plan concisely when he applies for a loan and then to make this plan the basis for granting or refusing the loan. Credit information and any notes that a banker might wish to record could be written on the back of the form or attached to it. The banker would find it advantageous to have the farm and credit information filed together, thus saving both his time and that of the farmer.

Bankers can also use the knowledge obtained from farm records for studying delinquent loans or failures to repay. They might, for example, find answers to such questions as, Was the farmer's inability to meet his payment due to something over which he had no control, or was it because of poor management? And could the delinquency have been avoided by a better appraisal of the man, the land, and the plan at the time the application was filed? Adequate records could help to answer these questions.

Farm records and bank forms, of course, are not ends in themselves, but are merely tools that help the banker in making farm loans. They are only convenient devices for recording information systematically and they are worthless unless the banker uses this information and supplements it with other considerations when he comes to weigh the merits of a particular loan application. There is no magic in any standard procedure, as such.

Tailored Farm Loans

Throughout the District, banks are making loans to farmers to carry out specific, long-time plans that entail major adjustments. Typical of this group of progressive banks is The Commercial Bank and Trust Company, Ocala, Florida.

The president of the bank, W. E. Ellis, has long been interested in building Florida's livestock industry. He realized, however, that if the farmers in his area were to make significant strides, they would have to do so on borrowed money. He further realized that the needs of the farmers would vary, depending on the size and nature of their operations. Through experience, study, and careful analysis, The Commercial Bank and Trust Company has developed a standard procedure for handling farm loans. The procedure is: (1) an interview with the operator; (2) an evaluation of farm plans, financial statements, and other credit data; and (3) an official visit to the farm to observe management practices and to discuss both the plans and financial statements. This procedure is followed in making all beef-cattle, dairying, and general farming loans.

Loans to farmers for beef cattle are sub-classified into three groups: (1) loans for purchasing cattle to be fattened on grass; (2) loans for improving and increasing breeding stock; and (3) loans to cattlemen who are engaged in buying and selling cattle and who at the same time are improving the breed of their permanent herds. Loans for the purchase of cattle are usually short-term loans, the maturity of the obligation depending upon the length of time it takes to get the cattle ready for market.

Sixth District Statistics

CONDITION OF 27 MEMBER BANKS IN LEADING CITIES
(In Thousands of Dollars)

Item	May 17 1950	Apr. 19 1950	May 18 1949	Percent Change May 17, 1950, from	
				Apr. 19 1950	May 18 1949
Loans and investments—Total	2,471,820	2,466,622	2,278,857	+ 0	+ 8
Loans—Net	895,944	889,142	812,856	+ 1	+ 10
Loans—Gross	909,480	902,584	823,865	+ 1	+ 10
Commercial, industrial, and agricultural loans	514,694	519,798	506,417	— 1	+ 2
Loans to brokers and dealers in securities	11,327	11,545	7,437	— 2	+ 52
Other loans for purchasing and carrying securities	35,389	33,968	39,837	+ 4	— 11
Real estate loans	79,900	77,784	69,035	+ 3	+ 16
Loans to banks	5,263	4,602	4,807	+ 14	+ 9
Other loans	262,907	254,887	196,332	+ 3	+ 34
Investments—total	1,575,876	1,577,480	1,466,001	— 0	+ 7
Bills, certificates, and notes	625,951	619,049	367,231	+ 1	+ 70
U. S. bonds	738,152	746,779	907,266	— 1	— 19
Other securities	211,773	211,652	191,504	+ 0	+ 11
Reserve with F. R. Bank	391,781	402,055	455,193	— 3	— 14
Cash in vault	39,329	40,352	39,836	— 3	— 1
Balances with domestic banks	195,116	178,107	177,983	+ 10	+ 10
Demand deposits adjusted	1,802,287	1,773,671	1,746,798	+ 2	+ 3
Time deposits	540,357	540,069	543,636	+ 0	— 1
U. S. Gov't deposits	60,229	56,922	28,911	+ 6	+108
Deposits of domestic banks	499,630	523,264	444,248	— 5	+ 12
Borrowings	3,000	......	8,000	..	— 63

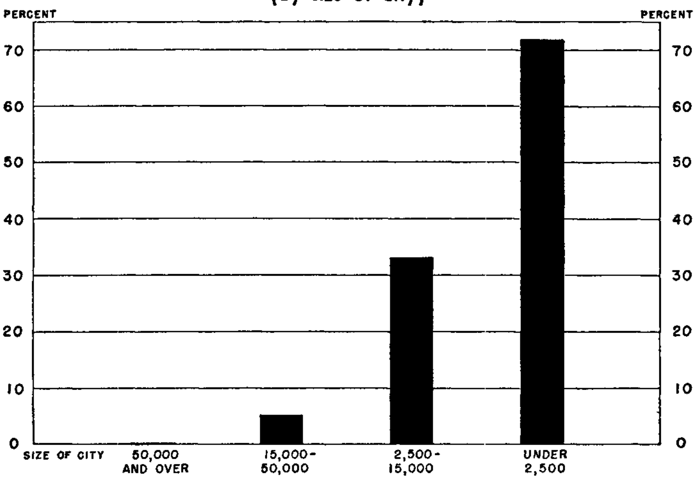
DEBITS TO INDIVIDUAL BANK ACCOUNTS
(In Thousands of Dollars)

Place	April 1950	March 1950	April 1949	Percent Change: April 1950, from		Percent Change: 1950 from 1949, First 4 Months
				Mar. 1950	Apr. 1949	
ALABAMA						
Anniston	20,945	22,374	19,375	— 6	+ 8	— 1
Birmingham	327,863	358,026	305,165	— 8	+ 7	+ 4
Dothan	12,518	13,529	11,955	— 7	+ 5	+ 2
Gadsden	19,574	19,589	17,822	— 0	+ 10	+ 4
Mobile	112,166	126,863	127,240	— 12	— 12	— 10
Montgomery	67,358	85,141	67,693	— 21	— 1	+ 8
FLORIDA						
Jacksonville	288,828	321,898	267,424	— 10	+ 8	+ 10
Miami	273,151	321,155	237,831	— 15	+ 15	+ 9
Greater Miami*	410,809	477,222	352,037	— 14	+ 17	+ 9
Orlando	60,753	72,456	52,833	— 16	+ 15	+ 23
Pensacola	33,352	36,508	32,837	— 9	+ 2	+ 3
St. Petersburg	66,541	73,516	61,329	— 9	+ 8	+ 11
Tampa	137,590	164,085	126,390	— 16	+ 9	+ 15
GEORGIA						
Albany	23,065	24,635	23,500	— 6	— 2	— 2
Atlanta	843,868	921,833	781,467	— 8	+ 8	+ 7
Augusta	57,866	54,583	54,690	+ 6	+ 6	— 3
Brunswick	9,142	9,171	8,275	— 0	+ 10	+ 5
Columbus	58,620	60,679	48,652	— 3	+ 20	+ 14
Elberton	3,885	4,024	3,621	— 3	+ 7	+ 4
Gainesville*	13,939	15,327	13,752	— 9	+ 1	+ 4
Griffin*	11,288	11,673	10,199	— 3	+ 11	+ 4
Macon	56,562	58,405	50,743	— 3	+ 11	+ 6
Newnan	7,894	8,151	7,491	— 3	+ 5	+ 7
Rome*	20,936	21,879	18,239	— 4	+ 15	+ 10
Savannah	83,555	96,251	83,746	— 13	— 0	+ 0
Valdosta	10,477	11,078	10,426	— 5	+ 0	+ 1
LOUISIANA						
Alexandria*	32,627	33,239	28,605	— 2	+ 14	+ 11
Baton Rouge	97,515	106,493	115,695	— 8	— 16	— 8
Lake Charles	33,731	38,674	35,502	— 13	— 5	+ 0
New Orleans	633,573	771,419	658,633	— 18	— 4	— 2
MISSISSIPPI						
Hattiesburg	17,339	18,336	15,818	— 5	+ 10	+ 9
Jackson	136,837	161,854	127,008	— 15	+ 8	+ 5
Meridian	25,773	28,171	24,244	— 9	+ 6	+ 2
Vicksburg	23,176	26,360	22,986	— 12	+ 1	+ 0
TENNESSEE						
Chattanooga	139,931	151,291	128,455	— 8	+ 9	+ 5
Knoxville	109,498	106,547	98,793	+ 3	+ 11	+ 4
Nashville	306,659	338,440	278,803	— 9	+ 10	+ 12
SIXTH DISTRICT 32 Cities	4,099,605	4,611,535	3,906,442	— 11	+ 5	+ 5
UNITED STATES 333 Cities	102,570,000	115,738,000	99,703,000	— 11	+ 3	+ 4

*Not included in Sixth District total.

Bank credit for improving or increasing breeding stock is extended for one, two, or three years and, in some cases, for as much as five years. The length of time depends upon the program of the cattleman. Those farmers who are trading in cattle and who, at the same time, are building up their permanent herds may be granted a line of credit for periods up to five years on the security of a "running-time" mortgage. That is, a mortgage executed for the amount of the line of credit at the time the original loan is made and that covers additions to the herd, either by purchase or by natural increase.

PERCENTAGE OF DISTRICT MEMBER BANKS HAVING 25 PERCENT OR MORE OF THEIR TOTAL LOANS IN FARM LOANS, 1949
(By size of city)



The willingness and ability of the bank to make these "tailored" farm loans is based upon the farmer's having a plan, upon the bank's obtaining adequate financial and operating information, and upon periodic supervision and inspection by a bank official and by a disinterested third party. With this procedure The Commercial Bank and Trust Company is able to do without a special farm-credit man. Even so the bank reports that its experience with these loans have been exceptionally satisfactory.

Conclusion

District bankers are showing a lively interest in agriculture. Particularly since the war, they have attended meetings, short-courses, and seminars dealing with agricultural subjects sponsored by their state associations and other groups. Whether this current interest can be translated into bank practices and procedures will depend upon the extent to which bankers obtain essential information, analyze it, and apply it to specific problems.

Farmers in the District states are going into livestock—beef cattle, dairy cattle, hogs—and into the production of new crops on a commercial scale. Bank credit, extended judiciously and tailored to meet the needs of those farmers who have made plans to fit their resources and abilities, can do much to maintain farm income at profitable levels. Where bankers have extended credit on this basis, incomes have increased even though farm income in general has declined. By reappraising their farm-loan policies and procedures, bankers may well find themselves able to make the type of loans that will allow farmers to make more rapid progress in the future than they have in the past.

JOHN L. LILES

Sixth District Indexes

DEPARTMENT STORE SALES

Place	Adjusted**			Unadjusted		
	Apr. 1950	Mar. 1950	Apr. 1949	Apr. 1950	Mar. 1950	Apr. 1949
DISTRICT	397	374	389r	389	359	393
Atlanta	446	416	417r	428	399	421
Baton Rouge	413	363	455r	413	352	469
Birmingham	372	360	376r	354	353	365
Chattanooga	371	377	340r	371	343	350
Jackson	384	370	358r	399	356	379
Jacksonville	368	366	374r	364	355	378
Knoxville	409	375	384r	413	349	400
Macon	395	281	374r	340	303	329
Miami	392	404	378r	407	428	393
Montgomery	383	322	376r	364	306	372
Nashville	451	409	443r	446	388	439
New Orleans	367	362	377r	374	348	403
Tampa	511	471	473r	516	466	488

DEPARTMENT STORE STOCKS

Place	Adjusted**			Unadjusted		
	Apr. 1950	Mar. 1950	Apr. 1949	Apr. 1950	Mar. 1950	Apr. 1949
DISTRICT	360	353	335r	378	371	352
Atlanta	460	424	419r	474	449	431
Birmingham	281	266	288r	295	282	302
Montgomery	396	386	379r	408	386	390
Nashville	545	538	503r	566	554	524
New Orleans	347	342	303r	365	366	318

GASOLINE TAX COLLECTIONS***

Place	Adjusted**			Unadjusted		
	Apr. 1950	Mar. 1950	Apr. 1949	Apr. 1950	Mar. 1950	Apr. 1949
SIX STATES	232	235	210	239	219	216
Alabama	231	222	214	234	205	217
Florida	239	228	218	255	239	233
Georgia	244	240	193	252	220	199
Louisiana	231	276	233	227	254	229
Mississippi	208	230	218	212	207	222
Tennessee	233	201	196	235	177	198

COTTON CONSUMPTION*

Place	Apr. 1950	Mar. 1950	Apr. 1949
TOTAL	145	166	116
Alabama	147	174	124r
Georgia	148	167	115
Mississippi	86	99	65
Tennessee	121	140	104r

ELECTRIC POWER PRODUCTION*

	Mar. 1950	Feb. 1950	Mar. 1949
SIX STATES	409	419	364
Hydro-generated	375	381	341
Fuel-generated	454	469	394

MANUFACTURING EMPLOYMENT***

Place	Mar. 1950	Feb. 1950	Mar. 1949
SIX STATES	140	140	143
Alabama	141	140	149
Florida	137	140	140
Georgia	140	139r	141
Louisiana	130	130	138
Mississippi	136	135	136
Tennessee	148	146	147

CONSTRUCTION CONTRACTS

Place	Apr. 1950	Mar. 1950	Apr. 1949
DISTRICT	531	1181	399
Residential	950	1274r	552
Other	328	1136r	325
Alabama	523	608	567
Florida	546	816	418
Georgia	640	711	458
Louisiana	625	627	241
Mississippi	204	319	181
Tennessee	605	2991	352

CONSUMERS PRICE INDEX

Item	Apr. 1950	Mar. 1950	Apr. 1949
ALL ITEMS	171	171	172
Food	198	198	204
Clothing	191	191	196
Fuel, elec., and refrig.	139	141	137
Home furnishings	183	184	190
Misc.	154	154	154
Purchasing power of dollar	.58	.58	.58

ANNUAL RATE OF TURNOVER OF DEMAND DEPOSITS

	Apr. 1950	Mar. 1950	Apr. 1949
Unadjusted	20.8	20.7	18.6
Adjusted**	21.1	20.7	18.9
Index**	85.4	83.7	76.2

CRUDE PETROLEUM PRODUCTION IN COASTAL LOUISIANA AND MISSISSIPPI*

	Apr. 1950	Mar. 1950	Apr. 1949
Unadjusted	302	300	302
Adjusted**	296	300	296

* Daily average basis
** Adjusted for seasonal variation
*** 1939 monthly average = 100
Other indexes, 1935-39 = 100

r Revised

District Business Conditions

Deposit Changes and Bank Investments

MIXED trends in deposit changes have characterized District member bank operations in recent months. Although total deposits for all member banks were 212 million dollars greater at the end of April than a year ago, 148 of 352 District member banks experienced declines in deposits. On the other hand, at many banks the rates of growth either exceeded the average or were less than the average by considerable margins.

In many cases, these deposit changes have been accompanied by a strong demand for loans. The greatest rates of loan expansion, however, have not necessarily been in those areas where loanable funds expanded the most. As a rule, the banks have made any necessary adjustments by changes in their investment portfolios. The first adjustment occurred last fall, when the reduction in required reserves was followed immediately by additions to investments at most member banks.

At Florida banks, deposits normally increase between early fall and April, as a result of greater tourist expenditures and income from agricultural marketings. This year the growth was unusually high; by the end of April, deposits were 159 million dollars greater than at the beginning of the year, and 97 million dollars greater than a year ago. Loans at the Florida banks, however, were only 28 million dollars greater than a year ago. The banks adjusted their positions by increasing their investments.

In that part of Mississippi included in the Sixth District, on the other hand, deposits were somewhat lower at the end of April than they were a year ago, but total loans were 11.7 percent greater than a year earlier. The banks have adjusted their earning assets by reducing total investments 3.3 percent below those of a year ago. Similar adjustments have been made in other areas where banks have lower deposits and more loans than last year. In still other areas, where deposits have not declined and may have even increased slightly, the expansion in loans has limited the growth in investments.

DEPOSITS, LOANS, AND INVESTMENTS AT DISTRICT MEMBER BANKS
Percentage Change, April 1950 from April 1949

	Total Deposits	Total Loans	Total Investments	Percent of Banks Reporting Decreased Deposits
Alabama	0	+ 7.1	+ 2.4	53
Florida	+ 7.0	+ 11.0	+ 12.7	15
Georgia	+ 4.8	+ 14.3	+ 4.4	42
Louisiana*	+ 2.7	+ 5.3	+ 9.4	44
Mississippi*	— .1	+ 11.7	— 3.3	63
Tennessee*	+ 5.4	+ 9.9	+ 6.7	50
District	+ 3.9	+ 10.1	+ 7.3	45

*That part of the state included in the Sixth District.

At the end of last year, United States bonds maturing in five years or less constituted the greater part of Sixth District member bank investments in Government securities. In addition to having 39 percent of their holdings in these bonds, the banks held about 31 percent of their securities in Treasury bills and certificates. Treasury notes constituted about 9 percent of the total. Bonds maturing in over five years made up 18 percent, and the remaining 3 percent was in nonmarketable bonds.

Possibly because of a greater desire for liquidity, District member banks had a larger proportion of their Government security holdings in bills and certificates than member banks throughout the country. These securities constituted only 26 percent of total holdings for the latter. District member banks also had a smaller proportion of their holdings invested in bonds having five years or more to run to maturity than was true of member banks generally.

Changes in the type of security holdings since the first of the year have been largely governed, of course, by Treasury financing. Member banks have had substantial holdings of certificates maturing each month of 1950 and both these and maturing bonds have been replaced by new issues of Treasury notes. Also, additions to total holdings of Government securities have been made primarily by additions of Treasury notes.

Contrasting Trends in Department Store Sales

So far this year, Sixth District department stores as a group have reported dollar sales higher than last year's. With the exception of the Dallas District, where the stores sold approximately 5 percent more for the year through May 13 than in the like period last year, and the Atlanta District, sales have been running below those of 1949 in each Federal Reserve District.

Dollar sales at the Atlanta District stores were probably about 3 percent higher in the first five months of 1950 than they were during the corresponding period last year. Stores in several District cities, however, have not been able to set as good records.

In Birmingham, Mobile, and Montgomery, sales through April were under last year's. In Baton Rouge and New Orleans the four-month totals for 1950 were 9 and 11 percent below those for the corresponding period in 1949.

In Florida, comparisons for the same period showed sales up 2 percent at the Miami stores, and down 4 percent at the Jacksonville stores and 2 percent at both the Orlando and Tampa stores.

Though March year-to-date sales at the stores in all the Georgia cities for which data are released were either equal to 1949 sales or above them, April reports put Augusta and Rome in the minus column for the year, but sales for the year in each of the cities of Atlanta, Savannah, and Macon were 5 percent higher, and in Columbus they were 8 percent greater.

The Jackson, Mississippi, stores reported sales through April up 2 percent, whereas the Meridian stores in the same state reported sales down 8 percent. Sales for the like period were down 3 percent in Bristol, Tennessee, one percent in Knoxville, and were about the same as last year in Nashville. The Chattanooga stores, however, reported an increase of 9 percent.

Department stores selling large amounts of home furnishings and household appliances have made much better sales records than those specializing in women's clothing. Preliminary reports showed April sales of women's dresses down 13 percent from April, 1949, and sales of coats and suits down 16 percent.

On the other hand, radio and television sales were more than twice as great this April as last April—up 116 percent. Furniture and bedding sales were running 10 percent higher, and sales of major household appliances were up 7 percent. More was also being spent on men's clothing than a year ago.

Department store sales, of course, represent only one type of consumer spending. Lower sales in certain cities do not necessarily mean that total consumer spending in these cities is lower. C.T.T.

Sixth District Statistics

INSTALMENT CASH LOANS

Lender	No. of Lenders Reporting	Volume: Percent Change April 1950 from March 1950	Volume: Percent Change April 1950 from April 1949	Outstandings: Percent Change April 1950 from March 1950	Outstandings: Percent Change April 1950 from April 1949
Federal credit unions	41	— 14	+ 20	+ 1	+ 34
State credit unions	19	— 14	+ 25	+ 0	+ 43
Industrial banks	11	+ 22	+ 38	+ 2	+ 30
Industrial loan companies	14	— 4	— 23	+ 1	— 3
Small loan companies	40	— 0	— 1	+ 1	+ 6
Commercial banks	33	— 5	+ 16	+ 3	+ 36

RETAIL FURNITURE STORE OPERATIONS

Item	Number of Stores Reporting	Percent change April 1950 from March 1950	Percent change April 1950 from April 1949
Total sales	86	+ 2	+ 2
Cash sales	69	+ 3	— 9
Instalment and other credit sales	69	+ 4	— 1
Accounts receivable, end of month	80	+ 1	+ 23
Collections during month	80	— 8	— 1
Inventories, end of month	53	+ 3	— 4

WHOLESALE SALES AND INVENTORIES*

Type of Wholesaler	Sales: No. of Firms Reporting	Sales: Percent Change April 1950, from Mar. 1950	Sales: Percent Change April 1950, from Apr. 1949	Inventories: No. of Firms Reporting	Inventories: Percent Change April 30, 1950, from Mar. 31 1950	Inventories: Percent Change April 30, 1950, from Apr. 30 1949
Automotive supplies	4	0	— 12	3	— 0	— 17
Electrical group						
Full-line	3	+ 22	+ 29	.	..	..
Appliances	7	— 0	+ 29	6	+ 6	— 17
General hardware	13	— 8	— 1	7	+ 3	+ 6
Industrial supplies	3	+ 7	+ 19	.	..	..
Jewelry	4	— 12	— 9	3	— 1	— 21
Lumber and building supplies	3	+ 1	+ 26	.	..	..
Plumbing and heating supplies	4	— 6	— 2	3	+ 3	— 4
Confectionery	5	— 13	— 8	.	..	..
Drugs and sundries	11	— 17	— 0	5	+ 5	+ 8
Dry goods	19	— 23	— 11	14	— 2	+ 15
Farm supplies	3	+ 2	+ 10	.	..	..
Grocery group						
Full-line	44	— 10	— 0	30	— 3	+ 8
Specialty lines	9	— 14	+ 4	3	— 14	— 27
Shoes and other footwear	3	— 14	+ 17	.	..	..
Tobacco products	15	— 16	— 3	10	— 6	0
Miscellaneous	14	— 11	+ 8	17	+ 4	— 1
Total	164	— 9	+ 3	102	+ 0	+ 4

*Based on U. S. Department of Commerce figures.

DEPARTMENT STORE SALES AND INVENTORIES

Place	Sales—Percent Change: April 1950 from Mar. 1950	Sales—Percent Change: April 1950 from Apr. 1949	Sales—Percent Change: Year to Date 1950-1949	Number of Stores Reporting: Sales	Number of Stores Reporting: Stocks	Stocks Percent Change April 30, 1950, from Mar. 31 1950	Stocks Percent Change April 30, 1950, from Apr. 30 1949
ALABAMA							
Birmingham	— 7	— 7	— 5	4	3	+ 5	— 2
Mobile	+ 6	— 7	— 2	5	.	..	..
Montgomery	+ 10	— 6	— 3	3	3	+ 6	+ 5
FLORIDA							
Jacksonville	— 5	— 7	— 4	4	3	— 1	+ 16
Miami	— 12	— 0	+ 2	4	3	— 2	+ 18
Orlando	— 5	— 8	— 2	3	.	..	..
Tampa	+ 2	+ 2	+ 2	5	3	+ 1	+ 7
GEORGIA							
Atlanta	— 1	— 2	+ 5	6	5	— 2	+ 10
Augusta	+ 2	— 14	— 5	4	3	+ 4	+ 13
Columbus	+ 6	+ 7	+ 8	4	.	..	..
Macon	+ 4	— 1	+ 5	6	4	— 3	+ 0
Rome	+ 18	— 3	— 1	4	.	..	..
Savannah	+ 16	+ 2	+ 5	6	4	— 3	+ 7
LOUISIANA							
Baton Rouge	+ 9	— 15	— 9	4	4	— 1	+ 4
New Orleans	— 0	— 11	— 2	5	4	— 0	+ 15
MISSISSIPPI							
Jackson	+ 4	+ 1	+ 2	4	4	+ 4	+ 14
Meridian	+ 9	— 13	— 8	3	.	..	..
TENNESSEE							
Bristol	+ 12	— 7	— 3	3	3	— 2	+ 4
Chattanooga	+ 0	+ 3	+ 9	4	3	— 28	— 6
Knoxville	+ 10	— 1	— 1	4	.	..	..
Nashville	+ 6	— 2	+ 0	6	5	+ 2	+ 8
OTHER CITIES*	— 3	— 3	+ 3	22	22	+ 1	— 3
DISTRICT	+ 0	— 5	+ 1	113	76	+ 0	+ 7

* When fewer than three stores report in a given city, the sales or stocks are grouped together under "other cities."

Industry and Employment

In April the value of construction contracts awarded in the Sixth District declined from the near-record total reported for March, and the rate of cotton textile mill activity was off somewhat. Following the settlement of the coal strike early in March, coal mines and steel mills had returned to normal operations by the middle of April. Output of coal in Alabama and Tennessee was about the same as in April last year. District steel mills were reported as operating at 104 percent of capacity in April and at 106 percent in the first half of May.

THE VALUE OF CONSTRUCTION CONTRACTS awarded in April was a little less than half as much as the large total for March, but was larger by a third than that for April last year. Residential contracts were off 26 percent from March and were 72 percent greater than a year ago. Other awards were down 71 percent from March and were about the same as in April 1949. Residential awards accounted for 58 percent of the April total. Total awards in all six states declined in April from March and residential awards increased only in Louisiana and Tennessee. Compared with a year ago, however, residential awards were greater in each District state, and total awards were greater in each state except in Alabama.

In the first four months of the year, District awards totaled more than 526 million dollars—45.1 percent, or about 237 million dollars, of which was for residential contracts. This total represented a 78-percent increase over the January-April period last year. The corresponding increase in residential contracts was 91 percent. All six states shared in the increase in both total and residential awards. In Georgia, Louisiana, Mississippi, and Tennessee, the January-April residential total was over twice as large as the like total for last year.

ELECTRIC POWER PRODUCTION by the District public utilities was off about 2 percent from February to March, following a four-month rise, but was 12 percent greater than in March last year. In the first quarter of this year, hydro-generated power accounted for about 52 percent of the total, somewhat less than in the first quarter of last year.

MANUFACTURING EMPLOYMENT in the District was about the same in March as in February, and was about 2 percent below March last year. In Florida, employment in shipbuilding and repair declined and there were seasonal decreases in food and food products, particularly in canning and preserving fruits and vegetables and in the manufacture of tin cans. The slight decline in Louisiana was because of a reduction in food processing. But these decreases were offset in the District average by small gains in the other four states. District totals for textile mill products and food processing were off slightly for the month, but in apparel, fabricated metals products, and paper and paper products, employment was slightly higher than a year ago.

COTTON TEXTILE mills in the District consumed 260,716 bales of cotton in April. The daily average rate of consumption was off nearly 13 percent from March, but was 25 percent greater than it was in April last year. The rate of textile mill operations had increased each month since last July except in December, and in March they were at the highest level in about three years with the exception of January 1948. In the nine months of the current cotton year—August through April—District mills have used 2,398,470 bales of cotton, an increase of 10 percent over the corresponding part of the previous cotton season. The increase for the nation was 8.6 percent.

D.E.M.