

# FARM AND RANCH BULLETIN

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## THE TIMES — THEY ARE A-CHANGIN'

There was a time when all a farmer needed to be successful was a small acreage, a moderate amount of business sense, a willingness to work, and a few hundred dollars of operating capital. Today's farm operation requires substantially more of almost all these factors, especially capital. During the last several decades, the use of credit has become an increasingly important component of successful farm and ranch operations. Through the Production Credit Associations, the Federal Land Banks, and the Banks for Cooperatives, the cooperative Farm Credit System has been helping serve the credit needs of farmers and farm cooperatives since the early part of this century. Originally established by Congress by Federal charter and with "seed" money, the Farm Credit System is now completely farmer-owned and provides more than 20 percent of the credit used by farmers and 60 percent of the credit used by farm cooperatives.

Because the credit needs of our complex agricultural system are changing so rapidly, the Federal Farm Credit Board last year named a panel of 27 farm leaders to study the credit needs of the nation's agricultural sector and advise the board on how the Farm Credit System can help meet these needs effectively. Some of the panel's recommendations are presented below. They are taken from *The Farm Credit System in the 70's — The Report of the Commission on Agricultural Credit*.

### Serving farmers

To provide credit to farmers effectively, the Farm Credit System should limit financing to individual farmers and other legal entities whose busi-

ness is predominantly farming or whose owners would be granted credit if they were individual applicants. The system should also serve the credit needs of the part-time farmer, but qualification as a farmer should not entitle such members to unlimited financing for nonfarm purposes. Providing large sums of credit to individuals who engage in part-time farming only to obtain access to the system's services is not in the best interests of farmers or the system.

Within this framework, no restriction is recommended concerning the purpose of the loan. However, the Farm Credit System is designed to be an agricultural lender, and administrative measures should be taken to assure that lending for other than agricultural purposes does not jeopardize the system's ability to extend agricultural credit. Collateral alone should not be the determining factor in establishing the amount of credit which may be extended to a borrower. All factors involved in lending decisions, especially the management ability and repayment capacity of the applicant, should be weighed. Collateral should be considered only as necessary to assure a sound loan. The statutory 65 percent of normal value limitation on Federal Land Bank loans is inconsistent with needs for lending in the 1970's and should be removed, according to the recommendations of the panel.

### Serving young farmers

The various lending agencies, individually and collectively, should use their capabilities to meet the credit needs of young farmers (those under 35 years of age) that possess managerial and operat-

ing ability but that may lack adequate financial equity. As credit requirements for successful farming increase, it will become more and more difficult for a beginning farmer to accumulate adequate capital to get started.

To compensate for the lack of individual financial equity, a special lending program should be established to provide an organized and controlled approach to financing young farmers by developing and utilizing such methods as special reserves, guarantees, joint loans, and partnership ventures. Loan interest rates for young farmers should be the same as for regular borrowers. The system should provide guidance for such young farmers through counseling on key business decisions and should encourage them to become members of boards and advisory groups of the system to participate in policy formation.

### **Serving cooperatives**

The panel suggested that the following recommendations be implemented in order to serve cooperatives more effectively.

- A broader group of farmer cooperatives should be eligible to obtain credit from the Banks for Cooperatives. This can be done by lowering the membership requirements of cooperatives. Present rules require that a cooperative include at least 90 percent farmer-members in order to be eligible for a loan. The panel recommends reducing this requirement to 60 percent.
- Acceptable purposes for loans from the Banks for Cooperatives should be broadened in order to permit the financing of activities incidental to the ordinary business of a cooperative within the overall guideline of helping farmers. Furthermore, the Banks for Cooperatives have a responsibility to aid in the establishment of new cooperatives in rural communities which would serve both area and rural residents.
- The Banks for Cooperatives should conduct a continuing educational program to make their services known and to cooperate with other organizations in encouraging cooperatives and defining cooperative principles.

### **Serving farm-related businesses**

According to the panel, steps should be taken to change legislation and administrative provisions

in such a manner that the system can provide credit service to operators of selected farm-related businesses. Farmers are increasingly utilizing more of these specialized services. For example, the use of custom operators enables farmers to have services accomplished with professional efficiency and to do so without tying up capital in machinery.

Decisions to extend credit to farm-related businesses should be based on the furnishing of services directly to farmers and not on the basis of the purchase and sale of materials. Credit should not be extended to a company when its major business activity or that of its parent corporation is an activity other than providing services directly to farmers.

### **Serving rural America**

The panel members generally concluded that the system should take a broader view of serving credit needs than in the past. Meeting the projected credit needs of farmers, their cooperatives, and farm-related businesses will require consideration of the development needs of rural communities, as well as the direct credit needs of farm businesses. The commission hopes that the Farm Credit System might assist, for example, in financing nonfarm rural homes, rural community needs, and rural cooperative utility systems. Although the commission's report does not include specific recommendations on how to achieve such services, it does urge that the system consider both how and when such services might be initiated.

### **Credit standards**

Decisions concerning credit standards should be made on the basis of a comprehensive analysis of all credit factors. The most important of these factors are:

- (1) the borrower — his management ability, responsibility, financial position and progress, earnings potential, and repayment capacity;
- (2) the collateral taken or available as security;
- (3) the purpose of the loan and the basis of approval.

Fixed limits on the amount or terms of a loan should not be determined solely by specific credit factors, such as collateral or the purpose of the

loan. Loans made should be in line with the borrower's total resources. The system should use comprehensive credit analysis and loan supervisory procedures to provide the borrower with a financing package for his total credit needs.

### **Credit-related services**

In considering credit-related services, the commission expressed the following recommendations.

- Services such as record keeping, credit life insurance, and estate planning should be undertaken only when a substantial number of members have a need for such services.
- The primary consideration in offering any service should be the benefit it provides both the members and the lenders in using and extending credit and not the remuneration which may accrue to the banks or associations.
- The availability of competent services through other normal business channels should be recognized; and, where they are provided at reasonable cost, the system should not develop competing services but should assist members in the profitable use of such services.
- Consideration should be given to developing a research and educational program and a guidance service which would direct members to competent professional help in estate planning, including better methods of transferring assets from one generation to another.
- A study should be made of credit life insurance programs presently offered to Federal Land Bank and Production Credit Association borrowers to examine the premium rate of the present insurance programs and consider the possibility of savings to member-borrowers if a Farm Credit System credit life insurance program were offered instead of the present program.

### **Financing the system**

A study to determine the alternative ways of financing the system to get the best use of funds and the most advantageous maturity pattern should be made. The system should make fewer entries into the market and strive to lengthen the maturity pattern of securities. In addition, it should explore new sources of funds to supplement present sources. Some areas of suggested investigation are:

- (1) the sale of securities through syndicated bids,
- (2) commercial paper,
- (3) capital notes, and
- (4) sales to individual investors, particularly system members.

Presently the system's loan funds are obtained almost exclusively from the sale of Farm Credit System securities through a group of dealers in the agency market. The commission sees two disadvantages in the arrangement. First, it means the system is rather inflexibly tied to a single means of gathering funds. Second, individuals (including member-borrowers) do not have ready access to these securities as opportunities for investment.

The feasibility of a single Farm Credit System security to replace separate bonds and debentures for the three principal groups of lenders should be studied. It seems probable that the system could handle its security sales more effectively and cheaper if a single security for the Farm Credit System were used.

### **Organization and functions**

The commission made the following recommendations concerning the organization and functions of the Farm Credit System.

- There should be close cooperation and coordination of the system at all levels. Federal Land Banks and Production Credit Associations should have coordinated, efficient-sized territories and joint housing.
- The commission advised against a merger within the system at the present time. It did note that in order to provide a farmer with a one-stop comprehensive credit package, a close coordination between the Federal Land Banks and the Production Credit Associations is required. It suggested that a common management for these two groups should be encouraged when possible.

### **External relations**

The Farm Credit System's external relationships include those with members of Congress and other Government officials, other lenders, farm groups, educational institutions, and the public. The commission urges that the banks and associa-

tions cooperate with such organizations in activities that will benefit all of the agricultural sector. This should include participation in credit research, coordinated services to farmers and cooperatives, and, when appropriate, joint participation in loans with other lenders. The system should work with both educational institutions and business groups to use their services and to make services available to them. An example would be cooperative efforts in the field of farm credit research.

All the recommendations of the commission's report will not be enacted. But the number and breadth of the recommendations are indicative of how fast the production techniques and resource requirements in agriculture are changing both within and outside the Farm Credit System. The implementation of these recommendations will mean substantial changes in both the Farm Credit System and the banking industry, which helps finance agriculture. Many small rural banks have experienced difficulty adjusting to the changing needs of agriculture during the last decade. The recommendations of the study suggest that the changes in the 1970's will be greater than those of the past decade.

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## Air Blasts Bag Boll Weevils

Effectiveness of the USDA-Texas cooperative boll weevil control program in the Texas High Plains has created a problem in sampling low-level infestations. Accurate estimates of the infestation level become difficult when the count of adult boll weevils drops below 25 per acre. Yet accuracy is important both in gauging the effectiveness of control measures and in projecting expected weevil populations.

Trying to eliminate the costly, time-consuming practice of inspecting large areas of cotton plant by plant, researchers with the Agricultural Research Service are developing a machine expected to yield quick, reliable estimates without great expense. I. W. Kirk, Agricultural Research Service Engineer, is working with D. G. Bottrell, entomologist with the Texas Agricultural Experiment Station at Lubbock, on a machine using the same principle as one sold as an insect control device in the 1940's. The machine blows a stream of air across a row of plants, driving insects into a collection bag. Tests at College Station show the mechanical sampler getting 63 to 92 percent of the weevils.



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